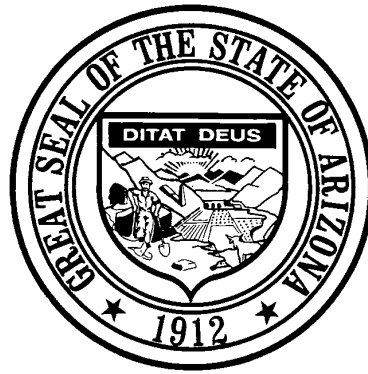


**JANET NAPOLITANO
GOVERNOR**

**WILLIAM BELL
DIRECTOR**

**ARIZONA DEPARTMENT OF ADMINISTRATION
RISK MANAGEMENT SECTION**



FISCAL YEAR 2007 ANNUAL REPORT

RESPONSIBILITIES/STATUTES

The Fiscal Year 2007 Annual Report, as required by ARS §41-623, summarizes liability, property, and workers' compensation expenditures, and provides information on the loss prevention efforts and overall achievements of the Risk Management Section during the fiscal year.

The Risk Management Section was established in 1976, and is tasked with the management of liability, property and workers' compensation claims. Statutes found in A R S §41-621 et seq. and administrative rules found in AAC- R2-10-101 through R2-10-601 outline the parameters of the program, including coverage for agencies, employees, boards and commissions. The Risk Management Section 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 of its insurance program 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 generated as follows:

- An actuarial projection is developed for property and liability expenditures, 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 time loss expenditures, medical, 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 an allocation method from the National Council on Compensation Insurance (NCCI). The NCCI method calculates a rate per payroll using employee classifications modified by the agency's historical losses.

ACHIEVEMENT AND GROWTH

Fiscal Year 2007 marked a year of significant achievements and continued growth.

- As a result of the ADOA External Customer Survey, Risk Management received three Director's Awards. The Property & Liability Claims Unit and the Workers' Compensation Unit as well as the Risk Management Program received the Director's Excellence Award for receiving a satisfactory rating over 6.5 (scale:1-8, 8 being the highest).
- The Risk Management Workers' Compensation Unit sponsored two educational seminars, one in November and the other in May. The November seminar was aimed at identifying potential exposures to occupational illness and the May seminar was designed to reinforce the importance of prompt and accurate reporting of industrial injuries. Eighty-five state agency workers' compensation liaisons attended both seminars.
- The workers' compensation component of the Risk Management website was updated with comprehensive information to assist injured workers, supervisors and agency liaisons.
- In May, Loss Prevention established a large loss support unit to focus on large liability insurance exposures. The goal of the unit is to identify exposure issues before or immediately after they occur, and to partner with state agencies to take appropriate action(s) that could be effective in mitigating future liability to the state, or to prevent similar loss in the future.
- The educational program, *Dynamics of Risk*, established in Fiscal Year 2006, continued training agency employees involved with risk management issues on the technical aspects of risk terminology, and concepts of risk management and insurance. Since inception, 127 state employees have completed the program.
- Risk Management established a Web-based reporting system for its bi-annual insurance survey. The on-line procedure improved the agencies' response rate from 85% to 100%. The data supplied by state agencies is used for agency assessments and for insurance underwriters to purchase excess insurance. The 100% response rate provided a more accurate picture of the state's true risk exposures as well as enhanced Risk Management's ability to receive favorable pricing and coverage consideration in the insurance marketplace.

- The workers' compensation bill review audit produced savings of \$8.5 million.
- Risk Management reclassified its workers' compensation and property and liability claims adjusters. The goal was to help stabilize the units responsible for minimizing and mitigating the adverse effects from accidental loss and bring parity with other units.

FISCAL YEAR 2007 COSTS AND COMPARISONS

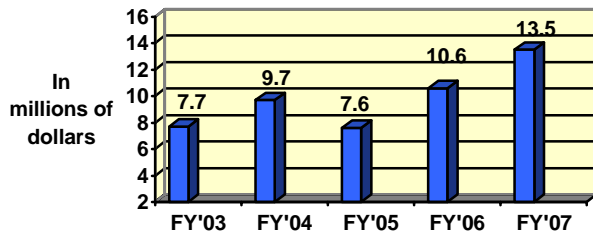
Property expenditures in FY 2007 were \$13.5 million, which is an increase of \$2.9 million from FY 2006; and \$3.7 million greater than the five-year average of \$9.8 million.

Liability expenditures for FY 2007 were \$25.7 million, down from \$28.2 million in FY 2006. The five-year average for liability expenditures is \$28 million.

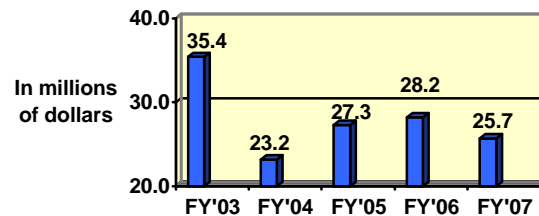
Workers' Compensation expenditures in FY 2007 increased by \$2 million over FY2006; \$21.9 million versus \$19.9 million.

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

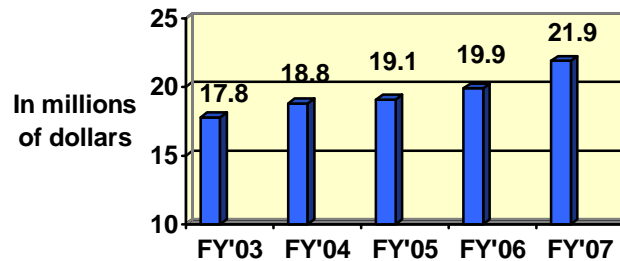
PROPERTY CLAIM COSTS



LIABILITY CLAIM COSTS



WORKERS' COMPENSATION CLAIM COSTS



LIABILITY PROGRAM

In the Fiscal Year 2007, there were 3,462 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 third party claims for injuries and property damage resulting from the use of automobiles by state employees engaged in state business. General liability includes third party bodily injury and property damage, 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 2007 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 Corrections	8	48	58	658	24	161
Department of Transportation	6	96	122	457	0	34
Department of Public Safety	28	200	50	46	0	26
Department of Administration	12	104	4	19	0	12
Department of Economic Security	6	53	36	162	2	52
University of Arizona	4	44	23	15	44	24
AZ Exposition and State Fair	0	2	92	19	0	0
Arizona State University	2	28	23	27	0	33
All Other Agencies	14	92	115	99	13	265
Total Reported Incidents	80	667	523	1502	83	607

Figure 2 shows the actual expenditures paid in the Fiscal Year 2007 for liability claims including outside counsel and allocated loss adjustment expenditures. Total liability

claim payments for Fiscal Year 2007 were \$25.7 million. The ten agencies with the highest losses are ranked in descending order.

Figure 2

Agency	Liability Losses
Department of Transportation	\$11,682,569
Department of Economic Security	\$3,233,940
Department of Corrections	\$2,972,400
Northern Arizona University	\$1,736,085
Department of Public Safety	\$1,388,681
Arizona State University	\$1,026,195
Citizens Clean Election Commission	\$796,500
Nursing Care Institution Administrative Board	\$619,415
University of Arizona	\$453,739
Arizona Superior Courts	\$397,065
Sub-Total	\$24,306,589
All Other Agencies	\$1,401,096
Total	\$25,707,685

General Liability – Bodily Injury claims were the most expensive claims in the liability category, representing 63% of the total cost. Personal injury was second and represented 26% of the total cost. Medical malpractice payments were \$193,148. The following table breaks down the number of claims and amounts paid by loss type:

Figure 3

Loss Type	Frequency	Liability Losses
Automobile Liability – Bodily Injury	80	\$492,320
Automobile Liability – Property	667	\$523,488
General Liability – Bodily Injury	523	\$16,393,441
General Liability – Property	1502	\$1,245,366
Medical Malpractice	83	\$193,148
Personal Injury	607	\$6,859,922
Total	3462	\$25,707,685

PROPERTY PROGRAM

In Fiscal Year 2007, there were 6,054 property claims reported by state agencies.

The top two loss categories by frequency of occurrence and severity of payments were real and personal property. Real property covers facilities owned by the state such as office buildings, prison facilities and general infrastructure. Personal property includes state owned vehicles, furniture, computers and other tangible property. Figure 4 shows the frequency and severity for property losses.

Figure 4

Loss Type	Frequency	Property Losses
Real Property	865	\$7,303,191
Personal Property	5151	\$4,821,614
Environmental Property	27	\$715,860
Boiler and Machinery	8	\$315,787
Aircraft Hull	1	\$118,026
Fidelity and Surety	2	\$191,225
Total	6,054	\$13,465,703

The following table shows the amount of payments made in Fiscal Year 2007 for the various property losses for the agencies with the largest losses ranked in descending order.

Figure 5

Agency	Property Losses
Arizona State University	\$4,087,169
University of Arizona	\$1,755,826
Department of Transportation	\$1,433,767
Department of Public Safety	\$1,343,153
Department of Corrections	\$761,812
Northern Arizona University	\$688,904
Department of Administration	\$624,162
Department of Economic Security	\$456,990
Department of Education	\$390,008
State Land Department	\$365,172
Sub-Total	\$11,906,963
All Other Agencies	\$1,558,740
Total	\$13,465,703

WORKERS' COMPENSATION PROGRAM

The State Workers' Compensation Program provides benefits to state employees injured during 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.

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 effective 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 2007 by agency.

Figure 7

Agency	WC Losses
Department of Corrections	\$4,987,507
Department of Economic Security	\$2,857,898
University of Arizona	\$2,254,499
Department of Transportation	\$1,948,696
Department of Public Safety	\$1,919,068
Department of Health Services	\$1,214,174
Arizona State University	\$1,119,368
Department of Juvenile Corrections	\$797,011
Arizona Superior Courts	\$699,733
Department of Emergency and Military Affairs	\$543,921
Sub-total	\$18,341,875
All other agencies	\$3,591,283
Total	\$21,933,158

Figure 8 shows the number of claims reported in Fiscal Year 2007.

Figure 8

Agency Ranking	Claims Reported
Department of Corrections	900
University of Arizona	403
Department of Economic Security	402
Arizona State University	308
Department of Transportation	259
Department of Public Safety	196
Department of Juvenile Corrections	178
Department of Health Services	172
Northern Arizona University	168
Arizona Superior Courts	155
All Other Agencies	498
Total of All Agencies	3,639

LOSS PREVENTION PROGRAM

The Arizona Revised Statutes require each state agency to conduct risk identification and assessment, and implement a loss prevention program to reduce the frequency and severity of losses in the following areas:

- Real and personal property protection
- Employee safety in the work environment
- Federal and State standards for industrial hygiene and environmental protection
- Negligent acts that cause harm to third-parties

The primary responsibility of the Loss Prevention Unit is to work with state agencies to reduce or eliminate their exposure to risk. Risk Management Loss Prevention provides professional services in a variety of areas including property, liability, environmental, and worker protection.

Loss Prevention provides professional Safety Consultants, Industrial Hygienists and Environmental Specialists to assist agencies in developing and implementing loss prevention programs. The Safety Consultants also provide assistance in solving everyday loss prevention problems in the following areas:

- Construction Safety
- Industrial Safety
- Hazard Communication
- Fire Safety
- Fair Safety
- Security
- Course of Construction
- Motor Vehicle Safety
- Emergency Planning
- Site and Hazard Assessment
- Health and Safety Education
- CPR
- Ergonomics

Assistance is provided in risk assessment and corrective action, program development and implementation by means of Assessment, Consultation, and Evaluation (ACE) Reports. An ACE report is a focused inspection and consultation to assess a particular risk exposure, along with written recommendations for corrective actions. The top three ACE subjects and recommended corrective actions are:

Fire and Security

- Fire Extinguisher Inspection, Maintenance, Service and Training
- Training on Fire Protection Practices
- Wildfire Preventative Actions
- Security Lighting Enhancements
- Fire Door Repair

Safety Inspection

- Guardrail Installation
- Emergency Evacuation Plans (Drills)
- Repair of Emergency Lighting/Exit Signs
- Secure Machinery

Building Indoor Air Quality

- Air Diffuser Cleaning
- General HVAC Maintenance
- Mold Consultation/Testing/Mitigation

OCCUPATIONAL HEALTH SERVICES

Occupational Health Services is responsible for the post offer physical examinations of potential state employees whose jobs put them at risk of occupational illness or injury. Occupational Health Services schedules, evaluates, and pays for these examinations for various state agencies.

In Fiscal Year 2007, 1,684 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 prospective 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 2007 was \$110,495.