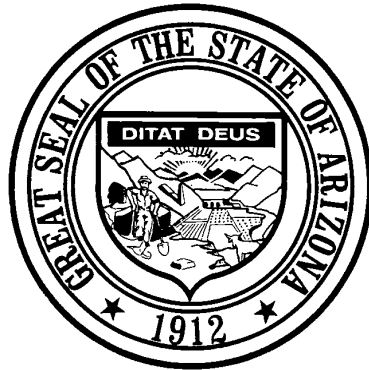


**ARIZONA DEPARTMENT OF ADMINISTRATION  
RISK MANAGEMENT SECTION**

**JANET NAPOLITANO  
GOVERNOR**

**BETSEY BAYLESS  
DIRECTOR**



**FISCAL YEAR 2004 ANNUAL REPORT**

## **RESPONSIBILITIES/STATUTES**

The Fiscal Year 2004 Annual Report, as required by A.R.S. § 41-623, summarizes liability, property and workers' compensation losses; and it provides information on the loss prevention efforts and overall achievements of the Risk Management Section during the fiscal year.

The Risk Management Section of the Arizona Department of Administration, established in 1976, is tasked with the management of the property, liability and workers' compensation losses of the state. Statutes found in A. R. S. § 41-621 et seq. and administrative rules found in A.A.C. R2-10-101 through R2-10-601 outline the parameters of the program, including coverage for agencies, employees, boards and commissions and limits of that coverage. The Risk Management Section provides consultants to state agencies to help agency personnel develop specific programs to reduce or eliminate risk to the state. In addition, Risk Management purchases all of the insurance policies for the state and administers the self-insurance program.

Funding for Risk Management programs is provided through the Permanent Risk Management Revolving Fund and the Workers' Compensation Revolving Fund. Moneys flow into the Risk Management Revolving Fund from the agencies on an allocation basis. An actuarial-projected need for the fiscal year is developed for property and liability losses. In addition, estimates are prepared for costs of administration, insurance premiums and the Liability Management Section of the Office of the Attorney General, which defends the state against lawsuits. The total is then allocated to agencies based on a formula that assesses risk exposure as well as historical losses. Each agency is then billed for its share of the total need.

The Workers' Compensation Revolving Fund monies come to Risk Management every payroll cycle as an element of Employee Related Expenses (ERE). The amount charged to each agency for each employee is also on a formula basis starting with an actuarial-projected need for the year plus insurance and other related costs. A formula is used to divide the total funding requirement to agencies, using the classification of the employee modified by the loss history of the particular agency for that particular classification.

## Achievements and Growth

Fiscal Year 2004 marked a year of significant achievements and continued growth of the Risk Management Section.

- Mira Dobson, Occupational Health Services Manager, received the ADOA Supervisor of the Year Award. The award recognizes and rewards one ADOA employee for demonstrated excellence in the leadership, motivation, and support of staff toward the attainment of Division/Departmental goals and for positively affecting employee morale.
- Frank Hinds, State Risk Manager, attended World Health Day on April 7<sup>th</sup> in Washington DC. The World Health Organization chose “Road Safety” as the theme for this year’s event. Each year 1.3 million men, women and children worldwide are killed not by wars, disease or natural disasters, but by traffic accidents. The public health community considers traffic injuries and deaths to be a major but neglected public problem requiring a concentrated prevention effort. While in Washington, Mr. Hinds met with Senator John McCain to thank him for his efforts in raising traffic safety awareness in Arizona.
- In FY 2004, 3 Loss Prevention Specialist Academies were completed with 53 graduates. While the Academy was only offered in Phoenix this year due to budget constraints, this unique safety training approach has proven so valuable to agencies that several state employees were sent from out-state locations to attend the training in Phoenix.
- A record number of state employees completed various defensive driving courses through the Loss Prevention Training Unit in FY 2004:
  - ✚ 666 in Behind-the-Wheel
  - ✚ 1339 in Van Dynamics and Van Dynamics Instructor Training
  - ✚ 2356 in Top Driver and Top Driver Instructor Training
- Risk Management continued the implementation of the RiskEnvision (including WebEnvisions, a web-based claims reporting system) information system that provides state of the art and streamlined claims adjusting and information for customer service and reporting.
- Risk Management awarded a \$100,000 loss prevention grant to the Arizona Department of Public Safety for the purchase of a driver simulator to enhance patrol officer training in hazardous driving situations. The driver simulator is also available for training purposes for non law enforcement use periodically each month.
- Risk Management renewed the State’s excess property insurance, increasing coverage limits from \$350 million to \$450 million without substantial increases in premium cost. Additionally, Risk Management purchased a \$120 million terrorism insurance policy that was neither available nor affordable since September 11, 2001.

## FISCAL YEAR 2004 COSTS AND COMPARISONS

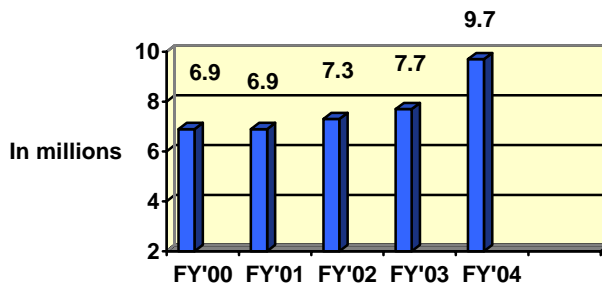
Risk Management compared Fiscal Year 2004 results for Workers' Compensation claim costs as well as the frequency and severity of Property and Liability losses against Fiscal Year 2003 and the last five years.

Workers' Compensation costs in FY 2004 increased by \$1 million versus FY 2003; \$18.8 million versus \$17.8 million. The increase is attributed to the purchase of annuities that will offset future claim costs in coming years. The cost of the annuities was \$975,000.

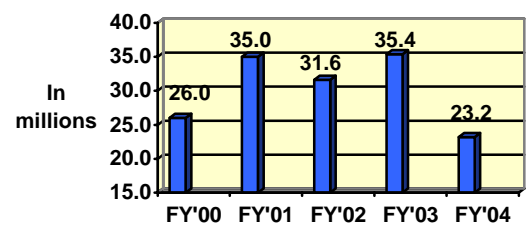
Property losses in FY 2004 were at \$9.7 million, which is an increase of \$2 million from FY 2003; and \$800,000 greater than the five-year average of \$7.7 million. Although the claim payments increased, there were two extraordinary claim payments made in FY 2004. A single payment of \$2,466,000 was paid related to the hostage taking incident at the Lewis Prison Complex in January 2004 and legal expenses in the amount of \$2,000,000 were awarded in the Ladewig tax settlement case that originated in 1997. Liability costs for FY 2004 were \$23.2 million, down from \$35.4 million in FY 2003. The five-year average for liability costs is \$30.2 million.

The charts that follow depict five-year comparisons, distribution of total costs for the year, and distribution of claims by loss type for the year.

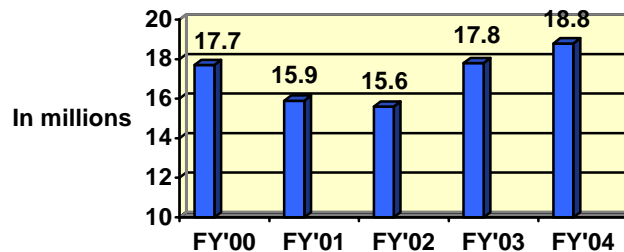
**PROPERTY CLAIM COSTS**



**LIABILITY CLAIM COSTS**



**WORKERS' COMPENSATION CLAIM COSTS**



## LIABILITY PROGRAM

In the Fiscal Year 2004, there were 3,402 liability claims reported to the Risk Management Section against the state of Arizona. This figure is a slight decrease from the 3,535 claims reported in 2003. The four most frequently occurring liability losses for FY 2004 were third party general liability claims, third party auto liability, personal injury claims and third party bodily injury claims. The category of personal injury includes such areas as employment discrimination, defamation, and civil rights violations. General liability covers slips and falls on state property, damage to third party property, highway maintenance, and negligence in oversight of state-managed programs. Automobile liability includes claims for injuries and damage to properties of third parties resulting from the use of automobiles by state employees engaged in state business. Figure 1 shows the number of incidents reported in Fiscal Year 2004 listed by agencies with the most frequent occurrences of liability losses.

Figure 1

|                                 | Auto Liability<br>Bodily Injury | Auto Liability<br>Property | General<br>Liability<br>Bodily Injury | General<br>Liability<br>Property | Medical<br>Malpractice | Personal Injury |
|---------------------------------|---------------------------------|----------------------------|---------------------------------------|----------------------------------|------------------------|-----------------|
| Department of Transportation    | 17                              | 97                         | 178                                   | 382                              | 0                      | 21              |
| Department of Corrections       | 15                              | 52                         | 33                                    | 456                              | 1                      | 207             |
| Department of Public Safety     | 40                              | 158                        | 29                                    | 27                               | 0                      | 33              |
| Department of Administration    | 14                              | 113                        | 11                                    | 5                                | 0                      | 22              |
| Department of Economic Security | 14                              | 45                         | 59                                    | 175                              | 0                      | 55              |
| University of Arizona           | 6                               | 64                         | 20                                    | 37                               | 37                     | 24              |
| Northern Arizona University     | 1                               | 22                         | 9                                     | 7                                | 0                      | 3               |
| Arizona State University        | 0                               | 15                         | 15                                    | 26                               | 0                      | 11              |
| All Other Agencies              | 69                              | 128                        | 109                                   | 367                              | 3                      | 197             |
| Total Reported Incidents        | 176                             | 694                        | 463                                   | 1455                             | 41                     | 573             |

Dollars paid do not necessarily relate to claims filed in the same year, as liability claims are often open for several years before a settlement is reached or the claims go through the legal system. Figure 2 shows the actual dollars paid in FY 2004 for indemnity payments, processing expenses and legal defense. Total liability claim payments for Fiscal Year 2004 were \$23.2 million. The ten agencies with the highest losses are ranked in descending order.

Figure 2

| Agency                             | Liability Losses    |
|------------------------------------|---------------------|
| Department of Corrections          | \$4,253,595         |
| Department of Public Safety        | \$3,862,779         |
| Department of Racing               | \$3,000,431         |
| Department of Transportation       | \$2,979,745         |
| University of Arizona              | \$1,686,198         |
| Department of Administration       | \$1,578,093         |
| Department of Juvenile Corrections | \$ 929,259          |
| Northern Arizona University        | \$ 561,836          |
| State Superior Courts              | \$ 548,389          |
| Arizona State University           | \$ 461,101          |
|                                    |                     |
| <b>Sub-Total</b>                   | <b>\$19,861,426</b> |
| All Other Agencies                 | \$ 3,303,272        |
| <b>Total</b>                       | <b>\$23,164,698</b> |

General liability claims were the most frequent and the most expensive claims in the liability category, representing 41% of the total cost. Personal injury and Auto liability were even at 28% each of total cost. Medical malpractice payments at \$673,000 improved significantly from the previous year's cost of \$1.95 million. Total recoveries for property and liability claims through subrogation were \$470,191 in FY 04. The following table breaks down the number of claims and amounts paid by loss type:

Figure 3

| Loss Type                            | Frequency | Severity            |
|--------------------------------------|-----------|---------------------|
| Automobile Liability – Bodily Injury |           | \$ 3,923,101        |
| Automobile Liability – Property      |           | \$ 2,558,393        |
| General Liability – Bodily Injury    |           | \$ 7,810,253        |
| General Liability – Property         |           | \$ 1,672,918        |
| Medical Malpractice                  |           | \$ 673,081          |
| Personal Injury                      |           | \$ 6,526,952        |
|                                      |           |                     |
| <b>Total</b>                         |           | <b>\$23,164,698</b> |

## PROPERTY PROGRAM

In Fiscal Year 2004, there were 5655 property claims filed by state agencies, which is a 6% increase over the previous year's reported claims.

The top two loss types by frequency of occurrence and severity of payments are personal property and real property. Covered under the personal property category are state owned vehicles, furniture, computers and other tangible property excluding land or buildings. Real property covers the facilities owned by the state such as office buildings, prison facilities and general infrastructure. Figure 4 shows the frequency and severity for property losses.

Figure 4

| Loss Type              | Frequency   | Severity           |
|------------------------|-------------|--------------------|
| Real Property          | 598         | \$4,496,014        |
| Personal Property      | 5033        | \$3,603,625        |
| Environmental Property | 18          | \$1,422,983        |
| Boiler and Machinery   | 2           | \$ 130,588         |
| Aircraft Hull          | 3           | \$ 47,588          |
| Fidelity and Surety    | 1           | \$ 15,913          |
| <b>Total</b>           | <b>5655</b> | <b>\$9,716,711</b> |

The following table shows the amount of payments made in FY2004 for the various property losses for the agencies with the largest losses ranked in descending order.

Figure 5

| Agency                       | Property Losses    |
|------------------------------|--------------------|
| Department of Corrections*   | \$2,813,641        |
| Department of Revenue**      | \$2,090,185        |
| University of Arizona        | \$1,077,154        |
| State Land Department        | \$ 974,832         |
| Arizona State University     | \$ 814,545         |
| Department of Administration | \$ 537,558         |
| Northern Arizona University  | \$ 423,918         |
| Department of Transportation | \$ 322,131         |
| <b>Sub-Total</b>             | <b>\$9,053,964</b> |
| All Other Agencies           | \$ 662,747         |
| <b>Total</b>                 | <b>\$9,716,711</b> |

\*A single claim payment of \$2,466,000 was made related to the Lewis Prison hostage incident that took place in January 2004.

\*\* A single claim payment of \$2,000,000 for legal expenses was made to the Department of Revenue related to the Ladewig tax settlement stemming from a 1997 claim.

## WORKERS' COMPENSATION PROGRAM

The State Workers' Compensation Program provides benefits to state employees injured in the course and scope of their employment. The program pays medical, surgical, lost wages and hospital disability benefits as provided by law under the Arizona Workers' Compensation Act.

In Fiscal Year 2004, the Workers' Compensation Unit cost increased from Fiscal Year 2003 by \$1 million. FY 2004 cost was \$18.8 million versus \$17.8 million for FY 2003. Several annuities were purchased to offset future claim costs related to long term claim payments that would have occurred in coming years, the cost of the annuities were \$975,000.

The Managed Care Incentive Program provides quality medical care for state employees injured on the job. More than 48 hospitals, 3000 physicians and 12 industrial clinics are available to employees within the network.

The Early Claims Notification System continues to be successful. This system involves early notification of workers' compensation claims by injured state employees or their supervisors. Studies confirm that early notification allows for early claims management intervention which translates to cost savings. The 542-WORK phone line, allows injured employees or their supervisors to call in the first report of an industrial injury to the workers' compensation unit 24 hours a day, 7 days a week. During non-business hours, state employees are able to respond to questions regarding their injury via an automated system.

The Early Return to Work with Modified Duty Program continues to prove successful. A Disability Management specialist works with injured workers, their supervisors and managers to find positions within their agency that allow the injured worker to return to work as soon as possible. Placing an injured worker in these modified duty positions enables the employee to make a smooth and safe transition to their former duties or to a new position that is suitable for them.

In addition to managing the Modified Duty Program, the disability management nurse has helped to implement the in-house Utilization Review Program. All medical diagnostic procedures must be reviewed for medical necessity and appropriateness before authorization. This process is typically completed within 24 hours to help ensure the recovery of injured employees.

Listed in Figure 6 are total costs for claims paid in Fiscal Year 2004 and amounts recovered as a result of subrogation efforts.

Figure 6

| Compensation | Medical     | Expense     | Recoveries | Total Cost   |
|--------------|-------------|-------------|------------|--------------|
| \$6,899,717  | \$9,993,817 | \$2,204,076 | \$314,844  | \$18,782,766 |

Figure 7 ranks the severity of payments for workers' compensation claims in FY 2004 by agency.

Figure 7

| Agency                          | WC Losses    |
|---------------------------------|--------------|
| Department of Corrections       | \$ 4,238,746 |
| Department of Transportation    | \$ 2,473,376 |
| Department of Economic Security | \$ 2,170,466 |
| University of Arizona           | \$ 1,801,459 |
| Department of Public Safety     | \$ 1,640,595 |
| Department of Health Services   | \$ 978,634   |
| Arizona State University        | \$ 971,916   |
| Northern Arizona University     | \$ 845,135   |
| Superior Courts                 | \$ 807,880   |
| Sub-total                       | \$15,938,208 |
| All other agencies              | \$ 2,844,558 |
| Total                           | \$18,782,766 |

Frequency of claims accepted in FY 2004 and corresponding incident rates by agency:

Figure 8

| Agency Ranking                     | Claims Accepted | Incident Rate Per 100 FTE's |
|------------------------------------|-----------------|-----------------------------|
| Department of Corrections          | 995             | 7.75                        |
| University of Arizona              | 505             | 2.69                        |
| Department of Transportation       | 289             | 5.66                        |
| Arizona State University           | 265             | 2.0                         |
| Department of Public Safety        | 231             | 9.75                        |
| Superior Courts                    | 208             | 2.21                        |
| Department of Health Services      | 185             | 9.82                        |
| Northern Arizona University        | 164             | 4.30                        |
| Department of Juvenile Corrections | 122             | 10.66                       |
|                                    |                 |                             |
| All Other Agencies                 | 964             |                             |
|                                    |                 |                             |
| Total of All Agencies              | 3928            | 4.53                        |

## **OCCUPATIONAL HEALTH SERVICES**

Occupational Health Services is responsible for the post offer physical examinations of potential state employees. Occupational Health Services schedules, evaluates, and pays for these examinations for various state agencies.

In Fiscal Year 2004, 1,404 post-offer exams were conducted. The average number of days to process exam findings was less than one day. Processing exam findings measures the turn-around period from the time the staff nurse receives the perspective state employee's medical information until the agency is notified of the candidate's status.

The total cost for Occupational Health Services in Fiscal Year 2004 was \$89,600.