CALIFORNIA STATE UNIVERSITY, FULLERTON

RISK MANAGEMENT

ANNUAL REPORT
January 2008

OFFICE OF UNIVERSITY RISK MANAGEMENT
CP-320    714-278-7346
I. Executive Summary

A. Program Cost

One method to assess the effectiveness of the University’s risk management program is to compare the annual cost of the program against the University’s budget over time. A cost of risk at or below 2% is an industry standard for better than average performance. In 2007-08, the percentage of the University’s budget allocated to risk management costs decreased from 1.64% to 1.34% or a total of $367,920. This represents the first reduction in costs in at least three years.

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Workers’ Compensation Contribution</td>
<td>$1,898,402</td>
<td>$2,415,536</td>
<td>$2,742,731</td>
<td>$2,670,522</td>
<td>$2,246,086</td>
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<tr>
<td>Workers’ Compensation Expenses</td>
<td>$1,488,841</td>
<td>$1,080,778</td>
<td>$571,340</td>
<td>$728,531</td>
<td>$900,000</td>
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<td><strong>Subtotal</strong></td>
<td>$3,387,243</td>
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<td>General Liability Contribution</td>
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<td>General Liability Expenses</td>
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<td>$175,000</td>
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<td><strong>Subtotal</strong></td>
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<td>$676,378</td>
<td>$701,744</td>
<td>$722,790</td>
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<td>IDL/NDI/UI Contribution</td>
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<td>$405,468</td>
<td>$609,215</td>
<td>$536,042</td>
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<td>IDL/NDI/UI Expenses</td>
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<td>$378,663</td>
<td>$280,233</td>
<td>$350,000</td>
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<td><strong>Subtotal</strong></td>
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<td>$772,195</td>
<td>$784,131</td>
<td>$889,448</td>
<td>$886,042</td>
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<tr>
<td>Property</td>
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<td>$316,115</td>
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<tr>
<td>AIME</td>
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<td>$141,872</td>
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<td>Auto Liability</td>
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<td>$171,403</td>
<td>$115,643</td>
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<td>International Travel</td>
<td>$10,316</td>
<td>$12,354</td>
<td>$16,533</td>
<td>$15,000</td>
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<tr>
<td>Student Professional Liability Insurance</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>$13,423</td>
<td>$13,740</td>
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<tr>
<td>SAFECLIP</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>$21,273</td>
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<tr>
<td>Special Event</td>
<td>$7,258</td>
<td>$4,049</td>
<td>$5,422</td>
<td>$5,000</td>
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<tr>
<td>Inland Marine</td>
<td>$2,062</td>
<td>$2,809</td>
<td>$2,448</td>
<td>$2,662</td>
<td>$1,988</td>
</tr>
<tr>
<td>Student Travel</td>
<td>$913</td>
<td>$913</td>
<td>$913</td>
<td>$913</td>
<td></td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>$322,042</td>
<td>$563,191</td>
<td>$535,193</td>
<td>$568,461</td>
<td>$657,314</td>
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<tr>
<td>Total Contributions and Expenses</td>
<td>$3,128,314</td>
<td>$4,033,582</td>
<td>$4,359,770</td>
<td>$4,549,942</td>
<td>$4,162,232</td>
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</tbody>
</table>

**Administrative Costs**

| Administrative (Salaries)                     | $142,730 | $177,528 | $189,393 | $195,075 | $217,806 |
| Administrative (Expenses)                     | $10,058 | $4,455 | $7,351 | $10,441 | $7,500 |
| **Total Administrative Cost**                 | $152,788 | $181,983 | $196,744 | $205,516 | $225,306 |
| University Budget                             | $260,562,498 | $268,793,016 | $279,072,604 | $290,550,778 | $328,437,226 |
| **Total Cost as a Percentage of the University Budget** | 1.26% | 1.57% | 1.63% | 1.64% | 1.34% |

**Notes:** Workers’ Compensation, General Liability, IDL/NDI/UI, International Travel and Special Event expenses are estimated for 2007-08. “University Budget” represents the baseline budget for CSU operating fund and does not include construction costs and other miscellaneous expenses. Actual administrative expenses are shown for all years but for 2003-04. Because Workers’ Compensation and IDL/NDI/UI expenses are paid by the CO, those expenses are not included in total risk management costs. Student professional liability insurance was offered for the first time in 2006-07; SAFECLIP, a liability insurance program for students completing academic coursework off campus, was offered for the first time in 2007-08.
Another way to measure the effectiveness of the University’s risk management efforts is to compare the percentage decrease/increase of certain campus risk management costs against the System average. In 2007-08, the University’s risk pool contributions for CSURMA’s Workers’ Compensation, general liability (including two new liability programs), automobile liability, property, IDL/NDI/UI and AIME programs decreased by approximately 10% while the average decrease across the System was approximately 7%. Only six other campuses had a larger reduction in these costs. For the last two years, the University’s costs to participate in these programs were the lowest in the System based on either a per student or a per FTE basis.

These positive results are due in large part to a 16% reduction in the University’s Workers’ Compensation program costs and an increase of only 5% in the University’s general liability program costs. These results would have been more positive if the University’s percentage of Systemwide payroll had not increased from 6.49% in 2005-06 to 6.61% in 2006-07. The University’s Workers’ Compensation and general liability program costs are directly impacted by the size of the University’s annual payroll relative to the Systemwide payroll. Generally speaking, if an increase in the University’s payroll for any given year is greater than the System increase for that year, these costs will increase, all other things being equal. If a decrease in the University’s payroll is greater than the System average for that year, these costs will decrease, all other things being equal.

B. Campus Risk Assessment

CSU Executive Order 715 requires that each campus develop an ongoing process to identify potential risks facing the campus. For this reason, the University conducted its first campus-wide risk assessment in the fall of 2006. 75% of the academic administrators, members of the Academic Senate and management personnel who received the electronic survey completed the assessment. In total, 263 responses were received. Here are some of the results from the assessment:

- Those surveyed believe that the University’s lack of physical space and the threat posed by low salaries to the University’s ability to attract, develop and retain faculty and staff are the two greatest risks facing the University in the next two years.
- Those surveyed ranked emergency response planning, business continuity planning and earthquake preparedness as the top areas for which they would like to receive additional training.
- The University can potentially reduce its liability for harassment and discrimination claims and lower expenses in such areas as Workers’ Compensation if it reviews and improves how it communicates information about these topics and others to employees.
- Many University departments have not appointed an individual to either process Workers’ Compensation claims or manage the appointment of individuals as University volunteers.
- 50% of University departments receive some type of monetary payment. Because of the level of this type of activity across campus, the University must ensure that employees are properly trained to handle and properly process all payments received.
- Only 33% of University departments have a business continuity plan.
2006 – 2007 Risk Management Annual Report

C. 2006-07 Goals and Highlighted Accomplishments

Staff efforts to reduce risk management costs focused on completing the following tasks in 2006-07. A status report follows each goal.

1. Partner with Human Resources and the Academic Senate to develop and implement a new University harassment policy and a training program.

   Status: Although new policies were not implemented, draft policies were completed and submitted to legal counsel for review. Once that review is complete, staff will work with senior managers within the Division to develop an implementation strategy.

2. Oversee the development of training for all supervisors and managers on the Workers' Compensation fundamentals and procedures and University's travel policies.

   Status: Although department travel coordinators were identified through the campus risk assessment, no specific training was developed. Division senior managers are reviewing proposals to change the University’s driving guidelines and rental car procedures in an effort to increase compliance. Once those proposals have been acted upon, training can be developed. Staff did develop a Workers’ Compensation training program for academic managers.

3. Work with University Counsel to resolve claims prior to litigation when doing so is in the University’s best interest and aggressively defending and managing claims when it is not.

   Status: For the fourth consecutive year, claims and litigation costs were below $180,000.

4. Develop and implement a return-to-work program that addresses both industrial and non-industrial injuries and illnesses.

   Status: A written program was not developed due in large part to a change in program managers. Accomplishing this task is the department's top priority in 2007-08.

5. Develop and implement a campus risk assessment that identifies areas in which additional training is necessary to protect the University’s human, financial and physical resources.

   Status: A risk assessment was completed in 2006-07.

6. Increase trend analysis of alleged injuries and illnesses to better target specific safety and ergonomic training and to reduce injuries caused by poor equipment and furniture purchases.

   Status: Staff worked with Contracts & Procurement and EH & IS to develop campus ergonomic chair specifications to reduce and prevent injuries related to office layout and design.
Additional accomplishments during 2006-07 included the following:

- Recruited and filled vacancies in both the Workers’ Compensation Program Manager position and the department’s administrative support position. Both searches were completed in less than six months.
- Saved the University $359,227 through the (a) collection of past due amounts from a minor league baseball team, (b) collection of fees for property insurance from a campus auxiliary and two self-supporting units, (c) subrogation of a Workers’ Compensation claim, (d) management of the University’s participation in one class action settlement, and (e) collection of funds from individuals or businesses who damaged University property.

D. 2006-07 Goals and Program Objectives in 2007-08

Although progress continues to be made in developing a culture of risk identification and assessment, and the University’s expenditures to manage risks have decreased for the first time in at least three years, there are measures the University can take to continue to reduce the cost of its risk management program. Staff efforts to reduce overall costs in 2007-08 will focus on the following.

1. Partnering with Human Resources and the Academic Senate to implement a new University harassment policy and a training program.
2. Partnering with Human Resources, University Counsel, the Academic Senate, and the CSU Chancellor’s Office to educate management and staff on how to avoid inappropriate employment practices that can lead to claims against the University.
3. Partnering with the Academic Senate to review and revise as necessary the University’s guidelines concerning academic field trips and faculty responsibilities for student health and safety.
4. Developing training and communication methods to address weaknesses highlighted in the 2006 campus risk assessment.
5. Working with University Counsel to resolve claims prior to litigation when doing so is in the University’s best interest and aggressively defending and managing claims when it is not.
6. Developing and implementing a return-to-work program that addresses both industrial and non-industrial injuries and illnesses.
7. Implementing measures to increase compliance with State and CSU guidelines among those faculty and staff that either drive on University business or rent vehicles while on University business.

II. Program Review

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

A. Workers’ Compensation Risk Pool Contribution and Expenses

In 2007-08, the University’s Workers’ Compensation program costs declined by 16%, which was only one percentage point less than the average decrease in the CSU. This reduction in costs was due in large
part to legislative reforms enacted three years ago and the University’s commitment to hire an experienced manager to oversee this program.

![Workers' Compensation Risk Pool Contributions & Expenses Chart](chart)

Although expenses increased in 2006-07 by $157,191, this was the result of a decision by the University to settle aggressively old claims. 13 claims were settled in 2006-07 as opposed to just 9 in 2005-06. The University intends to settle more claims in 2007-08. The graph below shows that the number of claims opened during the current calendar year is significantly lower than the number of claims opened in 2006. On another positive note, the number of claims closed during the current calendar year increased over the amount closed last year.

![Opened & Closed Claims Chart](chart)
The graph below shows the types of injuries and illnesses suffered by University employees and volunteers in 2006-07. Staff in risk management will continue to work with staff in EH & IS to develop training or other practices to reduce a specific type or category of injury/illness.

![Workers' Compensation Claims by Nature of Injury 2006-07](chart)

**B. General Liability Risk Pool Contribution and Expenses**

In 2007-08, General Liability costs in the CSU increased an average of 14%. However, the University’s funding cost increased by approximately 5%. This lower-than-average increase was due largely to the successful defense and/or settlement of three litigated claims and the settlement of a potentially costly claim before litigation was filed against the University.

![General Liability Risk Pool Contributions & Expenses](chart)
General liability expenses are directly related to the number of lawsuits and non-litigated claims filed against the University. As of October 2007, the University was involved in only one litigated claim and only one non-litigated claim.

C. IDL/NDI/UI Risk Pool Contribution and Expenses

In 2007-08, IDL/NDI/UI\(^1\) costs in the CSU remained flat. However, the University’s funding cost decreased by 12%.\(^2\) This better-than-average reduction in costs was the result of the correction of an error in reporting campus expenses in 2003-04, which caused the increase in the University’s 2005-06 program cost to be too low. 2006-07 expenses were significantly lower than in any of the previous four years.

<table>
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<th>Year</th>
<th>Contributions</th>
<th>Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003-04</td>
<td>$100,000</td>
<td>$100,000</td>
</tr>
<tr>
<td>2004-05</td>
<td>$200,000</td>
<td>$200,000</td>
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<td>2005-06</td>
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<td>$300,000</td>
</tr>
<tr>
<td>2006-07</td>
<td>$400,000</td>
<td>$400,000</td>
</tr>
<tr>
<td>2007-08*</td>
<td>$500,000</td>
<td>$500,000</td>
</tr>
</tbody>
</table>

*Estimated Expenses

D. Master Property Insurance

The University’s risk pool contribution is based on the System’s and not the University’s loss experience. The University’s costs increased in 2007-08 at a rate higher than the System average due to the fact that the University increased its coverage to include mission critical computer systems as part of the University’s business continuity program. In 2006-07, the University recovered $114,696 of its property program costs from one campus auxiliary and two self-supporting programs.

E. Automobile Liability Insurance

This program cost is based on the System’s and not the University’s loss experience. Because the CSU did not have any significant losses in 2006-07, this funding cost decreased by 24% per vehicle, from $528.86 in 2006-07 to $404.94 in 2007-08.

\(^1\) “IDL” stands for “Industrial Disability Leave,” which is a benefit available to those who are injured or become ill at work. “NDI” stands for “Non-industrial Disability Leave,” which is a benefit available to those who are off-work due to a non-work related injury or illness. “UI” stands for “Unemployment Insurance.”

\(^2\) The University’s IDL/NDI/UI funding cost is based in large part on the prior five years of expenses.
Campus contributions are based on the self-reported number of vehicles and other mobile equipment. Thus, because the University increased the number of vehicles and other mobile equipment it owns from 168 to 212, the University’s program cost decreased by only 3% as opposed to an average System decrease of 17%. In 2007-08, risk management staff will work with staff in Physical Plant to ensure that the University has a need for all of the vehicles and other mobile equipment it owns.

F. 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 re-assessed on an event-by-event basis whether this cost was necessary and made recommendations to the Vice President for Administration and Finance/CFO. Despite these actions, this cost was slightly higher in 2006-07.

G. International Travel Liability Insurance

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. Costs related to this program are treated as an all-University expense. This cost marginally increased in 2006-07 as the number of insured trips increased 15% from 137 in 2005-06 to 168 in 2006-07.

<table>
<thead>
<tr>
<th></th>
<th>2005-06</th>
<th>2006-07</th>
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<tbody>
<tr>
<td>Trips taken</td>
<td>137</td>
<td>168</td>
</tr>
<tr>
<td>Travelers</td>
<td>189</td>
<td>265</td>
</tr>
<tr>
<td>Countries visited</td>
<td>40</td>
<td>50</td>
</tr>
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</table>
III. University Payroll

The University’s Workers’ Compensation and general liability risk pool contributions are also directly impacted by the size of its annual payroll relative to the Systemwide payroll. As the graph below shows, in four out of the last five years, the University’s payroll has increased at a faster rate than the System average, thus creating an upward pressure on its Workers’ Compensation and general liability risk pool contributions.

![Annual Percentage Change in Payroll](image)

IV. Threats Facing the University

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 threats risk management staff believe 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.

- Compliance with federal and state laws and regulations prohibiting harassment, discrimination and retaliation, and promoting access for individuals with disabilities and women
- Information security
- Enrollment management: utilization of campus physical resources
- Recent declines in local K-12 enrollment
- Student privacy and Internet sites such as myspace.com and facebook.com
- Student mental health issues such as suicide prevention and drug/alcohol use
- Certification of student teachers, nurses and health professionals: background checks
- Domestic automobile travel
- Construction project management
- Off-campus, experience-based, learning activities
- International travel and program
- High housing prices
The campus risk assessment also asked respondents to identify the three most significant risks the University will face during the next two years. 18% of those surveyed selected inadequate amounts of physical space as the greatest risk, followed by the inability to attract, develop and retain faculty and staff due to low salaries (15%), inadequate infrastructure (13%), the inability to attract, develop and retain faculty and staff due to high housing costs (12%), inadequate/inefficient scheduling of academic space (8%), and loss of institutional knowledge (8%). The pie chart on the next page shows a breakdown of responses by risk.

Inadequate amounts of physical space; the inability to attract, develop and retain faculty and staff due to either low salaries or high housing costs; and inadequate infrastructure were all ranked within the top five risks for each category of respondents. The following graph shows a breakdown of each risk that was among the top five risks for at least one category of respondents.