



Pennsylvania Compensation Rating Bureau

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PENNSYLVANIA TEST AUDIT PROGRAM

BULLETIN #122

The PCRB is re-issuing Test Audit Bulletin #72 with some minor updates in an effort to provide carriers with instruction on proper documentation when auditing an insured. An issue often debated in the context of the Pennsylvania Test Audit Program is documentation. Specifically, what is adequate documentation in substantiating the classification assignment for an employee on an audit? The key points to remember when determining proper classification assignments are:

- Job titles alone are never considered adequate documentation. The audit should contain a brief but comprehensive job description for each employee to justify the auditor's payroll assignment.
- With respect to executive officers it is necessary to determine levels of supervision to shed light on potential exposure of executive officers. If there is no foreman, supervisor or similar lead-type employee, more than likely the officer is responsible for the direct supervision of operations and employees in the shop or field. This exposure generally translates into assigning the officer's payroll to the governing classification.
- Executive officer duties should always be thoroughly explained on the worksheets. See PCRB Manual, Section 2 - General Auditing & Classification Information, Executive Officers - Classification Assignment, for reference.

Documentation Examples

For purposes of illustrating what we believe to be adequate documentation versus inadequate documentation, the PCRB is providing the following three examples. Adequate documentation is what the PCRB believes to be the level of detail needed to support the classification assignment being used. Finally, the appropriate audit questions which were used to develop the information provided in the adequate documentation section are also listed in the following examples.

EXAMPLE 1 *The insured is a multiple enterprise that owns four pharmacies and a retail card/gift shop. The authorized classifications are Code 927, Retail Pharmacy and Code 928, Retail Card Store, Code 951, Outside Sales and Code 953, Clerical Office Employees. Note Code 927 is the governing classification for this example.*

Inadequate Documentation	Audit Questions	Adequate Documentation
Pete Smith - Manages overall operations. Code 928.	What duties will he perform in his involvement in all phases of the business? Does he visit each store? While at the store, does he supervise employees? Wait on customers? What duties are involved with the card store?	Pete Smith - As president of the corporation, he is involved in all phases of the business, ordering all supplies, working as a pharmacist, visiting each store location at least twice a day to view the merchandise on display and to confer with the employees. Mr. Smith does not work in the gift/card shop waiting on customers as the card store has its own manager. Mr. Smith is viewed as a miscellaneous employee so include in the governing classification Code 927
Sharon Jones - Office. Code 953.	Will she ever work in the pharmacy? Does she fill in when others call out sick or lunch breaks?	Sharon Jones - Cashier for the gift shop only; does not cashier for the pharmacy portion of the business. If the pharmacy is short on employees, the insured will call in other employees or the pharmacist does the cashiering. Ms. Jones is assigned to Code 928.
Bob Ross - Bookkeeper. Code 953.	Where does he do the bookkeeping work? Does he spend all of his time in this area?	Bob Ross - Part-time bookkeeper, spends all of his time in the office area; however, the office also holds stock supplies for the gift shop. There is no physical separation from the stockroom. Mr. Ross is assigned to Code 928.

EXAMPLE 2 *The risk is engaged in manufacturing vinyl replacement windows. The authorized classes are Code 454, Sheet Metal Work; and Codes 951 and 953.*

Inadequate Documentation	Audit Questions	Adequate Documentation
Kim Johnson – Inside sales. Code 953.	Are there any inside salespeople who will do outside sales work? How much time was spent outside? What are their other duties?	Kim Johnson – Makes outside sales calls one day a week and spends the remaining time in the office making telephone calls. Ms. Johnson is assigned to Code 951.
Ralph Mead - Officer – Will go into the shop. Code 454.	Does the officer go into the shop? How often? Is there a foreman or supervisor?	Ralph Mead - President - Goes into the shop less than a half hour (10 to 15 minutes) a day to check on operations, and the remainder of his time is spent in the office making decisions and meeting with the shop foreman. Mr. Mead is assigned to Code 953.
Tom Bryant - Oversees operations from the office. Code 953.	Is he the full-time foreman for the operations? How often will he confer with the officer?	Tom Bryant – Spends 85% of his time in the shop acting as foreman and solving problems. The remaining 15% of his time is spent meeting with the president in an office providing updates on progress of employees. Mr. Bryant is assigned to Code 454.
Glenn Moran - Majority of time spent in the office. Code 953.	How much time is spent in duties other than clerical functions? How often did the employee go into the shop?	Glenn Moran - Packages parts in the shop at least one hour per day and prepares service work papers in the office the remaining six hours. Mr. Moran is assigned to Code 454.
Kate O’Neil – Shop exposure. Code 454.	Where is she physically located? Does she go into the shop for any reason? How much time is spent in the shop?	Kate O’Neil - Window designer. She works in a physically separate office and does not work in the shop on a regular basis. She goes into the shop for about 10 minutes a month to check on completed designs. Ms. O’Neil is assigned to Code 953.

EXAMPLE 3: *The risk is engaged in the installation and repair of indoor plumbing systems. The risk will also install and repair heating ventilation and air conditioning systems (HVAC.) They also perform water main construction. The authorized classifications are Code 617, Gas, Steam or Water Main Construction, Code 663, Plumbing, and Code 664, Heating, Ventilating or Air Conditioning Contractor, along with Codes 951 and 953.*

Inadequate Documentation	Audit Questions	Adequate Documentation
Ben Carson repairs and installs HVAC systems. Assigned to Code 664.	Is there a separate crew working on the HVAC systems? Do any employees interchange labor with the installation and repair of indoor pipes or plumbing fixtures? Are separate records maintained showing the amount of hours and payroll assigned to each classification?	Ben Carson installs and repairs both types of systems. He works with the HVAC systems approximately 3/4 of his time and spends 1/4 of his time installing and repairing the plumbing systems. No separate records were kept. There is a separate crew working on HVAC systems. Mr. Carson interchanges duties and as no separate payroll records are kept his payroll is assigned to the higher rated class between Codes 663 and 664.
Tony Spinelli will install HVAC systems. Assigned to Code 664	Same as above.	Tony Spinelli installs HVAC systems the majority of the time. He will also install plumbing fixtures at some job sites. Insured kept separate payroll records showing his time spent performing each type of work. Mr. Spinelli's payroll is assigned to Code 664 for the HVAC work and Code 663 for the plumbing jobs.
Steve Carson is the backhoe operator for the excavation and backfilling of trenches on water main jobs. He was included in Code 609, Excavation.	Does the employee only do excavation work in conjunction with the risk's water main installation jobs? Does the employee work on excavation jobs that are separate from the water main installation? For example, does the employee excavate earth for cellars or foundations for buildings?	Steve Carson excavates the trenches using a backhoe for the installation of water mains. He does not perform any other excavation work. Mr. Carson's payroll is assigned to Code 617, Water Main Construction, as the classification wording states that Code 617 includes all work to completion.