



Pennsylvania Compensation Rating Bureau

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PENNSYLVANIA TEST AUDIT PROGRAM **BULLETIN # 71**

TEST AUDIT APPEAL DECISION

Per Bureau Circular No. 1395, the result of an insurance carrier appeal to the Audit Committee is presented to the membership for their information.

“T” Corporation

The carrier was appealing a test audit difference related to the insured “T” Corporation for the policy period of November 29, 1999 to November 29, 2000. Historically, “T” Corporation had been authorized to use the standard exception classifications, Codes 951, Outside Sales, and 953, Office, only. The appeal presented in writing to the Bureau focused on the classification of one employee. The Bureau test audit developed information leading to the authorization of Code 924, Wholesale Store, N.O.C., for a warehouse operation and assigned the one employee in question to that classification. The carrier used Code 953 for this employee.

In presenting their case to the Audit Committee, the carrier representative explained that the Bureau's test audit originally developed three differences:

- The addition of Code 924 (see above).
- The exclusion of the corporate president by the Bureau but not the carrier.
- The assignment of two employees by the Bureau's test audit to Code 953 while the carrier audit assigned these employees to Code 951.

The carrier stated as a result of correspondence from the carrier, the Bureau reversed their decision on the latter two differences. Accordingly, the only remaining difference was the authorization and application of Code 924.

Regarding the application of Code 924, the carrier representative explained to the Committee that the insured did not disclose the existence of a warehouse at the time of the carrier's audit. Further, the insured informed the carrier auditor that the employee in question was strictly clerical. The carrier representative advised the Committee the insured provided the carrier with documentation stating the distribution/warehousing operations were subcontracted to unrelated concerns, and, as a result, the carrier was not aware of any warehousing operations. When the test audit difference was received from the Bureau, the carrier questioned the insured over the telephone about the warehouse and its' employee. It was only at that time that the carrier was informed the insured did, in fact, operate a 7,000 square foot warehouse. The carrier representative stated that, as a result of this new (to the carrier) information from the insured, they agreed with the test audit decision to include the employee staffing the warehouse in Code 924. However, the carrier representative told the Committee that his company continues to dispute the test audit difference based on the contention that the insured misled them and provided inconsistent information.

In executive session the Committee reviewed the facts presented in this appeal. The Committee noted the following:

- The carrier essentially agreed with the test audit difference and believed that the addition of Code 924 was appropriate.
- The Committee believed that the carrier was incorrect in not addressing the circumstance of who worked in the warehouse once the insured's informant admitted that the warehouse exposure existed.
- The Committee believed that the carrier changed their argument at the "11th hour" by insisting that the insured's informant misrepresented the existence of the warehouse.
- The Committee expressed their concern that none of the information presented in the carrier's verbal appeal was contained in any prior written information to the Bureau.
- The degree of misrepresentation on the insured's part was a matter to be addressed between the carrier and their insured and could not be cited as a reason to overturn the test audit difference.

After some further discussion, upon motion made and duly seconded, it was voted to sustain the Bureau's test audit.