

RISK MANAGEMENT & INSURANCE

SONOMA STATE UNIVERSITY

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ABBREVIATIONS

AGPIP	Auxiliary Group Purchase Insurance Program - CSURMA
AIME	Athletic Injury Medical Expenses - CSURMA
CSU	California State University
CSURMA	CSU Risk Management Authority (a JPA)
EO	Executive Order
IDL	Industrial Disability Leave
IIPP	Illness and Injury Prevention Program
JPA	Joint Powers Authority
NDI	Non Industrial Disability Insurance
ORIM	Office of Risk Management and Insurance - State Department of General Services
RFIN	Resolution, Committee on Finance (CSU Board of Trustees)
SCIF	State Compensation Insurance Fund - State Department of Industrial Relations
SSU	Sonoma State University
UI	Unemployment Insurance

INTRODUCTION

PURPOSE

Our overall audit objectives were to review: reliability, confidentiality, and integrity of information; compliance with relevant federal and state law, Trustee policy, and Chancellor's Office directives; effectiveness, efficiency, and economy of operations; and attainment of established objectives.

Within the overall audit objectives, some specific goals included reviewing controls designed to assure that:

- the most significant risk exposures are addressed;
- risk management costs are controlled;
- best/prudent practices are assimilated;
- process mapping tasks and timelines are fully implemented;
- train-the-trainer investments are realizing a reasonable return;
- liabilities are not assumed due to contracts with inappropriate indemnification, inadequate insurance provisions, expired/flawed coverages, or unacceptable campus practices such as not notifying insurers of claims/incidents on a timely basis; and
- record keeping and reporting is adequate for program administration.

SCOPE AND METHODOLOGY

The scope of this audit covered the five steps described in Executive Order 533 and included the processes by which the campus identifies risks, evaluates their seriousness, selects the best risk management strategy/technique, implements the most appropriate technique, and evaluates the results.

Fiscal year 1997/98 was the primary period reviewed. We interviewed campus personnel and tested records pertaining to this period such as: contracts and leases, insurance certificates and policy endorsements, financial ledgers, and claim-related documents/forms.

The premium assessed the campuses for participation in the Risk Pool/CSURMA is based in large part on actuarial assumptions and estimates of reserve requirements. The public accounting firm of KPMG in their audit of the CSU's financial statements has audited these factors. KPMG has publicly stated that they agree with the CSU's calculations. Consequently, these particular financial aspects of risk management and insurance were not emphasized in this audit.

We have not performed any auditing procedures beyond the date of our report. Accordingly, our comments are based on our knowledge as of that date and should be read with that understanding. Since the purpose of our comments is to suggest areas for improvement, comments on favorable matters are not discussed.

BACKGROUND

Prior to 1995/96, the CSU Chancellor’s Office paid all liability, workers’ compensation, and IDL/NDI/UI claims and related expenses. The CSU funded these liabilities on a cash basis as claims became payable. Beginning in 1995/96, the campuses became accountable for these liabilities. Funds formerly administered centrally were prorated to the campuses. A risk pool arrangement was simultaneously established as a funding mechanism for campuses to share costs while being encouraged to manage risks.

Effective January 1, 1997, after its first year and a half of operation, the risk pool was superseded by formation of the CSURMA, a joint powers authority (JPA) governed by a board of directors. Although the CSURMA is an entity comprised exclusively of campus and auxiliary organization members, it is legally separate from the CSU. The CSURMA contracts with a third-party administrator – Sedgwick of California, Inc. Two other significant service providers under contract are the State Compensation Insurance Fund (SCIF) for administration of workers’ compensation and the Office of Risk and Insurance Management (ORIM) in the State Department of General Services for handling tort liability claims.

The CSURMA has adopted a goal of fully funding each year’s liabilities as they are incurred and avoiding budget spikes as large liabilities become payable. Members are assessed an annual premium to cover claims and costs. Premiums are driven in part based on deductible limits chosen by the campus.

The five main CSURMA programs are:

1. Workers’ Compensation;
2. Liability;
3. NDL/IDL/UI;
4. AGPIP (Auxiliary Group Purchase Insurance Program); and
5. AIME (Athletic Injury Medical Expense).

The CSURMA was created under Board of Trustees resolution RFIN 11-96-13 which delegated to the chancellor the authority to enter into a joint powers agreement. Pursuant to Section 9.b.iv of the agreement, the CSURMA is authorized to approve any new coverage programs. CSURMA’s AGPIP and AIME fall under this authorization as well as the newest program intended to provide coverage for construction claims on seven 1997/98 capital outlay projects.

Executive Order 533 issued by the CSU in August 1988 defines the steps in risk management process and the traditional means of managing risks as follows:

Table 1
EO 533 Excerpts

	TRADITIONAL MEANS
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RISK MANAGEMENT STEPS	OF MANAGING RISKS
1. Identify the risks.	▶ Risk avoidance
2. Evaluate their seriousness.	▶ Risk transfer
3. Select the best risk management techniques to manage the risks without unduly curtailing or modifying activities necessary to the CSU mission;	▶ Loss prevention and reduction (a.k.a. risk control)
4. Implement appropriate risk management techniques.	▶ Risk retention.
5. Monitor and evaluate the results.	

The position of risk manager was vacant as of July 1, 1997 and the associate vice president for administration and finance was appointed on an interim basis to assume these duties and responsibilities. The campus intends to hire a full time risk manager within the September-December time frame.

During fiscal year 1997/98, the campus carried insurance through the CSURMA. The largest policies were for public entity liabilities, workers' compensation and employers' liabilities, and intercollegiate athletics. Two of the four auxiliary organizations at the campus were CSURMA participants and they purchased their insurance through AGPIP. At the time of our visit, the campus had recently increased its liability deductible from the minimum \$35,000 to \$100,000.

OPINION

We visited the Sonoma campus from July 27, 1998 to September 3, 1998 and audited the structure in effect at that time.

In our opinion, internal controls were adequate to assure an active risk management function that embraces involvement by a number of key disciplines such as environmental health and safety, personnel services, and purchasing. Although many things were being done under the general rubric of risk management, there was neither a formal policy nor specific program evaluations that linked risk exposures with mitigation measures. New initiatives were underway to focus more attention on workers' compensation. Additional attention is warranted in the areas mentioned in the executive summary below.

EXECUTIVE SUMMARY

The purpose of this section is to provide management with an overview of conditions requiring their attention. Areas of review not mentioned in this section were found to be satisfactory. Numbers in brackets [] refer to page numbers in the report.

GENERAL/ADMINISTRATIVE [6]

POLICY [6]

The campus did not establish a formal risk management policy to address the requirements of Executive Order (EO) 533 and the acquisition of optional insurance coverage. Implementation of a formal risk management policy would establish a framework for risk identification, mitigation and management evaluation.

LIABILITY [7]

INSURER RATINGS/INSURANCE VERIFICATION [7]

Neither a check of insurer ratings nor a review of actual insurance policies or endorsements was routinely performed. In addition, signature authorizations included on the proof of coverage documents were not verified. Proper review and authorization reduces the risk of the campus/trustees becoming responsible for a claim because of inadequate indemnification or acceptance of an unqualified insurer.

SPORTS CAMPS [8]

Current procedures regarding liability insurance coverage for sports camps were not adequate. Requiring evidence of insurance coverage prior to implementation of activities reduces the risk of exposure to liabilities.

CONTRACTS/SUB-CONTRACTORS [9]

The campus system of monitoring insurance policy expiration dates during the contract period and requiring sub-contractors to provide evidence of insurance coverage prior to the start date was not adequate. Properly monitoring insurance policies during the period of the contract and requiring sub-contractors to provide evidence of insurance coverage prior to the start date decreases the risk of exposure to liabilities.

AUXILIARY ORGANIZATIONS [10]

Operating and lease agreements between the campus and auxiliary organizations were not current. Maintaining current operating and lease agreements reduces the potential for misunderstandings and improprieties.

WORKERS' COMPENSATION [11]

TRAINING [11]

The campus did not implement the training methods obtained from the systemwide train-the-trainer training for Back Safe Prevention sponsored by the CSU Risk Pool. Properly communicating required training information to employees adds benefit to the campus by assuring workers' compensation programs are effectively administered.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

GENERAL/ADMINISTRATIVE

POLICY

The campus did not establish a formal risk management policy to address the requirements of Executive Order (EO) 533 and the acquisition of optional insurance coverage.

A review of campus records indicated that additional insurance coverage in the amount of \$335 was acquired for non-mandatory fine arts and miscellaneous property items during the 1997-98 year.

EO 533 requires the campus to establish a risk management policy and include the five elements described as follows:

- (1) identify risks, (2) evaluate their seriousness, (3) select the best risk management techniques to manage the risks without unduly curtailing or modifying activities necessary to the CSU mission, (4) implement appropriate risk management techniques, and (5) monitor and evaluate the results.

The associate vice president for administration and finance indicated that the decision not to provide funding for the risk management position last year delayed policy development.

The absence of a formal policy could result in poor risk prioritization, missed risk mitigation opportunities and inefficient/ineffective risk management.

Recommendation 1

We recommend that the campus develop a formal risk management policy.

Campus Response

The draft policy furnished by the audit staff has been received and will be reviewed with the goal of incorporating criteria to identify risks and unique campus factors that most benefit the overall environment of SSU.

This action, including adoption and approval by the President Armiñana, will be completed no later than March 31, 1999.

LIABILITY

INSURER RATINGS/INSURANCE VERIFICATION

Neither a check of insurer ratings nor a review of actual insurance policies or endorsements was routinely performed. In addition, signature authorizations included on the proof of coverage documents were not verified.

A sample selection of documents from the departments in which insurance coverage was required during the 1997-98 year indicated that they were not routinely checked for insurer acceptability and verified for proper coverage prior to implementation of the contract or activity. Fifteen files out of nineteen reviewed did not have the trustees named as an additional insured on the certificate of insurance. A review of associated students and student union records indicated that insurance policy information was not transferred to the risk management office. The five associated students' policies also did not specify the trustees as an additional insured.

The January 1993 Sedgwick publication entitled *Insurance Requirements in Contracts: A Procedure Manual for CSU Risk Pool Members* states that member campuses should obtain a minimum insurer rating of A:VII by A.M. Best & Company and include as additional insureds the campus, its trustees, officers, employees and volunteers. The A.M. Best ratings guide is widely used as a standard of measurement of insurer acceptability. Sedgwick also indicates that certificates of insurance need to be augmented with actual policy documents/endorsements to assure that the required provisions are in place.

The vice president for administration and finance indicated that, in his opinion, the campus was not obligated to implement this requirement because it was not mandated by trustee policy.

Not checking ratings and properly verifying proof of insurance documentation increases the risk that the campus will be relying on coverage from an unqualified insurer.

Recommendation 2

We recommend that the campus:

- a. check insurer ratings and document the results of rating reviews in the contract files; and
- b. adjust acceptance of coverage procedures to review actual policy documents/endorsements and certificates of insurance, to assure the required provisions are in place - including naming all additional insureds, and to verify the individual signing the certificate is authorized to bind the insurer.

Campus Response

- a. Insurer ratings are being verified against the AM Best Rating Guide for all major and minor contracts and service contracts valued at \$50,000 or more.

The \$50,000 amount for contracts was established based on Section 401 of coded memorandum BF 97-01 - Policy Manual for Contracting & Procurement, issued on April 7, which establishes a formal bid threshold of \$50,000 or greater for the procurement of services.

For all other contracts, the Procurement and Contracts Manager will assess the work being contracted for and exercise judgment relative to the potential risks associated. A memo for the file, signed by the contract manager will be filed with the contract to document the assessment and action taken.

- b. Advice and guidance will be sought from the CSURMA with regard to significant points that would constitute a review that would maximize the binding of a policy. Based on CSURMA's advice, an evaluation tool, such as a checklist, will be developed and implemented. The Contract's Manager will review, sign off, and file with the contract file.

Action is to be completed by March 31, 1999.

SPORTS CAMPS

Current procedures regarding liability insurance coverage for sports camps were not adequate.

The campus did not require coaches conducting on-campus sports camps to provide a certification of insurance coverage prior to the start of activity.

Campus policy requires that program directors obtain "sports camp" insurance that insures all enrolled participants against accidental death and dismemberment (\$10,000), accidental injury medical coverage (\$25,000) and liability (\$1 million).

The vice president for administration and finance indicated that these were considered to be on-campus activities and therefore covered under the campus general liability policy.

When evidence of insurance is not required prior to implementation of activities, the campus increases the risk of exposure to liabilities.

Recommendation 3

We recommend that the campus clarify insurance requirements for sports camps.

Campus Response

The Special Events Manager will document the adequacy of special event coverages and the currency of coverage prior to executing the contract and file such documentation in each event contract file.

CONTRACTS/SUB-CONTRACTORS

The campus system of monitoring insurance policy expiration dates during the contract period was not adequate. In addition, the campus did not routinely require evidence of sub-contractor insurance coverage.

A sample review of thirteen contracts awarded during the 1997-98 year indicated that insurance coverage for three of these contracts had expired before the performance period ended. There were also two contractors in our sample selection that included the use of sub-contractors in their bid documentation. One of these two contractors did not disclose insurance coverage provisions for sub-contractors listed in their bid and there was no requirement to provide a certificate of insurance prior to the project start date.

The *Insurance Requirements in Contracts: A Procedure Manual for CSU Risk Pool Members* requires proper insurance coverage to be procured to cover the duration of the contract period and that sub-contractors be required to provide evidence of insurance coverage when not provided by the major contractor.

An additional requirement for construction contracts involving subcontractors is specified in Section 4.06.c of March 1988 Minor Capital Outlay General Conditions as follows:

Contractor shall ensure that its subcontractors are covered by insurance in the amount and type required by this article. Contractor shall include all subcontractors as insureds under its policies or shall furnish separate certificates and endorsements for each subcontractor. All coverages for subcontractors shall be subject to all of the requirements stated herein. The contractor shall supply the university with a list of subcontractors showing whether they have individual insurance policies and certifying that those subcontractors without individual insurance policies are insured by the contractor.

The purchasing officer indicated that campus staff did not provide proper follow up in these areas.

When insurance policies expire during the period of the contract and sub-contractors are not required to provide evidence of insurance coverage, the campus' risk of exposure to liabilities is increased.

Recommendation 4

We recommend that the campus:

- a. strengthen procedures to ensure that insurance policies do not expire during the period of performance; and,
- b. obtain proof of subcontractor insurance prior to the project start date.

Campus Response

- a. The Contract's Office will create date logs that record expiration of contract and termination of insurance coverage. When coverages expire prior to contract termination date, the contractor will be required to provide a current certificate of coverage.
- b. Contract reviews will document that the prime contractor does provide full coverage for all sub-contractors. If not sub-contractors will be listed and proof of coverages cross-referenced prior to issuing the Notice to Proceed. This review will be documented and retained in the contract file.

AUXILIARY ORGANIZATIONS

Operating and lease agreements between the campus and auxiliary organizations were not current.

The operating and lease agreement between the Sonoma State University (SSU) Academic Foundation, Inc. and the campus had not been updated since 1996. In addition, a new operating and lease agreement for the 1998-99 year between the associated students and the campus had not been finalized.

The Manual of Policies and Procedures For Auxiliary Organizations, Section 7.1, dated June 1990, requires campuses to maintain current written operating and lease agreements between the auxiliaries and the state.

The associate vice president for administration and finance indicated that that this was an oversight and the agreements were in the process of being completed.

When operating and lease agreements are not currently maintained, misunderstandings and improprieties can occur.

Recommendation 5

We recommend that the campus improve procedures to ensure that operating and lease agreements for all auxiliary organizations are kept current.

Campus Response

All operating agreements have been signed by the Chancellor's Office and returned.

Operating agreements are now on 12 month renewals and will be processed during each May for effective dates of July 1.

WORKERS' COMPENSATION

TRAINING

The campus did not implement the training methods obtained from the system wide session for Back Safe Prevention sponsored by the CSURMA.

The CSU Risk Pool/CSURMA Safety Committee established the train-the-trainer workshop approach to critical areas in order to provide campus personnel with the training and tools to effectively administer their programs.

The senior director, human resources, indicated that the staff member who received certification transferred to another department before training sessions could be scheduled for campus employees.

Effective administration of critical areas within the workers' compensation program requires the proper communication of training information to campus employees.

Recommendation 6

We recommend that the campus implement procedures to ensure training information promulgated by the CSURMA or a comparable program is communicated to campus personnel.

Campus Response

Four training sessions were conducted on February 2 and 4, 1999. These classes were arranged in conjunction with key administrators to address areas of highest potential risk.

APPENDIX A: PERSONNEL CONTACTED

Name

Title

Ruben Armiñana	President
Sandra Bond	Coordinator, Special Events
Laurence Furukawa-Schlereth	Vice President, Administration & Finance
Fred Jorgensen	Coordinator, Conferences/Off-Campus Housing
Larisa Mar	Executive Director, Associated Students
Ruth McDonnell	Purchasing Officer
Edna Nakamoto	Senior Director, Human Resources
Yolanda Nunez	Internal Auditor
Steven Wilson	Associate Vice President, Administration & Finance
John Wright	Executive Director, Student Union
Jan Volk	Buyer