



Pennsylvania Compensation Rating Bureau

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PENNSYLVANIA TEST AUDIT PROGRAM

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At the direction of the Governing Board, PCRB staff recently performed a manual review of the most recent three quarters of test audit data. This review was done to determine which policies subject to test audit had been new business and renewal business respectively for the insuring carrier group for the policy period in question. The comparative results are shown below:

	2nd Q 2003	1st Q 2003	4th Q 2002
Test Audits – New Business	201	180	189
Differences – New Business	53	67	50
Difference Percentage – New Business	26.4	37.2	26.5
Test Audits – Renewal Business	657	555	539
Differences – Renewal Business	145	114	110
Difference Percentage – Renewal Business	22.1	20.5	20.4
Overall Test Audits	858	735	728
Overall Differences	198	181	160
Overall Difference Percentage	23.1	24.6	22

NOTE: Nominal differences between the above manual review and actual Test Audit Program results are not material to the comparisons provided.

The difference percentages for new business are clearly higher than the difference percentages for renewal business, especially in the 1st Quarter of 2003. Accordingly, it appears that the ability of a carrier to perform a proper audit is improved by the carrier's familiarity with the employer over time. The PCRB is publishing this information to emphasize the importance for carriers to initially recognize and allocate the appropriate resources in the auditing of new business policies to obtain more accurate audit results.