

RISK MANAGEMENT & INSURANCE
CALIFORNIA STATE UNIVERSITY
NORTHRIDGE

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ABBREVIATIONS

AGPIP	Auxiliary Group Purchase Insurance Program - CSURMA
AIME	Athletic Injury Medical Expenses - CSURMA
CSU	California State University
CSUN	California State University, Northridge
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	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, 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 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 publicly stated that they agree

with the CSU's calculations. Consequently, these particular financial aspects of risk management and insurance are 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 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 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, 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.

Executive Order 533 issued by the CSU in August 1988 defines the steps in 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.	▶ <input type="checkbox"/> Risk avoidance
2. Evaluate their seriousness.	▶ <input type="checkbox"/> Risk transfer
3. Select the best risk management techniques to manage the risks without unduly curtailing or modifying activities necessary to the CSU mission;	▶ <input type="checkbox"/> Loss prevention and reduction (a.k.a. risk control)
4. Implement appropriate risk management techniques.	▶ <input type="checkbox"/> Risk retention.
5. Monitor and evaluate the results.	

The current risk manager at CSUN is the director, Purchasing and Logistical Services. In early 1998, the campus established a risk management working group. The goal of this group is to proactively manage risk.

During fiscal year 1997/98, the campus carried insurance through the CSURMA. The largest policies were for public entity liabilities, workers' compensation and employers' liabilities. There were five auxiliary organizations at the campus. Only one of the auxiliaries – the Associated Students – participates in CSURMA and purchases its insurance through AGPIP. The other four auxiliaries used other sources for their insurance coverage. At the time of our visit, there had been only one liability claim in excess of the deductible. As a result, the campus increased its deductible from \$100,000 to \$250,000 for the 1998-99 year.

OPINION

We visited the CSU, Northridge campus from September 18, 1998 to October 28, 1998 and audited the structure in effect at that time.

In our opinion, internal controls were adequate to ensure that risk management is attaining increased visibility through central coordination. New initiatives were underway to focus more attention on specific areas within the insurance, risk management, and workers' compensation programs including a special event policy and mandatory supervisor training. Although significant improvement in the risk management function had been made, the campus did not develop a formal risk management policy and procedures. Additional attention is warranted in the areas mentioned in the executive summary.

EXECUTIVE SUMMARY

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

GENERAL/ADMINISTRATIVE [6]

POLICY [6]

The campus did not establish a formal risk management policy to address the requirements of Executive Order (EO) 533. Implementation of a formal risk management policy would establish a framework for risk identification, mitigation and management evaluation.

LIABILITY [7]

INSURER RATINGS/INSURANCE VERIFICATION [7]

The campus did not routinely check industry insurer ratings and document the results in the files. A regular review of actual insurance policies or required endorsement provisions regarding insured events/activities was not performed. In addition, signature authorizations included on the proof of coverage documents were not verified. Proper review and authorization reduces the risk that the campus/trustees will become responsible for a claim as a result of inadequate indemnification or acceptance of an unqualified insurer.

SPORTS/YOUTH CAMPS [8]

Current procedures regarding liability insurance coverage for sports/youth camps were not adequate. Ensuring that all additional insureds are specified in the sports camps liability policy and evidence of insurance coverage is obtained prior to implementation of activities reduces the risk of exposure to liabilities and the potential for financial loss.

CONTRACTS/LICENSE AGREEMENTS [10]

The campus' system of monitoring insurance policy expiration dates during the contract period was not adequate. In addition, the campus policy for the licensing of special events contained a minimum liability insurance requirement of \$300,000. Properly monitoring insurance policies during the contract period and requiring the established minimum liability limits decreases the risk of liability exposure and inadequate coverage.

OPERATING AND LEASE AGREEMENTS [11]

The operating and lease agreement between the campus and an auxiliary organization, (North Campus University Park Develop Corporation) was not current. Maintaining current operating and lease agreements reduces the potential for misunderstandings and improprieties.

INSURANCE COVERAGE [12]

The general liability policy for the university student union did not contain the required endorsement with the trustees included as an additional insured. In addition, general liability policy information was not routinely transferred by the student union and the university corporation for review by campus staff.

Properly endorsing insurance policies with the required additional insureds and regularly submitting them for review by campus staff reduces the potential risk of exposure to liabilities and financial loss.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

GENERAL/ADMINISTRATIVE

POLICY

The campus did not establish a formal, written risk management policy to address the requirements of Executive Order (EO) 533.

The campus had various components of a policy that addressed risk management issues. However, these components had not been consolidated into a formal written document signed by the president and specifically outlining prioritized risks, campus mitigation strategies (including the management of alternative insurance options such as optional property coverage), and the methods used to monitor, evaluate, and communicate risk management results.

EO 533 requires the campus to establish a risk management policy and include the five elements described as follows:

- (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 campus risk manager indicated that he was in the process of drafting a comprehensive risk management policy.

The absence of a formal policy could result in poor risk prioritization, missed risk mitigation opportunities and inefficient/ineffective risk management.

Recommendation 1

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

Campus Response

We concur with the finding. The formal risk management policy has been written. The CSUN Risk Management policy was signed by President Blenda Wilson on May 24, 1999 and distributed campus-wide by Interim Vice President J. Sullivan on June 18, 1999. Status: Complete

LIABILITY

INSURER RATINGS/INSURANCE VERIFICATION

The campus did not routinely check industry insurer ratings and document the results in the files. A regular review of actual insurance policies or required endorsement provisions regarding insured events/activities was not performed. In addition, signature authorizations included on the proof of coverage documents were not verified.

A sample selection of documents from the departments in which insurance coverage was required during the 1997-98 year indicated that they were not routinely checked for insurer acceptability and verified for proper coverage prior to implementation of the contract or activity. Twelve of the twenty license agreement files reviewed did not have the trustees properly named as an additional insured on the certificate of insurance. Another four certifications of insurance requested from the university conference services office for review purposes could not be located. The department's practice was to forward to the university licensing office copies of only those events/activities that directly involved the campus.

The January 1993 Sedgwick publication entitled *Insurance Requirements in Contracts: A Procedure Manual for CSU Risk Pool Members* states that member campuses should obtain a minimum insurer rating of A: VII by A.M. Best & Company. The A.M. Best ratings guide is widely used as a standard of measurement of insurer acceptability. The Sedgwick publication also indicates that certificates of insurance should be augmented with actual policy documents/endorsements to ensure that the required provisions are in place.

The manager of insurance and risk management stated that the campus' use of the A.M. Best ratings guide only applied to contracts and insurers of licensed events. This could result in lost revenues. The associate director, university conference services, indicated that the insurance certifications for events/activities that did not require involvement with other campus departments remained in the university conference services office. He also indicated that the missing certification documents were misplaced.

Not checking ratings, verifying proof of insurance documentation, and ensuring that the additional insured is named increases the risk that the campus will rely on coverage from an unqualified insurer and, as a result, be exposed to liabilities.

Subsequent to the audit fieldwork, the campus provided a policy and procedures to indicate that insurer ratings were checked with the results documented in the contract file.

Recommendation 2

We recommend that the campus:

- a. adjust acceptance of coverage procedures to review actual policy documents/endorsements and certificates of insurance to ensure that the required provisions are in place. This includes declaring all additional insureds and verifying that the individual signing the certificate is authorized to bind the insurer when required; and
- b. require university conference services to forward proof of coverage documentation from off-campus vendors for all events to the risk management office.

Campus Response

- a. We concur with the finding. It is the policy at CSU, Northridge that an insurance certificate is not acceptable without the proper endorsements. The campus agrees, however, to verify signatures on a certificate of insurance when an endorsement is not presented. Status: Complete
- b. We concur with the finding. A memo was sent from the Office of Insurance & Risk Management to University Conference Services to establish this procedure. A meeting was held with the Conference Services Manager and the Risk Manager at which it was agreed that all insurance documentation relating to off-campus vendors would be forwarded upon receipt to the risk management office.

While this procedure is in place, it will also be documented in the new University Insurance & Risk policy and procedure manual which is to be completed by November 1, 1999. Status: Complete

SPORTS/YOUTH CAMPS

Current procedures regarding the acquisition of liability insurance coverage for sports/youth camps were not adequate

The general liability policy for sports camps sponsored by the athletics department did not contain the required endorsement declaring the trustees as an additional insured. One sports camp sponsored by the athletic department was also not included in the policy and may not have had the required liability coverage for an activity held off campus. In addition, liability coverage was not required of an instructor in the recreation and leisure department. In this case, a summer youth camp for off-campus participants was sponsored at a site location leased by the campus.

The *Insurance Requirements in Contracts: A Procedure Manual for CSU Risk Pool Members* requires that proof of insurance coverage be provided prior to the start of campus events/activities and

general liability policies to contain, or be endorsed to contain, provisions specifying the trustees as an additional insured.

The associate director, athletics department, indicated that these were inadvertent occurrences. In addition, the manager of insurance and risk management indicated that the campus believed that the insurance policy provided by the camp participants was adequate for meeting the minimum liability coverage requirements.

When certifications of insurance do not include the necessary provisions specifying all additional insureds and evidence of coverage, and such documentation is not required prior to the start of events/activities, the campus increases the risk of exposure to liabilities and the potential for financial loss.

Recommendation 3

We recommend that the campus:

- a. ensure that all additional insureds are specified in liability policies covering sports camps; and,
- b. require instructors to provide evidence of insurance to the risk management office prior to conducting summer youth camps held off campus.

Campus Response

We concur with the findings. A meeting was held with the Athletic Department's Business Officer and the Risk Manager at which it was agreed that all instructors that conduct summer youth camps held off campus will provide evidence of insurance to the risk management office prior to conducting the summer youth camp. Please note that there were no summer youth camps held off campus by athletic department instructors in the summer of 1999.

All summer camps held on campus are licensed through the CSUN Licensing Office. Prior to the approval of the license, all insurance documentation must be presented and is reviewed and rated by the risk manager. This procedure requires that all additional parties insured be specified in the liability policies covering the sports camps. While this procedure is in place, it will also be documented in the new University Insurance & Risk policy and procedure manual which is to be completed by November 1, 1999. Status: Complete

CONTRACTS/LICENSE AGREEMENTS

The campus' system of monitoring insurance policy expiration dates during the contract period was not adequate. In addition, the campus policy for the licensing of special events contained a minimum liability insurance requirement of \$300,000.

A sample review of contracts issued during 1997-98 indicated that, of four of the ten items reviewed, the expiration date occurred during the performance period.

The *Insurance Requirements in Contracts: A Procedure Manual for CSU Risk Pool Members* requires the procurement of proper insurance coverage to cover the duration of the contract period and states that the lessee shall maintain general liability coverage at the required minimum level.

The contract administrator indicated that, due to a loss of staff, follow-up efforts by the campus were inconsistent. However, corrective action was being taken. According to the campus risk manager, liability limits for special events are based on the potential risk exposure to the campus, and the lower levels included in the policy were established for activities with very low risk. After discussing this issue with campus legal counsel, the dollar threshold was established accordingly.

When insurance policies expire during the contract period and liability limits are not maintained at the required minimum, the risk exposure to liabilities and inadequate coverage increases.

Subsequent to the audit fieldwork, the campus provided a policy to indicate that they were strengthening procedures to assure that insurance coverage does not expire prior to the end of the performance date.

Recommendation 4

We recommend that the campus:

- a. adjust the special events licensing policy to include the required minimum limits; and
- b. obtain approval from the Chancellor's Office for special events activities requiring liability coverage that is less than the CSU minimum limits.

Campus Response

We concur with these findings. As required by the "Requirements in Contracts: A Procedure Manual for CSU Risk Pool Members", all construction and other contracts will adhere to the limits described in the manual.

The campus agrees to review each licensing agreement to determine the level of risk and exposure and assign the appropriate limit of liability insurance based on this assessment.

The Insurance and Risk Manager will prepare a memo to file for each contract, purchase order, or facilities license agreement whose insurance is below the minimum levels. The manager will identify and quantify the potential risks presented by the event and will specify this analysis and the conclusions in the memo to file.

The memo to file will be attached to, and retained with, the contract, purchase order, or facilities license agreement. An original signature copy is kept in the Facilities Licensing Manager's files or in the Purchasing files, as well as an original signature copy is kept in the Insurance and Risk Manager's files.

These files will be maintained in accordance with the California State University record retention and purging schedules.

The campus will seek from the Chancellor's Office of Insurance and Risk Management an annual post audit review of those licensing agreements which were approved for liability coverage and are less than the minimum liability insurance requirements for contracts.

Status: Complete

OPERATING AND LEASE AGREEMENTS

The operating and lease agreement between the campus and an auxiliary organization (North Campus University Park Development Corporation) had not been updated since 1993.

Title 5, Section 42501 of the California Administrative Code requires a written agreement on behalf of the State of California by the Chancellor of the CSU and auxiliary organizations for the performance of any of the functions listed in Section 42500.

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

The manager of risk management and insurance indicated that this was an oversight on the part of the board of directors.

When operating and lease agreements are not currently maintained, misunderstandings and improprieties can occur.

Recommendation 5

We recommend that the campus strengthen operating and lease agreement review procedures for all auxiliary organizations to ensure that these agreements are kept current.

Campus Response

We concur with the finding. A "Contract Approval Policy and Procedure" has been drafted for review and approval by the President. This policy will require that all University Purchasing and Risk Management are to ensure consistency and that they will review contractual agreements. Completion is expected by November 1, 1999. Status: In Progress

INSURANCE COVERAGE

The general liability policy for the university student union did not contain the required endorsement with the trustees included as an additional insured. In addition, general liability policy information was not routinely transferred by the student union and the university corporation for review by campus staff.

The lease agreement between auxiliary organizations and the campus, in addition to the Sedwick publication entitled Insurance Requirements in Contracts, require each liability policy to be properly reviewed. An endorsement declaring the trustees as an additional insured should also be included.

The associate director, university student union, indicated that this was an oversight. The contract administrator stated that there are no existing procedures requiring auxiliary organizations to submit liability policy information to campus staff.

Not properly endorsing insurance policies with all required additional insureds increases the risk of exposure to liabilities.

Recommendation 6

We recommend that the campus ensure that:

- a. all general liability policies are properly endorsed and all required additional insureds are included; and,
- b. each general liability policy for the auxiliary organizations is properly reviewed by campus staff.

Campus Response

- a. We concur with the finding. This recommendation has been addressed by the procedure for Insurance Requirements as well as the draft "Contract Approval Policy and Procedure" as contained in the response to Recommendation 5 above. Status: In Progress

- b. We concur with the finding. This recommendation has been addressed by draft "Contract Approval Policy and Procedure" as contained in the response to Recommendation 5 above. Status: In Progress

APPENDIX A: PERSONNEL CONTACTED

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