

# PREMIUM AUDIT CHECKLIST



## WHAT IS A PREMIUM AUDIT?

1. The purpose of a premium audit is to calculate your final insurance premium.
2. Your premium is an estimate of the exposure basis (usually payroll or sales) multiplied by a rate. The rate used is determined by how the exposure base is classified.
3. The audit will examine your records to determine the following:
  - a. The actual exposure basis
  - b. The correct classification codes and rates
4. As the original premium was an estimate, the audit calculation will determine the correct premium and this could result in either an invoice or refund to your business.

## TYPES OF INSURANCE PREMIUM AUDITS



### Physical Audit

On-site review of your business records by an auditor who will schedule an appointment. If your business records are located at an address other than your policy address, such as an outside accountant's office, you will need to notify the auditor.



### Virtual/Online Audit

An audit that is either completed online or through the phone. You will be required to include supporting records, such as copies of tax reports.

## INFORMATION NEEDED FOR AN INSURANCE AUDIT

Listed below is typical information an auditor may request at the time of audit. If there are multiple companies or multiple entities insured under one policy, the auditor will request this information for each company or entity.

### General Information

- Description of company operations
- Officers'/Owners' names and titles
- Employee names and job duties
- Number of employees at each location
- Names of subcontractors and Certificates of Insurance for subcontractors

### Payroll Records

- Gross pay including, but not limited to: bonuses, commissions, holiday pay, sick pay, overtime pay, vacation pay, and all pretax amounts
- Pretax/Section 125 amounts/401(k) amounts
- Overtime pay shown separately

### Subcontractor Information

- General ledger, cash disbursements book and checkbook register
- Names of subcontractors and certificates of insurance for subcontractors

### Tax Documents to Verify Payroll/Sales Records and Federal ID Number

- 941, 940, 1099, W-2, W-3, income tax return, etc.

### Sales

- Gross sales for each type of service provided/work performed by location
- Profit and loss statement
- General ledger

## INSURANCE PREMIUM AUDIT DEFINITIONS

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### Payroll

Payroll premium bases are used for Workers' Compensation and Commercial General Liability policies. Payroll includes, but is not limited to: hourly and salaried payroll, bonuses, holiday pay, sick pay, vacation pay, commissions, piece work, and profit sharing. Also included in the payroll premium base are meals and housing provided for employees, allowances for hand tools, expense allowances not based on receipts, and amounts used to reduce taxable wages such as cafeteria plans and deferred compensation plans.

Payroll excludes tips, overtime premiums, severance pay (not accumulated vacation or sick pay paid out), expense reimbursements based on receipts, third-party sick pay, excess life insurance, personal use of a company auto, and certain company perks (such as incentive vacations, club memberships or tickets to entertainment events).

## SOURCE DOCUMENT VERIFICATION LIST

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You will be required to provide one source document and one or more of the following verification records for your policy period. You may print this article to use as a checklist to assist you in gathering the documents necessary to complete your audit.

**Payroll Option 1.** If you use a payroll vendor (i.e. FrankCrum, ADP®, Paychex®)

- Reports available in these reporting applications will provide sufficient information for payroll
- Contact your auditor with specific reporting questions
- Required - CA only: If you have employees, provide Quarterly DE-9

**Payroll Option 2.** If you use an internal reporting application (i.e. QuickBooks®, PeopleSoft®)

- Reports available in these tools will provide sufficient information for payroll
- Contact your auditor or FWC Audit Dept with specific reporting questions

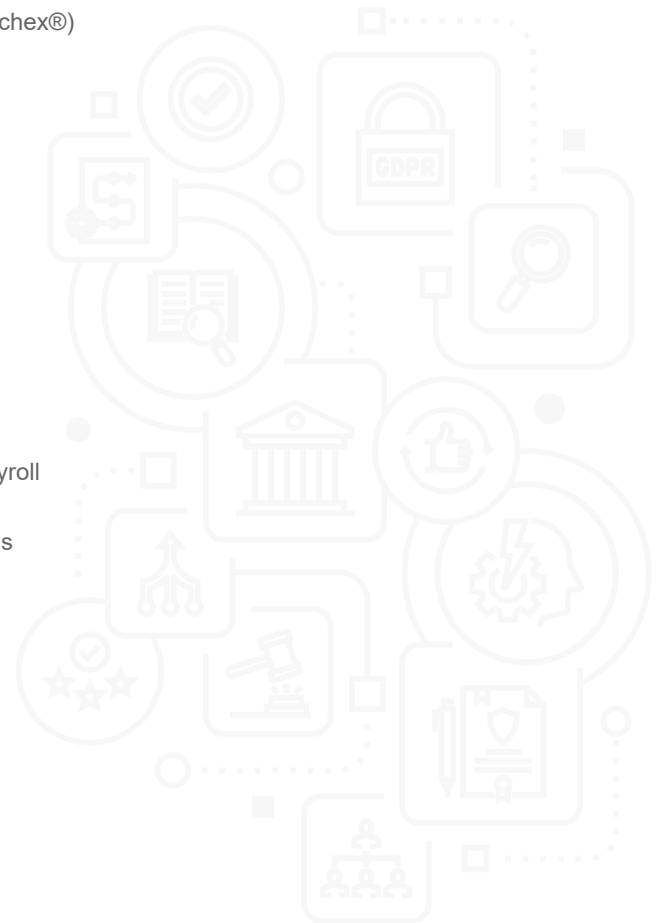
**Payroll Option 3.** If you use an accountant or bookkeeping service

- Most bookkeeping services will be able to provide payroll information that will be sufficient for the premium audit

## SUBCONTRACTORS

You must obtain Workers' Compensation and General Liability Certificates of Insurance (COIs) for all subcontractors hired. If the subcontractor does not provide you with a certificate of insurance, they will be treated as your employee and a premium will be charged for them.

The premium for uninsured subcontractors can be substantial, so it is to your advantage to obtain proof of insurance from subcontractors. Uninsured subcontractors covered under the principal contractor's policy are classified based on the classification codes that would apply if the work were performed by the principal's own employees.





**Tax Report Option 1.** If you have employees, provide one of the following:

- Employer's Quarterly Federal Tax Return (Form 941) – Preferred
- W-2/W-3 Wage and Tax Statement (best for calendar year audits due in Dec and Jan)
- State Unemployment Wage Reports (forms vary by state)

**Tax Report Option 2.** If you do not file any of the above, provide one of the following:

- For Sole Proprietor: Profit & Loss (Form 1040) Schedule C pages 1 and 2
- For a Partnership: U.S. Partnership Return of Income (Form 1065) Page 1 and 1125-A
- For a Corporation: U.S. Corporation Income Tax Return (Form 1120) Page 1 and Cost of Goods Sold (Form 1125-A)

### **Contracted Labor Information**

Provide payment information for all contracted and subcontracted labor used during your audit period. Provide a report with the following:

- Contract laborer/subcontractor name
- Description of work performed
- State in which work was performed
- Date work started/ended within the policy term
- Total amount paid
- Cost of materials supplied

Provide Certificates of Insurance (COIs) for subcontractors including dates worked.

- Definitions and requirements may vary by state. Contact your Agent or Producer with questions concerning your situation. Additional tests of independent status may apply.

**FOR QUESTIONS OR ASSISTANCE, REACH OUT TO THE FWCI PREMIUM AUDIT DEPARTMENT.**

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**FWCI Premium Audit Department:**  
866-218-4219 x4557

**Workers' Compensation Audit:**  
FWCIAudit@FWCrum.com

**General Liability Audit:**  
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