

**RISK MANAGEMENT & INSURANCE**  
**SAN FRANCISCO STATE UNIVERSITY**

**Report Number 98-28**  
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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	Nonindustrial 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
SFSU	San Francisco State University
UI	Unemployment Insurance

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## INTRODUCTION

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### 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 ensure 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
- recordkeeping and reporting is adequate for program administration.

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### 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. In their audit of the CSU's financial statements, the public accounting firm of KPMG audited these factors and 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.

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## 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 one-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 adopted the 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. ND/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 that 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

RISK MANAGEMENT STEPS	TRADITIONAL MEANS 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 risk manager at SFSU is the director, risk management and auxiliary oversight, who reports through the executive director, budget planning and resource management, to the vice president, business and finance. The campus established a separate function/office for risk management in August 1997 – approximately one year prior to the start of this audit. One of the more time consuming priorities in their first year was collecting and analyzing data. Other initiatives such as development of a special event policy for the campus were underway prior to the beginning of the audit.

During fiscal year 1997/98, the campus and two (the foundation and the student union) of the four auxiliary organizations purchased insurance through the CSURMA. A third auxiliary organization, the associated students, began purchasing AGPIP insurance in 1998/99. The largest policy premiums were for public entity liabilities, workers’ compensation, and employers’ liabilities. Although they are a member of the CSURMA, the fourth auxiliary organizations at the campus (Franciscan Shops) purchased their insurance elsewhere (as opposed to AGPIP). At the time of our visit, SFSU carried a liability deductible of \$100,000 for the campus and \$35,000 for Dormitory Revenue Fund operations. One optional insurance policy obtained by the campus was written for commencement exercises.

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## OPINION

We visited the San Francisco State University campus from July 6 to August 7, 1998, and audited the structure in effect at that time.

The campus’ internal controls were adequate to ensure that risk management is attaining increased visibility through central coordination. However, we found neither a formal policy nor specific program evaluations linking risk exposures with mitigation measures. While initiatives were underway to complete a special events policy and offer more workers’ compensation related training, additional attention is warranted in the areas mentioned in the executive summary.

## **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.

### **POLICY [5]**

The campus risk management policy did not indicate how each of the elements prescribed in Executive Order (EO) 533 would be addressed. Expansion of the risk management policy to a more detailed, campus specific product would establish a framework for risk identification, mitigation and management evaluation.

### **PROOF OF INSURANCE [5]**

Campus contract files did not clearly document the timely review of insurance documents (including both certificates and endorsements/policy amendments) and subcontractor insurance responsibilities. Proofing insurance ensures that coverage is adequate for risks transferred by contract.

### **ADDITIONAL INSURED [7]**

Liability insurance requirements pertaining to naming additional insureds were not being met. Naming the trustees and others as insureds reduces the risk of possible liability issues and misunderstandings in coverage.

### **INSURER RATINGS [8]**

The campus was not checking insurer industry ratings. Checking industry ratings reduces the risk that the campus would become responsible for assuming claims an unqualified insurer was unable to pay.

### **OPTIONAL PROPERTY INSURANCE [8]**

Optional property insurance was not systematically managed. Developing an optional insurance strategy and assigning responsibility for implementation minimizes the risk of uninsured losses, excessive premiums, inequitable financial responsibilities, and confusion over claims for policy reimbursement.

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## **OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES**

### **POLICY**

The campus risk management policy did not indicate how each of the elements prescribed in Executive Order (EO) 533 would be addressed.

EO 533 requires inclusion of five prescribed elements in a campus risk management policy, which are described as:

“...an ongoing process by which appropriate campus administrators (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 vice president, business and finance, attributed the recent issuance of a policy to the tight budgets immediately following issuance of EO 533 and to the relatively young risk management function that had been separately organized and operated since July 1997.

The absence of a detailed, campus-specific risk management policy may lead to poor risk prioritization, missed risk mitigation opportunities, and inefficient/ineffective risk management.

### **Recommendation 1**

We recommend that the campus expand its risk management policy to address each of the elements prescribed in Executive Order 533. Details for achieving the objectives of EO 533, including campus-specific information and processes, should be included within the policy.

### **Campus Response**

We concur and will expand our campus policy to include methods and processes to identify risks, evaluate their seriousness, select the best risk management techniques, implement the techniques and evaluate the results. The Office of Risk Management will complete the revised policy by April 27, 1999.

## **PROOF OF INSURANCE**

Campus contract files did not clearly document the timely review of insurance documents (including both certificates and endorsements/policy amendments) and subcontractor insurance responsibilities.

Our test of fifteen 1997/98 contract files indicated that it was not possible to determine when insurance documents were received and reviewed. Insurance policy endorsements were not consistently available. On construction work, the contractors did not state whether they would be responsible for subcontractor insurance or whether subcontractors would obtain their own, separate coverage.

The January 1993 Sedgwick publication entitled *Insurance Requirements in Contracts: A Procedure Manual for CSU Risk Pool Members* addresses proof of insurance as follows:

“As proof of insurance, most insurance agents and brokers will provide a document called a certificate of insurance. Issuance of a certificate serves as evidence that the contractor has a policy of insurance. However, the certificate does not modify the policy itself. It does not guarantee that the required policy provisions are in place. Nor does the certificate tell the reader what exclusions or limitations may be found in the contractor’s insurance policy. Therefore, you must receive and review a copy of the policy or an endorsement amending the coverage to make sure that the actual coverage required is in effect. You should make every effort to obtain and review the endorsement or actual policy before work begins pursuant to the contract.”

An additional nuance in construction-type contracts involves subcontracted work. Section 4.05.c of the CSU Contract General Conditions states that:

“The contractor shall either require subcontractors to carry the insurance or the contractor shall insure the activities of the subcontractors in the amount of the insurance required under this article. If the contractor elects to have its subcontractors purchase individual insurance policies, the contractor shall cause its subcontracts to include a clause requiring that copies of any insurance policies, which provide coverage to the work, shall be furnished to the trustees upon request. The contractor shall supply the trustees with a list of all subcontractors showing whether or not they have individual insurance policies and certifying that those subcontractors without individual insurance policies are insured by the contractor.”

The director, risk management and auxiliary oversight, indicated that the insurance requirements were not checked because the processing of contracts did not involve offices other than purchasing.

Incomplete or untimely insurance documents create an environment where the campus cannot assure adequate indemnification and insurance coverage for risks assumed to have been transferred through contract.

## **Recommendation 2**

We recommend that the campus improve procedures to ensure that insurance certificates and policy amendments are in place prior to the start of contract activity and at appropriate intervals thereafter for renewal of policies expiring during the period of contract performance.

### **Campus Response**

We concur and have implemented this recommendation. The Office of Risk Management and the Purchasing Department developed procedures in November, 1998 which were revised in April, 1999, to clarify that both insurance certificates and policy endorsements would be requested (copy attached). A new Purchasing Department Policy and Procedure (copy attached), in effect since February 15, 1999, requires that insurance coverage be in place prior to the start of any on site activity by the vendor/contractor and throughout the contract performance period.

### **ADDITIONAL INSUREDS**

Liability insurance requirements pertaining to the naming of additional insureds were not being met.

In the fifteen contracts reviewed for 1997/98, six had insurance certificates that named only the certificate holder, SFSU as an additional insured.

The January 1993 Sedgwick publication entitled *Insurance Requirements in Contracts: A Procedure Manual for CSU Risk Pool Members* indicates that the campus, its trustees, officers, employees and volunteers should be named as additional insureds. It further states:

“Occasionally, insurance agents or insurers may make errors when issuing certificates of insurance. The most common errors involve description of additional insureds and notice of cancellation.”

Incomplete certificates of insurance that do not extend coverage to all required additional insureds increases the potential for misunderstandings and increased liability.

### **Recommendation 3**

We recommend that the campus establish procedures to ensure that certificates of insurance name all additional insureds.

### **Campus Response**

We concur and have implemented this recommendation. Purchasing Policy and Procedure No. PPM-0-026, in effect since February 15, 1999, lists the additional insureds which must appear on all certificates of insurance before the University will accept them.

## **INSURER RATINGS**

The campus was not checking insurer industry ratings.

The campus collects proof of insurance in service contracts and facility leases. However, none of the subject documents pertaining to the 1996/97 and 1997/98 transactions was checked for insurer acceptability.

The January 1993 Sedgwick publication entitled *Insurance Requirements in Contracts: A Procedure Manual for CSU Risk Pool Members* states that members should require a minimum rating of A:VII by A. M. Best & Co. These ratings are widely used as a standard measurement of insurer acceptability.

A special consultant in university advancement indicated that ratings were not being checked on presidential leases because the requirement was not well communicated and universally understood. The manager, risk management and auxiliary oversight, was not checking ratings on other contracts because heretofore she had not been part of the contract approval process.

Failure to perform a ratings check increases the risk that the campus will rely on coverage provided by unqualified insurers.

### **Recommendation 4**

We recommend that the campus check insurer ratings and document the results of rating reviews in the contract files.

### **Campus Response**

We concur and have implemented this recommendation. Purchasing Policy and Procedure No. PPM-0-026, already in effect, requires Purchasing to verify that the insurer meets a minimum rating of A:VII by A.M. Best and Co. Insurers not meeting this minimum shall not be accepted unless written approval is obtained from our Office of Risk Management. The insurer rating shall be documented in the procurement file.

## **OPTIONAL PROPERTY INSURANCE**

Optional property insurance was not systematically managed.

The campus could not readily determine what personal property items such as cameras, fine art works, special collections, musical instruments and computer equipment had been insured. There was not a common understanding on premium responsibilities and whether the campus or individual departments would absorb the cost.

Executive Order 533 requires the campus to implement appropriate risk management techniques and monitor and evaluate the results.

The director, risk management and auxiliary oversight, indicated that optional property insurance was not a high priority in the first year's agenda of the risk management and auxiliary oversight function.

Failure to properly manage optional insurance activity creates an environment for uninsured losses, excessive premiums, inequitable financial responsibilities, and confusion over claims for reimbursement.

**Recommendation 5**

We recommend that the campus develop an optional property insurance strategy and assign organizational responsibilities for implementation and ongoing management.

**Campus Response**

We concur. The Office of Risk Management and the Purchasing Department will develop a campus policy to take advantage of the CSURMA pooled property insurance program by April 27, 1999.

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## APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Marcia Allsopp	Manager, Benefits and Professional Development
Patricia Bartscher	University Counsel
Guy Dalpe	Managing Director, Student Center
Denise Fox	Director, Human Resources
Maria Garcia	Risk Management Analyst
Michael Martin	Manager, Workers' Compensation & Return to Work Programs
Leroy Morishita	Executive Director, Budget Planning & Resource Management
Julie Savignano	Purchasing Administrative Supervisor
Don Scoble	Vice President, Business & Finance
Robert Shearer	Director, Environmental Health & Occupational Safety
Norma Siani	Special Consultant
Elizabeth Small	Director, Risk Management & Auxiliary Oversight
Don Smalley	Coordinator, Purchasing & Contracts
Bernadette Tano	Compliance Specialist, Environmental Health & Occupational Safety
Jim Van Ness	Internal Auditor
Anthony Victoria	Lead Support Services – SFSU Foundation
Larry Ware	Director of Administration - SFSU Foundation
Armando Ysip	Manager, Governmental Fund Accounting