



## Pennsylvania Compensation Rating Bureau

The Widener Building • 6th Floor  
One South Penn Square • Philadelphia, PA 19107-3577  
(215)568-2371 • FAX (215)564-4328 • www.pcrb.com

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### **PENNSYLVANIA TEST AUDIT PROGRAM** **BULLETIN #63**

#### *TEST AUDIT APPEAL DECISION*

Per Bureau Circular No. 1395, the result of an insurance carrier appeal to the Audit Committee is presented to the membership for their information.

#### **“R” Metals Inc.**

The carrier was appealing a test audit difference related to “R” Metals’ October 1, 1998 policy. “R” Metals Inc. is engaged in the purchase and sale of non-ferrous scrap metal. The carrier’s appeal centered on a procedural issue of the Test Audit Program. Bureau staff received a copy of audit worksheets and audit billing statement for the insured. The carrier audit assigned payroll to Code 953, Office. However, that same payroll was assigned to Code 951, Outside Salespersons on the carrier’s audit invoice processed by the carrier on December 16, 1999. The risk was selected for test audit and a premium difference was developed by the Bureau’s test audit when the risk’s office payroll was assigned to Code 953. The following is a timetable of the events surrounding this test audit.

October 21, 1999	Audit completed by the carrier.
December 16, 1999	Audit invoice processed by the carrier.
January 1, 2000	Carrier notified of test audit selection.
January 18, 2000	Carrier corrects audit billing error.
February 7, 2000	Original billing received by Bureau from the carrier.
March 29, 2000	Test Audit completed by Bureau.
May 9, 2000	Audit criticism letter sent by the Bureau to the carrier.
June 22, 2000	Letter from the carrier stating audit was corrected and a revised billing sent to the insured on January 18, 2000.
July 7, 2000	Test audit response letter denying the carrier’s appeal.
July 12, 2000	Carrier requests appeal before the Audit Committee.

Bureau staff believed the dispute concerned an important procedural issue involving the integrity of the information exchange process inherent in the Test Audit Program. Bureau Circular No. 1395 stipulates that within 45 days from the mailing of any month's selection list, a non-returnable copy of the auditor's worksheets, premium invoice and other pertinent information must be received by the Bureau from the carrier. Bureau staff believed it would severely compromise the test audit information exchange process if Bureau staff were to accept revised billings issued subsequent to the notice that a test audit was to be performed on the policy in question. In the exchange of information about the audit dispute with the carrier, Bureau staff also made reference to Pennsylvania Test Audit Program Bulletin #51 (Bulletin #51) that concerned a similar situation. In that decision the Audit Committee supported the Bureau staff's position that once worksheets and billing statement material were received by the Bureau it would contradict the random selection process of the program to allow the use of subsequent re-audits for premium comparison purposes. Bureau staff believed the use of a revised billing would contradict this purpose as well.

The carrier explained that the error on their audit invoice was the result of an obvious transposition error when the data was entered into the computer to generate the audit invoice. The carrier stated that the Bureau did not uncover the error on the test audit until well after the carrier was already made aware of their error by a third party. The carrier explained that the revision to their invoice resulted from an insurance agent contacting the carrier to point out that the carrier erred in the audit invoice preparation. The carrier acknowledged that they could not provide any documentation of this event to the Bureau. However, the carrier correction that occurred was the result of a parallel process that was already underway and not the result of the Bureau's test audit. The carrier noted the timing of this process occurred on January 18, 2000, over two months before the Bureau completed its test audit. The carrier explained that a separate offset statement was then generated which resembled the original invoice and that this invoice was then sent to the insured. A copy of this corrected invoice was not sent to the Bureau staff for their review until the carrier letter dated June 22, 2000 which disputed the test audit difference.

The carrier stated they agreed with the Audit Committee's decision as written in Bulletin #51 but that appeal centered on an audit and a re-audit. The carrier stated their appeal only involved their original audit and two different invoices. Bureau staff conceded that it would have accepted the corrected invoice if it had been sent initially and if there had been no indication on the invoice that it was revised.

In executive session the Committee reviewed the facts presented in this appeal. The Committee noted the following:

- Test Audit Bulletin #51 remained valid in that once worksheets and billing statement material are received by the Bureau it would contradict the random selection process of the program to allow the use of subsequent re-audits for premium comparison purposes. Any attempted audit invoice revision as a result of a carrier re-audit would not be permitted under the Test Audit Program information exchange process.

- The current appeal centered around the use of a corrected audit billing invoice not a re-audit.
- The audit invoice billing error was the result of a transposition error and was corrected by the carrier when it was brought to their attention by the insured's agent. The invoice revision occurred as the result of a parallel process independent of the risk's selection for test audit.
- In any future appeals sufficient written documentation must exist to support the carrier's position that any revised audit invoice was the result of an independent process (such as an insurance agent's notification to a carrier that the carrier incorrectly billed their insured).

After further discussion, upon motion made and duly seconded, it was voted to sustain the carrier's appeal and revise the Bureau test audit results to compatibility. However, it was also noted that this decision does not alter in any way the Bureau's policy of not accepting revised worksheets. Application of this decision to any future appeals will be limited to those situations which essentially mirror the circumstances surrounding this appeal.