



## Pennsylvania Compensation Rating Bureau

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### PENNSYLVANIA TEST AUDIT PROGRAM BULLETIN #38

As per Bureau Circular No. 1285, the results of an insurance carrier appeal are presented to the membership for their information.

#### "I" Enterprises, Inc.

The insured manufactured stair railings and roll-off dumpster waste containers. The Bureau test audit developed information the insured also had a separate crew that installed the railings leading to the authorization of Code 658, Iron Erection or Installation - Ornamental. The carrier audit noted the insured installed the products it manufactured but considered this operation as being incidental to the manufacturing operations and no additional classification was requested. The carrier chose not to appear before the Committee in person. However, a position statement was presented to the Committee.

The carrier's appeal involved the classification of payrolls of four employees the carrier assigned to Code 953, Clerical. The Bureau had assigned these employees to the governing classification Code 413, Iron Works - Shop - Ornamental in its test audit.

Both audits received payroll information from the bookkeeper. However, the Bureau audit received a description of job duties from the bookkeeper. The carrier auditor received a description of job duties from the president of the company. Three of the employees in question were a plant manager and two shop foremen. These employees were specifically identified as clerical employees on the carrier audit. The Bureau contacted their informant again and verified the employees in question had job duties which properly assigned their payroll to the governing classification.

In response to the Bureau test audit criticism the carrier maintained the information they received from the president of the company justified the allocation of payroll on their audit. The carrier questioned the validity of a Test Audit Program that asked the carrier to challenge the veracity of their insured's statements. In response the Bureau provided to the carrier a copy of Test Audit Bulletin No. 24 that contained the results of an appeal similar to the one presented by the carrier. In that appeal the Bureau's position was a reportable difference would be cited if the Bureau's audit interview process developed additional information resulting in a different payroll allocation of employees. This position was upheld by the Audit Committee. The carrier replied the Bulletin was not relevant to their appeal as their auditor claimed to pursue a line of questioning to justify their payroll assignments. The carrier proposed that information gathered from a

bookkeeper, although it may be correct, should not supersede information given by the owner of the business.

In Executive Session the Committee reviewed at length the facts presented in this appeal.

Several points were noted by the Committee:

1. The carrier apparently made no attempt to question the insured further or revisit them to verify the specific job duties of the employees in question.
2. The Committee upheld the authorization of Code 658, Iron Erection and noted there was no recommendation on the carrier's worksheets that Code 658 should be added. This omission was sufficient to create a significant premium difference.
3. The carrier auditor should have asked the president additional questions to determine the proper payroll assignment of the plant manager and the shop foremen. The Committee noted the informant admitted the plant manager spent a portion of his time in the shop but the audit did not address who supervised the employees and/or operations when the plant manager did not perform this function.
4. The carrier audit assigned the payroll of the shop foremen to the clerical classification without noting on the worksheets or in later correspondence to the Bureau who actually provided direct supervision of the shop operation and its employees.

Based on the above information, the Committee voted to sustain the Bureau position on this test audit. It was the consensus of the Audit Committee the payroll allocation issues could have been addressed without challenging the veracity of the informant's statements. A normal part of the audit process involves an exchange of information and pursuing a line of questioning to resolve all payroll allocation questions in conducting a premium audit or a test audit.

RS/jy