CITY OF HAMILTON
CITY MANAGER’S OFFICE
Audit Services

TO: Chair and Members
Audit and Administration Committee

WARD(S) AFFECTED: CITY WIDE

COMMITTEE DATE: February 3, 2010

SUBJECT/REPORT NO:
Follow Up of Audit Report 2008-01 - Risk Management - Claims Administration (AUD10008) (City Wide)

SUBMITTED BY:
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City Manager's Office

PREPARED BY:
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SIGNATURE:

RECOMMENDATION:

That Report AUD10008 respecting the follow up of Audit Report 2008-01, Risk Management – Claims Administration, be received.

EXECUTIVE SUMMARY

Audit Report 2008-01, Risk Management – Claims Administration, was originally issued in May, 2008 and management action plans with implementation timelines were included in the Report. In December, 2009, Internal Audit conducted a follow up exercise to determine that appropriate and timely actions had been taken. Regarding the implementation of the seven (7) recommendations made in the original Report and Addendum, four (4) have been completed, one (1) has been initiated, one (1) alternative has been implemented and one (1) is not practical.

Alternatives for Consideration – Not Applicable
FINANCIAL / STAFFING / LEGAL IMPLICATIONS (for Recommendation(s) only)

Financial: None.

Staffing: None.

Legal: None.

HISTORICAL BACKGROUND (Chronology of events)

Audit Report 2008-01, Risk Management – Claims Administration, was originally issued in May, 2008. The report indicated seven (7) recommendations to improve financial and administrative controls.

It is normal practice for Internal Audit to conduct follow up reviews within a 12-18 month period following the issuance of the original report in order to determine whether action plans committed to by department management have been implemented. In December, 2009, Internal Audit followed up the report to confirm appropriate and timely actions had been taken.

POLICY IMPLICATIONS

None.

RELEVANT CONSULTATION

The results of the follow up were provided to management and staff responsible for the administration of claims in Risk Management, Corporate Services Department.

ANALYSIS / RATIONALE FOR RECOMMENDATION

(include Performance Measurement/Benchmarking Data, if applicable)

The report attached as Appendix “A” to Report AUD10008 contains the first three columns as originally reported in Audit Report 2008-01 along with an added fourth column indicating Internal Audit’s follow up comments. One (1) item in the Addendum has also been followed up with the appropriate detail provided.
Four (4) of the recommendations have been fully implemented as follows: the procedure for the monthly reconciliation of outstanding claims account has been documented and approved; the claims administration procedures have been updated, as appropriate, with the date of the review or revision duly noted; monthly reconciliation of the RiskMaster sub-ledger reserve balances to the Outstanding Claims Liability account in the general ledger is reviewed and approved by management (however, on a regular basis, claim payments processed through PeopleSoft but not updated in the database accumulate to sizeable reconciling amounts which are not cleared in a timely basis and remain outstanding for several months); and the RiskMaster database system has been updated to the latest version.

The one (1) recommendation pertaining to the regular updating of all F&A procedures related to the accounting process for monthly reconciliation has been initiated and will be fully implemented once all the procedures have been finalized. An alternative has been implemented regarding the closure of files in a timely manner. It was determined that the practice of returning cheques requisitioned by Risk Management Services back to the section and photocopying the cheques for the paper files was the most practical process.

**ALTERNATIVES FOR CONSIDERATION:**

(include Financial, Staffing, Legal and Policy Implications and pros and cons for each alternative)

Not applicable.

**CORPORATE STRATEGIC PLAN** (Linkage to Desired End Results)


*Financial Sustainability*

- Delivery of municipal services and management capital assets/liabilities in a sustainable, innovative and cost effective manner

**APPENDICES / SCHEDULES**

Appendix “A” to Report AUD10008

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<th>#</th>
<th>OBSERVATIONS OF EXISTING SYSTEM</th>
<th>RECOMMENDATION FOR STRENGTHENING SYSTEM</th>
<th>MANAGEMENT ACTION PLAN</th>
<th>FOLLOW UP (DECEMBER 2009)</th>
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<tr>
<td>1.</td>
<td><strong>Procedures Manual</strong>&lt;br&gt;There are no written Finance &amp; Administration (F&amp;A) procedures regarding the accounting process for the monthly reconciliation. When there are no detailed written procedures to refer to, the employee currently carrying on the process relies on personal understanding and experience, which could result in incorrect or inconsistent application. It would also be problematic and inefficient for the successor to commence his/her duties within a short period of time.&lt;br&gt;Even though routine procedures for the administration of claims are available on the section’s “N” drive, staff have acknowledged that they need to be updated as this has not been done in the past few years. In addition, some of the procedures need to be revised to include more detailed processing steps in order to be more useful.</td>
<td>That F&amp;A procedures pertaining to the monthly reconciliation process be documented and retained in the F&amp;A area.&lt;br&gt;That all these procedures, once written and updated, be reviewed regularly to ensure that they remain current.</td>
<td>Agreed. The Finance and Administration Manager will ensure that the F&amp;A procedures pertaining to monthly reconciliation processes are documented by year end (December 31, 2008) and updated annually.&lt;br&gt;That all these procedures, once written and updated, be reviewed regularly to ensure that they remain current.</td>
<td>Completed. A procedure for the monthly reconciliation of the outstanding claims account was approved by the Manager of Finance and Administration in December 2009.&lt;br&gt;Initiated. The Finance and Administration division is in the process of updating all its procedures. Once the procedures have been finalized, Finance and Administration staff within each section will be responsible for reviewing and updating the procedures at least once annually.</td>
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<td>2.</td>
<td><strong>Monthly Reconciliation</strong>&lt;br&gt;The monthly reconciliation of the sub ledger (Risk Master database) to the General Ledger (Outstanding Claims Liability) is to be performed monthly with the appropriate charge to the Claims Expense account. For fiscal 2007, there was no monthly reconciliation performed. A full year of reconciliation work was required at year end.&lt;br&gt;Failure to complete timely reconciliations may result in errors being undetected for prolonged periods and being carried forward unnecessarily to future periods. In addition, the monthly claims expense is not reflected in the books of the City. The accumulated monthly claims expense was approximately $6.9 million for 2007.</td>
<td>That reconciliations be performed monthly and reconciling amounts be corrected, as necessary on a timely basis. Risk Management Services (RMS) and/or F&amp;A management should review and approve the reconciliation summary.</td>
<td>Agreed. A process will be set up immediately that will have the Manager, Risk Management, and the Business Administrator sign off on the reconciliation monthly.</td>
<td>Completed. On a monthly basis, reserve balances recorded in the RiskMaster sub-ledger are reconciled to the Outstanding Claims Liability account in the general ledger. The reconciliation is reviewed and approved by the Business Administrator and the Manager, Risk Management who sign and date the reconciliation statement.&lt;br&gt;However, on a regular basis, claim payments processed through PeopleSoft but not updated in the RiskMaster system accumulate to sizeable reconciling amounts which are not cleared in a timely basis and remain outstanding for several months.</td>
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### OBSERVATIONS OF EXISTING SYSTEM

3. **File Closure**
   
   Upon completion, files are closed in the Risk Master database and the paper files are removed from the staff's individual work areas to a Closed File Storage area.

   During Internal Audit's review of selected claim files, Risk Management Services (RMS) staff indicated instances of files that could be closed. Even though such files had little financial impact on the liability (as little or no reserve remained), they were still included in the active file count. Their information continued to be unnecessarily included in outstanding claims summary reports.

   Paper supporting files continued to be kept with the Claims Representative assigned to the claim requiring physical storage space which was already limited.

4. **Cheque Handling**

   Under current practices, all cheques requisitioned by RMS are returned to the section. Accounts Payable staff pull cheques with the special handling code for each cheque run (approximately 2,100 cheques per year) and RMS staff pick them up. All cheques are photocopied for inclusion in the paper claim files.

   While it is appreciated that some payments require special handling (i.e. settlements in trust), approximately 75% of the cheques are for the external adjuster or other suppliers/ vendors and should be processed as any other payment to realize the efficiencies in the Accounts Payable process. In addition, returning a cheque to an individual who originally requisitioned it may present an internal control issue.

### RECOMMENDATION FOR STRENGTHENING SYSTEM

3. **File Closure**
   
   That RMS review all outstanding claim files, at least on a semi-annual basis, to ensure files are closed in a timely manner.

4. **Cheque Handling**

   That RMS discontinue the practice of photocopying cheques for the paper files as cheque details are available through queries in the PeopleSoft system.

### MANAGEMENT ACTION PLAN

3. Agreed. A review will be done semi-annually by the Claims representatives, effective immediately.

4. Agreed. A review will be completed and discussions will be held with Accounts Payable to reduce the amount of photocopying. Expected implementation by December, 2008.

### FOLLOW UP (DECEMBER 2009)

3. Alternative Implemented. Due to workload, Claims Representatives review outstanding claim files towards the end of the year. Files that are considered no longer active are closed in RiskMaster and the paper files are transferred to storage.

   Claim files are sometimes kept open for several months after being denied as further action could still be taken by the claimant's lawyers. Even though some claims as old as 1994 or files whose incurred balance has been fully paid out continue to remain open, management allows the Claims Representatives to use their discretion regarding the closing of files after considering the unique circumstances of each case.

4. Not Practical. Cheques requisitioned by Risk Management Services are still picked up from Accounts Payable, photocopied and placed in the claim files before distribution. The Manager, Risk Management stated that retaining a copy of the cheque provides a paper trail and is standard office practice in the insurance sector. Further, Risk Management Services indicated that they prefer distributing the cheques as there have been several instances where cheques have been sent to wrong addresses. Further, some cheques must be accompanied by confidential attachments that should not be made available to Accounts Payable staff.
CITY OF HAMILTON
INTERNAL AUDIT REPORT 2008-01
RISK MANAGEMENT – CLAIMS ADMINISTRATION
FOLLOW UP – DECEMBER 2009

ADDENDUM

The following item was noted during the course of the audit. Although it does not present an internal control deficiency, it is indicated in this Addendum so management is aware of the issue and can address it as necessary.

1. RMS uses a database (RiskMaster) to track all claims activity. This database acts as the sub ledger and supports the City’s $20 million claims liability figure. This system was implemented in 1998. There have been several updates released over the years but the City’s system has not been upgraded in at least four years. Often times, upgrades offer fixes to problems in previous versions or more efficient ways to carry out routine tasks. Not implementing regular updates could render the system non upgradeable.

It is recommended:
That Risk Management consider contacting Information Technology Systems (ITS) to discuss the feasibility of implementing outstanding upgrades and keeping the software current on a go forward basis. If ITS resources are not available, consideration should be given to retaining an outside service to upgrade the current software.

Management Response:
Agreed. ITS has been advised of this recommendation and all efforts will be made to update the system by December, 2008.

Follow Up
Completed. The last software upgrade was completed in June 2009. Except for minor software enhancements released by the vendor since then, the RiskMaster software has been upgraded to the latest version possible. Information Services and staff from Risk Management Services regularly review the software vendor’s website for the latest software releases.