



## Pennsylvania Compensation Rating Bureau

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June 10, 1999

### BUREAU CIRCULAR NO. 1394

To All Members of the Bureau:

Re: TEST AUDIT PROGRAM - EFFECTIVE MAY 1, 1982 - REVISED MAY 1, 1999  
(LEGISLATIVE STYLE REVISIONS)

Effective May 1, 1999 the Bureau's Test Audit Program (Program) has been revised. The revisions made in the Program reflect review and input from the Governing Board, the Audit Committee and Bureau staff. Many of the changes implemented effective May 1, 1999 are of nominal effect and were made for the sake of clarity and consistency in the presentation and administration of the Program. The most substantive of these Program changes is described briefly below.

The Governing Board approved a change in procedure with respect to the disposition of test audits resulting in additional premium. Specifically, the Governing Board concluded that the retroactive collection of additional premium discovered via the performance of a Bureau test audit was inequitable and directed that such collections of premium should be discontinued. It was decided that the Bureau should revert to the original Test Audit Program procedure (in effect prior to 1993), which precluded carriers from collecting additional premium developed as a result of a test audit. Therefore, effective with policies selected for test audit with inception dates of February 1998, carriers will no longer be able to collect additional premium developed as the result of a Bureau test audit.

The remainder of this Bureau circular is a complete presentation of the revised Test Audit Program effective May 1, 1999, 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. 1395, presents the complete text of the revised Test Audit Program effective May 1, 1999 without highlighting changes in the legislative style.

~~This is to inform all members of the Bureau that, in accordance with action of the Governing Board taken at the recommendation of the Audit Committee, the Test Audit Program initiated in the state of Pennsylvania effective May 1, 1982 has been revised to be effective July 1, 1993. A complete text of the revised program follows.~~

### ~~PENNSYLVANIA COMPENSATION RATING BUREAU~~

### ~~TEST AUDIT PROGRAM - EFFECTIVE JULY 1, 1993~~

#### ~~I: BACKGROUND~~

~~A Test Audit Program was initiated in Pennsylvania effective May 1, 1982 and was amended to include Delaware policies effective April 3, 1984. The program operated on an advisory basis to members and in essentially its original form until January 1, 1991. Difference ratios reported in the Test Audit Program began in the 30 percent range and remained there through 1989, well in excess of program standards which called for difference ratios below 20 percent.~~

In late 1989 and early 1990 the Audit Committee undertook a review of the Test Audit Program with the objective of improving overall results. The principal revision recommended by the Audit Committee for that purpose was the implementation of incentive charges to apply to carriers with results in excess of program standards.

The Incentive Program was announced in October 1990 by Bureau Circular No. 1235. Implementation of incentive charges was scheduled for mid-1992 to allow all members adequate opportunity to review and improve their performance in the program in advance of the initial application of incentive charges.

For the four quarters ending June 30, 1992 the overall difference ratio in the Test Audit Program stood at 25 percent. Incentive charges were assessed beginning with this period in accordance with the approved program.

In late 1992 and early 1993 the Audit Committee again reviewed all aspects of the Test Audit Program, with specific attention directed toward the Incentive Program. This review involved four meetings of the Audit Committee, provided opportunities for Bureau members to comment on the Test Audit Program and to offer proposals for improvement of this program and benefited from a substantial amount of member input.

Numerous revisions, clarifications and additions to the Test Audit Program were recommended by the Audit Committee upon completion of its review. The complete provisions of the revised Test Audit Program as proposed by the Audit Committee to be effective July 1, 1993 follow.

## **II: 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), ~~rates~~ 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 ~~Rates~~ 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.

## **III: 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 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.

#### **IV: 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 ~~VII~~ 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 ~~VII~~ 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 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 ~~V~~: IV: F and ~~V~~: IV: I or within an extension of time established in accordance with Section ~~V~~: 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, to the extent permitted by law, bill additional premium for the test audit period~~ not bill 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 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:

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

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 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 ~~IV~~ III of this program.

- 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 an 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 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.

This date will be binding on the carrier and, 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 ~~45~~ 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.

#### **VI 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.

#### **VII 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 ~~VIII~~ 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 ~~may~~ must be submitted ~~through any department(s) or procedure(s) which the carrier deems appropriate; however,~~ 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. Pennsylvania Construction Classification Premium Adjustment Program~~
- ~~5. Delaware Construction Classification Premium Adjustment Program~~
- ~~6. Delaware Workplace Safety Program~~
4. 7. Claims History Review
5. Outworkers/Homeworkers
6. Credits or debits based on carrier values

Test audits found compatible but for differences attributable to the above items 1 through 7 6 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 ~~VII~~ 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 PCRb or a telephone call. If notice is given by telephone call, such telephone call must be confirmed by a subsequent letter received by the PCRb not later than 10 days after the date of the telephone call.

**VIII 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 ~~VII~~ 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 four consecutive calendar quarters in question in accordance with the following schedule:

Difference Percentage	Incentive Charge per Difference	Difference Percentage	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 incentive charge per difference at this level is \$60. The total number of differences is 13, so the incentive charge applicable for this carrier based on these four quarters' experience is  $\$60 \times 13 = \$780$ .

**IX 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.

**X. 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.

**XI 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.



**BASIS FOR SELECTION OF RISKS****BY PREMIUM VOLUME WRITTEN BY CARRIER GROUP**

<b><u>Volume of Premium</u></b>	<b><u>Number of Risks To Be Selected Monthly</u></b>
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**

<b><u>Volume of Policies</u></b>	<b><u>Number of Risks To Be Selected Monthly</u></b>
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.

Exhibit II

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**

**EFFECTIVE DATE -- JULY 1, 1993**

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 an 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 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. This date will be binding on the carrier and, 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 notices of test audit differences in writing to the carrier. It is the responsibility of the carrier to advise the Bureau by telephone in any case where this acknowledgment is NOT received by the carrier within ten days of the date of the carrier's response or request for an 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 ~~45~~ 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[-s] reply indicates that a reportable difference remains, the reply must have a copy of this 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 44 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 identify 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 employees' 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