



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

July 13, 2001

PENNSYLVANIA TEST AUDIT PROGRAM

BULLETIN #66

TEST AUDIT PROCEDURES – DESIGNATION OF INFORMANTS

PCRB staff, the Audit Committee and other interested PCRB members perform a cooperative and ongoing review of the Test Audit Program. This review attempts to monitor program results and to identify and implement initiatives by virtue of which the quality of data reported to the PCRB (and as a result, the reported results of the Test Audit Program) may be improved. This Bulletin will speak to the suggestion advanced on occasion by various parties to this ongoing review that the PCRB auditor should be required to speak with the same informant as the carrier auditor.

The purpose of the PCRB's Test Audit Program is to monitor the accuracy and consistency of data submitted by PCRB members, including the supporting premium audits, classification assignments (including governing classifications, standard exceptions and classification of officers), rating values used and related information.

The insured will typically advise the auditor (whether they are a carrier or PCRB representative) who the informant will be when the auditor arrives. Often, the informant so provided will be the bookkeeper of the business. That employee normally has the expertise to not only retrieve the employer's records, but also to answer any questions regarding their preparation. Bookkeepers are often knowledgeable enough about the business to answer questions about employee payroll allocation as well. If there is a new bookkeeper or one who is not knowledgeable about the operations or duties of the employees, it is the auditor's responsibility to speak to someone else who knows enough about the employees and/or business operations to respond fully to any appropriate questions. The auditor should also take a physical tour of the business premises (if relevant) to obtain more information regarding the business and other factors such as physical separation and processes. In other audit situations, the president of the business may serve as the informant if they want to be involved in the audit to the extent that it affects their business. For example, the president may wish to communicate a special aspect or characteristic about their operation personally to the auditor.

In terms of the quality of the information required, PCRB auditors are trained that if any informant cannot provide satisfactory responses to their questions the auditor must ask for someone else more familiar with the operations to answer questions. The PCRB auditors attempt to get the best information possible. In some instances an accountant may not be the best source of complete and reliable information, and availing the auditor of other, additional contacts may develop important supporting information for the audit.

It is not the identity of the informant that guides determinations of Test Audit differences, but rather the quality of questions asked, the credibility of information provided and the veracity of decisions and choices made based on those supporting items within each audit. If the proper direct questions are not posed, regardless of who the informant is, the auditor will not receive sufficient detailed information needed to produce a correct and complete audit.

Requiring that the carrier and the PCRB auditors use the same informant(s) would have a significant adverse impact to the existing Test Audit Program. Specifically, it would be necessary under such a requirement that the PCRB receive the carrier's worksheet before the PCRB could perform its own audit. This could severely limit time frames available for conducting test audits, since the Test Audit Program requires that the PCRB conduct test audits within six months of expiration. More test audit rescissions due to this time element would result. Further, such a requirement would effectively eliminate the performance of test audits in any instance(s) in which carriers do not respond to our request for worksheets..

Finally, in the test audit review process, when comparing carrier audits and test audits the Bureau reviewer does not evaluate who had the "better" informant. Instead, they look at the quality, consistency and credibility of the information documented in each respective audit. If auditors ask pertinent questions, persist in obtaining complete and credible responses to such questions and document information developed on audits then differences should be held well within program standards regardless of differences or commonality of informants used.

In conclusion, the purpose of the Test Audit Program is to monitor data quality and to provide information back to carriers about reasons for reportable differences detected in their respective data. This objective is best served by an independent effort to test and verify carrier audits and related data reporting processes rather than conducting an intentional replication of the processes used by the carrier in question. In light of the considerations discussed above, PCRB staff does not believe a requirement that the PCRB auditors use the same informant(s) as the carrier for test audits is either feasible or appropriate. Ultimately, if carrier audits obtain and document quality information pertaining to their subject risks then the selection of informant should not be an important issue.