

City of Mississauga
Internal Audit Report

CITY MANAGER'S DEPARTMENT
LEGAL SERVICES DIVISION
RISK MANAGEMENT SECTION
INSURANCE CLAIMS AUDIT

April 15, 2024

City Manager's Department
Internal Audit Division

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**CITY MANAGER'S DEPARTMENT
LEGAL SERVICES DIVISION
RISK MANAGEMENT SECTION
INSURANCE CLAIMS AUDIT**

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City Manager's Department

- Manager, Insurance & Risk Management

**City Manager's Department
Legal Services Division
Risk Management Section
Insurance Claims Audit**

BACKGROUND

The Risk Management Section of the Legal Services Division is responsible for identifying and evaluating risks, as well as assessing the most efficient way to safeguard the City against financial losses resulting from damage or destruction to City assets, and claims filed against the City for damage or injury to third parties. Its main responsibilities include administering and managing the City's insurance and insurance claims programs, conducting risk assessments, and providing consultation and recommendations to all City departments.

In 2009, Risk Management acquired a claims management system which is the central repository for insurance claims and events records and documentation. The system facilitates the recording, tracking, and processing of insurance claims, and manages claim cases and reserves. The Finance Division supports the claims process through issuance of claims payments, accounting, and reporting on the financial position of the insurance reserve fund, and ensures it is adequately funded to cover estimated current claims liability within the City's self-insured retention limit. Claims outside the self-insured retention limit are covered by the City's insurance providers.

From January 1, 2022, to October 31, 2023, the number of insurance claims opened and closed was 382 and 1,021, respectively. Claims categories include Auto - Corporate Fleet, Auto - Heavy Fleet, Auto - Transit, CGL – Municipal, Environmental Liability, Errors & Omissions, Property and Other.

SCOPE

The scope of this audit included an assessment of the key processes, risks, and controls supporting the insurance claims process, which included:

- Insurance Claims Management Framework, as it relates to governance, roles and responsibilities, policies and procedures and management oversight, and;
- Internal controls and processes for administration, management, and settlement of the City's claims, such as claim intake, claim processing and documentation, and claim payment.

The audit period focused on insurance claim cases that were closed from January 1, 2022, to October 31, 2023.

Out of scope

This audit did not review the following:

- The insurance provided through employee benefits, which is managed by the Human Resources Division and outsourced to third parties.
- Insurance related to Workplace Safety and Insurance Board (WSIB), which the Ontario Government administers.
- Negotiation and litigation processes, including evaluating the appropriateness of legal advice and decision-making content.
- Assessment of staff competency and performance.

OBJECTIVES

The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing. The purpose of the audit was to ensure that:

- A) Relevant policies and procedures are established, communicated to affected user groups, and followed consistently.
- B) Roles and responsibilities are clearly defined, communicated, and understood, including the management of insurance claim reserves.
- C) Insurance claim cases are tracked, monitored, and retained effectively and in accordance with industry standards and the City's Records Retention Schedule, By-law 0097-2017.
- D) Payments are properly processed, approved, and adequately insured in the event of a claim.
- E) Insurance claim documents are securely stored, and access is granted only to appropriate individuals.

SUMMARY OF OBSERVATIONS

Based on the audit work performed, the insurance claim process demonstrates management oversight in certain areas, including obtaining adequate documentation and evidence to support the claim, and adhering to industry standards for responding to claimants.

Our main observation relates to the enhancement of the existing claims management system, specifically as it relates to claim intakes, payment processing, record storage and destruction. The audit identified other areas for improvement, including updating policies and procedures, including alignment with the amended Records Retention By-law, and strengthening controls around the reconciliation of the payment process.

A detailed list of observations and recommendations was provided to management. Appendix A outlines the detailed recommendations and the action plans proposed by management. The main observations and recommendations are summarized below.

Claims Management System Enhancement

Although the existing claims management system has the capacity to manage insurance claim processes, some limitations affect the efficiency and effectiveness of performing tasks, such as:

- the manual intake of claim information can be prone to transcription errors and affect the completeness of data;
- the lack of interface between the claims management system and enterprise financial system requires the record of payment to be entered twice;
- the inability to delete records that surpass their retention period results in non-compliance with the Records Retention By-Law;
- the file size storage capacity limit resulted in the need for a second storage medium to be used to store larger files outside the system.

The existing features and technology of the system are not sufficient to handle the increasing workload and requirements of the insurance claims team. Any improvement could be at an additional cost. Moreover, as of December 2022, the system has discontinued support for BOE software packages, which enables reports to be generated from the data. The Risk Management team is currently procuring a new application to replace the existing system, whose contract will expire in 2027.

Insurance Claims Processing

The insurance claims process is generally working effectively. We noted that there was adequate follow-up on open claims, many relevant notes were made in the system to demonstrate the adjuster's communication with the broker or claimant, service level response timelines were adhered to, and appropriate documentation and evidence was obtained to support claim cases. However, we noted the following areas of improvement to strengthen the controls over processing claims:

- There are three key processes that have been identified whereby standard operating procedures have been drafted, but not updated or finalized. To ensure that the insurance claims team has a better understanding of their roles and responsibilities, documented guidance and directions on insurance claim practices is needed. Without clear and documented guidance, there is a risk of inconsistency in the application among the insurance claims team.
- Performing periodic reconciliations between payments recorded in the claims management system with the general ledger account to ensure accuracy and completeness. The lack of reconciliation increases the risk that errors, or unauthorized activity, may go undetected
- Updating the Records Retention Schedule By-law 0097-2017 to align with current industry practices to ensure that insurance claims documentation is not being maintained longer than required. This will reduce privacy risks and storage costs related to the retention of personal identifiable information records.
- Reviewing the access logs for the system and SharePoint folders and the level of access regularly to properly track activities and persons who have access to the information. The lack of regular reviews can lead to unauthorized access to insurance-related information.

Additionally, the insurance claim form, which is available on the City's external platform, does not meet the Accessibility for Ontarians with Disability (AODA) standards, which limits its accessibility to all claimants due to its current format. Control over claims management may be compromised by the absence of process documentation, reconciliation of accounts, and the maintenance and security of records.

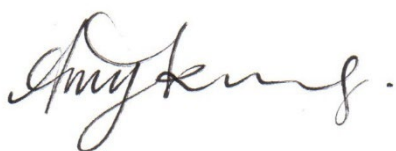
Actuarial Assessment Timely Completion

An actuarial assessment is expected to be performed every three years to assess the adequacy of the City's insurance reserve needs and funding. The last actuarial assessment was conducted in 2019. The next one is currently underway and expected to be completed by the end of April 2024; however, this is one year later than expected. The delay in conducting the actuarial assessment could have a negative impact on the City as it becomes challenging to accurately assess the City's insurance reserve needs and funding when using outdated information in a constantly changing environment.

CONCLUSION

The control environment for the insurance claims process is generally working well and adheres to industry standards in terms of documentation and response time. However, the Insurance Claims Management Framework can be further strengthened with enhancement to the claims management system, additional controls as they relate to governance and management oversight, and the timely completion of the actuarial assessment.

This audit resulted in a total of nine (9) recommendations. Management has agreed and committed to completing seven (7) recommendations by December 2024, another one in February 2025, and the remaining one by August 2026.



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Senior Internal Auditor

**City Manager’s Department
Legal Services Division
Risk Management Section
Insurance Claims Audit
Summary of Audit Recommendations**

Rec	Recommendation	Priority (H/M/L)	Comments/Status
1	That Insurance Claims management conduct an assessment of the essential system requirements, specifically as they relate to claims intake, payment processing, record storage and destruction, and file security based on access and segregation of duties. Additionally, ensuring that the required features are included in the requirements for the newly acquired system.	M	<p>Risk Management is in the process of procuring a new Risk Management Information System (RMIS) that allows for claims management as well as other overall risk management modules.</p> <p>This upgrade is scheduled to start in July/August 2024 with expected implementation in 2026.</p> <p>To be completed by August 30, 2026.</p>
2	That quarterly reconciliations be performed to ensure the accuracy and completeness of the insurance claim expenses recorded in the general ledger, and any difference be explained.	M	<p>Risk Management to collaborate with Finance to create a reconciliation process using SAP reporting on Risk Management’s claims expenses and the existing claims management system’s financial reporting created by Risk Management. The process will be performed on a quarterly basis.</p> <p>Risk Management and Finance will test the process in Q1 of 2024 and finalize the reconciliation process for Q2 2024.</p> <p>To be completed by July 15, 2024</p>
3	That Insurance Claims management, in collaboration with the Standards Training & Compliance section in FPM, assess the best option to ensure the claim form is accessible to all claimants.	M	<p>Risk Management is currently in the process of working with IT to bring the Insurance Claims Report form into City Forms compliance.</p> <p>In addition, Risk Management will be working with the Leader Projects DSX to bring this public-facing Insurance Claims Report form into compliance with the Accessibility for Ontarians with Disabilities Act (AODA) requirements.</p> <p>To be completed by August 30, 2024.</p>
4	That the next actuarial assessment be conducted at the earliest opportunity to ensure Risk Management has current and updated information to assist in the decision-making process about insurance reserve needs and funding, and	M	<p>Risk Management is currently in the process of having our actuarial review performed, and this should be completed no later than April 30, 2024.</p>

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	future assessment needs be included in the section's work plan.		<p>We have our next actuarial review planned to be conducted in 2027 for the year ending 2026.</p> <p>To be completed by April 30, 2024.</p>
5	That Insurance Claims management, in collaboration with the Records Management team, assess the adequacy of the retention period of the insurance claim records and update the Records Retention Schedule By-law, as needed.	M	<p>Risk Management is currently working with our Records Clerk to review and assess our retention needs.</p> <p>Risk Management will be completing the Request to Amend Retention form, to start the process of amending the Records Retention By-law, by May 31, 2024.</p> <p>To be completed by May 31, 2024.</p>
6	That the existing SOPs be updated to reflect the current procedures, and finalized, approved, and communicated to the insurance claims team.	M	<p>We are currently in the process of creating the Payment Process SOP, which should be completed by December 2024. Similarly, the other two existing SOPs (Claim Reserving and Settlement Process, and Property Damage Claim Process) will be updated, and the "Risk Management Draft Manual" folder will be renamed.</p> <p>Risk Management will not be able to standardize everything about the handling of insurance claims, as it is a skill that requires negotiation and knowledge of the audience, but we will look to improve on the undocumented and data entry-related procedures noted above through more standardized methods of inputting data into the existing claims management system, or the future RMIS, as well as through the coaching of staff.</p> <p>To be completed by December 31, 2024.</p>
7	That Insurance Claims management review the insurance claims policies in accordance with the Corporate Policies and Procedures Program, Policy Number 03-02-04.	L	<p>Risk Management is currently in the process of reviewing the three Corporate Policies and, with the help of the Corporate Policy Consultant, will update these policies before the end of the year.</p> <p>To be completed by December 31, 2024.</p>

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8	That periodic user access review, including roles and permissions, be performed for the existing claims management system and SharePoint folders to prevent unauthorized access.	L	<p>Risk Management will undertake a review of the access to the RMIS (claims management system) and SharePoint in times of business unit change (e.g. departure, arrival or change in staffing).</p> <p>System access is generally controlled by IT Security, but Risk Management will review access and let IT Security know of any changes necessary in Q1 of every year, if any discrepancies are found.</p> <p>To be completed by February 1, 2025, or the next staffing change, whichever is earlier.</p>
9	That an assessment be conducted to determine the need for the existing generic accounts.	L	<p>Risk Management is currently investigating with IT if there would be any adverse effects of removing inactive accounts from the existing claims management system. If there is no adverse effect, then we will remove the accounts not directly attached to a staff member or an administrative process.</p> <p>To be completed by April 30, 2024.</p>