



# RISK MANAGEMENT ANNUAL REPORT

FISCAL YEAR  
2007/2008

RISK MANAGEMENT & SAFETY  
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## I. Introduction

Risk Management provides resources, consultation and training in support of students, faculty and staff to manage and balance risks created by the University's programs and activities. The program mission is to provide risk management techniques to the University to minimize the adverse effects of accidental and avoidable losses while promoting activities that support the educational mission and goals of the University. The Risk Management Program's vision is to be recognized as a leader in higher education risk management.

The overarching goals of the Risk Management Program are to:

- Maintain the University's *Total Cost of Risk* at or below the 2% industry standard which reflects better than average performance.
- Follow the *Enterprise Risk Management* methodology to address: Strategic, Financial, Operational, Compliance and Reputational risk concerns, through the Committee of Sponsoring Organizations of the Treadway Commission five interrelated components: Control Environment, Risk Assessment, Control Activities, Information and Communication and Monitoring.
- Implement proactive risk management strategies developed through an increased emphasis on analysis and reporting of risk management information.
- Identify, develop and implement strategies to reduce potential injury to people, damage to property and legal liability exposures and/or claims against the University.
- Develop policies, procedures and/or training to address high risk activities/areas.

The Risk Management Annual Report provides information about the University's methodology used to address risk; premium and claims performance; the Total Cost of Risk; 2007-2008 accomplishments; potential risks facing the University and 2008-2009 fiscal year goals. The report also serves as an informational tool for managers to better understand the nature and extent of common University exposures and provides insight into loss control and prevention programs, which can help mitigate exposure.

## **II. Enterprise Risk Management (ERM) – Risk Management’s Link to University Audits & Strategic Planning**

In 2002, The Sarbanes Oxley Act (SOX) was created to address financial improprieties such as the ENRON and WorldCom scandals. Preceding these scandals, “the Committee of Sponsoring Organizations of the Treadway Commission (COSO) was charged with conducting a study of the business failures and issuing guidance on how to prevent reoccurrences. The outcome of COSO’s review of internal control systems was the recognition and communication of the need for managing organizations to shift from strictly a financial focus to a focus of managing all business risks.” The COSO model in which both internal audits (CSU System-wide Audits) and external audits (Generally Accepted Accounting Principles - GAAP, Financial Integrity and State Manager’s Accountability Act – FISMA) are based, is the foundation of Enterprise Risk Management (ERM).

The Committee of Sponsoring Organizations of the Treadway Commission defines Enterprise Risk Management as “a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.” Enterprise Risk Management is a coordinated effort used to guide an organization's risk performance through departmental risk assessment, accountability and ownership.

Enterprise Risk Management engages the campus community in the management of risks for which they are responsible. Establishing Enterprise Risk Management in a University setting helps enhance the link between institutional governance, risk management, and the strategic goals of the University, resulting in financial benefit.

During fiscal year 2007-2008, Risk Management & Safety Department (RM&S) recognized the need to open dialogue with Business & Financial Services (BFS) to address Enterprise Risk Management methodology currently being used in both internal and external audits. Concurrently, Risk Management & Safety created a strategic goal in line with the University’s Strategic Priorities of Academic Excellence and Campus Climate to assist Athletics in integrating Enterprise Risk Management principles into its departmental functions, the return on investment being an enhanced risk management program and tools in support of Athletics’ programs. Risk Management & Safety anticipated and Athletics benefited from, improved transparency, processes and communication as a result of achieving this goal. This was an important first step in a long range goal of implementing Enterprise Risk Management methodology across the campus community.

### **References:**

University Risk Management and Insurance Association [URMIA] 2007, p. 2, p.3, p. 8  
Committee of Sponsoring Organizations of the Treadway Commission [COSO] 2004, p. 2

### III. Risk Management Program Review

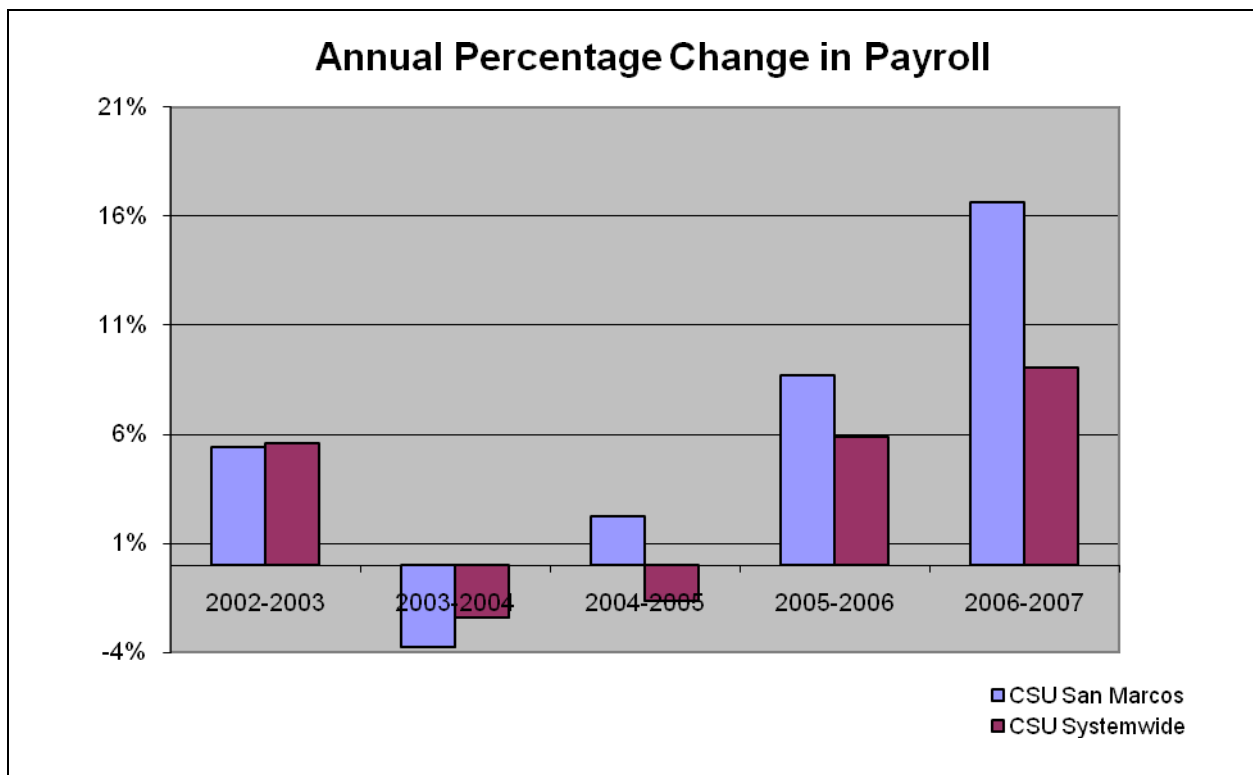
#### A. CSU System-Wide and University Cost Comparison

One method to assess the effectiveness of the University's Risk Management Program is to compare the decrease/increase percentage of certain campus risk management costs against the system-wide average. In 2007-2008, the University's combined premiums for Workers' Compensation, General Liability, Industrial Disability Leave (IDL), Non-Industrial Disability Leave (NDI), Unemployment Insurance (UI) and Property Programs increased at a greater rate (6.31%) than the system-wide average decrease (-7.95%). The factors that contributed to this performance are outlined below.

#### B. CSU System-Wide and University Payroll Comparison

The University's Workers' Compensation and General Liability premiums are directly impacted by the size of its annual payroll, relative to the CSU system-wide payroll. If an increase in the University's payroll for any given year is greater than the system-wide increase for that year, the premiums will increase. If a decrease in the University's payroll for any given year is greater than the system-wide decrease for that year, the premiums will decrease. Claim performance is an additional factor in either of these scenarios.

As the graph below illustrates, in three of the past five years, the University's payroll has increased at a faster rate than the system-wide average; driving the premiums for Workers' Compensation and General Liability premiums upward.



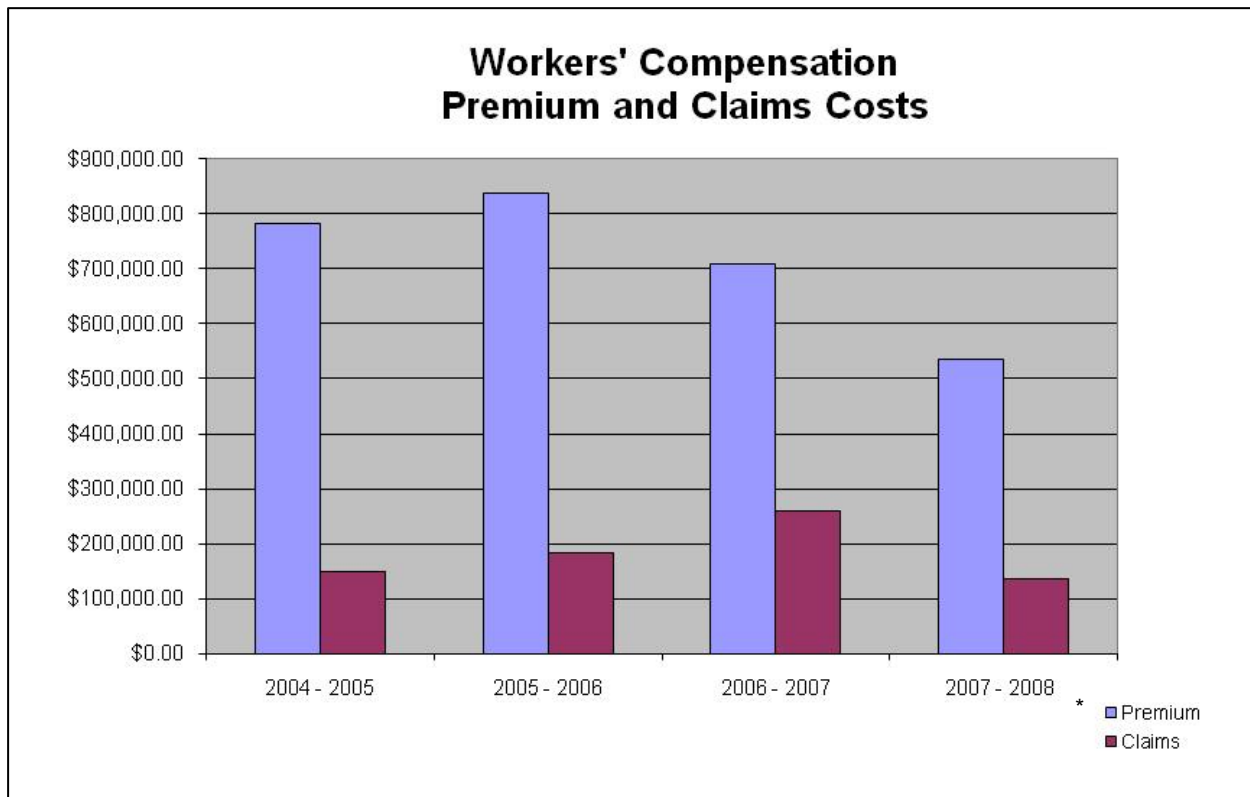
Because the University’s historical claim performance directly and significantly affects future premium costs, the following information is necessary to fully understand the impact of the claims cost outlined in the *Total Cost of Risk* model in section IV.

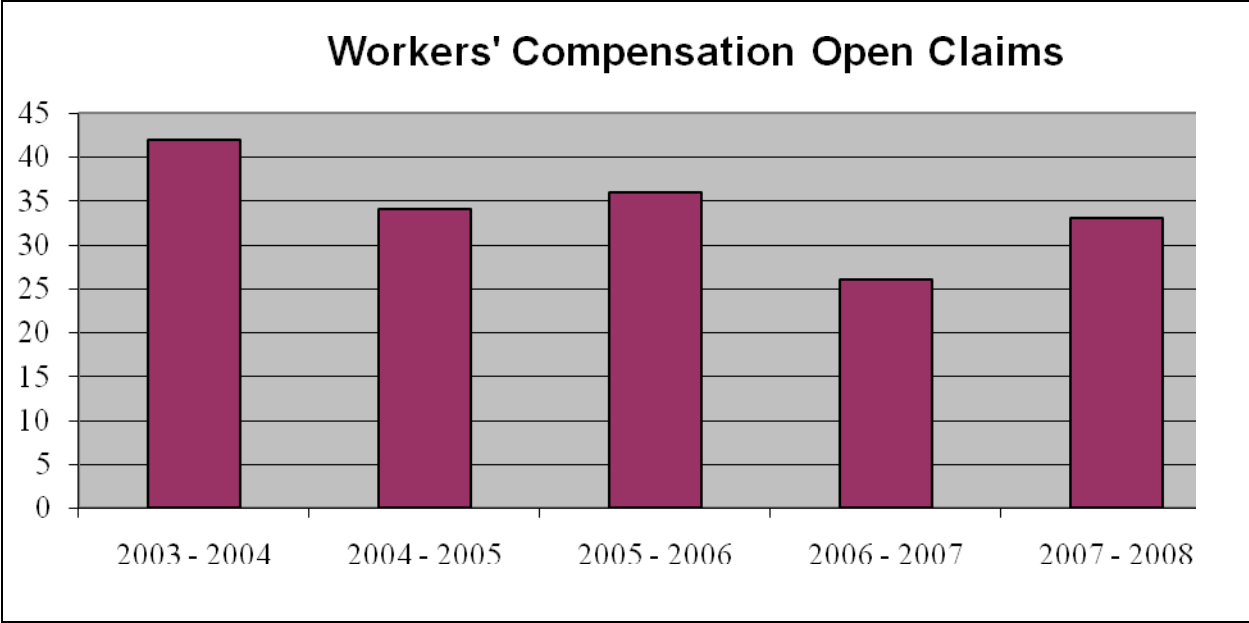
**C. CSU System-Wide and University Premium/ Claims Comparison**

The cumulative payments of claims over a five-year period affects the University’s annual premium rating for coverage of its self-funded programs (Workers’ Compensation, General Liability, Industrial Disability Leave, Non-Industrial Disability Leave and Unemployment Insurance). Claims that occurred within this five-year historical window impact the University’s loss experience modification rate in the current policy year, contributing to the premium cost. Therefore, it is crucial to implement risk controls to reduce the University’s claims frequency. The analysis and graphs below illustrate the University and System’s experience over the past four years.

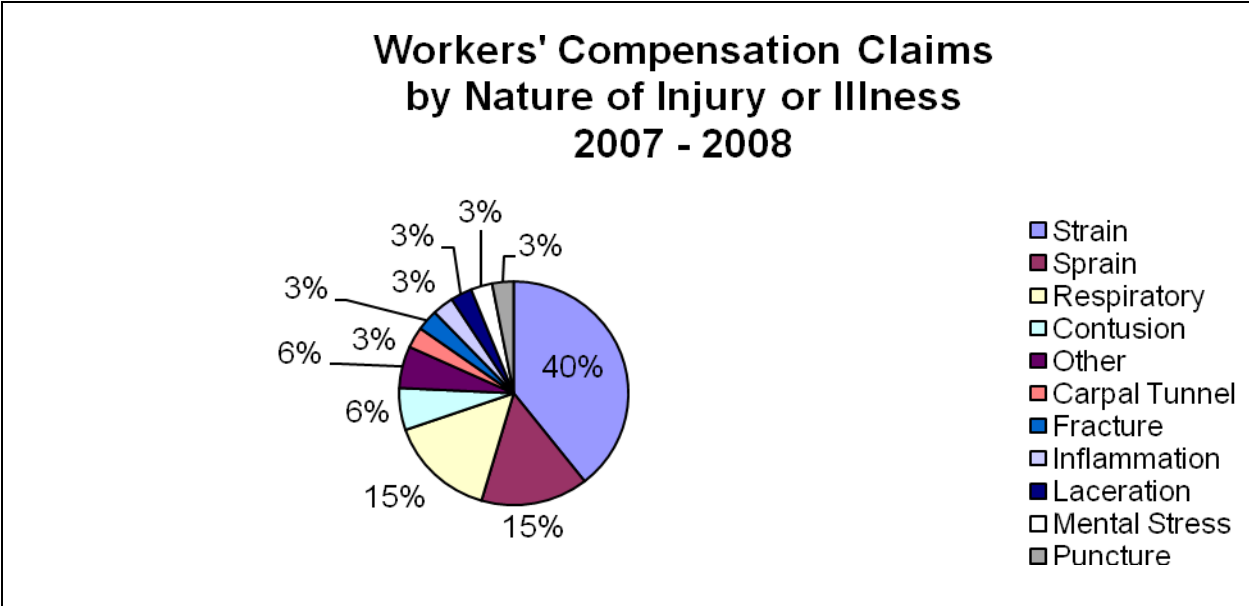
**Workers’ Compensation Premium and Claims**

Workers’ Compensation expenses represent the University’s largest controllable *Total Cost of Risk*. The University’s premium is primarily based on claims payments over the last five years. In 2007-2008, Workers’ Compensation premium costs in the CSU decreased an average of 17.41%. The University’s premium cost decreased by 24.29% or \$171,951. Factors contributing to this success include; the campus risk control efforts, commitment to return-to-work and the contributions of each campus in the California State University Risk Management Authority (CSURMA). As illustrated below, the University’s claims cost in 2007-2008 significantly decreased from 2006-2007 by 46.93% or \$121,564.37.





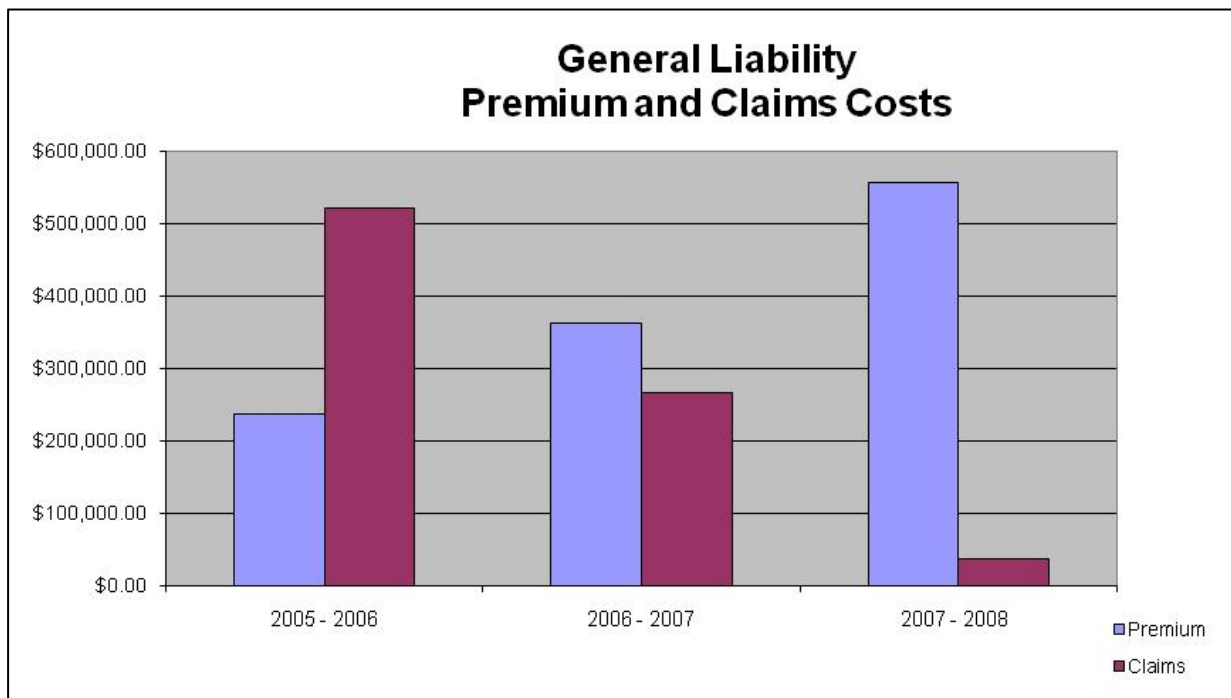
The first two charts illustrate an increase in the total number of claims in 2007-2008, while the total cost of claims have decreased. The graph above indicates an increase in the number of open claims in 2007-2008 from 26 to 33, a 38% increase.



The graph above illustrates the types of injuries and illnesses sustained by University employees and volunteers in 2007-2008. More than half of the injuries are strains/sprains that can be further classified as repetitive motion injuries. While a 50% repetitive motion injury frequency rate in Workers' Compensation injuries is an industry norm, Risk Management & Safety offered ergonomic consultation and training to reduce the impact or severity of repetitive motion injuries throughout 2007-2008. RM&S addressed improper employee equipment and furniture layout, encouraged proactive stretching programs and produced publications for employees exposed to repetitive stress.

### General Liability Premium and Claims

General Liability (GL) expenses are directly related to the number of litigated and non-litigated claims filed against the University. As of June 2008, the University was involved in three litigated claims. In 2007-2008, general liability premium costs in the CSU increased an average of 10.82%. The University's premium cost increased substantially in 2007-2008 by 53.4%. This can be attributed to the University's growth in payroll and the University's GL claim payout prior to 2007-2008. GL claim costs in 2007-2008 substantially decreased from 2006-2007 by \$ 228,137 or - 85.69 %. If GL claim costs continue to trend downward, premium costs should decrease beginning in 2011-2012. To maintain this progress, Risk Management recommends that Human Resources and Academic Resources continue to review policies, procedures, publications and training related to the prevention of Employer's Practice Liability concerns including: wrongful termination, harassment, discrimination and retaliation.

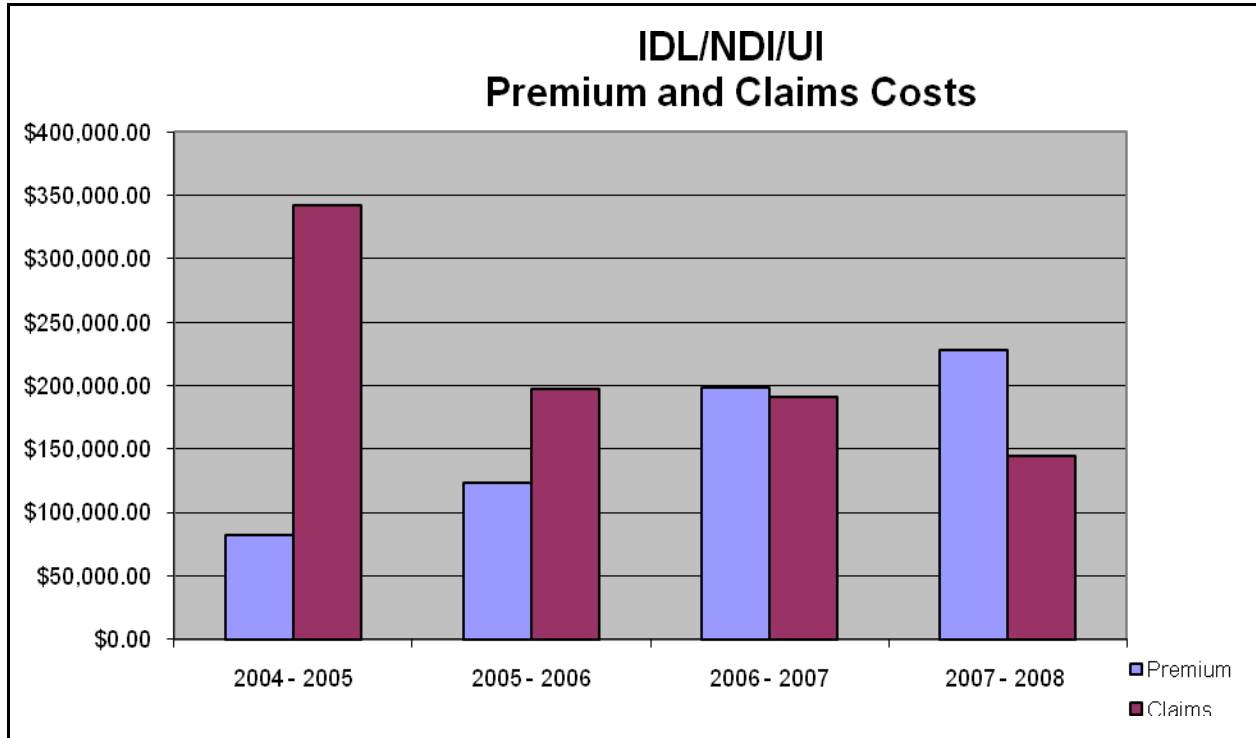


### IDL/NDI/UI Premium and Claims

Industrial Disability Leave (IDL) is a benefit (coupled with Workers' Compensation) available to those who sustain a work related injury or illness. Non-Industrial Disability Leave (NDI) is a benefit available to employees who sustain a non-work related injury or illness and are unable to work. Unemployment Insurance (UI) is a benefit available to qualified employees who become unemployed/separated from the University. IDL, NDI and UI claim costs have decreased since 2004-2005.

In 2007-2008, IDL/NDI/UI premium costs in the CSU remained stable with no change. However, the University's premium cost increased by 14.51% or \$28,825. This can be attributed to the University's growth in payroll and the University's claim payout prior to 2007-2008. Claim costs in 2007-2008 decreased from 2006-2007 by (- 24.55%) or \$ 46,977. The campus continues to approach improving Industrial Disability Leave and Unemployment Insurance in claims experience through focus on Disability Case Management/Return-to Work and hiring

practices (i.e. screening, background checks, selection and hiring decisions). NDI is for the most part, a non-controllable benefit for employees. The University will pay higher premiums for claims experience that occurred in the 2004 – 2005 fiscal year through 2009 – 2010, due to the use of a five-year historical window.



### Property Insurance

The primary factor in determining property insurance premium cost is the CSU’s (not the University’s) loss experience. A secondary factor involves campus building growth. Considering the University’s current and future plans to build new campus structures, property insurance premiums increased by \$34,959 or 39.11% from 2006- 2007.

### Automobile Liability Insurance

This premium is based on the CSU (not the University’s) loss experience and the number of vehicles owned by the campus. In 2007-2008 the University’s premium cost increased slightly by \$3,173 or 10%.

### Athletic Injury Medical Expense Insurance (AIME) and National Association of Intercollegiate Athletics (NAIA)

Students participating in intercollegiate athletics, whether as a team member or prospective team member, are eligible to receive up to \$25,000 for medical expenses related to injuries sustained while participating in regularly scheduled intercollegiate sporting events and other supervised or customary activities (i.e. practices and try-outs). This self-funded insurance (AIME) also provides up to \$25,000 of coverage for travel accidents and up to \$15,000 for accidental death or dismemberment. This insurance augments any other valid primary health insurance covering student athletes. The University purchases catastrophic insurance coverage required through

NAIA to enhance insurance coverage for the student athlete. In 2007-2008 the University's AIME premium cost increased significantly by \$5,000 or 100%. This can be attributed to growth in the University's Athletic programs.

### **Special Events and Vendor Liability Insurance**

The frequency and severity of claims made against Special Events Insurance was minimal in 2007-2008. Risk Management & Safety, in coordination with the University Events Scheduling Office (UESO) and the Clark Field House/University Student Union (CFH/USU), assesses on an event-by-event basis the necessity for Special Events Insurance for campus events. The growth in events on campus in 2007-2008 has increased the use of Special Event Insurance. Risk Management's new risk assessment tool, in conjunction with the UESO's standard lease for space and campus service contracts, will assist the UESO/CFH, Event Organizers, Outside Organizations and Vendors in minimizing risk, reducing the need for Special Event Insurance. The University's Special Events Premium was \$1,859 lower (- 50%) in 2007-2008.

### **Inland Marine**

Inland Marine insurance provides coverage for fine arts and equipment owned or exhibited by the campus, when identified and submitted for coverage. Campus units may request and fund coverage by the Inland Marine policy to insure high value personal property, particularly when damage or loss would potentially affect a department's operation or academic program.

### **Student Professional Liability Insurance Program (SPLIP)**

Student Professional Liability Insurance Program (SPLIP) provides General Liability and Professional Liability coverage for students enrolled in a CSU Health Profession practicum, Social Welfare program, Social Work program or Education Credential program. In 2007-2008, the University's SPLIP premium cost increased significantly by \$4,701 (693%) due to growth in the University's clinical nursing and student teaching placements. This does not account for non-matriculated student placement through Extended Learning.

### **Student Academic Field Experience for Credit Liability Insurance Program (SAFECLIP)**

Student Academic Field Experience for Credit Liability Insurance Program (SAFECLIP) is available when the host institution requires the University to obtain General Liability and/or Professional Liability insurance for student participation in the institution's affiliation program. SAFECLIP provides General Liability and Professional Liability coverage for students performing community service or volunteer work for academic credit; and students enrolled in CSU radio, television or film credential programs. In 2007-2008, the University's SAFECLIP premium cost increased slightly by \$1,047 (26%).

### **Foreign Travel Liability Insurance Program (FTLIP)**

Foreign Travel Liability Insurance is available for traveling faculty, staff, and students participating in university sponsored trips and augments General Liability coverage available to faculty and staff. FTLIP is intended for short-term use. It provides additional financial protection for exposures in excess of those covered by the campus' general liability, workers' compensation, and vehicle liability programs, for potential claims and litigation while in foreign countries. It also serves as an emergency contact source for the University to contact faculty, staff, and students through the Travel Assist component. FTLIP is not mandated by CSURMA

and has not been routinely used on our campus. Risk Management & Safety will promote this risk financing option during 2009-2010 to help address the risks associated with foreign travel.

### **Student Travel Accident Insurance**

The CSU maintains this coverage for students participating in an approved, supervised campus activity requiring travel. This is an accident policy only and does not cover illnesses.

### **CSU Student Health Insurance (CSUSHI)**

Students may purchase CSUSHI through CSU Healthlink (i.e. domestic and international health, dental, and vision insurance). Students assume the full premium cost for this program offered through CSURMA. Student Health Services and Associated Students Incorporated actively promote this coverage.

### **Participant Accident Insurance**

This insurance provides coverage for participants in University sponsored activities such as sports camps, 5K events, camping, skiing, white water rafting, fundraisers and one-time special events. This insurance is available on a per-activity basis and the cost varies depending on the selected coverage and deductibles.

### **Crime (ID Fraud) Insurance**

Crime (ID Fraud) Insurance was purchased for the first time in 2007-2008 and premium cost was included in the University's General Liability premium. Crime (ID Fraud) Insurance reimburses employees (or additional insured person) for expenses incurred as the direct result of identity fraud.

### **Fidelity Crime Insurance**

Fidelity Crime Insurance was purchased for the first time in 2007/2008 and premium expenses were included in the University's General Liability premium. The Fidelity Crime Insurance Program reimburses the University (or additional insured person) for a loss related to acts of employee dishonesty, theft, computer, crime, counterfeiting or forgery. It also covers a direct financial loss sustained by another person or organization where an employee may be responsible for the care, custody and control of money, securities or property.

### **Retained and Received Loss Costs**

University retained loss costs include deductible recovery, settlements, litigation, arbitration, small claims and tort claims under \$1,000. In 2007-2008, University retained loss costs were \$42,935.26. The University received loss costs are funds paid to the University by an outside party as the result of their damages. The University did not receive loss costs funds in 2007-2008. The University currently maintains a \$50,000 liability deductible.

#### IV. Total Cost of Risk - TCOR

As an industry best practice, the effectiveness of the University's Risk Management Program is measured by comparing the annual cost of the program (retained losses, insurance premiums, operational and administrative expenses) against the University's budget over time, commonly referred to as *Total Cost of Risk*. A *Total Cost of Risk* at or below 2% is an industry standard for better than average performance. As the table below indicates, the University's risk management costs decreased from 1.99% of the University's budget in the 2006-2007 fiscal year to 1.75% of the University's budget in the 2007-2008 fiscal year.

#### TOTAL COST OF RISK

Premiums and Claims	2004-05	2005-06	2006-07	2007-08
Workers' Compensation Premium	785,883.00	836,665.00	707,904.00	535,953.00
Workers' Compensation Claims	150,016.00	183,139.00	259,018.00	137,453.63
<b>Subtotal</b>	<b>\$ 935,899.00</b>	<b>\$ 1,019,804.00</b>	<b>\$ 966,922.00</b>	<b>\$ 673,406.63</b>
General Liability Premium	222,853.00	237,397.00	363,507.00	557,512.00
General Liability Claims	254,808.00	521,045.00	266,227.00	38,089.75
<b>Subtotal</b>	<b>\$ 477,661.00</b>	<b>\$ 758,442.00</b>	<b>\$ 629,734.00</b>	<b>\$ 595,601.75</b>
IDL/NDI/UI Premium	82,481.00	123,816.00	198,629.00	227,454.00
IDL/NDI/UI Claims	342,008.00	197,401.00	191,320.00	144,343.00
<b>Subtotal</b>	<b>\$ 424,489.00</b>	<b>\$ 321,217.00</b>	<b>\$ 389,949.00</b>	<b>\$ 371,797.00</b>
Property	63,509.00	72,672.00	89,345.00	124,284.51
Auto Liability (VELSIP)	54,848.86	41,301.00	31,732.00	34,905.00
Athletic Injury Medical (AIME)	2,000.00	5,000.00	5,000.00	10,000.00
National Association of Intercollegiate Athletics (NAIA)	-	2,068.00	2,068.00	2,378.00
Special Event	2,952.93	3,725.50	3,302.40	1,866.34
Inland Marine	1,805.51	1,689.33	1,678.33	1,656.33
Student Professional Liability (SPLIP)	-	-	679.00	5,380.00
Student Academic Field Experience Liability (SAFECLIP)	-	-	4,070.00	5,117.00
Foreign Travel (FTLIP)	-	964.00	-	-
Student Travel	913.00	913.00	913.00	913.00
<b>Subtotal</b>	<b>\$ 126,029.30</b>	<b>\$ 128,332.83</b>	<b>\$ 133,804.73</b>	<b>\$ 180,470.18</b>
<b>Total Premiums and Claims</b>	<b>\$ 1,964,078.30</b>	<b>\$ 2,227,795.83</b>	<b>\$ 2,120,409.73</b>	<b>\$ 1,821,275.56</b>
<b>Retained Losses</b>				
Deductible, Litigation, Arbitration, Settlements, Small Claims				
<b>Total Retained Losses</b>				<b>\$ 42,935.26</b>
<b>Administrative Costs</b>				
Administrative Salaries	\$ 162,716.40	\$ 171,192.41	\$ 185,086.14	\$ 157,517.26
Administrative Expenses	\$ 12,467.74	\$ 13,102.35	\$ 17,646.59	\$ 10,235.61
<b>Total Administrative Costs</b>	<b>\$ 175,184.14</b>	<b>\$ 184,294.76</b>	<b>\$ 202,732.73</b>	<b>\$ 210,688.13</b>
<b>Total Cost of Risk (Premiums/Claims + Retained Losses + Administrative Salaries/Expenses)</b>				
<b>Total Cost of Risk</b>	<b>\$ 2,139,262.44</b>	<b>\$ 2,412,090.59</b>	<b>\$ 2,323,142.46</b>	<b>\$ 2,031,963.69</b>
University Budget	\$ 68,995,914.00	\$ 75,458,950.00	\$ 80,684,993.00	\$ 97,740,801.00
<b>Total Cost of Risk as a % of University Budget (Premiums/Claims + Retained Losses + Administrative Expenses/University Budget)</b>				
<b>Total Costs of Risk as a % of the University Budget</b>	<b>2.02%</b>	<b>2.00%</b>	<b>1.99%</b>	<b>1.75%</b>

**Notes:** *University Budget* does not include construction costs and other miscellaneous expenses. Administrative expenses are actual amounts for each year. Workers' Compensation and IDL/NDI/UI claims are not included in total risk management costs because they are only used in the calculation of their respective funding cost. The campus premium costs for SAFECLIP and SPLIP are included in the General Liability insurance premiums. The *Total Cost of Risk* model does not account for unreported mitigation and claims paid as a departmental or outside party's expense (i.e.; non-insured property claims, settlements or University owned vehicle repairs not coordinated through ORIM/DGS, ADA accommodations and Medical Monitoring). *Retained Losses* (i.e.; deductible recovery, litigation, arbitration, settlements and small claims) have been included as of FY 2007-2008. Subpoenas and Public Record Access costs are excluded.

## V. 2007-2008 Program Accomplishments

The following represent Risk Management's primary accomplishments for the 2007-2008 fiscal year:

- Identified and addressed the top three risk concerns in Athletics by integrating Enterprise Risk Management into the department.
- Provided NACUBO's "Enterprise Risk Management 101" webinar addressing the integration of ERM in a University setting to the: AVP Human Resources & Risk Management, Accounting, Athletics, and University Police Department.
- Reduced Workers' Compensation claims costs in 2007-2008 by 46.93% (\$121,564.37). Received a Workers' Compensation dividend in the amount of \$160,759 for University and system-wide Workers' Compensation performance.
- Updated the University's Alcohol Policy and Procedures (pending approval).
- Researched and provided Procurement with a free certificate tracking system (V-Cert), eliminating the need to purchase one and saving an estimated \$5,000.
- Provided risk assessment, insurance consultation and contract review of liability concerns to the campus community.
- In addition to maintaining our current occupational medical services with Concentra Medical Center, developed a new working relationship with Kaiser Permanente.
- Provided the campus community (AVP HRRM, Student Affairs, Athletics, UPD) with, "What we've learned in Higher Ed after Virginia Tech", a webinar addressing student safety concerns.
- Provided Academic Resources/Faculty Center, Chemistry and Biology Departments with Risk Management 102, Workers' Compensation and Injury Illness Prevention Program training. Risk Management 102 serves as an introduction to risk management strategies, including risk assessments.
- As a member of the Chancellor's Office Sports Club Committee, Risk Management represented CSUSM to address risk and insurance concerns in student recreational club sports (per Executive Order 1006).
- Created action plans addressing the Department of Motor Vehicle Pull Notice Plan and Employee Injury Reporting and Transport.
- Worked collaboratively with Academic Resources and General Counsel to minimize claims/litigation costs and to establish University settlement guidelines.
- Improved the Risk Management website to assist customers with risk management process and program tools.

## **VI. Potential Future Risk Considerations**

A key function of risk management is to anticipate and identify potential risks that could negatively impact the University's strategic mission, reputation, day-to-day operations, compliance with applicable laws and regulations and financial resources. The following list of potential risk considerations is based on a review of the University's loss history, as well as current insurance and litigation trends.

- Global economic climate and the State of California/CSU budgetary considerations.
- The ease of filing and potential cost associated with employer practice liability such as wrongful terminations, unfair labor practices, harassment, discrimination and retaliation claims.
- Growth in construction related projects and related hazards or exposures.
- Exposure to crime from an increased student and visitor population (i.e. alcohol, theft, burglary, vandalism, weapons possession).
- The nature and increase of off-campus, experience-based, learning activities including the need to address contractual arrangements, informed consent, waivers, safety orientation, professional liability and student health insurance
- New student clubs and associated risk exposures.
- Student mental health issues such as behaviors elicited by drug or alcohol use (i.e. active shooter scenarios).
- Employee and student domestic and foreign travel.
- Increased regulatory health & safety training and tracking requirements.

## **VII. Program Goal in 2009-2010**

The University's *Total Cost of Risk (TCOR)* illustrates a favorable decrease in the last four years as noted on page ten. In order to maintain a continued reduction in the University's TCOR, aid in risk identification and control, Risk Management will begin to integrate Enterprise Risk Management principles across the University.

# Risk Management & Safety

