



HOW TO PREPARE FOR AN AUDIT

Builders Mutual[®]
PREMIUM AUDIT

Preparing for an insurance audit can be quite simple if you know what information to gather and how to keep it organized. This quick fact sheet is designed to provide the top 10 tips needed when preparing for an audit with Builders Mutual Insurance Company.

1. BE PRESENT

As a time saver and a potential money saver, get the person who knows the business to be present at the audit (owner/a partner/a corporate officer, etc.) Businesses can fluctuate and that can affect premiums. By addressing all questions up front in the audit with the person who knows the business, we can save time and have a better picture of what to expect as we continue the audit process.

2. SET THE RECORDS STRAIGHT

- Payroll records—Gross Pay, Overtime Pay, Severance Pay
- Quarterly reports FICA 941 & State Unemployment
- Amounts paid to subcontractors
- Certificates of insurance on subcontractors
- Your check register or general ledger
- Your most recent tax return
- Any recent claims information

3. SUBCONTRACTORS

- Are they insured or uninsured?
- Require the certificate of insurance from subcontractors prior to them coming on site. You put yourself at risk if you do not ask for the COI immediately.
- Check the issued date, the insurance carrier, policy #, and the policy dates.
- A binder or certificate with TBD for the policy number is not valid.
- Handwritten certificates are not acceptable.

- Get new certificates quarterly to avoid any cancellations that may have occurred or policy lapses between certificates received.
- Be sure they have the adequate limits on the General Liability for your work. Minimum acceptable limits for Builders Mutual on General Liability insurance are 300,000 each occurrence, 600,000 general aggregate, and 600,000 products completed.

4. SUBCONTRACTORS LABOR vs. MATERIAL

- Workers' Comp—Uninsured Subs: Use the payroll records of the subcontractor. If unavailable, seek documentation to show that a definite amount of the subcontractor price represents labor costs:
 - If the subcontractor is a mobile equipment operator with drivers, then no less than 33 1/3% of the contract price will be applied as exposure.
 - If the subcontractor price includes labor and material, then no less than 50% of the contract price will be applied as exposure. You must furnish Builders Mutual with copies of invoices from subcontractors to substantiate the labor cost.
 - If the subcontractor price is for labor only, then no less than 90% of the contract price will be applied as exposure.
- For General Liability Insured Subs: Use the total amount paid to the subcontractor inclusive of materials.
- For General Liability Uninsured Subs: Builders Mutual applies the rules from workers' comp for uninsured subcontractor exposure.

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5. CLASSIFY AND SEPARATE

- Keep your records classified by jobsite/location. Classifications for the general contractor are assigned by job or location if the proper records are maintained.
- The assignment of the appropriate contracting classification for a particular type of work may vary according to whether your business is a specialty or general contractor. Project classifications may apply for residential general contractors, but additional classifications may apply to the operations, if proper records are maintained. A specialty contractor is a contractor who is hired to perform a single operation of a larger construction project. One classification best describes the insured's operation at the job or location. For example, plumbing, electrical wiring, wallboard.

6. CLASSIFICATION BY JOB DUTY (NOT JOB TITLE)

- Classifications are made based on job duties and exposures, not job title. Remember only the workers on site can have their time broken out into more than one classification.
- Clerical persons remain in the office and occasionally go to a bank or run an errand. They do not go to the jobsite or clean the office on a regular basis.
- Sales persons travel to meet the customer.
- Exec supervisors do no physical work. They have no direct supervision of employees, contract labor, or subcontractors. They work in the office a majority of the time. They do not load or unload trucks, or pick up supplies or set doors, etc.

7. REMUNERATION

- Use Gross Pay vs Net Pay.
- Vacation Pay, Sick Pay, Holiday Pay, Bonus Pay are all included in the remuneration of Gross Pay for each employee.
- Extra pay for overtime (usually 1/3), is **excluded** if the proper records are kept.
- Severance Pay is excluded for Workers' Comp.
- Gas mileage, out-of-town food, and lodging payments could also be excluded if properly documented.

8. OFFICERS AND OWNERS

- Who are the officers and what are their duties?
- Are they included or excluded?
- What is the entity type?
 - Sole proprietors and members of LLC's are treated differently from state to state. Please work closely with your agent to determine your needs.
 - Officers of corporations are automatically included on WC unless an endorsement is on file to exclude from WC coverage.

9. KEEP IT TOGETHER

- Use a three ring binder for alphabetizing & storing certificates.
- Store your audit info in a binder for reference the next year.
- Use your checkbook to determine the amounts paid to subcontractors.
- Use QuickBooks to get a 1099 Detail Report.

10. THE FINAL AUDIT BILL

- Review your final audit bill findings and determine if there is a balance due or a credit.
- You have 15 days from the date of the "Final Audit Billing" for an Audit Dispute or Revision of the audit findings.
- If a certificate is needed, please quickly fax it to (919) 845.9382 or email it to audits@bmico.com with a cover page stating you are disputing the final audit billing on Policy #: ##### with the reason being 'the additional certificate attached.'



QUESTIONS?

Please call the Builders Mutual Premium Audit department at (800) 809.4860 x478.

To find your auditor, please visit buildersmutual.com/audit.

