

## WHAT TO EXPECT AND HOW TO PREPARE



## Preparing for Your Premium Audit

As part of its policy contract, LWCC conducts periodic premium audits of its policyholders to identify changes in operations and to obtain all documentation needed to ensure all policyholders are being charged equitable and accurate premiums. LWCC's objective is to make the audit process a positive experience for all parties. To that end, the following information will help you know what to expect from an audit and what expectations LWCC has of its policyholders.

### When will I be audited?

Depending upon premium size and class of business, audits may be performed annually, every other year or every three years as needed. Audits may be conducted physically at your place of business, by phone or by mail, depending upon your premium size and business classification. Audits can involve up to three prior years of records that relate to your policy. There are four basic types of audits LWCC may conduct:

- Pre-Audits** Pre-audits are conducted near policy inception to verify payroll information and to ensure business risks match those analyzed during the underwriting process.
- Interim Audits** Interim audits may be performed periodically to address mid-term changes in business and/or exposure.
- Anniversary Audits** Anniversary audits are conducted at the end of your policy year to obtain actual payroll for your exposure, since this may vary from the estimate upon which your premium was based.
- Cancellation Audits** These audits are conducted upon policy cancellation to obtain actual exposure.

### Verifiable Records Needed for Your Audit

The better prepared you are, the quicker and easier your audit will be. Have available two prior years' worth of the following verifiable records as well as someone who understands them to answer questions.

- ✓ Federal tax returns\*
- ✓ IRS Form 941s or SUTAs\*
- ✓ Cancelled checks and bank statements\*
- ✓ General ledgers\*
- ✓ Cash disbursement journals\*
- ✓ Books of original entry (including source documents)
- ✓ Job contracts and/or invoices
- ✓ Certificates of insurance for contractors (if applicable)
- ✓ Payroll records including overtime in dollars, hours, totaled by employee per pay period, and summarized by class code in order to receive credit for excess overtime pay (payroll paid in excess of the regular rate of pay)
- ✓ Job descriptions detailing each employee's duties
- ✓ Supporting documentation (such as work orders or time sheets) that substantiates any split between state and federal payroll if you have longshore exposure
- ✓ Executive officer payrolls and descriptions of their duties (even if the officers have elected to be excluded from state workers' compensation coverage)\*\*
- ✓ Brochures or promotional items that offer a comprehensive description of your business operations, including your products and/or services

\* You must provide at least two verifiable sources of support.

\*\* Officers cannot be excluded under the Longshore and Harbor Workers' Compensation Act.

## Who will conduct the audit?

Audits are handled by one of LWCC's staff auditors or an audit firm with whom LWCC contracts services. It is quite possible that you will not see the same auditor each year.

## When will I know the results of the audit?

Upon completion of your audit, you and your agent will receive a payroll audit statement outlining any premium changes that have occurred as a result of the audit. **This is not a bill.** You will be responsible for any additional premium charges once they are reflected on your invoice. If you have a simple question about the audit, such as in what class code payroll was placed, you should contact your agent.

## How can I avoid owing additional premium at an audit?

It's much less disruptive to cash flow if premium is paid as costs are incurred rather than make up for any discrepancies after an audit. There are several things you can do during the year to minimize the chance of owing additional premium at audit:

- If you pay premium via payroll reports, do so as accurately as possible and always complete and submit them by the due date. Maintain copies of these reports as well as any worksheets or information used in your calculations.
- Give your agent detailed information about your business and the types of work employees perform so the proper class codes are chosen.
- Notify your agent immediately anytime your operations change in size or nature.

## What if I do not agree with the audit's findings?

In the event you do not agree with the findings on the audit statement, we encourage you to contact your agent for assistance in notifying LWCC. Notification disputing the audit must be in writing and should provide specifics (e.g. payroll amounts, names of employees with duties, class code issues, etc.) of what is being disputed. It is also important to remember that payment is expected on the undisputed portion of the audit.

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## Working Together, Audit Can Be a Positive Experience

A positive audit experience begins when the policy is first written. Think of it as a twofold process. First, your agent partners with an LWCC underwriter to submit a complete and properly classified application. Second, the agent educates you, the policyholder, on how premium and the audit is exposure-based. Using this simple formula, everyone is knowledgeable about the policy, which will contribute to a straightforward, surprise-free audit.

Please remember to keep your and/or your bookkeeper's contact information current, and inform LWCC immediately if there are any changes to that information. If you have questions about the audit process, contact your agent, or have your agent contact the LWCC underwriter or business unit manager associated with your account at (800) 227-4969.



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