



## Pennsylvania Compensation Rating Bureau

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December 7, 2020

### **PENNSYLVANIA TEST AUDIT PROGRAM** **BULLETIN #126**

#### TEST AUDIT APPEAL DECISION

The result of an insurance carrier appeal to the PCRB Audit Committee is presented to the membership for their information.

This appeal centered on the PCRB classification change based on the primary field of business rule and the use of revenue as the methodology. The employer at the center of the appeal generated 60% of revenue from architectural services with the remaining 40% of revenue generated from engineering services. Because the majority of the revenue was generated from architectural services, the PCRB changed the classification from Code 955 - Engineering Consulting Services-All Employees Including Office to Code 905 - Architectural Consulting Firm-All Employees Including Office.

The carrier disputed the suggested assignment to Code 905 based on revenue alone. Referencing Manual Rule IV, Classifications, the carrier argued that the rules state that the classification assignment is based on the basic classification that best describes the business. The carrier argued that in this instance the number of employees and total payroll allocation was more indicative of the basic business operation and those factors should be considered over revenue. The carrier audit had more engineers on staff carrying a higher payroll. Using this method, in lieu of revenue, the carrier opined that since there were more engineers on staff carrying more payroll the proper classification should remain Code 955.

The PCRB responded to the carrier that the use of revenue to determine a classification assignment has been the consistent methodology in Pennsylvania. The PCRB has historically used revenue as the determining factor for a single classification assignment for all businesses. The only exception to the revenue rule is construction businesses. Specific to this employer, the PCRB noted that the information gathered during the test audit indicated that the insured is principally engaged in providing architectural services. Further, current Manual rules indicate the scope of Code 905 is applied to those employers that are, "...principally engaged in the professional practice of architecture..." The PCRB also noted that the term "principally engaged" is defined in the Manual as the business operations that generates over 50 percent of revenue.

All relevant information was emailed<sup>1</sup> to Audit Committee members for review and to determine if the PCRB Classification change is warranted. After review Audit Committee members voted to sustain the difference. The Audit Committee Members noted that revenue determination has been the method used by the PCRB in classifying businesses and the method suggested by the carrier did not conform to current Manual rules. However, some Audit Committee Members did recommend the PCRB consider clarifying the language to avoid any future confusion.

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<sup>1</sup> Because of COVID-19 restrictions there could not be an in person meeting of the Audit Committee at the PCRB offices in Philadelphia. As a result all relevant materials and documents were sent to the Audit Committee Members for review.