



# 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. Your premium auditor will take the time to review these questions and work with you to ensure your Workers' Compensation policy includes the appropriate classifications.



## PREMIUM AUDIT FAQs

Here you will find answers to 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**.



# AUDIT PREP CHECKLIST

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.

\$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.
- Verify your organization is listed as a certificate holder on the COI and that the COI was provided by subcontractor's insurance agent.
- See **Sample Certificate of Insurance (COI)** following this checklist.

## Provide Necessary Business Records

- Payroll records—Gross Pay, Overtime Pay, Severance Pay
- Quarterly reports FICA 941 and state unemployment
- Amounts paid to subcontractors
- Provide a detailed listing for each subcontractor including date and amount of each payment; totaled by subcontractor.
- Provide original invoices from **uninsured** subcontractors breaking out material and labor costs.
- Certificates of insurance on subcontractors
- Your check register or general ledger
- Your most recent tax return
- Any recent claims information
- If you have OCIP/CCIP projects, please provide the following for each project: monthly certified payrolls, insurance certificate(s), declaration page(s) of the policy, physical address of each project, name of the owner or contractor of the program, the project name, and the contract number.

## Know the Difference Between Subcontractors' Labor vs. Material

- Workers' Compensation—When using uninsured subcontractors 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 original invoices from subcontractors to substantiate the labor cost.
  - If the subcontractor price includes material, but the invoice does not breakout the cost of material, then no less than 90 percent of the contract price will be applied as exposure.
  - If the subcontractor price is for labor only, then 100 percent of the contract price will be applied as exposure.
- 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.

## Check on Your Subcontractors

- Are they insured or uninsured?
- Require a Certificate of Insurance (COI) from subcontractors prior to them coming on site.
- A COI should be obtained before a subcontractor performs any work, at the beginning of each new project, and quarterly for the duration of each project, at a minimum.
- You put yourself at risk if you do not ask for the COI immediately. Check the issued date, the insurance carrier, policy number(s), policy dates, and verify the name on the COI matches the name the check is made out to when paying the subcontractor.
- 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

## Classify and Separate

- Keep your records classified by job-site/location. In most cases, 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. A specialty contractor is assigned to the one classification that best describes the insured's operation at the job or location—for example, plumbing, electrical wiring, wallboard, etc. is used for specialty contractors.

- It is necessary to maintain actual payroll records to assign an employee to multiple class codes. If these records are not maintained, assign the employee to the class code with the highest rate that the employee has exposure to (interchange of labor).

## Make Classifications by Job Duty (Not Job Title)

- Classifications are made based on job duties and exposures, not job title.
- 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.
- Salespeople travel to meet the customer.
- 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, pick up supplies, clean job-sites, or set doors, etc.

## Determine Remuneration

- Use Gross Pay not Net Pay.
- Vacation Pay, Sick Pay, Holiday Pay, and Bonus Pay are all included in the remuneration of Gross Pay for each employee, and is assigned to the class code that most of the individual employee's payroll is assigned to.
- The premium portion of overtime (usually 1/3) is excluded if the proper records are kept.
- True Severance Pay is excluded, payments for unused vacation time is included.
- Gas mileage, and 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.

## Stay Organized

- Use a three-ring binder for alphabetizing and storing certificates.
- Store your audit info in a binder for reference the next year.
- If you use Quickbooks, the 1099 Detail Report is utilized to obtain subcontractor payment info.
- If you don't use accounting software, your check stubs or register may be used to determine the amount paid to subcontractors.

## Examine the Final Audit Bill

- Review your final audit bill findings and determine if there is a balance due or a credit.
- You may request a copy of the audit by emailing your request to [audits@bmico.com](mailto:audits@bmico.com). Please include your policy number with your request.
- 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](mailto:audits@bmico.com), or fax it to **919-227-0350** with a note containing your company name and policy number stating that you are questioning the final audit billing.

## REAL PEOPLE, REAL ANSWERS

Builders Mutual improves the audit process 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](https://buildersmutual.com/audit), then select from the list of states. Or call the Builders Mutual Customer Contact Center at **800-809-4859**.

## ANY QUESTIONS OR CONCERNS?

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

# Sample Certificate of Insurance (COI)

Protect yourself from a fraudulent Certificate of Insurance (COI). Below is a sample COI with highlighted fields to show which areas to check. The certificate should be filled out with consistent fonts, look professional, and cannot be hand written.

ACORD		CERTIFICATE OF LIABILITY INSURANCE		DATE (MM/DD/YYYY) 01/01/2020		VALID DATE	
THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS CERTIFICATE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.							
IMPORTANT: If the certificate holder is an ADDITIONAL INSURED, the policy(ies) must have ADDITIONAL INSURED provisions or be endorsed. If SUBROGATION IS WAIVED, subject to the terms and conditions of the policy, certain policies may require an endorsement. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).							
PRODUCER Agency Name Agency Mailing Address City, ST ZIP				CONTACT NAME: Contact First and Last Name PHONE (A/C, No, Ext): 555-555-5555 FAX (A/C, No): E-MAIL ADDRESS: sample@email.com			
INSURED Insured's Name Insured's Mailing Address City, ST ZIP				INSURER(S) AFFORDING COVERAGE INSURER A: Insurance Company Name INSURER B: INSURER C: INSURER D: INSURER E: INSURER F:		NAIC # 12345	
COVERAGES CERTIFICATE NUMBER: REVISION NUMBER:							
THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.							
INSR LTR	TYPE OF INSURANCE	ADDL SUBR INSD WVD	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS	
A	<input checked="" type="checkbox"/> COMMERCIAL GENERAL LIABILITY <input type="checkbox"/> CLAIMS-MADE <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> OCCUR PD Ded: \$1,000 GEN'L AGGREGATE LIMIT APPLIES PER: <input type="checkbox"/> POLICY <input checked="" type="checkbox"/> PROJECT <input type="checkbox"/> LOC OTHER:		CGL123456789	12/31/19	12/31/20	EACH OCCURRENCE \$ 1,000,000 DAMAGE TO RENTED PREMISES (Ea occurrence) \$ 300,000 MED EXP (Any one person) \$ 10,000 PERSONAL & ADV INJURY \$ 1,000,000 GENERAL AGGREGATE \$ 2,000,000 PRODUCTS - COMP/OP AGG \$ 2,000,000	
	AUTOMOBILE LIABILITY <input type="checkbox"/> ANY AUTO <input type="checkbox"/> OWNED AUTOS ONLY <input type="checkbox"/> SCHEDULED AUTOS <input type="checkbox"/> HIRED AUTOS ONLY <input type="checkbox"/> NON-OWNED AUTOS ONLY					COMBINED SINGLE LIMIT (Ea accident) \$ BODILY INJURY (Per person) \$ BODILY INJURY (Per accident) \$ PROPERTY DAMAGE (Per accident) \$	
	UMBRELLA LIAB <input type="checkbox"/> OCCUR EXCESS LIAB <input type="checkbox"/> CLAIMS-MADE DED <input type="checkbox"/> RETENTION \$					EACH OCCURRENCE \$ AGGREGATE \$	
A	WORKERS COMPENSATION AND EMPLOYERS' LIABILITY ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? (Mandatory in NH) If yes, describe under DESCRIPTION OF OPERATIONS below	Y/N Y N/A	WCP123456789	12/31/19	12/31/20	<input checked="" type="checkbox"/> PER STATUTE <input type="checkbox"/> OTH-ER E.L. EACH ACCIDENT \$ 500,000 E.L. DISEASE - EA EMPLOYEE \$ 500,000 E.L. DISEASE - POLICY LIMIT \$ 500,000	
DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (ACORD 101, Additional Remarks Schedule, may be attached if more space is required)							
CERTIFICATE HOLDER Your Company Name Your Mailing Address City, ST ZIP				CANCELLATION SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS. AUTHORIZED REPRESENTATIVE			

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**BUILDERS  
MUTUAL**

PO Box 150005 Raleigh, NC 27624-0005  
800-809-4859 | [buildersmutual.com](http://buildersmutual.com)

Premium Audit | [audits@bmico.com](mailto:audits@bmico.com)  
[blog.buildersmutual.com](http://blog.buildersmutual.com)



# WORKERS' COMPENSATION CLASSIFICATION

Here, you can see the typical questions that will be asked of you during your Workers' Compensation premium audit. Your premium auditor will take the time to review these questions and work with you to ensure your Workers' Compensation policy includes the appropriate classifications.

## What is your legal entity?

- Sole Proprietor, Partnership, Corporation, LLC, or LLP

## Who are the owners/officers/partners, and what are their duties?

- Please provide details about all of their duties performed.

## What are your operations?

- Please provide details about all of the organization's operations including: what, where, and how the operations are done.

## Do you have any employees that qualify as a Standard Exception?

- **Clerical 8810** - All work performed in an office, including record keeping and correspondence duties.
- **Telecommuter 8871** - For clerical work from home (not the office location). Use 8871 if 50% or more of the employee's time is spent working from home. If the insured's only office is the home, use code 8810.
- **Drivers 7380** - Delivery of material and equipment owned by the policyholder. If the material or equipment being delivered supports a class code that includes drivers, class code 7380 does not apply.
- **Salesperson 8742** - Works from an office and travels out of the office to meet with customers in an office environment. May visit a job-site before work is started and after the work is completely finished, but may not visit a job-site while in progress.

## Do you have any General Exclusion operations?

- Aviation
- New Construction
- Stevedoring (loading and unloading ship cargo)
- Saw Mills

- Day Care Centers

These are operations that are usually **not** included within the scope of basic class codes, unless the class code specifically states to include these operations.

## Do you have any General Inclusion operations?

- 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

These are operations that are usually included in the scope of the basic class code unless the class code specifically states the operation must be classified separately.

## Do you have any employees that perform Miscellaneous Employee work?

- Direct Supervisors
- Building Maintenance on the insured's buildings, such as their office or warehouse
- Job-site Cleanup—including finish cleaning
- Traffic flagman

Miscellaneous Employees perform duties that are common for separate operations subject to more than one basic class. Miscellaneous Employee exposure is assigned to Governing Class—the basic class code with the most payroll.



# PREMIUM AUDIT FAQs

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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. Specifically, for Workers' Comp coverage, state laws require audits.

### How is my audit completed?

Our team offers two types of audits. A physical audit, where you meet with our auditor in person to review your documentation. And a virtual audit, where you will upload your documentation to a secure online portal and then review it virtually with our auditor. You always have the option of requesting a physical audit. After your policy term ends, we will reach out to you to either schedule your audit in person or start the virtual audit process.

### Can I complete my audit online?

Yes, if you are eligible, Builders Mutual offers a virtual audit. After discussing with our team, you will receive a letter with a time-sensitive username and password to our secure online portal where you will upload the requested documentation for review. Our virtual auditor will then work with you to complete the audit for your Workers' Compensation and/or General Liability policy.

### If I misplace the virtual audit letter containing my username and password, can I get another copy?

Yes. Contact our Customer Contact Center at **800-809-4859** to request another copy.

### Can I receive a copy of the auditor's worksheets?

Yes. To request a copy, contact our Customer Contact Center at **800-809-4859** or email your request to [audits@bmico.com](mailto:audits@bmico.com) and include your policy number.

### 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' Comp or General Liability audit bill) to resolve your audit. If you believe that the Final Audit Statement contains incorrect exposures, email the Premium Audit Department at [audits@bmico.com](mailto:audits@bmico.com), and provide documentation to support your questions. Documentation must be in the form of original documents and you must include your policy number(s). 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

### You may also mail your questions and supporting documents 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' Compensation and General Liability policies at the same time?

Audits are originated based on your policy's expiration date. For example, if your Workers' Compensation 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' Compensation and General Liability policy dates, this can be arranged by your agent. Please keep in mind that by doing so, both your Workers' Compensation 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.
- The use of uninsured subs.

### 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 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.

### Why am I being charged for my insured subs?

If a subcontractor has WC insurance, the subcontractor's exposure is excluded from the WC audit. However, if a subcontractor has GL insurance, the sub's exposure is assigned to an insured subcontractor classification on the GL audit. The insured subcontractor classifications have a lower rate than the classifications assigned to uninsured subcontractors, because the exposure is reduced when using insured subcontractors, but there is still exposure. For example, a general contractor hires all insured subcontractors to build residential houses. A wall collapses and the insured framing contractor states in court that his framing was per the blue prints provided, passed inspection, and was structurally sound until the electrician and plumber drilled holes in the studs to run electrical wires and plumbing through them. The general contractor, framer, electrician, and plumber's insurance carriers will have to respond and the court will decide which parties will be held responsible and to what extent.

## ANY OTHER QUESTIONS?

Call the Customer Contact Center at **800-809-4859**.

To locate or contact your auditor, please visit [buildersmutual.com/audit](http://buildersmutual.com/audit).