I. Introduction

The Office of University Risk Management provides resources, advice and training that allow faculty and staff to manage and balance risks created by the University’s programs and activities. Its mission is to prevent and reduce losses without unnecessarily limiting activities that advance the University’s Mission & Goals. Its vision is to be recognized as a leader in higher education risk management. The overarching goals of the Risk Management Program are to:

- Increase coordination between academic departments and administrative units that have risk management responsibilities, resulting in common priorities and focus;
- Implement proactive risk management strategies developed through an increased emphasis on analysis and reporting of risk management information;
- Identify, develop and implement strategies to address employment practices/actions that expose the University to lawsuits or other unplanned losses;
- Develop policies, procedures and/or training to address high risk activities/areas; and
- Reduce the University’s cost of risk.

This report reviews accomplishments achieved during the 2004-05 fiscal year, analyzes the University’s risk management costs, outlines threats facing the University, and sets forth objectives for the 2005-06 fiscal year.¹

II. Program Accomplishments

The following represent the primary accomplishments of staff within the Office of University Risk Management during the 2004-05 fiscal year:

- Worked collaboratively with the University Counsel to minimize claims and litigation costs. For the second consecutive year, these expenses were below $150,000.
- Lowered the University’s Workers’ Compensation “experience modifier” from 91.58% in 2005-06 to 89.92% in 2006-07.²

¹ Executive Order 715 requires that the University produce an annual report of its risk management activities.
² The experience modifier measures an employer’s loss experience relative to other employers. An experience modifier less than 1.00 indicates better than average performance within the CSU System.
• Chaired the CSU’s efforts to develop standards to create a medical provider network, a key component of legislation aimed at reducing Workers’ Compensation costs.

• Initiated the CSU’s adoption of Identity Theft coverage for all CSU employees.

• Made presentations at the CSU’s 5th Annual Risk Management/HR Conference and the University’s fall 2005 Faculty Day and spring 2005 Technology Week.

• Saved the University $21,172 through the (a) elimination of two property insurance programs that were no longer necessary, (b) management of the University’s unemployment costs that resulted in the reversal of penalties and interest charges, and (c) collection of funds from those who damaged University property.

• Assumed responsibilities to manage the University’s Whistleblower Complaint Program.

• Convened the University Risk Management Committee for three meetings to review risk management issues and policy proposals, which was a 2004-05 objective.

• Worked with the Director of EH & IS, Director of Physical Plant and the Chief of University Police to assign responsibilities for the management of the University’s driving program.

• Worked with the Director of EH & IS to develop new academic field trip guidelines that met requirements set forth in EO 715 and communicated new driving information.

Risk management staff made significant progress towards developing and launching a Risk Management website, which was another 2004-05 objective. The 2004-05 objectives that are still in progress are included in the objectives discussed in Section VII below.

III. Program Costs

One measure of the effectiveness of the University’s risk management program can be derived by comparing annual cost, which includes retained losses, insurance premiums and operational and administrative expenses, against the University’s operating budget over time. As the table below shows, risk management costs as a percentage of the University's operating budget increased again in 2005-06, but at a slower rate than the increase between 2003-04 and 2004-05. A cost of risk at or below 2% is an industry standard for better than average performance.
COST OF RISK

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<thead>
<tr>
<th></th>
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<tr>
<td>Workers' Compensation Premium</td>
<td>$1,526,151</td>
<td>$1,898,402</td>
<td>$2,415,536</td>
<td>$2,742,731</td>
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<td><strong>Subtotal</strong></td>
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<td><strong>$1,898,402</strong></td>
<td><strong>$2,415,536</strong></td>
<td><strong>$2,742,731</strong></td>
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<td>General Liability Expenses</td>
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<td><strong>Total Expenses and Premiums</strong></td>
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<table>
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<tr>
<th>Administrative Costs</th>
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<td>Administrative (Salaries)</td>
<td>$152,742</td>
<td>$142,730</td>
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<td><strong>Total</strong></td>
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<td><strong>$152,788</strong></td>
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<td><strong>Total Risk Management Costs</strong></td>
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<td>University Budget</td>
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<td><strong>Total Cost as a Percentage of the University Budget</strong></td>
<td>1.35%</td>
<td>1.26%</td>
<td>1.57%</td>
<td>1.63%</td>
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</table>

Notes:

Expenses for Workers’ Compensation, General Liability, International Travel Insurance and Special Event Insurance are estimated for 2005-06. Amounts labeled as “University Budget” do not include construction costs and other miscellaneous expenses. Administrative expenses are budgeted amounts for each year except 2004-05, where actual expenses are shown. Because they are only used in the calculation of the University’s Workers’ Compensation premium, Workers’ Compensation expenses are not included in total risk management costs.

Because the University’s past performance directly affects most of its future premiums, the following information is necessary to fully understand the impact of the costs outlined above.

A. Workers’ Compensation Expenses and Premium

Workers’ Compensation expenses represent the University’s largest controllable cost of risk. The University’s premium is based in large part on a five-year expense cycle. Expenses are primarily driven by the number of open claims. As the two graphs on the next page show, in
2004-05 expenses stabilized after five consecutive years of growth and the number of open claims continued its downward trend.

![Workers' Compensation Expenses](chart)

*Estimated

![Workers' Compensation Open Claims](chart)

However, even if both trends continue and all other factors remain the same, the University may not see a decrease in its Workers’ Compensation premium until the 2008-09 fiscal year because of the five-year expense cycle.
To achieve future cost reductions, staff in the Office of University Risk Management will undertake the following actions in the upcoming year:

a. Increase trend analysis of alleged injuries and illnesses to better target specific safety and ergonomic training.

b. Reduce lost work days through the creation and implementation of a return-to-work program for employees with work related injuries and illnesses.

c. Respond to and investigate every Workers’ Compensation claim and provide a written rationale for decisions to accept, delay or deny a claim.

d. Review the benefits and costs of instituting a charge-back system where each Division would be responsible for a percentage of the University’s Workers’ Compensation premium based upon its loss experience. Currently, this premium is paid as a University expense. Findings will be presented to the Vice President for Administration and Finance/CFO and the University Risk Management Committee for discussion.

B. General Liability Expenses and Premium

Although the amount of University expenses spent on litigation costs and claim settlements increased in 2004-05, the overall trend continues to be very positive when compared to 2001-02 and 2002-03. General liability expenses are directly related to the number of lawsuits and claims filed against the University. Only two lawsuits had been filed against the University as of September 2005. Six non-litigated claims eligible for review by the State’s Victim Compensation and Government Claims Board were filed during the same period.
If the current cost trend continues and all other cost factors remain the same, the University may see a decrease in its General Liability premium in 2006-07.

To maintain this progress, staff in the Office of University Risk Management will in 2005-06 review and revise as necessary the University’s policies, procedures, publications and training related to the prevention of harassment, discrimination and retaliation.

C. IDL/NDI/UI Premium

From 2003-04 to 2004-05, the University’s increase in this premium was higher than the system-wide average. This performance led to a review of how the University manages this cost. As a
result of this review, the Office of University Risk Management is now responsible for approving payment of these costs. Former part-time faculty and staff account for more than 50% of the University’s unemployment expenses. For this reason, unemployment expenses should be considered when deciding whether to hire a position on a part-time basis.

![IDL/NDI/UI Expenses & Premiums](image)

**Notes:**
Expenses shown in 2000-01 do not include University IDL or NDI costs. Expenses shown in 2005-06 represent only 1st quarter costs.

D. Master Property Insurance

This premium is based on the System’s and not the University’s loss experience. The residual impact of Hurricanes Katrina, Rita and Wilma may lead to an increase in the premium for 2006-07 that is higher than the 10% increase in 2005-06.

E. Automobile Liability Insurance

The University’s premium is tied to the System-wide loss history. The CSU has not had any significant losses in 2005 through September, so the University’s premium for this cost should continue to decrease in 2006-07.

F. Foreign Travel Liability Insurance

The decision to require foreign travel liability insurance on all University or auxiliary-sponsored travel and to treat this as a University expense for all University-sponsored travel will marginally increase this cost in 2006-07. However, this program greatly reduces the University’s exposure when faculty, staff and/or students travel abroad and provides a mechanism for the University to contact faculty, staff and students in emergencies.
G. Special Events and Vendor Liability Insurance

Because the University has not made a claim against this insurance in the past three years, risk management staff will re-assess on an event-by-event basis whether this cost is necessary and make recommendations to the Vice President for Administration and Finance/CFO. For this reason, this cost might be lower in 2006-07.

IV. University Payroll

The University’s Workers’ Compensation and General Liability premiums are also directly impacted by the size of its annual payroll relative to the CSU system-wide payroll. Generally speaking, if an increase in the University’s payroll for any given year is greater than the system-wide increase for that year, these premiums will increase, all other things being equal. If the University’s a decrease in the University’s payroll for any given year is greater that the system-wide increase for that year, these premiums will decrease, all other things being equal.

As the graphs below show, in four out of the last five years, the University’s payroll has increased at a faster rate than the system-wide average, thus creating an upward pressure on its Workers’ Compensation and General Liability premiums.
V. Program Implementation

In a memorandum dated September 13, 2004, Executive Vice Chancellor Richard West outlined several recent audit findings in the area of risk management that he suggested required the immediate attention and review of campus presidents. Attachment A is a copy of this memorandum. The paragraphs below address the University’s progress in complying with the audit findings highlighted by EVC West.

A. Safety Committees

EVC West noted that “[s]afety committees . . . are effective mechanisms to promote and practice proactive risk management.” Physical Plant has a safety committee that meets quarterly, and a group of administrators conducts a facility walk every month.

B. Risk Management Annual Report

EVC West reminded campus presidents that “[t]o further reinforce risk management programs and their effectiveness, each campus is required to issue an annual risk management report to its president.” The University’s first annual risk management report was presented to the President and PAB on September 27, 2004.

C. Service Learning

EVC West informed the presidents that “[s]ervice learning is an important program supported by both the Governor and the Chancellor.” He stated that this program has the potential for significant risks and for this reason, “it is imperative that campuses recognize its responsibility to fully implement and monitor compliance with CSU policy and chancellor’s directives for service learning programs.”
During 2004-05, the University took the following actions to implement CSU system policies and directives concerning internships and service learning:

- Developed a standard site agreement and placement agreement for use in all off-campus learning activities. This action reduced duplicate forms and streamlined the site selection process.
- Increased the role of Contracts & Procurement in administering the site agreement process. This action reduced greatly the number of contracts being signed by University faculty and staff, thereby improving the University’s compliance with Executive Order 849.
- Began discussions whether to use electronic consent as a means to signify acceptance of placement agreements and student consent forms, which would greatly reduce the time required to implement these requirements.

D. Use of University and Private Vehicles

EVC West referred to last year’s five-fold increase in the cost to participate in the State’s Vehicle Self Insured Liability program as support for ensuring that each campus “review its responsibility to comply with the CSU’s Use of University and Private Vehicles Policies and Regulations.”

During 2004-05, the University took the following actions to implement the CSU’s Use of University and Private Vehicles Policies and Regulations:

- Developed a brochure for campus distribution on the use of University and personal vehicles on University business.
- Developed an internal organizational structure that meets applicable CSU policies and regulations concerning control. The Office of University Risk Management is now responsible for the overall management of the University’s driving program.
- Implemented on-line defensive driver training and a requirement that all drivers must complete on-line or in-person training at least once every four years.

E. Off-Campus Field Trips

EVC West stated that although monitoring these activities can present unique challenges, campuses must develop “policies and procedures for controlling the risks associated with the activity and to remind campus management of the importance of monitoring compliance with its own procedures.”
During 2004-05, the University took the following actions to manage the risks of off-campus learning activities:

- Developed new field trip guidelines that provide a field trip checklist for faculty and staff, as well as an increased emphasis on reviewing driving guidelines and qualifications.
- Developed new liability releases and assumption of risk forms that more adequately transfer the risks associated with these activities from the University to the participant.

F. Insurance Requirements in Contracts

EVC West reminded the campuses that the risks created by service contracts can be transferred to the service provider. He stated that “Executive Order 849 addresses this issue and provides specific guidelines in support of this risk transfer mechanism.”

Since July 2003, staff in BFA and Risk Management have worked together to develop procedures to implement Executive Orders 715 and 849. The recent hiring of a new Director of Contracts & Procurement will further these efforts, as would the release of a new contract delegation memorandum. Taking this action would not only inform faculty and staff of the requirements of EO 849, but also continue the progress made in reducing the number of contracts signed by faculty and staff who lack delegated authority to do so.

G. Workers’ Compensation

EVC West stated that campus compliance with all California Workers’ Compensation regulations and use of the CSU Disability Management Program Resource Guide is “critical.”

The University currently does not have a written return-to-work program. Creating and implementing this program is a high priority for 2005-06.

H. Record Retention of Notice of Safety Concerns

EVC West recommended that campuses “retain reports of identified hazards until such time as the corrective action takes place plus three years.” He also suggested that the campuses annual risk management reports include a discussion of these activities.

Individuals may report hazards either on-line or by telephone to the Environmental Health and Instructional Safety Office. Walkway tripping hazards are prioritized according to severity and grouped into segments based on location. One segment is selected annually and all of the identified tripping hazards within that area are corrected using deferred maintenance funds. The University also mitigates these hazards whenever possible in conjunction with new construction or other funded construction. The University addresses the removal of hazards outside of the selected area or not within a construction zone on a case-by-case basis according to the severity of the hazard and the availability of funds. Records are currently retained for two years.
VI. Program Threats

A key risk management function is to anticipate and identify risks that could negatively impact the University’s strategic mission, reputation, day-to-day operations, compliance with applicable laws and regulations, and financial resources. Set forth below is a list of the internal threats facing the University that are most likely to have a negative impact on one or more of the five areas listed above. This list is based on a review of the University’s loss history, as well as current insurance and litigation trends.

- Employment practices
- Information management
- Compliance with federal and state laws and regulations
- Domestic automobile travel
- Construction project management
- Off-campus, experience-based, learning activities
- International travel
- Facilities use
- Deferred maintenance

Working with the University’s Risk Management Committee, risk management staff will develop a campus-wide risk identification survey during the 2005-06 fiscal year and present its recommendations to PAB prior to implementation.

VII. Program Objectives

Decreasing the University’s cost of risk management continues to be challenging. Although progress has been made in developing a culture of risk identification and assessment, which will reduce the amount of future premiums, the University’s expenditures to manage risks have increased five consecutive years. Due to the factors described above, the goals of the Office of University Risk Management for 2005-06 include a commitment to making faculty and staff aware of the services the office can provide them in managing the risks created by their programs and activities.

1. Reduce risk management costs to below 1.6% of the University’s budget.
2. Establish regular reporting to interested parties concerning information about the type, frequency and severity of the University’s Workers’ Compensation, General Liability and Automobile Liability claims.
3. Develop and implement a return-to-work program.
4. Develop and implement a campus-side risk assessment.
5. Develop and implement a formalized risk management training program that incorporates the assessment tools discussed by EVC West in a memorandum to the campus presidents dated October 8, 2004. Attachment B is a copy of this memorandum.
6. Lead and complete an initiative to develop a set of model liability releases and assumption of risk forms for the CSU.
7. Partner with Human Resources to develop and implement a new harassment policy and training program.
8. Facilitate the release of a new contracting delegation memorandum from the President.

OFFICE OF UNIVERSITY RISK MANAGEMENT

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Willie J. Hagan

Associate Vice President
For Administration
William C. Barrett

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University Risk Management
John Beisner

Workers’ Compensation Program Manager
Valerie Eberle

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