The ordinary conduct of school business is accompanied today by risks that were rare or unknown a few decades ago. School administrators are continually being challenged to develop new strategies to safeguard their districts' assets. Risk management is a coordinated effort to protect an organization's assets, both human and financial, from all types of risk. The first step is systematic identification of all risks to which the district may be exposed, and analysis of these risks by their probable frequency and severity. The next step, loss control, seeks to reduce or eliminate risks by preventive actions. Risk financing strategies are then used to reduce the district's financial vulnerability to the remaining, unavoidable risks. The purpose of this bulletin is to help school district officials initiate or improve their own program of risk management. Chapter 1 discusses ways of identifying and evaluating risks. Chapter 2 focuses on loss prevention. Chapter 3 examines options for financing risk. Chapter 4 explores the ways four Oregon school districts manage risk. Finally, chapter 5 considers how school boards and administrators can support risk management. (MLF)
RISK MANAGEMENT

HOW SCHOOL DISTRICTS CAN IDENTIFY RISKS, REDUCE LOSSES, AND CONSERVE FUNDS

Joan Gaustad

Oregon School Study Council
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Managing a school district's financial affairs requires much of the same expertise required to manage a commercial business, as well as specialized knowledge of education. This Bulletin explores risk management, a concept that has long played a role in corporate decision-making but has only come to the attention of public entities relatively recently.

Risk management is a complex field with a specialized technical vocabulary. However, its value to school districts amply justifies the effort required to understand it. This Bulletin introduces the major areas that make up risk management, defines the basic terminology necessary to discuss it, and explores its application to a number of issues relevant to schools. It then examines the risk-management activities of four Oregon school districts and concludes with several recommendations for school boards and administrators.

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Introduction

The ordinary conduct of school business is accompanied today by risks that were rare or unknown a few decades ago. Dramatic, overt threats to the safety of staff and students such as armed intruders and gang violence create fear and anxiety along with increased expenses for school security. Subtler threats to district financial assets include soaring health insurance costs, increased litigation, and legislation that requires additional expenditures while creating new areas of liability. School administrators are continually being challenged to develop new strategies to safeguard their districts' assets.

What Is Risk Management?

Risk management is a coordinated effort to protect an organization's assets, both human and financial, from all types of risk. The first step is systematic identification of all risks to which the district may be exposed, and analysis of these risks by their probable frequency and severity. The next step, loss control, seeks to reduce or eliminate risks by preventive actions. Such actions may range from inspecting boilers and playground equipment, to developing procedures to keep computer passwords secret, to providing staff with inservice training on the implications of recent legislation. Risk-management experts unanimously agree that this is the most important aspect of risk management.

Risk financing strategies are then used to reduce the district's financial vulnerability to the remaining, unavoidable risks. A district may seek to transfer legal or financial responsibility to other entities under terms as favorable to the district as possible, or may decide to retain responsibility for certain categories of risk if that is more economical in the long run. Self-insurance and pooling resources with other districts are sample strategies.

The key to success in each area of risk management is thoughtful planning followed by ongoing monitoring and adjustment. Adopting a comprehensive, systematic approach that takes into account the relationships...
among all relevant factors rather than focusing on one element at a time, and finds and fills gaps, is the key to success in a risk-management program.

The Origins of Risk Management

The concept of risk management was born in the 1960s in the insurance industry, when increased litigation was causing increases in claims and settlement costs (Dennis R. Dunklee and Robert J. Shoop 1993). The "insurance crisis" of the mideighties, a cyclical fluctuation in the insurance market, brought risk management to the attention of schools and other public entities.

Before this time a school district's risk-management program had typically consisted simply of purchasing insurance. But skyrocketing insurance costs, and in some cases difficulty in obtaining liability coverage, forced school business officials to seek other ways of financing risk of loss. Many administrators found risk management appealing not only because of its potential to reduce district costs, but because it provided an alternative to dependence solely on insurance companies. In the words of Gary Richter, risk manager for North Clackamas School District, "The concept of risk management is to do what you can to control your own destiny."

Societal Changes Make Risk Management Increasingly Important

Schools have a moral and legal responsibility to provide children with a quality education in a safe, healthy environment (Jacqueline K. Minor and Vern B. Minor 1991). This is certainly not a new concept. However, in recent decades a series of court decisions have more clearly defined school responsibilities in the area of staff and student safety and outlined "standards of duty and care expected of educators when they are working with students" (Dunklee and Shoop).

At the same time, new and increased risks have crept into the schools from society as a whole. Gang warfare and drug trafficking reach onto school property; firearms often turn schoolyard disagreements into life-and-death confrontations (Joan Gaustad 1991). And when school officials agonize over how to deal with children who have tested positive for HIV or who have full-blown AIDS, some level of liability may accompany every possible response.

Schools must also comply with an increasing number of government regulations, such as the Occupational Safety and Health Administration (OSHA) Bloodborne Pathogens Standard that went into effect in March 1992 (Mark F. Granville 1993). Each new regulation creates new possibilities for
missteps. According to Michelle Granger-Moore, business manager of Gresham Grade School District and current president of the Oregon School Safety Officers Association, even keeping up with what is required can be a challenge, especially for small districts with limited staff and expertise.

In addition, the current movement toward site-based management, while it may bring many educational benefits, creates new risks as site administrators with less awareness of liability issues take over responsibilities formerly assumed by district administrators. Dunklee and Shoop found that few site administrators are knowledgeable about preventive law and the implications of school law for daily operations. They point out that the district as a whole remains legally liable for errors, however innocent, made at the site level.

Under these circumstances, a coordinated, comprehensive method of managing risk is an essential component of educational administration.

The purpose of this Bulletin is to help school district officials initiate or improve their own program of risk management. Chapter 1 discusses ways of identifying and evaluating risks. Chapter 2 focusses on loss prevention. Chapter 3 examines options for financing risk. Chapter 4 explores the ways four Oregon school districts manage risk. Finally, chapter 5 considers how school boards and administrators can support risk management.
Chapter 1

Identifying and Evaluating Risks

Determining the specific risks to which a school district is vulnerable is the first step in a risk-management program. Once risks have been identified, they can be analyzed according to the probability and frequency of occurrence and the severity of potential consequences. This information can then be used to set priorities for loss control and to guide decisions about financing risks.

Thinking About Risks

People are reluctant to think about unpleasant possibilities. But not thinking about possible risks is no protection from liability. Courts have found districts responsible for accidents caused by hazards the district knew, or had reason to know, existed (Dunklee and Shoop). Ignorance is just as dangerous to a district as not taking action to remedy known risks.

Dunklee and Shoop observe that risk management must deal with "what is versus what ought to be." In attempting to identify risks, planners must consider not only what is, but what might occur under the worst possible circumstances. Only after imagining worst-case scenarios can planners act to prevent those possibilities from becoming reality.

A darkly pessimistic mindset and a vivid, creative imagination are desirable characteristics for administrators engaged in risk identification. Imagine the worst in human carelessness, bad judgment, greed, and deliberate malevolence on the part of staff, students, parents, community members, vendors, and contractors. Imagine all possible technical and mechanical failures and disastrous environmental conditions. Imagine combinations of the above interacting with each other.
And yet, however long the list of potential risks may be, the passage of time is likely to reveal risks that were overlooked. Without a cognitive framework to guide their operation, imagination and pessimism are insufficient to the risk-identification process.

A number of risk-management professionals have created guidelines and procedures to help administrators think systematically about risk and develop organized risk-identification processes for their districts.

The Value of Legal Awareness

An understanding of the fundamentals of school law is a great aid in risk identification. Several publications offer concise summaries of relevant legal information in formats designed for easy reference.

Dunklee and Shoop devote one chapter to defining and exploring three legal concepts: tort, negligence, and due care. Very briefly, a tort is "a legal wrong against the person, property, or reputation of another"; law concerning torts is extremely complex. Understanding the concept of negligence is key for school officials. It consists of allowing harm to come to another by failing to act when there was a duty to act, by acting improperly due to poor judgment or carelessness, or by acting illegally. Negligence is determined with reference to the actions of a hypothetical "reasonable and prudent" person. Due care refers to the standard of care school personnel owe their students and others affected by school district actions. Dunklee and Shoop explain how the concept of due care applies in specific school contexts, such as supervision and instruction, maintenance of facilities, and student field trips.

Frank J. Cody and John H. Dise, Jr. (1991) provide an overview of legal causes of action that can be brought against school board members, school administrators, and teachers. That is, Cody and Dise review legal principles embodied in federal and state law that plaintiffs may draw on to support their claim. They also review civil procedures governing lawsuits, defenses, and the types of damages awarded.

Minor and Minor's liability guide lists thirty specific issues that are particularly likely to give rise to litigation against schools, from "Activities, Class Sponsored" through "Freedom of Religion" to "Transportation of Students." Each issue is analyzed in terms of the applicable areas of potential liability: maintenance, instruction, and supervision. Recommendations for action and synopses of pertinent court decisions are also provided. The guidebook is organized to facilitate quick reference to pertinent information.

Understanding basic legal terms and causes of action and reviewing key court cases can help administrators recognize areas of vulnerability in their districts.
The Risk-Identification Process

A variety of methods are useful in identifying risks. School officials can examine district documents, conduct physical inspections, and solicit input from individuals within and outside of the district. Cody and Dise suggest using as many methods as possible, since no single method is foolproof. Most important of all, specific information-gathering techniques must be integrated into a coordinated system.

Following the Paper Trail

Administrators can identify many risks without leaving their desk. Data on past losses are an obvious place to start. District financial records, inventory lists, and property appraisals will reveal possibilities for property damage and physical or financial loss. Contracts, legal documents, and state and local statutes should also be reviewed.

Federal guidelines provide an objective standard helpful in evaluating a district's equipment and operations. For example, Dan Thomas, risk-management specialist for the Beaverton School District, recommended the U.S. Consumer Products Safety Commission (CPSC) guidelines on playground safety. According to Thomas, the revised 1991 edition is clear and easy to understand, in welcome contrast to the original edition prepared in the eighties, which was "written for engineers by engineers." These guidelines are not legal requirements, but Andy Johnson (1992) warns that "the Guidelines are what an attorney will hang his or her hat on should a suit be filed."

Personal-injury information is particularly valuable considering the high cost of health care. One resource for obtaining data on employee injuries is the daily log of occupational injuries and illnesses that OSHA requires school districts, like other employers, to maintain (L. Nathan Randal 1986). Personal-injury insurance claims filed on behalf of staff and students are another source of information. Many districts keep incident reports for all personal injuries, whether or not they result in a claim. Thomas reported that the Beaverton (Oregon) School District also records "near misses" that did not actually result in injury, but that easily could have.

Checklists and questionnaires can be excellent aids to organized thinking, guiding administrators to ask questions that might not have occurred to them otherwise. Insurance agents or risk-management consultants can provide survey forms for risk identification. However, these forms may not be designed with schools in mind (Dunklee and Shoop). Cody and Dise have designed a series of exhaustive checklists and questionnaires specifically for school districts. These authors provide "risk audits" for specific
topics within the following major areas: school board composition and
functions, operational and support functions, staff and personnel functions,
and student personnel functions. A *Safe Schools* planning guide jointly
prepared by the California Departments of Education and Justice includes
checklists for assessing school safety (Gaustad).

Flowcharts can be useful in identifying risks inherent in processes such
as drug or weapons searches. Diagramming the sequence of steps and
substeps in an operation makes it easy to check for possible liability at each
step.

Other authors suggest alternative ways to categorize types of risks.
Whatever type of categorization a district chooses, the point is to ensure that
district operations and facilities are examined systematically, so that areas of
risk are not overlooked.

Physical Inspections

Physical inspections of buildings, playgrounds, equipment, and so
forth are an indispensable part of risk identification. Inspecting equipment
and facilities with a risk-management mindset, perhaps aided by a checklist,
can reveal potential sources of long-term liability requiring major changes as
well as temporary malfunctions or breakdowns needing minor repair.
Dunklee and Shoop provide sample checklists for inspections of specific
areas such as science laboratories, industrial arts classrooms, and physical
education facilities.

Districts may augment periodic inspections by their own maintenance
personnel by requesting inspections from their insurance companies and state
and local agencies. Outside assistance can be particularly helpful to small
districts with limited staff and expertise.

Seeking Different Perspectives

Soliciting input from individuals with different perspectives, both
inside and outside the school district, will greatly increase the variety of risks
identified.

*Indistrict Perspectives.* The school safety committees required by the
state of Oregon are logical sources of indistrict information. The Gresham
(Oregon) School District chooses to maintain a safety committee in each
school building rather than have a single districtwide committee that would
fulfill the state requirement. “It’s a lot more work, but we get more indepth
analysis of situations,” explained Business Manager Michelle Granger-
Moore.

Cody and Disc outline a detailed group process designed to involve a
variety of individuals in identifying risks. For each major risk area three to
eight individuals are recruited to form a group. The goal is to select members who are familiar with the area of risk, but who represent as many different perspectives as possible. For example, a group with the task of identifying risks inside buildings might include a teacher, a student, a member of the maintenance staff, the school nurse, and a school board member.

In the first meeting, group members are given an information sheet to read and are oriented by a group leader who has read the initial sections of the Cody and Dise manual. Members are then given “risk audit” checklists to consider individually. At subsequent meetings members are encouraged to “brainstorm,” to imagine all conceivable risks in their area, “no matter how insignificant or far-fetched they may appear at first.” Finally, the list is narrowed down to include only realistic risks. The same groups then participate in a similar process to identify possible preventive actions to control these risks.

Surveys are a way of gathering information from large numbers of people. Patricia L. Anderson (1993) suggests surveying students, teachers, and administrators to assess the extent of sexual harassment. The National School Safety Center and the California Departments of Education and Justice have designed surveys to assess bullying and other school-safety problems (Gaustad). Surveys in which respondents remain anonymous may yield information that individuals would be reluctant to provide if their responses could be linked to their identity.

**Perspectives from Outside the District.** Consulting legal experts is an indispensable step. Manuals or guidebooks provide basic background information but do not substitute for the expertise and current information of an attorney. Noting the value of “preventive law” in predicting and avoiding potential legal problems, Dunklee and Shoop suggest that districts obtain a periodic “legal audit,” a review of the school district’s legal affairs by an attorney.

A school district’s insurance carrier may provide an expert nondistrict perspective. In some cases, periodic inspections are an integral part of insurance coverage. In Randal’s view, “the highly technical and specialized inspection service provided by all carriers” as part of boiler and machinery coverage is more important than the coverage itself. Districts may also request physical inspections or suggestions on aspects of their risk-management plan from their carrier.

Hiring a risk-management professional, either for occasional consultation or as a permanent addition to district staff, has obvious advantages. An alternative method of obtaining outside expertise is to ask knowledgeable community members to serve as volunteers on a risk-management committee. Lincoln County School District, one of four districts featured in chapter 4, relies on insurance brokers who volunteer their time to help the district.
Channels should also be created for community members to report unsafe conditions they observe while using school grounds or facilities after hours (Andy Johnson).

Risk Identification: An Ongoing Process

Identifying risk is an ongoing process, not a one-time action. Information-gathering procedures must be established to provide risk managers with updated information about constantly changing patterns of risk within the district. This feedback enables administrators to evaluate the success of loss-control strategies and to adjust priorities for action.

Randal suggests that the district risk manager participate in the planning stage of new programs, and that a panel of district personnel screen all new programs for potential risks before implementation begins. Other administrators should be encouraged to consult the risk manager concerning potential risks in activities for which they are responsible.

Risk identification should be an important part of planning special events (Alexander Berlonghi 1991). The demands of a special event are very different from the demands of the normal routine. Competent staff experienced with daily school activities may be less certain about how to function during special events. In an effort to make a special event exciting and enjoyable, organizers, who are often volunteers, may overlook potential problems. Large crowds may be gathered in spaces not designed for such numbers; individuals unfamiliar with standard school procedures and precautions may participate in the event. It’s vital for someone schooled in risk analysis to participate in the planning process, despite the danger of appearing to dampen the enthusiasm.

According to Berlonghi, it is best to conduct a separate risk analysis for every event, as each will have unique features. He provides a risk-analysis checklist designed for special events along with descriptions of common pitfalls and tips for avoiding them. He also notes the importance of considering the possible interaction of risk factors because factors that seem insignificant in and of themselves may combine with other factors to create major risks. For example, during a youth concert there could be overcrowding, a temperature ten degrees higher than anticipated, and a duration of all day as opposed to three hours. While one of these factors might have a moderate impact on the situation, if two or three of these risk factors were present, this would significantly change the situation.

Evaluating Risks

Once risks have been identified, they must be prioritized. The process
of risk evaluation is often called risk measurement or risk analysis. Measurement may be a somewhat misleading term, however, as there is no precise, objective way to "measure" and compare all risks. While some losses can be assigned a definite dollar value, others—like the public perception of school staff as incompetent and untrustworthy, or the emotional insecurity of a child—cannot. The subjective judgment of the analyst must be the final yardstick used to assess risks and set priorities for preventive action.

One common method of analyzing risk involves rating the frequency of loss and the potential severity, then multiplying the two figures to obtain a number. The risk with the highest number deserves the highest priority in loss-prevention planning (Cody and Dise).

Another formula uses three variables: the probability of occurrence, the frequency of exposure, and the severity of potential consequences (Dunklee and Shoop). For every risk factor, each variable is rated on a scale of one to ten. The three resulting numbers are multiplied to obtain a risk score that is compared to the scores calculated for other risk factors. "While the risk analysis model presented here is clearly subjective in nature, it provides at least a consistent way of thinking about risk and a simplified means of reporting," the authors comment.

Conclusion

"Identifying risk factors without making risk reducing recommendations only raises anxiety levels," says Berlonghi. The next step is to use this intimidating list of potential risks to design strategies to prevent them, or, if that is not possible, to reduce their frequency and minimize their consequences.

In reality, however, identifying risks and creating strategies to control them are parts of the same process rather than two distinctly separate steps. A clear analysis of the nature of a risk often suggests the steps necessary to prevent it or minimize its effects. For example, preventing on-the-job injuries caused by improper lifting requires employee training, whereas preventing accidents caused by faulty equipment requires equipment repair or replacement. In the risk-identification processes just described, strategies to reduce or eliminate risks are often suggested at the same time that the risks are identified.

Loss control, the process of creating and coordinating preventive actions to reduce risks to an organization, is discussed in chapter 2.
The goal of a loss-control program is to conserve school district assets—people, property, and cash—through preventive planning and action (Randall).

Few school districts made loss control a high priority until recently. According to Dunklee and Shoop, for much of this century school administrators typically had an "ostrich-like" attitude toward risk and tended to plan for the short term. But the rising costs of insurance, lawsuits, attorney fees, and unscheduled repairs and replacement of equipment have turned the "hindsight method of 'damage control'" into a recipe for disaster (Dunklee and Shoop).

To institute a successful loss-control program, administrators must believe in the long-term benefits of prevention. They must also relinquish the perception that accidents are the problems of individual people. Instead, the district must take the attitude that "every accident or loss is the result of a weakness or flaw in the management system" (Dunklee and Shoop). This is not a question of accepting blame, but of accepting the reality that accidents and human errors will occur, then striving to create a system that minimizes them. "You must design and plan for an overall structure conducive to risk reduction," asserts Berlonghi; "it never happens by itself."

**Loss-Control Activities: Avoidance, Prevention, and Reduction**

Loss-control activities fall into three categories: *loss avoidance*, or avoiding risky activities totally; *loss prevention*, reducing the frequency of loss incidents; and *loss reduction*, reducing the severity of losses. For school
districts, reducing the frequency and severity of losses is generally a more realistic goal than avoiding them altogether.

Loss Avoidance

Private businesses may be able to avoid or abandon activities, property, or equipment associated with certain risks. In most cases, however, this is not a practical alternative for schools because so many of their activities are mandated by law. Schools can’t close all playgrounds to avoid playground accidents, stop teaching industrial arts classes because of the danger of shop accidents, or cease disciplining students due to the risk of some lawsuits for improper discipline.

Schools can avoid some losses by carefully examining proposals for new activities before the proposals are implemented. “It is much simpler to avoid certain activities than to discontinue them after problems arise,” Randal points out. A similar process should be applied before acquiring new properties or equipment—or staff. For example, screening employees for bad driving records before hiring them as bus drivers would eliminate one source of district liability should an accident occur, although it wouldn’t guarantee the elimination of all bus accidents.

Loss Prevention

Preventive measures aimed at reducing the frequency of losses can be highly effective. In addition, loss-prevention opportunities are not restricted to districts with large budgets or easy access to special expertise, but are “limited only by the ingenuity of the people involved and the degree of technical advance in the products available” (Cody and Dise). In many cases ingenuity can substitute for a “high tech” solution or a generous budget.

Three key areas of liability delineated by Minor and Minor should receive special attention in loss-prevention planning: maintenance, supervision, and instruction. Maintenance-related loss-prevention actions may include not only frequent inspection of equipment and facilities for problems, but improvements to make items in good repair more “user friendly.” For example, fewer people might fall on a particular stairway if the railing and the edge of the stairs were painted in bright colors (Cody and Dise). Increasing supervision of hallways and cafeterias can decrease incidents of school violence and crime such as bullying, harassment, and lunchtime thefts (Gaustad).

Instruction may be directed at staff, parents, and patrons attending afterschool events on campus as well as students. The following are examples of the varied ways instruction can safeguard a district from liability:
instructing students on how to safely use athletic equipment, giving staff
inservice training concerning child-abuse laws, distributing student hand-
books explaining disciplinary and other school regulations to students and
parents, and posting signs on school grounds to warn afterhours users of
hazards that have been identified but not yet corrected.

**Loss Reduction**

The goal of loss reduction is to reduce the severity of unavoidable
losses. Loss-reduction activities can be broken down into *minimization* and
*salvage*.

*Minimization* actions take place before or during a loss. Installing
automatic sprinkler systems will reduce the extent of fire damage should a
fire occur; conducting emergency drills to ensure that staff and students
know what to do in case of fire, earthquake, or intruder violence may save
lives if any of these crises should occur. A related tactic is *diversification*.
For example, dispersing district vehicles among several different parking lots
or garages reduces the likelihood that all vehicles would be destroyed in a
single disaster.

*Salvage* actions take place after a loss. Recovering salvageable mate-
rials after a fire is a literal, concrete example of salvage. A less tangible
example of salvage is providing counseling after an individual tragedy such
as an oncampus rape or assault, or after a group tragedy such as the killing of
several students by an armed intruder. Here the goal is to reduce long-term
damage to the emotional well-being of staff members or students—an asset
that is less concrete but more precious than buildings or supplies (Gaustad).

**Implementing an Effective Loss-Control Program**

"A comprehensive, cost effective loss control program is one of the
most difficult aspects of risk management," says Randal. Yet loss control is
the area of greatest potential savings in risk management. Furthermore, loss-
control activities are within the capabilities of districts of all sizes, unlike
certain risk-financing options that may be unavailable to small districts.

Why is loss control so difficult? One reason is that loss-related activi-
ties are often spread out among several different departments. This fragment-
tation results in duplication of effort and hampers development of the overall
perspective and coordination needed to plan and implement effective prevent-
ive programs. Consolidating loss-control activities in one administrative
unit and giving the overall responsibility to one individual will facilitate risk
reduction.

Successfully implementing loss-control activities involves three basic
steps: (1) creating policies and procedures, (2) communicating them to all concerned, and (3) enforcing them. These three steps are necessary whatever the area of risk, whether it’s preventing on-the-job injuries, administering discipline without violating students’ rights, maintaining building security, or keeping playgrounds free of hazards.

Creating and Communicating Policies and Procedures

Specific regulations and procedures should be developed for each area of risk. This task requires careful analysis, forethought, and detailed, step-by-step planning. Next, these regulations and procedures must be communicated to all concerned—a process that may be considerably more difficult than their development.

The means of disseminating this information will vary depending on the target audience: all staff, just those involved in disciplining students, or just those who may be exposed to blood-borne pathogens; all students, or just students involved in specific activities; parents, citizens who attend school athletic events, or community groups that use district facilities. Classroom announcements, inservice training, contracts, signs or lists of regulations, student handbooks, and drills are examples of the many media that can be used.

Information should be communicated repeatedly, and, if possible, in more than one way. For example, rules governing student behavior in common areas should be published in the student handbook, explained verbally to students at the beginning of the year, and posted in writing in common areas (Minor and Minor).

Ideally, knowledge of policies and procedures and the ability to carry them out correctly should be checked periodically to ensure that the information has been communicated successfully. For example, Betsy R. Kutska (1992) suggests testing the skills of aquatic staff by simulating emergency situations. Minor and Minor recommend checking students’ understanding of emergency procedures through oral or written tests. Athletes and their parents may be asked to sign information sheets detailing the risks involved in their chosen sport.

Enforcement and Documentation

Well-designed policies and procedures and crystal-clear communication are useless without enforcement. Lack of consistent enforcement may be regarded as evidence of negligence if a deviation from regulations results in an injury.

It is also important to document that procedures have been followed
and regulations enforced. For example, districts should record when facilities are inspected, what hazards are identified, and the date repairs are made or are scheduled to be made; when the certification of aquatic staff is last verified as current; and when school nurses receive their annual training in how to protect themselves from exposure to human blood or other potentially infected materials. Not only does documentation help risk managers assess the effectiveness of particular loss-control procedures, it helps to legally protect the district.

The Benefits of an Effective Loss-Control Program

Effective loss-control programs result in fewer injuries and smaller repair and replacement costs, and may also improve the morale of staff and students. It is difficult to prove how much was saved by preventing events from occurring. However, some benefits will show up immediately on the school district's balance sheets.

For example, the amount of money an Oregon school district pays into the Workers' Compensation system is based on the district's Experience Rating Modification (ERM), which is calculated by the state based on the district's time loss rate. In North Clackamas School District, a loss-control program that reduced the district's employee time loss rate resulted in a more favorable ERM rating, saving the district $50,000 per year, said Risk Manager Gary Richter.

On the other hand, school districts with poor loss-control records may face negative consequences. Insurance carriers may cancel or refuse to renew policies, or set exorbitant rates if a district has a bad loss record (Dunklee and Shoop). Such districts are also less likely to be allowed to join insurance pools with other districts, a money-saving tactic that is discussed in chapter 3 (Thomas Maedke 1988).

Risk Management Specialist Dan Thomas may provide the best summary of the benefits of loss control. "We could talk about the financial savings, but there's a higher value at play, and that's the social and humanitarian obligation to prevent accidents from occurring," said Thomas. "That's the bottom line."
Chapter 3

Risk Financing: Transferring or Retaining Risks

Once a coordinated effort has been made to reduce risks, districts must decide how to finance those risks that will unavoidably slip through the loss-prevention net. This process is known as risk financing. The two basic risk-financing options consist of risk transfer, transferring either the risk itself or the responsibility for financing it to another entity, and risk retention, retaining the legal and financial responsibility for risks within the district.

Transferring Risks

The most common and best-known type of risk transfer is insurance, which transfers the financial risk of loss to the insurer. However, risks can also be transferred in contracts and other agreements. School districts should explore every opportunity to transfer risk to other entities before falling back on insurance. Not only does risk transfer protect districts from loss exposures, some insurance carriers even reduce premiums for districts that follow risk-transfer guidelines (James B. Johnston 1993).

Noninsurance Risk Transfers

Business transactions frequently provide opportunities for alert school districts to transfer risk—and for unwary districts to assume extra liabilities. Districts should carefully review all contracts with this in mind and negotiate for the other party to assume as much liability as possible.

For example, if a district must lease property due to overcrowding, it should try to obtain a contract in which the property owner accepts liability for any lawsuits arising out of the condition of the property. The district
should attempt to negotiate a lower rent if the lessor will not provide building insurance (Jerry J. Herman 1992). Districts should also insist that equipment vendors retain liability for accidents or other losses caused by defects in their products.

Liability should be a major concern when districts contract with outside agencies to provide services such as construction, maintenance, and transportation. All contractors should be required to provide insurance sufficient to cover risks involved in their operation. The contract should include a "hold harmless," or indemnity, clause stating that the district will not be held liable and that the contractor will pay the costs of defense as well as any damage awards resulting from lawsuits (Randal).

As evidence the insurance exists and meets the district's criteria, a certificate of insurance should be sent to the district by the contractor's insurance carrier or agent, listing the types and limits of insurance held and explicitly naming the district as an additional insured. Johnston warns that the precise wording of the certificate of insurance is important, as well as that of the contract. The ability of the insurance carrier to provide the amount of protection stated must also be verified. For these two reasons, Johnston recommends having an insurance professional review certificates of insurance.

Johnston cites an example in which a construction worker employed by a contractor died after falling through a skylight while working on a school roof. The worker's family sued the school district. Fortunately for the district's finances, the contractor's certificate of insurance named the school as an additional insured. In another instance, "proper attention to the wording" of a transportation contract protected the school district from $1 million in claims after a fatal bus accident took place (Johnston).

Community use of school district facilities is a major source of potential liability. Unwary school districts may end up being held liable for accidents that occur during events over which they had little or no control. Dunklee and Shoop describe community use as "one of the most difficult and at times most disputatious concerns of district officials." Yet refusing to allow citizens access to facilities supported by their tax dollars can create a major public-relations problem for schools.

Each district should develop a set of rules governing the use of school facilities that should automatically become part of any use agreement. The prospective user should be required to describe in detail the activities that will occur, the ages and number of participants to be involved, and what facilities or grounds are desired at what dates and times. The district should set up a procedure for reviewing each request, evaluating potential risk to the district as well as the value of the activity and such considerations as fair access.
It may be appropriate for the district to assume liability for certain worthwhile events. However, if the district is not willing to do so, it should require the user group to provide insurance and a certificate of insurance that meet the criteria described earlier. John Morley (1990) lists conditions that should be part of any agreement, including a statement that the district will not be liable for damages if the event is preempted for any reason. This will protect districts from being sued for loss of income if space promised for fund-raising events becomes unavailable.

Certificates of insurance from contractors and user groups should be kept on file and accessible for periodic review. Districts should not depend on user groups to keep track of their policies' expiration dates (Morley).

The larger the school district, the greater the number of other agencies the district is likely to interact with or share activities with, and the more opportunities there will be for the district to transfer or assume risk. Thus attention to risk transfer is particularly important for large districts (Dunklee and Shoop).

Insurance

Property insurance, which protects against damage to buildings and equipment by such threats as fire, flood, and vandalism, is one of the main types of insurance school districts purchase. The second major type is liability insurance. Examples include tort liability coverage, which protects against the risk of lawsuits based on the negligence of district officers or employees; suretyship coverage, which protects against dishonesty on the part of employees or contractors; and workers' compensation, which covers job-related injuries. Employee benefits, another significant area, are not examined in detail here.

The cost and availability of insurance coverage are driven by carriers' desire for profit, not concern for the welfare of school districts. Competition among insurance companies results in market cycles. Each competitive period, during which companies vie for customers by reducing premium prices and lowering underwriting standards, is balanced by a "crunch," during which prices and standards rise. These cyclic market fluctuations make long-term budgetary planning difficult for school districts (Richard G. Rudolph 1988).

Large school districts have certain advantages over small ones in dealing with the insurance market. Insurance carriers eager to obtain a large chunk of business may be willing to offer big districts lower premiums. Small districts should consider insurance pools to broaden their buying "clout." However, price differences are also partly due to the intrinsic nature of insurance. As Richter explains,
Insurance is based on large numbers. If you insure five people, you never know what you’re going to have to pay on claims. Whereas if you insure five hundred people, you can start to see trending; you can project what your losses will be.... It’s kind of a numbers game, and the bigger you are, the easier it is to do.

Thus price breaks given to large districts with good loss records may not be available to small districts with similar records simply because their smaller figures do not permit reliable loss prediction. With workers’ compensation, for example, “Districts below a certain size may be subject to minimum premium requirements and be charged a higher modification factor than their actual losses would indicate” (Randal).

The process of acquiring insurance also deserves attention. Some districts are required by state or local law to solicit bids from a variety of insurance carriers and purchase coverage from the least expensive. Brad Johnson (1992) reports that 40 percent of the respondents to the 1991 Public Sector Risk Financing Survey who were not required to solicit bids still did so. However, the bidding process may not be to a district’s advantage. “Putting the district’s insurance requirements out to bid every year does not provide any continuity between the district and its insurance carriers,” states Randal. “When the market is tight, changing carriers every year will not produce the best price because brokers, knowing that they may lose the business because someone else is a few dollars lower, may not exert their best efforts.”

Instead of requesting bids and basing insurance choices on price alone, a district will be better served by hiring an “insurance broker” or “agent of record” to analyze the district’s needs and make expert recommendations. To ensure objectivity, the district pays its agent of record a fee for his or her services to purchase insurance from other agents or insurance companies.

Randal also advises districts to purchase insurance only from domestic carriers, companies incorporated within that state. Doing business with foreign carriers is riskier because state insurance commissions only have the resources to actively regulate domestic carriers. Herman suggests doing business only with insurance companies that have an “A” rating and an excellent record of service to clients.

Unfortunately, advice about wise insurance selection is useless if no insurance carriers are willing to offer coverage. During the tight insurance market of the mid-eighties, many school districts had only one bidder while some had none, and the coverage offered often failed to meet districts’ needs (Maedke). This crisis forced school districts and other public-sector entities to look for alternative methods of risk financing.
Retaining Risks

Districts may be forced to take legal and financial responsibility for the risks of loss for which there is no insurance market, or they may voluntarily choose to retain the risk for certain types of losses because it is more cost-effective to do so than to transfer the risks to an insurance carrier or some other entity. Insurance deductibles and self-insurance are common forms of risk retention.

Deductibles

A deductible is the portion of a loss a district agrees to retain in return for a premium reduction. The carrier only pays for costs that exceed the deductible. Most school district insurance policies include deductibles, particularly property insurance.

Many factors must be considered in determining appropriate deductible levels for various lines of insurance coverage, including the district’s size and financial strength and the effectiveness of loss prevention in each area of risk. Accepting large deductibles will save on premium costs, but this gain must be weighed against the potential losses. If large deductibles are accepted in many areas, aggregate stop-loss coverage can be purchased to limit a district’s total loss should multiple losses involving large deductibles occur in a single year (Randal).

Self-Insured Retentions

A self-insured retention (SIR) resembles a deductible in that the district pays for losses up to a set dollar amount and commercial insurance covers losses over that limit. However, with an SIR the district also accepts the responsibility for adjusting claims below that limit, including investigating incidents and, if necessary, defending the district in court. With a deductible, the insurance company handles these matters (Randal).

Along with the increased responsibility of adjusting claims, the district gains more control over decisions involving claims and how they are handled. Thomas gives the example of being able to select a law firm to represent the district instead of having to accept whatever firm is chosen by the insurance company.

Self-insured retentions are also typically much larger than deductible amounts.

Self-Insurance

Self-insurance, the internal retention of risks, was formerly resorted to
only when commercial insurance was unavailable or unaffordable. It has become more popular as the news of successful programs begun in the mid-eighties has spread. An important distinction must be made between two significantly different approaches that are both often referred to as self-insurance.

In the first approach, also called self-funding, a district basically establishes its own insurance company (Randall). Reserve funds are set aside in anticipation of future losses, and regular payments, just like insurance premiums, are made to increase the reserve. This spreads out the cost of major losses over time, lessening their impact on the district. Some districts leave these loss reserves in the general fund, while others set up a separate fund dedicated to that purpose (Rita Hartung Cheng and Robert B. Yahr 1989).

The second approach involves simply paying for losses out of current operating monies. This approach, sometimes referred to as going bare, actually means being uninsured (Brad Johnson). A catastrophic loss could devastate an unfunded district.

These two types of funding can be successfully combined, however. Losses with high frequency and low severity, such as glass breakage, can be funded out of operating expenses, while reserve funds are earmarked for major losses (Randall).

Advantages of Self-Insurance. The fact that rates of loss tend to be more stable than market-driven premium rates means that self-insuring can facilitate long-term budgetary planning. If bonds are issued to raise money for the reserve, debt service on bonds will also be a predictable element in the district’s budget (Rudolph).

Self-insurance can save the district money as well as providing budgetary stability. To begin with, self-insuring eliminates sales commissions, insurance company profits, and premium taxes (Rudolph). The district gains interest income from its cash reserves, money that would otherwise have gone to pay premiums. The improved access to loss information provided by self-insuring can aid the development and fine-tuning of loss-prevention programs, leading to additional savings.

Self-insuring also gives the district greater discretion in managing claims. No longer is there an adversarial relationship between a strictly profit-oriented insurer and a district with different priorities. “We have the luxury of not having to consider how this is going to look on our annual report to our shareholders,” Beaverton’s Dan Thomas explained. “There are no political considerations other than what is the right thing to do, given our duty to the injured party and our duty to the taxpayer. I see that as a very big advantage in self-insuring.”

Disadvantages of Self-Insurance. To successfully self-insure, a district
must be able to provide all the services and expertise of an insurance company, from actuarial studies to claims administration (Rudolph). Self-funding also necessitates complex accounting procedures (Cheng and Yahr). A district must have either staff with the necessary expertise or sufficient funds to hire qualified professionals to administer its program. A district must also be large enough for statistically reliable loss prediction. In addition, laws in some states prohibit or limit self-insurance (Randal).

A district must also be willing and able to conduct accurate, long-term cost-benefit analyses comparing self-insurance with commercial alternatives. For example, New York’s Wantagh School District analyzed the operation of its workers’ compensation and long-term disability insurance programs during a five-year period before deciding to self-insure those areas. Samuel Donato (1993), the successful program’s creator, emphasizes the importance of continually monitoring a program’s cost-effectiveness to ensure that changing conditions have not made it obsolete.

Districts that skimp on long-range planning, or that lack the expertise needed to accurately estimate future losses, may end up in deep trouble. “If you go self-insured, you will look like a genius for the first few years—no insurance premiums, low loss-payouts. They may even give you an award,” says Brad Johnson. “But make sure you leave within 3 years, when the claims incurred during those wonder years begin coming due.”

Finally, as Thomas emphasized, self-insuring must be considered in the context of the district’s risk-management program as a whole:

A school district can make very significant financial gains by looking at self-insurance, but you have to be prepared to have a commitment to safety and loss prevention. Otherwise you’re losing the protective umbrella of an insurance company and you’re out there with your own money on the line, and if you’re not practicing safety, then that money’s at a greater risk every day.

Self-insuring is clearly not a decision to be made lightly.

Insurance Pooling. Pooling, or combination, is a means of self-insuring on a group basis. In an insurance pool, school districts and other public entities combine forces to share the risk of loss and the costs of risk-management services and expertise. This enables small districts to enjoy the advantages otherwise restricted to districts large enough to self-insure alone. Pooling holds its own challenges and complexities, but Maedke asserts that most members of insurance pools will find they spend less time than they used to on insurance. According to Randal, investment earnings often more than repay the overhead costs of operating a pool.

The Oregon School Boards Association (OSBA) operates a pool, the OSBA Property and Casualty Insurance Trust, which is open to Oregon school districts, educational service districts, and community colleges.
OSBA Executive Director Christopher Dudley explained that the pool provides liability and property insurance, including automobile insurance.

Oregon's tort liabilities cap, which limits total damages for liability suits brought against governmental entities to a maximum of $500,000, facilitates pooling for Oregon school districts.

Richter noted that the limit does not apply to federal lawsuits or to accidents that occur outside the state border—a field trip into the state of Washington, for example—but still considers the tort cap “a distinct advantage for us in Oregon.”

Combining Transfer and Retention

It is nearly impossible to use only a single risk-financing option. Districts typically combine transfer and retention of different risks and portions of risks. The challenge in risk financing lies in determining what to transfer and what to retain at what point in time, balancing and combining options to obtain the most advantageous conditions for the district.

Insurance policies with deductibles are a nearly universal combination of transfer and retention. Gradually increasing the size of self-insured retentions is a common way of making the transition to self-insurance. Many districts combine self-insurance and commercial policies, self-insuring one or two areas of risk and purchasing commercial insurance to cover the other areas. Rudolph recommends purchasing conventional insurance to cover property exposures, partly because of the potential for catastrophic property losses and also because property insurance is predictably available and the premiums are relatively stable. The greater instability in liability insurance, both in availability and in premium costs, makes self-insurance appealing in this area.

It is also common to “layer” different types of insurance, as in purchasing excess insurance or an umbrella policy, which go into effect after primary policies or SIRs have been totally exhausted. Excess insurance normally has the same conditions and exclusions as the underlying policy, while an umbrella policy fills in “gaps” in coverage the primary policy provides, subject to a deductible, explained Bob Lilly, vice president of Sedgwick James and consulting insurance broker for the OSBA insurance pool.

The greatest advantage of self-insurance may be the freedom it allows districts in shopping for commercial insurance. Rudolph advises districts to buy liability insurance “when the insurance industry is in the midst of one of its price-cutting exercises of financial self-flagellation and not during its price-gouging recuperative periods.” To know when a change is appropriate,
a district must monitor the cost-effectiveness of its self-insurance program and periodically compare it to available commercial policies.

Conclusion

It is important to remember to keep risk-financing options in perspective. "Risk financing is the final, and perhaps least important, step in the risk management process, but it almost always generates the most attention," Brad Johnson comments. "If you can avoid and/or control potential loss, the method of financing that potential loss becomes less important."
This chapter explores the ways four Oregon school districts of different sizes, circumstances, and resources manage risk.

Beaverton School District, which serves a community of 59,000 that is located eight miles west of Portland, has approximately 27,000 students who attend twenty-eight elementary schools, six junior high schools, and three high schools. The district, known for its innovative playground safety program, has a full-time risk manager. North Clackamas School District, about half the size of Beaverton with 12,403 students, also has a full-time risk manager. These two districts are large enough to self-insure substantial portions of their loss exposures.

Gresham Grade School District, located eight miles east of Portland, is a smaller district. It enrolls approximately 6,100 students in eight elementary schools and three middle schools that feed into high schools in another district. Lincoln County School District, which has its administrative center in coastal Newport, enrolls a similar number of students who attend ten elementary schools, three middle schools, and five high schools.

Beaverton School District

Risk-Management Specialist Dan Thomas has worked for the Beaverton School District for nearly four years. He started out as the district’s loss-control specialist and assumed risk-management duties when the previous risk manager retired and the two positions were consolidated.

Risk Financing

Beaverton’s risk-management program evolved gradually over ten to
fifteen years. The district began by taking a self-insured retention in its workers’ compensation insurance policy and gradually increasing it as improved claims management and an early return-to-work program reduced costs. As success was established in that area, the district began to self-insure other lines of coverage, adopting the same gradual strategy. In addition to workers’ compensation, the district currently self-insures in the areas of property, general liability, and vehicle liability.

Thomas is enthusiastic about the financial benefits of self-insuring. “We are saving the taxpayers in excess of $200,000 a year—we have saved over $3 million since we started doing this. And at the same time, the public is getting a better insurance service.”

However, he recommended self-insuring only in areas in which a good loss-control program can be implemented. “If you can design safety programs to reduce your exposures and avoid paying higher premiums, you can save money. But I don’t advise self-insuring if you have no control over the exposure. If we can control the exposures, we self-insure. If we can’t, we buy coverage.”

Loss Control: Targeting Student Injuries

Reducing student injuries is the current focus of the Beaverton risk-management program. This effort began several years ago with a study of the frequency and severity of accidents throughout the district.

Risk Identification. “If we were an insurance company, we would only know about the injuries that resulted in claims,” said Thomas. “But since we self-insure, we know about minor incidents as well. Our schools complete an incident report whenever a student has an injury. We review the reports and look for trends and patterns.” Thomas considers information on minor injuries and “near misses” extremely valuable. A pattern of frequent minor accidents clustered in a specific area usually indicates a potential for serious injury as well, he said.

The accident analysis revealed that the playground had the highest frequency of injury at the elementary school level. At the middle and high school levels, loss exposures were concentrated in wood and metal shop classes and science classes.

Setting Loss-Control Priorities. For several reasons, a decision was made to focus first on loss control at the elementary level. One motivation was the district’s greater responsibility to protect younger children, who are less able to recognize potential hazards than older children. Another factor was that, unlike secondary students, elementary-age students are exposed to playground hazards on a daily basis. “You put your effort where it will save you the most money and where you’ll prevent the most injury producing
accidents," Thomas explained.

It was resolved to try to "engineer student accidents off our play-
grounds" by systematically replacing obsolete equipment with newer equip-
ment that meets higher safety standards. The result was a program unlike
anything else in the state, said Thomas.

Beaverton's Playground Safety Plan

Thomas began by reviewing the playground equipment available from
various vendors and screening the vendors themselves. Borrowing heavily
from the Consumer Products Safety Commission Guidelines for Public
Playground Safety, he created a twenty-page booklet that prescribes detailed
procedures for school sites to follow in selecting, installing, and maintaining
equipment.

Criteria for Vendors. Minimum criteria were established that vendors
must meet in order to do business with Beaverton schools, including a com-
mitment to safety, compliance with CPSC guidelines, and adequate levels of
insurance. Vendors were invited to make comments while the criteria were
being drafted. Every year the list of approved vendors is reviewed and
updated.

"Risk management is the gate through which all the vendors pass," said
Thomas. "Vendors are welcome to be on our list any time they meet our
criteria. We try to keep that playing field level for everybody."

Criteria for Equipment. The various types of playground equipment
available were reviewed and assigned to preferred, acceptable, and discour-
aged categories. Equipment that requires intensive supervision for safe use
or is likely to require frequent repairs is discouraged, because the district is
unable to provide former levels of supervision and maintenance in the wake
of post-Measure 5 budget cuts.

The Selection Process. A new set of playground equipment typically
costs $10-15,000. Rather than coming from the district's shrinking budget,
money is raised by parent clubs through fundraising events such as bake
sales, fun runs, and car washes. Under the direction of the school principal,
parents and staff develop a playground plan for their school and select the
equipment to be purchased.

Once equipment has been selected, a scale drawing of the proposed
structure must be submitted to the risk-management office for review and
approval. The vendor must submit a certificate of insurance for the vendor's
company and the manufacturer, as well as a letter from the manufacturer
stating that the proposed equipment meets the CPSC guidelines. Before the
new equipment is installed, the principal or another site administrator must
also "analyze its use, establish rules for its use, instruct teachers on how the
equipment should be used safely, and see that children are informed about any rules for use of the equipment” (Beaverton Public Schools undated).

Installation and Maintenance. Past experience has shown that parent-club volunteers sometimes don’t have the experience necessary to install equipment correctly, so the district prefers to have its maintenance department install new playground equipment. If an independent contractor is hired instead, the contractor must submit a hold-harmless agreement, proof of workers’ compensation coverage, certificate of insurance meeting specified liability limits from a carrier rated A+, and approval of the contractor by the vendor. After installation, the vendor is required to inspect the structure and complete a form confirming that it was installed correctly (Beaverton Public Schools). The policy also requires regular inspection of equipment by custodians.

The program was officially adopted about a year ago and was informally test-run for about a year before that. “We’re doing several schools a year and it seems to be working well,” Thomas reported. “The parent clubs feel they have ample choices. If they simply follow the procedures, they can’t go wrong. And yet they have a lot of latitude in what they can select.”

Current and Future Loss-Control Projects

Once the playground-safety program was in place, the next priority in the injury-prevention effort was rewriting the instruction manuals for the district’s wood-shop and metal-shop classes. The instructions for equipment use in the old manuals needed updating. In the revised manuals, safety guards and procedures have been integrated into all instructions, pictures, and diagrams. The logo on the manual’s cover even adds safety goggles to the student sitting at a stylized desk.

Revised intermediate and high school science-safety handbooks are scheduled to be ready for use by the start of the 1993-94 school year. After this, the district will tackle the next item on its loss-prevention list. “There are always more projects to do,” Thomas said.

Risk Management Should Play a Key Role

In Thomas’s opinion, risk management should play a key role in medium to large size school districts. If a large district doesn’t have a risk-management program, Thomas said he “would wonder if they’re managing their resources as effectively as possible.”

“It should also play a role in a small district,” he added, “but their resources are so limited, many small districts simply cannot do more than buy insurance and try to comply with regulations.”
North Clackamas School District

North Clackamas School District, the fifth largest district in Oregon, has half the enrollment of the Beaverton district. North Clackamas hired Gary Richter as its risk manager when it decided to experiment with a risk-management program several years ago. Richter has experience and training as a claims manager and three different licenses to adjust claims. Due to the complexity of the subject, he thinks most districts would be wise to hire a knowledgeable outsider such as himself to set up a risk-management program instead of attempting to do it themselves.

An audit after a three-year trial period convinced the district the program was well worth continuing. "We're four years and five months down the road now, and we've recovered for the district nearly three million dollars," Richter reported. "And it's not because we've done anything extraordinary, it's simply because the district has somebody who's able to concentrate on the area."

Risk Financing

North Clackamas combines self-insurance, pooling, and commercial insurance in various areas. "We layer our coverage," Richter explained. The first layer is the district's $50,000 self-insured retention. Property and liability exposures between $50,000 and $100,000 are covered by pooling with the OSBA Property and Casualty Insurance Trust. A layer of excess coverage is topped by an umbrella policy, both purchased from commercial insurance carriers, to bring the district's total coverage up to $4 million.

Richter emphasized the importance of the greater control self-insurance gives the district over its affairs. "The more you have to buy insurance, the less control you have over it. And the more you can be self-insured, or at least have a high retention factor, the more you can control your own destiny."

Loss Control and Workers' Compensation

North Clackamas has a sufficient number of employees to be totally self-insured for workers' compensation, one of its greatest areas of expenditure. The district hires a service company to perform many administrative tasks associated with workers' compensation claims, which generate considerable paperwork. Richter said this is a common strategy used by districts that self-insure. But he stressed that the district still makes all the decisions.

Richter sees effective prevention as one key factor in the success of the program. Another factor is the district's modified return-to-work program,
which is aimed at speeding the recovery of injured employees. "That's saved us a substantial amount of money, because if you keep people involved with their job, they get well quicker, and they get back to their regular work much faster." North Clackamas was the first school district in the state to establish such a program.

Richter also thinks closely monitoring the handling of claims helps the district estimate costs more accurately. "If you lose that claim to the system, then you have no way of predicting where and how it's going to end or how much money's going to be involved. It's like dropping it into a black hole."

Size of District Influences Risk Management

Richter estimates that a school district with approximately 10,000 students could consider some self-insuring. Districts smaller than that have fewer options in terms of risk financing. However, he prefers to emphasize that all districts have the ability to save money through prevention efforts.

Unfortunately, small districts will have more difficulty in proving that prevention makes a significant difference. Richter said, "I'm fortunate; I've got large enough numbers to show people to make them believers. But you can't do that in a little district."

Gresham Grade School District

"I can tell you what districts do that cannot afford a full-time risk manager," said Gresham Grade School District Business Manager Michelle Granger-Moore with a chuckle. "I wear ten different hats." In addition to risk management, her responsibilities include overseeing the district's budget and investments, transportation, and food services. She also spends part of her time attending to the needs of another school district: Barlow-Gresham Unified High School District, where Gresham's students go on to attend high school. The same administration serves both districts, each of which has its own school board and budget.

Granger-Moore's many duties don't leave her much time to develop innovative risk-management strategies. "We do well just to maintain the legal requirements," she said. For example, when OSHA's Bloodborne Pathogen Standard was published, making sure the district complied with the new regulations took up "all of our attention."

Loss Control in a Midsize District

The district tries to conscientiously carry out the basic preventive steps that are within its reach. Preventive maintenance is a high priority. Custo-
dial staff conduct monthly safety inspections, and school-safety committees in each building meet on a regular basis. The district also invites its insurance carrier to conduct an annual review, and makes plans to implement suggested safety improvements as the budget permits. For example, the district hopes to install sprinkler systems in all buildings over the next several years.

Granger-Moore attends a quarterly meeting with the district's insurance agent of record to review workers' compensation claims and identify problem areas. Like Thomas in Beaverton, she gets feedback from incident reports as well as actual claims. She uses this information to plan preventive efforts such as arranging training for maintenance staff in proper lifting techniques.

An achievement Granger-Moore is particularly proud of is the preparation and distribution of an emergency manual, a project completed last year. The manual covers a wide range of potential emergency situations, from accidents on field trips to school closure caused by bad weather to handling toxic waste. The manual took about a year to prepare.

**The Oregon School Safety Officers Association**

Until a few months ago, Granger-Moore wore an additional "hat" as president of the Oregon School Safety Officers Association. This organization serves as a risk-management resource for small districts like Gresham. It presents an annual summer conference and a three-day workshop in November, both of which are sponsored by the Oregon School Boards Association. OSSOA also disseminates information via a safety newsletter.

Providing information on new legal requirements is an important part of the summer conference. In districts too small even to have a business manager, let alone a risk manager, it's hard for administrators to stay informed of changing legal requirements, she said.

The conferences also promotes the sharing of information among districts. For example, members of the association's executive board agreed to bring materials developed within their districts to the 1993 summer conference. Granger-Moore asked Beaverton to bring its book on playground equipment safety procedures to share, and she brought Gresham's book on emergency procedures. "This way all the other districts have to do is copy the material, they don't have to spend the time developing it from scratch," she said.

**Risk Management in Gresham's Future**

The possibility of self-insuring has been considered, but Granger-Moore is unsure whether it would be financially worthwhile for the district.
However, Gresham Grade School District will be consolidating next year with several other school districts. Perhaps self-insuring will be cost-effective in the new, larger district.

Granger-Moore hopes that after reorganization the administrator in charge of risk management won't have so many other competing responsibilities. "I believe that there are savings to be made in the long run, if you can devote the staff time to these kinds of programs," she said.

**Lincoln County School District**

Fred Wright, director of facilities and maintenance for Lincoln County School District, is responsible for all physical plants in the district. This includes eighteen separate school sites and seven support facility sites spread out over 1,100 square miles. There are a total of ninety-nine buildings within the district. In addition, Wright is also the district's safety officer and oversees transportation, warehousing, custodial operations, and purchasing.

Risk-management duties are divided between Wright and the district's fiscal director, who handles workers' compensation. The two administrators are the only paid members of the district's risk-management team. Its other members, the school district's insurance agent of record and other insurance brokers from within Lincoln County, volunteer their expertise to help the district. The team meets several times during the year to review claims, discuss the district's current coverage, and consider new issues that may affect the district, such as state and federal legislation.

The district has modest self-insured retentions for property and liability exposures.

**Risk Identification**

The district's lead groundskeeper checks all playgrounds and playground equipment for hazards on a monthly basis, and safety committees in each building do quarterly inspections. In addition to these standard inspections, the district actively seeks inspections from outside the district. Wright believes there is an advantage in bringing in "a different set of eyes" to identify possible risks. "We welcome inspections from the state fire marshal, the state electrical division, from our local fire chiefs and fire marshalls." The district also asks its insurance carriers to conduct annual safety inspections and suggest improvements. Donna Neave, Wright's assistant, said work orders are assigned to correct immediately any problems identified during fire inspections.
Loss Control: Focus on Fire Prevention

Fire prevention and safety have been particular concerns of the district since a fire during the 1978-79 school year totally destroyed one school building. After that traumatic event, the district reevaluated every school building and did extensive safety remodeling.

State-of-the-art fire detection systems have been installed in every school in the district. Neave said each school’s detection system automatically notifies the local fire department or dispatching agency if a fire occurs. “We’re also in the process of putting in sprinkler systems,” said Wright. “And in those buildings that don’t have sprinklers yet, we’ve installed exterior doors that exit outside in every elementary-level classroom.”

Lincoln County School District’s Facilities and Maintenance Department was recognized by the State Fire Marshal’s Office in December 1992 with a plaque commending them on their efforts in addressing fire and safety concerns in district facilities.

Loss Control: Preventive Maintenance

The facilities and maintenance department also works to control losses less dramatic than those caused by fire. It has an extensive preventive maintenance program for mechanical systems such as boilers and other equipment. “If we don’t keep it in repair, we know we’re going to have to pay a lot more for it later,” Neave explained.

Not only does preventive maintenance add years to the life of the equipment, it lessens the likelihood of school closures.

“We haven’t had any school shut down for maintenance reasons in over fifteen years,” Neave said proudly. “It costs money when schools close down.”

The district is also working to upgrade school-security systems in high-risk areas such as offices, media centers, and computer centers.

Risk Management in Lincoln County’s Future

Up to the present, the district has maintained funding for its preventive-maintenance programs in spite of a shrinking overall budget. Wright hopes this will continue, but is somewhat pessimistic in light of a projected 12 percent cut in 1993-94.

Wright agrees that risk management is important for all districts. However, so many new laws relating to safety and risk management are being put into place all the time that districts need to be able to fund a full-time person to stay on top of them. Although the need is there, Lincoln
County School District, like many other districts, does not have the financial resources to establish such a position.

**Conclusion**

Despite the differences in the size of their districts, the four administrators interviewed share many of the same values and attitudes regarding risk management. All of them consider risk management an important and worthwhile long-term investment. All agree that small districts often lack the resources to take full advantage of the potential of risk management. And all are concerned that budget cuts may sacrifice long-term benefits for the sake of short-term savings.

The following chapter explores some of the ways school boards and administrators can support risk management in their districts.
Risk management cannot succeed without support from the top. School boards must publicly acknowledge its importance, create policy that sets out the general objectives of risk management, clearly assign responsibility for achieving those objectives, and provide administrators with sufficient resources to design and implement effective procedures. Successful day-to-day operations rest on this foundation.

Risk-Management Policy

Risk management has both objective and subjective components. Adopting a resolution publicly stating the district’s commitment to risk management is the first step in raising awareness of risk management among both district staff and the public. Cody and Dise identify four general objectives that should be included in such a resolution: (1) increasing awareness of risks so that behavior and decision-making can be modified to reduce losses, (2) identifying and controlling risks with nonhuman causes, (3) demonstrating concern for the welfare of students and staff, and (4) communicating this concern and awareness of actual operations to the public. The next step is to instruct the superintendent and risk-management staff to develop specific procedures to implement this policy.

Cody and Dise provide an example of a sample resolution that lays out these objectives and directs all personnel to support the implementation of the risk-management program. Dunklee and Shoop also provide a sample policy statement, a list of specific supportive policy areas, and an example of how responsibilities for implementation might be assigned.
Assigning Responsibility for Risk Management

Risk management should be consolidated in one administrative unit and overall responsibility given to a single administrator. In many school districts, fragmentation of responsibility for risk-management activities among several departments results in inefficiency and duplication of effort.

The ideal risk manager should possess an impressive array of knowledge and experience concerning insurance, financial, and legal issues, as well as excellent communication skills. However, an “ideal” risk manager may be hard to find within a district. According to Brad Johnson, people tend to run from risk management “like rats from a sinking ship”; many school administrators are given risk-management duties because no one else wants to assume these duties. Hiring an experienced risk manager from outside the district is a desirable option, but many districts lack sufficient financial resources to do so.

Putting one individual in charge is better than having no one in charge, even if the designated person is not ideally qualified in every area or handles risk management in addition to other duties. The designated risk manager can get help from other staff and delegate particular areas of responsibility, retaining the overall responsibility for coordinating their efforts. Expertise in the community can be tapped by setting up a risk-management team like the one in place at Lincoln County School District. Randal suggests a number of sources of model loss-control programs, including professional organizations, large corporations, and other school districts. Training is available from risk-management education organizations like the Public Risk Management Association. According to Brad Johnson, many administrators who became risk managers by default have done an excellent job.

It is important, however, that responsibility be assigned close to the top of the organizational ladder. Delegating risk management to a low-level administrator sends the clear message that it is not highly valued.

Along with a willingness to learn, a risk manager needs good communication skills; communicating the importance of loss-control programs is often more difficult than actually developing them (Randal). A risk manager must be able to obtain the cooperation of the entire district staff to successfully implement a program, in addition to communicating with members of the insurance community, legal experts, and others outside the district.

Pitfalls to Avoid

Remember to take a long-range perspective in evaluating the success of a risk-management program. Short-term accounting methods that only take one fiscal year into account won’t measure long-term effects; therefore,
changes in accounting procedures may be required (Dunklee and Shoop).

Remember that advice from "experts" cannot be relied on uncritically. Brad Johnson warns that administrators who are intimidated by the perceived complexity of risk-financing issues may depend too much on the advice of others. Never let others make decisions for you, and don't trust someone who tells you "risk financing is too complicated for you to understand."

Increased knowledge is the best defense against the unscrupulous individuals who do exist. Advice from insurance brokers must be carefully evaluated, says Randa, but distrusting all advice is as bad as blindly accepting everything.

Finally, remember that what works for another district may not work for yours. The structure of a risk-management program and the type of risk financing chosen to support it depend on the specific needs and resources of your district.

**Conclusion**

Several decades ago, purchasing insurance was usually the only step taken to protect human and financial assets of schools. This is no longer acceptable for a number of reasons, both good and bad. It is certainly regrettable that new legal and physical risks threaten district facilities, staff, and students. And while the risks of operating a school district have escalated, the public has become less willing to tolerate risks once accepted as normal, a change that most school officials welcome. Another beneficial development is the increased awareness and availability of preventive methods.

The new field of risk management provides both a conceptual framework for considering risks and a multitude of useful tools for reducing risks and their costs. Administrators are fortunate to have access to these tools. Mastering them requires time and effort, but school officials who consider the long-term picture will recognize risk management as an invaluable resource that can help their districts meet current and future challenges.


Interviews


Bob Lilly, Vice President of Sedgwick James, Portland. Telephone interview, August 18, 1993.


Fred Wright, Director of Facilities and Maintenance, Lincoln County School District, Newport, Oregon. Telephone interview, June 30, 1993.