1998

Comprehensive Risk Management Planning for the Nonprofit Agency

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COMPREHENSIVE RISK MANAGEMENT PLANNING FOR THE NONPROFIT AGENCY

An Abstract of A Research Paper

Submitted

In Partial Fulfillment

of the requirements of the Degree

Master of Arts

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May 1998

ABSTRACT

The purpose of this study was to develop a comprehensive risk management plan process for use by nonprofit agencies. The application was based on risk management as it applies to [nongovernmental] nonprofit agencies.

The study was designed to review literature concerning the changing legal environment as it pertains to participants and service providers, including volunteers, of nonprofit agencies. The risk identification process was also reviewed. This review included three broad categories of risk: 1. property loss, 2. public liability and 3. loss due to operating the agency. Next, the risk analysis and evaluation process was reviewed. After that, methods of controlling risk were reviewed. Last, implementation of a risk management plan and periodic monitoring were reviewed.

The study found that the overall goal of risk management is to reduce an agency's exposure to potential loss from several sources. This may be achieved through use of a comprehensive risk management program. Establishing such a plan is a systematic process that involves several steps.

First, risks must be identified. Next statements expressing the risk management philosophy of the agency must be created and adopted by the agency's governing board.

Third, each risk is analyzed and evaluated for its impact on the agency. Alternative approaches to managing each risk are documented. Fourth, the risk management plan is implemented by selecting the best approach to manage each risk. Policies and procedures are then developed for all areas of the agency. Fifth, the plan is periodically reviewed and updated.

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This Study by: Leslie E.Smith

Entitled: Comprehensive Risk Management Planning

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has been approved as meeting the research paper requirement for the Degree of Master of Arts

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iii

TABLE OF CONTENTS

iv

CHAPTER

CHAPTER

LIST OF FIGURES

LIST OF TABLES

CHAPTER I

INTRODUCTION

More than 90% of the nonprofit agencies existing today have been created since the Second World War (Hall, 1994). In 1940 there were 12,500 agencies. That number rose to 50,000 in 1950. Seventeen years later, in 1967, there were 309,000, more than a six-fold increase. During the ten-year period from 1967-1977, the number more than doubled again, rising to 790,000 agencies(Weisbrod, 1988). By 1989 there were close to one million nonprofit agencies, a total increase of eighty fold in forty years. These agencies range in size from small community and neighborhood organizations, with few assets to large, multibillion dollar health care complexes, universities and foundations. They may employ a few persons, or employ thousands of people (Hall, 1994).

Despite the differences that exist in agency size, amount of assets the agency owns, and the number of persons it employs, nonprofit agencies have one thing in common. They all face the potential loss from an unknown risk. Kaiser (1986) defines risk as "a specified contingency or peril," while Webster's (1980) calls it 1. "the chance of injury, damage or loss; a dangerous chance; a hazard" and 2. "in insurance, (a) the chance of loss; (b)the degree of probability of loss; (c) the amount of possible loss to the insuring company." According to Dorfman (1998), pure risk is a loss exposure in which there are only two outcomes: no change in condition or a loss. In this paper, risk management is defined as "The process of determining what risks an organization faces, considering ways to deal with those risks, and implementing the decisions" (Lai, Chapman, & Steinbock, 1992, p. 253).

Recently, parts of the northeastern United States and Canada were without electricity for over two weeks due to an ice storm(Des Moines Register, 1998). The storm was so severe that people could not remember how long it had been since they had had an ice storm that severe. Without electricity, homes and businesses alike were without heat. Without heat in the buildings, water pipes froze and burst. Additional expense resulted for building owners as cleaning and repairs had to be made before buildings could be occupied again. This is an example of a weather-related loss that has both direct and indirect costs to an agency. The direct cost is the cost of cleaning and repairs that must be completed before the building can be occupied again. The indirect cost is the loss of income to the agency because the agency cannot fulfill its mission while the building is being repaired.

Other natural elements may also cause property damage. Snow, wind, hail, lightening, rain, tornadoes, and floods are examples of natural elements that may damage property, interrupt the delivery of services the agency provides and cause a loss of income. Agency property may also be damaged by a car accidentally running into a building, an aircraft accidentally flying into a building, riots and/or civil disturbances, vandalism, malicious mischief, and glass breakage. All of these things damage property and are potential sources of interruption of service delivery for an agency. Agencies have a need to protect themselves from loss due to these types of interruptions.

Loss of property is not the only potential source of loss facing nonprofit agencies. Lawsuits pose a second potential source of loss. Lawsuits may be filed by agency patrons because of real or imagined acts done by agency employees or volunteers while they were carrying out the agency's mission statement. Lawsuits may also be filed because a patron perceives an employee or volunteer didn't do something they should have done. Nonprofit agencies have a need to protect themselves in the event a lawsuit occurs as a result of employees and volunteers' actions in carrying out the agency's mission statement.

Nonprofit agencies also face the potential for loss from lawsuits based on acts that are unrelated to the agency's mission statement, but which are necessary in the day to day operation of the agency. These acts include performing building maintenance, clearing sidewalks and operating the agency's motor vehicles. Loss may also occur due to an error or an omission of a required act on the part of an officer or director of the organization, embezzlement and dishonest employees, and failure of a contracted service provider to properly maintain the agency's computer and/or other key pieces of equipment. All of these named events represent the potential for loss to occur to the agency.

When a loss occurs, it is usually accompanied by a loss of income to the agency. Therefore, nonprofit agencies have a need to protect themselves.

Statement of the Problem

The purpose of this study was to develop a comprehensive risk management plan process for use by nonprofit agencies. Specifically, the application was based on risk management as it applies to [nongovernmental] nonprofit agencies. The study was designed to review literature concerning:

1. The changing legal environment as it pertains to participants and service providers, including volunteers, of nonprofit agencies.
2. The risk identification process, which examines the potential direct losses of property, indirect losses of income, liability losses and loss from business operations.
3. The risk analysis and evaluation process
4. Methods of controlling risk, which include avoiding risk, reducing the agency's exposure to risk, transferring the risk to a third party by purchasing insurance, or retaining the risk.
5. Implementation and management of the plan through periodic monitoring.

Significance of the Study

As of 1989, there were close to one million nonprofit agencies in the United States. These agencies vary in size from small, neighborhood organizations to large, multi-billion dollar agencies. Their mission statements provide for a broad spectrum of activities. Some agencies provide charitable assistance to the needy while others do research. Some agencies rely solely on donations for their funding while others receive all of their funding from the government. Some agencies employ only one or two persons while others employ thousands of people to carry out their mission statement.

Carrying out the day-to-day activities that are part of the agency's mission statement may expose the agency to potential losses of its property. Natural, weather-related events and other unforeseen events are sources of direct loss. Direct losses are often accompanied by indirect loss of income to the agency. Losses may also be incurred due to lawsuits filed by patrons of the agency and by other persons who are not patrons of the agency. Risk management is the process of identifying potential sources of loss, analyzing the impact the loss would have on the agency, deciding how to deal with the potential for loss to occur, and implementing a well-thought-out risk management plan.

Regardless of their size differences, their mission statements, and the way they are funded, nonprofit agencies have a common need to protect themselves from all potential sources of loss. This need is especially important for those agencies who walk the fine line of being able to provide services or not being able to provide services because they are dependent upon the income that is accrued.

Delimitations

This study was delimited to the following:

1. Studies conducted within the United States.
2. Studies available through computer data bases
3. Studies available on nongovernmental nonprofit agencies

Limitations

This study was limited by:

1. The availability of research literature concerning risk management for nonprofit agencies.
2. The accuracy of the information that was reviewed.

Assumptions

This study was conducted under the following assumptions:

1. The literature reviewed was valid.
2. The literature reviewed was reliable.

Definition of Terms

1. Risk Management: "The process of determining what risks an organization faces, considering ways to deal with those risks, and implementing the decisions" (Lai, Chapman, & Steinbock, 1992, p. 253).
2. Defendant: the person accused of wrongdoing
3. Negligence: "The omission to do something which a reasonable man, guided by those ordinary considerations...would do, or the doing of something

which a reasonable and prudent man would not do." (Black's Law Dictionary, 1979)

4. Plaintiff: the person or organization bringing the charge

5. Tort: "A private or civil wrong or injury other than breach of contract, for which the court will provide a remedy in the form of an action for damages" (Webster's Dictionary, 1984)

CHAPTER II

REVIEW OF THE RELATED LITERATURE

The purpose of this study was to develop a comprehensive risk management plan process for use by nonprofit agencies. Specifically, the process was based on the risk management process as it applies to [nongovernmental] nonprofit agencies. The study was designed to review literature concerning:

1. The changing legal environment as it pertains to participants and service providers, including volunteers, of nonprofit agencies.
2. The risk identification process, which examines potential direct losses of property, indirect losses of income, liability losses, and loss of key personnel.
3. The risk evaluation process.
4. Methods of dealing with risk, which include avoiding risk, reducing the agency's exposure to risk, transferring the risk to a third party, or recognizing the risk and choosing to retain it.

The first section of this chapter examines the legal environment in which nonprofit agencies operate. Next is an analysis of the losses an agency may suffer; then the risk evaluation process is explained. Finally, the four methods of dealing with risk: avoidance, limiting exposure, transferring, and retaining are discussed.

Legal Environment for Nonprofit Agencies

In our society, people have a fundamental right to be free from the wrongful acts of others. We have laws that serve to regulate the conduct of persons who are in close contact with one another (Baley & Matthews, 1989). Filing a lawsuit is one method that may be used to ensure that laws are obeyed. According to Baley and Matthews (1989) lawsuits also serve other purposes. They establish liability and serve to return the victim to the condition s/he was in prior to an incident occurring. They also serve to deter negligent conduct by holding people and organizations accountable for their actions.

In the United States there are two broad divisions of the law, civil and criminal. Civil law defines the rights individuals have in protecting themselves and their property from wrongful acts committed by another person, while criminal law has to do with crimes against society. Under both types of law, the person or organization bringing the charge is the plaintiff and the person accused of wrongdoing is the defendant.

Judgment standards are different between the civil and criminal law. In civil lawsuits, the judgment standard is based on the preponderance of evidence. In a criminal trial, the standard is that the defendant must be proven guilty beyond a reasonable doubt (Peterson & Hronek, 1992).

Civil wrongs are known in the legal profession as torts. Webster's Dictionary (1984)defines a tort as "A wrongful act, damage, or injury done willfully, negligently, or in circumstances involving strict liability, but not involving breach of contract, for which a civil suit can be brought." According to Peterson & Hronek (1992) tort law governs noncriminal relationships among people, businesses and governmental entities. To consider a given act a tort, three elements must be present:

1. A breach of a legal duty that requires a person to conform to a certain standard to prevent injury or damages
2. Some direct connection between the legal duty and the resulting injury
3. Actual loss or damage to the person or property of another.

As seen in Figure 1, there are six general categories of torts.

Figure 1

General Categories of Torts

1. Negligence
   - Program Supervision
   - Facilities Supervision
2. Strict Liability
3. Nuisance
   - Land Use
   - Controls
4. Intentional Torts
   - Personal (battery, assault, false imprisonment, defamation of character, libel and slander)
   - Property
5. Constitutional Torts
   - Invasion of Privacy
   - Due Process
   - Liberty
     - Speech
     - Religion
   - Property
   - Equal Protection (right of all citizens to be treated equally regardless of race, gender, ethnic origin, and age)
6. Civil Rights

If the plaintiff wins a tort lawsuit, s/he may receive compensation from the defendant for the wrongs that were done. There are four types of damages that may be awarded by the court in a tort lawsuit (Dolan, 1972). They are:

1. General compensatory damages, to pay for pain, suffering, injury, and the upset caused by the wrongdoing.

2. Special damages, to reimburse the plaintiff for financial loss from medical expenses and lost earnings.
3. Punitive damages, intended to punish the wrongdoer. These are imposed when malice or maliciousness is involved.
4. Nominal damages. These are awarded when the injury is only slight and the responsibility of the party at fault must be recognized.

In the United States, the legal system is based upon English common law. One privilege granted to English kings was sovereign immunity from lawsuits. The concept was carried over to government at all levels in this country. Early in our nation's history, however, it was recognized that a court was needed to hear tort claims against governmental entities. According to Peterson and Hronek (1992) the "Court of Claims" was then established and remained until it was deemed inadequate due to increased caseload. Cases formerly tried by the "Court of Claims" were referred to the state court of the state where an alleged wrong occurred under the Federal Tort Claims Act passed by Congress in 1946. This act made the United States liable for torts filed because of the negligence, wrongful acts, or omissions of federal employees or agencies, with some exceptions. One exception does not allow for punitive damages; another specifies that the suit must be filed within two years; and another provides that the government will not be liable for actions done with due care while executing a statute or regulation, even though the statute or regulation may be invalid. Individual states then implemented state statutes that contain essentially the same concepts as the Federal Tort Claims Act, and in all of the states, consent has been granted to sue state and local agencies under tort.

Although the United States has less than 6% of the world's population, it has 51% of the world's practicing attorneys. In 1885 there were less than 2400 combined criminal and civil cases being tried in US District Courts. By 1980 there were 112,734 civil cases alone. That number rose in 1990 to 241,992 civil cases, plus an additional 36,886 criminal cases. Likewise, the number of cases appealed has grown from less than 200 combined criminal and civil cases in 1885 to 24,122 civil and criminal cases combined in 1980 to 40,982 combined criminal and civil cases in 1990 (Peterson and Hronek, 1992).

One reason for the increase in lawsuits is that fault for injuries has shifted from the participant to the sponsoring agency and staff. A second reason for the increase in lawsuits is that attorneys receive payment according to the contingent fee system. Under this practice, payment to the attorney is contingent upon the defendent receiving money from the claim. A third reason for the increase in lawsuits is that insurance companies have liberalized their practice of paying small claims. It is less expensive for insurance companies to pay small claims than to incur large expense to defend themselves in litigation.

A fourth reason is that within the legal profession, the comparative negligence standard was adopted. This standard provides for responsibility to be divided according to the degree of negligence. Negligence is defined as "The omission to do something which a reasonable man, guided by those ordinary considerations...would do, or the doing of something which a reasonable and prudent man would not do" (Black's Law Dictionary, 1979). Whether negligence is present is determined on an individual case by case basis. The following four elements must be proven, however, to have a viable negligence case in court (Peterson & Hronek, 1992):

1. It must be proved that the defendant has a legal duty of care, i,e, is legally responsible to the plaintiff
2. The plaintiff must prove there was either a failure to perform a required task or a breach of duty.

3. There must be some direct connection between the damages and the actions or lack of actions by the defendant. This is commonly called "proximate cause."
4. A plaintiff must prove that she or he suffered damages such as a physical injury, mental anguish or financial loss.

Until the 1930s, charitable organizations in the United States enjoyed immunity from tort liability due to a mistake in the interpretation of English law. When the error was discovered and corrected, lawsuits began to be filed against these organizations, their directors and also their volunteers (Feather, 1959). Now, lawsuits may be filed against the agency, its directors, officers, employees and volunteers for a variety of reasons. Major categories of actions include: antitrust actions, board and executive actions, breach of contract, civil rights violations, financial improprieties, improper employment practices, regulatory infractions, tax liabilities, and torts (Tremper, 1989).

A detailed discussion of liability by state for nonprofit agencies is beyond the scope of this paper. Refer to Appendix A (National Council of Nonprofit Associations, 1990) for comparison tables by state on Organization

Liability, Liability Limitations for Volunteers, and Liability Limitations for Directors and Officers.

This section has given an overview of how historical legal events have impacted the current legal environment of nonprofit agencies. Two current happenings are likely to affect the future legal environment surrounding the nonprofit arena.

First, people are living longer and remaining active through more of their advanced years. This means that in the future we can expect higher numbers of older participants in programs offered by nonprofit agencies. Older persons have needs that differ from younger people (Baley & Matthews, 1989). Their bones are more brittle, their reaction time is slower, they do not hear or see as well as younger persons. They also have less physical endurance and muscular strength. Workers in direct service provider nonprofit agencies will be expected to be aware of the differences in needs due to the differing ages of the clientele they serve. Lack of knowledge will not protect an agency from a lawsuit.

Second, the rate of change in our society is constantly increasing. According to Baley & Matthews (1989) more research is published annually today than was published in the fifty years prior to 1900. The increase in research has resulted in more knowledge. Knowledge brings an increased hazard of legal liability and fosters an environment of specialization. No one person can be an expert in all areas of risk management. This will likely mean that leaders of nonprofit agencies will be involved in lifelong learning in order to stay current.

Risk Identification

As stated previously, nonprofit agencies have a need to protect themselves from direct loss and interruption of service delivery to agency clientele due to indirect losses. According Tremper (1994) the first step in the risk management process is acknowledging the reality of risk. Due to the rapidly-changing legal, physical and interpersonal environments that comprise the nonprofit agency, it is necessary for everyone in the agency to develop a sensitivity to the elements of risk. The literature, Tremper (1994); Peterson & Hronek (1992); Lai, Chapman & Steinbock (1992); and van der Smissen (1990) offer the following suggestions to systematically identify risks

1. Appoint a risk manager or coordinator within the agency to ultimately be responsible for risk management. This person may then consult with others in the organization to identify risks as perceived by staff members.

2. Establish formal and informal information systems to gather and integrate data into a computer program for loss analysis.
3. Review the organization's philosophical and policy statements and its procedure manuals for the suitability of required procedures, for legal compliance, and for dangers.
4. Review financial statements and contracts the agency has executed with outside vendors.
5. Review safety records provided by Occupational Safety and Health Administration (OSHA) and by providers of workers' compensation.
6. Screen driving records of potential employees and volunteers before hiring them. Check with the carrier of the agency's automobile insurance for suggestions on risk management for vehicles.
7. Review the job descriptions for employees and volunteers to ensure the descriptions accurately reflect the tasks they perform. Provide the training necessary for employees and volunteers to perform their required tasks. Check to be sure they have the ability to perform their assigned tasks, taking into account both their skills and judgment. Require continuing

education for both employees and volunteers who are front-line service providers.

8. Physically walk around the premises of the agency. Specifically look for hazards, both inside and outside. Envision the premises in an emergency and from the viewpoint of persons who are physically or mentally disabled.
9. Invite one or more of the following persons to join in the risk identification project: the agency's legal counsel and insurance broker, the director of a similar organization, a building safety engineer, and a risk manager from a local business or government.
10. Use preprinted checklists available from an insurance provider or a risk management manual for nonprofit organizations to audit the agency's risk exposure.

Refer to Appendix B for a sample checklist and Workers' Compensation Form (Lai, Chapman & Steinbock, Am I Covered for...?: A Guide to Insurance for Non-Profits), Insurance Coverages Worksheet, PP 257-270.

Risk Evaluation

Once the risks are identified, the next step is to evaluate the extent of the loss exposure. Tremper (1989) warns nonprofit organizations to keep in mind that risk evaluation extends beyond the financial costs of a harmful act. Agencies stand to loose public goodwill and potential fundraising and volunteer resources if they cause a serious accident. Whether or not a nonprofit organization is ultimately held liable for a harmful act, the public's perception of an agency's having caused harm detracts from the agency's primary mission. Based on the Risk Management Plan adopted by its board, each nonprofit organization has its own set of risks and level of risk aversion. Each agency's risk evaluation process is thus individually shaped by that agency's unique set of risks and level of risk aversion. Tremper (1989) states "nonprofit organizations can have the greatest effect by preventing losses rather than allowing them to occur. The nonprofit sector will have a better public image if it reduces its exposures to liability to the greatest extent practical."

Identifying and evaluating potential sources of risk is an on-going process due to the rapidly-changing legal, physical and interpersonal environments that comprise the nonprofit agency. The factors shown in Figure 2 should be considered when evaluating risk. How these factors are evaluated depends upon whether tort or loss of property is involved. The first two items in Figure 2 are usually performed by insurance professionals using computer calculations. Tremper (1989) recommends that items three and four be estimated by agency personnel in an ad hoc fashion, using the agency's mission statement as a guide. Evaluating risks in this manner allows for conscious decisions about which risks can be tolerated by the organization, which require insurance coverage, which can be reduced or controlled without sacrificing the program being offered, and which are too large for the agency to bear.

Figure 2
Factors to Consider When Evaluating Risk

1) How well the risk may be predicted
2) The probability of loss occurring
3) The severity of the risk
4) The frequency with which the risk may occur
5) The agency's mission statement

Van der Smissen (1990) classified severity of risk in two ways. The first way is financially, or the impact on the agency being able to continue to provide services. From a financial perspective, degrees of severity are considered to be vital, significant or insignificant. Vital losses are catastrophic and would cause bankruptcy in private agencies or an increase in taxes for governmental agencies. Significant losses would require a reduction in either services or expenditures or both. Insignificant losses are losses which may be covered by current operating revenue.

The second way in which van der Smissen (1992) classified severity is in relation to programming and participant bodily injury. In this context seriousness is also classified as high, medium, or low. The more serious the injury, the higher the liability for the agency. Two examples of high injuries are those which are fatal or result in quadriplegia. Injuries considered to be medium may also be disabling, but to a lesser degree. Although they may linger for an extended period of time, they are not permanent. Low injuries are either temporary or a minor permanent disablement.

For any injury, the likelihood of its occurring is known as frequency of occurrence. The likelihood of injury or risk occurring depends upon the nature of the risk being evaluated. Weekly might be considered often for some risks, such as minor cuts and bruises, while yearly may be considered often for other risks. Risks of medium frequency occur occasionally, while risks of low frequency rarely occur. Table 1 is a model of a matrix that may be used as a guide to decide the proper method for dealing with risk.

Risk Control and Reduction of Loss Exposure

Once each potential risk has been identified and evaluated, a decision must be made on the best way to minimize potential losses to the agency. If the severity and/or extent of the risk has not been correctly evaluated, the best measure for controlling the risk will not be chosen. If the most appropriate approach for the agency's resources is not chosen, the risk management plan will not reach its goals.

Table 1
The Matrix of Severity and Frequency of Potential Losses and Suggested Control Approaches

Severity and/or Frequency	High or Often	Medium or Infrequent	Low or Seldom
High or Vital	A. Avoid or Transfer	B. Transfer	C. Transfer
Medium or Significant	D. Transfer	E. Transfer or Retain	F. Transfer or Retain
Low or Insignificant	G. Retain	H. Retain	I. Retain

Source: van der Smissen (1990) v.2, P.23.31

According to the literature, there are four general approaches used to control risk. Available agency resources will determine which option is chosen (Kaiser, 1986; van der Smissen, 1990; Lai, Chapman,& Steinbock, 1992). The options are:

1. Eliminate the risk
2. Transfer the risk to others by contract
3. Retain the risk
4. Reduce the risk

Risk Elimination

Option number one, risk elimination, is further subdivided into two categories, avoidance and discontinuance. Avoidance may be chosen when the agency is making a decision about whether or not to enter into an activity. An activity may be discontinued when it is deemed to be too great a risk for the agency. This type of decision may be appropriate when an organization is unable to meet the standard of care required to offer an activity in an appropriate and safe manner. Whether or not a risk is avoided or discontinued depends upon the agency's mission statement.

Risk Transfer

The second option for dealing with risk is to transfer it to a third party. This is a financial method for handling risk and there are several ways to use it. Included are purchase order agreements where the merchandise is shipped FOB. Under this method the seller retains responsibility for the goods in transit until they are delivered. Lease agreements, contracts for services, clientele agreements, and appropriate insurance coverage may also be used.

Risk Retention

Retention is the third method for dealing with risk. It also is a financial method. Retention occurs when the agency chooses to pay for all or part of a given risk. Retention may be active or passive. Active retention occurs when the risk has been identified, evaluated, and a conscious decision made to pay any loss incurred out of current operating income. Passive retention occurs when the risk is retained through error or oversight.

Risk retention may be financed through the use of deductibles in insurance policies or by setting up a reserve fund. This method may be the preferred method for handling risks that occur infrequently and/or have a low impact on the agency.

Risk Reduction

Risk reduction is an operational method of controlling risk. This means that agency personnel carefully look at all areas of the agency's operations to determine what can be done to limit the agency's exposure to risk. This method is used in conjunction with the financial methods previously discussed. Its purpose is to lessen the frequency and severity of loss suffered by the agency and to allow the agency to continue to fulfill its mission in the event of loss. Figure 3 lists those areas where documented policies and procedures are key components of risk reduction.
It is beyond the scope of this paper to document policies and procedures for these areas. However, the person in charge of risk management may want to consult with an insurance professional, the agency's attorney and/or a

professional from a similar agency to gain knowledge about customary professional practices of those providing similar services. Lack of knowledge about standards does not excuse an agency for failing to comply with them (van der Smissen, 1989).

Figure 3
Key Areas for Policies and Procedures

1. Administration of programs and services
2. Standards of competence for personnel
3. Management of agency clientele
   Their characteristics
   How they are to be supervised
   Emergency procedures for their safety.
4. Management and maintenance of the agency's physical facilities
5. Public relations

As stated previously, the concept of risk management as developed for recreation and nonprofit agencies focuses upon programmatic risk management as well as financial risk management. To protect their public image, nonprofit agencies sometimes must make decisions about program offerings from other than a strictly financial perspective. One example is the Red Cross.

As part of its mission the Red Cross frequently provides assistance in the wake of natural disasters. During this time, thousands of persons may volunteer their help. Regrettably, after Hurricane Andrew, additional tragedy resulted from well-meaning but inexperienced volunteers using chain saws (Tremper, 1994). Approaching risk management from a strictly financial perspective, the Red Cross could have chosen to stop providing assistance after disasters. It could have discontinued this program offering because of associated risks. Alternatively, it could have chosen to provide assistance but not use volunteers. Neither of these choices are acceptable for this agency. While the chainsaw mishaps are regrettable, using volunteers is part of this agency's mission

Summary

Comprehensive risk management planning for a nonprofit agency has many steps. This chapter discussed the legal environment in which nonprofit agencies operate. It then described how to identify potential risks faced by nonprofit agencies, evaluate their potential impact, and make a decision on the best way for the agency to handle each one. These decisions are based on the agency's mission statement and the philosophical statements regarding risk management that have been adopted by the agency's governing board. The next chapter discusses development of a comprehensive risk management plan.

CHAPTER III

DEVELOPING A RISK MANAGEMENT PLAN

This section discusses how to develop and implement a risk management plan for a nonprofit agency. Specific steps are described.

Nonprofit agencies are complex, ever-changing organizations. Despite the good intentions of their governing bodies and administrators, it is impossible to design a risk management plan that spells out in detail how to handle every possible situation in which the agency may be exposed to liability. According to Roha (1994) the courts have looked favorably upon those organizations that have a risk management plan in place. Figure 4 lists step by step the process to follow to develop a risk management plan (Peterson & Hronek, 1992).

Figure 4
Steps to Develop a Risk Management Plan

Step 1. Identify potential sources of risk
Step 2. Create philosophical statements pertaining to risk management and have them adopted by the agency's board
Step 3. Analyze and evaluate the impact of each risk and choose alternative management approaches
Step 4. Implement the plan by selecting the most appropriate way to manage each risk and by developing policies and procedures
Step 5. Periodically review the plan

Step 1. Identify Potential Sources of Risk

Since each nonprofit agency is unique, potential sources of risk vary by agency. For example, a nonprofit museum may have little risk exposure from its programs, in contrast to the Boy Scouts of America, who have a need to adequately manage the outdoor and adventure programs they provide.

Identifying each potential risk facing an agency is crucial. It is not possible to plan or manage risks prior to loss occurring unless they have been identified. There are three main categories of risk:

1. Property damage
2. Public liability
3. Business operations

Property Damage

Natural elements may cause property damage. Snow, wind, hail, lightening, rain, tornadoes, and floods are examples of natural elements that may damage property, interrupt the agency's delivery of services and cause loss of income to the agency. In addition to the damage caused by the elements, there are additional costs for the cleaning that must be completed before the building can be occupied again.

Agency property may also be damaged by a car accidentally running into a building, an aircraft accidentally flying into a building, riots and/or civil disturbances, vandalism, malicious mischief, and glass breakage. All of these acts damage property and are potential sources of interruption of service delivery for a nonprofit agency.

Public Liability

Lawsuits pose a second potential source of loss. Lawsuits may be filed by agency patrons against agency employees or volunteers, including board members. Nonprofit agencies have a need to protect themselves in the event a lawsuit occurs as a result of employees' and volunteers' actions in carrying out the agency's mission statement.

Nonprofit agencies also face the potential for loss from lawsuits based on acts that are unrelated to the agency's mission statement, but which are necessary in the day to day operation of the agency. These acts include performing building maintenance, clearing sidewalks and operating the agency's motor vehicles.

Business Operations

Loss may occur due to an error or an omission of a required act on the part of an officer or director of the organization, or due to embezzlement and/or dishonest employees. Loss may also occur because a contracted service provider fails to perform according to the contract. An example might be failure to properly maintain the agency's computer or other key piece of equipment, resulting in equipment failure and loss of important information. Indirectly, the agency may lose income because it cannot fulfill its mission while the problem that caused the interruption of business operations is being remedied.

All of these named events represent potential sources of loss to the agency. Therefore, nonprofit agencies have a need to protect themselves.

The designated agency risk manager may begin the process of risk identification by inviting professionals from outside the agency to join in the project. Persons to consider are the agency's legal counsel and insurance broker, the director of a similar organization, a building safety engineer, and a risk manager from a local business or government.

Inside the organization, the manager may begin by setting aside time to educate all associates about risk management. This fosters a culture that supports risk management throughout the organization. Education may be done in a regular staff meeting or in a special meeting. The goal is to create awareness about the importance of risk management and make it everyone's responsibility. All associates are asked to identify risks inherent in the nature of the work they perform. Each list of identified risks is then submitted to the risk manager for inclusion in the comprehensive plan.

One of the things the agency's insurance broker may be able to provide is a preprinted checklist to audit the agency's risk exposure. Use such a checklist if it's provided and compare it to the list that has been compiled by agency personnel. Also refer to Appendix B for a comprehensive sample checklist and Workers' Compensation Form for nonprofit agencies. (Lai, Chapman & Steinbock, Am I Covered for...?: A Guide to Insurance for Non-Profits), PP 257-270.

Step 2. Creation and Adoption of Philosophical Statements

The second step in the process is to develop philosophical statements. Webster's (1980) defines philosophy as:

> "a critical examination of the grounds for fundamental beliefs and an analysis of the basic concepts employed in the expression of such beliefs."

For a nonprofit agency, the "grounds for fundamental beliefs" is the agency's mission statement. Thus, philosophical statements provide additional information about the agency's mission. For example, an agency that serves teen-age youth by providing adventure activities to them may have in its mission statement a sentence that says "Our purpose is to facilitate mental development in teen age boys through their participation in adventure programs." Philosophical statements based on this sentence might read "The (name of agency) believes in risk management. Our aim is to use qualified leaders and reasonable care to provide the highest quality of adventure program services."

From the above example it can be seen that philosophical statements do not provide minute detail. Their purpose, along with the agency's mission statement, is to provide the framework upon which the risk management plan is built. Philosophical statements should state, in general terms, the agency's belief in developing a risk management program. They should identify the importance of risk management to the agency. They should also state who in the agency is responsible for risk management, i.e. director, controller, risk management officer. The statements should also state the limits of authority the person in that position has.

The statements should list the acceptable approaches to be used to manage risk. The statements should also note the extent to which the agency is willing to assume financial responsibility for certain risks and when it is appropriate to transfer the risks by insurance. For example, with its building insurance, the philosophical statements may state that a $500 deductible clause is acceptable. This means that the agency would be responsible for the first $500 of expense, should any damage occur to the building.

Last, the statements should also include the agency's program scope and the required credentials for agency personnel. For example, the philosophical statements may state that insurance coverage is required for all adventure activities and that all such activities will only be conducted by certified instructors.

Without a guide, it can be a difficult task to create philosophical statements for an agency. Peterson and Hronek(1992) indicate that a place to start is with the agency's existing ordinances, charters, master plans and administrative manuals. A review of these documents may show that they are out of date for the agency; however, parts of the statements and/or phrases they contain may still be valid. The appropriate phrases may be copied or combined to create new statements. Peterson & Hronek (1992) suggest that "action words such as aim, purpose, qualified leaders, services, commitment and reasonable care" be used to convey the message. Figure 5 is an example of a risk management philosophy that includes the elements discussed in the preceding paragraphs.

Figure 5

Sample Risk Management Philosophy

"It is the basic purpose of the (agency name) to establish, improve, manage, and finance (purpose). We are committed to a philosophy that will provide these services at the highest level possible. We pledge our support to using only qualified and trained leaders in accord with the best and most reasonable standard of care possible. To that end, we endorse the establishment and maintenance of an extensive program to manage risk safely within the organization."

Source: Peterson and Hronek (1992)

The proposed philosophical statements should receive approval from the agency's board before work is started on the detailed risk management plan. Approval by the agency's board ensures their support of both the process and the plan. Successful lawsuits against volunteers, directors, and officers of nonprofit groups are rare in tort liability cases (Roha, 1994). Individual board members and the agency's manager or administrator have immunity from prosecution for acting within the scope of their authority.

Creating statements based on the agency's mission statement is more likely to result in an agency continuing to fulfill its mission in the event of loss. An example is the Bremer-Butler Hospice with headquarters in Waverly, Iowa.

Bremer-Butler Hospice provides services to terminally ill patients to allow them to be free of pain and maintain their dignity up to and including the point of death. The agency receives reimbursement from the patient's private insurance carrier and from Medicare. Often, the rate of reimbursement is not equal to the actual expenses incurred by the agency. Some patients do not have private insurance and do not qualify for Medicare. In those situations, there is no difference in the level of service provided to the patient and his or her family. Services are not denied to the patient and family members because there is no insurance. The Board of Directors of Bremer-Butler Hospice has chosen to bear the financial burden. This position represents a programmatic risk to the agency, but it is one the Board of Directors has chosen to accept.

Step 3. Risk Analysis and Evaluation

The concept of risk management as developed for nonprofit agencies focuses upon both programmatic risk management and financial risk management. There are four main ways to handle potential risks:

1. Eliminate the risk
2. Transfer the risk to others by contract

3. Retain the risk
4. Reduce the risk

There are several factors to consider when determining which method is appropriate. They are:

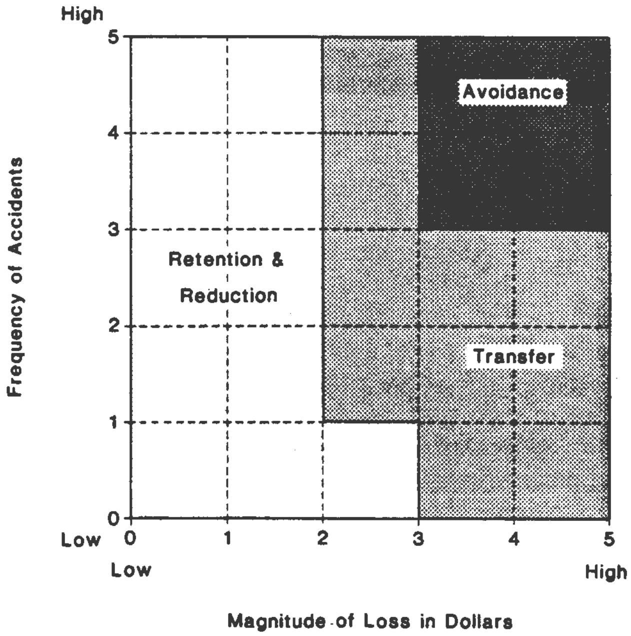
1. How well the risk may be predicted
2. The probability of loss occurring
3. The severity of the risk
4. The frequency with which the risk may occur
5. The agency's mission statement

As stated earlier, the first two items are usually performed by insurance professionals using computer calculations. Tremper (1989) recommends that items three and four be estimated by agency personnel. The agency's mission statement and philosophical statements should be relied upon during this exercise because they contain guidelines about the levels of risk the agency is willing to retain and those that must be managed by transferring to another organization. Evaluating risks in this manner allows for conscious decisions about which risks can be tolerated by the organization, which require insurance coverage, which can be reduced or controlled without sacrificing the program being offered, and which are too large for the agency to bear.

Table 2 is a Risk Measures Matrix. It illustrates suggested actions based on frequency of occurrence and magnitude of loss.

Table 2

Risk Measures Matrix



Source: Kaiser (1986),P. 231

Magnitude of the loss is usually thought of in financial terms or the impact on the agency being able to continue providing services (van der Smissen, 1990; Kaiser, 1986.) Magnitude may be classified from low to high in the financial perspective. High losses are losses which are catastrophic in nature. They would cause bankruptcy in private agencies and an increase in taxes for governmental agencies. Medium losses would require a reduction in services and/or a trimming of agency expenditures. Low losses are losses which may be covered by current operating revenue.

Another way to look at magnitude is in relation to programming and participant bodily injury. The more serious the injury, the higher the liability for the agency. In the context of programming and participant injury, seriousness may also be classified as high, medium, or low. High injuries are those which are fatal or result in quadriplegia or severe brain damage. Medium injuries may also be disabling, but to a lesser degree. While they may linger for an extended period of time, they are not permanent. Low injuries are either temporary or a minor permanent disablement.

A second way to measure injury or risk is the frequency with which it occurs. Frequency depends upon the nature of the risk being evaluated. A yearly occurrence may be considered often for some risks, while weekly might be considered often for other such as minor cuts and bruises. Risks of medium frequency occur occasionally, while risks of low frequency rarely occur. Table 3 is an example of a worksheet that may be used to categorize risks according to their impact on the organization and possible approaches to their management.

Table 3

Worksheet for Risk Classification

Column 1	Column 2		Column 3		
Risk	Extent		Approaches		
			Financial		Operational
	Frequency	Severity	Transfer	Retention	Reduction

To prepare the chart:

Column 1 - List the risks specific to your agency
Column 2 - Estimate the extent of risks in terms of frequency and severity
Frequency - How often does it happen?
Severity - In terms of impact on operations or severity on the individual
Column 3 - Approaches to the risk identified and its severity
There are two financial approaches - transfer and retention. If transfer is checked, indicate type of transfer. For every risk, a financial approach should be checked. Under the operational approach of reduction, just give a key word; most all risks also should have reduction approach indicated.

Source: van der Smissen (1990) v.2, P.23.31

Step 4. Plan Implementation

Implementing the plan is a two-step process. First, the best management approach must be chosen from those identified for each risk in the worksheet in Step 3. Then policies and procedures need to be developed for each of the following areas:

1. Program development
2. Staff and volunteer development
3. Management of agency clientele
4. Site and facility development
5. Public relations

Choosing the Best Way to Manage Each Risk

The objectives of a risk management plan are to conserve the assets of the agency and reduce the potential for loss to occur. The process of choosing the best method to handle each risk is subjective, but it should be based on the agency's philosophical statement. Use the worksheet from page 41, Table 3, and consult the Risk Measures Matrix on page 39, Table 2, as a guide to decide the proper method for dealing with each risk.

Developing Policies and Procedures

Program development - administration and supervision of programs and services.

If risk management goals and objectives were not developed at the time the agency's program offerings were initiated, they will need to be developed now. The risk management plan should include the operational practices and procedures that will be implemented to manage the potential risks of each program offered. These practices and procedures should address the following elements of program development:

1. Use of qualified personnel
2. Requiring instructors to teach progressively while considering the principles of human development and the participant's skill and experience levels
3. Requiring the appropriate number of instructors for the program, participants, equipment and areas used
4. Point out potential dangers to the participants
5. Be certain each program has been authorized by the agency's administration and governing body.

Staff and volunteer development.

Both Corbett (1995) and Baley and Matthews (1989) cite common sense as the most effective and inexpensive risk management technique. Use of common sense to hire well-qualified professionals and to recruit good volunteers decreases the number of situations that may lead to lawsuits. In addition to recruiting appropriate personnel it is necessary to screen driving records of potential employees and volunteers before hiring them and to check with the carrier of the agency's automobile insurance for suggestions on risk management for vehicles and volunteers who are front-line service providers. It is also necessary to write clear job descriptions, to provide a thorough orientation program for newly hired personnel, and to provide feedback on a timely basis by regular monitoring and evaluation of paid staff and volunteers. Check to be sure they have the ability to perform their assigned tasks, taking into account both their skills and judgment. Also, require continuing education for both employees and volunteers. This atmosphere fosters thinking about risk management on a daily basis.

Management of agency clientele.

In addition to providing programs at progressively difficult levels, it is necessary for agency program providers to have an understanding of human growth and development. This is necessary because people of different ages have different abilities. It will facilitate providing age-appropriate programs for the clientele.

Management of clientele also pertains to establishing safety rules and procedures for the facility and the programs being offered, including emergency procedures and accident reporting and analysis. It involves consistently enforcing the rules and, if necessary, requiring proof that the participant is physically able to participate in the activity.

Site and facility development.

To minimize potential loss from the facility and site, it is necessary to have a site plan and to use it. First, walk around the premises of the agency. Specifically look for hazards, both inside and outside. Envision the premises in an emergency and from the viewpoint of persons who are physically or mentally disabled. According to Peterson and Hronek (1992) the standard of reasonableness is used to judge a provider of services. An individual provider and the agency are responsible to use ordinary and reasonable care to keep the premises reasonably safe for visitors and to warn visitors of any danger. Refer to Appendix C for a sample building inspection checklist used by the American Red Cross.

Public relations.

In this context, public relations means having informed staff and a well-maintained facility. It also means treating people as you would like to be treated, enforcing the rules consistently to all agency clientele and informing the public about the agency's stand on risk management. This can be accomplished through program brochures, news releases, staff meetings, speeches and in-service training. All of these things convey a positive message about the agency.

Public relations also means having a designated spokesperson for the agency in the event of a disaster or incident. All agency personnel are to refer requests for interviews or statements to the designated person. S/he will be the only person to provide information to the press.

Step 5. Periodic Plan Review

We live in a constantly changing environment. Because of this, it is necessary to periodically review the risk management plan. Decisions and assumptions that were used to create the plan need to be reviewed to see if they are still valid. Outcomes from the plan must be weighed against the assumptions that were made when the plan was created. If necessary, changes must be made to reflect the current environment in which the agency operates. Changes should also reflect any change in the agency's mission statement and any operational practices that have changed since the plan was last updated. The plan should also reflect changes in procedures that are used to manage the potential risks to meet the agency's objectives.

The agency's risk management manager should participate in the following tasks to facilitate plan evaluation (Lai, et.al,1992, p.220).

1. Maintain an efficient incident reporting and claim handling system.
2. Maintain and periodically revise an accurate record of the location and current replacement value of all physical properties.
3. Routinely review job descriptions for employees and volunteers to ensure the descriptions accurately

reflect the tasks being performed. Provide additional training that may be needed for employees and volunteers to perform their required tasks.

4. Obtain information on changes in operating procedures.
5. Be involved in planning new programs or activities to be sure that they do not increase the organization's risks.
6. Provide written communication to various personnel who need to know the extent of each insurance coverage that is purchased, and the procedures to be followed with respect to that insurance.
7. Ensure that protective devices such as burglar and fire alarms are properly installed and periodically maintained.
8. Provide continuing counsel and evaluation of problems as they arise. In conjunction with outside specialists, review loss prevention activities.
9. Establish formal and informal information systems to gather and integrate data into a computer program for loss analysis.
10. Review the organization's philosophical and policy statements and its procedure manuals for the suitability of required procedures, and for legal compliance

11. Review financial statements and contracts the agency has executed with outside vendors.
12. Review safety records provided by Occupational Safety and Health Administration (OSHA) and by providers of workers' compensation.

Summary

This chapter discussed how to develop and implement a risk management plan for a nonprofit agency. Five steps were presented. Step one pointed out the need for the plan to reflect the philosophical statements of the agency for whom it is intended. Step two identified how to discover potential sources of risk to the agency. In step three, the impact of each risk was analyzed and evaluated, including choosing alternative management approaches. Step four presented how to implement the plan and step five covered periodic plan review.

The next chapter discusses findings and conclusions from the study. Then, recommendations are made.

CHAPTER IV

FINDINGS, CONCLUSIONS & RECOMMENDATIONS

The purpose of this study was to develop a comprehensive risk management plan process for use by nonprofit agencies. Specifically, the application was based on risk management as it applies to [nongovernmental] nonprofit agencies. The study was designed to review literature concerning:

1. The changing legal environment as it pertains to participants and service providers, including volunteers, of nonprofit agencies.
2. The risk identification process, which includes property loss, public liability, and loss due to operating the agency
3. The risk evaluation process, which includes analyzing the risk and choosing the best method to manage it
4. Implementation of the plan, which includes creation of policies and procedures

Findings

It was found that the overall goal of risk management is to reduce an agency's exposure to potential loss from several sources. This is achieved through use of a comprehensive risk management program for the agency. Establishing a comprehensive risk management plan for a nonprofit agency requires a systematic approach which involves several steps. The steps are:

1. Identification of potential sources of risk to the agency
2. Creation of philosophical statements pertaining to risk management and their adoption by the agency's governing board
3. Analysis and evaluation of the impact of each risk and choosing alternative management approaches
4. Implementation of the plan by selecting the most appropriate way to manage each risk and by developing policies and procedures
5. Periodic Review of the Plan

It was found that the agency's mission statement provides the basis for the philosophical statements. The mission statement and the philosophical statements then together provide the framework for the risk management plan.

As part of the plan, potential risks must be analyzed and options considered for managing them. Options include avoiding the risk, reducing the agency's exposure to risk, transferring the risk to a third party, or evaluating the risk and making the conscious decision to retain it. Once this step is completed, the plan is implemented.

Implementation is accomplished by choosing the best method of controlling each risk and by writing policies and procedures that reflect those decisions. For nonprofit agencies, risk management focuses upon programmatic risk management as well as financial risk management. To protect their public image, nonprofit agencies must sometimes make decisions about program offerings from other than a purely financial perspective. Each decision must be made in conjunction with the agency's mission and philosophical statements as approved by the agency's Board of Directors. Obtaining the board's approval of the detailed plan ensures their support in the event of a lawsuit.

It was found that periodic review of the risk management plan is necessary because current happenings are likely to affect the future legal environment surrounding the nonprofit arena. First, people are living longer and remaining active through more of their advanced years. Second, the rate of change increases continually.

Because people are living longer and are remaining active through more of their advanced years, in the future we can expect higher numbers of older participants in programs offered by nonprofit agencies. Older persons have needs that differ from younger people. Leaders working as direct service providers in nonprofit agencies will be expected to be aware of the differences in needs due to the differing ages of the clientele they serve. In addition, lack of knowledge will not protect from a lawsuit.

Second, because the rate of change in our society is constantly increasing, it brings an increase in knowledge, increases the hazard from legal liability, and fosters an environment of specialization. No one person can be an expert in all areas of risk management. As a result, this will likely mean that leaders of nonprofit agencies will be involved in lifelong learning in order to stay current.

Conclusions

If an agency fails to manage the risks associated with its operation, the agency may suffer damage to its public image and/or financial loss. It may also be forced to stop providing services. Because risk management is an inherent part of day to day agency operations, the findings of this study will be of interest to professionals who manage nonprofit agencies. The review and synthesis could assist professionals in the review of their own risk management plans. It may help them to reduce their agency's exposure to loss. This would ensure that services could continue to be provided.

Recommendations

The following recommendations are made based on this study:

1. All nonprofit agencies should have a risk management plan in place.
2. Education is needed for directors and administrators of nonprofit agencies to (a) address the nature and importance of risk management and (b) address the unique needs of the nonprofit agency.
3. More research is needed to obtain additional detail about policies and procedures agencies are using.

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APPENDIX A

Comparison Tables

The tables provide a convenient means of making comparisons among the states. The information in the tables is extremely condensed, though, necessitating reference to the statutory summaries for more complete information about the tables' somewhat cryptic shorthand

The **Charitable Organizations** table pertains only to charities under state law, not the entire gamut of nonprofit organizations. The columns indicate the type of protection from liability, if any, for charitable organizations.

> A ♦ in the "Partial Immunity" column indicates that charitable organizations enjoy complete protection in some circumstances.
>
> A ♦ in the "Limited Liability" column indicates that liability is limited to a specified dollar amount or other standard.

Both the **Directors and Officers** table and the **Volunteers Generally** table are more complicated because the laws are more complicated.

> The "Entity" column indicates the type of organization that the volunteer must be serving in order for the liability limitation to apply.
>
> The "Exceptions" columns list exclusions to the liability protection. The fewer the exceptions, the greater the protection from liability. In addition to exceptions noted in, none of the laws limit actions based on federal law, whether brought by the government (Internal Revenue Service) or a private party (civil rights).
>
> The "Notes" column provides additional information that may substantially affect the picture the other columns present. For example, note "a" indicates that the liability limitation is effective only if the organization the volunteer serves carries specified liability insurance.

The **Directors and Officers** table contains two additional columns.

> "Paid" pertains to whether the protection applies to compensated board members. A "n" indicates that the protection is available only to volunteers (reimbursement for expenses may be permitted). An "ok" indicates that the protection is available regardless of whether the individual is compensated (such statutes are usually drawn from business codes).
>
> The "Scope" section pertains to the nature of the individual conduct that is protected from liability. Some statutes do not differentiate between directors and officers and other volunteers. Those laws typically do not limit the scope of protection, but the liability standard they employ is usually ill-suited for what directors and officers do. Some of the statutes designed specifically for directors and officers, on the other hand, specify that the protection applies only to vicarious liability, i.e., the liability of the directors and officers for harm directly caused by someone else acting on behalf of the organization.

Key to Abbreviations and Codes

- Exceptions inferred from wording of liability standard

Type of Organization

c	Qualifying for tax exemption under any subsection of Internal Revenue Code § 501(c) for nonprofit organizations
c3	Qualifying for tax exemption under Internal Revenue Code § 501(c)(3) for charitable organizations (c4--social welfare organizations)
np	Nonprofit organization as defined by state law
npc	Nonprofit corporation as defined by state law
ch	Charitable organization as defined by state law
gv	Government
te	Exempt from state tax
oth	Other, e.g., homeowners' associations, licensed medical facilities, organizations that would be tax exempt but for legislative or political activities

+	Organizations in addition to the type listed
-	Subset of organizations of the type listed

Other

l	Miscellaneous
m	Certain actions by attorney general or other state official
n	Care of premises
o	Contract actions
p	Certain professional services
q	Knowing violation of the law
s	Certain acts of directors, officers, and supervisors
t	Physical injury or wrongful death caused directly by the volunteer

Notes

a	Organization must carry specified insurance
b	Liability limited to insurance coverage
c	Liability limits apply only to suits by organizations' beneficiaries and participants
j	Less protection for directors and officers against suits by organization
k	Less protection against suits by organization
r	Sports volunteers must have certification or training
u	Does not cover all volunteers, other statutes may apply
v	Greater protection against vicarious liability
w	Volunteer must have prior written authorization to act for organization
x	Liability rule approximates negligence standard
z	Limited to harm arising from policy process or management of organization's affairs

Charitable Organization Liability

State	General Immunity	Partial Immunity	Limited Liability	No Limitation	No Clear Authority
Alabama		◆			
Alaska				◆	
Arizona				◆	
Arkansas	◆				
California				◆	
Colorado			◆		
Connecticut				◆	
Delaware				◆	
D.C.				◆	
Florida				◆	
Georgia			◆		
Hawaii					◆
Idaho				◆	
Illinois				◆	
Indiana				◆	
Iowa				◆	
Kansas				◆	
Kentucky				◆	
Louisiana				◆	
Maine		◆	◆		
Maryland			◆		
Massachusetts			◆		
Michigan				◆	
Minnesota				◆	
Mississippi				◆	
Missouri				◆	
Montana				◆	
Nebraska				◆	
Nevada				◆	
New Hampshire				◆	
New Jersey		◆			
New Mexico					◆
New York				◆	
North Carolina				◆	
North Dakota				◆	
Ohio				◆	
Oklahoma				◆	
Oregon				◆	
Pennsylvania				◆	
Rhode Island				◆	
South Carolina			◆		
South Dakota					◆
Tennessee			◆		
Texas			◆		
Utah			◆		
Vermont				◆	
Virginia		◆			
Washington				◆	
West Virginia				◆	
Wisconsin				◆	
Wyoming		◆			

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Liability Limitations for Volunteers Generally

State	Entity	Exceptions: Bad Faith	Willful/ Intentional	Reckless-ness	Gross Negligence	Fraud/ Fiduciary	Motor Vehicle	Other	Notes
Alabama									
Alaska									
Arizona									
Arkansas	c3-,gv,oth	◆			◆		◆b	p	b,c,v
California									
Colorado	any	◆							
Connecticut									
Delaware	c-		◆		◆		◆b		
D.C.									
Florida									
Georgia	ch,np,gv	◆	◆						u
Hawaii									
Idaho									
Illinois	c3-		◆						
Indiana									
Iowa	np,gv		◆			◆		q	
	npc	◆	◆			◆		l,q	
Kansas	c		◆					p	a,b,v
Kentucky	c	◆	◆						
Louisiana	np	◆	◆						z
Maine	c3+,c4,np-		■	■	■				v
Maryland	c3,oth		◆		◆			m,p	a
	c3,c4,oth		◆	◆				m	b,v
Massachusetts									
Michigan									
Minnesota	te	◆	◆	◆		◆		o,t	
Mississippi	c3-,gv,oth	◆	◆	◆	◆		◆		c,v
Missouri	c,gv	◆	◆	■	■				c,x
Montana	c,te		◆						
Nebraska									
Nevada	np,oth		◆					s	v
New Hampshire	np,gv	◆	◆		◆		◆	n	k,r,w
New Jersey	np,oth		◆		◆		◆		
New Mexico									
New York									
North Carolina	c3,te-	◆	◆	■	◆		◆	p	b,u,x
North Dakota	np	◆	◆		◆		◆		u
Ohio	np,ch		◆						v
Oklahoma									
Oregon									
Pennsylvania	c3,c4,gv		■	■	■		◆		
Rhode Island	c		◆				◆		
South Carolina									
South Dakota	c,gv,oth	◆	◆				◆		b
Tennessee									
Texas	c3-,c4-,oth	◆	◆	◆			◆b	l	j
Utah	c-	◆	◆				◆	m,q	a
	gv	◆	◆		◆		◆		
Vermont									
Virginia									
Washington									
West Virginia									
Wisconsin	np		◆				◆	m,q,p,s	
Wyoming									

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Key to Abbreviations and Codes

■	Exceptions inferred from wording of liability standard
#	Pertains only to acts which result in harm to a person

Type of Organization

c	Qualifying for tax exemption under any subsection of Internal Revenue Code § 501(c) for nonprofit organizations
c3	Qualifying for tax exemption under Internal Revenue Code § 501(c)(3) for charitable organizations (c4--social welfare organizations)
np	Nonprofit organization as defined by state law
npc	Nonprofit corporation as defined by state law
ch	Charitable organization as defined by state law
gv	Government
te	Exempt from state tax
oth	Other, e.g., homeowners' associations, licensed medical facilities, organizations that would be tax exempt but for legislative or political activities
+	Organizations in addition to the type listed
-	Subset of organizations of the type listed

Other

i	Operation of a motor vehicle; (b) liability limited to insurance coverage
l	Miscellaneous
m	Certain actions by attorney general or other state official
o	Contract actions
p	Certain professional services
q	Knowing violation of the law
t	Physical injury or wrongful death caused directly by the volunteer

Notes

a	Organization must carry specified insurance
b	Liability limited to insurance coverage
d	Somes organizations may amend articles or bylaws to further limit liability to the corporation or its members
f	Protection not applicable if corporate assets shifted to avoid judgments
g	Liability limited to director's compensation or other standard
h	Same statute as for volunteers generally
u	Does not cover all volunteers, other statutes may apply
x	Liability rule approximates negligence standard
y	Applies only to specified liabilities in suits by an organization or its members
z	Limited to harm arising from policy process or management of organization's affairs

Scope

bf	Protection narrowly limited to board functions
vl	Protection limited to vicarious liability
vl●	Protection limited to vicarious liability and applies only to the negligence of the direct actor
vl+	Protection from vicarious liability is in addition to other type of protection

Liability Limitations for Directors and Officers

State	Entity	Paid	Exceptions: Bad Faith	Exceptions: Willful/ Intentional	Exceptions: Reckless-ness	Exceptions: Gross Negligence	Exceptions: Fraud/ Fiduciary	Exceptions: Suit by Org.	Other	Scope	Notes
Alabama	c,np-,gv-	n		◆		◆	◆	◆		vl	
Alaska	c3-,c4-,oth	ok				◆		◆			
Arizona	npc	ok	◆	◆		◆		◆			d
Arkansas	c-	ok		◆		◆				vl@	f,x
California	c3-oth	n	◆	◆	◆	◆	◆		l	bf	a
	np-	n	◆	◆	◆	◆	◆		l,m	vl@	a,f
Colorado	npc +	ok		◆							
	npc	ok					◆	◆	q	vl	
Connecticut	c	n	◆	◆	◆						
Delaware	c-	n		◆		◆			i(b)		h
D.C.											
Florida	c3,c4,oth	ok	◆	◆	◆		◆		q		
Georgia	ch,np,gv	n	◆	◆							h,u
Hawaii	npc	n				◆					
Idaho	ch	ok	◆	◆			◆		q		
Illinois	c-	n		◆							
Indiana	gv,np	n		■	■	■					
Iowa	np	ok		◆			◆		q		h
	npc	ok	◆	◆			◆		l,q		h
Kansas	c	n		◆				◆	p	vl +	a,b,h
Kentucky	c	n	◆	◆							h
	np	ok	◆	◆	◆						d
Louisiana	np	ok	◆	◆				◆		bf	h
	c	n	◆	◆				◆		bf	
Maine	c3 +,c4,oth	n		■	■	■				vl	h
Maryland	c3,oth	n		◆		◆			m,o,p		a,d,h
	c3,c4,oth	n		◆	◆				m	vl +	b
Massachusetts	c3,ch	n		◆		#			i,l		d
Michigan	c3-,npc	n									d
Minnesota	te	n	◆	◆	◆		◆		o,t		h
Mississippi	npc	ok	◆								
Missouri	c	n		◆		◆				bf	
Montana	c,te	ok		◆							h
Nebraska	c3,c4,oth	n		◆				◆	i,l		
Nevada	np	ok		◆	■	■	◆		q		z
New Hampshire	ch	n	◆	◆							
New Jersey	np,oth	ok		◆	◆	◆			i	bf	
New Mexico	npc	ok		◆	◆					vl +	f
New York	c3	n		◆		◆		◆	m,l		
North Carolina	npc	n	◆	◆		◆	◆		i,l		b,f
North Dakota	c3,oth	n	◆	◆		◆					
Ohio	ch,np	n		◆						bf	h
Oklahoma	c-	ok		◆		◆				vl@	f
	c-	ok	◆	◆			◆		l,q		y
Oregon	c +,gv,oth	n		◆		◆					
Pennsylvania	c3	n		■	■	■					d
Rhode Island	c	n		◆					i		h
South Carolina	c3,oth	ok		◆		◆					
South Dakota	c-,oth	n									
Tennessee	c3-,c4-,gv,oth	ok		◆		◆					
Texas	c3-,c4-,oth	n	◆	◆	◆		◆		i(b),l		h
Utah	npc	ok		◆							d,y
Vermont	c	ok	◆	◆		◆			i	vl +	
Virginia	c,oth	ok		◆					q		
	npc	ok		◆					q		y
	c,oth	n		◆			◆		i		g
Washington	npc	ok				◆		◆		bf	
West Virginia	oth	n		■	■	◆			i	bf	
Wisconsin	npc	ok	◆	◆			◆		m,q	bf	
Wyoming	npc,gv	ok		◆					q		

Nonprofits' Risk Management & Insurance Institute
1731 Connecticut Avenue, NW, Suite 300, Washington, DC 20009 (202) 462-8190

APPENDIX B

Insurance Coverages Worksheet

We suggest that you use the following worksheet to ascertain the coverages which you currently have and their limits.Then, use this form when meeting with your insurance professional to discuss your coverages. This way you'll get better advice on any other coverages which should be purchased, or adjustments that need to be made in existing policies.

Inclusion or omission of a coverage from this worksheet is not meant to be seen as recommendation for or against purchase of the coverage. This form is only a checklist to help you keep abreast of your insurance needs.

We recommend that you carefully review this with your insurance professional: Do not rely upon your own interpretation!

	Applicable in Current Policy? Yes	No	Limits Applicable/ Other Information
LIABILITY COVERAGES Named Insured as it shows on the policy, including any DBA's			
Is this a claims made or occurrence policy? *If claims made, answer the following:*			
What is retroactive date?			
Is offer of extended reporting endorsement guaranteed?			
Is extended reporting endorsement available if policy is cancelled or non-renewed at policyholder request?			
For what period of time will the reporting endorsement (if purchased) extend?			
What premium cost (if any) is stated for the extended reporting endorsement?			
Is this cost guaranteed in the policy, or subject to change?			

	Applicable in Current Policy? Yes	No	Limits Applicable/ Other Information
Are all current locations listed on the policy?			
Manufacturers' and contractors' liability			
Independent contractors' liability			
Miscellaneous malpractice			
Amount of fire damage liability (review lease for mutual waiver of subrogation)			
Employer's non-owned auto liability			
Social service excess auto liability			
Hired auto liability			
Employees named as additional insureds?			
Volunteers named as additional insureds?			
List additional insureds such as funding sources and landlords:			
Principal exclusions and limitations:			
medical payments:			
sexual abuse and molestation:			
employment related claims:			
athletic participants:			
pollution:			
other (list) ________________			
If sexual abuse and molestation is provided as a sublimit, state limit:			
Does the policy provide 30-day notice of cancellation or material change?			

	Applicable in Current Policy? Yes	No	Limits Applicable/ Other Information
UMBRELLA LIABILITY			
Named insured on policy including any DBA's			
Limits of liability			
Self-insured retention (deductible)			
Is this true umbrella or excess only?			
Following form?			
Concurrent with primary policies?			
Punitive damages included?			
Adjustable premiums?			
Underlying limits required:			
List principal exclusions and limitations:			
DIRECTORS' AND OFFICERS' LIABILITY			
Named Insured on policy including any DBA's			
Limits of liability			
Participation percentage (if any)			
Deductible amount			
Is this a claims made or occurrence policy? If claims made, answer the following:			
What is retroactive date?			
Is offer of extended reporting endorsement guaranteed?			

	Applicable in Current Policy? Yes	No	Limits Applicable/ Other Information
Is extended reporting endorsement available if policy is cancelled or non-renewed at policyholder request?			
For what period of time will the reporting endorsement (if purchased) extend?			
What premium cost is stated for the extended reporting endorsement?			
Is this cost guaranteed in the policy, or subject to change?			
Coverage provided to:			
corporation itself?			
committee members?			
management employees?			
all employees?			
volunteers?			
Does policy provide coverage for suits alleging discrimination?			
Does policy include "Insured vs. Insured" exclusion?			
Is policy a "pay on behalf of" or a "reimbursement" form?			
Is this a:			
severable contract?			
unitary contract?			
Does policy provide for 30-day notice of cancellation or material change?			
List principal exclusions and limitations:			

	Applicable in Current Policy? Yes	No	Limits Applicable/ Other Information
MALPRACTICE INSURANCE			
Named insured on policy including any DBA's			
Are employees, contracted workers, board members and volunteers included as insureds?			
Is this a claims made or occurrence policy? If claims made, answer the following:			
What is retroactive date?			
Is offer of extended reporting endorsement guaranteed?			
Is extended reporting endorsement available if policy is cancelled or non-renewed at policyholder request?			
For what period of time will the reporting endorsement (if purchased) extend?			
What premium cost is stated for the extended reporting endorsement?			
Is this cost guaranteed in the policy, or subject to change?			
Is coverage primary or excess?			
Is coverage provided for the following types of procedures?			
Primary medical care			
Dentistry			
Normal deliveries			
Surgery			

	Applicable in Current Policy? Yes	No	Limits Applicable/ Other Information
Abortions			
Counseling			
Principal exclusions and limitations:			
sexual abuse and molestation:			
employment-related claims:			
athletic participants:			
pollution:			
other (list) ________________			
If sexual abuse and molestation is provided as a sublimit, state limit:			
Does policy provide for 30-day notice of cancellation or material change?			
MISCELLANEOUS LIABILITY COVERAGES			
Named insured on policy including any DBA's			
Advertisers liability			
Fiduciary liability			
Employee benefit liability			
Attorney's errors & omissions			
Other (state type of liability coverage)			
Is this a claims made or occurrence policy? If claims made, answer the following:			
What is retroactive date?			
Is offer of extended reporting endorsement guaranteed?			

	Applicable in Current Policy? Yes	No	Limits Applicable/ Other Information
Is extended reporting endorsement available if policy is cancelled or non-renewed at policyholder request?			
For what period of time will the reporting endorsement (if purchased) extend?			
What premium cost is stated for the extended reporting endorsement?			
Is this cost guaranteed in the policy, or subject to change?			
Deductible			
Co-payment			
Principal exclusions and limitations.			
Does policy provide for 30-day notice of cancellation or material change?			
WORKERS' COMPENSATION AND EMPLOYERS' LIABILITY COVERAGE			
Named insured on policy including any DBA's			
Workers' compensation			
Employers' liability limits			
Broad form all states endorsement?			
Experience modification (attach copy)			
Participating? (attach dividend schedule)			
Retention plan? (attach retention statement)			

	Applicable in Current Policy? Yes	No	Limits Applicable/ Other Information
Loss limitations for retro and retention plans?			
List principal exclusions and limitations:			
Does policy provide for 30-day notice of cancellation or material change?			
CRIME COVERAGES			
Named insured on policy including any DBA's			
FIDELITY BOND			
Type of bond coverage provided:			
Commercial blanket bond			
Blanket position bond			
Name schedule bond			
(If named, is list of individuals bonded correct?)			
Is non-compensated officer rider included in bond?			
Is volunteer worker endorsement included in bond?			
Deductible			
List principal exclusions and limitations:			
MISCELLANEOUS CRIME COVERAGES			
Forgery or alterations (Form B)			
Theft, disappearance, destruction (Form C)			
Robbery & safe burglary (Form D)			
Premises burglary (Form E)			

	Applicable in Current Policy? Yes	No	Limits Applicable/ Other Information
Premises theft & robbery outside (Form H)			
Other (specify)			
Loss payees			
Deductible			
List principal exclusions and limitations:			
PROPERTY COVERAGES			
Named insured on policy including any DBA's			
Basic or broad causes of loss?			
Special causes of loss?			
Flood or Earthquake included?			
Coinsurance clause percentage			
Deductible			
Is insurance provided on replacement cost basis for?			
Building(s)			
Contents			
Inflation guard endorsement on buildings?			
Agreed value endorsement on buildings?			
Is insurance provided on blanket basis?			
Loss of rents			
Loss of earnings insurance			
Extra expense			

	Applicable in Current Policy? Yes	No	Limits Applicable/ Other Information
Accounts receivable			
Valuable papers			
Plate glass			
Signs			
Fences and light posts			
Data processing (computer equipment) floater:			
Hardware			
Software			
Data and Media			
Extra expense			
Business interruptions			
Miscellaneous Floaters:			
Fine Arts			
Cameras			
Light & Sound Equipment			
Contractor's Equipment			
Radio towers			
Coverage for equipment in transit			
Coverage for property at miscellaneous unnamed locations			
Leasehold interest insurance			

	Applicable in Current Policy? Yes	No	Limits Applicable/ Other Information
Contingent liability for building loss-demolition			
Debris removal			
Builder's risk for buildings in the course of construction			
Protection device credit			
Does policy provide for 30-day notice of cancellation or material change?			
State mortgagees and loss payees			
EQUIPMENT INSURANCE (AKA: Boiler and Machinery)			
Damage to property			
Extra Expense			
Spoilage			
Business interruption			
Deductible			
State mortgagees and/or loss payees			
List principal exclusions and limitations:			
AUTOMOBILE			
Named insured on policy including any DBA's			
Liability limit			
Employer's non-owned auto liability			
Hired auto liability			
Social service excess auto liability			

	Applicable in Current Policy? Yes	No	Limits Applicable/ Other Information
No fault coverage			
Comprehensive (state deductible)			
If comprehensive not included, does policy provide fire, theft, CAC?			
If yes, state deductible			
Collision (state deductible)			
Is comprehensive or collision on a stated value or actual cash value basis?			
Uninsured motorist protection			
Underinsured motorist protection			
Automatic coverage for newly acquired vehicles?			
Does radius limitation apply?			
If yes, what is limit?			
Are mobile radios included?			
Does named driver endorsement apply?			
Any drivers excluded?			
Age restriction on drivers?			
List other exclusions or limitations:			
List additional insureds such as funding sources and leasing companies			
List loss payees			
Does policy provide for 30-day notice of cancellation or material change?			

	Applicable in Current Policy? Yes	No	Limits Applicable/ Other Information
VOLUNTEERS			
Accident policy in effect?			
Accident Medical Coverage			
Accidental Death & Dismemberment coverage.			
List principal exclusions or limitations:			
Notes			

WORKERS' COMPENSATION INSURANCE RATING BUREAU
OF CALIFORNIA
EXPERIENCE RATING FORM

BUREAU NUMBER	-F
EFFECTIVE	
CARRIER	
ISSUING OFFICE	
POLICY NUMBER	

1

EXPECTED LOSSES

CLASS CODE	YR	PAYROLL	YR	PAYROLL	YR	PAYROLL	YR	PAYROLL	EXPECTED LOSS RATE	EXPECTED LOSSES	"D" RATIO	PRIMARY EXPECTED LOSSES

2

EXPECTED EXCESS (f) = (d) - (e)	EXPECTED LOSSES (d)	PRIMARY EXPECTED LOSSES (e)

ACTUAL LOSSES

CLAIM NUMBER	TYPE INJ	?	POLICY YEAR	ACTUAL * INCURRED LOSSES	PRIMARY ACTUAL LOSSES	CLAIM NUMBER	TYPE INJ	?	POLICY YEAR	ACTUAL * INCURRED LOSSES	PRIMARY ACTUAL LOSSES

3

ACTUAL EXCESS (c) = (a) - (b)	ACTUAL INCURRED LOSSES (a)	PRIMARY ACTUAL LOSSES (b)

RATING PROCEDURE

TOTAL PRIMARY ACTUAL (b)	** "B" VALUE	** "W" VALUE	RATABLE EXCESS LOSSES = W x (c)	(1-W) x f	TOTAL (g)

TOTAL EXPECTED LOSSES (d)	** "B" VALUE	TOTAL (h)	EXPERIENCE MODIFICATION $\frac{g}{h}$

* INDEMNITY AND MEDICAL COMBINED
** ENTER TABLE III WITH EXPECTED LOSSES (d)

WCIRB ERM 75

APPENDIX C

American Red Cross

RED CROSS
BUILDING-INSPECTION CHECKLIST

Location ______________________________

Inspected by ______________________________ Date ______________

	Yes	No
1. OSHA log maintained.	___	___
2. Floors, stairs, and handrails maintained in good repair.	___	___
3. Aisles, stairways, and doorways maintained free of obstructions.	___	___
4. Handrails provided for steps and stairs (four or more steps).	___	___
5. Permanent aisles and passageways appropriately defined.	___	___
6. Telephone, electrical, and extension cords guarded when crossing aisleways and walkways.	___	___
7. Filing and storage cabinets and wall lockers properly anchored and weights properly distributed to prevent tipping of units.	___	___
8. Tops of lockers, filing cabinets, cases, and other relatively high objects free of material.	___	___
9. Furniture and equipment positioned so there are no protruding parts to endanger employees.	___	___
10. Oily waste or rags and similar combustibles stored in covered metal containers.	___	___
11. Blades of electrical fans adequately guarded.	___	___
12. Telephone numbers of fire department and ambulances conspicuously posted.	___	___
13. Adequately trained personnel available and first aid supplies provided for emergency use.	___	___
14. Illumination meets recognized lighting standards.	___	___
15. Paint, plaster, and floor covering in good repair.	___	___
16. Inspections conducted at proper intervals on boilers.	___	___
17. Current safety posters displayed.	___	___

	Yes	No
18. Exits maintained free of obstructions.	___	___
19. Exit signs provided for exits.	___	___
20. Fire extinguishers are proper type and adequate number provided.	___	___
21. Extinguishers inspected monthly and annually.	___	___
22. Extinguishers hydrostatically tested at proper intervals.	___	___
23. Extinguishers placed where readily accessible (not blocked) and visible from several different directions.	___	___
24. Extinguishers mounted at proper heights.	___	___
25. Automatic sprinkler systems maintained and checked.	___	___
26. Flammable liquids stored in safety containers and the contents of each container identified.	___	___
27. Designated "NO SMOKING" areas strictly enforced.	___	___
28. Ash trays provided in authorized smoking areas.	___	___
29. Electrical circuits utilized effectively without creating overloads.	___	___
30. Noncurrent-carrying metal parts of cord and plug connected, and fixed equipment grounded.	___	___
31. Flexible cord used in approved manner—not substituted for fixed wiring where run through walls, doors, and openings—and attached to building surfaces or concealed.	___	___
32. Extension cords and plugs in good condition.	___	___
33. Conditions of walks, outside steps, driveways, parking surfaces, and so on, properly maintained.	___	___
34. Rugs and carpets secured and arranged to prevent slipping.	___	___

Unresolved Items From Previous Inspection:

A. Item # __________ Abatement Date ____________

B. Item # __________ Abatement Date ____________

C. Item # __________ Abatement Date ____________

D. Item # __________ Abatement Date ____________