



**KARSTENS
FINANCIAL**
Anchoring your future.

THE PREMIUM AUDIT PROCESS

TOPICS COVERED

- What is a premium audit?
- When is an audit performed?
- What types of audits are conducted?
- How do I prepare for my audit
- What records will I need?
- Certificates of insurance for subcontractors
- Your audit results

WHAT IS A PREMIUM AUDIT?

- A premium audit is a comprehensive examination of a policyholder's records, operations, and books of accounts in order to determine the actual earned premium for the coverage period provided.

THE PREMIUM AUDIT VERIFIES THE ACCURACY OF:

- Policy classifications
- Remuneration
- Business locations
- Ownership interests
- Other pertinent policy information

AUDIT REPORT

- The audit concludes with an audit report. Because the original premium was an estimate, the audit will likely result in a change of premium – either a return premium or an additional premium – and/or classification change.
- The information within the premium audit report assists the Underwriting Department in determining the costs of coverage by its confirmation and/or notification of changes in the policyholder's operations and verifying/reporting payroll by classifications.

- The audit also assists the Claims Department by verifying claims filed during the policy period; thereby ensuring they are correctly classified. In doing so, the audit process plays an important role in the calculation of rates and experience modifiers as the audited data is submitted to the National Council on Compensation Insurance (NCCI).
- Conducting the audit is also a deterrent of fraud.

CLASSIFICATIONS

- NCCI has developed over 650 classes of business. These classifications are revised on a regular basis and changes are adopted by each insurance carrier on October 1 of the year in which they occur.

HOW IS YOUR BUSINESS CLASSIFIED?

- Basic business classification based on business operations
- Standard exceptions
 - Clerical office/telecommuting
 - Outside salesperson/auto sales
 - Drivers
- Contractors – by job, by classification
- Temporary Employment Agency – by client company

BASIC BUSINESS CLASSIFICATION

- The purpose of the classification system is to group employers with similar operations into classifications so that:
 - The assigned classification reflects the exposures common to those employers.
 - The rate charged reflects the exposure to loss common to those employers.
- Subject to certain exceptions, it is the business of the employer within a state that is classified, not separate employments, occupations or operations within the business.

BASIC BUSINESS CLASSIFICATION

- Classifications are divided into two types:
 - **Basic classifications** describe the business of an employer.
 - **Standard Exception classifications** describe occupations that are common to many businesses. These common occupations are not included in a basic classification unless specified in the classification wording.

STANDARD EXCEPTION CLASSIFICATIONS

- The standard exception classifications are as follows:
 - Clerical Office Employees: Code 8810
 - Clerical Office Telecommuter Employees: Code 8871
 - Drivers, Chauffeurs, Messengers and their Helpers – Commercial: Code 7380
 - Salespersons or Collectors – Outside: Code 8742
 - Automobile Salespersons: Code 8748

CONSTRUCTION OR ERECTION OPERATIONS

- Each distinct type of construction or erection operation must be assigned to the class that specifically describes the operation only if separate payroll records are maintained for each operation.
- If separate payroll records are not maintained for any construction or erection operation, the highest-rated classification that applies to the job or location where the operation is performed must be assigned.
- If a construction or erection operation is included in the scope of another classification, a separate code must not be assigned.

TEMPORARY EMPLOYMENT & EMPLOYEE LEASING

- Workers assigned to clients must be classified the same as direct employees of the client performing the same or similar duties.
- If the client has no direct employees performing the same or similar duties, leased employees are classified as if they were direct employees of the client entity.

PAYROLL

- **Payroll** is defined as total remuneration.
- **Remuneration** means money or substitutes for money.

WHAT IS INCLUDED IN REMUNERATION?

(MONEY OR SUBSTITUTES FOR MONEY)

- **Money** = Gross wages, commissions, bonuses, holiday pay, vacation pay, allowances for tools.
- **Substitutes for money** = The rental value of an apartment/housing, meals or lodging, the value of a store certificate or merchandise received as pay to the extent they are shown in the payroll records.
- **Remuneration Excludes:** tips, severance pay, business expense reimbursements, group term life, employer 401K match, uniform allowances, payments for active military duty, employer provided perquisites (perks) such as: use of an auto, airplane flight, contest winnings, club memberships, tickets to an event.

WHEN IS A PREMIUM AUDIT PERFORMED?

- Audits are usually performed shortly after the policy expiration. They can also be conducted at the inception of the policy (preliminary audit) or during the course of the policy period (interim audit) as requested by the Underwriter.
- Audits may be waived in accordance with eligibility criteria.

FINAL AUDITS

- Conducted shortly after policy expiration.
- A final audit determines the final premium for the policy period.
- The target date for completion is 60 days post policy expiration date, but no later than 90 days.

CANCELLATION AUDITS

- Conducted shortly after a policy cancellation.
- A cancellation audit determines the final premium on a cancelled policy for the period coverage was in effect.
- Cancellation audits are completed on a “RUSH” basis.

INTERIM AUDITS

- Conducted during the policy period. It may be performed on a quarterly or semi-annual basis as determined by the Underwriter, upon a receivership/bankruptcy filing, or Underwriter request.
- Interim audits determine the actual exposure during the interim period.
- Target date for completion is 60 days, but no later than 90 days.

NEW BUSINESS PRELIMINARY AUDITS

- Conducted at the inception of the policy period at an Underwriter's request.
- A preliminary audit ensures the estimated exposures and classifications accurately reflect the insured's operations.
- Preliminary audits are indicated as "RUSH" for completion as soon as possible in the event a material variance occurs and an endorsement is needed.

TYPES OF AUDITS PERFORMED

- Waived audits
- Mail audits
- Phone audits
- Physical audits

WAIVED AUDITS

- An audit is not conducted.
- The policy period is closed even, no additional or return premium.
- Letter sent to policyholder and agent.
- Policyholder may request an audit within 60 days of receipt of the waived audit letter.

WAIVED AUDIT LETTER



November 01, 2012

Any Company Inc
100 Any Street
Any Town, RI 09999-9999

Policy Type: Workers Compensation
Insured: ABC Company
Policy Number: 9999999999
Policy Period: 11/29/2011-11/29/2012

Re: Waived Final Audit

The final audit on your above-referenced policy has been waived for the policy period indicated above. The estimated premium previously billed to you is the final premium owed to Beacon pursuant to your above-referenced policy. If you do not request an audit or dispute your final premium in writing within sixty (60) days of the date of this notice, you will be deemed to have accepted the amount of your final premium.

If you have any questions, please call your agent, ABC Agency Inc at (401) 555-5555, or Beacon Mutual Insurance Company.

Thank you for selecting Beacon Mutual as your workers' compensation insurer.

NOTE:
Please black out or remove references to any social security numbers on all documents forwarded to Beacon.

CC: ABC Agency Inc

MAIL AUDITS

- A mail audit is a self audit completed by the policyholder.
- A cover letter with a mail audit form and instruction sheet, “Mail Audit Made Simple,” is sent to the policyholder.
- The policyholder completes the mail audit form and returns it to their insurance carrier along with the supporting payroll documentation.
- The reported data is reviewed by the internal audit staff and the results are entered for endorsement to the expired policy.
- The audit staff may contact the policyholder to clarify information.

SECTION I: BUSINESS INFORMATION

Business Description: *Provide a brief but thorough description of your business operations.*

Business Hours: _____ Number of Years in Business: _____ Number of Employees: _____

Number of Owned or Leased Vehicles: _____ Legal Entity Status: Corporation

If your legal entity status is different from above, please indicate below:
 Sole Proprietor Partnership Corporation LLC Other (please specify): _____

Company Officers: *Please correct inaccurate information and use additional sheets if necessary. Do Not include this as gross payroll in Section II below.*

Title	Name	Duties	Gross Payroll	Officer is Included/Excluded From Coverage	Active in Daily Operations?
President	John Smith			Inc ___ Exc ___	Yes ___ No ___
				Inc ___ Exc ___	Yes ___ No ___
				Inc ___ Exc ___	Yes ___ No ___
				Inc ___ Exc ___	Yes ___ No ___

Section I: Business Information

- By including details regarding your business operations, you are providing a snapshot of your business, thereby assisting in correctly classifying your operation.
- With the identification of proprietors, corporate officers, partners, LLC members and/or managers, and etc., in addition to their coverage status (included or excluded), their duties, and their payroll, this provides for the correct allocation of their earnings; and most importantly, whether or not to include or exclude their wages in the calculation of the final audit.
- Company officers as shown in this section reflect what is currently on your policy. Please modify accordingly, and most specifically, as it relates to coverage status (included or excluded).

SECTION II: EMPLOYEE PAYROLL INFORMATION

Payroll Instructions: Enter your gross payroll, adjustments, detail and tax information. In this section, list information on employees only, not officers.

Annual Payroll Summary for Policy Period:

to

Circle All that Apply

Class_Code_Description	Class Code	Total Gross Payroll Estimated	Total Gross Payroll Actual	Overtime	Tips	Severance	SEC 125	401k
Any Code - 1	9999	\$100,000.00						
Any Code - 2	8888	\$20,000.00						
	Total	\$120,000.00						

Section II: Employee Payroll Information

- For your ease, mail audits are based upon quarterly payroll information. Please provide the most recent completed four quarters of payroll data.
- Gross payroll, including all pre-tax deductions, is required.
- Class code descriptions, class codes, and total gross payroll estimates as they appear in this section reflect what is currently on your policy. The actual total gross payroll must be allocated by the job duties described by the class code descriptions.
- Reporting gross tips, gross severance, and gross overtime is important as this portion of payroll, if applicable, is excluded from the payroll used to calculate your premium (one-third of the gross overtime amount is excluded; the total tips and severance amounts are excluded). Each item, as is applicable, needs to be indicated under their respective columns.

SOURCE DOCUMENTS: <i>Attach a copy of the following forms:</i> RI DET-17-TX and Federal 941 Tax Report	Insured: Any Company Inc
	Policy Number: 9999999999
	Policy Period: 12/01/2011-12/01/2012

Quarterly Payroll Tax Information (total wages, tips and compensation)			
Most Recent Quarter Ending Dates		RI DET TX-17 Amount (Use line 2 from form: RI DET-17-TX)	Federal 941 Tax Return Amount (Use line 5C from form: Federal 941 Tax Report)
Quarter Ending Date	/ /		
Quarter Ending Date	/ /		
Quarter Ending Date	/ /		
Quarter Ending Date	/ /		
Total			

- Reporting Section 125 and 401k/IRA *separately* is needed to reconcile the quarterly filings provided under Section II – “Source Documents.” The State filing (RI DET TX-17) Line 2 doesn’t include pre-tax Section 125 or 401k/IRA; the Federal 941 Line 5C doesn’t include pre-tax Section 125. Each item, as applicable, needs to be indicated under their respective columns.

SECTION III: CONTRACTOR/TEMP INFORMATION

Did you use subcontractors or independent contractors during this audit period? Yes No If Yes, provide information in the table below.

Did you issue 1099's during this audit period? Yes No If Yes, provide information in the table below.

Did you use temporary agencies? Yes No If Yes, provide information in the table below.

If you checked YES to any of the questions above, please enter the amount paid for subcontractors, independent contractors, 1099 laborers or temporary agencies in the table below, and check the appropriate checkboxes.

**Contractor and Temp Agency Summary (attach separate sheet, if needed)**

Name	Amount Paid	Type of Work	Certificate of Insurance Available?	DWC-11-IC Available?
			Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>
			Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>
			Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>
			Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>
± Total				

SECTION IV: AUDIT RETURN INSTRUCTIONS

Step 1: Enter the name, title, signature, and telephone number of the person or persons who are responsible for completing the form.

Name (print):

Title (print):

Signature:

Phone Number:

Step 2: Fax or mail the completed form and a copy of your RI DET TX 17 and Federal 941 Tax Report.

MAIL: ATTN: Premium Audit Department
Mail Premium Auditor
Beacon Mutual Insurance Company
One Beacon Centre
Warwick, RI 02886

FAX: ATTN: Premium Audit Department
Mail Premium Auditor
Beacon Mutual Insurance Company
1-401-825-2639

If you have additional questions, please contact your agent. You may also call the Premium Audit Department at 1-888-886-4450 for assistance.

Section III: Contractor/Temp Information

- Provision of contractor/temporary employment agency information supports your due diligence in acquiring adequate coverage information for any contractors/temporary employment agencies that you may use and completes the exposure snapshot of your operation.

Section IV: Audit Return Instructions

- Step 1: The audit return instructions are to be completed by the person who completed the mail audit form. This information is necessary should any follow-up contact by a Beacon Mutual audit team member need to be made.
- Step 2: As we need to reconcile the payroll reported on this mail audit, it is important to enclose copies of both the State and the Federal (Federal quarterly filings. Please black out or remove references to any social security numbers on all documents.

PHONE AUDITS

- The phone audit entails a conversation between the auditor and policyholder, typically by phone, however, email and facsimile may also be utilized.
- It is initiated by a contact letter to the policyholder notifying them of the phone audit selection and the information needed to complete the audit.
- Follow-up calls are made to the policyholder by the auditor to discuss the business operations, specific payroll documentation required, employee job duties, verification of policy information such as business locations and ownership interests, and other pertinent information to complete the audit.

PHONE AUDITS

- The policyholder forwards the requested information. The data is reviewed and the audit is completed.
- The audit results are endorsed to the expired policy.
- The audit report is generated and mailed to the designated policyholder contact.

PHYSICAL AUDITS

- Physical audits are performed at a policyholder's location, accountant/bookkeeper's office, or other location where the records are available for review.
- This audit involves the review of the policyholder's financial records and a possible site tour to verify operations.
- Audits are conducted within a target of 60 days, but no later than 90 days.

HOW DO I PREPARE FOR MY AUDIT?

- It is important to have a representative who is knowledgeable about the operations available to respond to questions involving operations, job descriptions, officers/owners and other questions.

ORGANIZE YOUR PAYROLL RECORDS

- Advanced preparation will help the auditor quickly find what he or she needs and will require less of your time for questions and/or clarifications during the actual audit.
- Mail and phone audits are conducted utilizing most recent completed quarterly payroll information.
- Physical audits are conducted utilizing the policy period payroll.
- Separate overtime from regular pay and any excludable remuneration.

ORGANIZE YOUR PAYROLL RECORDS

- Request certificates of insurance from your subcontractors prior to your audit (best obtained at time of hire):
 - Maintain current certificates for subcontractors utilized to help avoid possible additional premium charges.
 - Construction companies should keep track of the payroll for different types of work performed.

WHAT RECORDS WILL YOU NEED?

- Earning Records
 - Gross wages paid to all employees who worked during the policy period
 - Overtime (shown separately)
 - Tips, allowances, mileage, etc.
 - Commissions, bonuses, holiday, vacation and sick pay
 - Severance paid to separated employees

WHAT RECORDS WILL YOU NEED?

- Earning Records (*continued*)
 - Tax deferred payments (cafeteria 125 or 401K plans)
 - Quarterly and Federal 941 tax reports for the policy/audit period
 - Rental value of housing provided to employees
 - Payments to employees for any basis other than time worked (piece work, profit sharing for incentive plans)

ADDITIONAL RECORDS NEEDED

- Check register – Cash disbursements for payments to subcontractors, temporary employment services or cash/day laborers
- Tax reports
 - 1099s
 - 1120 Income Tax Returns
 - 1040 Schedule C
 - Schedule K (for LLCs)

ADDITIONAL INFORMATION

- Executive Officers
 - Premium for executive officers is based on their total payroll, subject to the following limitations and requirements:
 - The minimum individual payroll for an executive officer is per state
 - Generally Speaking **33,500**
 - The maximum individual payroll for an executive officer is per state
 - Generally Speaking - **\$200,000**

CERTIFICATES OF INSURANCE (COI)

- Form showing WC coverage
(insurer/coverage dates/policy number)

CERTIFICATES OF INSURANCE (COI)

- Subcontractors should have a COI issued by the insurer or the contractor's agent showing the WC coverage for the period that work is performed. This is super important for our work comp clients. If your subcontractors do not have coverage during the time period you do. Then we will need an additional certificate of insurance from them showing proof they did have coverage during your policy period dates.
- Why is this so important? The amount you pay them could fall back under your own work comp policy and cause a large amount of extra premium!!!

NO CERTIFICATE OF INSURANCE?

- Any subcontractor or temporary service not providing the proper documentation will be included on the audit and a charge made for the amounts paid to each.

YOUR AUDIT RESULTS

- At the conclusion of your physical audit, the auditor will review the audit findings to confirm the results, correct any misclassifications, and verify that all records have been considered and proper allocations applied.
- All audit endorsements generate a Premium Adjustment report which compares the estimated exposures and premium to the actual audited exposures and premium.

YOUR AUDIT RESULTS

- A copy of the Premium Adjustment report is sent to the policyholder and agent.
- The policyholder has 30 days to dispute the audit results.
 - The dispute requires a formal letter or fax signed by the principal of the company.
 - It must specify what is being disputed and support document should be included.
 - Any additional premium pertaining to the undisputed issue must be paid while the dispute is reviewed for resolution.



Date: 03/15/2013

Premium Accounting Audit Summary

Named Insured: Any Company Inc
 Address: 100 Any Street
 Any Town, RI 09999-9999

Agent: ABC Agency Inc
 Address: 500 Any Avenue
 Any Town, RI 09999-9999

Policy Number	Policy Effective Date
9999999999	11/29/2010

Named Insured: Any Company Inc

Agent Phone: (401) 555-5555

The attached premium adjustment statement compares your policy estimated exposures and classifications with the audited exposures and classifications. Please review these results carefully for accuracy. If you have any questions after review please call your agent listed at the top of this letter.

Should you disagree with these figures please submit your dispute (signed by a company officer or principal) in writing within 30 days. Mail your dispute to the Premium Accounting Department c/o Mary Smith. If you have any questions please call 401-555-5555.

If your audit results in an additional premium that you believe should be reviewed further and possibly revised, please be advised that you must remit payment for the amount generated by this audit while the dispute is being reviewed and resolved.

Any declared dividend is calculated on your final audited premium and is not distributed until the policy is paid in full. Once the dividend is paid we will no longer consider a policy in dispute.



Date: December 09, 2011
 Policy Number: 9999999999
 Agent Code: 11111

Workers' Compensation Premium Adjustment

Named Insured: Any Company Inc
 Address: 100 Any Street
 Any Town, RI 09999-9999

Agent: ABC Agency Inc
 Address: 500 Any Avenue
 Any Town, RI 09999-9999

Phone: (401) 555-5555

Policy Effective Date		Policy Expiration Date		Audit Type				
11/29/2010		11/29/2011		Final Audit				
Premium Period	Class	Description	Type	Rate	Est Payroll	Est Premium	Audit Payroll	Audit Premium
11/29/10	9999	Any Code	Standard	.81	\$30,808	\$250	\$40,000	\$324
11/29/11								
				Total	\$30,808	\$250	\$40,000	\$324

Premium Details:

Manual Premium	Estimated	Audited
Waiver of Subrogation Charge	250	324
Employers' Liability Increased Limits 1.000 effective 11/29/10 to 11/29/11	0	0
RI Increased Limits Balance to Minimum Premium	\$0	0
Manual Premium Sub-Total	250	\$0
Experience Modification 1.00 effective 11/29/10 to 11/29/11	250	0
Adjusted Premium Sub-Total	\$0	324
Schedule Credit/Debit of 0.000%	250	\$0
Loss Free Credit of 0%	0	324
Miscellaneous Credit of 0%	0	0
Balance to Minimum Premium	0	0
Standard Premium Sub-Total	250	0
Premium Discount	250	0
Expense Control	0	324
Miscellaneous Premium Adjustment	213	0
TRIA/TALPA	0	213
1% of payroll effective 11/29/10 to 11/29/11	33	0
DUAL Contingency (other than certified and retirement)	0	0
1% of payroll effective 11/29/10 to 11/29/11	33	34
Estimated Annual Premium	471	\$4
Additional Premium	\$78.00	\$47

This audit replaces any other audit endorsement processed on this policy.
 The Premium Difference shown is based on full payment of the previously billed premium.

THIS IS NOT AN ENDORSEMENT

Insured

