



How to Handle a Commercial General Liability or Workers' Comp Audit & What Could Trigger It

The honest breakdown: what auditors look for, why you might owe more, and how to avoid surprises

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Why This Guide Exists

If you're reading this, you probably just got a letter or a call saying your insurance company wants to audit your General Liability or Workers' Compensation policy. Your first instinct might be to set it aside, deal with it later, or quietly hope it goes away.

Don't do that.

This guide exists because we see this play out all the time with Bay Area business owners — people who ignore the audit, don't realize the consequences, and end up in a much worse spot than if they'd just engaged with the process from the start. We've been doing this for almost 100 years (Nadler Insurance was founded in 1927 — yes, really), and if there's one thing four generations of this work has taught us, it's that audits are infinitely less painful when you know what's coming.

So let's walk through it together.

- ☐ **If you ignore a commercial insurance audit, the carrier will estimate your premium — usually much higher than what you'd actually owe — or cancel your policy mid-term. Both create serious problems for your business.**

— *Zach Nadler, Nadler Insurance*

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Why Am I Getting an Insurance Audit?

You're getting audited because your commercial insurance premium was based on estimated payroll or revenue, and the carrier needs to reconcile what actually happened during the policy year.

First, take a breath. An audit doesn't mean you did something wrong. It's actually built into how GL and Workers' Comp policies work from the beginning.

Here's the thing most Bay Area business owners don't realize: when your policy was written, the premium you paid was an estimate. The insurance company priced your coverage based on your projected payroll, projected revenue, or projected job classifications. At the end of the policy year, they audit to reconcile what actually happened.

For Workers' Compensation: the premium is based on your payroll. If you hired more people than expected, or if your employees worked more hours or did higher-risk work than originally classified, you may owe additional premium. If your payroll came in lower, you may get money back.

For General Liability: the premium is typically based on either gross revenue or payroll, depending on your type of business. Same idea — the audit reconciles the actual numbers against the estimate.

This is a normal, routine process. It happens to almost every Bay Area business with one of these policies. The fact that you're getting audited doesn't flag you as a problem — it just means your policy year is wrapping up.

Key Point: This is a normal, routine process — not a red flag.

What Are the Two Types of Insurance Audits?

Most small businesses get a mail or phone audit where you submit payroll records remotely. Larger accounts may get an in-person field audit.

Mail or Phone Audit

This is the most common type for smaller Bay Area businesses. You'll receive a form to fill out (or a call from an auditor), and you'll provide your payroll records, tax documents, or revenue figures for the policy period. It's relatively quick if your records are organized.

In-Person or Field Audit

For larger or more complex accounts, an auditor may visit your business location or request a meeting. They'll review your books more thoroughly — payroll records, certificates of insurance from subcontractors, job descriptions, and classification codes. This sounds more intimidating than it is, but preparation makes a huge difference.

What Is the Auditor Looking For?

The auditor is verifying your actual payroll, revenue, and job classifications against the estimates used to price your policy. They're doing math, not investigating you.

This is important, so we want to say it clearly: the auditor is not trying to catch you doing something wrong. They're not investigators. They're not looking for fraud. They're just doing math — trying to match your actual business activity to the right classifications and verify the numbers that were originally estimated.

What they're specifically reviewing:

- Payroll records — W-2s, payroll journals, 941s, or your payroll service reports for the policy period. They want to know who was on payroll, how much they were paid, and what they were doing.
- Job classifications — This is where a lot of surprise bills come from. Each type of work has a classification code, and those codes have very different rates. A clerical employee is priced very differently than a roofing laborer.
- Subcontractor certificates of insurance — If you used subcontractors or independent contractors, did they have their own Workers' Comp and GL coverage? If not, in many cases the carrier will treat their payroll as your payroll for audit purposes.
- Revenue or sales figures — For GL policies based on gross receipts, they'll want to verify your actual revenue for the year.

Why Do I Owe More Than Expected After My Audit?

Most surprise audit bills come from misclassification. If your employees did higher-risk work than originally estimated, or if you didn't have subcontractor certificates of insurance on file, the auditor reclassifies the payroll at higher rates.

If you end up owing a lot more than you expected, misclassification is usually why.

Insurance classification codes are incredibly granular. A contractor who does framing is classified differently than one who does finish carpentry. An office manager is classified differently than someone doing site work. When a policy is written, the agent and underwriter classify your business based on what you described — but if the actual work drifted from that description during the year, the audit reconciles the difference.

This isn't necessarily anyone's fault. Businesses evolve. Employees wear multiple hats. Scope creep happens on projects. But it does mean that when the auditor reviews the records, they may reclassify some of your payroll to a higher-rated code — and that's where the additional premium comes from.

The good news: if you've been over-classified in the past (which does happen), an audit can actually result in money coming back to you.

What Records Do I Need for My Insurance Audit?

You need payroll records, tax filings (941s), job descriptions, certificates of insurance from any subcontractors, and revenue records if your GL is based on gross receipts.

Organization is your best friend here. The more clearly you can present your records, the smoother this goes. Here's what to pull together before the audit:

For Workers' Comp:

- Payroll journals or summaries for the policy period, broken out by employee or job type
- Payroll tax records (941s, state filings)
- A description of what each employee or class of employee actually does day-to-day
- Certificates of insurance for any subcontractors you used during the period
- Any contracts with subcontractors that specify their independent contractor status

For General Liability:

- Revenue or gross receipts records for the policy period
- If GL is based on payroll, same payroll records as above
- Subcontractor COIs (same as Workers' Comp — very important)
- A summary of any significant project types or changes in your work during the year

The subcontractor COI issue is worth emphasizing again. If you hired subs without collecting their certificates, get those certs now before the audit. If a sub's coverage has already expired or they never had coverage, talk to your agent before the audit — it's better to walk in knowing the issue than to be surprised during the review.

Can I Dispute My Audit Results?

Yes. If you believe the auditor misclassified employees or failed to credit subcontractor certificates you provided, you can formally contest the findings through your agent.

You can dispute it. This is underutilized and worth knowing.

If you believe the auditor misclassified employees, attributed payroll incorrectly, or failed to credit subcontractor COIs you actually had, you can formally contest the findings. Your agent can help you navigate this — it typically involves providing additional documentation and requesting a re-audit or a review from the carrier's audit supervisor.

Disputes don't always succeed, but they succeed often enough that it's always worth reviewing the audit report carefully before just paying the bill. If something doesn't look right, call your agent.

How Can I Prevent Audit Surprises?

Stay in touch with your agent throughout the year. If your payroll or revenue is running significantly different than projected, tell them so they can adjust your estimated premium mid-term.

The best audit is one where there are no surprises — because you and your agent stayed in sync throughout the year.

A few habits that make audit season much smoother for Bay Area businesses:

- **☐ Mid-year check-ins with your agent**

If your payroll or revenue is running significantly higher or lower than projected, tell your agent. They can adjust your estimated premium mid-term so the audit bill isn't a shock.

- **☐ Keep clean, organized payroll records**

Year-round organization makes the audit a one-hour exercise instead of a weekend project.

- **☐ Collect subcontractor COIs as you go**

Make it a standard part of onboarding any sub — before they start work, not after.

- **☐ Review your classifications annually**

If your business has changed — new types of work, new employee roles, new revenue streams — let your agent know so they can make sure your classifications still reflect reality.



Growing Up Covered Insight

a note from Paul & Zach Nadler

We've sat with a lot of Bay Area clients over the years who came to us after a rough audit experience — either because they got hit with a big unexpected bill, or because they ignored the audit and ended up with a cancellation notice. In almost every case, the situation was fixable, but it was more painful than it needed to be.

The audit process exists because insurance is priced on estimates, and estimates need to be reconciled. That's not a problem — it's just how it works. Once you understand the mechanics, the audit stops being something to dread and starts being something you can walk through confidently.

If you're staring down an audit notice right now, give us a call. We're happy to walk through it with you before you engage with the auditor. That conversation is free, and it can save you a lot of headache.

Read more at GrowingUpCovered.com

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People Also Ask About Insurance Audits

What happens if I miss my insurance audit deadline?

The carrier will estimate your premium — usually high — or cancel your policy mid-term. Both are worse than just completing the audit.

How long does a commercial insurance audit take?

A mail audit usually takes 1-2 hours of your time to gather records. An in-person audit typically takes 2-4 hours depending on the complexity of your business.

Do all commercial insurance policies get audited?

Most Workers' Comp and General Liability policies are audited annually. Some smaller policies under certain premium thresholds may be waived.

Can I negotiate my audit bill?

You can dispute classifications or correct errors, but you can't negotiate the rates themselves — those are set by the carrier and state regulations.

Quick Reference: Audit Prep Checklist

- ❑ Payroll journals or summaries for the policy period
- ❑ Payroll tax records (941s, state filings)
- ❑ Job descriptions for each employee classification
- ❑ Certificates of insurance for all subcontractors
- ❑ Subcontractor contracts (if applicable)
- ❑ Gross revenue records (if GL is revenue-based)
- ❑ Notes on any significant changes in business activity during the year
- ❑ Your agent's phone number (use it)

Got an audit notice? Let's walk through it together.

We're happy to review your audit with you before you engage with the auditor. That conversation is free.

[Book a Free Review](#)

Or call us: (650) 508-8000

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