

Balance and Cleanup Premium Payables in Applied Epic

SESSION HANDOUT

Prepared for Applied Client Network and Applied Systems

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October, 2019

Target Audience:

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<input type="checkbox"/>	Producer
<input type="checkbox"/>	Trainer
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<input type="checkbox"/>	ALL
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Seminar Type: Accounting

Seminar Level: Intermediate: An Intermediate level class takes the concepts originated from a basic level course, and adds more layers or parallel concepts. For functional courses, these classes will require the participant or attendee to have some basis to work from as they are learning new facets of the agency or brokerage management system or software program.

Class Description: How do you know if your Premium Payables are in balance? Learn the three steps to validate Premium payables, what it means to be “in balance”, and how to clean up “out of balance” situations.

Learning Outcomes:

- Why is it so important to be in balance, and where do the Premium Payable entries come from?
- Recognize how Premium Payables get out of balance.
- Use the three steps to be sure Premium Payables are in balance.
- Resolve typical “out of balance” situations.
- “Clean out” Premium Payable balances, when appropriate.

Assumptions: This seminar is based on the following

Applied Epic Version 2020

Premium Payables & the General Ledger

Every time an agency bill transaction is invoiced, the Premium Payable general ledger accounts are affected. Every time you issue a check, do a journal entry to a premium payable GL account, or deposit money into a premium payable GL account, you must reconcile the items the money applies to, or you have created an out of balance situation, with additional “touches” to get it cleaned up.

Why reconcile?

Though it may seem easiest to just issue a check to the company or broker for the net premium due, or just deposit a premium refund check without reconciling the payable, here are the reasons why it's critical to process payables properly in Applied Epic:

- **Validate General Ledger Balances.**
 - If the premium payables are not being reconciled, you cannot generate a report from Applied Epic that will list the unpaid items that will match the general ledger balances.
- **More effective cash flow management.**
 - When reconciling, versions of the Premium Payable report can be used to track:
 - Items paid to the Company or Broker, but not paid by the client
 - Items unpaid to the Company or Broker, but paid by the client
 - Aging of items unpaid to the Company or Broker
- **Premium trust fund management.**
 - The Premium Trust Reconciliation report in Epic cannot be used unless reconciliations are being done timely.
- **Find the billing errors.**
 - All the billing errors will come to light, whether the agency invoiced a policy incorrectly, or the company/broker did. When reconciling, you'll be able to identify issues before they become problems.
- **Transaction/Premium Payable View at the Customer Level.**
 - From the customer transaction, staff will be able to see not only the check, or deposit number, but also the date the agency issued the check or entered the refund deposit.
- **Reduce E&O Exposure**
 - Here's a scenario: the agency has invoiced the client for additional coverage, and the client has paid the premium, but the company has never requested payment. Is the company aware of the coverage, and what happens if there's a claim? Do you want to wait to find out when it becomes an E&O claim, or find out when the item goes unpaid to the company for too long?

How do balances get into the company payable accounts?

As a review, an agency bill transaction (invoice) is included in the month end journal entry generated by Epic, and the transaction is included in the list of unpaid items on the Premium Payable Report. The entry is posted to the GL based on either the transaction date or effective date, whichever is the later of the two. Based on your configuration, the entry may also post to the GL based on when the Premium Payable Entity is paid.

EXAMPLE: \$1,000 invoice at 15% commission (in the example below the agency is setup on an accrual basis). Notice there is no effect on the General Ledger during the reconciliation (or flagging) process (unless adjusting commissions, or doing write offs).

\$1,000 PREMIUM @ 15% AGENCY COMMISSION, 30% Producer Commission
Assumptions: Accrual Basis for Agency Bill

	Cash		Accounts Receivable		Company Payable		Agency Commission Income	
	DR	CR	DR	CR	DR	CR	DR	CR
1 Invoice Transaction			\$ 1,000.00			\$ 850.00		\$ 150.00
2 Item Fully Paid by Customer	\$ 1,000.00			\$ 1,000.00				
3 Reconcile Company Payable								
4 Pay Company		\$ 850.00			\$ 850.00			
Totals posted to GL	\$ 1,000.00	\$ 850.00	\$ 1,000.00	\$ 1,000.00	\$ 850.00	\$ 850.00	\$ -	\$ 150.00
Net change posted to GL	\$150.00 increase		zero		zero		\$150 increase	

What happens when I write the check to pay the company or broker?

Writing a check to a company or broker will credit Cash and debit the Premium Payable. The opposite is true when you deposit a premium refund check from a company or broker. If an agency does not reconcile their premium payables, this is all that happens.

At this point, the General Ledger should be correct, assuming all of the following:

- Transactions that are invoiced in Applied Epic have been paid to the company/broker timely.
- Checks are issued to the same Premium Payable Entity and Code that is on the transaction.
- The company/broker has refunded all return premiums that are due to the agency.
- All transactions on the statement you are paying have been invoiced by the agency.
- The commissions on the company/broker statement match the commission amounts on the Epic transactions.

That's a lot of assumptions! As you can see, it would be rare that not reconciling the premium payables would result in the premium payables being in balance.

What happens during the Reconciliation process?

The reconciliation process allows you to “flag” and reconcile the items being paid to or refunded by the company/broker. When the transaction was originally invoiced, Epic added the transaction to the list of unpaid transactions for the company. Reconciling, Associating and Finalizing the item will remove it from the list of unpaid transactions. This process does not affect the general ledger, unless you are adjusting commissions or doing write offs during the reconciliation process.

You can now run a listing of Unpaid or Paid, Suspended or Finalized items to a company/broker from the Premium Payables report.

How do Premium Payables Get “Out of Balance”?

Some situations that may cause payables to be out of balances are:

- Pay a Premium – Don't Bill the client
- Pay a Premium – Don't Flag/Reconcile the Item, Associate the Statement to the GL Item, and Finalize the Statement
- Deposit a Refund Check – Don't flag/reconcile the items, Associate the Statement to the Deposit, and Finalize the Statement
- Reconcile a payable – Don't issue a check
- Apply Direct Bill Commission to Premium Payable Account in error, or vice versa

Auditing Premium Payable Balances – 3 Steps

Keeping the company payables clean is a three step process:

1. Are the payables in balance?
2. Does the total amount of “GL Account Balance” column on the Balancing Current Premium Payables – Summary Report match the total of the Premium Payables on the Balance Sheet?
3. How old are the unpaid items on the Aged Current Premium Payables Report? Why are they still unpaid to the company/broker?

Step 1: Are the Payables in Balance?

Before running the Premium Payables reports, be sure to Generate Journal Entries thru the current month. If staff has been invoicing agency bill items since the last time journal entries

were generated, the GL totals will be wrong. This is done thru Procedures, Accounting, Month End, Actions-Generate Journal Entries, and it may be scheduled to run daily.

Run the “Balancing Current Premium Payables” report. The Balancing Current Premium Payables report will display all items that remain in the current premium payables general ledger account for the time period selected. This report can also be used to balance to the premium payables general ledger account for prior periods.

Compare the Payable Balance Total for each company/broker to the General Ledger Balance shown below the total of the Payable Balance for each company/broker. These two numbers should match. If they don’t, this company is “out of balance”.

The Summary Layout of this report can be edited to include the Accounting Month, a “Difference” column and Grand Totals for the “GL Account Balance” and the “Difference” to make it easier to quickly find the companies/brokers that are out of balance.

Balancing Current Premium Payables - Summary

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Premium Payable	Trans Amount	Receivable Balance^	Agcy Com Amount	Payable Paid	Payable Balance	GL Account Balance	Difference
CHUGR1 Chubb Group	\$181,677.00	\$182,177.00	\$25,901.95	\$0.00	\$155,775.05	\$155,775.05	\$0.00
FIRFU1 Fireman's Fund Insurance Company	\$17,552.00	\$15,452.00	\$2,533.80	\$0.00	\$15,018.20	\$15,018.20	\$0.00
FORIN1 Foremost Insurance Group	\$5,285.00	\$5,285.00	\$528.50	\$0.00	\$4,756.50	\$4,756.50	\$0.00
HARIN1 Hartford Insurance Company of Midwest	\$130,550.00	\$125,550.00	\$17,757.50	\$0.00	\$112,792.50	\$112,792.50	\$0.00
OHICA1 Ohio Casualty Insurance Company	\$37,500.00	\$32,463.61	\$3,485.00	\$0.00	\$34,015.00	\$34,015.00	\$0.00
PROCO1 Providence Mutual Fire Insurance Company	\$13,100.00	\$4,050.00	\$1,048.00	\$0.00	\$12,052.00	\$12,052.00	\$0.00
TEXMU1 Texas-Mutual Insurance Company	\$3,452.00	\$0.00	\$621.36	\$0.00	\$2,830.64	\$0.00	\$2,830.64
Grand Total	88	\$389,116.00	\$364,977.61	\$0.00	\$337,239.89	\$334,409.25	\$2,830.64

If the last column is all zeroes, great! If not, you’ve got cleanup to do (see section below).

This report should be included in the month end reports given to management, so management is aware that company payables are being reconciled properly in Applied Epic.

Step 2: Does “GL Account Balance” equal the Balance Sheet?

The total amount of “GL Account Balance” column on the Balancing Current Premium Payables – Summary report should match the total of the Premium Payables on the Balance Sheet.

If the amounts do NOT match, it means there are companies/brokers listed on the Balance Sheet that have no unpaid items due to the company/broker in Applied Epic. These discrepancies must be identified and cleaned up. Run the Status of Accounts for these GL Accts and identify the transactions entered, and determine what steps to take to resolve the issues.

Step 3: How old are the unpaid items?

It's great to be in balance, but the final step is to review the age of the unpaid items to the companies/brokers. It is rare that a company/broker will allow you to pay the net premium due more than sixty days from the accounting month on the transaction.

Back to the scenario we discussed earlier: the agency has invoiced the client for additional coverage, and the client has paid the premium, but the company has never requested payment. Is the company aware of the coverage, and what happens if there's a claim? Do you have an E&O exposure?

Use the "Aged Current Premium Payables" report to quickly locate the items over 60 days old to investigate why they are not yet paid to the company/broker. You can change the aging categories in the criteria of the report.

Clean up the Premium Payables

Cleaning up the Premium Payables involves resolving the discrepancies found in the three steps above. To find the discrepancies as of the current month, follow the steps below:

Be sure all statements have been Associated to a GL Item and Finalized. Use Filters to find Suspended, Unpaid or Closed Statements that need to be completed. If a Premium Payable statement is not Associated to a GL Item, the Balancing Premium Payable report will not be in balance.

To clear the Premium Payable Statements that total zero and were not Associated to a GL Item, or were "Closed without Paying", we need a GL Item to associate them to, so we'll add a Journal Entry for Company Payable and a Journal Entry for Broker Payable for this purpose. The Journal Entry will be a debit and credit for \$1 to the same GL Account, so it has no effect on the general ledger.

Add the Journal Entry for Association for zero balance statements:

- General Ledger
- Journal Entries
- Click Add icon
- Change Effective Date and Accounting Month (to the current month)
- Enter Description, "Payables Zero Balance Statement", for example
- Type = Company, Locate any company to use
- Continue
- Select general ledger account for Company Payables Title Account
- Enter description again
- Amount = \$1.00 debit
- Click Add icon
- Select same GL account, description, etc.
- Amount = \$1.00 credit

- Finish
 - Make note of the refer number, you will use this for closing company statement

(If you have broker payables, you will need to enter another journal entry using Type = Broker)

Cleanup Existing Suspended Statements

These statements need to be Associated to the appropriate GL Item (Disbursement, Receipt or Journal Entry), and the Statement Finalized.

- General Ledger
- Reconciliations
- Premium Payable
- Search where Statement Status = Suspended
- For each statement in this list:
 - Actions, Associate GL Item
 - Add to the actual GL Item (Disbursement, Receipt or Journal Entry)
 - Finish
 - Actions, Finalize Statement, Yes
 - Clear Filter

Cleanup Existing Unpaid Statements

These statements need to be Associated to the appropriate GL Item (Disbursement, Receipt or Journal Entry).

- Search where Paid Status = Unpaid
- For each statement in this list:
 - Actions, Associate GL Item
 - Add to the actual GL Item (Disbursement, Receipt or Journal Entry)
 - Finish
 - Clear Filter

Cleanup Existing Closed Statements

These statements were “Closed Without Paying” and need to be Associated to the Journal Entry we created above.

- Search where Paid Status = Closed
- For each statement in this list:
 - Actions, Associate GL Item
 - Add to Journal Entry
 - Reference # will be the number of the journal entry done earlier
 - Finish

Cleanup Out of Balance Situations

- Run the Balancing Current Premium Payables Report
 - Compare the Payable Balance Total for each company/broker to the General Ledger Balance shown below the total of the Payable Balance for each company/broker. These two numbers should match. If they don't, this company is "out of balance".
- Run Status of Accounts for the companybroker payable account that is out of balance.
- Review the Reports
 - Look for the obvious first – does the amount you're out of balance jump out at you, either on the Status of Accts or on the Premium Payables report?
 - Look out for Direct Bill Commissions that may have been deposited to the Premium Payables GL Acct in error, and when Premium refund checks have been deposited to Direct Bill Commission Income in error.
 - Is there a balance in the Company or Broker Payable Title Account? If so, investigate.

Clean out the closet – Fresh Start

Has your agency never reconciled company payables consistently, or not at all? If so, you may need to clean out the closet and get a fresh start! This is a last resort, and cleanup should be done, if possible, but here are the steps to clean out the old, and get your payables in balance.

Step 1: Line in the Sand Date

- Come to a decision with your accountant and agency owner on what your "line in the sand" date will be. All unreconciled company payables prior to this date will be assumed to have been paid to the company, or in the case of credits, assumed to have been refunded to the agency by the company.
- For example, we assume all transactions with an accounting month prior to Jan, 2019 have either been paid to the company, or the net premium refund has been received from the company.

Step 2: Reconcile all items prior to the "line in the sand" date.

- Reconcile one company at a time
 - General Ledger
 - Reconciliations
 - Premium Payable
 - Add icon
 - Locate the premium payable entity, click Add
 - Accounting Month = one month prior to "Line in the Sand Date"
 - Leave all other criteria to defaults
 - Enter description, "Payables Clean-up", for example

- Change the Payment accounting month to one month prior to “Line in the Sand Date”
- Click detail
- Actions, Flag all Items
- X in Navigation Panel to exit statement
- Actions, Associate GL Item
- Add to Journal Entry created for Association for zero balance statements in earlier step. The fact the amounts don’t match doesn’t matter since the General Ledger will be adjusted to match the unpaid items listing.

Step 3: Clean up the unpaid items from the “line in the sand” date thru today.

- Reconcile items that have been paid or refunded, Associate to the actual check, deposit or journal entry number.
- What remains as “Unpaid” to the companies should be an accurate list of what is truly due to or from the company.

Step 4: Set up a GL Account for “Premium Payable Cleanup” and enter Journal Entries

- Remember, the point of this process is to get the company payables in balance. We’ve flagged off all the old payables, and the transactions that remain unpaid are true and valid. The next step is to do journal entries to force the GL balance on the company payables accounts to match the total unpaid net premium due to or from each company. The offsetting GL account will be this new account. I usually list this GL account right below my “true” company payables, and name this account “Premium Payable Cleanup”.
- The company payable GL accounts are now in balance. The GL balance matches the amount of the unpaid transactions for each company. Now it’s up to you to keep them in balance.

Step 5: Decide with your accountant and agency owner when the amount in the Premium Payable Cleanup GL account will be written off via journal entry to either income or expense.

Keep your payables squeaky clean

How to keep your Premium Payables clean – every time!

1. Invoice transactions before applying client payments or paying a company
2. Always reconcile the Premium Payable PRIOR to paying the company – adjust commissions, when appropriate (who’s right, the agency or the company?)
3. When refunds are received – 2 ways to keep clean
 - a. Select the items being refunded during the Receipt process
 - b. Enter the Deposit to the appropriate Premium Payable GL Acct
 - i. Reconcile the statement
 - ii. Associate the Statement to the Deposit Ref #
 - iii. Finalize the Statement