

RISK MANAGEMENT & INSURANCE

**California State University
Monterey Bay**

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ABBREVIATIONS

AGPIP	Auxiliary Group Purchase Insurance Program - CSURMA
AIME	Athletic Injury Medical Expenses - CSURMA
CSU	California State University
CSUMB	California State University, Monterey Bay
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, 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 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 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 (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 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. As claims became payable, the CSU funded these liabilities on a cash basis. 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, based 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.	▶ 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 current risk manager at the Monterey Bay campus is the director, business and support services. In 1998, the campus established a risk management advisory committee. The goal of this committee is to proactively address campus risk issues.

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, and intercollegiate athletics. There were two auxiliary organizations at the campus and both were CSURMA participants and purchased their insurance through AGPIP. At the time of our visit, the campus carried a minimum liability deductible of \$35,000. Since the campus' claims experience was low with only two liability claims over the deductible limit, no consideration was given to increase the deductible to a higher level.

OPINION

We visited the CSU, Monterey Bay campus from November 30, 1998 to January 15, 1999 and audited the structure in effect at that time.

In our opinion, internal controls were adequate to ensure an active risk management function that embraces involvement by a number of key disciplines such as environmental health and safety, personnel services, and purchasing. New initiatives were underway to focus more attention and raise campus awareness in specific areas within the insurance, risk management, and workers' compensation programs including a special event and conference policy and procedures and supervisor safety training.

Although the campus had made significant improvements in the risk management function and efforts had been made to increase visibility through centralized coordination, there was neither a formal policy nor specific program evaluations linking risk exposures with mitigation measures. 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 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.

GENERAL/ADMINISTRATIVE

POLICY [6]

The campus did not establish a formal, written 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

INSURER RATINGS/INSURANCE VERIFICATION [7]

Insurance documentation for contracts, conferences and event services was inadequate. Proper review and authorization reduces the risk that the campus/trustees will become responsible for a claim due to inadequate indemnification or the acceptance of an unqualified insurer.

INDEMNIFICATION REQUIREMENTS [8]

The conferences and events office agreement form for off campus groups and vendors did not contain the required indemnification clause. Including the indemnification clause in campus agreement documentation reduces the risk of exposure to the campus and trustees for potential claims.

RECREATION PROGRAM AND STUDENT ACTIVITY INSURANCE [9]

Insurance coverage in outdoor recreation programs and several student-sponsored activities was inadequate. By properly obtaining insurance coverage and/or requiring evidence of coverage prior to the start of events/activities, the campus reduces the risk of exposure to liabilities and the potential for financial loss.

SPECIAL EVENTS/ACTIVITIES AUTHORIZATION [10]

The CSUMB Foundation conferences and events office, which reports to the Office of Business Finance, subleased and authorized the use of campus facilities to off campus groups/vendors without a formally documented review and approval by campus management. Properly authorizing and approving the use of campus facilities prior to commencement reduces the campus' exposure to liabilities.

CONTRACTS/SUBCONTRACTORS [10]

The evidence of insurance coverage required for subcontractors was not regularly provided prior to the contract start date. Requiring subcontractors to provide evidence of insurance coverage prior to the commencement date decreases the risk of exposure to liabilities.

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 initiated various elements related to risk management issues. However, a formal, written policy signed by the president specifically outlining the prioritized risks, campus mitigation strategies such as the management of alternative insurance options, including optional property insurance, and the methods used to monitor, evaluate, and communicate risk management results did not exist.

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 campus risk manager indicated that, through its risk management advisory committee, the campus had established various components of a risk management policy. Additionally, a written document with a consolidated format for the president’s review was underway.

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 risk management policy.

Campus Response

The Risk Management Advisory Committee will prepare a formal risk management policy for review and approval by the President by September 1, 1999.

LIABILITY

INSURER RATINGS/INSURANCE VERIFICATION

Insurance documentation for contracts, conferences and event services was inadequate.

Review of campus documentation indicated that:

- ▶ there was neither a check of industry insurer ratings nor a verification of signature authorizations included on the proof of insurance coverage documents for contracts;
- ▶ policy endorsements/amendments were not always obtained to indicate the applicable coverage; and,
- ▶ certification of insurance documents submitted to the conference and events office by off campus groups/vendors participating in campus events/activities did not designate the trustees as an additional insured.

A review of insurance coverage documentation for a sample selection of events/activities indicated that none of the thirteen files reviewed were verified for proper coverage prior to start of the contract or activity and checked for insurer acceptability. Five files did not have policy endorsements or verification that someone authorized to bind the insurer had signed the certificates. Eight files did not have the trustees named as an additional insured.

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 risk manager indicated that the campus had not been provided with an A.M. Best Guide and was unaware of the requirements to check insurer ratings and verify that ratings requirements were satisfied.

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

Recommendation 2

We recommend that the campus strengthen insurance procedures to ensure that:

- a. acceptance of insurance has occurred prior to the start of the activity/contract;
- b. insurer ratings are checked with the results of the rating reviews documented in the files;
- c. receipt/review of actual policy endorsements/amendments is complete;

- d. the individual signing the certificate of insurance documentation is authorized to bind the insurer;
and
- e. the trustees are named as additional insureds.

Campus Response

The area of Business and Support Services will strengthen the insurance procedures to ensure that the receipt of endorsements/amendments is complete and on file prior to the start of the activity/contract. As part of the review of the certificates a checklist will be used to verify that the insurer meets A.M. Best rating standards that all required named insured parties are listed and that the individual signing the certificate of insurance is authorized to bind the insurer. This checklist will be implemented by July 1, 1999 (see attached).

INDEMNIFICATION REQUIREMENTS

The conferences and events office agreement form for off-campus groups and vendors did not contain the required indemnification clause.

The Sedgwick publication entitled *Insurance Requirements in Contracts: A Procedure Manual for CSU Risk Pool Members* provides indemnity language requirements as stated, in part, below:

Contractor shall indemnify, defend, and hold harmless the Campus and its trustees, officers, employees, and volunteers from and against any and all liability, loss, damage, expense, costs (including without limitation costs and fees of litigation) of every nature.

The manager, conferences and events, indicated that the agreement documentation was in the process of being updated and the correction would be made.

Not including the indemnification clause in campus agreement documentation increases the risk of exposure to liabilities and financial loss.

Recommendation 3

We recommend that the campus ensure that all official agreement documentation contains the appropriate indemnity language.

Campus Response

The Foundation of CSUMB's Conference and Events contract is currently being updated. The next version of the form will include the appropriate indemnity language, which names the State of California, the California State University Board of Trustees, the campus and its Directors and Officers. This will be completed by July 1, 1999.

RECREATION PROGRAM AND STUDENT ACTIVITY INSURANCE

Insurance coverage in outdoor recreation programs and several student-sponsored activities was inadequate.

The outdoor recreation program department did not obtain the liability insurance coverage required for sponsoring off campus non-credit outdoor courses/activities. In addition, student organizations and clubs did not always provide evidence of insurance coverage for off campus groups participating in events/activities sponsored by the department.

The results of our sample selection of thirteen campus events/activities disclosed three cases where the student activities and clubs department sponsored off campus groups. However, evidence of insurance was not obtained.

The January 1993 Sedgwick publication entitled *Insurance Requirements in Contracts: A Procedure Manual for CSU Risk Pool Members* and policy guidelines for conferences and events require that proof of insurance coverage be provided prior to the start of student sponsored campus events/activities.

The coordinator, outdoor recreation programs, indicated that he initially thought the campus insurance coverage was in force for these activities. However, he has since recognized the need to obtain liability coverage and has addressed this issue with the campus risk management department.

Not properly obtaining proof of insurance coverage prior to the start of an event or activity increases the campus' risk exposure to liabilities and financial loss.

Recommendation 4

We recommend that the campus require instructors and campus departments to obtain evidence of insurance coverage, and submit it to the risk management office, prior to conducting outdoor recreation programs and starting on-campus student events/activities.

Campus Response

A review of the outdoor recreation program will begin during the Spring of 1999 and be completed by September 1, 1999. The review will include the recommended process to be followed and the requirements that must be in place prior to the start of any outdoor recreation activities. A review of the current process being used and timelines for student events will be conducted. After review, compliance with our established internal process will be followed.

SPECIAL EVENTS/ACTIVITIES AUTHORIZATION

The CSUMB Foundation conferences and events office, which reports to the Office of Business and Finance, subleased and authorized the use of campus facilities to off campus groups/vendors without a formally documented review and approval by campus management.

The operating and lease agreement between the campus and the CSUMB Foundation required by Title 5, Section 42501 specifies which campus facilities are under the direct control of the foundation. Many of the locations subleased by the foundation were not identified in their campus agreement.

The manager, conferences and event services, indicated that this procedure had not been considered as part of the campus process.

Failure to obtain proper authorization from campus management for use of campus facilities increases the campus' exposure to unmitigated risk.

Recommendation 5

We recommend that the campus ensure that proper review and approval is obtained for use of all campus facilities.

Campus Response

All Foundation-operated conference and events that use University facilities are approved by the campus. The campus will formalize the approval by entering into a lease agreement with the Foundation for use of facilities. This will be completed by July 1, 1999.

CONTRACTS/SUBCONTRACTORS

The evidence of insurance coverage required for subcontractors was not regularly provided prior to the contract start date.

A sample review of ten contracts awarded in 1997-98 indicated three instances where evidence of insurance coverage was not obtained prior to the contract start date.

The *Insurance Requirements in Contracts: A Procedure Manual for CSU Risk Pool Members* requires subcontractors to provide evidence of insurance coverage when not provided by the major contractor and that proper insurance coverage be acquired to cover the duration of the contract period.

The contracts coordinator indicated that this was an oversight and proof of insurance coverage is normally required of subcontractors.

When subcontractors are not required to provide evidence of insurance coverage, the campus' risk exposure to liabilities is increased.

Recommendation 6

We recommend that the campus verify proof of insurance for sub-contractors prior to the project start date.

Campus Response

Business and Support Services will ensure that the campus has received and verified that proof of insurance for sub-contractors has been received prior to the project start date. The checklist identified in recommendation #2 will be used to monitor this process.

APPENDIX A: PERSONNEL CONTACTED

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