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## Officer's Message

By Fred Lowry, Jr., First Vice President

It is often discussed among members of NSIPA in the necessity of continuing education and the importance of professionalism within the ranks of premium auditing. While I agree with the importance and validity of this, I believe we sometimes overlook the importance of our individual characteristics and performance within our own companies. I am not referring to overlooking the performance of the premium audit function, but overlooking our individual capabilities that can positively impact our company and allow us to be a greater asset in these never-ending changing times.

These basic attributes are within each of us and I like to refer to them as the ABC's of Achievement: **A**ttitude, **B**e the best that you can be, and **C**reativity.

### Attitude

I can't underscore the importance of how our attitude affects us and those who are around us. We have all heard the level of our attitude determines our level of altitude. Despite the many times we feel the odds are against us, if we are to attain great heights and bring others with us, we must have a positive attitude. "The greatest discovery of my generation," stated William James, "is that a human being can alter his life by altering his attitudes." Make no mistake about our attitude, we control it and have the ability to change it at any time. Our attitude is often like a temperature control thermostat located in a room, it controls the environment and feeling around us. I ask each of us - is our "room" a comfortable place where others and we would like to visit?

### Be the best that you can be

I believe we can learn best about this attribute from many of our companies within the property and casualty industry. How often have we seen a company make a major decision to redesign, reengineer, reorganize, restructure, etc. only to watch many of their fellow companies follow them in the same, sometimes flawed decision.

"We forfeit three-fourths of ourselves in order to be like other people," said Arthur Schopenhauer. Often we make decisions in an effort to be like someone else and forget about what we do best ourselves. Don't underestimate your own great abilities and talents.



### Creativity

Often it takes a little creativity to get things accomplished. We all know as premium auditors the creativity it takes to convince an insured to set an appointment for an audit and the creative accounting we have reviewed in some policyholder's records. But, I am referring to a different kind of creativity - a kind of creativity that allows our individual skills to be used and developed. Some of the greatest discoveries and most successful people were launched when they took time to "think outside the box." I wonder if I would have produced this article in a different manner if it hadn't been for a few guys working in a garage 20+ years ago finding creative ways to establish the personal computer - a project dumped by a company called IBM which said there was no use for a personal computer. "You want to be creative," asks Jerry R. Martin, "Look inside yourself. You're already creative...if you want to be creative, start doing...start doing stuff."

The ABC's of Achievement are basic and we have all heard them in many different ways, but it is the basic and simple things we learn to conquer that allow us to improve and become better. We may each face different issues and assignments within our workplace, however, we all have great similarities and needs in the changing world of premium audit.

If we will each have a positive attitude, striving to be the best we can be with creative action, there will always be a place for us to improve our skills and help lift others to a higher level. 🐟

## Techi Tips

By *Connie Dopierala*

Welcome to the new Millennium! Most of us were very happy with the gifts we received during the past holiday season, but those of us who can't exist without our computers can make great prey for the unscrupulous at this time of the year. With email and Internet usage at an all time high, some people find it "fun" to create and send viruses. And there are a great many of them around, especially at this time of year.

Perhaps the most important purchase any computer user (from novice to expert) must make is a Virus Protection program. I prefer Norton Antivirus, which comes either as a stand-alone program or packaged in Norton Utilities. But equally good is McAfee, which has an excellent database of viruses, definitions, symptoms and "cures". Whichever the purchaser prefers, it is imperative that the user regularly goes to their "Live Update" site and keeps their

virus protection updated.

Currently there are new generations of "Worms" or "Trojan Horses" that are being sent around gleefully infecting computers and wreaking havoc on users.

- W32/Hybris.gen@M - Arrives as an email attachment in a message referring to SNOW WHITE AND THE SEVEN DWARFS
- W32/Navidad@M - Arrives as an email attachment named: NAVIDAD.EXE or EMANUEL.EXE
- W32/ProLin@MM - Arrives as the email attachment: CREATIVE.EXE
- W32/MTX@M - Arrives as an email attachment using multiple names. For a complete list, go to the Norton or McAfee web site.

If you setup your virus program to remain active with your email program, it will scan your attachments automatically and alert

you to dangers. If an attachment has more than one (1) period (.) in the extension, it is usually a sign that it contains a virus. Delete it and empty your deleted items file immediately. Norton will quarantine potential viruses until they are either cleaned or removed.

Be safe...or be sorry! This author almost fell victim of the Snow White and the Seven Dwarfs virus that comes from South America. A good site to confirm or deny a virus' existence, and/or to find patches to fix them is [www.getvirushelp.com](http://www.getvirushelp.com). They have some of the latest information and patches. Next column will extol the virtues of the Norton System Works as a cost-effective means to keep your computer functioning in tip-top shape and avoid costly tech calls and down time! 🐾

## All In a Day's Work - An Auditor's "Tail"

By *Nancy Little, RLD Associates, Inc.*

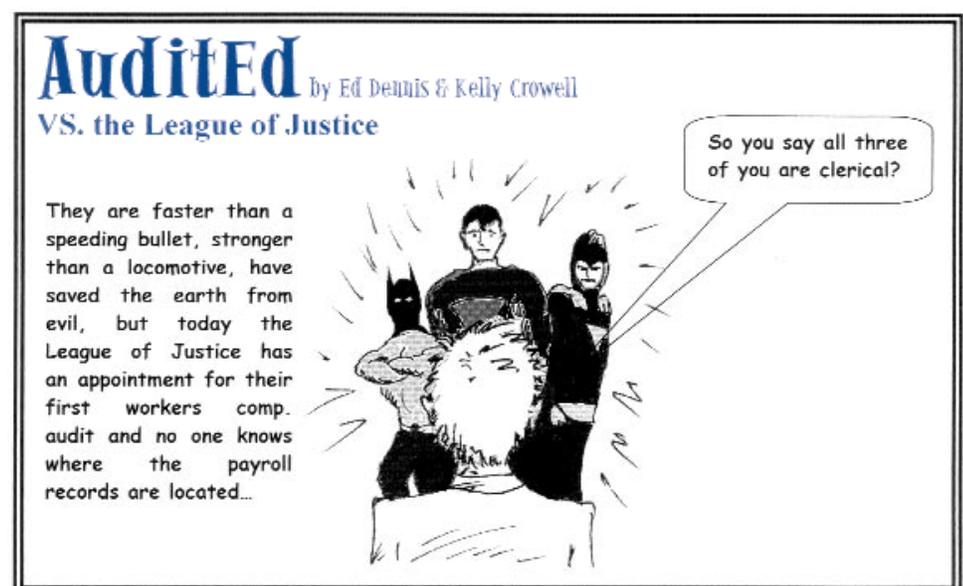
I had a rough time getting the insured to keep our appointment; she was a no-show the two previous visits. So I made arrangements to conduct the audit at 8:30 a.m. When I pulled into their driveway, three dogs greeted me. They appeared to be nice dogs, tails wagging as they followed me into the house. Inside the house, I smelled a horrible odor, like something died, which I tried to ignore. The insured offered the kitchen table as my workspace. One of the cute little doggies came over and began to give me hugs and also started to nuzzle under my elbow, etc. As I set-up my laptop, the insured was busy gathering the necessary books and records when all of a sudden, she exclaimed, "Oh my god!, what stinks? What did you roll in?!" I wasn't sure whether she was speaking to the dogs or me! At that point she put the dogs outside and, of course, the smell did not go away since the dog had rubbed all over my legs and arms. I asked if she could give me something to clean my suit. She offered only a paper towel, which was of no use. I forged ahead with the audit hoping the odor would subside. However, it did not and I requested a rag and some soap. The insured walked down the hall and opened doors along the way, apparently in search of soap and rags. She was unable to locate a rag and soap so she returned to the kitchen and stood behind me, motionlessly, apparently deep in thought. All of a sudden, I heard this loud sound - thump, thump, thump, that seemed to shake the floor. I turned and looked up and standing next to

me, in a boxer's stance, was a kangaroo!

During this encounter, the insured was still standing behind me. I had the distinct impression that she was playing games with my mind. Rhetorically, I very calmly and sweetly said, "Oh, what is that?" She explained that it was a wallaby and would not bother me. It stood there and looked at me for quite some time as I played the dedicated auditor and finished the audit, with one eye on this kangaroo with a very long tail, fearful that at any moment this huge animal would punch me or thump me to death! However, just as quickly as it appeared, it suddenly hopped back down the hall to its bedroom!

I still did not have anything to clean up with and the foul smell persisted. Finally, she brought me a washcloth and I helped myself to the soap beneath the kitchen sink. I had a full day of audits scheduled and I could only imagine what people would think of the putrid smell that followed me. For the remainder of the day, I would ask each contact at the insured's office; "Do I smell?" Each one assured me I did not, but their body language suggested otherwise, as did the speed at which they left the room.

As I drove home that evening, I thought to myself, just another normal day in an auditor's life. 🐾



**PEO CASE STUDY**

STILES PLUMBING INC.  
WC56789  
GL12345  
Policy Period: 4/1/99 - 4/1/00

Stiles Plumbing, Inc. operates as a New Jersey licensed contractor performing pipe and plumbing connection work. They are hired by local general contractors and all of their work is performed in connection with the construction of new homes. Stiles Plumbing, Inc. terminated all of their employees on September 30, 1999 and entered into an employee leasing arrangement with PEO Services, Inc.

You are performing an audit of the Workers Compensation and General Liability policies for Stiles Plumbing. The schedule page for each policy shows the following estimates:

**Workers Compensation Policy**

Plumbing - residential	#5183	\$300,000
Clerical Office	#8810	\$100,000

**General Liability Policy**

Plumbing - residential	#98482	\$300,000
Contractors - subcontracted work - 1 or 2 family dwellings	#91583	If any

The policy period coincides with the insured's fiscal year. The following information was available at the time of audit:

**Payroll Summary from Payroll Registers**

Plumbers	\$200,000
Office Employees	\$40,000
J. Stiles, President (active as plumber)	\$90,000
Total Payroll	\$330,000

**SUI's**

2nd Quarter, 1999	\$150,000
3rd Quarter, 1999	\$180,000
4th Quarter, 1999	\$0
1st Quarter, 2000	\$0
Total SUI's	\$330,000

**General Ledger Fiscal Year Totals**

Gross Sales	\$2,150,000
Subcontractor expenses	\$10,000
Payroll	\$330,000
Payments to PEO Services, Inc.	\$520,000

Assumptions or given information:

- No overtime.
- Residential plumbing only (i.e., assume the classifications are correct as written).
- Clerical employees are in office and perform clerical duties exclusively.
- Subcontractor expenses are actually payments to P. Stiles, a part-time plumber who worked only on weekends. These payments were from 4/1/99 to 9/30/99. P. Stiles was uninsured.
- The payments to PEO Services Inc. represent the gross amount paid to cover payroll and benefits in accordance with the contract. The contract stipulates that PEO Services, Inc. will invoice Stiles Plumbing, Inc. an amount equal to the Gross Payroll plus 30%. This agreement also stipulated that P. Stiles must be included as an employee.

- WC executive payroll limits are \$350/\$1400 min/max per week.
- GL executive officer payroll limit is \$32,300 per annum.

Determine the chargeable exposure. You may ask additional questions if you feel there is insufficient information above. 

**Regional News & Dates**

**Insurance Auditor's Association of the Central States**  
By Sue Grover

The semi-annual IAACS board meeting was held on November 3, 2000, by conference call. The conference call format has worked well for the Central States region, and has helped to reduce expenses for the board.

The 29th Annual IAACS Seminar will be held May 16-18, 2001 at the Minneapolis Marriott Southwest in Minnetonka, MN. The name of this year's seminar will be "2001 - An Audit Odyssey". For additional information on the seminar, visit our web site at <http://www.scaes.com/iaacs/>.

**Seminar - Insurance Auditor's Association of the Northeast**  
June 6-8, 2001  
Peek'n Peak Resort & Conference Center  
Clymer, NY

**Seminar - Insurance Auditor's Association of the Southeast**  
June 3-6, 2001  
Embassy Suites  
Charleston, SC

**Seminar - Insurance Auditor's Association of the Southwest**  
May 24-26, 2001  
Omni Hotel  
Austin, TX

**Congratulations!**

Please join us in congratulating Geoffrey E. Rogers, APA from Travelers Property Casualty Corporation in Lisle, Illinois. He was the year 2000 recipient of the Insurance of America's Distinguished Graduate Award in completing the Associate in Premium Auditing Program. Lisa Brien, president of NSIPA presented the award at the National Honors Ceremony in San Antonio, Texas. The \$500 award is sponsored by NSIPA.



For those of us who are taking and/or completed the educational requirements to obtain the APA designation, we know that this is not easy to accomplish. In order to obtain the APA designation, you must pass APA 91, APA 92 and two of three CPCU courses. In order to be the recipient of the Distinguished Graduate Award, one must be very dedicated to continuing education and devote a great deal of personal time. When an individual goes above and beyond the basic passing of these course requirements, it shows tremendous devotion to improve their knowledge.

We congratulate Geoffrey E. Rogers, APA for earning this award in the year 2000! NSIPA is proud to sponsor this award. Who will be the recipient for the year 2001? Will you be the one?

# NSIPA 2001 Annual Seminar

## *Kulia I Ka Nu'u* Strive for the Summit with NSIPA and IAAW June 24-26 • Honolulu, Hawaii

Dear Colleague:

On behalf of the National Society of Insurance Premium Auditors and the Insurance Auditors Association of the West, we invite you to join us for the 2001 Annual Seminar at the Ala Moana Hotel in Honolulu, Hawaii. We think you will find the program delightful, innovative, informative and worth every minute.

Some seminar highlights include:

- “Good Enough is Not Good Enough,” the dynamic Keynote Session presented by Robert Dove of the Hawaii Employers’ Mutual Insurance Company.
- Discussion on industry Hot Topics, moderated by Larry Alderks and Don Anderson of the Fireman’s Fund Insurance Company.
- Dr. Don Wallace, a Communication Professor at Brewton-Parker College, presenting on “Effective Communication and Conflict Resolution.”
- Presentations by Dennis Kokulak of NCCI and Warren Clark of WCIRB.
- The excitement of a traditional Hawaiian Luau.
- The Ala Moana Hotel which is adjacent to the 77-acre Ala Moana Beach Park, Honolulu’s largest, with wide beaches, tennis courts, and running/cycling paths. The hotel is also adjacent to the Ala Moana Shopping Center, a three-story complex with over 200 shops, services and restaurants.
- And, many more workshops and activities you will not want to miss!

Thank you for your continued support of the continuing education programs of NSIPA and IAAW. We look forward to seeing you in Honolulu.

Sincerely,

  
Lisa Brien  
President

  
Ray Fitchner  
Seminar Chairman

  
Alfred Pagala  
IAAW President

## Schedule At A Glance

### Sunday, June 24, 2001

8:30 am - 12:30 pm	NSIPA Board Meeting
1:00 pm - 5:00 pm	IAAW Board Meeting
1:00 pm - 5:00 pm	Registration
6:00 pm - 7:00 pm	Reception

### Monday, June 25, 2001

6:30 am - 7:00 am	Registration
6:30 am - 7:15 am	Continental Breakfast
7:15 am - 7:30 am	Welcome and Hawaiian Prayer
7:30 am - 8:15 am	<b>Good Enough is Not Good Enough</b>
8:15 am - 9:30 am	<b>Improving Your Customer Service</b>
9:30 am - 9:45 am	Break
9:45 am - 11:00 am	<b>Performance Management</b>
11:00 am - 12:00 pm	<b>Industry Hot Topics</b>
12:00 pm - 1:00 pm	Lunch
1:00 pm - 2:00 pm	<b>NCCI presentation of New Basic Manual Review</b>
2:00 pm - 2:45 pm	<b>Premium Audit-The Beginning</b>
3:35 pm - 10:30 pm	Buses Board for Evening Luau

### Tuesday, June 26, 2001

7:00 am - 7:45 am	Continental Breakfast
7:45 am - 9:00 am	<b>Premium Audit: Is It An Art or A Science?</b>
9:00 am - 9:15 am	Break
9:15 am - 10:15 am	<b>California &amp; NCCI- Differences in Classification</b>
	<b>Procedure/Basis of Premium</b>
10:15 am - 11:15 am	<b>Ethics: A Must for Any Professional</b>
11:15 am - 1:00 pm	Lunch, NSIPA/IAAW Business Meeting & Awards
1:00 pm - 3:00 pm	<b>Effective Communication/Conflict Resolution</b>

See Complete Information and Registration Form on [www.NSIPAnet.org](http://www.NSIPAnet.org).

# Auditing Employee Leasing Companies and Temporary Service Agencies

By Lynn Evans/Key Reports, Inc.

As I have traveled across the country auditing employee leasing companies and temporary employment services, I have encountered the same types of problems on each case. It appears most of the classifications assigned to a policy are the handiwork of persons who really have no clue as to what is involved in selecting a correct classification.

When auditing these types of risks, the auditor must address each client company as if the audit itself was on the client company. Most large employee leasing companies have "customer service representatives" who are responsible for the payroll, taxes, new hire information, termination information, etc. for a certain number of client companies. The customer service representatives may be on very good terms with their contacts at the client companies but still have no idea what type of operations in which the clients are involved. When asked what type of business, they will probably tell you the client "manufactures plastics", or they are an "oil company". When questioned about the manufacturing process or what type of oil company, the customer service representative will probably have you ask someone else. Very few of them have any experience at all with workers' compensation and have no idea why you are asking the questions. If the auditor has to deal with several customer service representatives who handle hundreds of client companies, the task of properly classifying an audit becomes an astronomical problem.

The only easy way to audit an employee leasing company is to take the records they provide you, using the classifications they have assigned payroll to, and hope they know what they are doing. That is not the proper way to audit, nor is it realistic! There are always classification errors, always. Accept it and be prepared for it.

Some of the most common errors are using #7380 when the basic classification includes drivers. Or, assigning #8810 to employees who are "clerks" behind a counter. Or, dividing payroll of standard exceptions with other classifications. And, assigning #9014 to janitorial or maintenance employees when they should be treated as general inclusions in the basic classification that describes the client company's business.

## What is Total Cost?

By Joe Micco, RLD Associates, Inc.

Independent contractor issues tend to provide premium auditors with a diverse set of challenges. The auditor must determine whether the subcontractor is adequately insured, which involves obtaining the proper certificates of insurance. Let us assume that all of the subcontractors are adequately insured. What amount do we use as total cost? The Commercial Lines Manual defines Total Cost as: "the total cost of all work let or sublet in connection with each specific project including: 1. The cost of all labor, materials and equipment furnished, used

or delivered for use in the execution of the work; and 2. All fees, bonuses or commissions paid or due."

Interestingly, the "cost" of all such items must be included whether furnished by the owner, the general contractor or any subcontractors. Thus, if the general contractor should furnish part of the materials in a sublet project, the cost must be added to the amounts paid the contractor to arrive at the total cost of the work. It is not always easy to determine the amounts to include in total cost, but

Temporary employment services present most of the same problems as employee leasing companies with a few additional concerns. Their employees may perform one type of job one week and an entirely different type the next week. Their customer/client base changes much more frequently.

One of the most misused and abused classifications by temporary employment services is #8292. Client companies often do not seek temporary personnel unless it is for general labor or blue-collar jobs. One of the most common is the use of temps in the client company's warehouse. Thus, the temporary service thinks the job should be assigned to #8292. Not true unless the client company is in the storage and warehouse industry. The warehouse worker should be considered a miscellaneous employee and the payroll assigned to the governing class for the client company.

Code #5610 is another frequently misused classification, especially by temporary services that cater to the construction industry. Often the request for labor is during the different construction phases when the temporary employee is used to clean the construction site (debris removal). The risk's job orders often only reflect the need for "clean up" and offer no indication what type of construction is involved. It then becomes a major task to determine the construction code, which is appropriate. If the client is a specialty contractor, the proper classification is obvious. If the client is a general contractor, proper classification becomes very difficult. When I encounter this situation, I recommend the highest rated class used in any phase of that particular client's construction process.

The only way to even remotely alleviate any of these problems is by education. Work with underwriters and encourage them to work with agents to try to make sure the policy is classified properly at inception. Work with your policyholder by assisting them with classification questions they should ask for each existing client and for all new client companies. Encourage the policyholder to educate their own salespersons on how to identify the construction phase on the job orders so that an auditor can properly classify at a later date. 🙌

the auditor must be aware of this definition and examine the appropriate records and ask the proper questions. This definition does not include expenditures for services outside the construction activities, such as amounts paid to architects, engineers, and certain appliance installation. Other expenses, which are not included, are appliances - delivered/installed, bank finance charges, building permits and insurance policies.

How many of you are correctly auditing this exposure? 🙌

# Editor's Corner

By Diane Washe

In the May/June 2000 issue of the NSIPA *Newsline*, I introduced a contest. NSIPA is awarding \$50.00 to the writer for their submission of the best article, which is published in the *Newsline*. The money is awarded once a year at the Annual NSIPA Seminar. The publications starting with the July/August 2000 through the May/June 2001 are considered for this year's award.

It appears that we do not have too many individual members who could use an extra \$50.00. The *Newsline* is a publication for the benefit of our membership. We hope to

publish a variety of articles and information and not just a reprint from other publications. We need your help in submitting articles for the *Newsline*.

I am sure that many of you are closet writers who would like to see their works published. It is not too late to submit your original article. Please send us the articles you would like to see in print. Send them to NSIPA Executive Office or attach it to an email to NSIPA@nsipanet.org. As a reminder, there is a \$50 prize to be awarded to the winner. 📧

## Corrections

NSIPA *Newsline*  
November/December Issue

### Officer's Message

Deadline for answers to contest has been extended to March 30, 2001.

### Back to Basics

#### - What is Employer's Liability?

Submission was from Kurt Lang, Safeco

### Writing the Description of Operations

Submission was from Sharon Carney, PAAS 📧

## Web site News

Have you visited the NSIPA Web site lately? Check out the new changes at [www.NSIPAnet.org](http://www.NSIPAnet.org) - annual seminar information, regional and local chapter meeting information, video library, vendor directory, and much, much more.

[www.NSIPAnet.org](http://www.NSIPAnet.org)

## Problem Clinic Solution

By Tony Iacono, AIG

### PEO Case Study - Suggested Answer

#### Workers' Compensation Policy

<b>Code 5183:</b>	
Plumbers payroll	\$200,000
J. Stiles	\$36,400
P. Stiles	\$10,000
Total	\$246,400
<b>Code 8810:</b>	
Office payroll	\$40,000

#### General Liability Policy

<b>Code 98482:</b>	
Plumbers payroll	\$200,000
J. Stiles (from payroll)	\$16,150
P. Stiles	\$10,000
Leased plumbers *(see below)	\$260,000
J. Stiles (as leased employee)	\$16,150
Total	\$502,300
<b>Code 91583</b>	
Adequately Insured Subs	\$0

Total amount paid to PEO Services	\$520,000
Payroll portion (\$520,000 / 1.30)	\$400,000
Clerical payroll	\$40,000
J. Stiles payroll	\$100,000
Plumbers (balance)	\$260,000



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