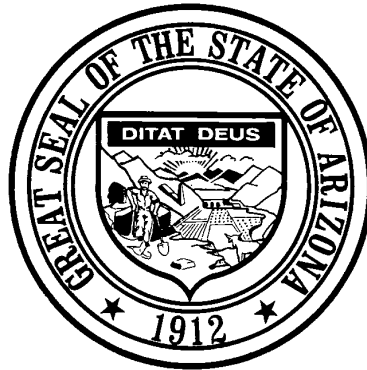


**ARIZONA DEPARTMENT OF ADMINISTRATION
RISK MANAGEMENT DIVISION**

**JANET NAPOLITANO
GOVERNOR**

**WILLIAM BELL
DIRECTOR**



FISCAL YEAR 2005 ANNUAL REPORT

RESPONSIBILITIES/STATUTES

The Fiscal Year 2005 Annual Report, as required by A.R.S. § 41-623, summarizes liability, property, and workers' compensation expenditures; and it provides information on the loss prevention efforts and overall achievements of the Risk Management Division during the fiscal year.

The Risk Management Division of the Arizona Department of Administration, established in 1976, is tasked with the management of the liability, property, and workers' compensation claims 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. The Risk Management Division provides consultants to state agencies to help agency personnel develop specific programs that reduce or eliminate risk to the state. On an annual basis, Risk Management performs a comprehensive evaluation to determine the proper mix of purchased commercial insurance and risk retention.

Funding for Risk Management programs is provided through the Permanent Risk Management Revolving Fund. Revenues into the fund are received as follows:

- An actuarial projection is developed for property and liability expenditures and associated outside counsel and allocated loss adjustment expenditures. In addition, estimates are prepared for costs of administration, insurance premiums and Attorney General Defense. 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 allocated share.
- An actuarial projection is also developed for workers' compensation expenditures and associated medical, outside counsel and allocated loss adjustment expenditures. In addition, estimates are prepared for costs of administration, insurance premiums, and Attorney General Defense. A formula is used to divide the total funding requirement to agencies, using the classification of the employee modified by the historical losses of the particular agency.

Achievements and Growth

Fiscal Year 2005 marked a year of significant achievements and continued growth of the Risk Management Division.

- In Fiscal Year 2005, Nine Loss Prevention Specialist Academies were completed with 122 state employees graduating from the program.
- The Risk Management Loss Prevention Training Unit conducted various defensive driving courses during FY2005. The following statistics show the number of state employees completing the training:
 - ✚ 1686 in Behind-the-Wheel
 - ✚ 1213 in Van Dynamics and Van Dynamics Instructor Training
 - ✚ 2931 in Top Driver and Top Driver Instructor Training
- The Risk Management Loss Prevention Training Unit conducted CPR classes offered to all Arizona Department of Administration employees. 302 ADOA employees completed the training and received CPR certification.
- Risk Management awarded a \$263,000 loss prevention grant to the Arizona Department of Administration Capitol Police to enhance safety and security at the Executive Tower.
- The Risk Management Workers' Compensation Unit sponsored a seminar aimed at opening the lines of communication and encouraging prompt and accurate reporting of industrial injuries. The seminar was attended by 67 state agency workers' compensation liaisons.
- During Fiscal Year 2005, 354 lawsuits were brought against the state, all but eleven settled without going to trial. Of the eleven that went to trial, Risk Management prevailed in seven.
- The Property and Liability Claims Unit ended a twelve month process of updating, revising and writing a claims procedure manual.
- The Loss Prevention Unit performed 436 Program Evaluations and Assessments. These include an analysis of individual agency's loss prevention programs such as fleet safety programs, asset inventories, ergonomics, environmental quality, back safety and about twenty other programs.
- Fiscal Year 2005 marked the fifth consecutive year where the Workers' Compensation Incident Rate decreased.

FISCAL YEAR 2005 COSTS AND COMPARISONS

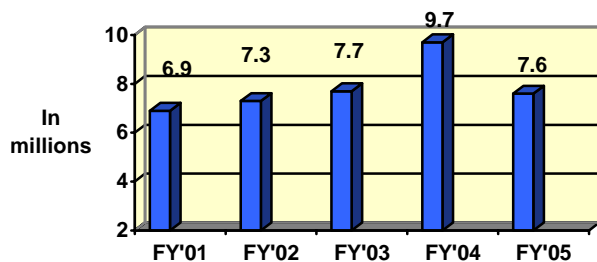
Property expenditures in FY 2005 were at \$7.6 million, which is a decrease of \$2.1 million from FY 2004; and \$240,000 less than the five-year average of \$7.8 million.

Liability expenditures for FY 2005 were \$27.3 million, up from \$23.2 million in FY 2004. The five-year average for liability expenditures is \$30.5 million.

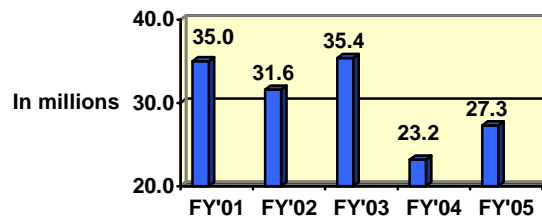
Workers' Compensation expenditures in FY 2005 increased by \$300,000 over FY 2004; \$19.1 million versus \$18.8 million.

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

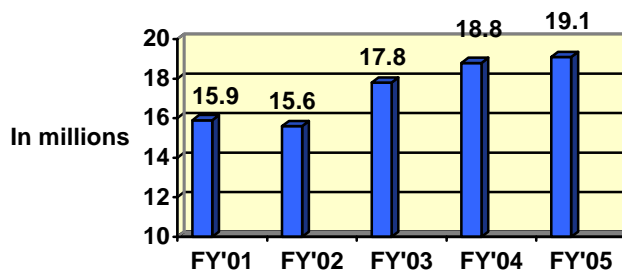
PROPERTY CLAIM COSTS



LIABILITY CLAIM COSTS



WORKERS' COMPENSATION CLAIM COSTS



LIABILITY PROGRAM

In the Fiscal Year 2005, there were 2,687 liability claims reported to the Risk Management Division against the state of Arizona. Figure 1 details the General Liability Categories insured by the Risk Management Division. 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. General liability covers slips and falls on state property, damage to third party property, highway maintenance, and negligence in oversight of state-managed programs. Medical Malpractice includes errors and omissions by State medical professionals. The category of personal injury includes such areas as employment discrimination, defamation, and civil rights violations. Figure 1 shows the number of incidents reported in Fiscal Year 2005 listed by agencies with the most frequent occurrences of liability losses.

Figure 1

	Auto Liability Bodily Injury	Auto Liability Property	General Liability Bodily Injury	General Liability Property	Medical Malpractice	Personal Injury
Department of Transportation	32	89	147	417	0	21
Department of Corrections	11	40	51	352	6	150
Department of Public Safety	18	188	42	37	0	16
Department of Administration	21	134	8	8	0	11
Department of Economic Security	16	61	37	145	0	32
University of Arizona	6	55	13	19	21	21
Northern Arizona University	2	14	10	10	0	7
Arizona State University	2	24	17	24	0	15
All Other Agencies	5	41	45	108	0	138
Total Reported Incidents	113	646	370	1120	27	411

Figure 2 shows the actual expenditures paid in the Fiscal Year 2005 for liability claims including defense and allocated loss adjustment expenditures. Total liability claim payments for Fiscal Year 2005 were \$27.3 million. The ten agencies with the highest losses are ranked in descending order.

Figure 2

Agency	Liability Claims
Department of Transportation	\$11,084,752
Department of Corrections	\$ 6,076,131
Department of Economic Security	\$ 1,696,462
University of Arizona	\$ 1,588,831
Department of Administration	\$ 1,185,910
Department of Juvenile Corrections	\$ 822,583
Department of Public Safety	\$ 789,275
State Superior Courts	\$ 711,765
Arizona State University	\$ 582,856
Northern Arizona University	\$ 317,190
Sub-Total	\$24,855,755
All Other Agencies	\$ 2,455,933
Total	\$27,311,688

General Liability – Bodily Injury claims were the most expensive claims in the liability category, representing 53% of the total cost. Personal injury was second and represented 22% of the total cost. Medical malpractice payments were \$2,238,315. 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	113	\$ 1,180,254
Automobile Liability – Property	646	\$ 605,993
General Liability – Bodily Injury	370	\$14,578,985
General Liability – Property	1120	\$ 2,475,272
Medical Malpractice	27	\$ 2,238,315
Personal Injury	411	\$ 6,232,870
Total	2687	\$ 27,311,688

PROPERTY PROGRAM

In Fiscal Year 2005, there were 5,450 property claims filed by state agencies.

The top two loss categories by frequency of occurrence and severity of payments are real property and personal 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	659	\$3,411,250
Personal Property	4762	\$3,498,290
Environmental Property	18	\$ 619,108
Boiler and Machinery	7	\$ 74,881
Aircraft Hull	3	\$ 22,174
Fidelity and Surety	1	\$ 3,989
Total	5450	\$7,629,692

The following table shows the amount of payments made in Fiscal Year 2005 for the various property losses for the agencies with the largest losses ranked in descending order.

Figure 5

Agency	Property Losses
University of Arizona	\$975,989
Department of Public Safety	\$902,809
Department of Transportation	\$860,210
Arizona State University	\$774,624
Department of Corrections	\$656,304
Game and Fish	\$480,093
Department of Health Services	\$468,956
Department of Administration	\$456,796
Northern Arizona University	\$373,450
State Land Department	\$328,033
Sub-Total	\$6,559,558
All Other Agencies	\$1,070,134
Total	\$7,629,692

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 2005, the Workers' Compensation costs increased from Fiscal Year 2004 by \$300,000. Rising medical costs have been contained by a reduction in frequency.

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 in many state agencies. 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.

Figure 7 ranks the severity of payments for workers' compensation claims in Fiscal Year 2005 by agency.

Figure 7

Agency	WC Losses
Department of Corrections	\$ 4,930,987
Department of Economic Security	\$ 2,254,370
Department of Transportation	\$ 1,761,751
University of Arizona	\$ 1,637,704
Department of Public Safety	\$ 1,315,553
Arizona State University	\$ 1,127,874
Department of Health Services	\$ 989,388
Northern Arizona University	\$ 755,656
Superior Courts	\$ 596,698
Department of Juvenile Corrections	\$ 392,575
Sub-total	\$15,762,556
All other agencies	\$ 3,314,526
Total	\$19,077,082

Figure 8 shows frequency of claims accepted in Fiscal Year 2005 and corresponding incident rates by agency:

Figure 8

Agency Ranking	Claims Accepted	Incident Rate Per 100 FTE's
Department of Corrections	733	6.17
University of Arizona	384	2.21
Department of Economic Security	361	3.24
Department of Transportation	315	5.11
Arizona State University	296	2.32
Department of Public Safety	196	9.54
Superior Courts	162	N/A
Northern Arizona University	160	4.99
Department of Juvenile Corrections	118	9.38
Game and Fish	61	8.99
All Other Agencies	700	
Total of All Agencies	3486	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 2005, 1,622 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 2005 was \$105,937.