

RISK MANAGEMENT & INSURANCE

**CALIFORNIA STATE UNIVERSITY
BAKERSFIELD**

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ABBREVIATIONS

AGPIP	Auxiliary Group Purchase Insurance Program - CSURMA
AIME	Athletic Injury Medical Expenses - CSURMA
CSU	California State University
CSUB	California State University Bakersfield
CSURMA	CSU Risk Management Authority (a JPA)
EO	Executive Order
IDL	Industrial Disability Leave
IIPP	Illness and Injury Prevention Program
JPA	Joint Powers Authority
NDI	Nonindustrial Disability Insurance
ORIM	Office of Risk Management and Insurance - State Department of General Services
RFIN	Resolution, Committee on Finance (CSU Board of Trustees)
SCIF	State Compensation Insurance Fund - State Department of Industrial Relations
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, specific goals included reviewing controls designed to ensure that:

- ▶ the most significant risk exposures are addressed;
- ▶ risk management costs are controlled;
- ▶ best/prudent practices are assimilated;
- ▶ process mapping tasks and timelines are fully implemented;
- ▶ train-the-trainer investments are realizing a reasonable return;
- ▶ liabilities are not unintentionally assumed due to contracts with inappropriate indemnification, inadequate insurance provisions, expired/flawed coverages, or such unacceptable campus practices as not notifying insurers of claims/incidents on a timely basis; and
- ▶ recordkeeping and reporting are adequate for program administration.

SCOPE AND METHODOLOGY

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

Fiscal year 1997/98 was the primary period reviewed. We interviewed campus personnel and tested contracts and leases, insurance certificates and policy endorsements, financial ledgers, and claim forms.

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

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

BACKGROUND

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

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

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

The five main CSURMA programs are:

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

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

Executive Order 533, issued by the CSU in August 1988, defines the steps in the risk management process and the traditional means of managing risks as follows:

Table 1
EO 533 Excerpts

RISK MANAGEMENT STEPS	TRADITIONAL MEANS OF MANAGING RISKS
1. Identify the risks.	▶ Risk avoidance
2. Evaluate their seriousness.	▶ Risk transfer
3. Select the best risk management techniques to manage the risks without unduly curtailing or modifying activities necessary to the CSU mission;	▶ Loss prevention and reduction (a.k.a. risk control)
4. Implement appropriate risk management techniques.	▶ Risk retention.
5. Monitor and evaluate the results.	

The risk manager at CSUB is the assistant vice president of fiscal and support services who reports to the vice president of business and administrative services. The risk manager is responsible for establishing and managing the University's risk management and environmental health and occupational safety programs.

During fiscal year 1997/98, the campus carried insurance through the CSURMA. The largest policy premiums were for public entity liabilities, and workers' compensation and employers' liabilities. At the time of our visit, CSUB carried a liability deductible of \$35,000. There had never been any claims in excess of the deductible, and the campus does not plan on changing the deductible.

OPINION

We visited the CSU Bakersfield campus from July 27 to September 4, 1998, and audited the structure in effect at that time.

The campus' internal controls were adequate to ensure there is an active risk management function that embraces involvement by a number of key disciplines such as environmental health and safety, personnel services, and purchasing. However, we feel that additional attention is warranted in the areas mentioned in the executive summary 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 this report.

POLICY [5]

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

INSURER RATINGS [6]

The campus was not checking insurer industry ratings. Comparing proof of insurance coverage against industry standards reduces the risk that the campus would become responsible for assuming claims an unqualified insurer was unable to pay.

PROOF OF INSURANCE [7]

Campus contract files did not always document timely review of insurance documents (including certificates and endorsements/policy amendments), nor provide adequate proof of insurance for all contracts. Proofing insurance ensures that coverage is adequate for risks transferred by contract.

FACILITIES USE AGREEMENTS [8]

The campus established formal policies and procedures for use of university facilities, however, there is no mechanism in place to ensure compliance. Implementing a control mechanism would ensure that events/projects do not occur without appropriately addressing known liabilities.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

POLICY

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

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

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

“...an ongoing process by which appropriate campus administrators (1) identify risks, (2) evaluate their seriousness, (3) select the best risk management techniques to manage the risks without unduly curtailing or modifying activities necessary to the CSU mission, (4) implement appropriate risk management techniques, and (5) monitor and evaluate the results.”

The associate vice president, fiscal and support services, stated that the campus has various components of a risk management policy, although not formally documented in a consolidated format. She also stated that due to the small size of the campus and the lower level of risk exposure, the existing components currently suffice as the risk management policy.

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

Recommendation 1

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

Campus Response

The campus has established Risk Management policies. The campus acknowledges there is not one document, signed by the President, stating this is the campus Risk Policy. However, we have active Risk policies and procedures which have limited our Risk exposure and are moving toward consolidating them into one formal policy statement. We do not concur that a lack of formal policy leaves us open to poor risk prioritization, missed risk mitigation, opportunities, or inefficient/ineffective risk management. Our current practices have been successful at mitigating the campus risk as supported by our standing in the Risk Pool.

As stated in the Audit Report, the campus has established Risk Management policies addressing most of the key points specified in Executive Order 533. Many of the procedures outlining the campus policy have been communicated to the campus and other key users in the campus Management/Supervisor's letters. One key letter addresses procedures for dealing with a multitude of subjects including subpoenas; risk claims; worker's comp claims; vehicle accident reports, etc.

The campus has delegated key components of the Risk process to three management personnel. The Risk Manager/AVP, Fiscal & Support Services; the Director of Personnel (worker's comp); and the Health & Safety Director (construction, hazardous waste, etc.). These three individuals work together as a committee to identify risk, evaluate its seriousness, prioritize its impact, and implement procedures to mitigate this risk to the campus. Each of them also chair or serve on additional campus committees dealing with specific risk related issues.

We recognize, however, after discussions with the auditors that this policy is not formal and written under the President's signature. We will work on putting these individual components into written policy in order to follow audit guidelines and be in full compliance as per E.O. 533.

INSURER RATINGS

The campus was not checking insurer industry ratings.

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

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

The director, procurement and support services, stated that, because the campus was only recently made aware of the requirement, a ratings check was not done in purchasing services. However, the campus is moving towards including this requirement in its formal bid package.

Not performing a ratings check increases the risk that the campus will rely on coverage provided by unqualified insurers.

Recommendation 2

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

Campus Response

The Office of Procurement receives the certificates of insurance and endorsements which are forwarded to a centralized office for review. The AOA has been assigned the responsibility of ensuring liabilities are not unintentionally assumed due to contracts with inappropriate indemnification, inadequate insurance provisions and/or expired/flawed coverage. The AOA verifies that the insurers meet the A.M. Best rating of A:VII and that the certificate reflects adequate coverage for the respective contract. Once the certificate and endorsement meet the requirements, they are marked (with a check off note) as such and copies are forwarded to the particular contracts administrator handling the project. The original certificates and endorsements are filed in a "Master Binder" housed in Procurement. The copies are filed with each project folder.

PROOF OF INSURANCE

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

In eight of nine files reviewed, we noted at least one exception related to either the certificate of insurance or the endorsement/policy amendment. These exceptions included:

- The certificates of insurance and endorsements are not date stamped, nor is there any annotation documenting that they were reviewed prior to the start of the contract.
- In all applicable cases, the certificates of insurance named only the campus as the insured and did not identify the Trustees as the additional insured.
- On six files, a signature was noted on the certificate of insurance, however, it could not be determined whether the campus verified that the signature was that of a person authorized to bind the insurance. Two certificates had no signature at all.
- One file had no insurance policy endorsement and one was obtained after-the-fact.

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

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

The risk manager indicated that the file documentation requirements based upon the above criteria had only recently been fully understood by the campus.

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

Recommendation 3

We recommend that the campus improve procedures to ensure that insurance certificates and policy amendments are in place prior to the start of contract activity. Coverage should be provided to the campus, its employees, and the trustees of the university.

Campus Response

The Office of Procurement requires the certificate of insurance and ISO endorsements be requested through bid and/or related contract documentation. It is stressed in this initial request that this documentation is needed prior to the start of the contract. Time has to be allotted for receipt, review and follow-up verification of coverage, if required. Additionally, these certificates are reviewed for signature, deductible and cancellation clauses as well as for proper "additional insured" language. If there is not adequate coverage or proper documentation in place, the contract administrator is requested to secure the additional information.

Those certificates/endorsements, which require additional information or monitoring of the cancellation period, are "diaried" in the AOA's office for follow up.

FACILITIES USE AGREEMENT

The campus established formal policies and procedures for use of university facilities, however, there is no mechanism in place assuring compliance.

Ultimate responsibility to ensure all criteria have been met as stated in the facilities use manual is placed with the respective cabinet officer. Additionally, if the cabinet officer has opted to waive the additional coverage, this would be noted on the form. However, this system has not proven to be entirely effective. We noted that one event occurred without an appropriately signed agreement.

The CSUB *Policy and Procedures for use of University Facilities* manual states:

“In all cases of rental for University facilities, the sponsor is required to sign the application form, and to show proof of insurance. The agreement is not complete without a copy of the insurance certificate or memorandum of coverage.”

The Procedures section of the manual states that:

“Use of Campus Facilities Application is not complete until all parties have signed the request. The signature of Academic Scheduling and the Cabinet Officer whose are sponsors the program/event is mandatory. A contract will be drawn by the University and signed by the appropriate authorities.”

According to risk manager and director procurement & support services, the campus needs a centralized office or position to ensure all departments are complying with the facilities use policies and procedures.

Without assurance that the campus is in compliance with its established policies and procedures by obtaining complete agreements and insurance documents, the risk of unintentionally assuming significant liabilities is increased.

Recommendation 4

We recommend that the campus establish controls to ensure that all departments are complying with the facilities policies and procedures.

Campus Response

Facilities Use Agreements are routed through the Office of Procurement for insurance verification. Procurement must have the appropriate insurance endorsements on any event five days before the event is scheduled to take place. This five-day period allows sufficient time for the Business and Procurement Offices to ensure that the events do not occur without appropriately addressing risk exposures and other known liabilities and also allows enough time for the Facility Coordinator to consult with clients/users to secure proper insurance documentation if further information or evidence of coverage is required. The Policy and Procedures For Use Of University Facilities manual is being re-written to incorporate this five-day clause.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
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	Asst. to the Dean Academic Scheduling
Valerie Patscheck	Purchasing Agent
Sharon Taylor	AVP Fiscal & Support Services/Risk Manager
Mike Williams	Director Procurement & Support Services
Frank Yap	Procurement & Support Services Officer