

RISK MANAGEMENT AND INSURANCE
CALIFORNIA POLYTECHNIC STATE UNIVERSITY,
SAN LUIS OBISPO

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Staff

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ABBREVIATIONS

Cal Poly	California Polytechnic State University
CBL	Community-Based Learning
CSU	California State University
CSURMA	CSU Risk Management Authority
DMV	Department of Motor Vehicles
EO	Executive Order
HR	Human Resources
IEP	International Education and Programs
IIPP	Injury and Illness Prevention Program
ORIM	Office of Risk and Insurance Management
OSHA	Occupational Safety and Health Act
SAM	State Administrative Manual
SCIF	State Compensation Insurance Fund
TPA	Third-Party Administrator

EXECUTIVE SUMMARY

As a result of a systemwide risk assessment conducted by the Office of the University Auditor during the last quarter of 2002, the Board of Trustees, at its January 2003 meeting, directed that *Risk Management and Insurance* be reviewed.

We visited the California Polytechnic State University, San Luis Obispo campus from October 21, 2003, through November 21, 2003, and audited the procedures in effect at that time.

In our opinion, existing risk management policies and procedures were not operating effectively in a number of instances within the scope of this audit.

The following summary provides 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.

RISK MANAGEMENT AND LOSS PREVENTION PROGRAMS [6]

The campus risk management program lacked important elements required by Executive Order No. 715 and its *Risk Management Policy*. The program did not include a campus risk assessment and mitigation plan, and an annual report was not made to the campus president. Additionally, an effective process was not in place to ensure that new employees received injury and illness prevention program (IIPP) training in accordance with IIPP standards. Instances were noted where new employees either did not receive training, received training several months late, or training was not adequately documented. Risks associated with service-learning programs, off-campus field trips and special events, and state funded study abroad programs were not consistently mitigated and controlled. For example, service-learning agreements were not prepared, student service-learning plans were not developed, and hold-harmless agreements or informed consent forms were not completed. Further, the campus was not in full compliance with the California State University (CSU) policy concerning the use of university and private vehicles. Authorization forms to drive privately owned vehicles were not always completed or kept current, defensive driving courses were not consistently completed when required, driving records were not checked, and accidents were not timely reported.

INSURANCE PROGRAM ADMINISTRATION [15]

Controls over the procurement of services did not always ensure that adequate proof of insurance was obtained and insurance coverage was in accordance with CSU policy. In addition, instances were noted where purchases were initiated directly by the requesting department instead of contracts and procurement services, which did not ensure that the adequacy of vendor insurance was considered.

WORKERS' COMPENSATION MANAGEMENT [16]

Work-related injuries and illnesses were not consistently handled in accordance with state regulations and timeliness standards. Instances were noted where the third-party administrator was not informed of the

injury within five days from the date human resources became aware of the injury; human resources was not notified of an injury within three working days; and injured employees were not provided a claim form within 24 hours of an accident. Controls over the reporting of workers' compensation claims on the Log of Work-Related Injuries and Illnesses (Occupational Safety and Health Act (OSHA) Form 300) did not ensure the integrity of reported information. An analytical review of OSHA Form 300 reports for the years 2000 through 2002 disclosed that certain information reported by the third-party administrator for 2001 was inaccurate. In addition, transitional work agreements were not always prepared when alternative or modified work was provided to employees returning from disability, and campus procedures did not provide for maintenance of documentation to evidence the assessment and resolution of unsafe work conditions and/or environmental risks that resulted in workers' compensation claims to prevent future occurrences.

INTRODUCTION

BACKGROUND

Risk management is the process by which financial or operational risks are identified, evaluated, measured, and prioritized. Once the risks have been prioritized, various risk mitigation techniques are reviewed, and the best technique or combination of techniques is applied to mitigate potential losses from the identified risks. Risk managers determine where losses can occur and choose cost-effective mechanisms to reduce or eliminate risk exposures. Risk mitigation techniques include, but are not limited to: a) purchase of insurance, b) implementation of internal controls, c) redesign of processes and systems, d) staff and management training, e) contractual hold-harmless and waiver requirements, f) health and safety compliance monitoring, and g) internal audit.

Driver Alliant has served as program administrator/director of the California State University (CSU) Risk Pool from its inception through transition into the current CSU Risk Management Authority (CSURMA) Joint Powers Entity. CSU formed the Risk Pool on July 1, 1995, to provide coverage programs and risk management consulting to its campuses and the chancellor's office. On January 1, 1996, the CSU hired the Office of Risk and Insurance Management (ORIM), an office of the state's Department of General Services, as a third-party liability claims administrator and delegated authority to them to: 1) adjust, with campus approval, all non-litigated liability and equity claims for the new CSU Risk Pool, and 2) integrate the data for all CSU litigated "third-party" claims including wrongful termination, discrimination and other employment type claims. ORIM also handles CSU vehicle liability claims.

The State Compensation Insurance Fund (SCIF) handled workers' compensation claims until August 6, 1999, at which time a service agreement between CSU and Ward North America to provide workers' compensation claims administration was signed. This agreement ended June 30, 2003, and a new agreement was executed with Octagon Risk Services.

On January 1, 1997, the Risk Pool was transitioned into the CSURMA, a Joint Powers Authority formed between the CSU and its many auxiliary organizations. This separate legal entity was created to benefit both the CSU and its auxiliary organizations. The CSURMA provides pooled coverage programs, group purchase insurance programs, and related services. The underlying goal of CSURMA is a commitment to address risk management issues in a mutually beneficial, cooperative effort and to open communication between the CSU and auxiliary organizations on risk management and insurance issues.

The bylaws of the CSURMA recognize that the campuses are at the center of CSU's risk management and insurance program and key to mitigating the risks associated with campus administration. In addition to the broad role of campus risk management, the CSURMA Executive Committee developed the following list of campus risk management responsibilities that would serve to strengthen the function; reduce campus risk exposures; and add value to the university community:

- ▶ Development and implementation of campus risk management policies and procedures.
- ▶ Administration and operation of effective risk management programs.
- ▶ Remittance of accurate pool deposits and premium payments in a timely fashion.

INTRODUCTION

- ▶ Effective claims management and reporting.
- ▶ Periodic evaluations of campus risk management programs.
- ▶ Provision of risk management training and communications to campus management and staff.
- ▶ Implementation and monitoring of loss prevention and control programs.
- ▶ Effective claims handling to minimize losses, preserve evidence, and maximize claim defense successes.
- ▶ Proactive participation, as appropriate, in claims settlement.

PURPOSE

Our overall audit objective was to ascertain the effectiveness of existing policies and procedures related to the administration of the risk management and workers' compensation functions and to determine the adequacy of controls that ensure compliance with state regulations, Trustee policy, Office of the Chancellor directives, and campus procedures.

Within the overall audit objective, specific goals included determining whether:

- ▶ Administration and management of the risk management program provide effective internal controls, clear lines of organizational authority, adequate loss prevention and control programs, and documented policies and procedures.
- ▶ The campus has identified, evaluated, mitigated, and documented significant financial and operational risks.
- ▶ Processes exist that adequately mitigate the risks associated with campus sponsored special events, field trips, study abroad programs, air travel, and service-learning programs.
- ▶ The campus has established and documented an injury and illness prevention program (IIPP).
- ▶ Campus risk management staff has been adequately trained.
- ▶ The campus is in compliance with the CSU *Use of University and Private Vehicles* policy guidelines.
- ▶ Risks associated with campus agreements, contracts, and purchases have been adequately transferred or mitigated.
- ▶ Property and liability claims are adequately supported and properly processed within established timeframes.
- ▶ Significant property and liability risks have been insured.

- ▶ Workers' compensation claims are properly safeguarded and effectively processed, communicated, monitored, and resolved.
- ▶ The campus has an effective return-to-work program.
- ▶ Adequate processes exist to prevent and/or detect workers' compensation fraud.

SCOPE AND METHODOLOGY

The proposed scope of the audit as presented in Attachment B, Audit Item 2 of the January 28-29, 2003, meeting of the Committee on Audit stated that *Risk Management and Insurance* includes risk evaluation and asset protection; mitigation of liabilities and claims; and, administration of related programs such as workers' compensation. Potential impacts include unnecessary risk exposures, excessive claims and costs, and fraudulent losses. Risk Management and Insurance was previously audited in 1998.

Our study and evaluation were conducted in accordance with the Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors, and included the audit tests we considered necessary in determining that operational and administrative controls are in place and operative. This review emphasized, but was not limited to, compliance with state laws, Board of Trustee policies, and Office of the Chancellor and campus policies, letters, and directives. The audit review focused on procedures in effect from July 2002 to September 2003. In instances when it was necessary to review annualized data, fiscal year 2002-2003 was the primary period reviewed.

Our primary audit focus involved the internal administrative, compliance, and operational controls over the management of the campus risks and workers' compensation claims. Specifically, we reviewed and tested:

- ▶ Administrative plans, policies, procedures, and monitoring tools.
- ▶ Risk assessment, evaluation, and mitigation procedures.
- ▶ Loss prevention programs.
- ▶ Campus property, liability, and workers' compensation claims processing and management.
- ▶ Compliance with state and private vehicle use standards.
- ▶ Property, liability, and contract insurance coverage.
- ▶ Workers' compensation information file security.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

RISK MANAGEMENT AND LOSS PREVENTION PROGRAMS

POLICIES, PROCEDURES, AND REPORTING

The campus risk management program lacked important elements required by Executive Order (EO) No. 715 and California Polytechnic State University (Cal Poly), San Luis Obispo's *Risk Management Policy*.

We noted that:

- ▶ A campus operational risk assessment and mitigation plan had not been developed and documented.

- ▶ An annual risk management report was not made to the campus president.

EO No. 715, *California State University (CSU) Risk Management Policy*, dated October 27, 1999, states that each president shall develop campus risk management policies and procedures that include an ongoing process by which appropriate administrators identify risks, perform analysis of the frequency and severity of potential risks, select the best risk management techniques to manage the risk without unduly curtailing or modifying activities necessary to the CSU mission, implement appropriate risk management techniques and staffing standards, and monitor, evaluate, and document the results. Further, the campus should include methods to prioritize risks and evaluate costs that would be incurred to provide restoration for damages sustained as well as the evaluation of funding options to ensure availability of funds. The methods used should be documented as part of the risk management policy and procedures, and the campus policy should include an evaluation process that includes the collection of relevant data and an annual risk management report to the campus president.

Cal Poly's *Risk Management Policy* Section 361, dated January 2, 2001, states that the management of risk is accomplished through identification and analysis of exposures to accidental loss that may interfere with the university's basic objectives; examination of feasible alternative risk management techniques for dealing with these exposures; selection of the best risk management techniques to manage the risks without unduly curtailing or modifying activities essential to the CSU mission; implementation of the chosen risk management techniques; and monitoring and evaluating the risks.

The risk management director stated that Cal Poly's implementation of EO No. 715 did not include development of a campus-wide operational risk assessment plan because the campus risk management policy assigned responsibility for management of risk to the vice presidents, deans, and program directors. He added that the office of the president received periodic written reports on pending litigation.

Failure to fully develop and implement risk management policies, procedures, and reporting mechanisms imposes an undue risk of loss and/or injury to the public and the campus community.

Recommendation 1

We recommend that the campus:

- a. Develop and document a risk assessment and mitigation plan.
- b. Prepare and issue an annual risk assessment summary report to the president.

Campus Response

We concur.

- a. Risk management will develop campus risk management procedures that include an ongoing process by which appropriate administrators identify risk, perform analyses of the frequency and severity of the potential risks, and select the best risk management techniques to manage risk without unduly curtailing or modifying activities necessary to the CSU mission.
- b. Risk management will develop and provide an annual risk management report to the president.

Anticipated date of completion: September 30, 2004

INJURY AND ILLNESS PREVENTION TRAINING

The campus did not have an effective process in place to ensure that new employees received injury and illness prevention program (IIPP) training at the time of initial employment.

Our review of 15 employees hired during 2002 and 2003 (nine in public safety; three in facilities; three in housing and business services) disclosed that:

- ▶ Six public safety employees, one facilities employee, and one housing and business services employee had not completed initial IIPP training.
- ▶ Three public safety employees and two facilities employees did not complete IIPP training until three to four months after their hire or transfer date.
- ▶ Documented evidence of the initial IIPP training provided could not be located for two facilities employees and one housing and business services employee.

Title 8 §3203, *IIPP*, states, in part, that documentation of safety and health training for each employee, including employee name or other identifier, training dates, type(s) of training, and training providers shall be maintained for at least one year.

Cal Poly's IIPP, dated January 1997, states that each supervisor will ensure that all new employees receive general and specific training prior to assignment of a new job. Supervisors will ensure that employees are trained whenever new substances, processes, procedures, or equipment are introduced to the workplace which represent a new hazard or whenever the supervisor receives notification of a new or previously unrecognized hazard. All training will be documented in writing. Topics, participants, and dates will all be recorded and kept on file within each department, and a copy will be provided to the Office of Environmental Health and Safety annually.

The risk management director stated that the campus IIPP program assigned responsibility for identifying, providing, and recording training to department supervision or management. He further stated that police officers were required to achieve and maintain standards established by the Commission on Peace Officer Standards and Training, which included all recognized safety training for California police officers; however, this training information was not logged on their training records.

Failure to ensure that employees attend required IIPP training increases the risk of job related injuries and inappropriate responses in the event of an injury or illness.

Recommendation 2

We recommend that the campus ensure that all new and transferred employees complete initial injury and illness prevention training prior to assignment and appropriate documentation is maintained for at least one year.

Campus Response

We concur.

Risk management will develop a program for appropriate administrators to identify new and transferred employees' needs for initial injury and illness prevention training.

Anticipated date of completion: September 30, 2004

SERVICE-LEARNING PROGRAM

The campus was unable to provide evidence that service-learning agreements between the campus and service organizations were completed; student service-learning plans were developed; adequate insurance for student participants was obtained; and student hold-harmless agreements or informed consent forms were signed.

EO No. 849, *CSU Insurance Requirements*, dated February 5, 2003, states that student placement agreements must be in writing and shall specify minimum insurance requirements applicable to the

contracting parties and appropriate hold-harmless provisions based upon the needs of the contracting parties. These requirements have been in effect since the initial EO concerning CSU insurance requirements dated April 4, 2000.

Human Resources (HR) directive No. 2001-38, *CSU Volunteer Policy*, dated December 20, 2001, states that the community agency for which the student is providing services and the university should develop an agreement that articulates their agreed upon responsibilities for workers' compensation and liability coverage prior to student placements. The university does not provide workers' compensation coverage to students participating in university-sponsored community service programs.

CSU Best Practices for Managing Risk in Service Learning states that the learning plan ensures that the student has been made aware of the guidelines and limitations for service-learning, and that the risks associated with the service-learning placement have been read, discussed, and understood.

The risk management director stated that Cal Poly's risk management function was decentralized and management was responsible for assessing risk and developing and documenting mitigation plans. He added that there was no campus requirement to use the CSU-developed best practice guidelines.

Inadequate mitigation of risks associated with service-learning programs jeopardizes their success and unnecessarily exposes participating students to uninsured injury and the university to financial loss and/or embarrassment.

Recommendation 3

We recommend that the campus establish policies, procedures, and controls to ensure that:

- a. Service-learning agreements are documented, properly approved, and include the required insurance and hold-harmless provisions.
- b. Service-learning plans are created and reviewed with, and signed by, students.
- c. Students participating in service-learning programs sign hold-harmless agreements or informed consent statements.

Campus Response

We concur.

- a. All faculty with designated community-based learning (CBL) courses will receive a CBL manual to include the appropriate risk management forms and instructions. Through a new CBL human resource management course, a team of students will be trained to assist faculty with risk management issues such as documentation of insurance and approval of hold-harmless agreements.

- b. Service-learning plans are provided as part of CBL course syllabi. Faculty review the course syllabus with students as an ordinary function of learning pedagogy and do not require signatures. In addition to the hold-harmless documentation, students enrolled in courses with a “direct-service” component are required to sign a CBL service agreement form.
- c. In addition to support provided by the Community Center at Cal Poly, students trained in the human resource management course referenced above will assist faculty with securing student signatures on appropriate hold-harmless/informed consent documents. For students participating in courses with a “direct-service” component, trained student facilitators from the Community Center will assist faculty members with securing signed copies of the hold-harmless agreements, record keeping of required CBL documentation, and archiving CBL documentation in the Community Center storage facility.

Anticipated date of completion: September 30, 2004

OFF-CAMPUS FIELD TRIPS AND SPECIAL EVENTS

Risks associated with campus-sponsored field trips and special events were not sufficiently mitigated and adequately monitored.

Our review of five campus-sponsored field trips and three special events disclosed that:

- ▶ Informed consent or hold-harmless agreements could not be provided by the campus in four instances.
- ▶ Evidence that the field trip or special event was planned and the risks were assessed and mitigated was not on file for two of the campus field trips and one of the special events.
- ▶ Travel Authorization Requests were not completed for three of the five field trips.

EO No. 715, *California State University Risk Management Policy*, dated October 27, 1999, states that the campus risk management policy should include methods of controlling risks and should provide guidelines developed by the systemwide office in consultation with campus risk managers/coordinators to assist campuses in developing campus specific policies, which include health and safety for on and off-campus activities. Further, campus policy implementing these guidelines should include a provision for documenting compliance and should address at a minimum those topics included in the guidelines such as transferring risk through hold-harmless agreements or vendor contracting.

Cal Poly’s *Academic Field Trips* policy recommends that university faculty who require or offer opportunities to their students to travel file a travel authorization request form with their respective academic department office. A blanket travel request can be submitted for an entire quarter for those

classes in which numerous field trips will occur during the same quarter. Further, a list of all persons participating in the field trip(s) is to be attached to the travel request and retained in academic department office files for use in the event of an emergency.

The risk management director stated that the campus had not developed any specific documentation and record maintenance requirements regarding planning, mitigation, and monitoring of risk for campus-sponsored field trips and special events because the campus risk management policy assigned responsibility for management of risk to the vice presidents, deans, and program managers.

The lack of adequate policies and procedures to control the risks associated with off-campus field trips and special events unnecessarily exposes participating students to undue risk and increases the potential for loss to the campus and the CSU.

Recommendation 4

We recommend that the campus establish and implement policies, procedures, and controls to ensure that:

- a. Informed consent forms and hold-harmless agreements are completed and maintained on file.
- b. Evidence of field trip and special event planning and the assessment and mitigation of risks are completed and maintained on file.
- c. Travel authorization requests for field trips are completed and maintained on file.

Campus Response

We concur.

- a. Risk management will review campus field trip procedures, modify as necessary, and notify campus of requirements for management of risk through informed consent and/or hold-harmless agreements.
- b. Risk management will review campus procedures for special events and field trips, modify as necessary, and inform campus of responsibility for management of risk through identification, assessment and mitigation, and the documentation.
- c. Fiscal services will review, modify as necessary, and inform campus of requirement for completion of travel authorization request for field trips.

Anticipated date of completion: September 30, 2004

STATE FUNDED STUDY ABROAD PROGRAMS

Students who participated in campus-sponsored study abroad programs did not consistently complete required release and hold-harmless agreements.

Our review of 30 students who participated in 11 international education programs indicated that 14 of the students had not completed the Cal Poly's Assumption of Risk and Release agreement and Medical Information and Authorization form.

EO No. 590, *Student Air Travel*, dated March 26, 1992, states, in part, that students shall be required to acknowledge that they have been informed of the risks of air travel required by such programs and to sign a statement certifying that they have been informed of and undertake such air travel voluntarily with full knowledge of such risks, and release and hold harmless the State of California, the CSU, the campus affiliated with the program requiring air travel, and each and every officer, agent, and employee of each of them.

EO No. 744, *State Funded Campus Based Study Abroad Programs*, dated June 7, 2000, states that such programs will be conducted consistent with the provisions of other related executive orders (such as those on air travel and risk management).

Cal Poly's *Risk Management Policy* §361.6.7, dated January 2, 2001, states that risk management shall be responsible for the development and authorization of release agreements for university programs.

The risk management director stated that there was no requirement that all students participating in study abroad programs must complete Cal Poly's Assumption of Risk and Release agreement and Medical Information and Authorization form.

The lack of compliance with CSU policy and campus guidelines unnecessarily exposes the university to financial loss and/or embarrassment.

Recommendation 5

We recommend that the campus establish and implement controls to ensure that students who participate in campus-sponsored study abroad programs did consistently complete required release and hold-harmless agreements.

Campus Response

We concur.

Supervising faculty for Cal Poly students studying abroad will require their students to sign an Assumption of Risk and Release Agreement, a Student Participation Agreement, and a Medical Information and Authorization Form. A list verifying the names of all students who have signed these forms will be forwarded to international education and programs (IEP) before departure. The originals of the agreements will be maintained in the appropriate academic department or college office. Copies of the supplied lists will be maintained by IEP, who will also spot-audit approximately one-third of the participating programs on a rotating basis every third year.

Anticipated date of completion: October 15, 2003

USE OF UNIVERSITY AND PRIVATE VEHICLES

Authorization forms to drive privately owned vehicles were not always completed or annually updated; and procedures did not ensure that defensive driving courses were completed if required, driving records were periodically checked, and accidents were timely reported.

We noted that:

- ▶ Six of sixteen employees reviewed had not completed an Authorization to Use Privately Owned Vehicles on State Business (Std. Form 261) form. In addition, eight of the ten Std. Form 261 forms that had been completed were not approved and seven had not been renewed annually as required.
- ▶ Six of the sixteen employees that drove privately owned vehicles on state business more than once per month had not completed a defensive driving course. In addition, 1 of 19 employees that drove campus vehicles on state business had not completed a defensive driving course.
- ▶ Documentation was not maintained to evidence that Department of Motor Vehicle (DMV) driving records were checked once every four years for the 35 employees reviewed that drove on official business as a condition of employment.
- ▶ Our review of 17 vehicle accidents disclosed that, on average, the Office of Risk and Insurance Management (ORIM) was notified 33 days after an accident instead of the required 48-hour period mainly due to the failure of campus driver and supervisors to timely notify campus risk management as required by campus procedure.

The *CSU Use of University and Private Vehicles Policies and Regulations*, dated March 2002, states that management has the responsibility for authorizing persons to drive privately owned vehicles to conduct official university or state business. Before a person may be authorized to use a privately owned vehicle to conduct university or state business, certain usage criteria must be met. A Std. Form 261, Authorization to Use Privately Owned Vehicles on State Business, must be completed and the employee must complete a CSU approved defensive driving course and maintain a good driving

record. Usage criteria includes, in part, requesting DMV driving records at least once every four years. The Std. Form 261 will be valid for a period not to exceed one year and may be initialed and dated annually by the employee to certify that it is current. Further, all motor vehicle accidents involving a state-owned vehicle or any vehicle being used on state business must be reported within 48 hours to the ORIM in Sacramento.

The risk management director stated that a campus procedure was in place for completion of Std. Form 261, including employee certification that a Std. Form 261 is on file when completing a travel request and added that the employee's supervisor would be responsible for ensuring completion of the form. He further stated that risk management recently accepted the responsibility for the university's driver program, and although integration of driving records and training had been completed, the process for checking employee DMV records every four years had not been a priority based upon the campus loss experience for vehicle operation. Finally, he stated that campus procedures regarding vehicle accidents were available to employees on the request to drive on university business form, the campus web page, and the campus travel request. He added that many campus vehicle accidents were minor incidents, and reporting these minor incidents had not been a priority at the employee and department level.

Failure to complete and renew Std. Form 261 authorizations, attend defensive drivers training when required, check driving records, and report accidents timely increases the risk of non-compliance with campus and CSU policy and exposes the campus to potential lawsuits as well as higher insurance costs.

Recommendation 6

We recommend that the campus establish procedures to:

- a. Obtain and maintain Std. Form 261 for all employees authorized to drive privately owned vehicles while conducting official business, including annual renewals.
- b. Ensure that all employees that operate vehicles on official business attend and successfully complete an approved defensive driver training course.
- c. Check driving records at least once every four years.
- d. Ensure that vehicle accidents are reported to the ORIM within 48 hours.

Campus Response

We concur.

- a. Risk management will review, modify as necessary, and notify campus of procedures to annually obtain/renew and maintain Std. Form 261 for all employees and identified volunteers authorized to drive privately owned vehicles while conducting official business.
- b. Risk management will offer approved defensive driver training program to all employees and identified volunteers authorized to operate vehicles on official business and notify appropriate administrators if course is not completed successfully.
- c. Risk management will review driving records of employees and identified volunteers currently authorized to operate vehicles on official business every four years.
- d. Risk management will review, modify as necessary, and notify the campus of procedures to notify the State Office of Risk and Insurance Management of vehicle accidents within 48 hours.

Anticipated date of completion: September 30, 2004

INSURANCE PROGRAM ADMINISTRATION

Adequate proof of insurance was not always obtained and insurance coverage was not always in accordance with CSU policy.

We reviewed 27 purchase transactions requiring insurance and found that:

- ▶ In six instances, purchases were initiated directly by the requesting department instead of contracts and procurement services, which did not ensure that the adequacy of vendor insurance was considered.
- ▶ In five instances, additional insured endorsements were either inadequate or not provided.
- ▶ In four instances, evidence of insurance was not available.
- ▶ In three instances, the vendor either carried no insurance or insurance coverage was not in compliance with EO No. 849.
- ▶ In one instance, the vendor did have workers' compensation insurance.

EO No. 849, *CSU Insurance Requirements*, dated February 5, 2003, states that in the absence of risk identification and evaluation, the minimum insurance limits and hold-harmless provisions as specified in this executive order are required. After consideration of risk factors, the campus may amend the standard practices to use either higher or lower limits. In addition, all certificates of insurances issued to the university must provide for 30 days advanced written notice to the university of cancellation of

any of the insurance coverage. Further, under the terms and conditions of a contract or agreement for services, the contractor, consultant, or vendor, must be required to show evidence of adequate insurance coverage by furnishing to the CSU a certificate or certificates of insurance that include additional insured endorsements. These requirements have been in effect since the initial EO concerning CSU insurance requirements dated April 4, 2000.

The director of contract and procurement services stated that the department had been concentrating its resources on ensuring consistency with EO No. 829 and 849 for high dollar/high risk contracts and purchases, which had resulted in less consistency for low dollar and lower risk purchases.

Failure to obtain evidence of insurance and comply with CSU insurance requirements increases the potential for loss to the campus and the CSU.

Recommendation 7

We recommend that the campus ensure that:

- a. Purchase requests are routed through contracts and procurement services.
- b. Adequate proof of insurance is obtained and that insurance coverage is aligned with CSU policy.

Campus Response

We concur.

- a. Campus reminders have already occurred via open discussions and departmental training and will continue throughout the year via one-on-one discussion as necessary.
- b. All buyers have already completed several training sessions with our risk manager to refresh their knowledge of the requirements and improve procedures.

Anticipated date of completion: Complete

WORKERS' COMPENSATION MANAGEMENT

CLAIM HANDLING

Work-related injuries and illnesses were not consistently processed timely.

We reviewed 30 workers' compensation claim files and noted that:

- ▶ In 13 instances, the third-party administrator was not informed of the injury within five days from the date human resources became aware of the injury.
- ▶ In six instances, human resources was not notified of the injury/illness within three working days.
- ▶ In four instances, an Employee's Claim for Workers' Compensation Benefits (DWC Form 1) was not provided to the injured employee within 24 hours.
- ▶ In three instances, a Supervisor's Report of Work-Related Injury/Illness (form HR 3067) was not completed within three working days.

California Labor Code §6409.1 states that an occupational injury and illness report shall be filed concerning each injury and illness which has, or is alleged to have, arisen out of and in the course of employment, within five days after the employer obtains knowledge of the injury or illness.

Cal Poly's *Workers Compensation Process For Supervisors* states that supervisors are to provide the injured employee a claim for within 24 hours, complete the Supervisor's Report, and return the Employee Claim form and Supervisor's Report to human resources within three working days.

State Administrative Manual (SAM) §2580.2, *Workers' Compensation and Injury Prevention*, states that the agency will establish a prompt reporting system for job-related injuries and illnesses and provide the injured worker with a workers' compensation claim form within one working day of knowledge of the injury.

The manager of human resources and employment equity stated that current workflow practices and limited staffing resources resulted in inconsistent adherence to timeliness standards. She further stated that these factors also impacted the analyst for workers' compensation and disability leaves ability to provide aggressive supervisory training and monitoring necessary to ensure consistent compliance by campus departments.

Not handling work-related injuries and illnesses in a timely manner exposes the campus to increased claim costs and could negatively impact employee productivity.

Recommendation 8

We recommend that the campus strengthen controls to ensure that work-related injuries or illnesses are processed timely.

Campus Response

We concur.

Human resources has evaluated its internal workflow process for handling work-related injury or illness claims and made adjustments to ensure compliance with timeliness standards, including revised prioritization of work tasks and implementation of an internal audit process to monitor claims processing times. In addition, the campus will include on the human resources' website more comprehensive workers' compensation program information, supervisors' instructions, a "commonly asked questions" section, and forms to help facilitate the timely reporting of work-related injuries or illnesses by employees and supervisors.

Anticipated date of completion: July 1, 2004

CLAIM REPORTING

Information reported by the third-party administrator on the Log of Work-Related Injuries and Illnesses (Occupational Safety and Health Act (OSHA) Form 300) for 2001 was incorrect.

A review of OSHA Form 300 reports for the years 2000 through 2002 disclosed that certain information reported for 2001 was inaccurate. Although the number of injuries reported in 2001 was greater than those reported in 2000 and 2002, the number of days away from work and the number of days of restricted work activity were reported as disproportionately less in 2001 than 2000 and 2002 as summarized below.

Log of Work-Related Injuries and Illnesses (OSHA Form 300)

Year	# Of Injuries/Illnesses Reported	Injuries/Illnesses Without Loss of Work Days	# Of Days Away From Work	# Of Days of Restricted Work Activity
2000	105	64	674	939
2001	114	89	16	67
2002	110	73	1160	594
Average	110	75	617	533

SAM §2581.62 states that the California OSHA requires additional work injury and illness reporting and recording. Generally, all job-related injuries and illnesses must be posted on the California OSHA Log and Summary of Occupational Injury and Illnesses.

SAM §20050 states the elements of a satisfactory system of internal accounting and administrative controls shall include, but are not limited to, an effective system of internal review.

The manager of human resources and employment equity stated that a clerical oversight resulted in California OSHA data for 2001 not being reviewed for accuracy prior to reporting.

Failure to ensure that all injuries and illnesses are accurately recorded may result in regulatory penalties and negative publicity.

Recommendation 9

We recommend that the campus ensure that the third-party administrator accurately records all applicable work-related injury and illnesses on OSHA Form 300.

Campus Response

We concur.

Human Resources will be generating monthly claims audit reports from the third-party administrator's (TPA) database to verify claims information and resolve any discrepancies. The annual Cal-OSHA Form 300 form will be auto-generated from the TPA's database and human resources will review the information for accuracy, using the monthly audit reports to reconcile and verify data.

Anticipated date of completion: July 1, 2004

RETURN TO WORK

Transitional work agreements had not been prepared for five of seven cases reviewed where the attending physician recommended that, upon return to work, the employee's work duties be restricted for ten or more days.

Cal Poly's *Disability Case Management Procedures* state that if transitional work can be provided, a Transitional Work Agreement will be prepared and signed by the employee, the supervisor, and the return-to-work coordinator before the employee returns to the workplace.

The manager of human resources and employment equity stated that the campus disability case management process was not revised to reflect the current workflow procedures.

Failure to complete transitional work agreements could lead to inconsistent workers' compensation administration and negatively impact the return to work program.

Recommendation 10

We recommend that the campus ensure that transitional work agreements are prepared for all employees provided with transitional work.

Campus Response

We concur.

Human resources will evaluate and revise its current return-to-work program and related procedures to better define “transitional work” and to identify when formal transitional work agreements are required.

Anticipated date of completion: July 1, 2004

CLAIMS FOLLOW-UP

Campus procedures did not provide for maintenance of documentation to evidence the assessment and resolution of unsafe work conditions and/or environmental risks that resulted in workers’ compensation claims to prevent future occurrences.

Title 8 §3203, *IIPP*, states, in part, that the IIPP program should include a procedure to investigate an occupational injury or illness and methods and/or procedures for correcting unsafe or unhealthy conditions, work practices, and work procedures in a timely manner based on the severity of the hazard whenever the employer is made aware of a new or previously unrecognized hazard.

Cal Poly’s *Risk Management Policy* §362.2.5, dated January 2, 2001, states that IIPP program management shall ensure that all injuries and illnesses related to campus operations and programs are investigated by the supervisor of the injured party. Findings and corrective actions shall be reported to environmental health and safety.

Cal Poly’s IIPP, §14.2[c], dated January 1997, states that records of occupational injuries and illnesses will be kept on file in the office of environmental health for a period of five years.

The risk management director stated that if any facility was deemed to have an unsafe condition in need of repair, a campus work order, tied to the injury report (HR 3067), was requested via the campus work order system.

The absence of documentation to support the assessment and correction of identified unsafe work conditions and/or environmental risks increases the potential for liability lawsuits.

Recommendation 11

We recommend that the campus establish and implement procedures to maintain documentation to support corrective actions taken for all workers' compensation claims resulting from identified unsafe work conditions and/or environmental risks.

Campus Response

We concur.

Human resources has already implemented work processes for documenting corrective actions taken for workers' compensation claims resulting from identified unsafe work conditions and/or environmental risks, including revision to the Supervisors' Report of Injury form which now requires completion by the environmental health and safety office to document any investigation and/or corrective measures taken.

Anticipated date of completion: Complete

APPENDIX A: PERSONNEL CONTACTED

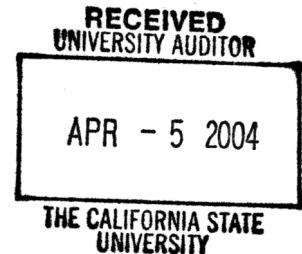
<u>Name</u>	<u>Title</u>
Warren J. Baker	President
Lawrence R. Kelley	Vice President for Administration and Finance
Robert Kitamura	Director, Facilities Planning
Lorlie Leetham	Director, Fiscal Services
Julie Long-Coleman	Administrative Support and Claims Coordinator, Risk Management
Joan Lund	Manager, Human Resources and Employment Equity
Gregory K. Melnyk	Purchasing Supervisor, Contract and Procurement Services
Barbara Melvin	Director, Human Resources
Brady Radovich	The Community Center, Student Life and Leadership
David Ragsdale	Environmental Health and Safety Manager, Risk Management
Richard Ramirez	Associate Vice President for Finance
Joseph C. Risser	Director, Risk Management
Matthew Roberts	Director, Contract and Procurement Services
Monica Schechter	Associate Director, Study Abroad and CSU International Programs
Makell Smith	Administrative Coordinator, Chemistry and Biochemistry
Michel A. Stock	Analyst, Workers' Compensation and Disability Leaves
Vicki Stover	Associate Vice President for Administration

CAL POLY

California Polytechnic State University
San Luis Obispo, CA 93407
Administration & Finance Division
(805) 756-2171 • Fax (805) 756-7560

March 30, 2004

Mr. Larry Mandel
University Auditor
Office of the University Auditor
The California State University
401 Golden Shore
Long Beach, CA 90802-4275



Subject: Audit Report Number 03-33, *Risk Management and Insurance*, at California Polytechnic State University, San Luis Obispo

Dear Larry:

Attached is the campus response to recommendations of Audit Report Number 03-33, *Risk Management and Insurance*, as well as a computer disk with this information. It is anticipated that documentation supporting audit findings that are specified as complete will be forwarded to you within the next few weeks.

If you have questions regarding this document, please contact Vicki Stover, Associate Vice President for Administration, at 805-756-2171 or VStover@calpoly.edu.

Sincerely,

A handwritten signature in black ink that reads "Larry".

Lawrence Kelley
Vice President for Administration & Finance

cc: W. Baker, V. Stover, J. Risser, D. Ragsdale, B. Melvin, J. Lund, R. Ramirez, M. Roberts,
L. Leetham, M. Hunter, D. Conn, D. Arseneau, B. Radovich, L. Halisky

RISK MANAGEMENT AND INSURANCE

**CALIFORNIA POLYTECHNIC STATE UNIVERSITY,
SAN LUIS OBISPO**

REPORT NO. 03-33

RISK MANAGEMENT AND LOSS PREVENTION PROGRAMS

POLICIES, PROCEDURES, AND REPORTING

Recommendation 1

We recommend that the campus:

- a. Develop and document a risk assessment and mitigation plan.
- b. Prepare and issue an annual risk assessment summary report to the president.

Campus Response

We concur.

- a. Risk management will develop campus risk management procedures that include an ongoing process by which appropriate administrators identify risk, perform analyses of the frequency and severity of the potential risks, and select the best risk management techniques to manage risk without unduly curtailing or modifying activities necessary to the CSU mission.
- b. Risk Management will develop and provide an annual risk management report to the President.

Anticipated date of completion: September 30, 2004

INJURY AND ILLNESS PREVENTION TRAINING

Recommendation 2

We recommend that the campus ensure that all new and transferred employees complete initial injury and illness prevention training prior to assignment and appropriate documentation is maintained for at least one year.

Campus Response

We concur.

Risk Management will develop a program for appropriate administrators to identify new and transferred employees' needs for initial injury and illness prevention training.

Anticipated date of completion: September 30, 2004

SERVICE-LEARNING PROGRAM**Recommendation 3**

We recommend that the campus establish policies, procedures, and controls to ensure that:

- a. Service-learning agreements are documented, properly approved, and include the required insurance and hold harmless provisions.
- b. Service-learning plans are created and reviewed with, and signed by, students.
- c. Students participating in service learning programs sign hold-harmless agreements or informed consent statements.

Campus Response

We concur.

- a. All faculty with designated community-based learning (CBL) courses will receive a CBL manual to include the appropriate risk management forms and instructions. Through a new CBL Human Resource Management course, a team of students will be trained to assist faculty with risk management issues such as documentation of insurance and approval of hold harmless agreements.
- b. Service learning plans are provided as part of CBL course syllabi. Faculty review the course syllabus with students as an ordinary function of learning pedagogy and do not require signatures. In addition to the hold harmless documentation, students enrolled in courses with a "direct-service" component are required to sign a CBL service agreement form.
- c. In addition to support provided by the Community Center at Cal Poly, students trained in the Human Resource Management course referenced above will assist faculty with securing student signatures on appropriate hold-harmless/informed consent documents. For students participating in courses with a "direct-service" component, trained student facilitators from the Community Center will assist faculty members with securing signed copies of the hold harmless agreements, record keeping of required CBL documentation, and archiving CBL documentation in the Community Center storage facility.

Anticipated date of completion: September 30, 2004

OFF-CAMPUS FIELD TRIPS AND SPECIAL EVENTS**Recommendation 4**

We recommend that the campus establish and implement polices, procedures, and controls to ensure that:

- a. Informed consent forms and hold harmless agreements are completed and maintained on file.
- b. Evidence of field trip and special event planning and the assessment and mitigation of risks are completed and maintained on file.
- c. Travel authorization requests for field trips are completed and maintained on file.

Campus Response

We concur.

- a. Risk Management will review campus field trip procedures, modify as necessary and notify campus of requirements for management of risk through informed consent and/or hold harmless agreements.
- b. Risk management will review campus procedures for special events and field trips, modify as necessary and inform campus of responsibility for management of risk through identification, assessment and mitigation and the documentation.
- c. Fiscal Services will review, modify as necessary and inform campus of requirement for completion of Travel Authorization Request for Field Trips.

Anticipated date of completion: September 30, 2004

STATE FUNDED STUDY ABROAD PROGRAMS**Recommendation 5**

We recommend that the campus establish and implement controls to ensure that students who participate in campus-sponsored study abroad programs did consistently complete required release and hold harmless agreements.

Campus Response

We concur.

Supervising faculty for Cal Poly students studying abroad will require their students to sign an Assumption of Risk and Release Agreement, a Student Participation Agreement, and a medical Information and Authorization Form. A list verifying the names of all students who have signed these forms will be forwarded to IEP before departure. The originals of the agreements will be maintained in the appropriate academic department or college office. Copies of the supplied lists will be maintained by IEP, who will also spot-audit approximately 1/3 of the participating programs on a rotating basis every third year.

Anticipated date of completion: October 15, 2003

USE OF UNIVERSITY AND PRIVATE VEHICLES**Recommendation 6**

We recommend that the campus establish procedures to:

- a. Obtain and maintain Std. Form 261 for all employees authorized to drive privately owned vehicles while conducting official business, including annual renewals.
- b. Ensure that all employees that operate vehicles on official business attend and successfully complete an approved defensive driver training course.
- c. Check driving records at least once every four years.
- d. Ensure that vehicle accidents are reported to the ORIM within 48 hours.

Campus Response

We concur.

- a. Risk Management will review, modify as necessary, and notify campus of procedures to annually obtain/renew and maintain Std. Form 261 for all employees and identified volunteers authorized to drive privately owned vehicles while conducting official business.
- b. Risk Management will offer approved defensive driver training program to all employees and identified volunteers authorized to operate vehicles on official business and notify appropriate administrators if course is not completed successfully.
- c. Risk Management will review driving records of employees and identified volunteers currently authorized to operate vehicles on official business every four years.
- d. Risk Management will review, modify as necessary, and notify the campus of procedures to notify the State Office of Risk and Insurance Management of vehicle accidents within 48 hours.

Anticipated date of completion: September 30, 2004

INSURANCE PROGRAM ADMINISTRATION

Recommendation 7

We recommend that the campus ensure that:

- a. Purchase requests are routed through contracts and procurement services.
- b. Adequate proof of insurance is obtained and that insurance coverage is aligned with CSU policy.

Campus Response

We concur.

- a. Campus reminders have already occurred via open discussions and departmental training and will continue throughout the year via one on one discussion as necessary.
- b. All buyers have already completed several training sessions with our Risk Manager to refresh their knowledge of the requirements and improve procedures.

Anticipated date of completion: Complete

WORKERS' COMPENSATION MANAGEMENT

CLAIM HANDLING

Recommendation 8

We recommend that the campus strengthen controls to ensure that work-related injuries or illnesses are processed timely.

Campus Response

We concur.

Human Resources has evaluated its internal workflow process for handling work-related injury or illness claims and made adjustments to ensure compliance with timeliness standards, including revised prioritization of work tasks and implementation of an internal audit process to monitor claims processing times. In addition, the campus will include on the Human Resources' website more comprehensive workers' compensation program information, supervisors' instructions, a "commonly asked questions" section, and forms to help facilitate the timely reporting of work-related injuries or illnesses by employees and supervisors.

Anticipated date of completion: July 1, 2004

CLAIM REPORTING

Recommendation 9

We recommend that the campus ensure that the third party administrator accurately records all applicable work-related injury and illnesses on OSHA Form 300.

Campus Response

We concur.

Human Resources will be generating monthly claims audit reports from the TPA's database to verify claims information and resolve any discrepancies. The annual Cal-OSHA Form 300 form will be auto-generated from the TPA's database and Human Resources will review the information for accuracy, using the monthly audit reports to reconcile and verify data.

Anticipated date of completion: July 1, 2004

RETURN TO WORK

Recommendation 10

We recommend that the campus ensure that transitional work agreements are prepared for all employees provided with transitional work.

Campus Response

We concur.

Human Resources will evaluate and revise its current return-to-work program and related procedures to better define "transitional work" and to identify when formal transitional work agreements are required.

Anticipated date of completion: July 1, 2004

CLAIMS FOLLOW-UP

Recommendation 11

We recommend that the campus establish and implement procedures to maintain documentation to support corrective actions taken for all workers' compensation claims resulting from identified unsafe work conditions and/or environmental risks.

Campus Response

We concur.

Human Resources has already implemented work processes for documenting corrective actions taken for workers' compensation claims resulting from identified unsafe work conditions and/or environmental risks, including revision to the Supervisors' Report of Injury form which now requires completion by the Environmental Health and Safety Office to document any investigation and/or corrective measures taken.

Anticipated date of completion: Complete

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

May 5, 2004

CHANNEL ISLANDS

CHICO

MEMORANDUM

DOMINGUEZ HILLS

FRESNO

FULLERTON

TO: Mr. Larry Mandel
University Auditor

HAYWARD

FROM: Charles B. Reed
Chancellor

HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Report Number 03-33 on *Risk Management and Insurance*, California Polytechnic State University, San Luis Obispo

LOS ANGELES

MARITIME ACADEMY

MONTEREY BAY

In response to your memorandum of May 5, 2004, I accept the response as submitted with the draft final report on *Risk Management and Insurance*, California Polytechnic State University, San Luis Obispo.

NORTHRIDGE

POMONA

CBR/bth

SACRAMENTO

Enclosure

SAN BERNARDINE

cc: Dr. Warren J. Baker, President
Mr. Lawrence R. Kelley, Vice President for Administration and Finance

SAN DIEGO

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS