

RISK MANAGEMENT & INSURANCE

**CALIFORNIA STATE UNIVERSITY,
SAN BERNARDINO**

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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)
CSUSB	California State University, San Bernardino
EO	Executive Order
IDL	Industrial Disability Leave
IIPP	Illness and Injury Prevention Program
JPA	Joint Powers Authority
NDI	Non-industrial Disability Insurance
ORIM	Office of Risk Management and Insurance - State Department of General Services
RFIN	Resolution, Committee on Finance (CSU Board of Trustees)
SCIF	State Compensation Insurance Fund - State Department of Industrial Relations
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 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 unacceptable campus practices such as not notifying insurers of claims/incidents on a timely basis; and
- ◆ recordkeeping and reporting are adequate for program administration.

SCOPE AND METHODOLOGY

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

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

The premium assessed the campuses for participation in the Risk Pool/CSURMA is based in large part on actuarial assumptions and estimates of reserve requirements. In their audit of the CSU's financial statements, the public accounting firm of KPMG audited these factors and agree with the CSU's

calculations. Consequently, these particular financial aspects of risk management and insurance were not emphasized in this audit.

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

BACKGROUND

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

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

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

The five main CSURMA programs are:

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

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

Executive Order 533 issued by the CSU in August 1988 defines the steps in 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 (aka risk control)
4. Implement appropriate risk management techniques.	▶ Risk retention.
5. Monitor and evaluate the results.	

The risk manager at CSUSB is the executive director of the CSUSB Foundation, and reports to the vice president, administration and finance. Less than one year prior to the start of this audit, the campus established a separate function/office for risk management. One of the more time consuming priorities in their first year was developing and improving a means of collecting and analyzing data.

During fiscal year 1997/98, the campus and all its auxiliary organizations purchased insurance through the CSURMA. The largest policy premiums were for workers' compensation and employers' liabilities, and the campus is currently focusing on cost containment in these two areas.

OPINION

We visited the California State University, San Bernardino campus from June 16 to July 17, 1998, and audited the structure in effect at that time.

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

EXECUTIVE SUMMARY

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

POLICY [5]

The campus did not have a formal risk management policy. Implementation of a formal risk management policy would establish a framework for risk identification, mitigation and management evaluation.

PROOF OF INSURANCE [6]

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

LAPSES IN COVERAGE [7]

Controls to detect and prevent lapses in contractually required insurance policies were inadequate. Monitoring the continuance of coverage decreases the risk that the campus will rely on coverage that is no longer in force.

RISK MITIGATING AGREEMENTS [8]

Agreements intended, in part, to mitigate risk exposures of the campus and other organizations were not established timely. The timely execution of agreements creates an environment where the campus can assure adequate indemnification and insurance coverage for risks transferred by agreement.

CSURMA TRAINING [9]

The campus has not integrated the CSURMA train-the-trainer into its worker's compensation risk mitigation program. Timely implementation of CSURMA ensures that the benefit of this training is received.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

POLICY

The campus did not have a formal risk management policy.

Specific issues that need to be addressed in the creation of this policy include, but are not limited to:

- written job descriptions and clearly established reporting lines, including adequate consideration for the segregation of conflicting duties;
- formal campus-wide risk management assessment, including regular reevaluations of previous assessments;
- systematic management of campus alternative insurance options, including optional property insurance.

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 risk manager stated that the campus operates its risk management program under the general guidelines of prudent business practice and materials provided by the system-wide risk management office. However, a formal policy had not been completed.

The absence of a formal 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 risk management policy.

Campus Response

The campus is in the process of drafting a formal Risk Management Policy. The policy will include clearly defined lines of responsibility and accountability. The policy will also have specific self-assessment protocols, including periodic review schedules.

Recommendations on campus alternative property insurance options are a system issue and should be addressed through the CSURMA.

Estimated completion day: April 30, 1999.

PROOF OF INSURANCE

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

In ten of the fourteen contract files tested, we found it was not always possible to determine when insurance documents were received and reviewed. We also found that insurance policy endorsements were not consistently available. In the absence of required insurance certifications on construction work, responsibility for subcontractor coverage was questionable. There were no clear assurances that coverage adequately protected the campus, its employees, and the trustees of the university.

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

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

An additional nuance in construction-type contracts involves subcontracted work. Section 4.05.c of the CSU contract general conditions states that:

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

The director of procurement and support services indicated that the file documentation requirements based upon the above criteria had only recently been fully understood by the campus. She further indicated that the campus risk manager and she have attended the majority of risk management training offered by the CO and an emphasis on obtaining original documentation for contract files as evidence

of coverage was not adequately emphasized. Finally, she indicated that the practices of the campus were comparable to that for other similar campuses in the system.

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 2

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

Campus Response

In order to ensure that timely and complete coverage is in place prior to the start of a project, a process was instituted to include the campus risk manager in the review and approval of insurance documents. The process requires that for any project over \$5,000, the risk manager must review and approve the insurance documents before a contract is executed by the university, and before any work of the project can commence. Since system insurance requirements are periodically revised, and since the acceptability of these documents at times require expert judgment, the university determined that it would be most prudent for the risk manager to have final authority for review and approval of insurance documents. It was also determined that in order to expedite smaller projects, those under \$5,000, the procurement staff would be authorized to review and approve insurance documents which meet our requirements. Any questions regarding the acceptability of these documents are routed through the risk manager for final approval. In this manner, we feel confident that our insurance documents are now both timely and provide the coverage the university requires. We consider this finding to have been fully addressed.

LAPSES IN COVERAGE

Controls to detect and prevent lapses in contractually required insurance policies were inadequate.

Executive Order (EO) 533 requires inclusion of five prescribed elements in a campus risk management policy. The fifth element requires the campus to establish a means to monitor its risk management program.

The director of procurement and support services indicated that this weakness had been identified in the department's administration of its risk management program. In response, the department is in the process of developing logs to identify and track coverage.

Not monitoring the continuance of coverage increases the risk that the campus will rely on coverage that is no longer in force.

Recommendation 3

We recommend that the campus enhance procedures to ensure that insurance coverage does not lapse.

Campus Response

In order to track currency of insurance certificates, an automated database was developed that details expiration dates of the certificates provided to the university by our vendors. To better utilize this database, one clerical staff member has been assigned sole responsibility for maintaining the database and the file of original certificates of insurance. The clerical updates the database with current dates as new certificates come into the office. He also advises buyers when certificates are due to expire in 30 days, and the buyers then take action to obtain new certificates. In addition, the buyers also maintain a backup tracking system on their calendars and track certificate renewal dates for ongoing construction projects and service agreements. We consider this finding to have been fully addressed.

RISK MITIGATING AGREEMENTS

Agreements between the campus and other organizations that were intended, in part, to mitigate risk exposure to the campus were not established timely.

In one instance, we noted a ground lease agreement between an auxiliary and the campus that had lapsed. In several other instances, event licensing agreements were not established prior to events being held.

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.

The campus risk manager indicated that he was aware of these deficiencies and, in order to ensure that adequate controls were in place, he had taken a greater role in the insurance and indemnification confirmation processes.

Failure to execute agreements timely creates an environment where the campus cannot ensure there is adequate indemnification and insurance coverage for risks assumed to have been transferred by agreement.

Recommendation 4

We recommend that the campus ensure that risk-transferring agreements are in place prior to permitting separate entities to operate within the purview of the campus.

Campus Response

Procedures to ensure appropriate coverage have been put in place.. The primary focus of this problem is in event scheduling for the university sports arena. Licensing requirements now preclude special events being held until final sign-off is received from the Risk Manager's office.

This finding is considered by the campus as complete.

CSURMA TRAINING

The campus has not integrated the CSURMA train-the-trainer into its worker's compensation risk mitigation program.

While it had trainers trained, it had not established on-campus training.

The CSURMA program was established to ensure that campuses address risks relating to system-wide risks associated with back injury, etc.

The risk manager stated the campus and the CSURMA were reconsidering the value of the train-the-trainer program. However, by the end of our fieldwork, the campus had not implemented that or other training for campus personnel relating to the CSURMA risk areas.

The campus loses the benefits of this training without timely implementation on campus.

Recommendation 5

We recommend that the campus integrate CSURMA training into its existing training programs.

Campus Response

CSURMA training has now been scheduled for the campus and will be completed by March 31, 1999. Funds for this training have been encumbered, and Tamara Davidson from Driver will assist the campus trainer in its presentation.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
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