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
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 (premium fraud via classification or under reporting payroll)
NCCI has developed over 650 class codes that are applied to businesses. These classifications are revised on a regular basis, and changes are adopted by Beacon on October 1st of the year in which they become effective.
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

1. 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.

2. Per NCCI, 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

- Per NCCI - Classifications are divided into two types
  - Basic classifications describe the business of an employer
  - Standard Exceptions 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.
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

Per NCCI Basic Manual Rules

• 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, an 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. If waived, the policyholder/agent may request an audit.
**Final Audits**

- Conducted shortly after policy expiration.
- A final audit determines the final premium for the policy period.
- The target date for audit completion is 60 days post policy expiration date, but no more 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 to complete is within 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 receipt of the waived audit letter
May 1, 2018

Any Company
100 Any Street
Anytown, RI 99999-9999

Policy Type: Workers' Compensation
Insured: ABC Company
Policy Number: 99999999999
Policy Period: 4/1/2017 - 4/1/2018

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 auditor dispute your final premium in writing within thirty (30) 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 Agent at 401-555-5555, or The 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 two page mail audit form and instruction sheet, “Mail Audit Made Simple,” is sent to the policyholder.
• The policyholder completes the two page mail audit form and returns it to Beacon 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

- 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**

- 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.
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 is applicable, needs to be indicated under their respective columns.
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 (RI DET TX-17 - to include the portion listing each employee by name and payroll) and the Federal (Federal 941) 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 typically no more 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?

• The following types of Earning Records may be requested:
  – 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?

– Possible Earning Records (continued)

– Tax deferred payments (cafeteria 125 or 401K plans)

– Quarterly RI TX17 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
  – 1099’s
  – 1120 Income Tax Returns
  – 1040 Schedule C
  – Schedule K (for LLC’s)
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.
  - RI: Effective 10/01/2016 - $49,400

- The maximum individual payroll for an executive officer is per state.
  - RI: Effective 10/01/2016 - $192,400
DWC11

DWC 11 is for those wishing to exclude themselves from WC coverage. You should check with your agent for impact on your organization.
**CERTIFICATES OF INSURANCE (COI)**

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

- DWC11-IC form for independent contractors and must have a valid Liability certificate

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**NOTICE OF DESIGNATION AS INDEPENDENT CONTRACTOR PURSUANT TO RIGL §28-29-17.1**

PLAE READ OTHER SIDE

**WARNING**

No one can force you to sign this form. When you sign this form you are stating that you are an independent contractor and in the event of injury, are not entitled to workers’ compensation benefits.

<table>
<thead>
<tr>
<th>* (Name)</th>
<th>Soc. Sec. No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>* Business Name</td>
<td>FEIN</td>
</tr>
<tr>
<td>Address</td>
<td>Date of Birth</td>
</tr>
</tbody>
</table>

I declare that I am an independent contractor pursuant to RIGL §28-29-17.1 and, therefore, I am not eligible for nor entitled to Workers’ Compensation benefits pursuant to Title 28, Chapters 28-38, of the Workers’ Compensation Act of the State of Rhode Island for injuries sustained while working as an independent contractor for the hiring entity named below. This designation will remain in effect while performing services for the named hiring entity or until a withdrawal of designation as independent contractor form is filed with the Department of Labor and Training.

<table>
<thead>
<tr>
<th>* Hiring Entity Name</th>
<th>Soc. Sec. No.</th>
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</thead>
<tbody>
<tr>
<td>FEIN</td>
<td>Business License No.</td>
</tr>
</tbody>
</table>

| * Address |

**Warning!** This form is for purposes of Workers’ Compensation only and completion of this form does not mean that you are an independent Contractor under the rules, regulations or statutes of the Internal Revenue Service or the RI Division of Taxation. Information on this form will be shared within the Dept. of Labor and Training the RI Division of Taxation and the Internal Revenue Service.

**Independent Contractor:**

Signature Date

A hiring entity that knowingly assists, aids and abets, solicits, conspires with or coerces an employee to misrepresent the employee’s status as an independent contractor may be subject to criminal prosecution under RIGL §28-33-17.3.

* This information is available to the public including the Hiring Entity’s Workers’ Compensation Insurance Carrier.

The Department will mail a confirmation of this filing to the independent contractor within five business days. If you have any questions, call 462-2100, option 5.

DWC-11-IC (3/2000)
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.

- Any true independent contractor should sign and file a DWC 11-IC form at the beginning of work performed and must have a valid Liability certificate.

- A DWC-09 form is required for all temporary employment agencies.
Effective January 1, 2006, (per RIGL 28-29-2(6)(iv)) insurers of temporary employment agencies or employee leasing companies are required to issue a valid “Rhode Island Workers Compensation Insurance Coverage Certification” (DWC-09) and a certificate of insurance to the client companies of temporary employment agencies or employment leasing companies. The coverage certification is produced by the insurance carrier and will validate that coverage is currently in effect.
DWC-09

STATE OF RHODE ISLAND
DEPARTMENT OF LABOR & TRAINING, DIVISION OF WORKERS' COMPENSATION
PO BOX 20109, CANTON RI 02910
Phone (401) 462-8100  TDD (401) 462-8006
RHODE ISLAND WORKERS' COMPENSATION
INSURANCE COVERAGE CERTIFICATION
For Temporary Employment and Employee Leasing Companies

<table>
<thead>
<tr>
<th>CERTIFICATE HOLDER</th>
<th>INSURED</th>
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<tr>
<td>EMPLOYER USING OR LEASING TEMPORARY EMPLOYEES</td>
<td>TEMPORARY OR LEASING AGENCY</td>
</tr>
</tbody>
</table>

This certificate is issued by the insurer (not an agent) pursuant to RIGL §28-29-2. An employer that uses leased or temporary employees must obtain this certificate showing that the temporary or leasing agency has RI workers' compensation insurance coverage. If the temporary or leasing agency does not have RI coverage, the employer using or leasing the temporary employee may be held responsible in the event of a job-related injury to the temporary or leased employee.

**COVERAGES**

This is to certify that a policy of insurance listed below has 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.

<table>
<thead>
<tr>
<th>TYPE OF INSURANCE</th>
<th>POLICY NUMBER</th>
<th>POLICY EFFECTIVE DATE</th>
<th>POLICY EXPIRATION DATE</th>
<th>STATE OF COVERAGE</th>
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<tbody>
<tr>
<td>Workers Compensation and Employers Liability</td>
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<td>Rhode Island</td>
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**CANCELLATION**

Should the above policy be cancelled before the expiration date or not be renewed, the insurance carrier named below shall provide written notice to the certificate holder named herein.

Insurance Carrier:

Prepared By: ___________________________  Date Issued: ___________________________

Print Name of Insurer Employee

***THIS CERTIFICATION IS NOT VALID UNLESS ISSUED BY THE INSURANCE CARRIER NAMED ABOVE***

***AGENTS CAN NOT ISSUE THIS CERTIFICATION***
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 documents should be included.
  – Any additional premium pertaining to the undisputed issue must be paid while the dispute is reviewed for resolution.
Premium Accounting Audit Summary

Named Insured: Any Company Inc
Address: 100 Any Street
Anytown, RI 99999-9999

Policy Number: 999999
Policy Effective Date: 4/1/2018

Agent: ABC Agency Inc
Address: 500 Any Avenue
Anytown, RI 99999-9999
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, 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 of John Baines. If you have any questions, call (401) 325-2732.

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.

Workers’ Compensation Premium Adjustment

Policy Effective Date: 4/1/2017
Policy Expiration Date: 4/1/2018
Audit Type: Final Audit

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<th>Policy Period</th>
<th>Class</th>
<th>Description</th>
<th>Type</th>
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Premium Details:
- Manual Premium: 290
- Workers’ Salutation Charge: 0
- Employer’s Liability Insurance: 0
- Employers’ Liability Insurance: 0
- Additional Liability Insurance: 0
- Miscellaneous Premium Adjustment: 0
- Miscellaneous Premium: 0
- Miscellaneous Adjustments: 0
- Total Estimated: 290
- Total Audited: 290

Estimated Annual Premium: 471
Additional Premium: 576.00

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 an invoice]

Insured

The Beacon Mutual Insurance Company
One Beacon Center, Warwick, RI 02886-1978
Phone: 401-555-5555
Fax: 401-555-5555
www.beaconmutual.com

Date: 5/1/2019
Policy Number: 999999
Agent Code: 99999
Contact your Beacon Mutual Premium Audit representative with any questions

401-825-2667