



## Pennsylvania Compensation Rating Bureau

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### **PENNSYLVANIA TEST AUDIT PROGRAM** **BULLETIN #60**

#### *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.

#### **“Q” Ford LLC**

The carrier was appealing a test audit difference related to “Q” Ford’s January 1, 1998 policy. “Q” Ford LLC is one location of a group of ten commonly owned automobile dealerships, all with separate policies and locations in Pennsylvania, New Jersey and Delaware. The carrier had performed the previous year’s audit by physical visitation to all of the different locations. For cost efficiency reasons the carrier had audited the policy at issue by requesting that the insured transfer all of the records of the different locations to the risk’s home office in Philadelphia. After the records were thus reviewed, the carrier auditor had called informants at each of the locations to verify the employee assignments to the clerical and automobile salesperson classifications.

In March 1999 the Bureau performed a test audit of “Q” Ford’s 1998 policy and developed information leading to the assignment of the insured’s president to Code 819, Automobile Salespersons, and the payroll of another employee to Code 818, Automobile Dealers. Since the carrier had assigned the payroll of both of these employees to Code 953, Clerical Office Employees, a test audit criticism was sent to the carrier which was subsequently appealed.

The carrier’s appeal and presentation to the Audit Committee centered around different job descriptions of the employees in question that had been given to the carrier auditor and the Bureau auditor. Furthermore, the carrier stated that their audit was performed with a different informant, who supplied incorrect information about the job duties of these two employees. The carrier representatives conceded to the Committee that the Bureau audit was technically correct in the classification assignment of the two employees in question but contended that their auditor had performed the audit to the best of his ability and that the employees were properly classified based on the information that had been provided to the carrier auditor.

Bureau staff explained to the Committee that, upon appeal by the carrier and in order to confirm the appropriateness of the Bureau’s test audit with respect to the classification of the two

employees, the Bureau's test auditor had returned to the risk and developed the following information:

- The insured's president attended the Manheim Automobile Auction every Friday to approve dealer trades and also appraises and approves other dealer trades, justifying his payroll assignment to Code 819.
- The other employee worked in the service department as a service writer, writing up work orders and pricing out the work orders once repairs had been completed. She would also walk out to the vehicles and write down odometer readings two to three times a day. Therefore, assignment to Code 818 was warranted.

Bureau staff noted that in the end it was able to obtain more detailed job descriptions for the employees in question and the additional information supported the test auditor's original findings. In conclusion, Bureau staff stated that there was a lack of documentation on the carrier's audit regarding the job duties of the employees in question. In executive session the Committee reviewed the facts presented in this appeal. The Committee noted the following:

- The classification assignments of the employees in question indicated by the carrier audit were incorrect.
- There was a lack of documentation provided by the carrier audit detailing the job descriptions of the employees in question.
- For the policy period in question, no physical visit was made to the business premises of the insured by the carrier auditor to verify the location of employee work stations or job duties.
- The carrier audit did not provide an explanation of the types of employments that were assigned to Code 819 and Code 953, respectively. The carrier auditor obtained the information by telephone from an audit contact, but this fact was not disclosed in the original audit's documentation.
- The carrier exercised good faith in relying on the audit contact's representations about the classification assignments of employees' job duties. However, conflicting information is a regular cause of test audit differences. Resolution of such differences in favor of the carrier requires that the carrier must supply documentation in writing to support their audit.

After some further discussion, upon motion made and duly seconded, it was voted to sustain the Bureau's test audit and the assignment of the payroll of the insured's president to Code 819 and the payroll of the insured's service writer to Code 818.