

RISK MANAGEMENT AND INSURANCE

**CALIFORNIA STATE UNIVERSITY,
CHICO**

Report Number 03-25

August 13, 2003

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ABBREVIATIONS

| | |
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| CSU | California State University |
| CSUC | California State University, Chico |
| CSURMA | CSU Risk Management Authority |
| DMV | Department of Motor Vehicles |
| EM | Executive Memorandum |
| EMHS | Environmental Management, Health and Safety |
| EO | Executive Order |
| HR | Human Resources |
| IIPP | Injury and Illness Prevention Program |
| ORIM | Office of Risk and Insurance Management |
| SAM | State Administrative Manual |
| SCIF | State Compensation Insurance Fund |

EXECUTIVE SUMMARY

As a result of a systemwide risk assessment conducted by the Office of the University Auditor during the last quarter of 2002, the Board of Trustees, at its January 2003 meeting, directed that *Risk Management and Insurance* be reviewed.

We visited the California State University, Chico (CSUC) campus from March 10, 2003, through April 11, 2003, and audited the procedures in effect at that time.

In our opinion, existing risk management policies and procedures were not operating effectively in a number of instances.

The following summary provides 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.

RISK MANAGEMENT AND LOSS PREVENTION PROGRAMS [5]

Although the campus had developed a risk management policy and process in response to Executive Order (EO) No. 715, its program lacked important required elements and had not been fully implemented. The program did not include either ongoing risk identification, evaluation, and documentation or a periodic review for compliance with EO No. 715. Additionally, a campus risk assessment and mitigation plan had not been developed and documented, an annual report was not made to the campus president, and the University Risk Management Committee was only recently established after a seven-year hiatus. Controls over service-learning programs did not ensure that required insurance and hold harmless provisions were included in student placement agreements as evidenced by the lack of required insurance and hold harmless provisions in three of five service-learning agreements reviewed. Further, the campus was not in full compliance with state, campus, and CSU policy concerning the use of university and private vehicles. Authorization forms to drive privately owned vehicles were not always kept current, auto accidents were not always timely reported, and procedures did not ensure that certain employees were enrolled in the Department of Motor Vehicles' (DMV) Pull Notice Program.

INSURANCE PROGRAM ADMINISTRATION [9]

Controls over the procurement of services did not always ensure that adequate proof of insurance was obtained and insurance coverage was in accordance with California State University (CSU) policy. Insurance certificates and additional insured endorsements were not obtained for the majority of purchase transactions reviewed, and the checklist used by the procurement staff did not provide for reviewing evidence of insurance. In addition, procedures for property and liability claim processing and claim file standards were not documented.

WORKERS' COMPENSATION MANAGEMENT [11]

Administrative controls over the payment of workers' compensation claims by the third party administrator did not include a routine review of the paid claims list to detect unfamiliar claims. In addition, the campus workers' compensation program did not include a process to assess and resolve conditions from claims resulting from unsafe work conditions and/or environmental risks.

INTRODUCTION

BACKGROUND

Risk management is the process by which financial or operational risks are identified, evaluated, measured, and prioritized. Once the risks have been prioritized, various risk mitigation techniques are reviewed, and the best technique or combination of techniques is applied to mitigate potential losses from the identified risks. Risk managers determine where losses can occur and choose cost-effective mechanisms to reduce or eliminate risk exposures. Risk mitigation techniques include, but are not limited to: a) purchase of insurance, b) implementation of internal controls, c) redesign of processes and systems, d) staff and management training, e) contractual hold-harmless and waiver requirements, f) health and safety compliance monitoring, and g) internal audit.

Driver Alliant has served as program administrator/director of the CSU Risk Pool from its inception through transition into the current CSU Risk Management Authority (CSURMA) Joint Powers Entity. CSU formed the Risk Pool on July 1, 1995, to provide coverage programs and risk management consulting to its campuses and the chancellor's office. On January 1, 1996, the CSU hired the Office of Risk and Insurance Management (ORIM), an office of the state's Department of General Services, as a third party liability claims administrator and delegated authority to them to: 1) adjust, with campus approval, all non-litigated liability and equity claims for the new CSU Risk Pool, and 2) integrate the data for all CSU litigated "third-party" claims including wrongful termination, discrimination and other employment type claims. ORIM also handles CSU vehicle liability claims.

The State Compensation Insurance Fund (SCIF) handled workers' compensation claims until August 6, 1999, at which time a service agreement between CSU and Ward North America to provide workers' compensation claims administration was signed. This agreement ended June 30, 2003, and a new agreement was executed with Octagon Risk Services.

On January 1, 1997, the Risk Pool was transitioned into the CSURMA, a Joint Powers Authority formed between the CSU and its many auxiliary organizations. This separate legal entity was created to benefit both the CSU and its auxiliary organizations. The CSURMA provides pooled coverage programs, group purchase insurance programs, and related services. The underlying goal of CSURMA is a commitment to address risk management issues in a mutually beneficial, cooperative effort and to open communication between the CSU and auxiliary organizations on risk management and insurance issues.

The bylaws of the CSURMA recognize that the campuses are at the center of CSU's risk management and insurance program and key to mitigating the risks associated with campus administration. In addition to the broad role of campus risk management, the CSURMA Executive Committee developed the following list of campus risk management responsibilities that would serve to strengthen the function; reduce campus risk exposures; and add value to the university community:

- ▶ Development and implementation of campus risk management policies and procedures.
- ▶ Administration and operation of effective risk management programs.
- ▶ Remittance of accurate pool deposits and premium payments in a timely fashion.
- ▶ Effective claims management and reporting.
- ▶ Periodic evaluations of campus risk management programs.
- ▶ Provision of risk management training and communications to campus management and staff.

- ▶ Implementation and monitoring of loss prevention and control programs.
- ▶ Effective claims handling to minimize losses, preserve evidence, and maximize claim defense successes.
- ▶ Proactive participation, as appropriate, in claims settlement.

PURPOSE

Our overall audit objective was to ascertain the effectiveness of existing policies and procedures related to the administration of the risk management and workers' compensation functions and to determine the adequacy of controls that ensure compliance with state regulations, Trustee policy, Office of the Chancellor directives, and campus procedures.

Within the overall audit objective, specific goals included determining whether:

- ▶ Administration and management of the risk management program provide effective internal controls, clear lines of organizational authority, adequate loss prevention and control programs, and documented policies and procedures.
- ▶ The campus has identified, evaluated, mitigated, and documented significant financial and operational risks.
- ▶ Processes exist that adequately mitigate the risks associated with campus sponsored special events, field trips, study abroad programs, air travel, and service learning programs.
- ▶ The campus has established and documented an injury and illness prevention (IIPP) program.
- ▶ Campus risk management staff has been adequately trained.
- ▶ The campus is in compliance with the CSU *Use of University and Private Vehicles* policy guidelines.
- ▶ Risks associated with campus agreements, contracts, and purchases have been adequately transferred or mitigated.
- ▶ Property and liability claims are adequately supported and properly processed within established timeframes.
- ▶ Significant property and liability risks have been insured.
- ▶ Workers' compensation claims are properly safeguarded and effectively processed, communicated, monitored, and resolved.
- ▶ The campus has an effective return-to-work program.
- ▶ Adequate processes exist to prevent and/or detect workers' compensation fraud.

SCOPE AND METHODOLOGY

The proposed scope of the audit as presented in Attachment B, Audit Item 2 of the January 28-29, 2003, meeting of the Committee on Audit stated that *Risk Management and Insurance* includes risk evaluation and asset protection; mitigation of liabilities and claims; and, administration of related programs such as workers' compensation. Potential impacts include unnecessary risk exposures, excessive claims and costs, and fraudulent losses. Risk Management and Insurance was previously audited in 1998.

Our study and evaluation were conducted in accordance with the Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors, and included the audit tests we considered necessary in determining that operational and administrative controls are in place and operative. This review emphasized, but was not limited to, compliance with state laws, Board of Trustee policies, and Office of the Chancellor and campus policies, letters, and directives. The audit review focused on procedures in effect from July 2002 to March 2003. In instances when it was necessary to review annualized data, fiscal year 2001-2002 was the primary period reviewed.

Our primary audit focus involved the internal administrative, compliance, and operational controls over the management of the campus risks and workers' compensation claims. Specifically, we reviewed and tested:

- ▶ Administrative plans, policies, procedures, and monitoring tools.
- ▶ Risk assessment, evaluation, and, mitigation procedures.
- ▶ Loss prevention programs.
- ▶ Campus property, liability, and workers' compensation claims processing and management.
- ▶ Compliance with state and private vehicle use standards.
- ▶ Property, liability, and contract insurance coverage.
- ▶ Workers' compensation information file security.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

RISK MANAGEMENT AND LOSS PREVENTION PROGRAMS

POLICIES, PROCEDURES, AND REPORTING

The campus risk management program had neither been fully implemented nor did it contain important elements required by Executive Order (EO) No. 715.

We noted that:

- ▶ A campus risk assessment and mitigation plan had not been developed and documented.
- ▶ An annual risk management report was not made to the campus president.
- ▶ The University Risk Management Committee was only recently re-established in March 2003 after a seven-year hiatus.
- ▶ The campus risk management program, California State University, Chico (CSUC) Executive Memorandum (EM) No. 00-52, did not include either ongoing risk identification, evaluation, and documentation or a periodic review for compliance with EO No. 715.

EO No. 715, *California State University (CSU) Risk Management Policy*, dated October 27, 1999, states that each president shall develop campus risk management policies and procedures that include an ongoing process by which appropriate administrators identify risks; perform analysis of the frequency and severity of potential risks; select the best risk management techniques to manage the risk without unduly curtailing or modifying activities necessary to the CSU mission; implement appropriate risk management techniques and staffing standards; and monitor, evaluate, and document the results. The campus risk management policy shall include methods to prioritize risks and evaluate costs that would be incurred to provide restoration for damages sustained as well as the evaluation of funding options to ensure availability of funds. The method used should be documented as part of the risk management policy and procedures. Further, the campus policy should include an evaluation process that includes the collection of relevant data and an annual risk management report to the campus president, as well as periodic audits for compliance with systemwide guidelines.

CSUC EM No. 00-52, *Policy on Risk Management Program*, dated June 19, 2000, states that the University Risk Management Committee shall serve as the principal advisory body to the president and the cabinet on risk management issues. Functions of the committee include, but are not limited to, overseeing development of the campus risk management program and submitting an annual report of risk management issues to the president.

The director of risk management and business services stated that the campus did not have sufficient resources exclusively devoted to achieving full implementation of EO No. 715 and campus EM No. 00-52.

Failure to fully develop and implement risk management policies, procedures, and reporting mechanisms imposes an undue risk of loss and/or injury to the public and campus community.

Recommendation 1

We recommend that the campus establish and implement policies, procedures, and controls to ensure full compliance with EO No. 715 and campus EM No. 00-52.

Campus Response

The campus concurs and will implement policies, procedures, and controls in accordance with EO No. 715 by February 2004. Specific developments will include:

- A campus risk assessment and mitigation plan, implemented and documented.
- A prescribed format and an established submission date of 31 May each year for the annual risk management report to the campus president.
- A campus executive memorandum to supercede EM 00-52 which will include provision for on-going risk identification, evaluation, and documentation and for periodic review of the EM for compliance with EO No. 715.
- A bi-monthly meeting schedule and clear charge for the campus risk management committee.

SERVICE-LEARNING PROGRAM

Controls over service-learning programs did not ensure that required insurance and hold harmless provisions were included in student placement agreements.

Our review of five service-learning agreements disclosed that three did not include required insurance and hold harmless provisions. Although one of these agreements was executed prior to the issuance of chancellor's office directives, the agreement had not been amended to incorporate the newly required provisions.

EO No. 849, *CSU Insurance Requirements*, dated February 5, 2003, states that student placement agreements must be in writing and shall specify minimum insurance requirements applicable to the contracting parties and appropriate hold harmless provisions based upon the needs of the contracting parties. These requirements have been in effect since the initial EO concerning CSU insurance requirements dated April 4, 2000.

Human Resources (HR) directive HR 2001-38, *CSU Volunteer Policy*, dated December 20, 2001, states that the community agency for which the student is providing services and the university should develop an agreement that articulates their agreed upon responsibilities for workers' compensation and liability coverage prior to student placements. The university does not provide

workers' compensation coverage to students participating in university-sponsored community service programs.

The director of procurement and contract services stated that the campus had not clearly delegated functional authority and responsibility for compliance with the EO and had not dedicated resources to establish and maintain procedures specific to service-learning agreements.

Not including required insurance and hold harmless provisions in service-learning program agreements unnecessarily exposes participating students to uninsured injury and the university to financial loss and/or embarrassment.

Recommendation 2

We recommend that the campus establish controls that ensure required insurance and hold harmless provisions are included in all service-learning agreements.

Campus Response

The campus concurs. The risk manager, procurement officer, and service learning coordinator have ensured that service-learning placement agreements being prepared for the 2003-2004 academic year undergo risk management review to ensure inclusion of required insurance and hold harmless provisions. Further, a CSU Chico service learning program protocol has been drafted and will be reviewed, refined, and finalized by February 2004.

USE OF UNIVERSITY AND PRIVATE VEHICLES

Authorization forms to drive privately owned vehicles were not always kept current, auto accidents were not always timely reported, and procedures did not ensure that certain employees were enrolled in the Department of Motor Vehicles' (DMV) Pull Notice Program.

We noted the following:

- ▶ Eight of twenty Authorization to Use Privately Owned Vehicles on State Business (Std. Form 261) forms reviewed had not been renewed on the required annual basis.
- ▶ For three of five vehicle accident claims reviewed, the campus did not notify the Office of Risk and Insurance Management (ORIM) within the required 48-hour period.
- ▶ A process had not been implemented to ensure that all employees who drive Class C vehicles as a condition of employment were enrolled in the DMV Pull Notice Program.

The *CSU Use of University and Private Vehicles Policies and Regulations*, dated March 2002, states that management has the responsibility for authorizing persons to drive privately owned vehicles to conduct official university or state business. Before a person may be authorized to use a privately owned vehicle to conduct university or state business, certain usage criteria must be met and Std. Form 261, Authorization to Use Privately Owned Vehicles on State Business, must be completed.

Std. Form 261 will be valid for a period not to exceed one year and may be initialed and dated annually by the employee to certify that it is current. Further, all motor vehicle accidents involving a state-owned vehicle or any vehicle being used on state business must be reported within 48 hours to the ORIM in Sacramento.

The *CSUC Use of University and Private Vehicles Policies and Regulations* requires authorization to drive a privately owned vehicle on university business. This authorization is to be renewed annually at the beginning of each fiscal year. Std. Form 261 should be filled out and signed by the supervisor, who retains the original document, and a copy should be provided to the travel clerk. Further, in the case of an accident, the driver is responsible for filling out an accident report form within 24 hours of the accident.

State Administrative Manual (SAM) §0751 requires completion of Std. Form 261 by those individuals authorized to drive privately owned vehicles while conducting official business. Further, each year the form must be verified and resigned, and supervisors must verify that there is a current Std. Form 261 on file for an employee before signing a travel expense claim.

SAM §0751 states that agencies shall participate in the DMV “Pull Notice Program” if they have employees who operate vehicles on official business as a condition of employment for Class A, B, or C drivers’ licenses with special certificates. Agencies may participate on a voluntary basis for other employees who frequently operate vehicles on state business. Employees who operate vehicles on official business must have a valid driver’s license, insurance, and a good driving record. To determine if a driver has a valid license and a good driving record, agencies should request drivers’ records annually. Frequent drivers should attend and successfully complete an approved defensive driver-training course at least once every four years.

The director of risk management and business services stated that the campus did not specifically assign responsibility to managers and supervisors to ensure annual completion of Std. Form 261 because the same certifications are included on travel expense claim forms. She added that the campus did not have a documented procedure for reviewing vehicle accident report forms, which delayed the submission of some forms due to the newness of the risk manager who serves as the initial reviewing officer. She also stated her belief that departments were identifying and requesting Pull Notice Program enrollment for their employees who drive as a condition of employment and did not actively seek information from departments that had not identified such employees.

Outdated Std. Form 261 authorizations, untimely accident reporting, and failure to enroll applicable employees in the DMV Pull Notice Program increase the risk of non-compliance with state, campus and CSU policy, and campus exposure to potential lawsuits as well as higher insurance costs.

Recommendation 3

We recommend that the campus establish procedures to:

- a. Obtain and maintain Std. Form 261's for all employees authorized to drive privately owned vehicles while conducting official business, including annual renewal.
- b. Ensure that vehicle accidents are reported to the ORIM within 48 hours.
- c. Ensure that all applicable employees are enrolled in the DMV Pull Notice Program.

Campus Response

The campus concurs. The campus is amending its *Vehicle Use Guide* and will re-issue it by December 2003. The guide includes information regarding the annual completion of Std. Form 261 and this information will be emphasized. In addition, a campus announcement will be made each April advising employees and their supervisors to renew authorization for the following year.

The *CSU Chico Vehicle Use Guide* will emphasize the requirement that employees timely report accidents either directly to ORIM or to the campus vehicle reservation office, which can then notify ORIM within the prescribed time period.

Regarding enrollment in the DMV Pull Notice Program, the campus will create a report from the PeopleSoft human resource module listing employees who must have a valid driving license and will enroll those employees in the DMV Pull Notice Program. Reports will be generated monthly from PeopleSoft human resources to reveal necessary additions and deletions from the DMV program. The ability to extract a report with valid data is predicated on the conclusion of old-human resource-system-to-PeopleSoft data conversion clean-up. The campus intends to develop the report and run against clean data by December 2003.

INSURANCE PROGRAM ADMINISTRATION

INSURANCE REQUIREMENTS

Controls over the procurement of services did not always ensure that adequate proof of insurance was obtained and insurance coverage was in accordance with CSU policy.

Our review of 23 purchase transactions that required insurance disclosed the following:

- ▶ In 19 instances, evidence of insurance (i.e., certificates of insurance/additional insured endorsements) had not been obtained.
- ▶ In two instances, the *additional insured* wording on the certificate of insurance was not in compliance with the wording specified in EO No. 849.

- ▶ In one instance, the insurance limits were not in compliance with EO No. 849, and there was no evidence of acceptance of the lower limits by the director of risk management and business services.
- ▶ The checklist for contracts/service orders used by the procurement staff did provide for reviewing evidence of insurance.

EO No. 849, *CSU Insurance Requirements*, dated February 5, 2003, states that in the absence of risk identification and evaluation, the minimum insurance limits and hold harmless provisions as specified in this Executive Order are required. After consideration of risk factors, the campus may amend the standard practices to use either higher or lower limits. These requirements have been in effect since the initial EO concerning CSU insurance requirements dated April 4, 2000.

The director of procurement and contract services stated that the campus had not clearly delegated functional authority and responsibility for compliance with the EO and had not dedicated resources to establish and maintain procedures and internal controls.

Failure to obtain evidence of insurance and comply with CSU insurance requirements increases the potential for loss to the campus and the CSU.

Recommendation 4

We recommend that the campus establish controls to ensure that adequate proof of insurance is obtained and insurance coverage is in accordance with CSU policy.

Campus Response

The campus concurs. The campus has taken a number of steps in order to comply with CSU policy as follows:

- Hired a new employee in risk management whose primary responsibility is to review insurance requirements and hold harmless provisions prior to issuance of contracts, service orders, and purchase agreements and to secure valid certificates and endorsements prior to work commencing or purchases being finalized.
- Purchased and implemented a purchasing and risk compliance system software package developed for the CSU that, among other functions, permits tracking of insurance certificates, coverage limits, expiration dates, endorsements, etc.
- Added “insurance requirements” or “risk management approval” to the checklists used by purchasing and contract services employees processing contracts and service orders.
- Completed a map of the “as is” process for contracts, etc., and initiated the mapping of the “should be” process.

The campus will finalize and document the amended processes by January 2004.

PROPERTY AND LIABILITY CLAIM PROCESSING

Procedures for property and liability claim processing and claim file standards were not documented.

SAM §20050 states that one symptom of a deficient internal control system is policy and procedural or operational manuals that are either not currently maintained or are non-existent.

The director of risk management and business services stated that the campus did not have sufficient resources devoted to formalizing procedures and documentation standards for claims processing.

The absence of properly documented and effectively communicated procedural and/or operational policies and procedures increases the risk of employees performing unauthorized and/or unnecessary tasks and allocating time to risks that are minimal or nonexistent.

Recommendation 5

We recommend that the campus formalize property and liability claim processing procedures and claim file documentation standards.

Campus Response

The campus will enhance its risk management procedural manual and include property and liability claim processing procedures by February 2004.

WORKERS' COMPENSATION MANAGEMENT

PAYMENT PROCESSING CONTROL

Administrative controls over the payment of workers' compensation claims by the third party administrator did not include a routine review of the paid claims list to detect unfamiliar claims.

SAM §20050 states that the elements of a satisfactory system of internal accounting and administrative controls shall include, but are not limited to, a system of authorization and record-keeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

The director of EEO compliance and disability programs stated that the third party administrator submitted a listing of claim payments to the CSU Risk Management Authority (CSURMA) for reimbursement. She further stated her belief that the CSURMA reimbursed the third party administrator without input and claim verification from the individual campuses since the CSURMA could not, without Herculean efforts, reconcile the listing with actual claims filed for all 23 campuses.

Failure to verify the propriety of claims processed and paid by third party administrators increases the risk of incorrect or fraudulent payments.

Recommendation 6

We recommend that the campus establish a routine post-payment review process to ensure that the third party administrator only pays claims submitted by the campus.

Campus Response

The director of employment practices and employee disability programs will implement and monitor the process of post-payment review to ensure that it is performed on a routine basis. This process will be implemented beginning October 1, 2003.

CLAIMS FOLLOW-UP

The campus workers' compensation program did not include a process to assess and resolve conditions from claims resulting from unsafe work conditions and/or environmental risks.

The *CSUC Injury and Illness Prevention Program*, dated January 1999, states that serious occupational injuries, illness or exposures to hazardous substances, as defined by CAL/OSHA, must be reported to environmental management, health and safety (EMHS) no later than 48 hours after they become known. EMHS, in conjunction with a representative from the injured employee's department, will investigate the circumstances of the incident to determine the cause. A copy of each investigation report will be forwarded to EMHS for review at the quarterly campus wide EMHS Committee meeting. Corrective action or a suitable timetable for elimination of a hazard (where appropriate) is the responsibility of the department. EMHS will, however, assist in obtaining expert corrective assistance and university-wide funding where appropriate and necessary. Once identified, hazards will be ranked according to both consequence and probability. Prioritization of corrective actions will be based on the ranking scheme.

The director of EEO compliance and disability programs stated that injury reports that did not meet the CAL/OSHA definition of serious injury or illness were not sent to EMHS by human resources, which is consistent with the campus Injury and Illness Prevention Program (IIPP). The director of EMHS stated that regular meetings of the safety committee had not taken place because the campus had decided to rewrite the IIPP program and had suspended meetings in the interim.

Failure to assess and correct known risks increases the potential for liability lawsuits, which result in increased CSURMA pool contributions.

Recommendation 7

We recommend that the campus establish procedures to assess and resolve conditions from workers' compensation claims that resulted from unsafe work conditions and/or environmental risks.

Campus Response

The disability programs office and environmental health and safety have established a reporting procedure to assess and resolve unsafe work conditions and/or environmental risks that have resulted in work-related accidents/illnesses. These procedures were implemented in April 2003.

APPENDIX A: PERSONNEL CONTACTED

| <u>Name</u> | <u>Title</u> |
|---------------------|-------------------------------------------------------------------|
| Scott McNall | Interim President and Provost |
| Brenda L. Aden | Vice Provost for Human Resources |
| Ingrid Cordes | Director, EEO Compliance and Disability Programs |
| Dennis Graham | Vice President for Business and Finance |
| Patrice Hannemann | Director, Procurement and Contract Services |
| William A. B. Jones | Financial Analyst |
| Glennnda Morse | Director, Facilities Management and Services |
| Mary Peters | Coordinator, Vehicle Reservations |
| Kenneth L. Sator | Director, Environmental Management, Health and Safety |
| Robert Stevens | Workers' Compensation and Disability Leave Programs Administrator |
| Linda Vidovich | Disability Leave Programs Coordinator |
| George Wellman | Associate Vice President, Financial Services |
| Stephanie Yule | Director, Risk Management and Business Services |

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September 15, 2003

Mr. Larry Mandel
 University Auditor
 Office of the Chancellor
 The California State University
 401 Golden Shore
 Long Beach, CA 90810-4210

RECEIVED
 UNIVERSITY AUDITOR

SEP 17 2003

THE CALIFORNIA STATE
 UNIVERSITY

Dear Mr. Mandel:

We have reviewed the findings and recommendations of Audit Report No. 03-25, Risk Management and Insurance, and we are submitting the enclosed responses to the recommendations of each finding.

Finding 1 – Risk Management and Loss Prevention Programs; Policies, Procedures, and Reporting

Recommendation: We recommend that the campus establish and implement policies, procedures, and controls to ensure full compliance with EO No. 715 and campus EM No. 00-52.

Campus Response

The campus concurs and will implement policies, procedures, and controls in accordance with Executive Order 715 by February 2004. Specific developments will include:

- A campus risk assessment and mitigation plan, implemented and documented
- A prescribed format and an established submission date of 31 May each year for the annual risk management report to the campus president
- A campus executive memorandum to supercede EM 00-52 which will include provision for on-going risk identification, evaluation, and documentation and for periodic review of the EM for compliance with EO 715
- A bi-monthly meeting schedule and clear charge for the campus risk management committee.

Finding 2 – Service Learning Program

Recommendation: We recommend that the campus establish controls that ensure required insurance and hold harmless provisions are included in all service-learning agreements.



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Campus Response

The campus concurs. The risk manager, procurement officer, and service learning coordinator have ensured that service-learning placement agreements being prepared for the 2003-2004 academic year undergo risk management review to ensure inclusion of required insurance and hold harmless provisions. Further, a CSU, Chico Service Learning Program protocol has been drafted and will be reviewed, refined, and finalized by February 2004.

Finding 3 – Use of University and Private Vehicles

We recommend that the campus establish procedures to

- a Obtain and maintain Std. Form 261's for all employees authorized to drive privately owned vehicles while conducting official business, including annual renewal.
- b Ensure that vehicle accidents are reported to the ORIM within 48 hours
- c. Ensure that all applicable employees are enrolled in the DMV Pull Notice Program.

Campus Response

The campus concurs. The campus is amending its *Vehicle Use Guide* and will re-issue it by December 2003. The guide includes information regarding the annual completion of Std. Form 261 and this information will be emphasized. In addition, a campus announcement will be made each April advising employees and their supervisors to renew authorization for the following year.

The *CSU, Chico Vehicle Use Guide* will emphasize the requirement that employees timely report accidents either directly to ORIM or to the campus vehicle reservation office, which can then notify ORIM within the prescribed time period.

Regarding enrollment in the DMV Pull Notice Program, the campus will create a report from the PeopleSoft Human Resource module listing employees who must have a valid driving license and will enroll those employees in the DMV Pull Notice Program. Reports will be generated monthly from PS-HR to reveal necessary additions and deletions from the DMV program. The ability to extract a report with valid data is predicated on the conclusion of old-HR system-to-PeopleSoft data conversion clean-up. The campus intends to develop the report and run against clean data by December 2003.

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Finding 4 – Insurance Program Administration; Insurance Requirements

Recommendation: We recommend that the campus establish controls to ensure that adequate proof of insurance is obtained and insurance coverage is in accordance with CSU policy.

Campus Response

The campus concurs. The campus has taken a number of steps in order to comply with CSU policy:

- Hired a new employee in Risk Management whose primary responsibility is to review insurance requirements and hold harmless provisions prior to issuance of contracts, service orders, and purchase agreements and to secure valid certificates and endorsements prior to work commencing or purchases being finalized
- Purchased and implemented a Purchasing and Risk Compliance System software package developed for The CSU that, among other functions, permits tracking of insurance certificates, coverage limits, expiration dates, endorsements, etc.
- Added “insurance requirements” or “Risk Management Approval” to the checklists used by Purchasing and Contract Services employees processing contracts and service orders
- Completed a map of the “as is” process for contracts, etc., and initiated the mapping of the “should be” process.

The campus will finalize and document the amended processes by January 2004.

Finding 5 – Property and Liability Claim Processing

Recommendation: We recommend that the campus formalize property and liability claim processing procedures and claim file documentation standards.

Campus Response

The campus will enhance its risk management procedural manual and include property and liability claim processing procedures by February 2004.

Finding 6 – Workers’ Compensation Management; Payment Processing Control

Recommendation: We recommend that the campus establish a routine post-payment review process to ensure that the third party administrator only pays claims submitted by the campus.

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Campus Response

The Director of Employment Practices and Employee Disability Programs will implement and monitor the process of post-payment review to ensure that it is performed on a routine basis. This process will be implemented beginning October 1, 2003.

Finding 7 – Claims Follow-Up

Recommendation: We recommend that the campus establish procedures to assess and resolve conditions from workers' compensation claims that resulted from unsafe work conditions and/or environmental risks.

Campus Response

The Disability Programs Office (DPO) and Environmental Health and Safety (EHS) have established a reporting procedure to assess and resolve unsafe work conditions and/or environmental risks that have resulted in work-related accidents/illnesses. These procedures were implemented in April 2003.

We hope the above progress meets with the audit committee's approval. If there are any questions, please do not hesitate to give me a call.

Sincerely,



Dennis C. Graham
Vice President for Business and Finance

cc: Scott G. McNall
Stephanie Yule
Ingrid Cordes
Ken Sator
Pattie Hannemann
George Wellman
Bill Jones
Brenda Aden

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

October 6, 2003

CHANNEL ISLANDS

CHICO

MEMORANDUM

DOMINGUEZ HILLS

FRESNO

TO: Mr. Larry Mandel
University Auditor

FULLERTON

HAYWARD

FROM: Charles B. Reed
Chancellor

HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Report Number 03-25 on *Risk Management and Insurance*, California State University, Chico

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of October 6, 2003, I accept the response as submitted with the draft final report on *Risk Management and Insurance*, California State University, Chico.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR/ac

SACRAMENTO

Enclosure

SAN BERNARDINO

SAN DIEGO

cc: Mr. Dennis C. Graham, Vice President for Business and Finance
Dr. Scott G. McNall, Interim President

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

TANISLAUS