



GUIDELINES FOR ACCOUNTING VENDORS INVOLVED IN SURETY MATTERS

Introduction

These guidelines apply in all matters where Liberty Mutual Surety (LMS) retains outside accounting vendors. These guidelines, however, do not restrict nor are they intended to impede any accountant's independent exercise of professional judgment in rendering professional services to LMS.

Budgets

Budgets are useful in our evaluation of each matter where we retain vendors. Although we recognize they are only a best prediction based on currently available and often ever changing information, we require them in all instances where we retain outside vendors and the expenses are anticipated to equal or exceed \$100,000. Thus, the outside vendor must submit a written estimate of the fees and expenses within 45 days of any engagement. Upon our request, outside vendor will submit an updated written estimate. Outside vendor should update these budgets as developments in the case warrant.

Staffing

Outside vendor should designate one professional to have primary responsibility for the matter. Other personnel may be assigned to the matter as workload and efficiency requires but we expect consistency in the staff assigned to the matter. Overall staffing considerations should be discussed with the LMS Claim Representative at the beginning of the assignment and as needed when events warrant changes in strategies and assignments.

Billing

Billing Procedure

Frequency of Billing

1. Invoices should be submitted monthly, any invoices submitted more than 3 months after services were rendered will be paid within the discretion of the claims handler.

Billing Content

1. Accountants shall submit separate invoices for salvage related activity and expenses (P400 Codes and salvage related E Codes) from all other activity and expenses (P100, P200, P300, P500 & P600) and non-salvage related expenses (E Codes). Claim Handler is instructed to reject invoices containing both salvage related codes and non-salvage related codes. Additionally, claim handlers are instructed to reject invoices which are incorrectly coded.

Billing Format

1. **Invoice Description.**
 - a. Caption of the file including the full name of the Principal/Project
2. **Task Codes.** The Liberty Mutual Group requires that firms are Uniform Task-Based Management System (UTBMS) compliant and able to provide UTBMS information in an industry format.

UTBMS Codes used by LMS Accountants

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| P100 | Project Administration <ul style="list-style-type: none">• Types of expense you would expect to be invoiced under P100 include: Bank account set up; monthly bank reconciliations, review and monitoring of disbursements and receipts |
| P200 | Fact Gathering/Due Diligence <ul style="list-style-type: none">• Types of expenses you expect to be invoiced P200 include: Book and Records review; Assistance/Compiling information to be sent to Liberty to be included in the LAT; Meetings with Principals and Indemnitors |
| P300 | Structure/Strategy/Analysis <ul style="list-style-type: none">• Types of expenses you expect to be invoiced P300 include: Analysis performed in reassessing the strategy for the projects or transactions throughout the life of the matter. Non LAT meetings and analysis. |
| P400 | Salvage Related Activities <ul style="list-style-type: none">• Types of expenses you expect to be invoiced P400 include: Any and all activities related to salvage activities including affirmative claims analysis or preparation. |

- P500 Other
- Types of expenses you expect to be invoiced under P500 include: All activities performing payment bond claim analysis and support. Also all investigation and analysis and related communications not captured more specifically in the P100, P200, P300 and P400 codes set forth above.

Typical Expense Codes you would expected on the Accounting Invoices include but are not limited to:

- E101 Copying
E103 Facsimile
E105 Telephone
E107 Delivery services/messengers
E108 Postage
E109 Local travel (mileage)
E110 Out-of-town travel (airfare, hotel, car rental)
E111 Meals
E124 Other

3. **Body.** The invoice must be prepared with daily entries showing
 - a. Date the work was performed
 - b. Initials of the person providing the service
 - c. Description of the work performed, by single activity, with the associated UTBMS phase, task and/or expense code, if applicable
 - d. Actual time in tenths of an hour for each single activity
4. **End of Invoice Summary.** The invoice must include:
 - a. Full name of each professional
 - b. Status of each timekeeper (i.e., accountant)
 - c. Hourly rate of each timekeeper
 - d. Total hours and total amount charged for each timekeeper during the billing period
 - e. Aggregate amount and hours charged to date on the assigned matter
 - f. Summary level UTBMS data; and subtotal amounts for both fees and expenses.

Invoice Submission

Electronic Invoicing. The Liberty Mutual Group is committed to electronic submission of professional services invoices through a secure web based process. It is required in all surety matters. Invoices should be submitted through CounselLink Lexis-Nexis.

Charges for Service

Single Entry Timekeeping

Unless otherwise directed, the time for each activity should be separately stated. All charges for services must be recorded based upon their actual time in one-tenth hour increments. Grouping multiple activities under a single time charge greater than one-tenth of an hour (“block billing”) should not be employed, absent authorization from the Liberty Mutual Group.

Information Descriptions of Services

Descriptions of services should inform of the nature, purpose or subject of the work performed, and the specific activity or project to which it relates.

Maximum daily time

Accountant shall charge for services based upon their actual time spent working on the file. Total time charged for a single day shall not exceed 8.0 hours unless approved by LMS in advance. Approvals may be requested by telephone call to LMS’s accountant.

Travel time

The billable rate for travel time shall be at one-half the billable hourly rate.

Compensation

Outside Vendor retained on any matter will be compensated at the agreed rate(s) then on file with us at the time of the engagement. Agreed upon rates shall be as requested by the accounting firm and approved by LMS for each accountant authorized to work on the file.

Hourly rate increases for existing assignments will not be considered unless the assignment continues for a considerable period of time and only then on a special exception basis. Rate increases may be approved for new matters only, and must be submitted for consideration before the assignment begins.

Multiple Attendance

Outside Vendor must obtain our approval to attend trial, any court appearances, meetings, depositions, witness interviews, inspections, and other similar functions.

Depositions

Outside vendor must obtain our approval before attending depositions, unless outside vendor is providing testimony.

Intra-Firm Conferences

LMS will not pay for more than one outside vendor from the firm to attend intra-firm conferences to discuss the matter.

Disbursements

Overhead Expenses

In the absence of an advance agreement to the contrary, we anticipate that incidental expenses and routine or recurrent tasks are considered the firm's overhead. Any associated cost or expense is assumed to have been incorporated within the firm's agreed to hourly rate or fee structure.

The following items, though not exclusive, are included in this category:

- Bates stamping/document numbering
- Books, magazines, subscriptions, and educational materials
- Budget, invoice, and audit preparation and responding to billing inquiries
- Computer software, hardware, programming, and maintenance
- Conflicts of interest checks
- Continuing education seminars
- Courier charges, including in-house messenger service
- Equipment purchase or rental (e.g., copier, fax, postal machine, etc.)
- Facsimile charges (incoming and outgoing)
- Group outings/hospitality
- Mark-ups or surcharges added by the firm
- Meals, excluding those during billable travel; including refreshments during meetings
- Office supplies
- Overtime
- Professional associations or other fees
- Rent on facilities – Storage unit charges are ok
- Support staff service charges
- Telephone bills (including cell phones and long distance)
- Temporary help
- Training materials or sessions
- Utilities

External Expenses

The firm will be reimbursed without mark-ups or surcharges for the following, when agreed to following our approval:

- Consultants
- Imaging
- Overnight travel
- Photocopy charges

Disbursements should be itemized on the firm's statement with the following information:

- the name of the vendor
- the date incurred
- a specific description of the expense

Travel Expenses

- **Local Travel.** Travel within a 50 mile radius of the firm is considered local travel. Expenses and disbursements incurred in local travel are considered overhead and within the firm's rate structure. Mileage reimbursement for local travel is allowed.
- **Non-local Travel.** Outside vendor must obtain our approval prior to incurring non-local travel expenses. What constitutes reasonable reimbursement for hotel accommodations, meals, and ground transportation depends upon the locale visited. First class travel, luxury hotel accommodations are not considered reasonable. Mileage will be reimbursed at the IRS rate prevailing on the date of travel.

Professional Services

Accountants must obtain LMS's approval prior to incurring expenses for outside experts or other professional services. Expenses for professional services will be reimbursed at actual cost.

Receipts

Itemized receipts for expenses billed and costs advanced must accompany invoices.

Secretarial and Clerical Activities

Secretarial and clerical work is considered overhead within the firm's rate structure. As examples and not as a complete list, secretarial and clerical work includes receipt and distribution of mail, new file set up, maintenance of office and calendars, transcribing, copying, posting, faxing, e-mailing, inserting documents into and retrieving documents from the file, maintaining order in the file, stamping documents, tabbing sub-files, and assembling materials.

Invoice and File Review

Outside vendor recognizes that the Liberty Mutual Group has the right to review and audit all invoices for services and disbursements pertaining to the matter for which the firm has been engaged by the Liberty Mutual Group, and, further, that the Liberty Mutual Group has the right to review and audit outside vendor's file. However, such invoice and file review and audit, including the review of documents, must be done in a manner that does not compromise the attorney-client privilege, reveal client confidences or diminish the protection afforded defense counsel's work product.

Audit

Payment of invoices and expenses on a file does not constitute a waiver of any of the Liberty Mutual Group's rights to request reimbursement resulting from an evaluation or audit of your firm's invoices.

Internal Billing Dispute Resolution

If the Liberty Mutual Group adjusts a legal invoice, explanation for such action shall be given by the Liberty Mutual Group, and the firm shall be given the opportunity to explain the disputed items.

Escrow Accounts

The scope of your work may involve disbursing funds to claimants, subcontractors and material suppliers through an Escrow Account. In such cases, you will be required to comply with LMS' Guidelines established for Escrow Accounts. These guidelines will be supplied separately.

Record Retention

Outside vendor must retain materials for a minimum ten (10) years from the conclusion of the underlying action on behalf of the Surety.

Outside vendor shall provide the Surety with access to or copies of retained materials upon request of the Surety.