



Pennsylvania Compensation Rating Bureau

The Widener Building • 6th Floor

One South Penn Square • Philadelphia, PA 19107-3577 • (215) 568-2371 • FAX (215) 564-4328

September 30, 1998

PENNSYLVANIA TEST AUDIT PROGRAM
BULLETIN # 51

TEST AUDIT APPEAL DECISION

As per Bureau Circular No. 1285, the result of an insurance carrier appeal to the Audit Committee is presented to the membership for their information.

“N” Auto Body, Inc.

The insured is an automobile body shop. The appeal centered on a procedural issue of the Test Audit Program. Bureau staff received two separate copies of audit worksheets and audit billing statements for this insured. The initial audit assigned the president of the company to Code 953, Clerical Office. Approximately 60 days later the carrier conducted a re-audit of the insured resulting in the reassignment of the president's payroll to Code 815, Automobile Service Center, based on additional information supplied by the president. The carrier's re-audit results complied with the Bureau's test audit completed two days after the carrier generated and issued a revised billing. However it was the carrier's initial billing which was used by the Bureau as the comparison with the test audit, resulting in a reportable difference. The carrier believed that the re-audit should have been used for the comparison. The carrier asserted the re-audit was the result of their own quality spot check program.

The Bureau response to the carrier appeal expressed the belief that the essential issue in the dispute was the timing and the potential adverse effects on the integrity of the Test Audit Program of rescinding the audit difference by using the re-audit for comparison. Bureau staff was asked to accept the results of a re-audit which was initiated and performed after the carrier was made aware of the pending test audit. The Bureau believes that such an action could compromise the Test Audit Program by allowing a carrier to selectively emphasize the audit of policies chosen for review by the Bureau. It was the Bureau's position that, once worksheets and billing statement materials are received by the Bureau, it would contradict the random selection process of the program to allow the carrier to subsequently conduct a re-audit of the selected policy and substitute results thus obtained for the original audit as respects the Test Audit Program.

In Executive Session, the Committee reviewed the facts presented in this appeal. The Committee noted the following.

- Bureau Circular No. 1285 (V, D; page 6) clearly states the procedure for the exchange of information on test audited risks. 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.
- The carrier's actions in sending a revised premium invoice based on a re-audit completed after the carrier was made aware of the pending test audit did not comply with the established procedure.
- The carrier was not present to present evidence of any quality control random spot check program.
- The Committee supported the Bureau staff's position 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 audit comparison purposes.

In conclusion, after careful consideration the Audit Committee voted to sustain the Bureau's position in using the carrier's initial audit and billing statement for comparison purposes for the test audit of the policy in question.