

A construction worker is shown from the back, wearing a yellow hard hat, safety glasses, and a red safety harness. They are holding a hammer in their right hand and are positioned on a wooden structure, likely a roof or a large frame. The background is filled with wooden beams and planks. The text "Premium Audit Guidebook" is overlaid in white, sans-serif font across the center of the image.

Premium Audit Guidebook

 WESTFIELD®



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Premium Audit Overview

We believe that you should only pay what you owe — nothing more, nothing less. That's why we take time to understand your business's unique risks and operations.

At Westfield, we view the premium audit process as a way to determine an accurate, final earned premium. We work closely with you and your agent to get to know your business activities and exposures. This collaborative approach helps ensure your business is properly classified, and exposures are properly allocated across business classifications. As a result, you pay a premium that better reflects the risks associated with your business, and you help Westfield stay compliant with state regulations.

Service Goal

At Westfield, we know what it's like to run a business. We understand you have a lot on your plate — and on your mind. Our goal is to have your audit completed and processed within 90 days of your policy expiration date.

Helpful Tips to Save Time and Money

We want your business — and audit — to run smoothly. Take a look at these tips for boosting efficiency and protecting your bottom line:

- Make sure the appropriate person is available during the audit to answer questions and provide requested information.
- Accurately summarize overtime amounts paid to individual employees.
- Identify individuals classified as standard exceptions, such as clerical employees, outside salespersons, telecommuting employees, and drivers.
- Obtain certificates of insurance for all subcontractors and independent contractors who were hired and paid during the policy period.
- Track time and payroll for different trade work performed by each employee if you are a construction company.
- Maintain records of tips received by employees from customers.
- Notify your agent of significant changes to your business during the policy term to help keep your policy aligned with actual figures and avoid discrepancies during an audit.

Contact Us

We're ready to help and have a few ways you can reach us.



Westfield Insurance
Attn: Premium Audit Dept.
One Park Circle
Westfield Center, OH 44251



800.243.0210, option 2



westfieldpad@westfieldgrp.com

Please have your policy number and the name of the account holder ready so we can properly assist you.

What to Expect From Your Premium Audit

Before your policy's expiration date, Westfield or one of our independent audit agencies will reach out to schedule an audit. Responding to this request in a timely manner will help your audit experience go smoothly.

Depending on your policy, your audit will be conducted in one of four ways. Your audit notification will outline the method that will be used. Here's what you can expect for each type of audit:



Mail Form: A premium audit form that includes a series of questions relative to your type of business and policy will be mailed to you. Fill out the form in its entirety and return it to Westfield via mail or email.



Telephone Audit: An auditor will call you to discuss your operations and review your financial records. You may receive a questionnaire via mail or email before your scheduled appointment to help you prepare for and complete the audit.



Hybrid Audit: An auditor will contact you to conduct the audit over the phone. Prior to the appointment, you must provide necessary financial records, which will be reviewed and discussed during the call.



Physical Audit: A field auditor will schedule an appointment to visit your premises, where they will inquire about your operations and conduct an in-person review of your relevant financial records.

The auditor will ask questions designed to understand your business operations so they can determine the proper classification(s) for your company and allocate the exposures to this classification.

Your auditor will request specific records from you or your designated representative — typically a bookkeeper or accountant — based on your operations and type of coverage. Not supplying all requested records at the same time will delay the audit and may result in an audit non-compliance charge.

Once the audit is complete, the auditor may reach out for an exit interview to explain the audit results and support the accuracy of the audit. An exit interview can save time by preventing potential audit disputes in the future.

Audit Processing

The auditor then submits the worksheets to Westfield for processing. This may take up to 15 business days. Once the audit is processed, your billing account will be updated, resulting in either an audit bill for the additional premium owed or a refund, which will be applied to any outstanding charges on your account. If there are no outstanding policy premiums owed, you will be issued a refund check.

Billing

Any additional premium owed will be billed within 15 business days of audit processing. If you have any questions regarding your audit bill, please contact our billing team at 800.243.0210, option 2.

Incomplete Audits

Your insurance policy requires that a premium audit be completed upon request. The auditor will make at least two attempts to gather the information necessary for the audit. If you fail to provide this information, the audit will be deemed non-compliant, and you may incur an audit non-compliance charge. This charge could be up to 200% of your policy premium and is subject to collections. We seek to avoid this charge, which can be removed upon successful completion of the audit.

Current Term Endorsement

If an audit reveals that your business's risks have increased, we may adjust the exposures your coverage is based on for the current policy term. This helps ensure your policy remains aligned with your business's growth and changes.



What to Know About Your Workers' Compensation Policy

Workers' compensation policies are rated based on "gross payroll." The auditor's main responsibility is to understand your business operations and assign the appropriate classification(s) for your business. Once your business is properly classified, employee payrolls are allocated to the appropriate codes according to the guidelines set by the National Council on Compensation Insurance (NCCI) and your state's insurance regulatory body.

Standard Exception Qualification and Division of Payroll

Certain criteria must be met to classify an employee in a standard exception class. These classifications do not permit the division of payroll between the standard exception and other classifications.

Clerical/Drafting 8810: The duties of clerical office employees must be limited to general office work. The employees must work in an area that is physically separated from all other work areas and operations of the business.

Clerical Telecommuter 8871: In addition to the clerical requirements, a telecommuter must work more than 50% of their time from their home or another office space separate from the location of their employer.

Outside Sales 8742: The duties of outside sales employees must be limited to solicitation, collection, or meeting with clients outside the office. They can spend their remaining time performing clerical duties in the office.

Though not a standard exception, the executive supervisor classification 5606 is not available for division of a single employee's payroll with any other classification.

If an employee's job changes during the policy term and proper records are kept, their payroll may be allocated based on the time they were in each role. If proper payroll records are not maintained by the insured, employees who hold duties across multiple classifications will be allocated to the highest-rated classification.

Interchange of Labor

The payroll of any employee who may have multiple duties can only be divided between classifications under these conditions:

1. The classifications are correctly assigned according to the classification system rules and procedures.
2. Payroll records are maintained with:
 - The actual payroll recorded for each classification for individual employees.
 - Records detailing the specific time spent within each job classification.
 - No use of estimates or percentage splits.

It is the responsibility of the insured to maintain proper payroll records. If any condition is not met, the entire payroll will be assigned to the highest-rated classification that covers any part of the employee's work.

Owners and Officers Inclusions/Exclusions

The handling and charging for officer payroll depends on the legal entity of the insured's organization — corporation, LLC, partnership, or sole proprietor — along with the coverage provided.

For workers' compensation and general liability policies based on payroll, it is important to correctly identify the legal structure of each named insured policyholder along with the names and duties of each corporate officer, LLC member, partner, or sole proprietor. Generally, the number of principals is limited to those that are official corporate officers per company board minutes, tax returns, and Secretary of State online company listings.

Officers of an incorporated entity are typically excluded from workers' compensation coverage if the policy is endorsed with the appropriate exclusion endorsement form. All NCCI states use WC 000308, while Pennsylvania uses WC 370310C, and other states use WC 120307. In Minnesota, closely held corporate officers are excluded and don't require an exclusion endorsement form. In most cases, each officer's payroll is automatically included in the payroll exposure basis and the wages included are subject to a minimum and maximum amount, which varies by state.

After the policy is issued, agents should review the policy carefully and confirm it accurately reflects the handling of each officer. In most states, coverage for each officer is automatic, and endorsements are needed to exclude coverage.

The audit department will not make any revisions due to missing officer/principal endorsements and does not have the authority to alter coverages on an expired policy. If an auditor included an officer/principal who should have been excluded by endorsement, and the proper endorsement was not on the policy, the agent should contact their underwriter to attempt to remedy the situation.

Subcontractors

Insured Subcontractors: Insured subcontractors will be excluded from the workers' compensation audit upon the receipt of a valid certificate of insurance.

Uninsured Subcontractors: The policyholder may become responsible if an uninsured subcontractor's employee is injured or if the subcontractor's duties resemble those of an employee. If the subcontractor does not carry insurance, the total amount paid to the subcontractor will be used to calculate the exposure based on the type of work performed. If the amounts are broken out into labor and materials, the materials cost will be excluded from the exposure.

Certificates of Insurance

It is best to obtain a certificate of insurance at the start of work for any subcontractor you hire. The certificate of insurance must indicate that the subcontractor carries adequate insurance, and the policy term on the certificate should cover the period that the subcontractor performed work for the insured. If the subcontractor works beyond the expiration date on the certificate, a new certificate should be acquired and maintained with previous certificates. We recommend all certificates of insurance be kept for at least five years.

What to Know About Your General Liability Policy

Your general liability policy may be rated on several different bases of premium. The most common rating basis is "gross sales" for non-construction business. Construction companies are typically rated on "gross payroll," and if they use subcontractors, "total cost."

Rating Bases for General Liabilities Policies



Gross Sales: The total amount charged by the named insured policyholder, concessionaires, and other entities trading under the insured policyholder's name for goods sold or distributed, services performed during the policy period, rentals, dues, and fees.



Gross Payroll: Money and substitutes for money, including but not limited to, gross wages, salaries, bonuses, holiday pay, and vacation pay.



Total Cost: The cost of all worklet or sublet for each specific project, including labor, materials, and equipment used or delivered for use in the execution of the work. Total cost also includes all fees, bonuses, and commissions made, paid, or due, regardless of who supplied the materials or equipment for the subcontractors.



Each: Units of exposure, with the quantity of each unit indicated in the classification footnotes, such as "per person."



Admissions: The total number of people admitted to an event or to events conducted on the premises, including paid admissions, ticketed entries, complimentary tickets, and passes.

Owner and Officer Inclusions/Exclusions

For general liability policies with the exposure based on sales, the officers are typically listed on the audit, but there would be no charges based on the activities of the officers. Auditors will normally list each officer name along with their respective duties for informational purposes only.

For general liability payroll-based audits, officers that are active in the hands-on work of the organization, or directly oversee the hands-on work, are charged at a flat amount based on the state they are located. It is important to obtain a clear description of the duties of the insured's officers, along with where they perform their duties, to ensure they are properly classified.

Certificates of Insurance

Maintaining certificates of insurance for subcontractors is crucial, as failure to do so can lead to significant expenses for contractors.

For general liability, the total cost for work done by an "adequately insured" subcontractor will be assigned to the appropriate "contractors-subcontracted work" classification codes. Work performed by subcontractors without adequate insurance will be classified and rated under the specific classification description for each operation.

An "adequately insured subcontractor" (for premium computation purposes) must:

1. Carry insurance limits that are equal or greater than the policy's limits or at least \$1,000,000 for each occurrence.
2. Hold comparable coverages to the insured's policy (e.g., products-completed operations and personal injury coverages).
3. Provide satisfactory evidence of insurance.

Using an uninsured or inadequately insured subcontractor will substantially increase insurance costs. To help lower these costs and reduce the likelihood of audit revisions, keep certificates of insurance on file for the auditor.

Intercompany Product Suits
Endorsement CG 2141

The Intercompany Product Suits exclusion endorsement only applies to general liability policies based on sales. When the Intercompany Product Suits endorsement is included in the policy, sales from one named insured entity to another named insured entity may be reduced for the product liability portion of the charges based. There is no deduction to the premises liability exposure.

For example, if ABC, Inc. and XYZ, Inc. are both named insureds on the same policy and their records reflect the sales shown in Chart 1, the audit would be summarized as shown in Chart 2 if the Intercompany Product Suits Endorsement is on the policy.

CHART 1	ABC, Inc.	XYZ, Inc.
Sales to others	\$700,000	\$500,000
Sales to XYZ, Inc.	\$300,000	
Total Sales	\$1,000,000	\$500,000

CHART 2	Premises/Ops (334)	Products/ Completed Ops (336)
ABC, Inc.	\$1,000,000	\$700,000
XYZ, Inc.	\$500,000	\$500,000

The sales are subtracted from the products portion of the charge for the general liability (subline 336), but the full amount of sales for the entity is charged to the premises portion (subline 334).

Please note that the Intercompany Product Suits Endorsement does not apply to construction and contracting risks, as construction risks only have completed operations” exposures.

Mercantile and Manufacturing:
Special Classification Inclusions

Mercantile Risks: Mercantile risks fall under a special classification inclusion, where the installation, servicing, or repair of merchandise sold or distributed by the company is not separately classified or rated. This applies regardless of whether the work is performed by employees, properly insured subcontractors, or subcontractors with insufficient insurance. Unless the classification explicitly specifies that the work should be rated separately, the special inclusion rule is applied.

Manufacturing Risks: Manufacturing risks fall under a special classification inclusion, where the installation, servicing, or repair of the named insured policyholder’s products is not separately classified or rated. This applies regardless of whether the work is performed by employees, properly insured subcontractors, or subcontractors with insufficient insurance. Unless the classification explicitly specifies that the work should be rated separately, the special inclusion rule is applied.



What to Know About Your Garage Dealers Policy

The classification and rating of a garage dealers policy differs from workers' compensation and general liability in that it is based on "total rating units." To determine the total rating units, the auditor first classifies each of the insured's employees (Class 1) into subgroups (1A and 1B), along with any non-employee who may have been furnished a vehicle (Class 2) .

Class 1: All employees who worked during the policy period. If an employee only worked for part of the policy term, the auditor will pro-rate their time accordingly. For example, if the policy covers a calendar year and an employee only worked from April 1 to June 30, the auditor would apply a pro-rata factor of 0.250, as the employee worked one-quarter of the year.

- **Class 1A Employees:** This group includes the following employee types:
 - All active officers, members, partners, or proprietors.
 - All salespersons, including internet salespersons, regardless of whether they are furnished a vehicle or not.
 - All managers, such as general managers, service managers, and sales managers, regardless of whether they are furnished a vehicle or not.
 - Any employee whose principal duties involve the operation of vehicles, such as vehicle and parts drivers.
 - Principal duties are tasks that are expected to account for 20% or more of an employee's time in their role. For example, mechanics who occasionally test drive or move vehicles would not be considered regular operators, as these activities would account for less than 20% of their job responsibilities.
- **Class 1B Employees:** All other employees who do not qualify for Class 1A. These employees typically include clerical employees, customer greeters, and employees who work at a parts counter.



Class 2: Any individual who is regularly furnished a covered auto.

- **Class 2A:** This group includes, but is not limited to, inactive owners, officers, and partners; family members of active or inactive owners; and officers or partners who are under the age of 25 at the inception of the policy and have regular use of, or are furnished, a dealer's auto.
- **Class 2B:** This group includes, but is not limited to, family members of active or inactive owners, officers, or partners who are 25 years of age or older at the inception of the policy and have regular use of, or are furnished, a dealer's auto.

Information Required to Complete Your Audit

The auditor will request the necessary business records to calculate the actual earned premium for your policy term. Audits are conducted for the policy period or to the nearest month of your policy term. For example, an annual policy that runs from April to April should be supported by records from May 1 to April 30 of the following year.

General Information

- Description of company operations and legal entities
- Officer/owner names, title, and percentage of ownership
- Employee names, titles, and job duties
- Number of employees at each location

Payroll Information

- Payroll journals/registers
- Cash disbursement journal
- Check register

Note: Payroll summaries with overtime shown separately will help save time and increase accuracy of the audit.

Rating Basis: Your auditor will look to determine gross payroll. The chart below defines items typically included and excluded from gross payroll.

Payroll Inclusions	Payroll Exclusions
<ul style="list-style-type: none">• Gross wages/salaries (including Davis-Bacon wages)• Overtime (straight time)• Bonuses/profit sharing• Commissions• Holiday/vacation pay• Sick pay• Piece work• Profit sharing plans• 125 Cafeteria Plan (employee pre-tax contributions)• 401(k) or other retirement/health savings plans (employee pre-tax contributions)• Incentive pay plan• Lodging/meals (only shown in payroll records)• Merchandise credits/certificates as part of pay• Per diem payments• Rental value of an apartment/house• Stock (shares of corporate stock given to employees)• Tool allowances	<ul style="list-style-type: none">• Tips/gratuities• Overtime (amount in excess of straight time)• Severance pay• Reimbursements for cell phone, mileage, meals, tuition, or lodging• Active military duty• Auto allowance (business purpose)• Davis-Bacon wages that are paid into a third-party trust• Employee discounts on goods purchased from employer• Employer-provided perks• Group insurance/pension plans (employer cost)• Health/country club dues (employer cost)• Life insurance premiums (over \$50,000)• Moving expenses (employer paid)• Special rewards for individual inventions or discoveries• Stock options (the option to purchase shares)• Third-party sick pay (e.g., short/long-term disability)• Work uniform allowance

Sales Information

- Profit and loss statement
- Income statement
- Sales journals
- General ledger

Rating Basis: Your auditor will look to determine gross sales — the gross amount charged by the named insured, including concessionaires of the named insured or by others trading under the insured's name for:

- All goods or products sold or distributed
- Operations performed during the policy period
- Product rentals (not property)
- Dues or fees

Sales Inclusions

- Foreign exchange discounts
- Freight allowance to customers
- Total sales of consigned goods and warehouse receipts
- Trade or cash discounts, bad debts, and repossession of items sold on installments

Sales Exclusions

- Sales or excise taxes that are collected and submitted to a governmental division
- Credits for repossessed merchandise and products returned (allowances for damaged and spoiled goods)
- Finance charges for items sold on installments
- Freight charges on sales if freight is charged as a separate item on customer's invoice
- Royalty income from patent rights or copyrights that are not product sales



Subcontractor Information

- Profit and loss statement
- Vendor payment reports
- Check disbursements journal
- General ledger
- Certificates of insurance (required for all subcontractors)
- Any tracking report for subcontracting costs (e.g., job cost records)

Tax Information (used to verify financial reports submitted)

- Federal Tax Form 940/941
- Federal Tax Form 1096/1099
- Federal Tax Form W-2/W-3
- Quarterly State Unemployment Tax Form (SUTA)
- Sole Proprietors Use - Form 1040
- Partnerships Use - Form 1065
- Corporation Use - Form 1120

Construction Trades

Additional information may be needed to audit customers involved in the construction trades.

Construction Wrap Ups (OCIP/CCIP)

Customers frequently involved with or interested in performing work for OCIP/CCIP projects, should notify their agent at the beginning of the project to discuss whether they would like to endorse their current policy to exclude coverage for these wrap-up projects.

If the policy allows for the deduction of the OCIP/CCIP payroll, the customer must provide the certified payroll reports that are forwarded to the OCIP/CCIP administration along with certificates of insurance for each OCIP/CCIP project.

Independent Contractor Statements

If the insured hires independent contractors to perform work on their behalf, the auditor will ask for a certificate of insurance for each independent contractor hired and paid. In some states, sole proprietor independent contractors are not required or allowed to purchase insurance. In these cases, the insured and independent contractor should complete an Independent Contractors Statement form (ICS). This form helps assess whether there is potential for an employee-employer relationship between the two parties, or if the contractor is a legitimate independent contractor. If an employee-employer relationship is identified, an appropriate charge will be applied for those exposures. If the contractors are determined to be legitimate independent contractors, any payments made to them will be excluded from payroll exposures.



Garage Dealers

In addition to the payroll and tax verification reports outlined in the reporting requirements, the following specific information is needed to complete an audit for garage dealer policies:

- **Employment Dates:** Provide the start and termination dates of any employees who began or ended their employment during the policy period.
- **Furnished Vehicles:** List all employees and non-employees who are furnished a vehicle.
- **Number of Dealer Plates:** Provide the number of dealer plates for each named insured.

Audit Disputes

We appreciate the opportunity to work with you, and we understand that we may not always agree. That's why we have a process for audit disputes.

The first step in disputing an audit is to request a copy of the auditor's worksheet by contacting westfieldpad@westfieldgrp.com. Upon receipt, the agent or insured should review the worksheet and identify the specific issue(s) being disputed.

After identifying the specific issue(s) being disputed, the agent should complete a Premium Audit Revision Request Form. This completed form, along with an explanation of perceived errors and all supporting documents and records, should be emailed to westfieldreviewrequest@westfieldgrp.com.

Audits will not be placed on "stop bill" status until the audit department receives all necessary information and records that support the revision request. Without the original payroll or accounting record, a revision will not be completed.

To help resolve disputed audits effectively, please provide a detailed description of perceived errors, along with the original source documents supporting the discrepancy.

Common Audit Disputes

Below are common audit disputes and the records required to resolve them:

Officer or Employee Classification

- Name of each employee whose classification is in question.
- Job title and detailed job duties for each person.
- Identification of where each employee performs their work duties (e.g., office, shop, warehouse, or construction site).
- Details on the frequency and number of hours each employee spends performing each task in each work environment.

Owner/Officer (Inclusion/Exclusion)

- Copy of policy inclusion or exclusion endorsement from the audited policy term.





Insured/Uninsured Subcontractors

- Certificates of insurance covering the insured's policy period.
 - This often requires two certificates of insurance from each subcontractor as the subcontractor's policy period rarely aligns with the insured's policy period.

Exclusion of Independent Contractor Exposure

- Completed Independent Contractor Statement (ICS) form for each independent contractor.
- Copy of Form 1099 and Form 1096.

Exclusion of Wrap-Up Exposure

- Copy of OCIP/CCIP certificate of insurance for the project in question.
- Copy of OCIP/CCIP exclusion endorsement form on our insured's policy.
- Copy of the certified payroll reports submitted to the OCIP/CCIP's project administrator.

Payroll Discrepancy

- Payroll documents, including:
 - Payroll reports
 - Quarterly State Unemployment Tax Form (SUTA) or Form 941
 - Overtime summary

Sales Discrepancy

- Sales documents, including:
 - Sales reports
 - Income or profit and loss (P&L) statement

Subcontract Cost Discrepancy

- Subcontractor documents, including:
 - Cash disbursement journals and general ledger reports
 - Vendor payment reports
 - Income or P&L statements
 - Form 1099 and Form 1096

**If you have questions regarding your premium audit,
contact your insurance agent or call Westfield at 800.243.0210, option 2.**

Thank you for choosing Westfield for your business insurance needs.

