

Section 3.3: Compliance With Insurance Requirements

- ◆ **Section 17.1 of the Management Agreement requires that, subject to the approval of the City Risk Manager as to the insurers and policy forms, the Zoological Society shall place and maintain throughout the term of the Agreement, and pay the cost thereof, various types of insurance coverages. The Management Agreement also provides for periodic reviews of the Zoological Society's insurance coverages, but does not specify a time period for such review.**
- ◆ **Prior to this performance audit, the Zoological Society did not obtain the City Risk Manager's approval of the insurers, policy forms, and insurance coverages procured, as required by the Management Agreement, and the coverages were never reviewed.**
- ◆ **The City Risk Manager has recently reviewed the insurance coverages and has determined that the provision limiting the policy forms and amount of both Malpractice and Commercial Crime Insurance to those in effect on the commencement date of the Management Agreement is ambiguous. To remedy this situation, the Department of Recreation and Park and the Zoological Society should develop a Memorandum of Understanding (MOU) to clarify specific amounts of coverage and minimum limits.**
- ◆ **The Zoological Society maintains Property Insurance on City-owned Zoo buildings, even though such coverage is not currently required by the Agreement. The City Risk Manager believes that Property Insurance coverage is essential. Because the Recreation and Park Department does not insure its real property, the City Risk Manager recommends that the Zoological Society continue to provide such coverage without interruption, for the duration of the Management Agreement. Therefore, we recommend that the Department of Recreation and Park and the Zoological Society develop an MOU providing that the Zoological Society maintain Property Insurance of City-owned buildings for the duration of the Management Agreement.**
- ◆ **We recommend that the Department of Recreation and Park and the Zoological Society develop an MOU to provide that insurance coverage reviews occur every two years, or sooner if warranted by a substantial change in circumstances.**

Background

Section 17.1 of the Management Agreement sets forth the types of insurance policies and coverages that the Zoological Society is required to procure, maintain, and pay the costs thereof throughout the term of the Agreement. The insurers and policy forms are expressly made subject to the approval of the City Risk Manager.

Section 17.2 of the Management Agreement includes several miscellaneous insurance provisions such as special endorsements, document delivery and notice requirements, and procedures for periodic review.

To determine whether the Zoological Society fully complied with the insurance provisions of the Agreement, we:

- Reviewed the insurance provisions of the Management Agreement to determine the types of insurance coverages and policy limits required.
- Interviewed the Recreation and Park Department Property Management Assistant in charge of insurance to determine whether the insurance coverage was properly documented for the Zoo.
- Obtained copies of all required Certificates of Insurance from the Recreation and Park Department and the Zoological Society.
- Delivered the Certificates of Insurance along with the insurance provisions of the Management Agreement to the City Risk Manager for his review.
- Interviewed the City Risk Manager for his evaluation of the insurers, determination of Zoological Society's compliance with provisions of the Management Agreement, and to obtain his recommendations concerning insurance.

Compliance with Lease and Agreement Requirements

In general, Section 17 of the Management Agreement specifies requirements for (1) types and amounts of insurance required, (2) review and approval by the City's Risk Manager, (3) notice of cancellation, non-renewal, etc. and delivery of certificates to the City, (4) periodic review of types of insurance and limits, and (5) other specific requirements.

At the outset of the insurance audit, we found that the policy forms and insurers had never been approved by the City Risk Manager since the commencement of the Agreement.

Accordingly, we obtained copies of certificates from the Recreation and Park Department and the Zoological Society and delivered them to the City Risk Manager, along with an outline of the Agreement insurance provisions for his review in April 1999. This was the first time the City Risk Manager was presented with any documentation of Zoo insurance coverage.

The City Risk Manager reviewed the certificates and determined the following:

1. The insurers providing the insurance certificates to the Zoological Society are satisfactory to the City.
2. The coverage and limits of the various types of liability insurance required by the Management Agreement have been met. To the credit of the Zoological Society, the coverage provided for General Liability Insurance is greater than the Management Agreement requirement.
3. The coverage for Errors and Omissions Insurance for Zoological Society Officers and members of its Board of Directors is greater than required by the Agreement.
4. Although not required by the Agreement, the Zoological Society, on its own initiative has procured blanket property insurance covering Zoological Buildings owned by the City. The Recreation and Park Department does not carry property insurance for its facilities.
5. The Malpractice Liability Insurance carried by the Chief Veterinarian with coverage limits of \$1,000,000 for each occurrence and \$3,000,000 aggregate is probably adequate. The Assistant Veterinarian coverage limits of only \$300,000 each occurrence and \$900,000 aggregate could be increased to the same coverage level for the Chief Veterinarian for a premium increase of \$26 per year and it is so recommended.
6. The determination of the adequacy of Commercial Crime Insurance covering employee dishonesty, loss inside/outside, or forgery, requires an inspection and analysis of the equipment, procedures, and hiring practices by the Insurance Carrier to define the extent of the risk to be covered. The meaning of the coverage clauses cited on the certificate are not clear without viewing the total policy, and the adequacy of the coverage consequently could not be determined by the Risk Manager.
7. Sections 17.1(e) and 17.1(f) of the Management Agreement, pertaining to Malpractice Liability of Veterinarians and Commercial Crime Insurance, respectively, are considered ambiguous by the City Risk Manager. They provide merely that these policies be carried "in the same general form

and amount as that in effect on the commencement date.” We recommend that a letter of clarification as to the specific details regarding the forms and amounts required for these policies be provided by the Zoological Society to the Recreation and Park Department when the policies are reviewed.

Section 17.2.5 of the Agreement requires that the Zoological Society and the City periodically review the limits and types of insurance carried in light of the general commercial practice in the City and County and to adjust amounts, coverages, and rates in conformance to comparable risks. No period for review is established in the Agreement and no review of the actual policies by the City has been conducted since the commencement date, approximately 6 years ago.

The City Risk Manager recommends that all policies be reviewed routinely every two years or earlier if circumstances, such as the scope and nature of operations, are substantially changed. We concur.

Section 17.2.4 of the Management Agreement requires the Zoological Society to deliver complete copies of insurance policies promptly upon City’s request. The Recreation and Park Department reports that it has never requested copies of actual policies because the certificates of insurance are all that staff feels is needed for Property Management Division purposes. As a result, the City has never received copies of the policies since the commencement of the Management Agreement.

Accordingly, we recommend that the City, through the Recreation and Park Commission, request complete copies of all Zoological Society insurance policies for review under Section 17.2.5. The Zoo Bonds sale of June 16, 1999, should result in a substantial increase in the scope of zoo operations sufficient to warrant a review by the City Risk manager and Zoological Society to determine whether the current policy forms and coverage are sufficient and appropriate.

Section 17.2.4 also requires that the Zoological Society provide the City with certificates at least 30 days before the expiration dates of expiring policies. The Property Management Assistant reports that this requirement is never met, despite numerous requests for the certificates. The City Risk Manager reports that conformance to this requirement is not a common practice in the insurance industry and we therefore concur with the Property Management Assistant’s recommendation to require delivery of certificates as soon as possible, but no later than the expiration dates of the coverage.

CONCLUSIONS

Section 17.1 of the Management Agreement requires that, subject to the approval of the City Risk Manager as to the insurers and policy forms, the Zoological Society shall place and maintain throughout the term of the Agreement, and pay the cost thereof, various types of insurance coverages. The Management Agreement also provides for periodic reviews of the Zoological Society's insurance coverages, but does not specify a time period for such review.

Prior to this performance audit, the Zoological Society did not obtain the City Risk Manager's approval of the insurers, policy forms, and insurance coverages procured, as required by the Management Agreement, and the coverages were never reviewed.

The City Risk Manager has recently reviewed the insurance coverages and has determined that the provision limiting the policy forms and amount of both Malpractice and Commercial Crime Insurance to those in effect on the commencement date of the Management Agreement is ambiguous. To remedy this situation, the Department of Recreation and Park and the Zoological Society should develop a Memorandum of Understanding (MOU) to clarify specific amounts of coverage and minimum limits.

The Zoological Society maintains Property Insurance on City-owned Zoo buildings, even though such coverage is not currently required by the Agreement. The City Risk Manager believes that Property Insurance coverage is essential. Because the Recreation and Park Department does not insure its real property, the City Risk Manager recommends that the Zoological Society continue to provide such coverage without interruption, for the duration of the Management Agreement. Therefore, we recommend that the Department of Recreation and Park and the Zoological Society develop an MOU providing that the Zoological Society maintain Property Insurance of City-owned buildings for the duration of the Management Agreement.

We recommend that the Department of Recreation and Park and the Zoological Society develop an MOU to provide that insurance coverage reviews occur every two years, or sooner if warranted by a substantial change in circumstances.

RECOMMENDATIONS

The Zoological Society should:

- 3.3.1 Increase the Malpractice Liability Coverage for the Assistant Veterinarian to the same level as that for Chief Veterinarian. The increased cost of \$26 in the

annual premium is minimal compared to the increase in the amount of coverage.

The Recreation and Park Department and the Zoological Society should:

- 3.3.2 Develop a Memorandum of Understanding (MOU) to clarify specific amounts of coverage and minimum limits for both Malpractice Liability Insurance and Commercial Crime Insurance.
- 3.3.3 Develop an MOU providing that the Zoological Society maintain Property Insurance of City-owned buildings for the duration of the Management Agreement
- 3.3.4 Develop an MOU to provide that insurance coverage reviews occur every two years, or sooner if warranted by a substantial change in circumstances.

COSTS/BENEFITS

Implementation of our recommendations should facilitate the continuing maintenance of insurance coverage at appropriate levels and costs.