

**RISK MANAGEMENT & INSURANCE**  
**CALIFORNIA STATE UNIVERSITY**  
**LONG BEACH**

**Report Number 98-33**  
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# CONTENTS

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## INTRODUCTION

Purpose.....	1
Scope and Methodology.....	1
Background .....	2
Opinion .....	3
Executive Summary.....	4

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## OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

Policy.....	5
Timeliness of Claims Reporting .....	5
Proof of Insurance.....	7

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## APPENDICES

APPENDIX A:	Personnel Contacted
APPENDIX B:	Campus Response
APPENDIX C:	Chancellor's Acceptance

## **ABBREVIATIONS**

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AGPIP	Auxiliary Group Purchase Insurance Program - CSURMA
AIME	Athletic Injury Medical Expenses - CSURMA
CSU	California State University
CSULB	California State University, Long Beach
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
SCIF	State Compensation Insurance Fund - State Department of Industrial Relations
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, 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 unintentionally assumed due to contracts with inappropriate indemnification, inadequate insurance provisions, expired/flawed coverages, or such unacceptable campus practices as not notifying insurers of claims/incidents on a timely basis; and
- recordkeeping and reporting are 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 contracts and leases, insurance certificates and policy endorsements, financial ledgers, and claim forms.

The premium assessed the campuses for participation in the Risk Pool/CSURMA (CSU Risk Management Authority) is based, in large part, on actuarial assumptions and estimates of reserve requirements. In their audit of the CSU's financial statements, KPMG Peat Marwick reviewed these factors and concur with the CSU's calculations. Consequently, the financial aspects of risk management and insurance were not emphasized in this audit.

We have not performed any auditing procedures beyond the date of this 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 fiscal year 1995/96, the CSU Chancellor's Office paid all liability, workers' compensation and Industrial Disability Leave (IDL), Non-Industrial Disability Insurance (NDI), Unemployment Insurance (UI) claims, and related expenses. As claims became payable, the CSU funded these liabilities on a cash basis. Beginning in fiscal year 1995/96, the campuses became accountable for these liabilities. Funds that were 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 the 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 Sedgwick James of California, Inc. (hereinafter referred to as Sedgwick) for brokerage, risk management and program administration services. Two other significant service providers under contract include the State Compensation Insurance Fund (SCIF), which administers workers' compensation, and the Office of Risk and Insurance Management (ORIM) in the State Department of General Services, which handles 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, by deductible limits chosen by each 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 authority to the chancellor 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 also 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 the 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 director, safety and risk management, reports to the director, budget and human resources management. The director, safety and risk management, is responsible for management of the related campus programs of environmental health, occupational safety, risk management and insurance. Furthermore, the director is responsible for the development, implementation and continuous evaluation of campus emergency preparedness programs.

During fiscal year 1997/98, the campus carried insurance through the CSURMA. The largest policy premiums were for public entity liabilities and workers' compensation and employers' liabilities. At the time of our visit, CSULB carried a liability deductible of \$100,000. There had never been any claims in excess of the deductible, and the campus does not plan on changing the deductible.

CSU Long Beach has three auxiliary organizations in good standing. None of these auxiliaries participate in CSURMA or purchase insurance through AGPIP.

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## OPINION

We visited the CSU Long Beach campus from October 19 to November 20, 1998, and audited the structure in effect at that time.

The campus' internal controls were adequate to ensure there is an active risk management function that embraces involvement by a number of key disciplines such as environmental health and safety, personnel services, and purchasing. However, we feel that 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 attention. Areas of review not mentioned in this section were found to be satisfactory. Numbers in brackets [ ] refer to page numbers in this report.

### **POLICY [5]**

The campus did not have a formal, written risk management policy to augment actions taken to address risks. Implementation of a formal, written risk management policy would establish a framework for risk identification, mitigation and management evaluation.

### **TIMELINESS OF CLAIMS REPORTING [5]**

Workers' compensation claim forms were not always completed and filed in a timely manner. Timely reporting would eliminate the risk of fines to the campus by state regulatory groups such as the State's Office of Benefit Assistance and Enforcement.

### **PROOF OF INSURANCE [7]**

Campus contract files did not always document the timely review of insurance documents (including certificates and endorsements/policy amendments), or provide adequate proof of insurance for all contracts. Proofing insurance ensures that coverage is adequate for risks transferred by contract.

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## OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

### POLICY

The campus did not have a formal, written risk management policy to augment actions taken to address risks.

The campus has various elements addressing risk management including program-specific policies and procedures, management memos, quarterly meetings, training programs, etc. However, the campus does not have a formal, written policy signed by the president specifically outlining the prioritized risks, campus mitigation strategies, and the methods used to monitor, evaluate, and communicate risk management results.

Executive Order (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 director, safety and risk management, stated that the campus has various components of a risk management policy, although it is not formally documented in a consolidated format.

The absence of a formal, written policy leaves open the possibility for poor risk prioritization, missed risk mitigation opportunities, and inefficient/ineffective risk management.

#### **Recommendation 1**

We recommend that the campus establish a formal, written risk management policy.

#### **Campus Response**

The campus concurs with this recommendation. We will establish a formal, written risk management policy, signed by the President, by April 1, 1999. The policy will be appropriately distributed to the campus community.

### TIMELINESS OF CLAIMS REPORTING

Workers' compensation claim forms were not always completed and filed in a timely manner. In six out of ten files reviewed, we noted exceptions related to the completion of or the timely approval/forwarding of required forms. These exceptions are as follows:

- In two cases, a supervisor's report was not on file. In another, the medical form 5021 was missing.

- In four cases, the supervisor promptly signed the form 3301. However, as required by California law, it was not forwarded to the insurer within one day of signing.
- In one case, the supervisor signed the form 3301 three days after the employee signed it. In another case, it was signed ten days later.
- In one case, the employer's report form 3067 was not reported to the State Compensation Insurance Fund as required by California Labor Code Section 6409.1(a).

As stated on the *Employee's Claim for Workers' Compensation Benefits* form 3301, "Employer – You are required to date this form and provide copies to your insurer and to the employee, dependent or representative who filed the claim within one working day of receipt of the completed form from employee."

Additionally, the *Employer's Report of Occupational Injury or Illness*, form 3067 states: "California law requires employers to report within five days of knowledge every occupational injury or illness which results in lost time beyond the date of the incident OR requires medical treatment beyond first aid..."

According to the risk manager and the associate director loss control, the untimely reporting of claims may not be entirely indicative of a pattern. The sample of claims reviewed was for injuries that occurred during a time of departmental staff transition. Other delays resulted from supervisors not acting accordingly.

Late reporting of claims could result in fines to the campus by state regulators.

## **Recommendation 2**

We recommend that the campus take appropriate measures to reasonably ensure that workers' compensation claims are filed within the guidelines mandated by California law.

## **Campus Response**

The campus concurs with this recommendation. The Office of Safety and Risk Management was aware of instances of non-compliance with guidelines mandated by California law prior to the audit and had recently completed development of a two-hour Basic Workers' Compensation for Managers and Supervisors training program designed to provide information on manager/ supervisor responsibilities associated with a job-related injury or illness of an employee and to impress upon managers/supervisors the importance of timely reporting of employee injuries and illnesses. The first training session was held on November 13, 1998. Subsequent training sessions were held on December 11, 1998, and January 14, 1999. Thirty managers/supervisors have completed training to date. Five additional training sessions through June 30, 1999, have been scheduled.

Course evaluations completed by managers/supervisors participating in the Basic Workers' Compensation for Managers and Supervisors training indicated a strong interest in further training. As a result a Workers' Compensation Liability Issues for Managers and Supervisors training program has been developed. The anticipated training implementation date is April 1999.

The auditor's finding of one (1) Employer Report Form 3067 not being reported to the State Compensation Insurance Fund (SCIF) within legal timelines was most likely the result of a short period of staff shortages in the office of Safety and Risk Management. Upon being made aware of this instance during the audit, an internal audit of submission dates of current claims to SCIF was conducted by Safety and Risk Management personnel. No additional findings of non-compliant submission dates were identified.

The campus has now taken appropriate measures to ensure, to the greatest extent practical, that workers compensation claims are filed within the guidelines mandated by California law.

## PROOF OF INSURANCE

Campus contract files did not always document timely review of insurance documents (including certificates and endorsements/policy amendments) or provide adequate proof of insurance coverage for all contracts.

In all fifteen files reviewed, we noted at least one exception related to the certificate of insurance, the endorsement/policy amendment, or the lease agreement. These exceptions included:

- The certificates of insurance and endorsements are not date stamped, and there is no annotation documenting that they were reviewed prior to the start of the contract.
- In three cases, the certificates of insurance or endorsement named only the campus as the insured and did not identify the Trustees as the additional insured.
- Two files included a cancellation requirement on the certificate of insurance of only 15 days, not the required 30 days.
- Two lease agreements indicated no date of approval and two others were approved and signed after the fact.
- Three contracts had neither a certificate of insurance nor an endorsement on file, and three others had no endorsement.
- One certificate of insurance was unsigned.
- In one case, the certificate and endorsement were both received after the fact.

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.”

The lease coordinator indicated that, in many cases, there were either time constraints involved in obtaining the necessary information or the political/sensitive nature of the event interfered with obtaining the appropriate documents.

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

### **Recommendation 3**

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. Coverage should be provided to the campus, its employees, and the trustees of the university.

### **Campus Response**

The campus concurs with this recommendation. A checklist has already been implemented for use in monitoring lease activities and ensuring that insurance coverage has been received and deemed adequate before the start of activity. An explanation of the CSU insurance requirements and a sample certificate and endorsement are being sent to all prospective lessees at first contact to expedite the insurance process. Copies of the checklist and attachments were provided to the auditors at the exit conference. The lease coordinator will use the checklist to ensure that insurance certificates and policy amendments are in place prior to the start of contract activity.

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## APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Elizabeth Beall	Purchasing Manager
Ignacio Carrillo	Associate Director Parking & Transportation Services
Paula Christie	Associate Director Loss Control
Kathleen Hext	Director of Internal Auditing
Bonnie King	Workers' Compensation
Mary Ann Odell	Lease Coordinator
Joe Rizkallah	Environmental Health & Safety Specialist
Maryann Rozanski	Director, Safety and Risk Management