

**Metropolitan
St. Louis
Sewer District**

**Corporate Claims
Management Inc,
Review**

March 26, 2010



Metropolitan St. Louis Sewer District

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Executive Summary

Background

The Water Back-up Insurance program covers both (1) System Over Capacity damage and (2) Blocked Main damage. The System Over Capacity Insurance Program covers water back-up damage that results from a rain event that exceeds the capacity of the system. Claims are limited to \$2,500 with a \$100 deductible for a maximum claim of \$2,400. In the case of a Blocked Main, the Insurance Program covers water back-up claims for basements due to blockages in the District's main sewer lines. Claims are reimbursed based on replacement value with no limit. The District is self-insured for workers compensation and funds those costs through annual appropriations from the District's general fund. The District maintains reinsurance for workers compensation liabilities in excess of specified limits up to the statutory limit.

Corporate Claims Management, Inc. (CCMI) provides third party administrative services, claims handling and reporting services for the District's water back-up, worker's compensation, general liability, auto, errors and omissions claims and any other claim against the District, Board of Trustees, Civil Service Commission, Rate Commission or District staff.

Audit Objectives & Scope

The objectives of this engagement were to:

- Evaluate CCMI's claims processing activities in relation to its established policies and procedures. This included, but was not limited to, determining that there was:
 - Timely contact with claimants to begin investigation.
 - Adequate documentation of investigation efforts.
 - Proper establishment and reporting of reserves to the District.
 - Appropriate support for determination of claim settlement amounts, including proper releases.
 - Proper approval of claim amounts paid and that the amounts did not exceed ordinance limits, where applicable.
- Evaluate CCMI's compliance with general contract terms. This included, but was not limited to, determining that:



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- MSD was notified of reserve changes exceeding established thresholds.
 - Bank account reconciliations were performed by CCMI.
 - CCMI provided required benchmarking reports.
 - CCMI prepared and submitted required reports to appropriate regulatory agencies.
- Follow up on prior audit issues to ensure that they are not recurring.
 - Other procedures as deemed necessary.

This review was limited to water backup and workers compensation claims and corresponding control activities during the period July 1, 2008 through September 30, 2009.

While the primary objectives of this review focused on CCMI's compliance and effectiveness, if potential opportunities for improvement in MSD's processes was identified, we reported on these opportunities to management accordingly.

Approach & Methodology

To accomplish the audit objectives, Internal Audit:

- Obtained and reviewed documentation such as contracts, Request for Proposals (RFP), response to proposal, policies and procedures, ordinances, and other pertinent documents.
- Conducted testing of claim files on a sample basis to determine overall compliance with claim processing procedures.
- Conducted testing on a sample basis to determine compliance with any other key terms of the contracts and RFP.
- Verified, on a sample basis, endorsements of payees or claimants on cancelled checks.
- Verified, on a sample basis, through confirmation letters that payees or claimants received payments.
- Developed findings and recommendations, and suggestions in process improvements as applicable.



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Sample of accounts were as follows:

Claim Type	Claims Paid*	No. of Claims Tested**	Claims Tested \$	% of Claims Paid
System Over Capacity	\$5,267,108	5	\$11,851	.23%
Blocked Main	\$4,756,259	10	\$357,667	7.5%
Workers Comp	\$1,000,389	5***	\$267,526	26.7%

*Claims paid - Checks issued during the period July 1, 2008 through September 30, 2009.

**Sample size reduced based on reliance on SAS 70 report. See comments below.

***A Workers Comp claim may consist of a several payments.

Conclusions and Summary of Observations and Recommendations

Overall, CCMI was in compliance with the contract agreement and processed claims in accordance with its internal procedures. We also obtained reasonable assurance that water backup and workers comp claim payments issued were received and cashed/deposited by the intended payee or claimant. Additionally, CCMI obtained a SAS-70 report as required by the RFP. Statement on Auditing Standards (SAS) No. 70, *Service Organizations*, is an auditing standard issued by the American Institute of Certified Public Accountants (AICPA). Through the SAS 70 report, service organizations disclose the results of an independent audit of their control activities and processes, to their customers and their customers' auditors in a uniform reporting format. The SAS 70 auditor's report includes the service auditor's opinion on the control activities and processes. As such we reviewed the SAS-70 report for the period October 1, 2008 to October 1, 2009. The report included no findings that would suggest that CCMI may not be in compliance with the requirements of the Districts contracts.

We made a recommendation for the following observation, which if implemented, could assist MSD in strengthening its procedures, improving its processes and meeting its overall strategic objectives:

1.1 Requirements in the Request for Proposal and TPA Procedures

These items are discussed below in the section, Detailed Observations and Recommendations. Additional comments are also noted in the section, Opportunities for Improvement.



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Engagement Name: Corporate Claims Management, Inc. Review

Fieldwork Completion Date: February 23, 2010

Audit Reporting Date: March 26, 2010

Initial Inherent Risk: High

Overall Audit Rating: Satisfactory

Issue	Risk Rating	Director	Mgt Response	Action Date
Update its RFP for specific requirements. Additionally, upon selection of the TPA, the District should request the TPA tailor its procedures to ensure it's the procedures address any specific needs or requirements of MSD deriving from the RFP.	Low	Vicki Taylor - Edwards	Management agrees with the audit recommendation and will modify the Request for Proposal (RFP).	3-1-2010

Internal Audit gratefully acknowledges the cooperation of the Human Resources Department, Risk Management Section, and Accounting during this audit. Internal Audit was not restricted from access to information to complete the audit. Access to all departmental records and personnel were provided by Management as requested.



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DETAILED OBSERVATIONS AND RECOMMENDATIONS

1.1 Requirements in the Request for Proposal and TPA Procedures

Observation/Finding:

The complete contract between the District and CCMI is comprised of the Contract, Request for proposal (RFP) and the CCMI proposal. Additionally, CCMI's procedures are currently documented their Claim File Expectation (CFE) procedures, which defines how they will manage the claims.

We noted that specific documentation required to be obtained and retained in the CCMI files or certain procedures to be performed by CCMI, was not documented in either the RFP, CCMI proposal, contract or CFE.

Some specific examples are:

- CCMI submits a "pricing report" to the District for workers compensation medical bills. The purpose of the pricing report is to verify that the District pays the industry standard for such medical bills and not pay in excess of the industry standard. The pricing report is submitted to the District by CCMI as support for workers compensation payments. Neither the contract documents nor the CFE indicated that this is a required procedure and does not require the reports to be included in the claim files.
- The Workers Compensation process requires that physicians who examine District employees for workers compensation claims be pre-approved by the District. This procedure is not documented in the contract documents between CCMI and the District.
- System Over Capacity and Blocked Main claims require that the customer prepare a listing of items lost or damaged, this procedure is not documented in the contract documents between the District and CCMI.

The above items are some examples we observed. There may be other items that should be specifically addressed in the contract documents and/or CFE.

Risk Rating / Exposure: Low

Recommendation:



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To ensure all expectations of the District are clearly communicated to the TPA, we recommend the District update its RFP for specific requirements. Additionally, upon selection of the TPA, the District should request the TPA tailor its procedures to ensure it's the procedures address any specific needs or requirements of MSD deriving from the RFP.

Manager / Response with implementation date:

Management agrees with the audit recommendation and will modify the Request for Proposal (RFP).

Tentative implementation date:

March 1, 2010



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Management Acknowledgement

I have reviewed the report including management responses. I agree with the observations and recommendations, unless otherwise indicated, and will take the appropriate measures and responsibility for implementing the corrective actions with the specified timeframes.

Process owner's signature /s/ _____
Vicki Taylor-Edwards, Director of Human Resources

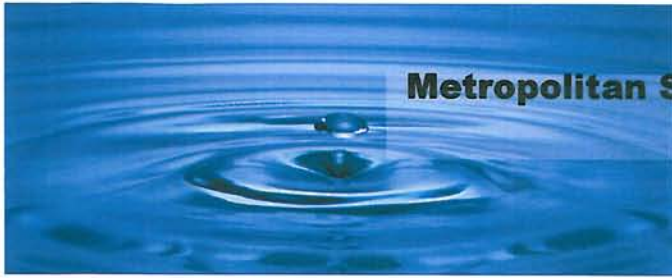


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Opportunities for Improvement

The following are suggested opportunities for improvement in the management of the water backup and workers compensation claims process that the Human Resource Department should consider but need not respond to in this audit report. While these suggested changes could improve or enhance the Division's system of internal controls or operational efficiency, their impact is lower than the recommendations noted above.

- Sewer Separation Program (SSP) – Since the District's Risk Management will notify CCMI to disallow claims of customers who refused remedies under the SSP, consider formalizing this in the District Responsibilities section of the RFP. In the Firm Responsibilities section of the RFP, consider including any specific actions required by the TPA in these instances. For instance, the TPA is required to send a letter to the claimant notifying them that the claim will be disallowed and the reason. If a TPA has access to this portion of the MSD system, can require that they review for potential customers meeting the criteria (similar to the RFP Section 4.2.2 that they access the District's internal billing system to review accounts for any outstanding account balances before making payment).
- RFP section 4.2.4 requires the TPA to notify MSD by email of any reserve changes in excess of \$10,000. Per our discussion, this is satisfied via the report writer feature which allows the District to write (retrieve) the reports on its own. As a result, no emails are sent. Also, CCMI provides hard copy reports during the quarterly meeting. MSD may want to consider whether this requirement in the RFP is still necessary or may revise to allow for other alternatives of satisfying the objective.
- RFP section 4.2.17 requires the TPA to complete the annual Self-Insurer's Statement of Outstanding Losses (WC-83) and annual report of losses for the NCCI modification factor. However, the responsibility for actual submittal of the documents to the respective regulatory agencies is not addressed in the RFP. Our understanding is that these documents are then submitted to MSD for review, sign-off and filing. MSD may want to consider clearly noting this in the RFP.



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Appendix A –

Contents of the Observations & Recommendations

The following is an overview of the content for the observations and recommendations contained in this report.

- **Observation:** Presentation of key operational and/or service issue.
- **Exposure & Risk Rating:** Assessment of the issue implications and value assignment of likelihood and impact of the identified issue / risk: The three categories are as follows:
 - High:** Observations that pose a significant risk to the District
 - Moderate:** Observations that pose a moderate risk to the District
 - Low:** Observations that pose a minor risk to the District
- **Recommendation:** Suggestions to assist management in formulating an action plan to address the issue / risk.
- **Management Response:** To be submitted to Internal Audit Services within 10 business days of receipt of final draft report by assigned stakeholders. Internal Audit will present this information to the District's Audit Committee until the issue / risk is resolved or sufficiently mitigated.