



Frequently Asked Questions about Insurance Audits

Auditing – What is it and why do I have to do it?

An audit is an examination of your books and records at the end of your policy term to make sure the correct premium base was used for the insurance that was purchased. According to the policy contract that you have entered into, the company reserves the right to examine your books and records as they relate to your policy anytime during your policy term and up to THREE YEARS afterward. - Simply put.....*Your insurance company needs to know “what you are doing” and “how much you are doing” - This is a very important factor of how your premium is generated. Things change throughout the year and completing this audit gives the true representation of what the insurance company provided coverage for, over that prior year.*

What kind of paperwork is needed for the audit?

Copies of your financials are needed for the same period as your policy term. If you cannot submit your financials for the entire policy period, then you must submit your records that are within the closest month or quarter to your actual policy term. ALSO – in order to complete the audit, a signed and completed worksheet along with these copies must be submitted.

What if I no longer have insurance coverage with this company, do I still have to complete the audit?

As stated above, according to the policy contract, the company reserves the right to examine your books and records as they relate to your policy anytime during your policy term and up to THREE YEARS afterwards. Failure to complete the audit upon request will be considered a breach of contract and may cause any “in force” policy to be cancelled – which may include the issuing of an estimated audit reflecting a 50% increase to your reported premium basis.

What is needed for the Description of Operations?

Please describe your business operations including processes, products, or services rendered.

What if my policy is based on gross sales and I did not make a profit during my policy term?

The definition of gross sales means the gross amount of money charged for good or products sold, dues collected, or operations performed. You may exclude sales tax remitted to a government entity and freight if it is shown separately on your invoices.

What if I do not have any payroll because I am a sole proprietor?

If this is the case, you will need to submit a copy of your most recent Federal Tax Return.

Schedule C – sole proprietor

Schedule K – partnership

Federal 1120 – corporation

What information is needed on any subcontractors?

A list of each subcontractors listed by name with the TOTAL amount paid to each one will be required along with a copy of the subcontractors certificate of insurance that covers the insured’s own policy period. If the sub-contractor you used did not have insurance then this could cost you money. All sub-contractors should provide you with a certificate of insurance BEFORE they start their job making sure they meet the requirements that you agreed to when you took your insurance policy out. You should require this certificate of Insurance BEFORE they start working. Not doing so can cost you hundreds if not more as they may be picked up as an employee. The State has guidelines that you must follow as well as the insurance. Ask your local agent today if you have ANY questions pertaining to this.

NOTE: Casual laborer/day laborers are individuals that are paid to perform specific services that are NOT on regular payroll.

What is needed for job descriptions?

A quick description of what each person does on a daily basis.

What if I have several operations and/or locations?

If you have more than one operation or location, you will need to break down sales for each operation or location.

Information above is provided is a “helpful tool” and is not a complete description and may not include all necessary information to complete the required audit. Please call your local agent and have them assist you directly and remember to visit our web site at www.downeastinsurane.com

Insurance.....So Easy