

How to Prepare for Your Premium Audit

At the end of your policy period, we will conduct an audit of your policy to determine if the exposures that you and your agent estimated at its inception match the exposures that occurred throughout the policy's term. The audit will determine whether an adjustment is necessary. Follow the tips below to ensure your annual audit runs smoothly.

1. Keep your records up to date.

The auditor may request the records below for review. Keeping them updated throughout the term will make it easier to prepare when your audit is scheduled.

Certificates of Insurance

- Certificates of Insurance reflecting coverage during your policy period for each subcontractor paid

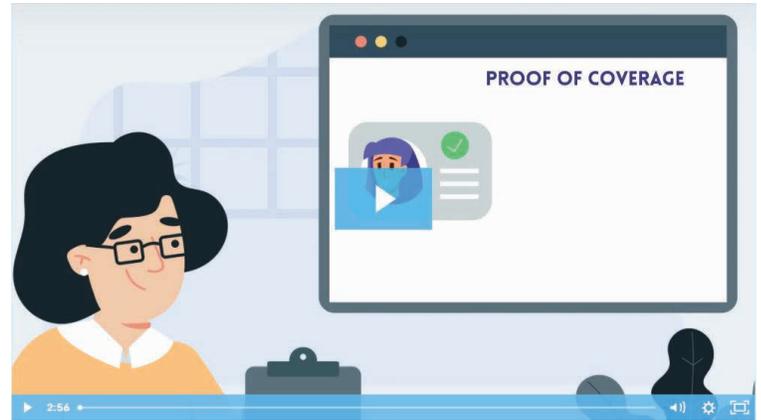
Payroll Records

- QuickBooks report
- Payroll Registers (ADP, Paychex, etc.)
- Manual payroll sheets or payroll book

2. Inform your agent of exposure changes throughout the term.

Changes to your exposures will impact your policy premium. If you adjust endorsements with your agent throughout the policy term, you will pay the most accurate premium and experience fewer surprises during your audit. If you fail to update exposure changes during the policy term, they will be revealed during the audit process and may result in an unexpected and unwelcome premium adjustment.

CLICK the video for more information.

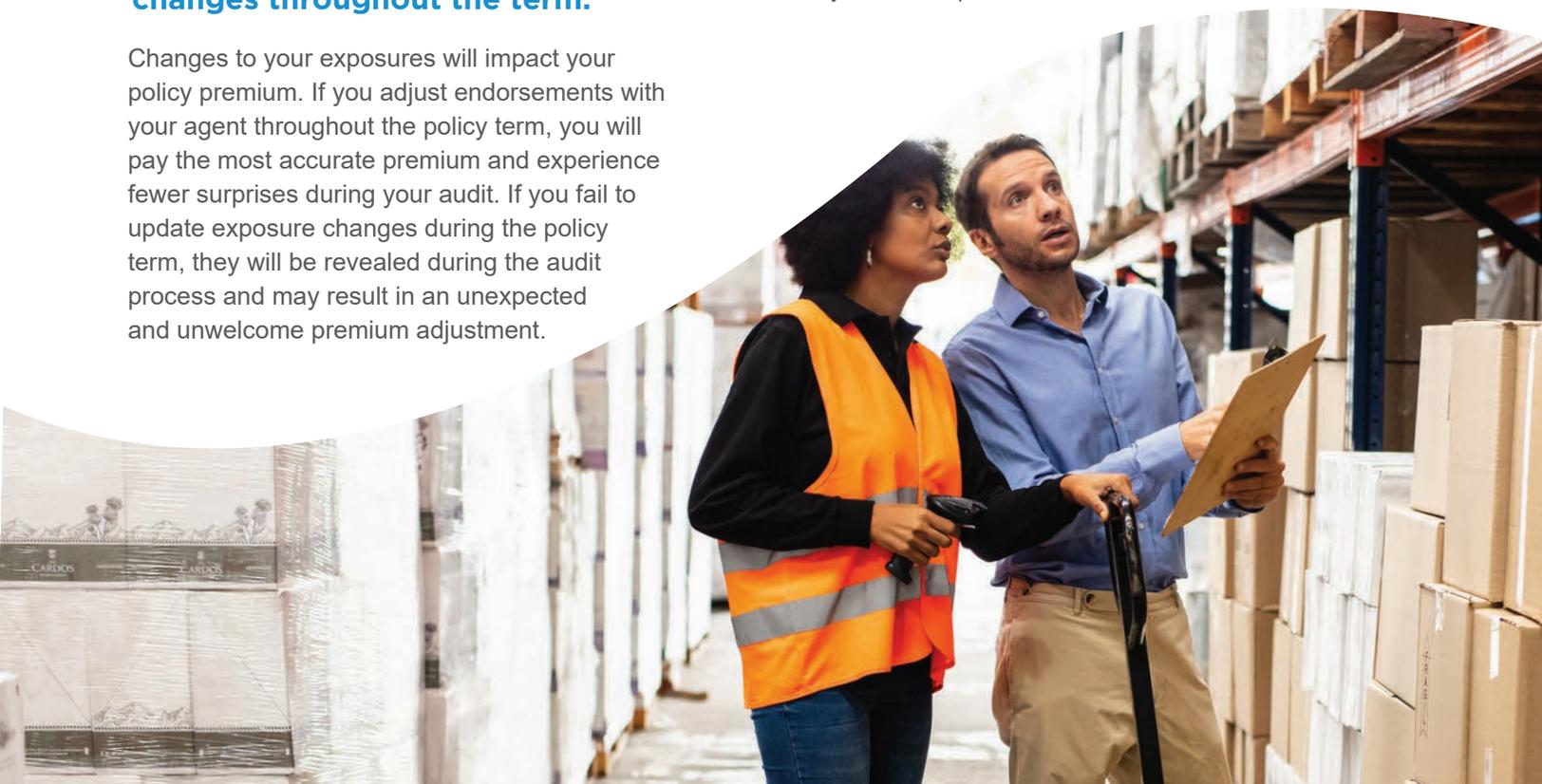


Click [HERE](#) to access the Premium Audit Checklist.

Quarterly Reports for Verification of Payroll

- Federal 941 quarterly reports of wages paid for all employees
- State unemployment tax returns records that provide the amounts paid to subcontractors or contract labor*
- QuickBooks vendor transaction reports/summaries
- General ledger or cash disbursements journals
- Check stubs or check registers
- Other vendor details that reflect payments to subcontractors

*Please note that 1099s are not adequate records as they do not reflect payments less than \$600, nor do they include corporations.



3. Be sure subcontractors have their own insurance.

Hiring subcontractors that do not have their own insurance has serious consequences. Your premium will be adjusted to include the payroll associated with their labor during the stated policy period. This added premium is compensation for the risk that subcontractor(s) or their employee(s) will file a claim for benefits under the coverage provided to you, the insured.

Although a subcontractor may appear to be an independent business, under Workers' Compensation law, the definition of "employee" is much broader than what is commonly understood. In many states, the contractor is held responsible for expenses related to on-the-job injuries of independent contractors and their employees. Frank Winston Crum Insurance is responsible for legal fees associated with these claims (as stated in your policy, Part 1) and may also pay Workers' Compensation benefits, as well.

Showing proof of subcontractor Workers' Compensation coverage before the audit is complete will eliminate the additional premium assessment. Be aware that proof of General Liability insurance, pre-determinations, or statements of independent contractor status, hold harmless agreements, etc., are not acceptable substitutes. Exceptions will not be made for sole proprietors or others not required to purchase Workers' Compensation insurance. If proof of insurance is not presented before the audit is complete, the appropriate charges will be assessed to your policy, regardless of exceptions made in the past.

As it relates to General Liability audits, it is important to hold General Liability (GL) Certificates of Insurance (COI) on file from the time the subcontractor begins a work project, up to a year beyond the project end date (*required at the time of final audit). In addition, Certificates of Insurance are required to list the named insured as an additional insured, have at least the same limits of coverage as our named insured, or higher limits; and show proof of coverage throughout the projects start/end date(s) or payment transaction period.

Premium may be charged for subcontractors hired by uninsured entities owned or controlled by you. If the Ratings Bureau rules in your state that it is required to combine the related entity in a single policy with the insured, the appropriate premium will be charged.

If you have any questions regarding our policy for handling insurance for subcontractors, please contact your agent. Thank you for your partnership with Frank Winston Crum Insurance. We look forward to serving you.

4. Comply with the audit request in a timely fashion.

Failing to comply with the audit request can be costly. State regulations allow carriers to collect up to three times the estimated premium if the insured fails to provide reasonable access to payroll records. Save yourself time and money by cooperating with the audit request, and contact us immediately with questions or concerns.

