ONLINE AUDIT REVIEW FUNCTION

Through the on-line CAR Accounting Correction Application, you can monitor your company's volume of non-critical error records. Each month, CAR monitors every company's volume of non-critical errors to determine if any company has an excessive volume of errors. This process is known as the "Audit Review" process.   The information contained in this document highlights the Audit Review program and how to access the on-line function to monitor your volume of errors.

Accessing the Online Audit Review Application:

From the main CAR Accounting screen (shown below), select "ACCOUNTING CORRECTIONS – PF5"

```
TE120              COMMONWEALTH AUTOMOBILE REINSURERS              01/01/98
                        C.A.R. ACCOUNTING SYSTEM                   04:30:00




                   COMPANY NUMBER .....  ___



                  CAR POLICY HISTORIES      ..... PF2  OR 02
                  PRODUCER INQUIRIES        ..... PF3  OR 03
                  CESSION BROWSE OPTIONS    ..... PF4  OR 04
                  ACCOUNTING CORRECTIONS  .... PF5  OR 05


                  TO RETURN TO MAIN MENU    ..... PF12 OR 12



                               :        :

    PF1/01 - HELP                                 PF12/12 - RETURN MENU
```

Upon selecting PF5, the "MENU SELECTIONS" screen appears (shown below) for the online accounting correction system.

At this screen, select "CRITICAL/NON CRITICAL ANALYSIS – PF7".

```
 COMPANY 999              COMMONWEALTH AUTOMOBILE REINSURERS            CO100SA
                             ACCOUNTING ONLINE ACCESS SYSTEM            01/01/98
                                   MENU SELECTIONS                      10:40 AM

        ERROR LISTINGS:
             CRITICAL ERROR POLICIES        (CA2400)   ..... PF2  OR  02
             NON CRITICAL ERROR POLICIES    (CA2685)   ..... PF3  OR  03
             WARNING AND PENALTY POLICIES   (CA2500)   ..... PF4  OR  04

        INFORMATIONAL LISTINGS:
             NET NEGATIVE PREMIUMS          (CA4000)   ..... PF5  OR  05
             OUTSTANDING LOSS RESERVES      (CA4100)   ..... PF6  OR  06
            CRITICAL/NON CRITICAL ANALYSIS(CA2650)   ..... PF7 OR  07
             PREMIUMS AND LOSSES WRITTEN-OFF (CA3200)  ..... PF8  OR  08

        REVIEW MESSAGES:
             REVIEW/UPDATE POLICY MESSAGES             ..... PF9  OR  09
             REVIEW C.A.R. NEWSLETTER    10/10/95  ..... PF11 OR  11
```

ONLINE AUDIT REVIEW FUNCTION

Accessing the Online Audit Review Application (continued):

Upon selecting PF7, the Critical/Non Critical Analysis screen appears (shown below). At this screen, select "NON CRITICAL POLICIES (ALL ERROR CODES) – PF7".

```
CO700SB                COMMONWEALTH AUTOMOBILE REINSURERS           01/01/98
COMPANY  999                ACCOUNTING ONLINE ACCESS SYSTEM         11:07:00


         (1) CRITICAL  ANALYSIS    .....  EFFECTIVE YEAR (FORMAT = YY )
             ( ALL ERROR CODES )          EFFECTIVE YEAR ( ALL )
                          SELECT  .....  PF5 OR  05

         (2) CRITICAL  ANALYSIS    .....  DATE ERROR LISTED (FORMAT=MM/YY)
             ( EARLIEST DATE SHOWN )      DATE ERROR LISTED ( 07 / 97 )
                          SELECT  .....  PF6 OR  06

         (3) NON CRITICAL POLICIES .....  EFFECTIVE YEAR (FORMAT=YY)
             ( ALL ERROR CODES )          EFFECTIVE YEAR ( ALL )
                          SELECT  .....  PF7 OR  07

         (4) NON CRITICAL DOLLARS   .....  EFFECTIVE YEAR (FORMAT=YY)
             ( ALL ERROR CODES   )         EFFECTIVE YEAR ( ALL )
                          SELECT  .....  PF8 OR  08

         TYPE OVER ( DEFAULTS )  - SELECT FUNCTION KEY/ENTER NUMBER
PF1/01 - HELP PANEL                   :    :              PF12/12 - RETURN TO MENU
```

Upon selecting PF7, the "NON CRITICAL ERRORS" screen appears (shown below) for the effective years you chose to review.

To review a specific year, mark an "X" next to the year and select PF3 to show the Audit Review screen.

```
 COMPANY 999            COMMONWEALTH AUTOMOBILE REINSURERS           CO720SA
                          ACCOUNTING ONLINE ACCESS SYSTEM            01/01/98
                           NON CRITICAL ERRORS ALL YEARS            14:02:23

              TOTAL     NON CRIT   PREMIUM    NON CRIT    LOSS     NON CRIT
    YEAR     POLICIES   POLICIES   RECORDS    PREM REC   RECORDS   LOSS REC
 ===============================================================================
 _  89           6          1        312          6        160          0
 _  90      52,947        607    813,981      4,382     50,786      2,286
 _  91       2,693         82     63,885        930      5,277        478
 _  92       2,251        158     43,653      1,870      4,288        394
 _  93       1,943         78     32,232        943      3,566        247
 _  94       1,571         74     27,404        422      2,437        140
 _  95       1,145         74     16,741        435        876         67
 _  96         884         81     11,754        560        866        142
 X  97         559         47      5,607        419        180         15



          TYPE 'X' BESIDE YEAR ENTRY FOR ERROR CODE WITHIN YEAR SUMMARY
                        SELECT FUNCTION
 PF1/01 - HELP PANEL          :    :                 PF3/03  - SELECT YEAR
 PF7/07 - PAGE BACKWARD    PF8/08 - PAGE FORWARD      PF12/12 - RETURN TO MENU
```

ONLINE AUDIT REVIEW FUNCTION

Accessing the Online Audit Review Application (continued):

Upon selecting PF3 to review a specific year, the "Non Critical Analysis" screen appears (shown below) for the year you selected.

```
COMPANY 999              COMMONWEALTH AUTOMOBILE REINSURERS            CO720SB
                           ACCOUNTING ONLINE ACCESS SYSTEM             01/01/98
                         NON CRITICAL ANALYSIS 1997 EFFEC YEAR(S)      10:33:44

                  TOTAL    NON CRIT    PREMIUM   NON CRIT    LOSS      NON CRIT
       YEAR      POLICIES  POLICIES    RECORDS   PREM REC   RECORDS    LOSS REC
     ==========================================================================
       1997         559        47       5,607       419       180          15

     ERROR    NON CRIT   ERROR   =   OVER TOLERANCE   =
     CODES    POLICIES   PERCNT  1ST DATE     DEADLINE   LAST MAS TO BE PROCESSED
     - 02 -         26    4.65 * 199712       199809     JULY 1998 MAS
     - 03 -          1     .18
     - 04 -         12    2.15 * 199802       199811     SEPTEMBER 1998 MAS
     - 05 -         19    3.40 * 199710       199807     MAY 1998 MAS
     - 08 -          0     .00
     - 09 -          0     .00
     - 10 -          1     .18
     - 11 -          0     .00
     - 12 -          0     .00

     PF1/01 - HELP PANEL          SELECT FUNCTION          PF12/12 - RETURN TO MENU
                                     :    :
```

This screen supplies the total number of policies ceded for the policy effective year you selected (along with other summary information) and provides an error code breakdown so that you can monitor the volume of non-critical errors. The screen also highlights all error codes which exceed the established tolerance level and will be subject to penalties if not fixed.

Tolerance Level:

CAR monitors the volume of each non-critical error code for the two current reporting years only. Accordingly, beginning in March 1998, CAR will monitor policy years 1997 and 1998. In March 1999, CAR will monitor policy years 1998 and 1999, etc.

For each error code, there is an error tolerance of 1% and 10 policies in error. The 1% represents the volume of non-critical errors compared to the total number of policies ceded. In addition to 1%, at least 10 policies must contain that error code. The examples on the following page highlight the tolerance level.

Tolerance Level (continued):

Example #1

```
   COMPANY 999              COMMONWEALTH AUTOMOBILE REINSURERS            CO720SB
                             ACCOUNTING ONLINE ACCESS SYSTEM              02/18/98
                           NON CRITICAL ANALYSIS 1997 EFFEC YEAR(S)       15:17:14

                    TOTAL    NON CRIT    PREMIUM   NON CRIT    LOSS      NON CRIT
         YEAR      POLICIES  POLICIES    RECORDS   PREM REC   RECORDS    LOSS REC
       ============================================================================
         1997      18,007       62       314,663       93     4,822          91

       ERROR    NON CRIT    ERROR   =   OVER TOLERANCE    =
       CODES    POLICIES    PERCNT  1ST DATE     DEADLINE    LAST MAS TO BE PROCESSED
       -02-         41        .23
       - 03 -        0        .00
       - 04 -        1        .01
       - 05 -        9        .05
       - 08 -        0        .00
       - 09 -        1        .01
       - 10 -        1        .01
       - 11 -        0        .00
       - 12 -        0        .00
```

This example shows the number of policies for error code 02 exceeds 10 (41 policies); however, the percent of records containing error code 02 is less than 1% (.23%) so that this company falls within the tolerance and is not cited in the Audit Review program. (The .23% is the result of 41 / 18,007).

Example #2

```
   COMPANY 999              COMMONWEALTH AUTOMOBILE REINSURERS            CO720SB
                             ACCOUNTING ONLINE ACCESS SYSTEM              02/18/98
                           NON CRITICAL ANALYSIS 1996 EFFEC YEAR(S)       15:33:16

                    TOTAL    NON CRIT    PREMIUM   NON CRIT    LOSS      NON CRIT
         YEAR      POLICIES  POLICIES    RECORDS   PREM REC   RECORDS    LOSS REC
       ============================================================================
         1996        105        6         2,819       174      480           6

       ERROR    NON CRIT    ERROR   =   OVER TOLERANCE    =
       CODES    POLICIES    PERCNT  1ST DATE     DEADLINE    LAST MAS TO BE PROCESSED
       - 02 -        0        .00
       - 03 -        1        .95
       - 04 -        1        .95
       - 05 -        3       2.86
       - 08 -        1        .95
       - 09 -        1        .95
       - 10 -        0        .00
       - 11 -        0        .00
       - 12 -        0        .00
```

This example shows the number of policies for error code 05 falls below 10 (3 policies), but the percent of records containing error code 05 exceeds 1% (2.86%). Although the percent in error exceeds 1%, the number of records in error is less than 10 so that this company falls within the tolerance and is not cited in the Audit Review program.   (The 2.86% is the result of 3 / 105).

ONLINE AUDIT REVIEW FUNCTION

Exceeding the Tolerance:

When an error code exceeds the tolerance of 1% and 10 policies in error, CAR highlights that error code by indicating the date (month and year) which the error code exceeded the tolerance, the deadline to correct the error records to avoid a penalty, and the corresponding monthly accounting shipment (MAS) to submit the corrections. The example below highlights the over tolerance situation.

Example:

```
COMPANY 999              COMMONWEALTH AUTOMOBILE REINSURERS            CO720SB
                          ACCOUNTING ONLINE ACCESS SYSTEM              01/01/98
                        NON CRITICAL ANALYSIS 1997 EFFEC YEAR(S)       10:33:44

                  TOTAL    NON CRIT    PREMIUM    NON CRIT    LOSS     NON CRIT
    YEAR         POLICIES   POLICIES   RECORDS    PREM REC   RECORDS   LOSS REC
 ================================================================================
    1997          559         47       5,607        419       180         15

  ERROR     NON CRIT   ERROR    =   OVER TOLERANCE    =
  CODES     POLICIES   PERCNT  1ST DATE      DEADLINE    LAST MAS TO BE PROCESSED
  - 02 -         9      1.61
  - 03 -         1       .18
  - 04 -        12      2.15 * 199802        199811      SEPTEMBER 1998 MAS
  - 05 -         9      1.61
  - 08 -         0       .00
  - 09 -         0       .00
  - 10 -         1       .18
  - 11 -         0       .00
  - 12 -         0       .00

  PF1/01 - HELP PANEL         SELECT FUNCTION         PF12/12 - RETURN TO MENU
```

In the example above, error code 04 exceeds the tolerance level since there are 12 policies in error, which represents 2.15% (12 / 559) of the company's total number of policies ceded in 1997.

The **"1st Date Over Tolerance"** field indicates that this company exceeded the tolerance level in February 1998.

The **"Over Tolerance Deadline"** field indicates that this company must reduce the number of error code 04 errors to within the tolerance level by November 1998. This deadline date corresponds to the due date for the September 1998 MAS (typically the 15th of the month). If the company fails to do this, a penalty will result.

The **"Last MAS To Be Processed"** field indicates the last monthly accounting submission CAR will process prior to assessing any penalties. In the example above, the September 1998 monthly submission should contain the records to correct the error code 4 condition and avoid a penalty. If the October 1998 monthly submission contains the correction records, then the company missed the deadline date and a penalty will result.

ONLINE AUDIT REVIEW FUNCTION

Penalty Program:

Once an error code exceed the established tolerance level, the company becomes eligible for an "Audit Review" penalty. From the "1st Date Over Tolerance", the company has nine subsequent months to reduce the volume of non critical errors cited in the Audit Review to within the tolerance level. *The one exception to this routine is the "Last Listing Cycle" penalty described later.* The chart below highlights a correction schedule to avoid penalties.

1st Date Over Tolerance	Last month to submit corrections in an MAS to avoid penalty	Deadline to make online grid corrections
January 1998	August 1998	10/15/98
February 1998	September 1998	11/15/98
March 1998	October 1998	12/15/98
April 1998	November 1998	1/15/99
May 1998	December 1998	2/15/99
June 1998	January 1999	3/15/99
July 1998	February 1999	4/15/99
August 1998	March 1999	5/15/99
September 1998	April 1999	6/15/99
October 1998	May 1999	7/15/99
November 1998	June 1999	8/15/99
December 1998	July 1999	9/15/99

If you fail to reduce the volume of errors for a specific error code, then CAR assesses a $50 penalty against each policy remaining above the tolerance. The example on the following page highlights this assessment.

Penalty Program (continued):

Example:

```
COMPANY 999              COMMONWEALTH AUTOMOBILE REINSURERS              CO720SB
                            ACCOUNTING ONLINE ACCESS SYSTEM              01/01/98
                          NON CRITICAL ANALYSIS 1997 EFFEC YEAR(S)       10:33:44

                   TOTAL     NON CRIT    PREMIUM    NON CRIT     LOSS     NON CRIT
      YEAR        POLICIES   POLICIES    RECORDS    PREM REC    RECORDS   LOSS REC
     ===============================================================================
      1997          559         47        5,607       419         180         15

     ERROR    NON CRIT    ERROR   =   OVER TOLERANCE   =
     CODES    POLICIES    PERCNT  1ST DATE       DEADLINE   LAST MAS TO BE PROCESSED
     - 02 -        9       1.61
     - 03 -        1        .18
     - 04 -       12       2.15 * 199802        199811       SEPTEMBER 1998 MAS
     - 05 -        9       1.61
     - 08 -        0        .00
     - 09 -        0        .00
     - 10 -        1        .18
     - 11 -        0        .00
     - 12 -        0        .00

     PF1/01 - HELP PANEL          SELECT FUNCTION          PF12/12 - RETURN TO MENU
```

- Error code 04 has 12 policies in error.
- This company ceded 559 policies in policy year 1997.
- Since the tolerance is 1%, this company can have a maximum of 6 policies in error for any one error code (559 * .01 = 6)
- This company exceeds the tolerance by 6 policies (12 – 6 = 6).
- Accordingly, this company is subject to a $300 penalty (6 * $50) if it fails to process corrections by 11/15/98.

When a company processes through the Audit Review cycle, it then starts over for another 10 month penalty cycle and is subject to additional penalties.

Last Listing Cycle Penalty:

Since CAR monitors the two most current years only, it processes one last penalty against every company where its volume of non critical errors exceeds the tolerance for the older year; this is regardless of how many months the situation has occurred. That is, a company could exceed the tolerance in January 1998 for policy year 1996 and CAR would assess a "Last Listing Cycle" penalty at the end of February 1998.

The example on the following page highlights this situation.

Penalty Program (continued):

Example:

```
 COMPANY 999                COMMONWEALTH AUTOMOBILE REINSURERS              CO720SB
                             ACCOUNTING ONLINE ACCESS SYSTEM                02/19/98
                           NON CRITICAL ANALYSIS 1996 EFFEC YEAR(S)         12:09:28

                  TOTAL     NON CRIT    PREMIUM   NON CRIT    LOSS      NON CRIT
      YEAR      POLICIES    POLICIES    RECORDS   PREM REC   RECORDS    LOSS REC
    ==============================================================================
      1996        749          73       15,773      544       738         44

     ERROR     NON CRIT    ERROR   =   OVER TOLERANCE  =
     CODES     POLICIES    PERCNT  1ST DATE    DEADLINE   LAST MAS TO BE PROCESSED
    - 02 -         2        .27
    - 03 -         0        .00
    - 04 -        47       6.28 * 199711       199803      DECEMBER 1997 MAS
    - 05 -         9       1.20
    - 08 -         8       1.07
    - 09 -         1        .13
    - 10 -        17       2.27 * 199711       199803      DECEMBER 1997 MAS
    - 11 -         0        .00
    - 12 -         0        .00
```

In March 1998, CAR will begin reviewing policy year 1998 and will stop monitoring policy year 1996. Accordingly, at the end of February, CAR will assess "Last Listing Cycle" penalties against all 1996 non-critical errors exceeding the tolerance. In the example above, this company exceeded the Audit Review tolerance in November 1997. Ordinarily, the company would have until August 15, 1998 to correct its non-critical errors. Instead, the company has until February 15, 1998 because CAR will stop monitoring the 1996 policy effective year in February 1998. Accordingly, CAR will assess "Last Listing Cycle" penalties at that time.

In the example above, the company is subject to the following penalties:

Error Code 04:	1% of the total policies (.01 * 749) =	7
	# of policies exceeding the tolerance (47 – 7) =	40
	Penalty amount ($50 * 40) =	$2,000
Error Code 10:	1% of the total policies (.01 * 749) =	7
	# of policies exceeding the tolerance (17 – 7) =	10
	Penalty Amount ($50 * 10) =	$500
Total combined penalty for the 1996 "Last Listing Cycle" penalties =		$2,500

You can fix many of the non-critical errors using the online accounting correction application. Please reference the Telecommunications Manual for specific access procedures.