

A premium audit survival guide

Silencing the roar of a corporate audit **Interviewed by Elizabeth Grace Saunders**

If premium audit notifications fill you with dread, read on. You can stay calm, cool and collected by following this advice on how to properly prepare for and benefit from the premium audit experience.

"There is nothing more appealing than the silence of a properly executed premium audit," says Rick Kuharik, director of risk services at Westfield Insurance. "An audit devoid of surprises, disputes and revisions allows the commercial insurance mechanism to operate in a tranquil, uneventful environment."

A silent audit requires preparation, knowledge and communication. But investing time before an audit can increase the likelihood of estimated exposures matching actual audited figures, with additional premium audits paid or credited with virtually no incident.

Smart Business asked Kuharik how to prevent misunderstandings in the premium audit process.

Why is it helpful to have an auditor visit the site?

The auditor is more likely to correctly classify your situation when conducting the audit at your premises. The local accountant's office may do a great job of summarizing your financial records and advising on high-level tax strategies.

But it may lack the knowledge of detailed operations and employee job responsibilities. Ideally, the accountant can meet the auditor at your premises, especially during the all-important first-year audit.

The auditor will often tour your premises to get a handle on your operation. A tour with the auditor can help ensure that classifications are based on facts and not on assumptions.

Who should represent companies during premium audits?

The contact person representing your company is critical to the success of the audit. This key assignment must be based on function, not convenience.

Your representative should know the business from the operations to the financials. It is even more helpful if they were involved in



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determining the estimated exposures. In larger, more complex risks, two or three individuals such as the bookkeeper, plant manager and the principal may be required to accurately convey the data. Misinformation is the root cause of audit revisions.

Why is it important to have certificates of insurance on file?

Maintaining current files of certificates of insurance is one of the easiest ways to avoid 'noise' at audit. The auditor can simply audit the filing system to validate compliance.

This works especially well for large contractors who retain scores of certificates. The auditor can assist in setting up an appropriate filing system with a systematic approach for obtaining and maintaining certificates.

How can businesses ensure that payroll and sales records don't cause noise?

When classifying a payroll risk, the one manual classification that best describes the risk, not the employee duties, is chosen. Additional classifications are assigned, based on the physical separation of the operation as well as the division of payroll. Certain standard classifications cannot have split payroll, such as clerical, outside sales, drivers and draftsmen. For eligible

positions, payroll breakdowns between two or more classifications for a single employee must be validated with a breakdown in the actual payroll records. A percentage split is not allowed.

Speaking of breakdowns, another 'noisy' topic is the sales code breakdown. The auditor must be able to validate the division between distinct product sales through recordkeeping. Not having a proper breakdown automatically places all of the sales into the highest rated manual classification.

Why is it important to conduct an exit interview?

The most effective silencer of audit noise is also the simplest: a robust, frank exit interview. The exit interview should be expected and strongly encouraged.

This is a surefire way to eliminate surprises when the adjustment statement is presented. The auditor will review the description of operations, classification additions or deletions, and the actual premium basis versus the estimates.

This gives the company the opportunity to validate the auditor's assumptions and correct any misconceptions. The auditor is not at liberty to discuss detailed billing or credits due to the limited information concerning endorsements or payments made to the account.

What are final assurances for handling audits?

Premium audit success begins with a reasonable, validated estimate and ends with an accurate measurement of your actual exposures. Thinking ahead tips the scales in your favor that you will enjoy fair, accurate, cost-effective, timely and silent audits.

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