

**MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES**

Agenda Item Summary Sheet

Committee: Finance, Facilities and Technology **Date of Meeting:** Nov. 17, 2009

Agenda Item: Risk Management Program

- Proposed Policy Action Approval Required by Policy Other Approvals Monitoring
- Information

Cite policy requirement, or explain why item is on the Board agenda:

The purpose of this report is to present a broad survey of the risk management strategies in place in the System. Current activities will be outlined and areas of new focus introduced.

Scheduled Presenter(s): Allan Johnson, Associate Vice Chancellor Facilities

Outline of Key Points/Policy Issues: The Minnesota State Colleges and Universities Risk Management program historically has focused on addressing traditional risks through the purchase of insurance. Public higher education has begun to use the expression “enterprise risk management” to describe the universe of risk exposure facing public higher education governance and management. The expression makes reference to the evaluation and mitigation of risks throughout the enterprise. Financial, operational and reputational risks are present in administrative, academic, student services and campus operations. Board governance and policy as well as management’s actions should address all these areas of risk with explicit actions and monitoring methods.

Background Information: Since July 1, 1995, the system has procured property and casualty coverage through the State of Minnesota, Risk Management Fund managed by the state Department of Administration. The Office of the Chancellor (OOC) Risk Management function is located in the Facilities Unit of the Finance Division, and works with other OOC divisions and campus representatives to develop programs to identify and manage campus exposures and provide solutions, both through insurance and other techniques.

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INFORMATION ITEM
Risk Management Program

BACKGROUND

The risk management program for the Minnesota State Colleges and Universities is administered by a team in the Office of the Chancellor that includes the Finance Division, the Office of the General Counsel and the Office of Internal Auditing. Tools include board policy and related procedures, insurance, training, compliance review and audit oversight. The program has some elements that are quite developed and others yet to be implemented.

FINANCIAL, OPERATIONAL AND REPUTATIONAL RISKS

Public higher education has begun to use the expression “enterprise risk management” to describe the universe of risk exposure facing public higher education governance and management. The expression makes reference to the evaluation and mitigation of risks throughout the enterprise. Financial, operational and reputational risks are present in administrative, academic, student services and campus operations. Board governance and policy as well as management’s actions should address all these areas of risk with explicit actions and monitoring methods. The purpose of this report is to present a broad survey of the strategies in place in the System. Current activities will be outlined and areas of new focus introduced.

The Minnesota State Colleges and Universities Risk Management program historically has focused on addressing traditional risks through the purchase of insurance. Since July 1, 1995, the System has procured property and casualty coverage through the State of Minnesota, Risk Management Fund managed by the state Department of Administration. The Office of the Chancellor (OOC) Risk Management function, located in the Facilities Unit of the Finance Division, has worked with other OOC divisions and campus representatives to develop programs to identify and manage campus exposures and provide solutions, both through insurance and other techniques.

The state Risk Management Fund has a package policy. It includes the basic Automobile Liability coverage required of all state agencies. Physical damage coverage is optional and most campuses purchase it for their newest or most expensive vehicles.

The Fund’s package policy also includes Commercial General Liability coverage to pay damages to third parties for bodily injury, property damage, personal injury, advertising injury, and cyber liabilities. Basic Property coverage, Boiler & Machinery coverage, and Crime coverage are also included.

As needed, other programs are available for campuses, such as Garage Keepers Legal Liability, Inland Marine, Student Intern Professional Liability, Student Health Services Professional Liability, Dental Clinics Professional Liability, Employed Physicians Professional Liability, Employed Nurses Liability, Emergency Medical Technician Liability and Aviation.

For fiscal year 2009, premiums cost a total of \$5,147,467. Deductibles, usually between one and two percent of an institution's average monthly revenue, ranged from \$2000 to \$250,000.

As a result of the state Risk Management Fund's favorable loss experiences in 2007, 2008, and 2009 in the Property, Auto Liability, and General Liability lines, the System received dividends in the amounts of \$563,605, \$1,025,556, and \$610,229 respectively. Dividends are returned to the colleges and universities in proportion to their paid premiums.

The frequency of auto liability claims is dropping to an all-time low. Even so, the System recently implemented a comprehensive fleet safety program concentrating on System vehicle operators' driving habits and license status. The program requires verification that all drivers of System owned or rented vehicles have a valid driver's license, and includes hands-on behind-the-wheel training for trailer towing and high occupancy van driving.

The Combined Loss Ratio, which is the relationship of incurred losses to earned premium for all institutions over the past five years, is 114%. This number is skewed because of claims related to a single out-of-state accident in May 2005 involving both student fatalities and injuries (MSU, Mankato). However, due to the passage of time, these claims will no longer be included in the statistics as of May 17, 2010, so the Combined Loss Ratio is expected to improve.

With respect to property claims, trends are not easily identifiable because the overall base is relatively small. Across the System, a typical property loss stems from water damage -- from various sources -- but mostly at night when no one is in the incident facilities, which contributes to the severity of the loss. The Office of the Chancellor continues to focus on ways to reduce property loss ratios.

Several programs have been implemented to help campuses identify and manage their risk exposures:

- **Current building values:** Prior to 2005, there was no consistent process in place to accurately reflect the replacement cost of college and university facilities. At that time, the System implemented the Facilities Renewal and Reinvestment Model (FRRM) to quantify the condition of the physical plant at each college and university. The model calculates the dollar value of the backlog of maintenance and repair as well as the forecasted five and ten year physical renewal needs. The FRRM also calculates the cost of building replacement. Appropriate property valuation enables campuses to fully cover potential losses through insurance. Currently the System has approximately 26 million square feet of property (building gross square footage) with a replacement value of \$6.9 billion insured through the Risk Management Fund.

- **Campus exposure reviews:** Another program, initiated approximately three years ago, is the Construction, Occupancy, Protection and Exposure (COPE) program implemented in cooperation with the state Risk Management Division. The COPE property exposure review program is underway on an ongoing basis. In walk-through inspections on campuses with campus personnel and a representative from the property reinsurer or their consultant, construction, occupancy, protection, and exposure risks are examined. Following each inspection campuses are provided a report summarizing the findings of the review. The report includes recommendations for reducing hazards and improving campus safety.
- **Information Technology System reviews:** The Office of the Chancellor has contracted with auditors for many years to undertake special reviews of the enterprise information systems and state wide network administration. The strategy for continuing assurances in this area is now under review.
- **Fire/EMS/Safety Center:** The center provides technical expertise to campuses on health and safety issues, including occupational safety, fire prevention, and pollution control. Center staff focuses on providing campus safety managers with the training and tools they need to implement health and safety policies, practices and programs and ensure that workplaces and equipment are safe and well-maintained.
- **Workers' Compensation Program:** This program is based in the Human Resources Division. The program provides campuses with the resources needed to manage claims, coordinates claims with ADA and FMLA laws, provides workers' compensation training to campus supervisors and other personnel, and represents the system and retains attorneys for claims litigation. The payment pool for all workers' compensation related payments is managed by the Finance Division. In order to level out the Worker's Compensation expenses at individual institutions, the payment pool pays the monthly bills generated by the state's program. The pool is self-funded through annual premiums based on each institution's claims history.

RELATED ACTIVITIES

In addition to these programs, the Office of the Chancellor manages risk through a range of related programs. For example:

- **The Office of the Legislative Auditor** has been under contract with the Minnesota State Colleges and Universities for over ten years. The contracts provide additional assurance to the Board and management in the areas of legal compliance and internal control. This work has been instrumental in the provision of continuing assurance of operational integrity and has also identified areas of financial risk in need of improvement.
- **Office of Internal Auditing** supports risk management through comprehensive assurance services, such as fiscal audits, program studies, and assistance in implementation of Board Policy 1C.2, Fraudulent or Other Dishonest Acts.

- **Compliance Program.** In early 2008, the Office of the Chancellor implemented a System-wide Compliance Program to assist colleges and universities in identifying and addressing potential problems in maintaining compliance with federal and state laws and System policy. The Compliance Coordinator, an Assistant General Counsel, leads initiatives across the System to address potential compliance gaps. An early project strengthened compliance with state hazardous waste regulations by targeting communication gaps among campus personnel in human resources, facilities, and academic affairs.
- **Accountability Dashboard.** The Dashboard reports on ten measures identified by the Board of Trustees as best representing the most important outcomes that indicate whether the system is achieving the four strategic directions identified in its Strategic Plan. This tool makes it possible to monitor the performance of the system in specific areas thus ensuring that it is delivering the best possible quality while making effective use of resources.
- **Accreditation Review Process.** In this country, accreditation is a non-governmental, peer-review process that assures the quality of postsecondary education. Educational institutions, or individual programs, volunteer to undergo this review periodically to determine if certain criteria are being met. Accreditation is the primary means by which colleges and universities assure quality to students and the public. It is required for access to federal funds such as student aid and is important to employers when evaluating credentials for job applicants. Accreditation is ongoing – it takes place on a cycle that may range from every few years to as many as ten years. The Higher Learning Commission is the regional accrediting organization for Minnesota State Colleges and Universities; they made eight accreditation visits to MnSCU campuses in 2009.
- **Presidential Evaluation Process.** Presidents' performance is reviewed annually by the Chancellor. Input to the process is provided by each Cabinet member through their respective staffs and review of published data such as the Accountability Dashboard, financial indicators, etc. At the September 2009 meeting of the Board of Trustees, Vice Chancellor Lamb indicated that improvements to the process are under consideration and thus it has been placed on the FY 2010 work plan for the Human Resources Committee.

FUTURE PLANS

Study abroad programs have been gaining popularity on our campuses and as a result our exposures have increased. The Office of the Chancellor, in collaboration with the colleges and universities, is developing templates of procedures for campuses to use when planning a study abroad opportunities. In addition, the OOC is looking at improving procedures for student health and athletic insurance. Efforts are also underway to identify, document and improve the administration of credit card programs at the campuses.

Date Presented to Board: November 17, 2009