

YEARLY AUDIT PREP



Good Practice That Will Help You Prepare For An Audit

- Keep accurate and organized records of payroll and sales.
- Collect Certificates of Insurance (COI's) from all companies and sole proprietors whenever you hire a subcontractor or independent contractor. Their coverage limits should meet or exceed your policy limits.
 - If your company carries Worker's Compensation, you must also provide a Worker's Comp COI for every subcontractor, even sole proprietors & LLC's/Corporations with no employees.
 - If the required COIs aren't provided during audit, the subcontractor's payroll may be counted as employee payroll on your policy, which could raise your premiums.
- Ensure all subcontractors sign written contracts that include risk transfer provisions, such as hold harmless and indemnification clauses. It is also recommended to require them to provide additional insured coverage.

What Information Is Needed for Employees, Subcontractors, Owners & Gross Sales Reporting?

With Employee Payroll	Subcontractors, Independent Contractors & Cash Labor	Members, Owners, Officers & Partners	Gross Sales
Quarterly 941's	Schedule C or other income tax forms (1120, 1065, or Schedule C Form 1040)	Name, description of work, and state where officer works	Sales reports from your accounting software (QuickBooks, Xero, etc.)
Payroll report for audit period	1099's and amounts paid to each subcontractor/independent contractor If unavailable, provide cash receipts and/or tax records	Total earnings during audit period	General Ledger showing total sales for the year
A detailed description of work performed by the employee. If an employee works in more than one trade or classification, maintain detailed, daily records of the hours or wages spent in each classification. Records should clearly separate the time worked in each trade. Acceptable records include timecards, job logs, or payroll reports showing hours by classification.	Certificates of Insurance (COI) showing limits of coverage equal to or greater than your limits. *If your company carries Worker's Compensation, you must also provide a Worker's Comp COI for every subcontractor, even sole proprietors & LLC's/Corporations with no employees	Corporate title and % of stock owned (total of all officers must value 100%)	Profit & Loss statement (income statement)
	A detailed description of the work performed by each subcontractor, independent contractor, or cash labor worker	Statement of inclusion/exclusion (for Worker's Comp)	Bank statements (if requested by the auditor)

If You Have Any Questions, Please Reach Out To Us! 🧐



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AUDIT PROCESS – FREQUENTLY ASKED QUESTIONS

Why do I have to complete an audit?

Most insurance carriers require an audit to verify all remuneration (primarily payroll, but sometimes other forms of compensation) paid to employees, contractors, and subcontractors during your policy term. For some policies, the audit will also review gross sales. This ensures your premium accurately reflects your actual exposure, rather than just the estimate made when the policy began.

Will an audit always make my premium go up?

Not necessarily. The audit compares your actual figures (payroll, gross sales, subcontractor costs, etc.) to the estimates provided at the start of your policy. If your exposure was higher, you may owe additional premium. If it was lower, you may receive a refund or credit.

What about subcontractors?

Uninsured subcontractors may be included in your audit figures, which can increase your premium. To avoid extra charges, keep up to date Certificates of Insurance from all subcontractors showing at least General Liability and Worker's Compensation coverage.

Do I have to let the insurance company to review my business records?

Yes. State regulations require that you allow the insurance carrier (or their contracted firm) to review your relevant business and tax records for the audit process.

What business records are necessary for audit?

Have the following ready: Checkbook and general ledger; Cash disbursement journal and payroll journal; Vouchers, receipts, and invoices; Gross sales reports for the audit period (monthly, quarterly, or annual depending on your recordkeeping); Certificates of Insurance for contractors and subcontractors; Various tax forms (see below).

What tax records are used for the audit?

Tax records may include (but are not limited to): Federal returns: 1040, 1065, 1120; Forms for reporting Social Security wages, unemployment insurance, or contract labor (quarterly and/or annual); Sales tax filings and other records used to verify gross sales; Non Profits: Form 990. Check with your accountant, the IRS, or your state labor department for more details.

When is the audit done?

Carriers aim to complete audits within 90 days after your policy ends, but they can conduct an audit anytime during the policy term and up to three years after it ends (longer if access is denied).

Important:

Audits are performed at the end of your policy term. However, if you make significant changes such as: adding employees; increasing payroll; boosting gross sales; or changing your operations, let us know as soon as possible. This can help you avoid a large surprise bill at audit time.

Questions?

We're here to make the audit process easier for you! Contact MAC Insurance anytime for guidance 😊