

Before the Audit

Pre-Audit Planning

- ◆ **Who are they?** (type of organization, industry)
- ◆ **What do they do?** (mission, business objectives)
- ◆ **How do they plan to do it?** (strategy/plan)
- ◆ **How do they do it?** (functions, processes)
- ◆ **With what resources?** (IT, operational resources, management & staff, raw materials, etc.)
- ◆ **By what rules?** (policies, standards, legal and regulatory requirements)
- ◆ **Under what risks?** (risk analysis)

Workers Compensation Premium Basis

- Nearly 100% of all Workers Compensation Audits are based on payroll/labor costs.
- Payroll is typically paid through a payroll reporting process and ends with an annual W-2 to the employee.
- Labor costs include payments to Uninsured Subcontractors/Contractors, and cash/casual/day labor payments.
- In some cases, other benefits to the employee are considered in exposure calculations, such as: housing and/or authorized auto use.
- Some states use per capita or number of individuals as the Workers Compensation audit exposure.

General Liability Premium Basis

- Most General Liability Audits which are contracting/service based are based just like their Workers Compensation counterparts: Payroll.
- Some General Liability Audits, such as restaurants, manufacturing, and retail stores have a premium basis of gross receipts/sales.

Audit Needs

- Prior to a physical or virtual audit, we send audit needs to the Insured or their designated contact.
- The audit needs should mirror the description of operations and should relate to the exposure listed on the policy request.
- Remember: We audit the risk, not the policy!! This is why a good description of operations and duties is key!

Audit Needs List

- Policy Period or Adjusted Audit Period
- Payroll/Labor Costs, by person, with duties for audit period (off period amounts provided)
- Owner/Officer Names with Duties
- Subcontractor/Contractor Amounts with COI's
- A brief description of operations
- Gross Receipts

Audit Needs: Audit Period

- Policy Period vs Audit Period
 - Audit Period can be actual policy period
 - Audit Period can be adjusted to next closest month
 - Audit Period can be adjusted to follow the quarters

For example:

A policy period of 1/1/19-1/1/20 would have the same audit period.

A policy period of 4/19/19-4/19/20 could be adjusted to the beginning of the following month, such as:
5/1/19-5/1/20.

A policy period of 3/26/19-3/26/20 could be adjusted to 4/1/19-3/31/20, which follows the annual quarters.

Audit Period Adjustments

- The Insured can insist the policy period and audit period are the same.
- The auditor can request an audit period adjustment. Again, the Insured can refuse to adjust.
- When providing audit needs, make certain to explain both policy period and audit period.

Quarterly Periods

- Payroll Quarterly Periods:
 - 1st Quarter = January through March
 - 2nd Quarter = April through June
 - 3rd Quarter = July through September
 - 4th Quarter = October through December

Policy Period Sample

Policy Number	Policy Type	Estimated Premium	Inception Date	Expiration Date	Cancel-lation Date	ARD	Audit Period Start Date	Audit Period End Date
WWC3419635	WC	29,513	04/25/2019	04/25/2020			04/25/2019	04/25/2020

Entity Number	Location Number	State	Location Description
1	1	VA	14213 Forbes PI Gainesville, VA 20155
1	2	VA	3 Oak Road Stafford, VA 22556

Officer/Owner/ Partner Name	Title	Class Code	Class Description	Include/Exclude
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Entity Number	Location Number	State	Class-SecID	Period	Class Description	Estimated Exposure	Basis	Rate
1	1	VA	8810-00	04/25/2019 01/01/2020	Clerical Office Employees NOC	20,580	payroll	0.13
1	1	VA	8810-00	01/01/2020 04/25/2020	Clerical Office Employees NOC	9,420	payroll	0.13
1	1	VA	9015-07	04/25/2019 01/01/2020	Swimming Pool—Public— Operation	773,335	payroll	2.53
1	1	VA	9015-07	01/01/2020 04/25/2020	Swimming Pool—Public— Operation	353,976	payroll	2.53

Although the audit period is listed as the same as the policy period, it can be adjusted to the nearest month: 5/1/19-5/1/20

Audit Needs: Payroll/Labor Costs

- Payroll/Labor Records
 - Payroll Report for the period, by person, with duties.
 - Duties must be specific. For example: One can't simply say "office". The duties must say for example: A/P Clerk.
 - Records must be gross by person for the agreed audit period.

Audit Needs: Payroll/Labor Costs

- Off Period Numbers
 - If an audit period does not follow the quarters, the Insured must provide off period payroll totals.
 - For example, if the audit period is 5/1/19-4/30/19, the Insured would need to provide payroll totals only for April '19 and April '20, to reconcile to the quarterlies.

Sample Payroll Report w/Duties, Wages, Officers, Sales and Quarterly Numbers

Employee Name

Employee Duties

Gross Wages

Employee	Duties	Gross Wages	O/T		
Brian Haag	Driver	54806	8840	Rolloff Dumpsters for commercial businesses primarily.	
Bruce Watters	Driver	48816	4948	Portable toilets.	
Charles Stone	Driver	62558	17842	10, 20, 30 and 40 yard dumpsters.	
David Gregory	Yard	1215			
Deborah McCurdy	Office Person	25573	77	Loretta Powell	33%
Jacob Harry	Yard	19449	490	Robert Uphoff	67%
Jeff Parvu	Portable Toilets	62173	25280		
Julie Lanza	Office Person	18948			
Kurt Kostegian	Driver	70263	19547		
Robert Christina	Driver	33510	4820	Sales	2261222
Robert Mitchell	Driver	69063	24771		
Russ Certo	Portable Toilets	3967	562		
Shana Horton	Sales	1674			
Stephanie Powell	Office Person	57200			
Tim Sonnenberg	Yard	53171	1848		
		582386			
FEIN	38-3622699				
2nd		150096			
3rd		168725			
4th		120856			
1st	138615	142710			
		582387			

Description of Operations

Owner/Officer

Gross Receipts

Quarterly Numbers/FEIN

Audit Needs: Owner/Officer

- All businesses can be owned by a single owner, multiple owners/persons, and/or by a related business entity.
- Most non-profits, municipalities, and churches do not have “owners” but have “officers”. Some are compensated and some are volunteer/uncompensated
- You need percentages of ownership and owner titles/designations

Audit Needs: Subcontractor/Contractor

- We use a Profit and Loss or Schedule C to quickly verify the existence of subcontractor/contractor exposure. Use your best judgment. If it is an industry where this type of exposure is rarely used, you can take the Insured's word for it. If no P & L or Schedule C is provided, you will ask for a bank statement, check register, or as a last resort, a General Ledger (this step is primarily taken for industries where subcontractor use is common)
- You will need to verify ALL certificates of insurance if the audit is being conducted for a State Fund, such as SWIF or CEIF. Most other Carriers just need you to verify the Insured maintains a file of COI's.

Sample Certificate of Insurance

ACORD **CERTIFICATE OF LIABILITY INSURANCE** DATE (MM/DD/YYYY)
4/29/2019

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS CERTIFICATE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.

IMPORTANT: If the certificate holder is an additional insured, the policy(ies) must be endorsed. If SUBROGATION IS WAIVED, subject to the terms and conditions of the policy, certain policies may require an endorsement. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

PRODUCER The Safeguard Group Inc 100 Granite Drive, Suite 205 Media PA 19063	INSURED EDA Contractors, Inc., EDA Construction Company EDA Roofing Corporation 633 Dunbar Ferry Road, Unit A Mechelsville PA 19020	AGENT Agnora Upadhyay, CRIS Phone No. (610) 892-7688 Fax No. (610) 892-7688 Address: upadhyay@safeguardgroup.com	INSURERS AFFORDED COVERAGE												
			<table border="1"> <tr> <th>INSURER</th> <th>NAIC #</th> </tr> <tr> <td>INSURER: National Fire Ins. Co. of Hartford</td> <td>20478</td> </tr> <tr> <td>INSURER: Indemnity Insurance Co of North America</td> <td>43575</td> </tr> <tr> <td>INSURER: American Guarantee & Liability Ins Co</td> <td>26247</td> </tr> <tr> <td>INSURER: American Cas. Co. of Reading</td> <td>20427</td> </tr> <tr> <td>INSURER: Federal Insurance Company</td> <td>20281</td> </tr> </table>	INSURER	NAIC #	INSURER: National Fire Ins. Co. of Hartford	20478	INSURER: Indemnity Insurance Co of North America	43575	INSURER: American Guarantee & Liability Ins Co	26247	INSURER: American Cas. Co. of Reading	20427	INSURER: Federal Insurance Company	20281
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COVERAGES CERTIFICATE NUMBER: 2019 Marstat 02 REVISION NUMBER:

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

LINE	TYPE OF INSURANCE	FORM	CLASS	DATE	DATE	POLICY NO.	POLICY EFF. DATE	POLICY EXP. DATE	LIMITS
A	COMMERCIAL GENERAL LIABILITY	1	100	100					EACH OCCURRENCE DAMAGE TO RENTED CONTENTS SA MED EXP FOR SER PERSONS ADVERTISING & PROMOTIONAL GENERAL AGENTS PRODUCTS COMPLETION
	CLAIMS MADE					004248401	5/1/2019	5/1/2020	\$ 1,000,000 \$ 500,000 \$ 15,000 \$ 1,000,000 \$ 2,000,000 \$ 2,000,000
	EXCESS LIABILITY								CLAIMED SINGLE LIMIT PROPERTY DAMAGE BODILY INJURY (Per person) BODILY INJURY (Per accident) PROPERTY DAMAGE PER ACCIDENT
									\$ 1,000,000 \$ \$ \$ \$
B	UMBRELLA LINE	1	100	100					EACH OCCURRENCE AGENTS
	EXCESS LAR					001248303	5/1/2019	5/1/2020	\$ 10,000,000 \$ 10,000,000
C	WORKERS COMPENSATION AND EMPLOYERS LIABILITY	1	100	100					EACH OCCURRENCE AGENTS
	ANY PROFESSIONAL/NEGLIGENCE					001248303	5/1/2019	5/1/2020	\$ 10,000,000 \$ 10,000,000 \$ 1,000,000
D	CONTRACTOR'S EQUIPMENT					001248303	5/1/2019	5/1/2020	\$ 491,890 \$500,000

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (ACORD 101 Additional Remarks Schedule may be attached if more space is required)
 SEE: Hyatt Centric - 17th & Chanceller, Clemens Job No.: 201800205
 Hyatt Hotels Corporation, HE Philadelphia BC Hotel, LLC, HE Philadelphia BC Parking, LLC, HE Philadelphia BC Retail, LLC, and Clemens Construction Company, Inc. are included as additional insureds with regard to Commercial General Liability as it pertains to the named insured's operations in connection with the above captioned project where required by contract.

CERTIFICATE HOLDER Clemens Construction Co. Attn: Margot Bailey 1435 Walnut Street - 2nd Floor Philadelphia, PA 19102	CANCELLATION SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS. AUTHORIZED REPRESENTATIVE A Upadhyay, CRIS/ICAC
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Subcontractor Name

GL Insurance Information

WC Insurance Information

Certificate Holder (Typically the Insured you are auditing)

Various Carriers for Each Type of Coverage

GL Policy Limits

WC Policy Limits

Sample P & L with Subcontractor Costs

	A	B	C
1	Evergreen Disposal, Incorporated		
2	Profit and Loss		
3	December 2018 - November 2019		
4			
5		Total	
6	Income		
7	4000 Services Income		
8	4000-1 Customer Refunds		-10,337.54
9	4000-2 Returned Checks (NSF)		-20,666.50
10	4000-3 Deposit Adjustments		-18,304.24
11	4010 Residential		10,382,845.02
12	4050 Monthly Accrued Income		110,858.75
13	4051 Monthly Accrued Income - Adjustments		-22,719.68
14	4052 Monthly Accrued Income - Over/Under Payments		10,640.21
15	Total 4000 Services Income	\$	10,432,316.02
16	Total Income	\$	10,432,316.02
17	Cost of Goods Sold		
18	5100 Vehicle Expense		
19	5110 Gas		992,957.05
20	5120 Repairs and Maintenance		616,880.19
21	5125 Repair Labor (1099)		305,700.00
22	5128 Other		595.90
23	5130 Parking and Tolls		2,451.52
24	5140 Registration Costs		19,806.20
25	Total 5100 Vehicle Expense	\$	1,938,390.86
26	5600 Sub-Contractor Expense		301,980.27
27	5602 Non-1099 Hauling Companies		92,379.76
28	6150 Wages (non-officer)		
29	6151 Wages (non-officers)		1,560,876.29
30	Total 6150 Wages (non-officer)	\$	1,560,876.29

Subcontractor Expense on a P & L Report

Audit Needs: Description of Operations

- Who are they: This is the entity name and type and state where formed. This also pertains to any addresses/locations.
- What do they do: This pertains to the services they provide, the type of customer, and the geographical area they serve
- When do they do it: This is a rare question and mostly pertains to seasonal businesses such as summer camps and swim clubs.
- What type of staff: This is where you describe the type of employees and the duties they provide
- Who helps them: This is where you describe any outside help such as non-W-2 staff and/or subcontractors/contractors.

Sample Description of Operations

- Entity: Insured is a PA LLC whose principle business operations occur from: 123 Main St, Anywhere, PA. No other DBA's and/or address locations discovered at the time of the audit interview.
- Operations: Insured operates as a landscaping contractor who provides the design, installation, and service/maintenance of landscapes. Insured performs no tree work. Insured does perform lawn maintenance. No hardscape work.
- Owners/Officers: Both member owners are active with respect to daily operations and are excluded by rule.
- Staff: Insured has an office manager and staff bookkeeper who handles phone calls/emails/faxes, manages daily finances and paperwork. No field exposure. (0953) Field landscaping crews who handle the design, installation, maintenance/service of landscapes. (012)
- Deductions/Inclusions for Staff: Field staff are paid fringe which is reported and excluded. No OCIP/CCIP exposure noted.
- Subcontractors/Contractors: Insured does not utilize the services of subcontractors/contractors/temporary and/or casual labor. Verified through P & L report.
- Gross Receipts: Gross receipts for audit period were: \$995,015.

Audit Needs: Gross Receipts

- For Workers Compensation audits, Gross Receipts are never a basis of premium. For this reason, most Insureds will give push back when you make this request, citing it is not a basis of premium. You can explain the Carrier uses this number as another form of verification to the payroll numbers. If they continue to decline, just mark the audit they respectfully decline.
- Gross Receipts can be an estimated number if it is not a basis of premium.

Sample WC Audit Needs

- Please provide:
 - Payroll for the period, by person, with duties
 - Payroll totals only for off period to reconcile to the Quarterly Reports
 - Quarterly Reports for (List 4 applicable quarters)
 - Names of Owners/Officers and their daily duties
 - Amounts paid to 1099 contractors/subcontractors, if any, along with proof of WC coverage, if applicable
 - A brief description of operations to include: services/products provided, type of customer, and geographical area served
 - Gross receipts for audit period (a P & L report is sufficient)

Sample GL Payroll Audit Needs

- Please provide:
 - Payroll for the period, by person, with duties
 - Payroll totals only for off period to reconcile to the Quarterly Reports
 - Quarterly Reports for (List 4 applicable quarters)
 - Names of Owners/Officers and their daily duties
 - Amounts paid to 1099 contractors/subcontractors, if any, along with proof of GL coverage, if applicable
 - A brief description of operations to include: services/products provided, type of customer, and geographical area served
 - Gross receipts for audit period (a P & L report is sufficient)

Sample GL Sales Audit Needs

- Monthly sales for audit period. (A monthly P & L report will suffice).
- Sales tax returns for audit period. If no sales tax returns filed, Schedule C from tax return will suffice.
- Names of Owners/Auditors and their daily duties.
- FEIN (If not listed on sales tax returns).
- A brief description of operations to include: services/products offered, type of customer, and geographical area served.
- Average number of employees (PT and FT) and estimate of gross payroll paid.

Sample GL Sales Report

	A	B	C	D	E	
1	Month	Gross Sales Reports	Sales Tax Paid	Adjusted Sales Number		
2	January	\$ 513,259.00	\$ 5,965.00	\$ 507,294.00		
3	February	\$ 522,463.00	\$ 6,321.00	\$ 516,142.00		
4	March	\$ 489,221.00	\$ 4,998.00	\$ 484,223.00		
5	April	\$ 614,899.00	\$ 6,499.00	\$ 608,400.00		
6	May	\$ 632,588.00	\$ 6,532.00	\$ 626,056.00		
7	June	\$ 711,843.00	\$ 7,222.00	\$ 704,621.00		
8	July	\$ 749,655.00	\$ 7,399.00	\$ 742,256.00		
9	August	\$ 801,900.00	\$ 7,465.00	\$ 794,435.00		
10	September	\$ 734,996.00	\$ 7,301.00	\$ 727,695.00		
11	October	\$ 546,088.00	\$ 6,399.00	\$ 539,689.00		
12	November	\$ 599,310.00	\$ 6,401.00	\$ 592,909.00		
13	December	\$ 496,333.00	\$ 5,002.00	\$ 491,331.00		
14	Totals	\$ 7,412,555.00	\$ 77,504.00	\$ 7,335,051.00		
15						
16						

Points to Ponder

- Be professional: It is not unprofessional to inform the Insured or their contact you are a new Auditor. Reassure them you have a vast network of resources for any questions. Always let them know if you don't immediately know the answer, but promise to find the answer.
- Remember: You have a lawful right to be there. You will encounter difficult Insureds who will challenge you. Be confident and firm without being rude or confrontational.
- Just like the popular TV game show, "Who Wants to be a Millionaire", you have plenty of "lifelines", "phone a friend", and any other type of support. Don't ever pretend you know an answer if you do not. Reach out to the home office or your Auditing Mentor for help.
- Be prepared: Make sure you are familiar with the Insured and the request prior to the audit interview. Make certain you have provided the correct audit needs and have a game plan for the Interview.