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The audit is the process by which an insurer reconciles an estimate provided by the insured to the actual business activity during a specified time period.

HOW TO PREPARE YOUR INSURED FOR THE AUDIT

When taking an application for an auditable policy, let insureds know we will be contacting them at the end of the policy period to perform an audit.

1. The audit is a condition of the policy. If they don't comply, they will be cancelled. When this is clear, contacting the insured at a later date to set the appointment is easier.
2. We are available to help. If the insured has questions at the beginning of the policy period about record keeping or other issues, give us a call.
3. We are flexible. Let insureds know that jobsite visits can be conducted if needed or we can meet at their accountant's office.

WHY IS THE AUDIT IMPORTANT?

When we properly classify insureds and address additional exposure, the correct premium is charged and adequate reserves are established for claims.

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If You Need Help
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Information is available on our website in Portuguese and Spanish. Visit aimmutual.com and click on Services/Premium Audit/Technical Information for an explanation of the audit; go to Policyholder Tools/Workers Compensation Forms Library for the self-audit form.

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THE PREMIUM AUDIT: Making Audits Easy for Policyholders and Your Staff



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WHAT RECORDS ARE NEEDED?

The biggest stumbling block to an audit is not having any information to audit. Let your insureds know that accurate record keeping is not only crucial to the audit but will also be of great benefit to them should a claim occur. With that in mind, here's a brief list:

1. **Checkbook register or general ledger sheets.**
If they keep their business information in their personal checkbook, this will be the record we audit. If they do not wish to have an auditor look at their personal checkbook, recommend a Dome Book or similar ledger to keep business information separate from personal finances.
2. **Payroll information.**
Depending on how your insured keeps their records this could include time cards; Quicken or QuickBooks reports; payroll agency reports



Timely audits are critical for employers not only to determine premium, but in the event of a claim.

(such as ADP); 941's (the quarterly report they file with the government); and state unemployment forms. The records should show the employee's name, the pure gross amount paid (before any deductions are taken) and any overtime paid (by amount). Tips, severance and expense payments should be clearly indicated; otherwise, they will be included as part of payroll. We will ask about the duties of each employee to ensure we have properly classified them. Job titles are often not good enough as they mean different duties in different industries.

3. **Certificates of Workers Compensation Insurance.**
If a subcontractor has employees and no workers comp insurance, the insured will be responsible for any injuries the subcontractor's employees sustain while that subcontractor is working for the insured. They will be charged for uninsured subcontractors unless a valid certificate of workers comp insurance can be produced. If a subcontractor has no employees, a valid workers comp certificate showing that the subcontractor has included themselves as covered must be presented. While the state of Massachusetts does not require an owner/officer/partner to carry workers comp insurance as a condition of operating a business, they may "...now choose to purchase workers' compensation insurance coverage for themselves." (From "Who Needs Workers' Compensation Insurance in Massachusetts?" <http://www.mass.gov/lwd/workers-compensation/investigations/who-needs-workers-compensation-insurance-in.html>) This website also includes the following statement: "...Massachusetts law created a presumption that a work arrangement is an employer-employee relationship unless the party receiving the services can overcome three rigid legal presumptions of employment." If the subcontractor fails just one of the three standards, Massachusetts law considers the subcontractor an employee.

4. **Waivers of Subrogation/Jobs Subject to OCIP.**
If the policy is subject to specific waivers of subrogation or OCIP projects (Owner Controlled Insurance Program), payroll must be broken out for the periods covered by these policies and the OCIP/Waiver of Subrogation policy available for the auditor to review.

QUESTIONS YOUR INSURED MAY ASK

I'm working 12-hour days! How am I supposed to do an audit?

Leaving the records at the agent/broker's office is an option. Another is to leave them in a secure area at the insured's location. Auditors can also meet the insured on the job site. We will always call if we have a question.

I got a letter saying my policy was cancelled because I didn't do an audit. What do I do now?

Call the auditor as soon as possible to set up an appointment to perform the audit. When the audit is done, the cancellation process will stop.

Why is my policy based on payroll?

It's the fastest and most accurate way of determining the amount of time your employees work and the skill level involved in their jobs. It is also the easiest to verify.