



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

October 27, 2004

PENNSYLVANIA TEST AUDIT PROGRAM

BULLETIN #89

Re: PROCEDURES PERTAINING TO SUBMISSION OF ACTION PLANS (SECTION VIII)

The PCRB Audit Committee has recommended and the Governing Board has approved the following change in procedure with respect to Section VIII: Action Plans of the Pennsylvania Test Audit Program. This change is effective January 1, 2005. A complete reprinting and updating of the Test Audit Program, including this change, will be produced via Bureau circular in the near future. The new language is provided below for interim reference.

VIII: ACTION PLANS

Any carrier that attains a difference ratio of 25 percent or above for a four consecutive quarter measurement period (minimum 25 audits) and a difference ratio of 20 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. To facilitate a mutual evaluation of progress towards compliance, the action plan must establish interim target difference ratios for each of four consecutive quarters subsequent to the approval of the action plan by the Bureau, such that the Test Audit Program standard of a less than 20 percent difference ratio is reached not later than the last quarter of that period. The action plan must further state the intention that performance in compliance with the less than 20 percent difference standard of the Test Audit Program will be maintained over an additional period of four consecutive calendar quarters immediately following the period to which the carriers' interim target difference ratios will apply. The four consecutive quarters subsequent to the approval of a carrier action plan by the Bureau is considered the "first stage" of the action plan review process. The four additional consecutive calendar quarters immediately following the first stage is considered the "second stage" of the action plan review process.

Bureau staff will review the action plan to ascertain the feasibility and appropriateness of the measures listed. Based on this review, Bureau 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. Each quarter during the action plan measurement period, the carrier will be notified as to the results of their performance, as compared to the targeted results contained in their action plan. ~~At the end of the four-quarter action plan measuring period, the carrier will be apprised of the final results of the action plan process.~~ Should the results for the first stage of the action plan review process fail to achieve the target level(s) specified in that plan, 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 to meet target performance levels and describe additional efforts to be applied in the continuing attempt to remedy the substandard test audit performance. However, in no case will a carrier be required to submit more than one action plan in any 12-month period of review.

If results for the first stage of the action plan review process achieve or are better than the target level(s) specified in the carrier's action plan, the carrier will continue to be notified as to the results of their performance through the second stage of the action plan review process. At the end of this second four-quarter action plan evaluation period, the carrier will be apprised of the final results of the action plan process. Where those results achieve or exceed Test Audit Program standards, the carrier will not be subject to action plan qualification scrutiny for at least a period of four subsequent quarters, regardless of difference ratios arising during that period of time. Should the carrier fail to achieve or exceed Test Audit Program standards in the second stage as described above, the carrier may be required to appear before the Audit Committee to report on the status of their action plans, 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.