SUBJECT: Audit Report 2008-01 - Risk Management - Claims Administration (CM08016) (City Wide)

RECOMMENDATION:

(a) That Report CM08016 respecting Audit Report 2008-01, Risk Management – Claims Administration, be received; and

(b) That the management action plans as detailed in Appendix “A” of Report CM08016 be approved and the General Manager of Finance and Corporate Services direct the appropriate staff to have the plans implemented.

Ann Pekaruk
Director, Audit Services
City Manager's Office

EXECUTIVE SUMMARY:
The 2008 Internal Audit work plan approved by Council included a review of claims administration and the procedures and processes employed for insurance and liability claims. The ability to manage the City’s exposure and mitigate its risk and losses as well as the effectiveness and strength of internal controls was assessed.

The results of the audit are included in a formal audit report containing observations, recommendations and management responses as well as one Addendum item, all attached as Appendix “A” of Report CM08016.
BACKGROUND:
Risk Management Services is responsible for the administration of claims in order to achieve fair, equitable and reasonable resolution and settlement.

<table>
<thead>
<tr>
<th>2007 NEW CLAIMS</th>
<th>Type</th>
<th>Number</th>
<th>Incurred*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liability</td>
<td>808</td>
<td>$2,418,368</td>
<td></td>
</tr>
<tr>
<td>Property</td>
<td>559</td>
<td>707,035</td>
<td></td>
</tr>
<tr>
<td>Vehicle Accident</td>
<td>567</td>
<td>1,371,929</td>
<td></td>
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<tr>
<td>HSR</td>
<td>89</td>
<td>896,094</td>
<td></td>
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<tr>
<td>Total</td>
<td>2,023</td>
<td>$5,393,426</td>
<td></td>
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</tbody>
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* "Incurred" includes amounts paid, collections and changes in reserves.


The fieldwork was carried out in January and February, 2008. The results of this review are attached as Appendix “A” of Report CM08016.

The Audit and Administration Committee receives and approves final audit and review reports as part of its responsibilities for the oversight of governance and control.

ANALYSIS/RATIONALE:
The audit examined the procedures used in the Risk Management division to process insurance and liability claims. Activity in the liability account from where all claim payments are initially made was reviewed. In addition, specific testing was carried out on a selection of old claims and large dollar value claims. Payments to the outside adjuster and the cost allocation methodology for distributing claim costs to departments were also included. The Risk Master database was used extensively for many of the selections.

The audit resulted in the identification of areas for improvement with regard to financial and administrative controls. A formal audit report containing observations, recommendations and management action plans as well as one Addendum item were issued and are attached as Appendix “A” of Report CM08016.

The main recommendations noted in the audit report include:

- Development and regular updating of written procedures in order to provide a means of correct and consistent application.
- Monthly reconciliation of the database to the PeopleSoft general ledger and subsequent management review and approval in order to detect and correct errors in a timely manner.
- Closure, where warranted, of any files in the database performed on a semi-annual basis.
- Discontinuance of documentation photocopying where such records are readily available elsewhere within the Corporation.
- Updating of the Risk Master system in order to incorporate upgrades which may provide more efficient ways to carry out routine tasks.

Management has already taken or committed to taking action to implement all of the recommendations. Specific action plans can be found in the attached audit report.
ALTERNATIVES FOR CONSIDERATION:
Not applicable

FINANCIAL/STAFFING/LEGAL IMPLICATIONS:
Financial
As the Risk Master system has not been updated in at least four (4) years, costs, which cannot be determined at this time, may be incurred for the upgrades.

Staffing
None

Legal
None

POLICIES AFFECTING PROPOSAL:
None

RELEVANT CONSULTATION:
Throughout the audit and to obtain the management action plans, staff in Risk Management Services and Finance and Administration divisions of Corporate Services were consulted.

CITY STRATEGIC COMMITMENT:
By evaluating the "Triple Bottom Line", (community, environment, economic implications) we can make choices that create value across all three bottom lines, moving us closer to our vision for a sustainable community, and Provincial interests.

- Community Well-Being is enhanced. □ Yes ☑ No
- Environmental Well-Being is enhanced. □ Yes ☑ No
- Economic Well-Being is enhanced. ☑ Yes □ No

City Council's strategic commitment to "Best Practices - Best Value" under "A City That Spends Wisely and Invests Strategically" is addressed through audits and reviews and their subsequent follow up to ensure controls are in place to protect the assets of the City and promote efficient, effective and economic services and programs.

Does the option you are recommending create value across all three bottom lines?
□ Yes ☑ No

Do the options you are recommending make Hamilton a City of choice for high performance public servants?
□ Yes ☑ No

ap:dt
Attachment – Appendix “A”
# OBSERVATIONS OF EXISTING SYSTEM | RECOMMENDATION FOR STRENGTHENING SYSTEM | MANAGEMENT ACTION PLAN
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1. **Procedures Manual**
There are no written Finance & Administration (F&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.
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.
| That F&A procedures pertaining to the monthly reconciliation process be documented and retained in the F&A area.
That all these procedures, once written and updated, be reviewed regularly to ensure that they remain current.
That the claims administration procedures on the “N” drive be updated with the appropriate date noted.
| Agreed. The Finance and Administration Manager will ensure that the F&A procedures pertaining to monthly reconciliation processes are documented by year end (December 31, 2008) and updated annually.
| Agreed. The Manager, Risk Management, will ensure that claims administration procedures on the “N” drive are updated with the appropriate date noted. Implementation date is 1st quarter, 2009.

2. **Monthly Reconciliation**
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.
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.
| That reconciliations be performed monthly and reconciling amounts be corrected, as necessary on a timely basis. Risk Management Services and/or F&A management should review and approve the reconciliation summary.
| 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.

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<thead>
<tr>
<th></th>
<th>OBSERVATIONS OF EXISTING SYSTEM</th>
<th>RECOMMENDATION FOR STRENGTHENING SYSTEM</th>
<th>MANAGEMENT ACTION PLAN</th>
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<tr>
<td>3.</td>
<td><strong>File Closure</strong>&lt;br&gt;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.&lt;br&gt;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.&lt;br&gt;Paper supporting files continued to be kept with the Claims Representative assigned to the claim requiring physical storage space which was already limited.</td>
<td>That RMS review all outstanding claim files, at least on a semi-annual basis, to ensure files are closed in a timely manner.</td>
<td>Agreed. A review will be done semi-annually by the Claims representatives, effective immediately.</td>
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<tr>
<td>4.</td>
<td><strong>Cheque Handling</strong>&lt;br&gt;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.&lt;br&gt;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.</td>
<td>That RMS discontinue the practice of photocopying cheques for the paper files as cheque details are available through queries in the PeopleSoft system.</td>
<td>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</td>
</tr>
</tbody>
</table>
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 (Risk Master) 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.