

RISK MANAGEMENT & INSURANCE

SYSTEMWIDE

Report Number 98-25

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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
FEMA	Federal Emergency Management Agency
IDL	Industrial Disability Leave
JPA	Joint Powers Authority
MLML	Moss Landing Marine Laboratories
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
SCMI	Southern California Marine Institute
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 unintentionally 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.

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. The 1997/98 fiscal year was the first full year of operation for the CSU Risk Management Authority (CSURMA) that is audited by the public accounting firm of KPMG Peat Marwick.

The premiums assessed the campuses for participation in CSURMA are based, in large part, on actuarial assumptions and estimates of reserve requirements. In their audit of the CSU's financial statements, KPMG addressed 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.

The focus of our audit was internal. We did not directly audit the activities of the major service providers under contract to the CSU/CSURMA such as Sedgwick of California, Inc. (now R. F. Driver co., Inc.)

The two newest programs in CSURMA are auxiliary organizations and intercollegiate athletic injuries. Since these two programs are new, they were excluded from the audit scope. This exclusion for auxiliary organizations covers only the source used to procure insurance and not the campus risk mitigation strategy of transferring risk to an auxiliary through contract.

During the course of the audit, we visited nine campuses. (Bakersfield, Long Beach, Monterey Bay, Northridge, San Bernardino, San Diego, San Francisco, San Jose, and Sonoma.) We interviewed campus personnel and tested records pertaining to: contracts and leases, insurance certificates and policy endorsements, financial ledgers, and claim-related documents/forms.

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 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. Sedgwick's public entity group involved in administering the CSU account became part of Driver Insurance Services, a division of Robert F. Driver Co., Inc. in late 1998. 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 CSU is moving towards removing SCIF and administering workers' compensation claims internally.

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. At the beginning of each fiscal year, members are assessed an annual premium to cover claims and costs. Premiums are driven, in part, based on deductible

limits chosen by the campus and modified by claim history. Additional assessments are made during the course of the year to recover retained risks, assessments for contract services and optional insurance.

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.

Participation in CSURMA is mandatory for all campuses and voluntary for auxiliary organizations. CSURMA participants select deductible amounts and absorb losses below the deductible. They also pay separately for any optional insurance selected.

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 (risk control)
4. Implement appropriate risk management techniques.	▶ Risk retention.
5. Monitor and evaluate the results.	

The structure for risk management at the systemwide level involves a staffing level of 3-4 positions that report to the executive vice chancellor & chief financial officer through the director, financing and risk management. Campus staffing and organization structures vary.

OPINION

We visited the nine campuses mentioned above from March 31 to November 20, 1998, and audited the structure in effect at that time.

We found that risk management, while attaining increased visibility throughout the CSU, is a relatively new function without well-defined, written requirements. Only one systemwide document, Executive Order (EO) 533, was recognized by the campuses as required management practice. At the onset of each our visits, EO 533 had not been fully implemented by any of the campuses reviewed.

At the campus level, we found neither formal policies nor specific program evaluations linking risk exposures with mitigation measures. We attribute the state of campus programs, in part, to a lack of systemwide directives and start-up staffing of the function. The development of the CSU's risk management function has not provided the system with an extensive knowledge base of how such functions operate in other organizations; many risk managers lack specific experience, training and professional credentials. In addition, there does not seem to be a consensus as to the level of resources necessary for effective risk management; this may be placing a burden on systemwide resources and an over-reliance on consultants and external service providers

Areas that warrant further attention are 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.

POLICY [6]

At the onset of each of our reviews, no campus had developed a formal risk management policy. Establishment of a formal risk management policy and procedures decreases the possibility of poor risk prioritization, missed risk mitigation opportunities, and inefficient and ineffective risk management.

INJURY/ILLNESS REPORTING [7]

The nine campuses visited were not consistently reporting injuries/illness on at timely basis. Timely reporting avoids potential fines and reduces the opportunity to inaccurately document claim-related information.

AUXILIARY OPERATING AGREEMENTS [8]

The operating agreements and leases with several key auxiliary organizations at four of the nine campuses visited had defaulted to month-to-month extensions. Timely agreement renewals ensure adequate indemnification and insurance coverage for risks mitigated by transfer.

LIABILITY [9]

PROOF OF INSURANCE [9]

Contract files at each of the campuses visited did not always provide evidence of accurate, complete or timely review of insurance coverages. Maintaining current and complete proof of insurance documents ensures that coverage is adequate for risks transferred by contract.

INSURANCE COVERAGE [12]

Insurance coverage related to both marine insurance and earthquake related occupancy of temporary trailers was inconsistent. Establishing uniform insurance coverage reduces the risk that special programs/projects will be inadequately insured.

RESOURCES [14]

There were no CSU established criteria by which campuses could evaluate the staffing of their risk management programs. Ensuring both adequate staffing and experienced personnel at the campus level will strengthen the overall CSU risk management program.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

POLICY

At the onset of each of our reviews, no campus had developed a formal risk management policy.

Executive Order (EO) 533, dated August 1, 1988, 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.

One campus (San Francisco) developed a local risk management policy document during the course of the audit. Their policy reiterated much of the language in EO 533 but did not embellish key points or address local circumstances to a great extent.

The campuses had various reasons for not adopting a policy as required by EO 533. The most common explanation was that aspects of a policy had already been addressed through other means, and they did not consider it necessary to consolidate multiple sources into a single policy statement. There were also concerns expressed over the lack of a model, systemwide policy. The audit staff developed a model for discussion purposes and circulated it to at least two campuses during the course of the audit (see Appendix B.)

In our opinion, EO 533 contemplated such a model policy in stating that the systemwide risk management coordinator shall:

- produce a guidelines document incorporating a survey of possible areas to be considered in assessing risk; and
- include in the guidelines a compendium of existing policies, a directory of advisory resources, and a bibliography.

The formal guidelines document was never produced. In addition, EO 533 provisions for an evaluation process and annual report have not been implemented. With the exception of EO 533, which is now more than ten years old, neither the campuses nor the central administration were aware of any other relevant systemwide policy.

The absence of formal risk management policy and procedures increases the risk of poor risk prioritization, missed risk mitigation opportunities and inefficient and ineffective risk management.

Recommendation 1

We recommend that EO 533 be updated, including a model risk management policy.

Management's Response

We concur. Executive Order No. 533 will be updated by November 1999 and include the elements of a model risk management policy with responsibility requirements for implementation to the campuses.

INJURY/ILLNESS REPORTING

The nine campuses visited were not consistently reporting injuries/illness on a timely basis.

The *Employer's Report of Occupational Injury or Illness* (SCIF 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." This requirement is derived from California Labor Code Section 6409.1(a). The intended report recipient is the workers' compensation claims administrator.

Several campuses indicated that there was not a sense of urgency in reporting. Additionally, dissatisfaction with the level of service from SCIF as the CSU claims administrator has recently culminated in a change in service providers. The CSU is aggressively pursuing an initiative to administer workers' compensation cases internally. The system that will be implemented must address compliance with the Labor Code on the timeliness of claim reporting.

Late reporting of injuries/illnesses increases the risk of fines and reduces the opportunity to accurately document claim-related information.

Recommendation 2

We recommend that management take appropriate measures to ensure that all injury and illness reports are filed within the guidelines mandated by California law.

Management's Response

Campus personnel must comply with California Labor Code Section 6409.1 that requires illness and injury reports to be filed within the guidelines of the state law. Prior to January 1, 2000 we will take the following measures to ensure the reports are filed.

- a. Issue an advisory memorandum to campus presidents to remind them of the responsibility for timely reporting of occupational illness and injuries.
- b. Review the requirements with the Vice Presidents at a CABO meeting.

- c. Include the issue in the workshop material for the implementation of the Disability Case Management Program beginning this fall.

AUXILIARY OPERATING AGREEMENTS

The operating agreements and leases with several key auxiliary organizations at four of the nine campuses visited had defaulted to month-to-month extensions.

One frequent recipient of the risk transferred by contract is one or more of the campus's auxiliary organizations. These agreements address varying numbers of activities including some with high risk (e.g., concerts and event centers). At four campuses visited, there were five agreements that had lapsed.

The agreements typically contain a holdover clause that allows month to month extensions based upon the express or implied consent of the trustees. However, at the time of our visit, the campuses were not progressing towards timely execution of new agreements.

Executive Order (EO) 533 requires inclusion of five prescribed elements in a campus risk management policy. The third element focuses on the selection of the best risk management techniques to manage risks without unduly curtailing or modifying activities necessary to the CSU mission. The fourth element addresses implementing appropriate risk management techniques in relation to campus activities. Transferring risk by agreement is an appropriate means of accomplishing the intent of EO 533.

Our discussions with management at the campuses visited indicated that some agreements were delayed because of the need for both parties to consider changes.

Failure to ensure timely agreement renewals increases the risk of inadequate indemnification and insurance coverage.

Recommendation 3

We recommend that management ensure timely renewal of auxiliary organization agreements and discourage routine month-to-month extensions.

Management's Response

We agree with the concept that a timely renewal of auxiliary organization agreements is preferred over month-to-month renewals. To ensure timely renewal of auxiliary organization agreements, we will forward a reminder to campus presidents about the need for having current written agreements in place.

LIABILITY**PROOF OF INSURANCE**

Contract files at each of the campuses visited did not always provide evidence of accurate, complete, or timely review of insurance coverages.

Our tests of contract files indicated the following:

Table 2
Summary of Insurance Concerns

Issue	Bkfd	LB	Nrth	MB	SB	SD	SF	SJ	Son
Lapsed/missing certificates		X	X					X	X
Inconsistent availability of policy endorsements or alternatively, verification that certificate signators were authorized to bind the insurer.	X	X		X	X		X	X	X
Absence of additional insureds.	X	X	X	X			X		X
No documentation that insurance was accepted prior to the start of work.	X	X	X		X		X		
Insurer ratings in the A. M. Best guide not checked.	X		X	X		X	X	X	X
Missing certifications on subcontractor arrangements				X	X		X	X	X

The January 1993 Sedgwick (now R. F. Driver Co., Inc.) 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.

You should require that insurance be placed with companies that have an A. M. Best's rating of at least A:VII unless specific approval for a lower rating has been granted by you.

In addition to Segwick's view on acceptable insurance documentation, the CSU in Section 412.06 of the *Policy Manual for Contracting and Procurement* states that contracts requiring insurance shall contain provisions for an underwriter's endorsement and a certificate of insurance with:

- certain minimum coverage amounts; and
- the state, the trustees, the CSU, the campus, and employees, officers and agents named as additional insureds.

An additional nuance in construction 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.** (Emphasis added.)

Reasons stated by the campuses for inadequate insurance proofing included:

- not clearly understanding what insurance proofing was required; the importance of the Sedgwick publication was underscored by an update issued in August 1998. The updated version addresses the same concepts and precautions in the earlier edition
- uncertainty over the applicability of the criteria in the Sedgwick publication; and
- those reviewing the documents were not insurance experts.

Incomplete or expired insurance documents increases the risk that coverage is inadequate for risks transferred by contract.

Recommendation 4

We recommend that the chancellor's office:

- a. adopt the relevant portions of the Sedgwick (now R. F. Driver Co., Inc.) publication entitled *Insurance Requirements in Contracts: A Procedure Manual for CSU Risk Pool Members* as a requirement and distribute it to the campuses; and
- b. provide a method of enabling appropriate personnel on each campus to acquire and maintain the knowledge needed to adequately proof insurance.

Management's Response

This recommendation deals with the quality of contract insurance provisions and how campuses manage such issues. By November 30, 1999 we will issue a communication to campus presidents:

- a. establishing a minimum level of insurance with a procedure to document reasons if there is a need for variance from the minimum; and
- b. asking that they document through an evaluation of procedures and personnel how they are addressing that there is an adequate review of insurance provisions in contracts. In addition we will continue to offer guidance in contract review at the annual program conference for purchasing officers (PSSOA), at the Capital Planning, Design and Construction annual conference, and at the CSURMA annual conference.

INSURANCE COVERAGE

Insurance coverage related to both marine insurance and earthquake related occupancy of temporary trailers was inconsistent.

Marine Insurance

The CSU has two marine study programs – the Southern California Marine Institute (SCMI) in the south and the Moss Landing Marine Laboratories (MLML) in the north. Both programs operate as a consortium of campuses with one participant assigned administrative responsibility. SCMI is assigned to Long Beach and MLML is assigned to San Jose. Between these two programs, they own and/or operate the majority of the CSU's fleet of boats.

Marine operations have special insurance requirements. The CSU Risk Management Authority (CSURMA) insures boats for liability based on size (less than 26 feet in length) and engine power (smaller than 25 horsepower). Anything larger requires separate, special purpose coverage. In addition to the larger boats, special CSURMA coverage is necessary for property damage and workers' compensation of employees who are primarily "on the water" or dockhands.

In reviewing MLML insurance and risk exposures, we noted that some boats were uninsured. In comparing the MLML insurance with SCMI, we noted that SCMI had additional insurance not in place at MLML.

In our opinion, MLML and SCMI operations are not that dissimilar and should have comparable insurance coverages. The confusion in coverage is due to the involvement of multiple insurers and several different organizations obtaining the insurance coverage. Marine insurance is also an area of specialization that is not universally understood.

Earthquake-Related Occupancies

As a result of earthquake damage to permanent structures, the San Jose and Northridge campuses currently occupy temporary trailers. Due to the January 17, 1994 Northridge earthquake, the Northridge campus occupied several hundred trailers during their recovery efforts. As a result of the October 19, 1989 Loma Prieta earthquake, the San Jose campus is leasing 21 trailers for MLML occupancy.

Although each campus is operating under provisions of the Federal Emergency Management Agency (FEMA) for reimbursement of recovery costs, they have elected different insurance coverage. For example:

- The Northridge campus has a negligible risk exposure. It insures its trailers but has decreased the property deductible to a relatively low limit of \$1,000 per trailer with the understanding that the separately itemized insurance premiums will be fully reimbursed by FEMA;
- The San Jose campus has an uninsured property risk exposure estimated at \$500,000 (the value of the trailers imputed in the lease documents) and has opted to self-insure the MLML trailers.

Failure to establish uniform insurance coverage for special programs/projects may result in insufficient coverage for some CSU campuses.

Recommendation 5

We recommend that the chancellor's office review the insurance needs and practices of similar CSU programs in marine studies and disaster recovery with the intent of establishing standardized insurance coverage.

Management's Response

Marine Insurance

We concur. The systemwide risk manager will perform risk assessments at both the Southern California Marine Consortium and the Moss Landing Marine Laboratory by October 15, 1999. A report will be issued thirty days following the assessments, with recommended standardized insurance coverage programs provided to these entities by November 15, 1999.

Earthquake Related Occupancies

As to the earthquake related occupancies at Moss Landing and the Northridge campus and their associated insurance coverages, a review of these practices will be conducted this summer with a final report to the San Jose campus and Northridge campus by November 15, 1999. It should be noted that the Federal Emergency Management Agency (FEMA) is expected to release regulations mandating insurance coverage for all perils (including earthquake) on June 15, 1999.

RESOURCES

There were no CSU established criteria by which campuses could evaluate the staffing of their risk management programs.

Most campus risk managers were assigned risk management duties in addition to other duties they were currently managing. The value of such assignments was related to each risk manager's knowledge of campus operations.

The campuses did not demonstrate any similarities as to how the risk management function was organized. In fact, there were a number of different combinations and reporting relationships. It was not uncommon to find that the risk manager did not have operational responsibility for all CSURMA programs. For example, on some campuses, workers' compensation or segments of related leave programs (e.g., nonindustrial disability leave or catastrophic leave) were administered as benefits through human resources or personnel offices, which do not report to the risk manager.

A comparison of the programs on the campuses visited follows:

Table 3
Resource Comparisons

Campus	Working Title for Risk Manager	PT/FT	Specific Education	Prior Experience	Professional Certification
Bakersfield	Assistant VP of Fiscal and Support Services	PT	No	No	No
Long Beach	Director, Safety and Risk Management	FT	No	No	Yes
Northridge	Director, Purchasing and Logistical Services	PT	No	Some	No
Monterey Bay	Director, Business and Support Services	PT	No	No	No
San Bernardino	Executive Director, CSUSB Foundation	PT	No	No	No
San Diego	Associate VP for Business Enterprises	PT	No	No	No
San Francisco	Director, Risk Mgmt. and Auxiliary Oversight	FT	No	No	No
San Jose	Director, Safety and Risk Management	FT	Yes	Yes	Yes
Sonoma	Associate VP for Admin. and Finance	PT	No	No	No

Each of the current risk managers had degrees/formal education in disciplines other than risk management, while only a few have pursued professional certifications in the field of risk management. The majority of the managers have obtained significant on-the-job training after their appointments. However, with the exception of San Jose, none have first-hand experience in risk management operations outside the CSU.

Lack of experienced personnel and adequate staffing often results in inadequate risk management.

Recommendation 6

We recommend that the Chancellor's office establish and distribute criteria by which campuses can evaluate the staffing of their risk management programs.

Management's Response

This recommendation deals with the management of campus staffing. We will issue a letter to campus presidents asking that they document through an evaluation of risk the appropriate campus standards for the risk management function. To assist campuses, the office of Financing and Risk Management will distribute information by November 30, 1999 about the training and expertise other universities use to staff the risk management functions.

APPENDIX A: PERSONNEL CONTACTED

SYSTEMWIDE

Richard West	Senior Vice Chancellor, Business and Finance
Michael Beatty	Account Representative - Driver Insurance Services
Daniel Howell	Senior Vice President – Driver Insurance Services
Richard Leffingwell	Director, Financing and Risk Management
Marti Lopez	Risk Management Coordinator
Charlene Minnick	University Risk Manager
William Musselman	Acting Director of Accounting

CALIFORNIA STATE UNIVERSITY, BAKERSFIELD

Mike Neal	VP Business & Administrative Services
Barbara Brenner	Hazardous Materials & Safety Coordinator
Kellie Garcia	Director of Personnel
Mark Murrie	Manager of Personnel/ Claims Coordinator
Marsha Oden	Facilities Scheduling (Athletics)
Vicki Parker	Assistant to the Dean, Academic Scheduling
Valerie Patscheck	Purchasing Agent
Sharon Taylor	Assistant Vice President Fiscal & Support Services/Risk Manager
Mike Williams	Director Procurement & Support Services
Frank Yap	Procurement & Support Services Officer

CALIFORNIA STATE UNIVERSITY, LONG BEACH

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
Mary Ann Rozanski	Director, Safety and Risk Management

CALIFORNIA STATE UNIVERSITY, MONTEREY BAY

Peter Smith	President
Robert Alexander	Coordinator, Outdoor Recreational Programs
Leslie Arutunian	Manager, Conferences & Event Services
Bobbie Bonace	Head of Athletics

Reyola Carlisle	Contracts Coordinator
Cynthia D'Vincent	Special Consultant – Wellness, Recreation and Sport Institute
Diane Ehlers	Director, Environmental Health & Safety
Alida Fitzpatrick	Procurement and Risk Management Analyst
Gretchen Fuentes	Manager, Benefits, Systems & Professional Development
Linda Hadreas	Employee Services Representative
Matthew Kritscher	Coordinator, Student Activities
Barbara Lawson	Vice President for Finance
Michele Melicia	Coordinator, Conference & Event Services
Resty Prospero	Director of Accounting
Richard Taylor	Director, Purchasing, Contracts, and Risk Management
Linda Wight	Director of Human Resources

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Blenda J. Wilson	President
Karen Clark	Manager, University Licensing
Grace Collins	Associate Athletic Director, Business Affairs
William M. Cooper	Director of Purchasing and Logistical Services
Arthur Elbert	Vice President for Administration and Finance
Benjamin Elisondo	Safety Coordinator, Physical Plant Management
Cathryn Espinosa	Manager, Risk Management & Insurance
William Foster	General Manager, Associated Students
S. Roger Frichette	Director, Residential Life
Arna Fulcher	Associate Director, University Student Union
Janice Griffin	Manager of Operations, University Controller's Office
Michael Hammerschmidt	Executive Director, University Foundation
Rochelle Johnson	Confidential Office Support
Marjorie A. Kantrowe	Manager, Employee Relations & Staff Development
Robert Kiddoo	University Controller
Ronald Kopita	Vice President, Student Affairs
Donald Miller	Acting Executive Director, University Corporation
Jeffery Miller	Associate Director, University Conference Services
Marilyn Mindoro	Director of Administrative Services/Controller, University Foundation
Stephen H. Montgomery	Director of Human Resource Services
Ronald Norton	Manager, Environmental Health & Safety
William Outhouse	Vice President, University Relations
Mary Sosa	Contracts Administrator, Purchasing
Brian Swanson	Assistant Athletic Director, External Affairs

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Albert Karnig	President
Arthur Butler	Campus Risk Manager (Executive Director CSUSB University Foundation)
Avelina Saavedra	Buyer III, Procurement and Support Services
Beth Stanton	Buyer III, Procurement and Support Services
Catherine Schinhofen	Administrative Assistant, Environmental Health and Safety
David DeMauro	Vice President Administration and Finance
Dennis Kraus	Director, Public Safety
Diana Gomes	Benefits Manager, Human Resources
Jan Lemmond	Purchasing Officer
Kathy Shepard	Director, Procurement and Support Services
Tony Ichsan	Environmental Health and Safety Officer

SAN DIEGO STATE UNIVERSITY

Sue Blair	Director, Personnel Services
Annita Borrega	Secretary, Business Services
Cathy Garcia	Assistant Director, Procurement Services
Ellene Gibbs	Director, Business Information Management
Lynne Grenfell	Director, Business Services – SDSU Foundation
M. C. Hull	Director, Environmental Health & Safety
Jerry Ledin	Associate Director, Personnel Services
Janet Luecht	Clerical Assistant, Personnel Services
Janice Pierce	Senior Secretary, Business and Financial Affairs
Linda Richter	Director, Budget and Planning
Richard Schaff	Director of Procurement
Linda Stewart	Assistant Vice President, Business and Financial Affairs
Joseph Vasquez	Associate Vice President, Business Enterprises
Jennifer Venter	Project Manager, Personnel Services

SAN FRANCISCO STATE UNIVERSITY

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

SAN JOSE STATE UNIVERSITY

Robert Caret	President
Ric Abeyta	Chief of Police
Terry Applegate	Clerical Assistant – College of Social Work
Virginia Barnes	Accounting Technician/Property Officer
Shawn Bibb	Director, Accounting & Systems and Technology
Dan Buerger	Executive Assistant to the President
Edd Burton	Associate Vice President, Institutional Planning & Academic Resources
Jim Cellini	Director, Student Life Center
Barbara Coats	Director, Safety & Risk Management
Elyrose David-Sanchez	Academic Scheduling Supervisor
Alfonso De Alba	Executive Director – Associated Students, Inc.
Gustavo De La Torre	Associate Vice President, Human Resources
Jean Fong	Accounts Payable Manager
Chris Hightower	Event Coordinator – Student Union, Inc.
Chris Jasper	Workers' Compensation Analyst
Daniel Johnson	Associate Vice President, Facilities Development and Operations
Larry Jones	Maintenance Worker – Moss Landing Marine Laboratories
Mary Jones	Industrial Hygenist
Don Kassing	Vice President for Administration/Chief Financial Officer
Kristin Kelly	Administrative Services Manager – Student Union, Inc.
Barbara Keltner	Contract Administrator
Lynne Liptz	Manager, Workers' Compensation
Rose Lee	Associate Vice President, Financial & Administrative Program Planning
Wendith Lewandowski	Clerical Assistant, Public Affairs
Carolyn Lewis	Associate Athletic Director
Norma Lorigo	Director, Procurement Services
David Neel	Chair, Aviation
Bill Petchauer	Director, Business & Finance – SJSU Foundation
Norma Rossiter	Business Services Manager – SJSU Foundation
Ana Russo	Accounting Technician

St S. Saffold	Associate Vice President, Student Affairs
Paul Siegel	Manager of Accounting/Cost
Richard Staley	Manager, Emergency Preparedness/Alternate Transportaion
John Troyan	Accounting Manager – SJSU Foundation
Linda Vasquez	Senior Director, Business Operations
Sally Veregge	Chair, Biological Sciences
Nancy Wu	Administrative Program Planning Coordinator

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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

APPENDIX B: AUDIT EXPECTATIONS FOR A MODEL RISK MANAGEMENT POLICY

A document in writing signed by the campus president with campuswide applicability and distribution that:

- ▶ Is labeled with a title that says it is the campus risk management policy;
- ▶ Requires an on-going process for risk management and describes how it will work;
- ▶ Designates the appropriate administrator(s) and their respective responsibilities;
- ▶ As a minimum, meets the five prescribed elements of the executive order and elaborates on any unique campus requirements;
- ▶ Identifies subordinate campus detail on what will be done;
- ▶ Establishes a basis for procedures to effect the policy;
- ▶ Is subject to whatever protocol that campus normally follows for policy development and publication; and
- ▶ Makes provision for keeping the policy up-to-date.

WHAT WILL BE DONE

Examples of the specificity that might appear in each of the five prescribed EO elements is as follows:

1. Identify risks
 - ▶ Define campus-relevant criteria for significant risks
 - ▶ Require itemization of significant risks including unique campus risks that are different than those at other levels, i.e., national educational institutions or CSU systemwide/CSURMA program priorities
2. Evaluate their seriousness
 - ▶ Probability analysis of risk occurrence
 - ▶ Quantitative analysis of each risk exposure
 - ▶ Rank risks in priority order of their potential impact
3. Select best risk management technique
 - ▶ Identify range of alternatives for each specified liability/risk
 - ▶ Cost/benefit analysis of what would work best, e.g., transfer of risk by contract
4. Implement appropriate risk management technique
 - ▶ Specify roles and responsibilities
 - ▶ Establish goals and implementation methodology
 - ▶ Provide specific measures for accountability such as under what circumstances the campus will do business with an entity unable to obtain insurance with an insurer rated at least A:VII by A. M. Best.
5. Monitor and evaluate results
 - ▶ Measure against specific goals – qualitative and quantitative measurements
 - ▶ Stipulate report intervals and frequency, e.g., annual cabinet-level reporting

Memorandum

To: Mr. Larry Mandel
University Auditor

Date: June 26, 1999

RECEIVED
University Auditor

From: Richard P. West
Executive Vice Chancellor/Chief
Financial Officer

JUN 28 1999

The California State
University

Subject: Risk Management and Insurance Audit Report Number 98-25

We have reviewed the above captioned report and express our responses below:

Recommendation 1

We recommend that Executive Order No. 533 be updated, including a model risk management policy. We further recommend that the updated E.O. be circulated to each campus with a reminder that it is the campus' responsibility to implement the program requirements contained within.

Management's Response

We concur. Executive Order No. 533 will be updated and include the elements of a model risk management policy with responsibility requirements for implementation to the campuses by November 1999.

Recommendation 2

We recommend that management take appropriate measures to ensure that all injury and illness reports are filed within the guidelines mandated by California law.

Management's Response

While we agree that campus personnel must comply with California Labor Code Section 6409.1 and we will continue to

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remind campuses of this requirement, we are unclear as to how we are to "take appropriate measures to ensure....." compliance. A review of five campus audits revealed that only one campus received this finding. As a result of this finding they conducted a two-hour Basic Workers' Compensation for Managers and Supervisors training program. We believe this course is an adjunct to the two Workers' Compensation Workshops conducted annually by the CSURMA and we will include this session at upcoming workshops to be conducted on each campus with the implementation this Fall of the Disability Case Management Program. Financing and Risk Management will issue an advisory memo to the campuses to remind them of their responsibility for timely reporting of occupational illnesses and injuries by June 30, 1999.

Recommendation 3

We recommend that management ensure timely renewal of auxiliary organization agreements and discourage routine month-to-month extensions.

Management's Response

We concur that management should ensure timely renewal of auxiliary organization agreements and discourage the routine month-to-month extensions. However, the responsibility to ensure agreements are renewed on a timely basis lies with campus administrations that have direct oversight of auxiliary organizations. We understand that comments in individual reports have addressed this issue at the campuses visited.

We are pleased that the audit findings did not disclose any significant cost-resulting or operational problems because agreements were being extended. We believe this means that the month-to-month extension process is effective, even though it is not the optimal process. Because we agree with the underlying concept that a timely renewal is preferred, we will forward a reminder to all campus presidents about the need for having current written agreements in place.

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Recommendation 4

We recommend that the chancellor's office:

- a. adopt the relevant portions of the Sedgwick (now R. F. Driver Co., Inc.) publication entitled *Insurance Requirements in Contracts: A Procedure Manual for CSU Risk Pool Members* as a requirement and distribute it to the campuses; and
- b. provide a method of ensuring that appropriate personnel on each campus are certified as knowledgeable in all aspects of proofing insurance.

Management's Response

- a. This Driver (Sedgwick) publication was produced to act as a guideline and to allow campuses flexibility in matching insurance requirements to the exposure(s). Minimum levels are provided to assist campuses in reaching the appropriate level of insurance to be required. We do not believe the intent of the document should be changed. The above captioned manual has recently been reviewed and updated. Training has been conducted regarding its use and application. A full day workshop was conducted on November 11, 1998, as well as a spring workshop held May 19, 1999. Additionally, this topic has been presented at least twice a year for the last three years at the Physical Planning and Development Conference, as well as the PSSOA Annual Conference and the annual Risk Management: Fitting the Pieces Together Conference. Copies of the manual have been distributed to each campus and additional copies are provided upon request.

An advisory memo to contract and procurement personnel as well as campus risk managers will be issued with a copy of the manual for their use as well as instructions for whom to call for additional information by August 30, 1999.

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- b. The systemwide risk manager is currently reviewing insurance certificate tracking systems and will report her findings to the California State University Risk Management Authority (CSURMA) Executive Committee at their meeting on June 9, 1999. It is anticipated that a volume purchase of this software will assist campus risk managers and procurement personnel in tracking and monitoring contractor/vendor compliance with CSU insurance requirements.

It should also be noted that each campus has also been provided copies of the AM Best Guide which is a guide book to insurance company ratings.

Recommendation 5

We recommend that the chancellor's office review the insurance needs and practices of similar CSU programs in marine studies and disaster recovery with the intent of establishing standardized insurance coverage.

Management's Response

Marine Insurance

We concur. The systemwide risk manager will perform risk assessments at both the Southern California Marine Consortium and the Moss Landing Marine Laboratory by October 15, 1999. Marine Insurance is unlike traditional insurance and does require specialized knowledge. The systemwide risk manager does possess this expertise and will utilize her knowledge and experience as she has with the Maritime Academy and Humboldt State University marine programs. A report will be issued thirty days following the assessments, with recommended standardized insurance coverage programs provided to these entities by November 15, 1999.

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Earthquake Related Occupancies

As to the earthquake related occupancies at Moss Landing and the Northridge campus and their associated insurance coverages, a review of these practices will be conducted this summer with a final report to the San Jose campus and Northridge campus by November 15, 1999. It should be noted that the Federal Emergency Management Agency (FEMA) is expected to release regulations mandating insurance coverage for all perils (including earthquake) on June 15, 1999. The systemwide risk manager is in contact with the State Office of Risk Management, Office of Emergency Services, as well as the CSU's Office of Federal Relations to monitor these proposed regulations and their impact to the CSU.

Recommendation 6

We recommend that the chancellor's office develop standards for staffing risk management offices and establishing criteria by which campuses can evaluate the staffing of their risk management programs.

Management's Response

The responsibility for campus risk management function has been delegated to the campus president pursuant to E.O. 533. The system office will provide information about the training and expertise other universities use to staff the risk management functions by November, 1999. We do not believe the system office should develop standards for the staffing of this function. These decisions affect campus budgets and we believe the president has the authority and responsibility for the allocation of campus resources. As to the comments regarding the education and experience of the current campus risk managers, the CSURMA has an aggressive program and will continue to provide training in various aspects of risk management as well as encourage outside professional development. The cost of training risk managers is a campus decision and should not be mandated by the Office of the Chancellor.

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The Office of the Chancellor will provide guidance in support of campus policy and programs covering risk management issues. When requested or required, the Office of the Chancellor will ensure that competent technical and legal advice on related matters is available to assist university administration and management in meeting their compliance responsibilities.

Should you have any questions or need further information, please contact Mr. Richard Leffingwell, Director, Financing and Risk Management at extension 1-4570 or Ms. Charlene Minnick, Systemwide Risk Manager at extension 1-4580.

RPW:cmm

cc: Mr. Jim Usher
Mr. Richard K. Leffingwell
Ms. Charlene Minnick