FOR FRANCHISEES

Audit preparation guide.

Report accurate business information and reduce audit surprises. Here's how to get ready.

Premium audits are easier when you know what to gather.

■ BEFORE THE AUDIT

Get audit-ready, before it is due.

As a franchisee, reporting accurate information to your broker protects your investment and reduces audit surprises. This guide walks through what to expect and how to prepare.

01 Common questions

WHY AN AUDIT

☐ Why do I need to complete an audit?

> Your premium starts as an estimate based on reported revenue, payroll, and subcontractor costs. The audit checks actual activity and adjusts the premium to match. Workers' comp audits are required by state law.

Tip: Update payroll and subcontractor records regularly to streamline the audit. What if: Inaccurate records can mean additional premium, penalties, or coverage misclassification.

ONLINE VS. PHYSICAL

☐ Can I complete my audit online?

> Every carrier has its own process. Some allow online audits, others require a physical one.

Tip: Ask your provider about audit options early so you can prepare. What if: Miscommunication about the method can delay your final premium adjustment.

DISPUTING RESULTS

☐ What if I disagree with my audit results?

> You can dispute within 15 days with supporting documents: payroll ledgers, quarterly reports, and subcontractor certificates of insurance.

Tip: Keep organized payroll and subcontractor records so you can back up a dispute quickly. What if: Missing the window means missing the chance to correct errors.

TWO AUDITS

☐ Why separate workers' comp and liability audits?

> Each policy rates differently. Liability may rate on revenue and subcontractor costs, workers' comp rates on payroll. Same carrier, same expiration date, and you may get a single audit instead.

Tip: Ask your provider if audits can be consolidated to save time.

CANCELED POLICIES

☐ Do I still have to audit a canceled policy?

> Yes. You're legally responsible for completing it. Unpaid additional premium can be sent to collections.

What if: Skipping the audit on a canceled policy can damage your credit and financial standing.

02 Audit prep checklist

RIGHT PERSON PRESENT

☐ Have the right person there

Have someone who knows the business (owner, partner, or corporate officer) available to answer questions.

What if: The wrong person present can lead to misinterpreted records and incorrect adjustments.

RECORDS

☐ Gather essential business records

Payroll records, quarterly reports, subcontractor payments, uninsured subcontractor invoices, certificates of insurance, and your general ledger.

Tip: Keep digital copies in a secure, accessible folder.

SUBCONTRACTOR INSURANCE

☐ Verify subcontractor insurance status

Require a COI before subcontractors start, update quarterly, and confirm your organization is listed as certificate holder.

What if: Unverified subcontractor coverage can shift their exposure onto your audit.

LABOR VS. MATERIALS

☐ Separate subcontractor labor from materials

Document labor costs separately from materials on subcontractor invoices.

What if: Without a breakdown, insurers may assume the entire payment is labor, raising your premium.

CLASSIFICATIONS

☐ Classify by job site and duty, not title

Keep payroll records assigned accurately to class codes based on actual duties, not job titles.

What if: Misclassification can push employees into more expensive class codes.

EARNINGS

☐ Determine employee earnings correctly

Include gross pay, vacation, holiday, and bonus pay. Overtime premium can typically be excluded if documented.

OFFICERS AND OWNERS

☐ Confirm officer and owner roles

List each owner's and officer's duties and whether they're included or excluded. Most states require 10 to 15 percent ownership to qualify for exclusion.

STAY ORGANIZED

☐ Stay organized year round

Automate COI collection or use shared folders, and use 1099 reports in QuickBooks to track subcontractor payments.

FINAL BILL

- [ ] **Review the final audit bill**

> Check for balances due or credits, and submit dispute documentation within 15 days if something looks wrong.

03 Workers' compensation classification

What your auditor will ask

Your legal entity type, each owner and officer's duties, a description of your operations, and whether any employees qualify as a standard exception (clerical, telecommuter, driver, salesperson). Confirm whether your carrier excludes any operations, and note that miscellaneous roles get assigned to the governing class with the most payroll.

■ WHAT'S NEXT

Five moves that keep audits boring.

01 **Organize records year round**

Keep payroll, COIs, and expenses current in QuickBooks or shared folders.

02 **Verify subcontractor compliance**

Update COIs quarterly and separate labor from materials on every invoice.

03 **Prepare for accurate classifications**

Classify by duty, document roles, and confirm officer exclusion eligibility.

04 **Review results promptly**

Confirm discrepancies within 15 days using payroll and COI documentation.

05 **Communicate with your broker**

Discuss combining audits and raise concerns before they become penalties.

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