

Audit Dispute

An independent Auditor reports that 70% of all audits contain errors.

It's vital to do your homework and know what protections and resources may be available to you. We can help you with this.

First, you need to devote some time and effort to **understanding the causes** of the premium increase. To do that, you first need to refresh yourself with the basics of how Workers Comp premiums are calculated.

If your instinct is to dispute the amount sought by the insurance company on the audit, because it seems outrageous and unfair and unexpected, your initial outrage and frustration may not serve you well. It may well be completely justified, but the system for disputing Workers Compensation insurance premium charges doesn't much care if the premium charges are outrageous, unfair, and unexpected. The system is only concerned with the rules.

Insurance companies are accustomed to having policyholders get upset over large audit bills, and their response is often to dismiss your protest. To get results, you will have to be **specific** in your complaints about what you feel are audit errors. **Keep calm and verify.**

Figure Out What's Changed

To figure out if you have a basis for disputing the audit, you'll need a few documents: the original **policy**, the audit **billing statement**, and the **audit papers**.

First, examine how the **estimated premium** on the **policy** had been calculated. Look at what **classification codes** were used, and **how much payroll** was assigned to each classification. Then **compare** that to the audit billing statement. If a **more expensive classification** is used on the audit that was not on the original policy, that may be a reversible error.

Look at the **estimated payrolls** used on the original policy and **compare** those to the payrolls used on the **audit**. If payroll has increased on the audit (as it often does) use the audit papers to review how the auditor determined how much payroll to pick up. Examine what documents were examined by the auditor, and if the auditor had to make any assumptions due to some documents not being available.

If **overtime pay** is significant in your operations, make sure the audit papers indicate that an adjustment has been made to remove the premium portion of overtime pay. Almost all states allow the premium portion of overtime pay to be excluded, as long as payroll records allow the auditor to break it out.

The audit papers should also explain how the auditor **allocated payroll or allocated payroll among different classification codes. That is, it should explain why the employers of certain departments were assigned to particular classifications. If the auditor has misunderstood the nature of the work done by some employees, it may have resulted in the wrong classification (and thus the wrong manual rate) being used to compute premiums for those workers.**

Check what charges may have been made on the audit for uninsured subcontractors or independent contractors. Insurers are paying increased attention to this, as in most states an uninsured subcontractor has the same rights as an employee of yours to file a claim under your policy. If this is a cause of significant premium charges, you may well want to determine if you have (or can obtain) certificates of insurance from these subcontractors.

Also look closely at how any subcontractor payroll has been classified.

Also compare the experience modification factor on the policy to the modifier on the audit. Most states prohibit increasing the modifier late in the policy term, so if the modifier is higher on the audit than on the policy, it may well be a reversible error. The same applies to schedule credits and debits.

Once you've pinpointed what you feel are errors in the audit, communicate these in writing to the insurance company's audit department. If you do not get what you feel is a satisfactory result, you may want to contact your state's department of insurance for assistance. You may also want to appeal technical issues through the rating bureau appeal process in your state. The particular process will vary from state to state, as Workers Compensation insurance is regulated by state government agencies.

If the additional premium sought is large, and you cannot resolve the dispute using the above means, the insurance company may well threaten to file suit over the additional premium. Keep in mind that this can be a double-edged sword for the insurer--that is, there are arguments that a policyholder can sometimes successfully advance in court that cannot be successfully used outside of the legal arena.

If your company finds itself embroiled in an audit dispute of such magnitude, K2 Insurance Brokers can help you determine your options