PREPARING FOR AN AUDIT

With Builders Mutual by your side and a little advanced planning, premium audits can be simple. As part of our dedication to providing our policyholders with the best service possible, we want to help you be prepared with the proper records and a thorough understanding of the process, making your premium audit as efficient as possible.

We have assembled all the tools you need to prepare for your audit in this kit, which includes:

**AUDIT PREP CHECKLIST**
Preparation is critical to a successful premium audit. The Audit Prep Checklist will help you know what documentation to provide and how far back to go with your records, how to organize records, and how to work with subcontractors. It also gives insight into common audit questions on remuneration and class codes.

**WORKERS’ COMPENSATION CLASSIFICATION FLYER**
We developed this document to help you understand the questions that will be asked during the Workers’ Compensation audit. Review this document to familiarize yourself with the Builders Mutual audit process so you can avoid any surprises during your audit.

**PREMIUM AUDIT FAQS**
Here you can find answers to all the questions you may have regarding the audit process. If you have further questions about the information you need to provide for an audit, contact your auditor prior to your scheduled appointment or call our Premium Audit Department at 800-809-4859.
Premium audits are much easier when you know what information to gather and how to keep it organized. Follow these steps to prepare for a premium audit with Builders Mutual.

**Be Present**
Have the person who knows the business present during the audit (owner/partner/corporate officer, etc.). Businesses can fluctuate, which can affect premiums. By addressing audit questions up front with the person who knows the business best, we can save you time and have a better picture of what to expect as the audit process continues.

**Provide Necessary Business Records**
- Payroll records—Gross Pay, Overtime Pay, Severance Pay
- Quarterly reports FICA 941 and 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

**Check on Your Subcontractors**
- Are they insured or uninsured?
- Require a certificate of insurance (COI) 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 number, and policy dates.
  - A binder or certificate with TBD or TBA for the policy number is not valid.
  - Handwritten certificates are not acceptable.
- Be sure they have the adequate limits on the General Liability for your work. The minimum acceptable limits for Builders Mutual on General Liability insurance are $300,000 each occurrence, $600,000 general aggregate, and $600,000 products completed.
- Get new certificates quarterly to avoid cancellations that may occur or policy lapses between certificates received.

**Know the Difference Between Subcontractors’ Labor vs. Material**
- Workers’ Compensation—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 percent of the contract price will be applied as exposure.
  - If the subcontractor price includes labor and material, then no less than 50 percent 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.
- General Liability Insured Subs: Use the total amount paid to the subcontractor inclusive of materials.
- General Liability Uninsured Subs: Builders Mutual applies the rules from workers’ comp for uninsured subcontractor exposure.

**Classify And Separate**
- Keep your records classified by job-site/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 and commercial 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, etc.

**Make Classifications 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 job-site or clean the office.
- Executive 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.

**Determine Remuneration**
- Use Gross Pay vs Net Pay.
- Vacation Pay, Sick Pay, Holiday Pay, and 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.

**Clarify Your 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 LLCs are treated differently from state to state. States have different minimum, maximum, and flat amounts for officers, members, partners, and sole proprietors of a business. If they are included, it is important to know these amounts. 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.

**Does your state have exemptions for officers** *(Tennessee, Maryland, and Florida)*?

**Stay Organized**
- Use a three-ring binder for alphabetizing and 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.

**Examine 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” to resolve your audit.
- If you need to provide an additional certificate of insurance, email audits@bmico.com, or fax it to 919-227-0350 with a note containing your company name stating that you are questioning the final audit billing and include your policy number.

**REAL PEOPLE, REAL ANSWERS**
Builders Mutual helps the audit process go smoother by making our auditors available to answer your questions. Auditors are assigned to a specific territory in the states we serve, so they are familiar with the issues unique to your location.

For the auditor nearest you, visit: buildersmutual.com/audit, then select from the list of states. Or call the Builders Mutual Customer Contact Center at 800-809-4859.
Here, you can see the typical questions that will be asked of you during your workers’ compensation premium audit.

**What is your legal entity?**
Individual, Partnership, Corporation, LLC, or LLP.

**Who are the owners/officers/partners, and what are their duties?**
Assign to the principal operations in which the executive officers are engaged.

**What are your operations?**
Assign basic classification.

**Standard Exceptions**
Classifications common to most businesses:
- Clerical 8810
- Drivers 7380
- Salesperson 8742
- Auto Salespersons 8748

**General Exclusions**
Operations unusual for the business described by the basic class:
- Aviation
- New Construction
- Stevedoring
- Saw Mills
- Day Care Centers

**Do multiple basic classes apply?**
If yes, determine basic classifications:
- General Inclusions—operations that appear to be separate businesses but are included in the basic class:
  - Maintenance and repair of insured’s equipment/buildings
  - Manufacture of container for insured’s products
  - Medical facilities for insured’s employees
  - Printing by insured on its own products
- If proper records are maintained, assign to applicable class. If not, assign to highest-rated class (interchange of labor).
If no, determine governing class.

**Miscellaneous Employees**
Performs duties common for separate operations subject to more than one basic class. Assign to Governing Class—the basic class with largest payroll.
- General Superintendent
- Maintenance
- Shipping and Receiving
- Job-site Cleanup—including finish cleaning
These are some of the most frequently asked questions regarding the premium audit process. If there is something you are wondering about that isn’t covered here, feel free to contact your auditor.

**GENERAL AUDIT QUESTIONS**

**Why do I need to complete an audit?**
When your policy is issued, the premium charge is estimated based on historical records of your business operation. At the end of the policy term, an audit is conducted to determine your actual exposures during the policy period so that we may adjust your premium accordingly. It also allows us to ensure that your current policy has the most accurate class codes and estimated premiums based on your current operations.

**Can I complete my audit online?**
Yes. Builders Mutual offers a secure web-based option to complete the annual premium audit for your workers’ compensation and/or general liability policy. If you are eligible to complete a self-audit, you will receive a letter in the mail containing instructions and a time-sensitive username and password that provides access to your audit information.

**If I misplace the letter containing my username and password to complete the self-audit online, can I get another copy?**
Yes. Contact our Customer Contact Center at 800-809-4859 to request another copy.

**I prefer to complete a paper audit. What do I need to do?**
If you received a letter in the mail requesting you to perform an online audit, you may contact our Customer Contact Center at 800-809-4859 to request a paper copy.

**Can I receive a copy of the auditor’s worksheets?**
Yes. Contact our Customer Contact Center at 800-809-4859 to request a copy.

**What if I disagree with my audit results?**
You have 15 calendar days from the “Issue Date” (located in the upper right-hand corner of your Workers’ Compensation or General Liability audit bill) to resolve your audit. If you believe that the Final Audit Statement contains incorrect exposures, contact the Premium Audit Department, in writing, and provide documentation to support your questions. Documentation must be in the form of original documents. Summaries will not be accepted. Pertinent documents may include:

- Payroll ledger for the audit period
- Federal 941 quarterly reports
- State quarterly filings
- W-2s and corresponding W-3
- 1099s and corresponding 1096 for subcontractors
- Invoices or contracts for subcontractors
- Certificates of Insurance for subcontractors with effective dates that fall within your policy period
- Written job descriptions for employees or subcontractors
- Check stubs in numerical order

Please note that you must include payment for any portion of the premium not in question.

Mail your questions and supporting documents, including partial payment, to:

Builders Mutual Insurance Company
Premium Audit Department
PO Box 150005, Raleigh, NC 27624-0005
WORKERS’ COMPENSATION QUESTIONS

Why can’t you audit my workers’ comp and general liability policies at the same time?
Audits are originated based on your policy’s expiration date. For example, if your workers’ comp policy expires in January and your general liability policy expires in May, you can expect separate audits within 45 days following each expiration. If you would like to line up your workers’ comp and general liability policy dates, this can be arranged by your agent. Please keep in mind that by doing so, both your workers’ comp and general liability premiums will be due at the same time, as well as possible audit bills.

Why is the volume discount different on final audit billing from what is shown on my monthly worksheet?
The discount factor is based on actual premium. Be sure to review your estimated bill carefully at the time of policy renewal, as this will become the basis for your future reporting forms.

I have been reporting and paying on my payroll monthly. Why do I have a balance at the time of audit?
There may be several reasons for this:
• The audit may have generated more payroll than you previously reported.
• The allocation of payroll among the applicable classifications may be different than you reported.
• A minimum premium may apply. Every classification has a minimum premium. If the payroll you reported during the year generates a calculated premium that falls below the specific minimum premium for the classification of your policy, then the minimum is applied.

Why am I being charged again for my Expense Constant?
The Expense Constant is not being billed again. To confirm this, add up all premium payments (excluding payments toward deposit) for the policy term. Add the Expense Constant. The total should match the Previously Paid amount shown on your audit bill. Next, add the Expense Constant and Terrorism fee to the Normal Premium Amount (found on the second page of your audit bill). This is your Total Premium. From this, subtract the Previously Paid amount to arrive at the audit bill balance.

GENERAL LIABILITY QUESTIONS

Why are my General Liability codes listed twice on my audit bill?
Most General Liability classifications have two sub-lines of coverage: Premises Operations and Products Completed Operations. The Premises Operations covers you while construction is in progress; Products Completed Operations covers you after construction is completed. These two sub-lines of coverage have different rates and are therefore listed separately on the bill.

ANY OTHER QUESTIONS?
Call the Customer Contact Center at 800-809-4859.
The Builders Mutual Customer Contact Center is available Monday through Friday, 8 a.m. to 6 p.m. Eastern Time. When you call, a trained Customer Service Representative will serve as a central point of contact for all your basic agency and customer inquiries, including:
• Audit information
• Billing inquiries
• Payments
• Policy documents
• Status of policy changes

To locate or contact your auditor, please visit buildersmutual.com/audit.