



Pennsylvania Compensation Rating Bureau

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PENNSYLVANIA TEST AUDIT PROGRAM

BULLETIN #75

TEST AUDIT APPEAL DECISION

Per Bureau Circular No. 1415, the result of an insurance carrier appeal to the Audit Committee is presented to the membership for their information.

“U” Company

The carrier was appealing a test audit difference related to the insured, “U” Company, for the policy period of August 1, 2000 to August 1, 2001. The insured is an importer and distributor of Swiss mechanical timing devices and precision synthetic ruby and sapphire jewel bearings. The timing devices are used in bank vaults. The jewel bearings are utilized primarily in measuring instruments. The appeal in writing to the Bureau focused on the assignment of all of the insured’s employees. The carrier assigned the payroll of all of the employees to the basic classification of Code 924, Wholesale Stores, N.O.C. The Bureau’s test audit only assigned the payroll of one of the insured’s employees to Code 924. Subsequent correspondence between the carrier and the Bureau resulted in a revision to the test audit of an additional employee’s payroll being assigned to Code 924. This revision occurred because the insured had sent a letter to the carrier naming a different employee as the only individual responsible for the shipping and receiving of the insured’s merchandise.

The carrier believed all of the risk’s employees were exposed to the operative hazards of the business, given the existence of a safe that contained items of merchandise that the insured sold and shipped to their customers. This safe was located in the same area where the insured’s clerical staff worked. The carrier cited a test audit bulletin in support of the idea that employees working in an area not physically separated from the storage of merchandise would have their payroll assigned to the basic business classification. Test Audit Bulletin No. 72, Documentation Examples, contained a scenario in which the bookkeeper of a firm worked in an office where supplies were stored. The absence of physical separation between the supply area and the employee meant that the employee’s work area did not meet the restrictive definition of a clerical office and, consequently, that employee’s payroll was assigned to the basic classification. The carrier indicated that the safe in the insured’s office was located between file cabinets in the office space where the workers were located. The carrier representative further explained that any one of the insured’s employees in that area had access to the safe and would go into it to fill orders. The carrier conceded that the clerical employees would not go into the shipping and receiving area but did go into the safe regularly. The carrier stated that, as a result of this lack of physical separation, all of the insured’s employees should be included in the basic classification.

The Bureau's test audit contained documentation indicating that the safe was used primarily for storage of sales records, pension portfolios, checkbooks, payroll records and other bookkeeping and accounting records. The safe had four drawers, each approximately four inches high by six inches wide. The insured stocked primarily tiny, obsolete, leftover parts in these drawers. Those items were the only inventory items kept in the safe. The risk kept these parts as they sometimes received requests from customers who wished to obtain the parts for prototype purposes in the research and development of projects.

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

- The carrier audit did not contain a comprehensive job description of the executive officers.
- The existence of a safe in the office was not a relevant issue in determining the employee exposure to the operative hazards of the business.
- The carrier representative appeared to change their presentation concerning the extent of the job duties of the office employees. At first they stated that they would only go to the safe to fill orders. Later on in the appeal, the carrier representative stated that all of the office employees would also walk into the shipping and receiving area to fill orders.
- The carrier audit did not address the issue of regular and frequent job duties. Specifically, the carrier audit did not specify the amount of time the employees would spend filling orders.
- The carrier audit did not explain the contents of the shipping and receiving room in their audit or in their presentation to the Committee.
- The large difference in payroll between the two audits should have been cited as a test audit difference. On further review, the difference was the result of the carrier's inclusion of an additional employee as an executive officer.
- Carrier auditors cannot be relieved of their responsibility to complete an accurate audit by contacting the Bureau. The premium auditor must make the final decision based on their own knowledge of the applicable workers' compensation rules regarding employee job duties and payroll allocation.

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