

YEARLY AUDIT PREP



Good Practice That Will Help You Prepare For An Audit

- Keep accurate and organized records of payroll and sales.
- Collect a current Certificate of Insurance (COI) from every subcontractor or independent contractor before they begin work.
- Require Commercial General Liability limits of at least \$1,000,000 per occurrence.
- Require Workers Compensation coverage as required by law, with Employers Liability limits of at least \$100,000 each accident / \$100,000 each employee for disease / \$500,000 policy limit for disease.
- If your company carries Workers Compensation, obtain a Workers Comp COI for every subcontractor, including sole proprietors and LLCs/corporations with no employees.
- Keep the COI on file and verify the policy is active for the dates the subcontractor performs work.
- Require a written contract with every subcontractor that includes appropriate risk-transfer provisions, such as hold harmless and indemnification requirements.
- Require subcontractors to provide Additional Insured coverage with Primary & Non-Contributory and Waiver of Subrogation provisions.

WHY THIS MATTERS: If required COIs aren't provided during an audit, subcontractor costs may be included as employee payroll on your policy, which could increase your premium. Keeping written contracts and insurance documentation organized also helps establish who is responsible for claims, injuries, and other losses.

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

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 (obtained through your accounting software)	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
Detailed description of work performed by each employee. If an employee works in more than one trade or classification, maintain detailed, daily records of hours or wages spent in each classification.	Certificates of Insurance (COI) showing required coverage. If your company carries Workers Compensation, obtain a Workers Comp COI for every subcontractor, including sole proprietors and LLCs/corporations with no employees.	Corporate title and % of stock owned (total of all officers must value 100%)	Profit & Loss statement (income statement)
Records should clearly separate the time worked in each trade. Acceptable records include timecards, job logs, or payroll reports showing hours by classification.	Detailed description of the work performed by each subcontractor, independent contractor, or cash labor worker	Statement of inclusion/exclusion (for Workers Comp)	Bank statements (if requested by the auditor)

SUBCONTRACTOR COI GUIDE

Use this page as a quick reference when reviewing a subcontractor's Certificate of Insurance. You will also find a sample COI attached to this guide showing where these items typically appear.

What Should the COI Show?

ITEM	WHAT TO LOOK FOR
Named Insured	The subcontractor's legal business name and address.
Certificate Holder	Your business's legal name and address.
General Liability	\$1,000,000 minimum per occurrence. A \$2,000,000 general aggregate is recommended.
Workers Compensation	Statutory, when required by law.
Employers Liability	\$100K / \$100K / \$500K minimum
Commercial Auto	\$1,000,000 combined single limit when applicable to the subcontractor's work or contract.
Description of Operations	Should indicate Additional Insured, Primary & Non-Contributory, and/or Waiver of Subrogation wording when required by the written contract.

Subcontractor COI Checklist

- ☐ Obtain a current Certificate of Insurance before work begins.
- ☐ Verify GL limits are at least \$1,000,000 per occurrence.
- ☐ Verify Workers Compensation coverage, when required.
- ☐ Verify Commercial Auto coverage when applicable.
- ☐ Confirm your business is listed as Certificate Holder.
- ☐ Require Additional Insured coverage when required by contract.
- ☐ Require Primary & Non-Contributory coverage when required by contract.
- ☐ Require Waiver of Subrogation when required by contract.
- ☐ Have a written subcontractor agreement on file.
- ☐ Include hold harmless/indemnification provisions in the contract.
- ☐ Keep the COI and applicable endorsements with your subcontractor records.

IMPORTANT: A Certificate of Insurance is evidence of coverage, it does not change the policy or create coverage by itself. Additional Insured status, Primary & Non-Contributory coverage, and Waiver of Subrogation should be supported by the appropriate policy endorsements and the requirements of the written contract.

SAMPLE COI — WHAT TO LOOK FOR

REFERENCE THE SAMPLE COI ON NEXT PAGE FOR A VISUAL

CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY)

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 INFORMATION DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER AND THE INSURED.

INFORMATION ONLY

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	CONTACT NAME: Melissa Cannata	
INSURANCE AGENCY NAME	PHONE (A/C, No, Ext): (603) 818-4771	
INSURANCE AGENCY'S ADDRESS	FAX (A/C, No):	
	E-MAIL ADDRESS: Melissa@MAC-insurance.com	
	INSURER(S) AFFORDING COVERAGE	NAIC #
	INSURER A: INSURANCE COMPANY ABC	123
INSURED	INSURER B: INSURANCE COMPANY DEF	456
SUBCONTRACTOR'S NAME	INSURER C: INSURANCE COMPANY GHI	789
SUBCONTRACTOR'S ADDRESS	INSURER D:	
	INSURER E:	
	INSURER F:	

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. LIMITS SHOWN ARE INCLUSIVE OF AMOUNTS REQUESTED BY THE CERTIFICATE HOLDER AND MAY NOT REFLECT POLICY LIMIT AMOUNTS IN EXCESS OF THOSE REQUESTED. *Not Applicable in WY

INSR LTR	TYPE OF INSURANCE	ADDL INSD	SUBR WVD	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS
A	☒ COMMERCIAL GENERAL LIABILITY ☐ CLAIMS-MADE ☒ OCCUR GEN'L AGGREGATE LIMIT APPLIES PER: ☒ POLICY ☐ PRO-JECT ☐ LOC OTHER:	Y	Y	POLICY#123	DATE	DATE	EACH OCCURRENCE \$ 1,000,000 DAMAGE TO RENTED PREMISES (Ea occurrence) \$ 100,000 MED EXP (Any one person) \$ 5,000 PERSONAL & ADV INJURY \$ 1,000,000 GENERAL AGGREGATE \$ 2,000,000 PRODUCTS - COMP/OP AGG \$ 2,000,000
B	AUTOMOBILE LIABILITY ☐ ANY AUTO ☐ OWNED AUTOS ONLY ☒ SCHEDULED AUTOS ☒ HIRED AUTOS ONLY ☒ NON-OWNED AUTOS ONLY			POLICY#456	DATE	DATE	COMBINED SINGLE LIMIT (Ea accident) \$ 1,000,000 BODILY INJURY (Per person) \$ BODILY INJURY (Per accident) \$ PROPERTY DAMAGE (Per accident) \$
	UMBRELLA LIAB ☐ OCCUR EXCESS LIAB ☐ CLAIMS-MADE DED ☐ RETENTION \$						EACH OCCURRENCE \$ AGGREGATE \$
C	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 ☐	N / A	POLICY#789	DATE	DATE	☒ PER STATUTE ☐ OTH-ER E.L. EACH ACCIDENT \$ 100,000 E.L. DISEASE - EA EMPLOYEE \$ 100,000 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)

YOUR COMPANY NAME is included as an Additional Insured on the Commercial General Liability policy as required by written contract. Coverage is provided on a Primary & Non-Contributory basis where required by written contract. Waiver of Subrogation applies in favor of ABC Construction LLC where required by written contract.

CERTIFICATE HOLDER	CANCELLATION
YOUR COMPANY NAME	SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS.
YOUR COMPANY ADDRESS	AUTHORIZED REPRESENTATIVE
	-AGENT'S SIGNATURE-

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 help avoid extra charges, keep current Certificates of Insurance from all subcontractors showing the required General Liability and Workers Compensation coverage. See the Subcontractor COI Checklist on page 2 for recommended minimum limits and documentation.

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

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

What business records are necessary for an 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; and applicable tax forms.

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; and, for nonprofits, 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. 😎