



Pennsylvania Compensation Rating Bureau

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June 25, 2012

PCRB CIRCULAR NO. 1601

To All Members of the PCRB:

Re: **TEST AUDIT PROGRAM – LEGISLATIVE STYLE REVISION**

By virtue of a series of actions by the PCRB's Audit Committee, accepted by the Governing Board, the Test Audit Program has been revised. The remainder of this circular is a complete presentation of the revised Test Audit Program effective July 1, 2012 printed in "legislative style" to highlight changes from the previous program. Generally, new language is shown underlined in blue print, while deleted language is shown as strike-through text in red.

A companion PCRB circular, No. 1602, presents the complete text of the revised Test Audit Program effective July 1, 2012 without highlighting the changes in legislative style.

TEST AUDIT PROGRAM – ORIGINALLY EFFECTIVE MAY 1, 1982 – REVISED JULY 1, 2012

I: PURPOSE

The purposes of the Test Audit Program are as follow:

- A. To monitor the accuracy and consistency of the **Bureau's PCRB'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 PCRB** 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 PCRB**.
- E. To maintain incentives for member carriers to meet or exceed established quantitative performance standards.

II: RISK SELECTION FOR TEST AUDIT PROGRAM

The Test Audit Program is administered and applied on a carrier group basis. The term “carrier” as used throughout the Test Audit Program means “carrier group.”

All carriers participating in the Test Audit Program will have risks randomly 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 PCRB** 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 based on the following chart.

Test Audit Selection Date	Policy Expiration Dates	Carrier Notice Date	Test Audit Selection Date	Policy Expiration Dates	Carrier Notice Date
Jan 1	Sep 1 - 30	Feb 1	Jul 1	Mar 1 - 31	Aug 1
Feb 1	Oct 1 - 31	Mar 1	Aug 1	Apr 1 - 30	Sep 1
Mar 1	Nov 1 – 30	Apr 1	Sep 1	May 1 - 31	Oct 1
Apr 1	Dec 1 - 31	May 1	Oct 1	Jun 1 - 30	Nov 1
May 1	Jan 1 - 30	Jun 1	Nov 1	Jul 1 - 31	Dec 1
Jun 1	Feb 1 – 28	Jul 1	Dec 1	Aug 1 - 31	Jan 1

- 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 (**except assigned risk policies**).
- E. The following types of risks will not be subject to test audit:
 - 1. A risk in which a test audit has been completed within the last five years.
 - 2. A risk in which the selected policy has been cancelled flat or cancelled mid-term.
 - 3. A risk in which the central mailing address is out of state.
 - 4. A risk with a total **Pennsylvania or Delaware** premium of \$500,000 or more on the most recent available unit report.
 - 5. A risk that is a temporary staffing contractor and/or PEO.
 - 6. **A risk which is part of a wrap-up and/or OCIP.**
- F. The number of risks selected for each participating carrier 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 PCRB**.
 - 2. Number of policies as indicated on the latest available risk data base policy report by carrier from the **Bureau PCRB**.

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, can not be honored.

III: TEST AUDIT ONLINE

Test Audit Online is the PCRB's website application dedicated to the Test Audit Program. Information regarding the Test Audit Program, including policy selection lists and electronic response notifications and forms, as well as carrier performance statistics, will be posted to the PCRB's secured Test Audit Online application. Carrier access to Test Audit Online is managed by the carrier through a carrier-designated Carrier Group Administrator (CGA). PCRB test audit staff can not authorize access to Test Audit Online. Carriers may provide access to Test Audit Online to anyone in their organization but only those designated to be PCRB test audit contacts will be sent posting notices. These notices will be sent once to all designated primary and secondary contacts. Information regarding how to navigate Test Audit Online is available in various User Guides found on Test Audit Online.

IIIIV: DISPOSITION OF TEST AUDITS

- A. Via Test Audit Online the Bureau PCRB 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 PCRB 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 VII, Test Audit Standards, the carrier contact will be notified by email 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 VII, Test Audit Standards, the carrier contact will be notified via email that a reportable difference has been found. Such notice will be posted to the Test Audit Online application with ~~accompanied by~~ copies of the Bureau's PCRB's test audit work papers, 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. Reportable differences will be considered confirmed if the carrier ~~provides written agreement with the difference to the Bureau in response to receipt of the notice of difference~~ chooses to agree with the test audit difference via the Test Audit Online difference response application or if any of the following events occur:
1. The carrier fails to respond to the notice of difference, either within the time frames set forth in Sections ~~IV: V: F. G.~~ and ~~IV: V: I. H.~~ or within an extension of time established in accordance with Section ~~IV: V: G. J.~~
 2. The carrier does not file a timely appeal to the Audit Committee of a reportable difference subsequent to the Bureau PCRB affirming the test audit as a difference in reply to a carrier's response contesting the difference.
 3. The Audit Committee renders a decision sustaining the test audit as a reportable difference that is not further appealed on a timely basis by the carrier to the Classification & Rating Committee or the Governing Board.

4. The Classification & Rating Committee or the Governing Board renders a decision 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 PCRB** within 60 days or the normal due date of the original unit, whichever is later. Failure to submit the required correction report within the specified time frame will result in the inclusion of the file in the **Bureau's PCRB's** Statistical Plan Fine Program.

2. Additional Premiums

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

- a. Is not permitted to 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. Will not be required to prepare a revised statistical report reflecting the results of the test audit. The correction of statistical data relative to test audits resulting in additional premium will be internally processed by **Bureau PCRB** staff.

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. See Section VII– E for more information regarding timing standards to submit classification changes.

- 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 PCRB**, 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 PCRB**.

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 PCRB** and participating carriers recognize and adhere to established time frames and procedures for communication. The following procedure will apply:

~~A. For non-electronic communication (e-mail) each carrier shall designate one individual to serve as their primary 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 must be revised by the carrier in writing in a timely manner upon any changes desired for purposes of ongoing communication and correspondence. For electronic communication (e-mail) each carrier may designate up to an additional three individuals as secondary contacts.~~

~~B. All correspondence to the Bureau pertaining to the Test Audit Program sent via USPS or overnight delivery must be directed to the following address:~~

~~ATTENTION: Test Audit Reviewer
Field Operations Department
Pennsylvania Compensation Rating Bureau
United Plaza Building Suite 1500
30 South 17th Street
Philadelphia, PA 19103 4007~~

~~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 list of policies selected for test audit will be posted to the Bureau website (Test Audit Online). The designated contact at each participating carrier will be notified by e-mail of the posting. The list will include the carrier name, name insured, policy number and policy dates for each selected risk.~~

A. For all test audit selection notices and compatible/difference correspondence the carrier must designate one primary contact. The carrier can have up to three additional contacts eligible to receive notification emails.

B. For all quarterly statistics postings the carrier must designate one primary contact. This contact may be the same as the primary contact for test audit selection notices and compatible/difference correspondence; however, carriers may not designate any additional contacts for quarterly statistical information.

C. ALL RESPONSES TO THE PCRB PERTAINING TO TEST AUDITED POLICIES MUST BE SUBMITTED VIA TEST AUDIT ONLINE. ANY RESPONSE NOT SUBMITTED VIA TEST AUDIT ONLINE (i.e., SENT USPS, FAX, OVERNIGHT SERVICE OR SEPARATE EMAIL) WILL BE SUBJECT TO A \$100 PROCESSING FEE FOR EACH SUBMISSION.

D. Each month a list of policies selected for test audit will be posted to Test Audit Online. The designated contact at each participating carrier will be notified via email regarding the posting. The list will include the named insured, policy number and policy effective date for each selected policy.

DE. Within ten business days from the date of posting of any month's selection list, the following audit materials must be received by the **Bureau PCRB** from the carrier via **Test Audit Online**. No additional requests will be sent. ~~It is recommended that the submission of these documents be via the Bureau's website application Test Audit Online.~~

1. For each risk physically audited by the carrier a non-returnable copy of the auditor's original worksheets, premium invoice, copy of any classification change request and all other pertinent information which the carrier wishes to present to the **Bureau PCRB** with respect to the selected risks must be included. The carrier must also ~~include the~~ choose the type of audit completed for each test audit selection from the drop down box on the **Test Audit Online** screen. The types of audits include: carrier physical (CP), independent physical (IP), voluntary (V) and estimated/waived (E or W). Failure to provide this information will result in the **Bureau PCRB** assigning the type of audit based on its best judgment. Once assigned, the **Bureau PCRB** cannot revise audit type assignments when this information is not initially provided by the carrier.

The **Bureau PCRB** requires copies of original carrier audits for test audit comparison purposes and does not accept revised audits initiated after the test audit notification date. Absent this policy, some carrier procedures could apply uniquely and selectively to policies/audits selected for test audit. Such circumstances would be contrary to the purposes of the Test Audit Program; i.e., the Test Audit Program operates on the premise that the policies/audits selected at random will be representative of a carrier's normal processing procedures, thus providing an unbiased sample of the quality of each carrier's collective data reported to the **Bureau PCRB** for statistical purposes. Allowing revisitation and possible revision of policies/audits after those policies/audits were known to have been selected as test audits would invalidate this key assumption of the program. The Test Audit Program assumes that, by the time a test audit selection list is provided to the carrier, the auditing (including review) and billing processes for those policies will have been completed. While any review and analysis done in the normal course of business prior to the notification of test audit selection is obviously appropriate and acceptable, any review and/or "re-working" of audits or the changing of a self-audit to a physical audit after a policy has been designated as a test audit selection is clearly problematic. In the absence of specific written documentation that a revised audit was precipitated by factors and events independent of the test audit designation and preceding the test audit notification date, the **Bureau PCRB** will not accept revised audits for test audit comparison purposes.

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 PCRB** with respect to the selected risks must be included.
3. A current loss run/list for the same policy period of the test audit must be provided. This list must include the claim number, date of claim, claimant's name, incurred loss amount and classification assigned for each claim. In the event there are no reported losses, the carrier must ~~so advise the Bureau in writing~~ choose that selection from the drop down box on the **Test Audit Online** screen.

Failure to provide the above cited information will result in the **Bureau's PCRB's** use of the unit statistical report for purposes of comparison to the **Bureau's PCRB's** test audit. Reportable differences found on risks for which the requested data is not timely received in the **Bureau PCRB** and for which unit statistical data is used for purposes of comparison to the **Bureau's PCRB'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 PCRB** 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**

PCRB in determining appropriate disposition of those test audits under Section III IV of this program. If the Bureau PCRB does not receive the carrier worksheets and billing notice or the unit statistical report within 24 months of the effective date of the policy, the estimated unit statistical report will be used for comparison purposes

At the time the ~~carrier is notified of a~~ test audit selection is posted to Test Audit Online, the Bureau PCRB will establish a future date which will be designated as the "Final Response Date." This Final Response Date will be ten business days after carrier notification.

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

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 PCRB, as well as the applicable loss run OR the written acknowledgement that there were no losses.

Those test audits for which an acceptable response to the request(s) for carrier audit worksheets and premium invoice and loss run is not received by the Bureau PCRB on or before their respective Final Response Dates 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.

Audits which have been rescinded prior to the final response date will not be subject to the incentive charge. However, audits rescinded for whatever reason after the final date established for receipt of an acceptable response by the carrier will be subject to the incentive charge.

~~To facilitate a constructive transition to the new ten-day deadline for submission of audit work-papers from July 1, 2010 through July 30, 2011, incentive charges for Failed Requests sustained under the new procedure will be waived. Carriers will be notified as to amount of incentive charges assessed during this time period but these charges will not be collected. Incentive charges sustained under the prior procedure (pre July 1, 2010 selections) will continue to apply.~~

EF. The Bureau PCRB must complete its test audit assignment within seven 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.

FG. The Bureau PCRB will ~~give notice in writing to email~~ the carrier's designated contact of a reportable difference ~~posted to Test Audit Online~~, 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 PCRB's original notice. This notice will be accompanied by copies of the Bureau's PCRB's test audit work papers and will advise the carrier that a ~~written~~ response ~~via Test Audit Online~~ to the Bureau PCRB, either accepting the difference or setting forth all information which the carrier wishes the Bureau PCRB to consider towards making the audit compatible, must be received in the Bureau PCRB within 45 days of the date of the Bureau's PCRB's notice of a difference as posted on Test Audit Online. If such a response is not received, the test audit in question will become a reportable difference without further appeal rights for the carrier.

- GH.** A carrier may request a single extension of time for their response to ~~any specific~~ the initial test audit difference notification from the PCRB. Such requests must be made via the Test Audit Online difference response form in writing and must be received by the Bureau not later than 45 days from the date of the Bureau's PCRB's notice of a difference. The extension will establish a date 75 days from the date of the Bureau's PCRB's notice of a difference by which the carrier's final response must be received by the Bureau PCRB. No extensions may be granted for worksheet submissions or subsequent correspondence between the carrier and the PCRB after the initial test audit difference notification.
- HI.** This date will be binding on the carrier. If a response is not received in the Bureau by the PCRB by the specified date, the test audit in question will become a reportable difference without further appeal rights for the carrier. The Bureau PCRB will acknowledge receipt of all requests for extensions of time and responses to notice of test audit differences in writing via email to the carrier's designated contact. It is the responsibility of the carrier to notify the Bureau PCRB by telephone in any case where this acknowledgment is not received by the carrier within ten two calendar days of the date of the carrier's response or request for extension. Failure to so notify the Bureau PCRB will forfeit the carrier's rights to an extension of time and/or further appeal of the difference on the test audit in question.
- IJ.** The Bureau PCRB 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 PCRB 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 PCRB indicates that a reportable difference remains, the reply must include a copy of the Test Audit Program Appeals Procedure attached.
- JK.** A carrier aggrieved by a reportable difference remaining after the Bureau's PCRB'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.
- KL.** After the close of each calendar quarter, the Bureau PCRB will prepare and post to the Bureau website (Test Audit Online) a summary statistical report of the carrier's test audit results for the last quarter and the most recent available four consecutive quarters.

VI: APPEALS PROCEDURES

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

VII: 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 VIII.
- D. When factual differences arise between the carrier's audit and the Bureau's PCRB'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 PCRB test audits, respectively, the Bureau PCRB 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 PCRB prior to the notice to the carrier of test audit selection by the Bureau PCRB (see Section II. C.). The carrier's request must be submitted to the Bureau's PCRB's Classification Department. If such a request is not received prior to the notice to the carrier of test audit selection by the Bureau PCRB, any difference attributable to the unauthorized classifications must be included in the Bureau's PCRB'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 PCRB, any test audit completed by the Bureau PCRB will be processed on an information-only basis. The documentation must be submitted at the time of the carrier's response to the Bureau's PCRB's request for audit work-papers worksheets and include the dates of the attempts, the name of the person contacted and whether the attempts were made by mail or telephone. If available, all supporting evidence must be submitted with the documentation, which may include but not be limited to copies of progress reports. Upon receipt and review of the documentation submitted, the test audit will be rescinded if the standards described herein have been met.
- 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
 8. Per Diems

Test audits found compatible but for differences attributable to the above Items 1 through 78 shall be completed by the Bureau PCRB, 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 with 25 or more test audits having less than 10.0 percent of their test-audited policies developing reportable differences as defined in Section VII, 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 ten working days from the date the quarterly statistics are posted to Test Audit Online. The decision to withdraw must be submitted in writing and sent via email to the PCRB's Test Audit Department for review and approval.

~~(EXCEPTIONS: Carriers in the action plan review process and carriers who have unresolved Audit Committee appeals which impact on qualification may not opt out.) Those qualifying carriers who wish to exercise this option must do so within ten 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 Bureau or a telephone call. E-mail confirmation is also acceptable. If notice is given by telephone call, such telephone call must be confirmed by a subsequent letter received by the Bureau not later than ten days after the date of the telephone call.~~

EXCEPTIONS:

- o Carriers in the action plan review process
 - o Carriers who have unresolved and disputed differences which would, if retained as differences, materially impact qualification
- J. Test audits are completed using the pay date rather than the week-ending date because this method conforms to IRS standards and policy language. Carriers are allowed a 16-day variance from the policy period.

VIII: INCENTIVE PROGRAM

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

- A. Carriers 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 VII, 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, the number of differences found for the carrier over each four consecutive calendar quarters in question, and the number of consecutive four-quarter periods in which a carrier 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	\$ 350
20.0 - 21.9	\$ 50	34.0 - 35.9	\$ 400
22.0 - 23.9	\$ 100	36.0 - 37.9	\$ 450
24.0 - 25.9	\$ 150	38.0 - 39.9	\$ 500
26.0 - 27.9	\$ 200	40.0 - 43.9	\$ 550
28.0 - 29.9	\$ 250	44.0 - 47.9	\$ 600
30.0 - 31.9	\$ 300	48.0 & Over	\$ 650

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 \$150. The total number of differences is 13, so the base incentive charge applicable for this carrier based on these four quarters' experience is $\$150 \times 13 = \$1,950$.

Carriers 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 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 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 2006	25%	\$150	N/A	\$ 150
3rd Q 2006	25%	\$150	N/A	\$ 150
4th Q 2006	25%	\$150	N/A	\$ 150
1st Q 2007	25%	\$150	N/A	\$ 150
2nd Q 2007	25%	\$150	1.25	\$ 187
3rd Q 2007	25%	\$150	1.50	\$ 225
4th Q 2007	25%	\$150	1.75	\$ 262
1st Q 2008	25%	\$150	2.00	\$ 300
2nd Q 2008	25%	\$150	2.25	\$ 337
3rd Q 2008	25%	\$150	2.50	\$ 375
4th Q 2008	25%	\$150	2.75	\$ 412
1st Q 2009	25%	\$150	3.00	\$ 450

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 2006	21.9%	\$ 50	N/A	\$ 50
3rd Q 2006	23.6%	\$ 100	N/A	\$ 100
4th Q 2006	28.1%	\$250	N/A	\$ 250
1st Q 2007	25.7%	\$150	N/A	\$ 150
2nd Q 2007	25.4%	\$ 150	1.25	\$ 187
3rd Q 2007	23.3%	\$ 100	1.50	\$ 150
4th Q 2007	20.3%	\$ 50	1.75	\$87
1st Q 2008	22.9%	\$ 100	2.00	\$ 200
2nd Q 2008	27.3%	\$ 200	2.25	\$ 450
3rd Q 2008	22.7%	\$ 100	2.50	\$ 250
4th Q 2008	30.2%	\$ 300	2.75	\$ 825
1st Q 2009	28.5%	\$ 250	3.00	\$750

VIII: ACTION PLANS

Any carrier with a difference ratio of 25 percent or above for a four consecutive quarter measurement period (minimum 30 audits) and a difference ratio of 25 percent or above for the most recent quarter will be required to submit an action plan, detailing in writing measures it will be taking to bring the carrier in compliance with the less-than-20-percent difference standard of the Test Audit Program. This plan must include a comprehensive analysis of the problems the carrier understands to be the basis for its substandard test audit performance, as well as the specific steps the carrier will be taking to remedy these problems.

Bureau PCRB staff will review the action plan to ascertain the feasibility and appropriateness of the measures listed. Based on this review, Bureau PCRB staff will then consult with the Audit Committee, as necessary, to determine whether an appearance before the Committee by an officer of the carrier will be required, as authorized by Section IX of the Pennsylvania Test Audit Program. Once a carrier is notified that an action plan is required, it will not be subject to subsequent requests for an action plan while the monitoring process takes place. In no case will a carrier be required to submit more than one action plan in any 12-month period of review.

The primary goal of the action plan process is the achievement and subsequent maintenance of the program standard of a less-than-20-percent difference ratio. The action plan review process consists of two stages. The first stage is the four consecutive calendar quarters subsequent to the approval of the carrier's action plan. The second stage is the following four quarters immediately proceeding from the first stage.

Successful completion of stage one is a less-than-20-percent difference ratio for the last quarter of stage one or a less-than-20-percent four-quarter cumulative difference ratio for stage one. Successful completion of stage two is a less-than-20-percent difference ratio for the four-quarter cumulative difference ratio for stage two. Until and unless stage two is successfully completed, the carrier will continue to be monitored.

Each quarter during the action plan review period, the carrier will be notified as to the results of their performance. Should results for stage one of the action plan review process be unsuccessful, the carrier may be required to appear before the Audit Committee to report on the status of the action plan, discuss reasons for the failure and describe additional efforts to be applied in the continuing attempt to remedy its substandard test audit performance.

If results for stage one of the action plan review process are successful, the carrier will continue to be notified as to the results of their performance through stage two of the action plan review process. At the end of this second four-quarter action plan review period, the carrier will be apprised of the final results of the action plan process. Where those results are deemed successful, the carrier will not be subject to action plan qualification scrutiny for at least a period of eight subsequent quarters, regardless of difference ratios arising during that period of time. Should the carrier fail to successfully complete stage two, the carrier may be required to appear before the Audit Committee to report on the status of their action plan, discuss reasons for the failure to sustain acceptable performance levels and describe additional efforts to be applied in the continuing attempt to remedy the occurrence of substandard test audit performance.

IX: CARRIER CONSULTATIONS WITH AUDIT COMMITTEE

- A. After the close of each calendar quarter, the Bureau PCRB will distribute to the Audit Committee detailed results by carrier for the most recent quarter and the four quarters to date. Upon specific request by the Audit Committee, the Bureau PCRB will also provide 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(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 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 be required to meet with the Bureau's PCRB'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.

XI: SPECIAL AUDITS

- A. At the initiative of Bureau PCRB management selected employers may be audited by Bureau PCRB staff for purposes of information gathering and research or to resolve disputes between insureds and their carrier. Regarding the latter, the Bureau PCRB will only conduct these

reviews at the request of the employer or the employer's representative. Carriers are reminded that the **Bureau PCRB** will usually not intervene on their behalf in cases in which questions or complaints arise concerning classification assignment of individual employees.

Such circumstances are relatively common, and it is incumbent on carriers 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 PCRB** intervention.

- B. The results of audits specifically requested by **Bureau PCRB** 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.

XII: CLAIMS HISTORY REVIEW

For each test audit assignment a current loss run/list for the same policy period must also be provided. This list must include the following information for each claim: claim number, date of claim, claimant's name, incurred loss amount and the classification being assigned. In the event that a policy selected for test audit assignment has no reported losses when the carrier responds to the **Bureau's PCRB's** request for audit ~~work papers~~ **worksheets**, the carrier must so advise the **Bureau PCRB** in writing. This information must be returned to the **Bureau PCRB** with the related audit information within ten business days of the notice of selection for test audit.

XIII: TEST AUDIT BULLETINS

The **Bureau PCRB** will utilize Test Audit Bulletins as a means of disseminating educational information regarding the Test Audit Program to its members. These bulletins can be found on the **Bureau PCRB** website in the Test Audit section. Subject matter to be published in Test Audit Bulletins includes the following:

- A. Summaries of test audit appeal 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 PCRB** 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 PCRB** members, as directed by the **Audit** Committee.
- D. Other items of an educational or informational nature pertaining to the Test Audit Program.

~~**XIII: TEST AUDIT ONLINE**~~

~~Test Audit Online is the Bureau's website application dedicated to the Test Audit Program. Policy selection lists, electronic response forms and carrier performance statistics can be found on this secure site.~~

Any questions regarding the ~~Bureau's~~ **PCRB's** Test Audit Program should be directed to the attention of Christina Yost or Vincent Dean at the following address and telephone number:

Pennsylvania Compensation Rating Bureau
Field Operations Department
United Plaza Building – Suite 1500
30 South 17th Street
Philadelphia, PA 19103-4007

~~(215) 568-2371~~ ~~Extension 4552~~ (215) 320-4552 or cyost@pcrb.com (Yost)
~~Extension 4490~~ (215) 320-4490 or vdean@pcrb.com (Dean)

Timothy L. Wisecarver
President

kg
DCirc
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

<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.

PENNSYLVANIA COMPENSATION RATING BUREAU
TEST AUDIT PROGRAM APPEALS PROCEDURE

1. When the **Bureau PCRB** 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 PCRB's** original notice. This notice will be accompanied by copies of the **Bureau's PCRB's** test audit work papers and will advise the carrier that a written response to the **Bureau PCRB**, either accepting the difference or setting forth all information which the carrier wishes the **Bureau PCRB** to consider towards making the audit compatible, must be received in the **Bureau PCRB** within 45 days of the date of the **Bureau's PCRB'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~~ the initial test audit difference notification from the **PCRB**. Such requests must be in writing, must be received by the **Bureau PCRB** not later than 45 days from the date of the **Bureau's PCRB's** notice of a difference. The extension will establish a date 75 days from the date of the **Bureau's PCRB's** notice of a difference by which the carrier's final response must be received by the **Bureau PCRB**. ~~No extensions may be granted for worksheet submissions or subsequent correspondence between the carrier and the PCRB after the initial test audit difference notification.~~ This date will be binding on the carrier. If a response is not received at the **Bureau PCRB** by the specified date, the test audit in question will become a reportable difference without further appeal rights for the carrier.
3. The **Bureau PCRB** 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 PCRB** 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 PCRB** 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~~45 days after the date of the **Bureau's PCRB's** notice of a difference in order to provide adequate time for correspondence between the **Bureau PCRB** and the carriers.
5. The **Bureau PCRB** 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 PCRB** 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 PCRB 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 PCRB's** final decision, a carrier is aggrieved by the **Bureau's PCRB'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 PCRB** within 30 days of the date on the **Bureau's PCRB'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. Detailed information of each test audit to be appealed before the Audit Committee will be provided by the **Bureau PCRB** 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 PCRB** in regard to each appeal and will hear testimony from both the carrier and **Bureau PCRB** staff at the appeals hearing. As a part of hearing such testimony, the **Audit Committee** may ask questions of the carrier and ~~the Bureau PCRB~~ 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 PCRB** staff chairing the meeting and **Bureau PCRB** legal counsel. The Chairperson shall preside over the executive session for procedural purposes and shall maintain a record of the discussion. **Bureau PCRB** 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 PCRB** 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. ~~This portion of each decision of the Audit Committee will be final.~~

Further appeals of test audits of the type described in point a) ~~must be directed to the Classification & Rating Committee are not permitted, i.e., the decision of the Audit Committee is final and binding on both the carrier and the PCRB, and further a~~ 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 appeal 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.

12. ~~At the option of the carrier, In taking~~ a further appeal from an adverse (type b) decision of the Audit Committee ~~may be taken. The Committee, the~~ carrier must give written notice to the **Bureau PCRB** that such further appeal is desired, with such notice received by the **Bureau PCRB** 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 to~~ 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~~ **Audit Committee (type a)** and Governing Board (type b) ~~regarding further test audit appeals~~ will be final and binding on both the carrier and the **Bureau PCRB**.

14. Summary discussions of each test audit appeal taken before the Audit Committee, ~~Classification & Rating Committee~~ and Governing Board will be prepared by Bureau PCRB 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 PCRB 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.