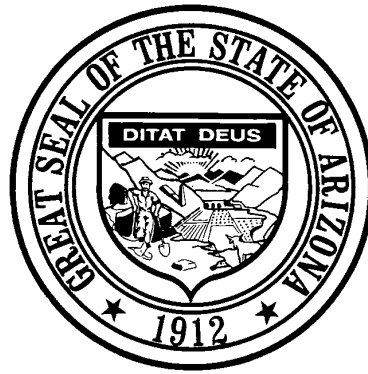


**JANET NAPOLITANO
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**ARIZONA DEPARTMENT OF ADMINISTRATION
RISK MANAGEMENT DIVISION**



FISCAL YEAR 2008 ANNUAL REPORT

RESPONSIBILITIES/STATUTES

The Fiscal Year 2008 Annual Report, as required by ARS §41-623, summarizes liability, property, and workers' compensation expenditures, and provides information on loss prevention efforts and overall achievements of the Risk Management Division during the fiscal year.

The Risk Management Division was established in 1976, and is tasked with the management and mitigation of liability, property and workers' compensation claims. Statutes found in ARS §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 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 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 2008 marked a year of significant achievements and continued growth.

- Loss Prevention developed a Fleet Program for the Arizona Department of Administration. The program requires all state agencies to develop and implement programs to ensure that drivers on state business attend periodic defensive driving training and that there is an annual review of the driver's motor vehicle record. The ADOA program will serve as a benchmark for other state agencies to implement Fleet Programs.
- Loss Prevention developed several guidance documents to assist state agencies:
 - *Building Indoor Air Quality* for initial assessment and mitigation
 - *Dam Report* to identify hazardous dams that are owned, operated or located on state land
 - *Early Return to Work* as an outreach to human resource representatives to initiate proactive programs within state agencies
 - *Environmental Rule Revision* to clarify insurance coverage, definitions, and terminology for environmental property claims.
- The insurance 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. The curriculum was expanded to include *Procurement Insurance Concepts & Terminology*, *Practice Workshops for Procurement Technicians*, and *Compliance: Certificates & Documentation*. Fifty state employees attended the training.
- Loss Prevention sponsored the "Adult Protective Services Act Seminar" conducted by an attorney who is a specialist in the Adult Protective Services Act. At the request of numerous state agencies, the seminar was also formatted as an interactive ninety-minute video training module available through Arizona Government University. Fifty-nine state employees attended the training.
- In April, Loss Prevention sponsored a workshop entitled "Fire Investigation Methods and Trouble Spots for Investigators and Insurance Representatives". Thirty-two state employees attending the training.
- Loss Prevention implemented a Property Loss Bulletin that provides state agencies with practical guidelines to prevent common property loss exposures.
- Loss Prevention conducted a statewide inventory of FDA approved Automated External Defibrillators (AED). The results showed that 324 AED units are in use by Arizona state agencies, boards and commissions. An AED program management guideline was also developed to provide a standardized approach to ensuring these life saving devices are available and serviceable in the event they may be needed.

- The Property & Liability Section sponsored a claims seminar in January, 2008 for thirty-one state employees representing all major state agencies. Topics included the property claims process, the pre-claim process for general liability claims, auto property claims procedures, medical malpractice, and subrogation.
- The Workers' Compensation Section sponsored an educational seminar in May, 2008 for fifty-eight state agency workers' compensation liaisons. The seminar theme was "Returning the Injured Worker Back To Work". Guest speakers included the Health and Safety Administrator, Arizona Department of Transportation; a physician from the Spine Institute of Arizona; a clinical psychologist; the Chief Counsel, Employment Law Section, Office of the Arizona Attorney General; and an Arizona Assistant Attorney General specializing in workers' compensation claims. As in past seminars, four occupational medical clinics (Banner Health, Concentra, MBI and USHealthWorks) provided support materials and refreshments for the event.
- A Document Management System (DMS) feasibility study was completed for the Property & Liability Section. The study concluded that the efficiency and effectiveness of the Property & Liability Section can be significantly improved through the use of a DMS. Funding and approval hurdles will be addressed during Fiscal Year 2009.

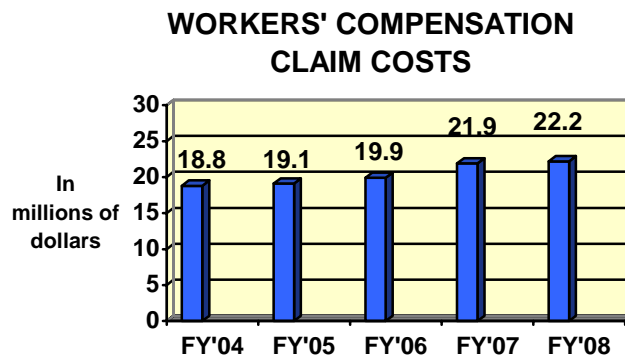
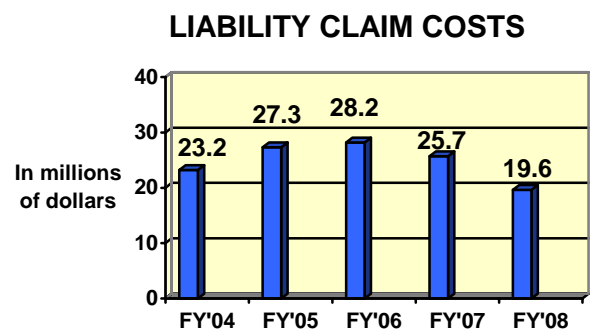
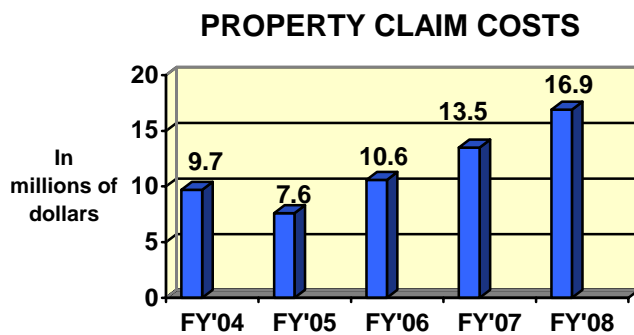
FISCAL YEAR 2008 COSTS AND COMPARISONS

Property expenditures in FY 2008 were \$16.9 million, which is an increase of \$3.4 million from FY 2007; and \$5.4 million greater than the five-year average of \$11.5 million. Fiscal Year 2008 included one extraordinary fire loss in the amount of \$2.5 million.

Liability expenditures for FY 2008 were \$19.6 million, down from \$25.7 million in FY 2007. The five-year average for liability expenditures is \$24.8 million.

Workers' Compensation expenditures in FY 2008 increased by \$300,000 over FY2007; \$22.2 million versus \$21.9 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.



LIABILITY PROGRAM

In the Fiscal Year 2008, there were 3,486 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 2008 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 | 11 | 52 | 39 | 787 | 3 | 205 |
| Department of Transportation | 7 | 95 | 115 | 475 | - | 32 |
| Department of Economic Security | 12 | 81 | 34 | 150 | - | 60 |
| Department of Public Safety | 20 | 190 | 23 | 46 | - | 16 |
| AZ Exposition and State Fair | - | - | 118 | 10 | - | 2 |
| Department of Administration | 21 | 98 | 4 | 6 | - | 13 |
| University of Arizona | 3 | 48 | 14 | 27 | 44 | 18 |
| Arizona State University | 3 | 21 | 11 | 27 | 1 | 59 |
| Subtotal | 77 | 585 | 358 | 1528 | 48 | 405 |
| All Other Agencies | 13 | 83 | 75 | 97 | 6 | 211 |
| Total Reported Incidents | 90 | 668 | 433 | 1625 | 54 | 616 |

Figure 2 shows the actual expenditures paid in the Fiscal Year 2008 for liability claims including outside counsel and allocated loss adjustment expenditures. Total liability claim payments for Fiscal Year 2008 were \$19.6 million. The ten agencies with the highest losses are ranked in descending order.

Figure 2

| Agency | Liability Losses |
|----------------------------------|---------------------|
| Department of Transportation | \$8,541,458 |
| Department of Economic Security | \$3,671,229 |
| Department of Public Safety | \$1,609,621 |
| University of Arizona | \$1,392,676 |
| Department of Veterans' Services | \$1,477,315 |
| Department of Corrections | \$1,124,257 |
| Northern Arizona University | \$384,678 |
| Arizona State University | \$367,431 |
| Department of Revenue | \$356,678 |
| Department of Administration | \$320,561 |
| | |
| Sub-Total | \$19,245,904 |
| All Other Agencies | \$370,971 |
| Total | \$19,616,875 |

General Liability – Bodily Injury claims were the most expensive claims in the liability category, representing 77% of the total cost. Personal Injury was second and represented 9% of the total cost. Medical malpractice payments were \$1.5 million. 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 | 90 | \$726,736 |
| Automobile Liability – Property | 668 | \$544,135 |
| General Liability – Bodily Injury | 433 | \$15,152,472 |
| General Liability – Property | 1625 | \$794,366 |
| Medical Malpractice | 54 | \$1,570,260 |
| Personal Injury | 616 | \$1,710,701 |
| Subtotal | | \$20,498,670 |
| Recoveries | | \$550,562 |
| Reimbursements | | \$331,233 |
| | | |
| Total | 3486 | \$19,616,875 |

PROPERTY PROGRAM

In Fiscal Year 2008, there were 5,758 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 | 819 | \$10,483,055 |
| Personal Property | 4906 | \$3,624,937 |
| Environmental Property | 22 | \$2,843,927 |
| Boiler and Machinery | 3 | \$8,662 |
| Aircraft Hull | 2 | \$2,773 |
| Fidelity and Surety | 6 | \$3,475 |
| Total | 5758 | \$16,966,829 |

The following table shows the amount of payments made in Fiscal Year 2008 for the various property losses for the agencies with the largest losses ranked in descending order.

Figure 5

| Agency | Property Losses |
|---------------------------------|---------------------|
| Arizona State University | \$6,195,492 |
| University of Arizona | \$1,982,445 |
| State Land Department | \$1,761,093 |
| Northern Arizona University | \$981,583 |
| Department of Transportation | \$955,372 |
| Department of Public Safety | \$683,173 |
| Department of Corrections | \$653,942 |
| AHCCCS | \$585,097 |
| Department of Economic Security | \$479,610 |
| Department of Health Services | \$291,942 |
| | |
| Sub-Total | \$14,569,749 |
| All Other Agencies | \$2,397,080 |
| Total | \$16,966,829 |

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 2008 by agency.

Figure 7

| Agency | WC Losses |
|--|---------------------|
| Department of Corrections | \$5,258,358 |
| Department of Economic Security | \$2,405,397 |
| University of Arizona | \$2,195,394 |
| Department of Transportation | \$1,867,483 |
| Department of Public Safety | \$1,702,226 |
| Arizona State University | \$1,302,665 |
| Department of Health Services | \$980,565 |
| Department of Juvenile Corrections | \$956,390 |
| Arizona Superior Courts | \$932,223 |
| Northern Arizona University | \$668,921 |
| Department of Game & Fish | \$535,222 |
| Arizona State Parks | \$513,078 |
| Department of Emergency and Military Affairs | \$439,217 |
| | |
| Sub-total | \$19,757,145 |
| All other agencies | \$2,413,603 |
| Total | \$22,170,748 |

Figure 8 shows the number of claims reported in Fiscal Year 2008.

Figure 8

| Agency Ranking | Claims Reported |
|------------------------------------|------------------------|
| Department of Corrections | 799 |
| Department of Economic Security | 421 |
| University of Arizona | 407 |
| Arizona State University | 287 |
| Department of Transportation | 256 |
| Arizona Superior Courts | 207 |
| Northern Arizona University | 190 |
| Department of Juvenile Corrections | 189 |
| Department of Public Safety | 191 |
| Department of Health Services | 152 |
| | |
| All Other Agencies | 522 |
| Total of All Agencies | 3621 |

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 2008, 1514 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 exams in Fiscal Year 2008 was \$121,462.