



Pennsylvania Compensation Rating Bureau

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February 15, 2001

BUREAU CIRCULAR NO. 1415

To All Members of the Bureau:

Re: **TEST AUDIT PROGRAM - EFFECTIVE MAY 1, 1982 - REVISED APRIL 1, 2001**
(LEGISLATIVE STYLE REVISIONS)

In response to significant and continuing deterioration in reported Test Audit Program results, the Governing Board has adopted revisions to the Test Audit Program. These revisions to the Test Audit Program are **effective April 1, 2001**. The principal changes to the Test Audit Program and some specific Bureau actions that have been undertaken in further response to the Governing Board's concerns are briefly and generally described following:

- Carrier groups performing significantly worse than standard are required to submit written action plans to the Bureau identifying key problems contributing to poor performance, presenting specific initiatives designed to improve performance and a set of target performance levels bringing quarterly difference ratios into compliance with program standards within one year. Each carrier group submitting an action plan will be offered optional educational services by Bureau staff specific to the carrier group's own past performance, results and action plan initiatives.
- A response form has been developed. This form will be provided with each difference letter and is intended to facilitate carrier groups' responses to test audit difference letters.
- Carrier groups failing to provide acceptable responses to Bureau requests for audit worksheets and premium invoices will be subject to incentive charges of \$1,000 per occurrence. These incentive charges will apply regardless of the number of test audits completed for a given carrier.
- Carrier groups failing to achieve minimum standard performance for more than four consecutive four-quarter reporting periods will be subject to increased levels of incentive charges from those previously imposed by the Test Audit Program. Notice of potential additional charges will be provided to carrier groups beginning with the Second Quarter of 2001, but actual payment of additional charges has been deferred until the four-quarter period ending April 1, 2002.

The remainder of this Bureau circular is a complete presentation of the revised Test Audit Program effective April 1, 2001, printed in "legislative style" to highlight changes from the previous Program. New language is underlined, and deleted language is shown with strikethroughs.

A companion Bureau Circular, No. 1416, presents the complete text of the revised Test Audit Program effective April 1, 2001 without highlighting changes in the legislative style.

TEST AUDIT PROGRAM – EFFECTIVE APRIL 1, 2001

I: **PURPOSE**

The purposes of the Test Audit Program are as follow:

- A. To monitor the accuracy and consistency of the Bureau's member carriers' premium audits, verifying that the classifications (including governing classifications, standard exceptions and classification of individuals, partners and officers), rating values, experience modifications and related rules applied on audit are correct.
- B. To assure that statistical data reported to the Bureau is consistent with the business operations of insured risks and all provisions of the Manual of Rules, Classifications and Rating Values.
- C. To serve as an educational resource for member carriers in matters related to the discipline of premium audit.
- D. To establish quantitative standards of performance for auditing and reporting of data to the Bureau.
- E. To maintain incentives for member carriers to meet or exceed established quantitative performance standards.

II: **RISK SELECTION FOR TEST AUDIT PROGRAM**

All carrier groups participating in the Test Audit Program will have risks selected for test audits on a monthly basis. The criteria for these selections are set forth below:

- A. Policies selected will be subject to a minimum annual policy premium of \$2,500. This premium will be determined for selection purposes from the most recent available unit report on file with the Bureau for the risks being selected for test audit.
- B. Selections will include but not be limited to physical, voluntary (including telephone) and waived (estimated) audits.
- C. Each month policies will be selected for test audit purposes. Policies selected shall have inception dates falling in the calendar month ending two months prior to the current month.
- D. As the State of Delaware has insufficient data to support an independent Test Audit Program, Delaware risks will be included in the selection and processing under the Pennsylvania Test Audit Program.
- E. No risk in which a test audit has been completed will be test audited as a part of the random selection and/or incentive programs more than once in any five-year period.
- F. The number of risks selected for each participating carrier group shall not exceed 16 policies per month and will be determined based on two factors as set forth below:
 - 1. Annual premium volume as indicated for the latest available calendar year reporting to the Bureau
 - 2. Number of policies as indicated on the latest available risk data base policy report by carrier group from the Bureau

The contributions of each of these criteria to the total risk selection by month are shown in Exhibit I attached. Requests to increase or decrease the number of risks selected, separate from the specified criteria indicated above, will not be honored.

III: DISPOSITION OF TEST AUDITS

A. The Bureau will provide notice to the carrier in writing of the disposition of each policy selected for test audit as follows:

1. In those instances where a test audit was not performed and the selection was rescinded the Bureau will so advise the carrier and will provide the reason(s) for rescinding the audit.
2. For test audits which do not develop a reportable difference as defined under Section VI, Test Audit Standards, the carrier will be notified of the name of the insured, the policy number and the fact that the test audit was closed without change from the original audit.
3. For test audits which do develop a reportable difference as defined under Section VI, Test Audit Standards, the carrier will be notified that a reportable difference has been found. Such notice will be accompanied by copies of the Bureau's test audit workpapers, an explanation of the source(s) for the difference, a difference response form and the effect of such difference on premium for the risk.

B. Prior to final disposition all reportable differences must be confirmed in one of the following ways:

1. Written agreement of the carrier given to the Bureau in response to receipt of the initial notice of difference
2. Failure of the carrier to respond to the notice of difference, either within the time frames set forth in Sections IV: F and IV: I or within an extension of time established in accordance with Section IV: G
3. Absence of a timely appeal to the Audit Committee of a reportable difference subsequent to the Bureau affirming the test audit as a difference in reply to a carrier's response contesting the difference
4. A decision from the Audit Committee sustaining the test audit as a reportable difference and not further appealed on a timely basis by the carrier to the Classification & Rating Committee or the Governing Board
5. A decision from the Classification & Rating Committee or the Governing Board sustaining the test audit as a reportable difference upon appeal from a decision of the Audit Committee

After confirmation as defined above, each reportable difference will be subject to the following final disposition:

1. Return Premiums

If results of the test audit produce a return premium to the risk, the carrier is required to:

- a. Prepare a revised premium adjustment statement returning the appropriate premiums to the risk.

- b. Prepare a revised unit statistical report reflecting the results of the test audit and forward that unit statistical report to the Bureau.

2. Additional Premiums

If results of the test audit produce an additional premium, the carrier:

- a. May not bill the additional premium on the test audited policy. For the outstanding policy, changes in authorized classifications shall be deferred until the next renewal, effective at least 60 days after notice has been given to the employer. Issues of allocation or adequacy of payrolls between or within authorized classifications for the outstanding policy shall be governed by applicable Manual rules.
- b. Must prepare a revised unit statistical report reflecting the results of the test audit and forward that unit statistical report to the Bureau (except for deferred classification changes).

3. Classification Changes

If a test audit results in a classification change which is being postponed due to adverse premium impact, the carrier will still be cited for a difference on that test audit if the magnitude of the change would qualify as a reportable difference but for such postponement.

C. Revised Unit Statistical Reports for Test Audits Not Producing Reportable Differences

If a claim or claims have been discovered by test audit to have been misclassified or if, in the sole opinion of the Bureau, a significant amount of payroll should be reclassified to conform to a test audit, even though the resulting premium difference does not exceed reportable standards under the Test Audit Program, the carrier will be required to prepare a revised unit statistical report reflecting the results of the test audit and submit that unit statistical report to the Bureau.

IV: PROCEDURES FOR EXCHANGE OF INFORMATION ON TEST AUDITED RISKS

It is imperative for the effective operation of the Test Audit Program that the Bureau and participating carriers recognize and adhere to established time frames and procedures for communication. The following procedure will apply:

- A. Each carrier group shall designate one individual to serve as their contact for the Bureau for purposes of the Test Audit Program and one or two individual(s) to whom quarterly statistical reports for the Test Audit Program are to be directed. These contacts may be the same or different person at the option of the carrier. These designations shall be delivered in writing on an annual basis and must be revised by the carrier in a timely manner upon any changes desired for purposes of ongoing communication and correspondence.
- B. All correspondence to the Bureau pertaining to the Test Audit Program must be directed to the following address:

ATTENTION: Test Audit Reviewer
Pennsylvania Compensation Rating Bureau
Field Operations Department
The Widener Building - 6th Floor
One South Penn Square
Philadelphia, PA 19107-3577

The Bureau cannot guarantee and will not be responsible for the routing, handling of and timeliness of responses to any test audit correspondence not so addressed. In the event that correspondence pertaining to the Test Audit Program is to be directed to the attention of any individual member of the Bureau staff, their name shall be shown as an additional line at the top of the above address.

- C. Each month a listing of risks selected for test audit will be sent by the Bureau to the designated contact at each participating carrier group. This listing will include the carrier name, name insured, policy number and policy dates for each selected risk.
- D. Within 45 days from the date of mailing of any month's selection list, the following audit materials must be received by the Bureau from the carrier. A second request will be sent after ~~30~~ 45 days on items not received.
 - 1. For each risk physically audited by the carrier a non-returnable copy of the auditor's worksheets, premium invoice and all other pertinent information which the carrier wishes to present to the Bureau with respect to the selected risks.
 - 2. For each risk not physically audited by the carrier, a non-returnable copy of the employer's payroll statement, premium invoice and all other pertinent information which the carrier wishes to present to the Bureau with respect to the selected risks.
 - 3. A completed claims history form (including claimant names) substantially similar to Exhibit II attached for each risk on which the Bureau provided a claims history list with the notice of selection for test audit.

Failure to provide the above cited information will result in the Bureau's use of the unit statistical report for purposes of comparison to the Bureau's test audit. Reportable difference found on risks for which the requested data is not timely received in the Bureau and for which unit statistical data is used for purposes of comparison to the Bureau's test audit as a result will be automatically included as differences on the carrier's quarterly reports, and those quarterly results shall not be subject to revision based on subsequent review by the Bureau or decisions on appeal to the Audit Committee, Classification & Rating Committee and/or Governing Board. However, carrier responses to differences based on unit statistical reports will be required and will be considered by the Bureau in determining appropriate disposition of those test audits under Section III of this program.

At the time a test audit is assigned and a first request for carrier audit worksheets and premium invoice is sent, the Bureau will establish a future date which will be designated as the "Final Response Date." This Final Response Date will be 30 days after the normal issuance of a second request for carrier documentation (see above).

For each calendar quarter the Bureau will establish the number of test audits for each carrier with Final Response Dates falling within that quarter. The Bureau will then determine how many of the test audits with Final Response Dates falling in the quarter did NOT have an acceptable response to the request(s) for carrier audit worksheets and premium invoice received by the Bureau as of their respective Final Response Date.

NOTE: An acceptable response must provide a non-returnable copy of the auditor's worksheets and premium invoice (in the case of a physical audit) OR a non-returnable copy of the employer's payroll statement and premium invoice (in the case of a risk not physically audited) to the Bureau.

Those test audits for which an acceptable response to the request(s) for carrier audit worksheets and premium invoice is not received by the Bureau on or before their respective Final Response Date will be designated as "Failed Requests." Incentive charges in the amount of \$1,000 will be assessed per Failed Request for each carrier, regardless of whether or not the carrier is otherwise subject to incentive charges under the performance standards of the Test Audit Program, subject to the following limitations:

- The first Failed Request recorded in each quarter shall not be subject to an incentive charge. This exclusion is provided in recognition of the possibility that an isolated problem in delivery not attributable to the carrier of record might otherwise cause an incentive charge.
- If a carrier has more than ten Final Response Dates in a given quarter, incentive charges shall apply only to those Failed Requests representing in excess of ten percent of the total number of Final Response Dates, rounded to the nearest whole number. This exclusion is provided in recognition of the possibility that isolated problems in delivery not attributable to the carrier of record might otherwise cause incentive charges.

The above limitations on incentive charges for Failed Requests are the sole and exclusive means by which such incentive charges will be adjusted for problems in delivery.

- E. The Bureau must complete its test audit assignment within six months of policy expiration. Completion of the test audit assignment as used in this section shall not include the review and notice of results to the carrier. Any test audit not so completed shall be rescinded.
- F. The Bureau will give notice in writing to the carrier's designated contact of a reportable difference, identifying all known bases for such difference. Differences for the test audit to which such notice applies shall be limited to those bases identified in the Bureau's original notice. This notice will be accompanied by copies of the Bureau's test audit workpapers and will advise the carrier that a written response to the Bureau, either accepting the difference or setting forth all information which the carrier wishes the Bureau to consider towards making the audit compatible, must be received in the Bureau within 45 days of the date of the Bureau's notice of a difference. If such a response is not received, the test audit in question will become a reportable difference without further appeal rights for the carrier.
- G. A carrier may request a single extension of time for their response to any specific test audit difference. Such requests must be in writing, must be received by the Bureau not later than ~~35~~ 45 days from the date of the Bureau's notice of a difference ~~and must specify a date certain (not later than 75 days from the date of the Bureau's notice of a difference) by which the carrier's final response will be received by the Bureau.~~ The extension will establish a date 75 days from the date of the Bureau's notice of a difference by which the carrier's final response must be received by the Bureau.

This date will be binding on the carrier. If a response is not received in the Bureau by the specified date, the test audit in question will become a reportable difference without further appeal rights for the carrier.

- H. The Bureau will acknowledge receipt of all requests for extensions of time and responses to notice of test audit differences in writing to the carrier's designated contact. It is the responsibility of the carrier to notify the Bureau by telephone in any case where this acknowledgment is not received by the carrier within ten calendar days of the date of the carrier's response or request for extension. Failure to so notify the Bureau will forfeit the carrier's rights to an extension of time and/or further appeal of the difference on the test audit in question.

- I. In no event will results of test audits be entered into the carrier's quarterly test audit reports sooner than 55 days after the date of the Bureau's notice of a reportable difference in order to provide adequate time for correspondence between the Bureau and the carriers.
- J. The Bureau must reply to all responses from carriers which present information in support of the carrier's original audit within 55 days of receipt of the response. If the Bureau does not so respond, the test audit in question shall be considered as compatible for purposes of the Test Audit Incentive Program. In the event that a timely reply from the Bureau indicates that a reportable difference remains, the reply must include a copy of the Test Audit Program Appeals Procedure attached.
- K. A carrier aggrieved by a reportable difference remaining after the Bureau's reply may request an appeal before the Audit Committee. Requests for appeals must be submitted in conformance with applicable procedures published for the Test Audit Program.
- L. After the close of each calendar quarter, the Bureau will prepare and distribute a summary statistical report of the carrier's test audit results for the last quarter and the most recent available four consecutive quarters to the individual designated by each carrier to receive that information.

V: APPEALS PROCEDURES

The Test Audit Program will provide for carrier appeals of Bureau findings in qualifying cases as defined in and subject to the Appeals Procedures as set forth in Exhibit III attached.

VI: TEST AUDIT STANDARDS

The Test Audit Program recognizes performance standards applicable to individual test audits and to overall results for each participating carrier, as follows:

- A. Reportable Difference: A test audit which produces a difference in premium when compared to the carrier's audit for the risk and policy period in question shall be defined as a "reportable difference" if BOTH of the following two measures of the difference are met:
 - 1. The difference in premiums is greater than \$500
 - 2. The difference in premiums expressed as a percent of the carrier's earned premium is greater than 2.0 percent
- B. Program Standards: If a carrier's reportable differences expressed as a percentage of total test audits completed is below 20.0 percent, the carrier will have met program standards. If the carrier's reportable differences expressed as a percentage of total test audits completed is 20.0 percent or higher, the carrier will have exceeded program standards.
- C. Carriers exceeding program standards for any four consecutive calendar quarters in the aggregate shall be subject to the payment of an incentive charge for that four-quarter period as set forth in Section VII.
- D. When factual differences arise between the carrier's audit and the Bureau's test audit, those facts supported by a preponderance of the available credible evidence shall be used for purposes of test audit. Signed statements from insureds pertaining to corporate officers' duties may be considered but shall not be determinative as to the duties or classification of those

corporate officers. In the event that specific contradictory facts are equally supported by information in the carrier and the Bureau test audits respectively, the Bureau shall either obtain additional credible information to resolve the discrepancy or shall accept the carrier's facts for purposes of the test audit.

- E. In cases where a carrier auditor identifies the need for a new classification(s) for a risk a written request from the carrier for authorization thereof must be received by the Bureau prior to the review of the carrier audit and Bureau test audit by Field Operations staff. The carrier's request must be submitted to the Bureau's Classification Department. If such a request is not received prior to the review of the carrier audit and Bureau test audit, any difference attributable to the unauthorized classifications must be included in the Bureau's determination of any reportable difference on the policy in question.
- F. In cases where a carrier has been unable, after a minimum of three attempts, to gain access to the insured's records and has documented those efforts in its submission of information to the Bureau, any test audit completed by the Bureau will be processed on an information-only basis.
- G. For purposes of the Test Audit Program any test audit processed on an "information-only" basis shall not be entered into the carrier's quarterly results regardless of whether findings of the test audit review would otherwise indicate a compatible audit or a reportable difference.
- H. Differences attributable to the following items shall not be included in the determination of reportable differences for the Test Audit Program:
 - 1. Extraterritoriality
 - 2. Independent Contractors
 - 3. Owner-Operators
 - 4. Claims History Review
 - 5. Outworkers/Homeworkers
 - 6. Credits or debits based on carrier values
 - 7. Volunteer Ambulance Corps. - Stipends Paid to Members

Test audits found compatible but for differences attributable to the above items 1 through ~~6~~ 7 shall be completed by the Bureau, with the above items presented to the carrier on an information-only basis. Such test audits shall be counted as compatible for purposes of the Test Audit Incentive Program.

- I. Carriers having less than 10.0 percent of their test audited policies developing reportable differences as defined in Section VI, Test Audit Standards, for a period of four consecutive quarters in the aggregate may be excused (at the option of the carrier) from participation in the Test Audit Program for the ensuing four consecutive calendar quarters. Those qualifying carriers who wish to exercise this option must do so within 10 working days from the date on the letter notifying them of their quarterly results. The decision to withdraw must be confirmed in writing in the form of a letter mailed or faxed to the PCRIB or a telephone call. If notice is given by telephone call, such telephone call must be confirmed by a subsequent letter received by the PCRIB not later than 10 days after the date of the telephone call.

VII: INCENTIVE PROGRAM

As a means of encouraging participating carriers to meet or exceed established standards, incentive charges will be assessed by the Bureau in accordance with the following procedures:

- A. Carrier groups having 25 or more test audits completed in any four consecutive calendar quarters and whose reportable difference percentage over those four consecutive calendar quarters in the aggregate exceeds program standards as defined in Section VI, Test Audit Standards, will be subject to payment of an incentive charge based on that four-quarter period.
- B. The amount of incentive charges required shall be a function of the difference percentage, ~~and~~ the number of differences found for the carrier group over ~~the each~~ four consecutive calendar quarters in question, and the number of consecutive four-quarter periods in which a carrier group has incurred difference percentages in excess of the minimum standard of less than 20.0 percent.

Base incentive charges will be assessed per difference in accordance with the following schedule:

Difference Percentage	Base Incentive Charge per Difference	Difference Percentage	Base Incentive Charge per Difference
Below 20.0	\$ 0	32.0 - 33.9	\$113
20.0 - 21.9	\$ 23	34.0 - 35.9	\$125
22.0 - 23.9	\$ 43	36.0 - 37.9	\$135
24.0 - 25.9	\$ 60	38.0 - 39.9	\$144
26.0 - 27.9	\$ 74	40.0 - 43.9	\$148
28.0 - 29.9	\$ 86	44.0 - 47.9	\$149
30.0 - 31.9	\$100	48.0 & Over	\$150

EXAMPLE: Assume the following carrier experience in the Test Audit Program over four successive quarters:

Quarter	1	2	3	4	Total
Number of Test Audits	12	16	11	13	52
Number of Differences	4	3	3	3	13

The carrier has more than 25 test audits done in the four-quarter period and so is subject to the incentive program. The difference ratio for the four quarters in total is $13/52 = 0.25$, in excess of the program standard which requires a difference ratio below 20.0 percent. From the table above the base incentive charge per difference at this level is \$60. The total number of differences is 13, so the base incentive charge applicable for this carrier based on these four quarters' experience is $\$60 \times 13 = \780 .

Carrier groups failing to meet the minimum standard of a below 20 percent difference ratio will be subject to a graded schedule of surcharges to otherwise applicable base incentive charges. The surcharge schedule is set forth below:

No. of Consecutive Four-Quarter Periods with Difference Ratios in Excess of Program Standards	Surcharge Factor	No. of Consecutive Four-Quarter Periods with Difference Ratios in Excess of Program Standards	Surcharge Factor
5	1.25	9	2.25
6	1.50	10	2.50
7	1.75	11	2.75
8	2.00	12 or more	3.00

If at any point a carrier group meets or exceeds the four-quarter difference standard of less than 20 percent, the surcharge would become inoperative. Surcharges would not then be applied again unless and until the carrier group fails to meet program standards for five subsequent consecutive four-quarter reporting periods.

EXAMPLE: To facilitate a basic understanding of this surcharge procedure, a static carrier experience of a 25 percent difference ratio in the Test Audit Program over 12 successive four-quarter reporting periods is illustrated. Such experience would invoke surcharges to basic incentive charges as shown:

Quarter	Four-Quarter Difference Ratio	Basic Charge Per Difference	Surcharge Factor	Total Charge Per Difference
2nd Q 2001	25%	\$60	N/A	\$ 60
3rd Q 2001	25%	\$60	N/A	\$ 60
4th Q 2001	25%	\$60	N/A	\$ 60
1st Q 2002	25%	\$60	N/A	\$ 60
2nd Q 2002	25%	\$60	1.25	\$ 75
3rd Q 2002	25%	\$60	1.50	\$ 90
4th Q 2002	25%	\$60	1.75	\$105
1st Q 2003	25%	\$60	2.00	\$120
2nd Q 2003	25%	\$60	2.25	\$135
3rd Q 2003	25%	\$60	2.50	\$150
4th Q 2003	25%	\$60	2.75	\$165
1st Q 2004	25%	\$60	3.00	\$180

EXAMPLE: The following is a more varied and, therefore, more realistic portrayal of a carrier's experience in the Test Audit Program over 12 successive four-quarter reporting periods. Illustrated below are the surcharges to basic incentive charges this carrier would have to pay given its experience as indicated:

Quarter	Four-Quarter Difference Ratio	Basic Charge Per Difference	Surcharge Factor	Total Charge Per Difference
2nd Q 2001	21.9%	\$ 23	N/A	\$ 23
3rd Q 2001	23.6%	\$ 43	N/A	\$ 43
4th Q 2001	28.1%	\$ 86	N/A	\$ 86
1st Q 2002	25.7%	\$ 60	N/A	\$ 60
2nd Q 2002	25.4%	\$ 60	1.25	\$ 75
3rd Q 2002	23.3%	\$ 43	1.50	\$ 64
4th Q 2002	20.3%	\$ 23	1.75	\$ 40
1st Q 2003	22.9%	\$ 43	2.00	\$ 86
2nd Q 2003	27.3%	\$ 74	2.25	\$166
3rd Q 2003	22.7%	\$ 43	2.50	\$107
4th Q 2003	30.2%	\$100	2.75	\$275
1st Q 2004	28.5%	\$ 86	3.00	\$258

VIII: CARRIER CONSULTATIONS WITH AUDIT COMMITTEE

- A. After the close of each calendar quarter, the Bureau will distribute to the Audit Committee detailed results by carrier group for the most recent quarter and the four quarters to date. Upon specific request by the Audit Committee, the Bureau will also provide the Audit Committee with additional available information pertaining to the Test Audit Program.
- B. After review of reported results of the Test Audit Program, the Audit Committee may require any carrier group(s) to appear individually before the Audit Committee to discuss the carrier's audit program, test audit results and work plans to improve future performance in the Test Audit Program. Such requests may not be made more frequently than once every nine months.
- C. If in the opinion of the Audit Committee a carrier group is not demonstrating sufficient progress toward achieving compliance with Test Audit Program standards after two or more meetings with the Audit Committee as provided in Section B, the Audit Committee may request that the carrier group be required to meet with the Bureau's Governing Board to discuss the status of the carrier's audit program and test audit results. Such requests from the Audit Committee shall be referred to the Governing Board for action as they may deem appropriate.

IX: SPECIAL TEST AUDITS

- A. At the initiative of Bureau management selected risks may be test audited by Bureau staff for purposes of information gathering and research or to resolve disputes between insureds and their carrier. Carriers are reminded that the Bureau will not provide these services in every case in which questions or complaints arise concerning classification assignment of individual employees. Such circumstances are relatively common, and it is incumbent on insurers to apply the classification plan and explain that application to their insureds. The great majority of insureds' concerns in this area should be resolvable without Bureau intervention.
- B. The results of all test audits specifically requested by Bureau management for purposes other than the random sampling of carrier audits done under the Test Audit Program shall not be included in any portions or aspects of the Test Audit Program, including specifically the quarterly results of participating carriers and the Incentive Program.

X : CLAIMS HISTORY REVIEW

For each test audit assignment a Claims History Report will be produced by the Bureau from the latest available unit statistical report for the selected risk. A sample Claims History Report is attached as Exhibit II. The Claims History Report provides claim number and classification code assigned to each loss by the carrier. The Claims History Report will be sent to the carrier with the notice of selections for test audit. The carrier is responsible for noting the claimants' names on the report and returning it to the Bureau with the related audit information within 45 days of the mailing of the notice of selection for test audit and Claims History Report from the Bureau.

Exhibit IV attached is a sample of the letter which will be used by the Bureau's Statistical Review Department to request corrected unit statistical reports for errors noted via test audit.

XI: TEST AUDIT BULLETINS

The Bureau will utilize Test Audit Bulletins as a means of disseminating educational information regarding the Test Audit Program to its members. Subject matter to be published in Test Audit Bulletins includes the following:

- A. Summaries of test audit appeals cases heard before the Audit Committee. These summaries will present on an anonymous basis the facts and circumstances underlying each appeal, the decision of the Audit Committee and a synopsis of the Committee's reasoning in arriving at each decision.
- B. General descriptions of actual cases or questions encountered by Bureau staff which appear to be of interest and illustrate applications of various audit procedures or Manual rules.
- C. Communications from the Audit Committee to Bureau members as directed by the Audit Committee.
- D. Other items of an educational or informational nature pertaining to the Test Audit Program.

Any questions regarding the Bureau's Test Audit Program should be directed to the attention of Linda Isard or Vincent Dean at the following address and telephone number:

Pennsylvania Compensation Rating Bureau
Field Operations Department
Widener Building - 6th Floor
One South Penn Square
Philadelphia, PA 19107-3577

(215) 568-2371 Extension 257 [or lisard@pcrb.com](mailto:lisard@pcrb.com) (Isard)
Extension 221 [or vdean@pcrb.com](mailto:vdean@pcrb.com) (Dean)

Timothy L. Wisecarver
President

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Attachments

Remember to visit our web site at www.pcrb.com for more information about this and other topics.

BASIS FOR SELECTION OF RISKS

BY PREMIUM VOLUME WRITTEN BY CARRIER GROUP

<u>Volume of Premium</u>	<u>Number of Risks To Be Selected Monthly</u>
0 - 100,000	0
100,001 - 1,000,000	1
1,000,001 - 2,000,000	2
2,000,001 - 6,000,000	3
6,000,001 - 12,000,000	4
12,000,001 - 25,000,000	5
25,000,001 - 50,000,000	6
50,000,001 - and Over	8

BY NUMBER OF POLICIES WRITTEN BY CARRIER GROUP

<u>Volume of Policies</u>	<u>Number of Risks To Be Selected Monthly</u>
0 - 120	0
120 - 500	1
501 - 1,000	2
1,001 - 3,000	3
3,001 - 4,500	4
4,501 - 6,000	5
6,001 - 7,500	6
7,501 - and Over	8

The total number of risks to be selected for each carrier shall be determined both by premium volume and by number of policies.

Conditions may warrant a reduction in the number of test audits each month or a variation of this selection method. The Bureau will be responsible for ensuring that a representative number of test audits are conducted on all carriers throughout the year.

Run Date - 07/26/90

Test Audit Assignment Detail

Aud 001

CLAIMS HISTORY

CARRIER NAME	CAR	GRP	FILE NO
ABC Insurance Company	629	270	8796795

RISK NAME	POLICY NUMBER
XYZ, Inc.	HJ123456
	POL-EFF - POL-EXP
	04/18/88 - 04/18/89

Auditor = Type Audit P V W E T Type Risk M C A O FEE CO Y N

Carrier	Claim	Injured Employee	Incurred	Losses	Accident
Code	Number	Name	Indem	Medical	Date
815	150195684			116	No Date

PENNSYLVANIA COMPENSATION RATING BUREAU

TEST AUDIT PROGRAM APPEALS PROCEDURE

1. When the Bureau finds a reportable difference on a test audit, the carrier will be notified in writing that such difference has been identified and the basis or bases for the difference. Differences for the test audit to which such notice applies shall be limited to those bases identified in the Bureau's original notice. This notice will be accompanied by copies of the Bureau's test audit workpapers and will advise the carrier that a written response to the Bureau, either accepting the difference or setting forth all information which the carrier wishes the Bureau to consider towards making the audit compatible, must be received in the Bureau within 45 days of the date of the Bureau's notice of a difference. If such a response is not received, the test audit in question will become a reportable difference without further appeal rights for the carrier.
2. A carrier may request a single extension of time for their response to any specific test audit difference. Such requests must be in writing, must be received by the Bureau not later than ~~35~~ 45 days from the date of the Bureau's notice of a difference ~~and must specify a date certain (not later than 75 days from the date of the Bureau's notice of a difference) by which the carrier's final response will be received by the Bureau.~~ The extension will establish a date 75 days from the date of the Bureau's notice of a difference by which the carrier's final response must be received by the Bureau. This date will be binding on the carrier. If a response is not received at the Bureau by the specified date, the test audit in question will become a reportable difference without further appeal rights for the carrier.
3. The Bureau will acknowledge receipt of all requests for extensions of time and responses to notice of test audit differences in writing to the carrier's designated contact. It is the responsibility of the carrier to notify the Bureau by telephone in any case where this acknowledgment is not received by the carrier within ten calendar days of the date of the carrier's response or request for extension. Failure to so notify the Bureau will forfeit the carrier's rights to an extension of time and/or further appeal of the difference on the test audit in question.
4. In no event will results of test audits be entered into the carrier's quarterly test audit reports sooner than 55 days after the date of the Bureau's notice of a difference in order to provide adequate time for correspondence between the Bureau and the carriers.
5. The Bureau must reply to all responses from carriers which present information in support of the carrier's original audit within 55 days of receipt of the response. If the Bureau does not so respond, the test audit in question shall be considered as compatible for purposes of the Test Audit Incentive Program. In the event that a timely reply from the Bureau indicates that a reportable difference remains, the reply must include a copy of the Test Audit Program Appeals Procedure attached.
6. If, after receipt of the Bureau's reply, a carrier is aggrieved by the Bureau's position, the carrier may request an appeal of the difference before the Audit Committee. This request must be in writing, must be received in the Bureau within 30 days of the date on the Bureau's reply correspondence and must clearly state all bases for the appeal. Results of test audits on which timely appeals are made will not be entered into the carrier's quarterly test audit reports until the appeal is decided.
7. Test audit appeals will be heard at the next scheduled Audit Committee meeting which allows at least 30 days advance notice to be given to the Audit Committee and to the appealing carrier. Regularly scheduled meetings of the Audit Committee will be held in the months of April, August and December, with the Audit Committee retaining the option to cancel any specific meeting if no business would come before the Committee at such a meeting.

8. Detail information of each test audit to be appealed before the Audit Committee will be provided by the Bureau to the Committee prior to the meeting date at which the appeal will be heard.
9. If a test audit appeal is presented by a carrier also represented on the Audit Committee, that member of the Committee may not participate in the Committee's discussion or vote on the appeal.
10. The Audit Committee will review all materials presented by the carrier and the Bureau in regard to each appeal and will hear testimony from both the carrier and Bureau staff at the appeals hearing. As a part of hearing such testimony, the Audit Committee may ask questions of the carrier and the Bureau staff as needed for purposes of understanding the test audit in question. After receiving testimony, the Audit Committee shall convene in Executive Session to discuss the appeal and shall reach a decision by majority vote of those members present and eligible to vote. If a vote on an appeal results in a tie, then the carrier prevails in its appeal.

Attendance at the Executive Session shall be limited to members of the Audit Committee, the one member of Bureau staff chairing the meeting and Bureau legal counsel. The Chairperson shall preside over the Executive Session for procedural purposes and shall maintain a record of the discussion. Bureau legal counsel shall advise the Audit Committee with respect to antitrust matters. The decision of the Audit Committee shall be communicated to the appellant in writing by the Bureau within 30 days of the appeal hearing.

11. Each decision of the Audit Committee will include a determination as to whether the appeal in question turns primarily upon a) matters of interpretation and application of the Pennsylvania Manual of Rules, Classifications and Rates to a set of generally agreed to facts, or b) disputed facts or other issues of administration of the Test Audit Program.

Further appeals of test audits of the type described in point a) must be directed to the Classification & Rating Committee, and further appeals of test audits of the type described in point b) must be directed to the Governing Board. In the event that a test audit involves issues of both type a) and type b) and reportable differences would arise from both the type a) and type b) issues considered separately, any further appeal must be directed to the Governing Board. This portion of each decision of the Audit Committee will be final.

12. At the option of the carrier, a further appeal from an adverse decision of the Audit Committee may be taken. The carrier must give written notice to the Bureau that such further appeal is desired, with such notice received by the Bureau within 30 days of the mailing of the written decision of the Audit Committee. Such further appeals will be directed as set forth in Section 10 of these procedures and will be governed by procedures adopted for that purpose by either the Classification & Rating Committee or the Governing Board, as the case may be.
13. Decisions of the Classification & Rating Committee and Governing Board regarding further test audit appeals will be final and binding on both the carrier and the Bureau.
14. Summary discussions of each test audit appeal taken before the Audit Committee, Classification & Rating Committee and Governing Board will be prepared by Bureau staff and approved by the body hearing the appeal in question. Upon receiving such approval, these summaries will be published and distributed by the Bureau as Test Audit Bulletins. This publication is intended to advise all carriers of the nature of test audit appeal decisions as a further guide in improving audit and data reporting procedures and to minimize the need for duplicative appeals proceedings before the Audit Committee, Classification & Rating Committee and Governing Board. The actual identity of appellants and insureds will not be disclosed in these summary descriptions of test audit appeals cases. Carriers taking appeals to the Audit Committee, Classification & Rating Committee or Governing Board specifically agree to such publication of information as a condition for hearing of the appeal.

Re: Bureau File #:
Policy Number:
Effective Date:

A test audit was completed on the above insured for the policy period noted. During the test audit the claim information was also reviewed for correct classification assignment based on the employee's work duties.

<u>Claim Number</u>	<u>Injured Employee</u>	<u>Accident Date</u>	<u>Classification Assignment Carrier/Bureau</u>
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The Bureau's records have been adjusted to reflect this change in classification assignment for the claim. Adjust your records so that Bureau records and your records are in agreement. Submit a correction report to reflect this change.

If you do not agree with this reassignment, contact us immediately.

Very truly yours,

Statistical Review