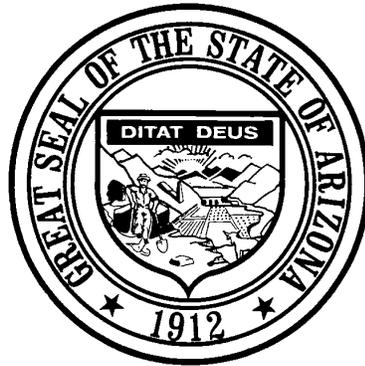


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**ARIZONA DEPARTMENT OF ADMINISTRATION
RISK MANAGEMENT DIVISION**



FISCAL YEAR 2013 ANNUAL REPORT

RESPONSIBILITIES/STATUTES

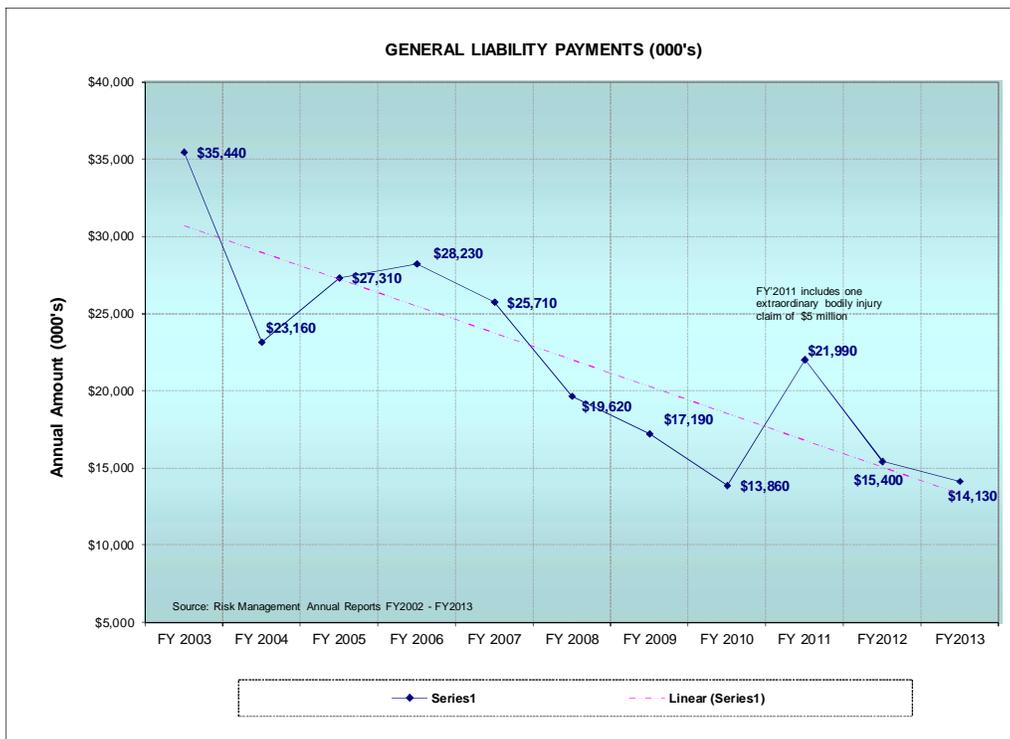
The Fiscal Year 2013 Annual Report, as required by A.R.S. § 41-623, summarizes liability, property, and workers' compensation expenditures, and provides information on loss prevention efforts and several achievements of the Arizona Department of Administration Risk Management Division during the fiscal 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 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 consultations with State agency personnel to recommend programs and procedures aimed at reducing or eliminating risk. 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.

ACHIEVEMENTS

Fiscal Year 2013 marked a year of significant achievements including:

- General liability expenditures have significantly decreased since Fiscal Year 2003 through numerous efforts:
 - *Established a Large Loss Support Section to focus on large liability insurance losses, partner with key agencies to reduce and/or eliminate high risk exposures, identify liability exposures, and evaluate damages at the inception of a claim.*
 - *Utilized effective risk transfer negotiation strategies on high risk insurance exposure contracts (e.g., Prison Privatization Projects, Department of Economic Security Child Protective Services, and Department of Transportation Highway Operations).*
 - *Developed a strong professional relationship with the Arizona Office of the Attorney General to aggressively pursue litigation strategies and successfully prevail in lawsuits filed against the State. Since Fiscal Year 2008, the State prevailed in twenty-three of thirty-eight court trials. Of the fifteen that were lost, seven judgments were significantly less than the final plaintiff offer.*



- The Workers' Compensation and Finance Sections completed the integration of paperless claims adjusting process by moving from a manual medical bill review and payment procedure to an automated on-line cost containment adjudication portal and payment interface. Improvements include:
 - *Immediate on-line access to review medical reports and approve medical bills which has significantly reduced adjudication time*
 - *Elimination of scanning invoices and related medical reports (approximately 45,000 medical invoices/year and 1,000 man-hours of scanning time/year)*
 - *Addition of a content search function allowing for instant retrieval of specific data and/or documents decreasing customer wait-time*
 - *Interface with the State's financial information system (AFIS) eliminated sorting, batching, coding, and entering over 60,000 invoices/year by hand*

- Risk Management enhanced its Document Management System (DMS) by streamlining work-flow processes and procedures including:
 - *The creation of a confidential collection to maintain property and liability conflict files and records*
 - *The development of a centralized import gateway to ensure workers' compensation documents are converted into machine-encoded text to significantly increase the percentage of searchable text and provide next-business-day visibility of all staff communication*
 - *The integration of claim identification and indexing of over 40,000 workers' compensation PDF documents*
 - *Centralized automation and tracking of the Workers' Annual Reporting of Income form*

- Loss Prevention implemented a number of improvements and efficiencies to assist State agencies in addressing loss exposures including:
 - *The development and implementation of Emergency Action Plans (EAP) for twenty-nine State buildings located on the Capitol Mall and in Tucson, and established a standardized EAP for all State buildings*
 - *The implementation of a Mass Communication text messaging and email system for 10,394 employees located on the Capitol Mall and in Tucson which enables the Department of Public Safety to alert employees of immediate security issues occurring at these two complexes*
 - *Provided risk insurance training sessions to one hundred ninety-eight employees from eleven State agencies (curriculum included dynamics of risk, procurement insurance concepts and terminology, fidelity/insurance crime prevention, special contingency risk management, and contract compliance)*
 - *Completed a health risk assessment of noise and lead exposure at the Arizona Department of Game and Fish, Ben Avery Shooting Range Facility to ensure best management practices are implemented to protect employees, the public, and the environment from excess noise and lead exposure*

- *Provided OSHA 30 Hour training to seventy-eight employees from seven State agencies*
- Risk Management successfully outsourced the coordination and medical review of post-offer physical examinations to a private contractor. Customer service and turn-around times in the hiring process have significantly improved. The average yearly cost of program administration before outsourcing was \$390,000; administrative costs in Fiscal Year 2013 were \$160,000, providing a Fiscal Year 2013 savings of \$230,000.
- The Property and Liability Section empowered two large agencies (the University of Arizona and the Arizona Department of Administration) to implement a decentralized process for handling vehicle windshield claims. The two agencies processed approximately three hundred and fifty windshield claims, considerably reducing claims adjusting time and expense.
- Risk Management recorded cost savings of \$1,960,000 through numerous claims adjusting subrogation efforts.

FISCAL YEAR 2013 COSTS AND COMPARISONS

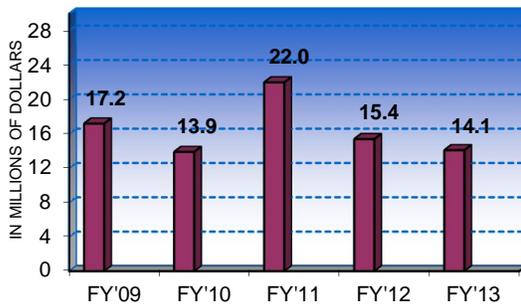
Liability expenditures for Fiscal Year 2013 were \$14.1 million. The five-year average for liability expenditures, excluding an extraordinary \$5 million claim in Fiscal Year 2011, is \$15.5 million.

Property expenditures in Fiscal Year 2013 were \$11.3 million. Fiscal Years 2012 and 2013 include payments for a hail damage occurrence in Fiscal Year 2011. The five-year average for property expenditures, excluding hail damage, is \$12.3 million.

Workers' Compensation expenditures in Fiscal Year 2013 showed a \$450,000 increase over Fiscal Year 2012. Increases resulted from medical inflation and statutory increases in lost time payments.

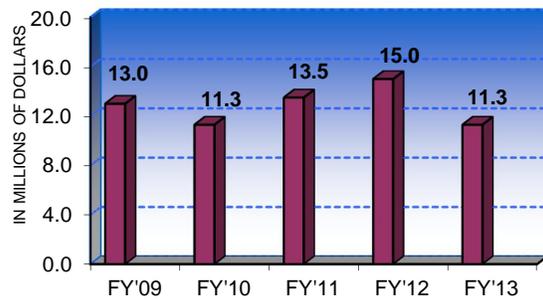
The following charts depict five-year cost comparisons:

LIABILITY CLAIM COSTS



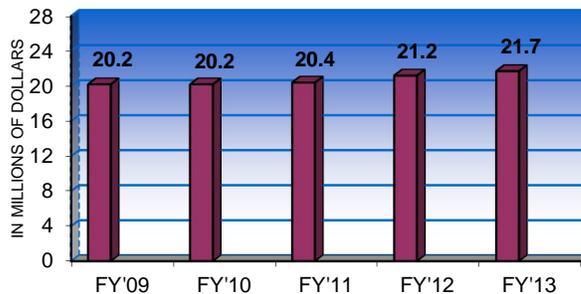
FY'11 includes one extraordinary bodily injury claim of \$5 million

PROPERTY CLAIM COSTS



FY'11 extraordinary claims due to hail damage: \$977,744
 FY'12 extraordinary claims due to hail damage: \$1,571,372
 FY'13 extraordinary claims due to hail damage: \$113,468

WORKERS' COMPENSATION CLAIM COSTS



LIABILITY PROGRAM

In the Fiscal Year 2013, there were 2,930 liability claims reported to the Risk Management Division. Total liability claim payments for Fiscal Year 2013, including outside counsel and allocated loss adjustment expenditures, were \$14.1 million. General liability claims include third party bodily injury and property damage, resulting from alleged negligence in oversight of State-managed programs. The category of personal liability includes such areas as employment discrimination, defamation, and civil rights violations. Medical malpractice includes errors and omissions by State medical professionals. 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 – Bodily Injury claims were the most expensive claims in the liability category, representing 66% of the total cost. Personal Liability was second and represented 17% of the total cost. The following table lists by loss type the frequency of claims reported in Fiscal Year 2013 and amounts paid regardless of occurrence date:

Loss Type	Frequency FY 2013	Liability Losses FY 2013
General Liability – Bodily Injury	432	\$9,308,000
Personal Liability	605	\$2,460,000
General Liability – Property	1199	\$497,000
Automobile Liability – Bodily Injury	79	\$325,000
Automobile Liability – Property	578	\$590,000
Medical Malpractice	37	\$950,000
Total	2930	\$14,130,000

The following table shows frequency of claims reported and liability losses in Fiscal Year 2013 for the agencies with the largest liability losses:

Agency	Frequency FY 2013	Liability Losses FY 2013
Department of Transportation	505	\$5,576,000
Department of Corrections	920	\$2,314,000
Office of Attorney General	16	\$1,435,000
Department of Economic Security	444	\$1,238,000
University of Arizona	138	\$1,094,000
Department of Public Safety	216	\$635,000
Arizona State University	104	\$614,000
Department of Health Services	26	\$346,000
Sub-Total	2369	\$13,252,000
All Other Agencies	561	\$878,000
Total	2930	\$14,130,000

PROPERTY PROGRAM

In Fiscal Year 2013, there were 4,877 property claims reported by State agencies. Losses totaled \$11.3 million.

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. Environmental property covers State buildings and State lands that sustain environmental damage.

The following table lists by loss type the frequency of claims reported in Fiscal Year 2013 and amounts paid regardless of occurrence date:

Loss Type	Frequency FY 2013	Property Losses FY 2013
Real Property	722	\$7,650,000
Personal Property	4143	\$3,262,000
Environmental Property	5	\$354,000
Other	7	\$34,000
Total	4877	\$11,300,000

Frequency of claims reported and property losses in Fiscal Year 2013 for the agencies with the largest property losses are as follows:

Agency	Frequency FY 2013	Property Losses FY 2013
Arizona State University	369	\$3,120,000
Department of Corrections	645	\$1,662,000
University of Arizona	376	\$1,293,000
Arizona Department of Transportation	932	\$996,000
Department of Game and Fish	185	\$670,000
AHCCCS	2	\$638,000
Department of Public Safety	886	\$604,000
Northern Arizona University	260	\$461,000
Department of Economic Security	519	\$447,000
Department of Administration	508	\$398,000
Sub-Total	4682	\$10,288,000
All Other Agencies	195	\$1,012,000
Total	4877	\$11,300,000

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, allowing them to call in the first report of an industrial injury to the workers' compensation section 24 hours a day, 7 days a week.

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 implement an 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 recovery of injured employees.

The following table lists by loss type the frequency of claims reported in Fiscal Year 2013 and amounts paid regardless of occurrence date:

Agency	Frequency FY 2013	WC Losses FY 2013
Department of Corrections	1619	\$6,742,000
Department of Economic Security	388	\$2,337,000
Department of Transportation	204	\$1,583,000
Department of Public Safety	229	\$1,580,000
University of Arizona	329	\$1,520,000
Arizona State University	226	\$1,183,000
Department of Health Services	314	\$1,100,000
Department of Juvenile Corrections	140	\$1,100,000
Arizona Superior Courts	214	\$907,000
Northern Arizona University	172	\$604,000
Sub-total	3835	\$18,656,000
All other agencies	575	\$3,044,000
Total	4410	\$21,700,000

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 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 Section is to work with State agencies in a variety of areas including property, liability, environmental, and worker protection to reduce or eliminate their exposure to risk. Loss Prevention provides professional safety consultants, industrial hygienists and environmental specialists to assist agencies in developing and implementing loss prevention programs. 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 2013, 1,249 post-offer exams were conducted. The average number of days to process exam findings was less than six days (measures the turn-around period from the time the agency requests a physical exam for the prospective State employee until the agency is notified of the candidate's clearance). The total cost of post-offer exams in Fiscal Year 2013 was \$75,660.

RISK MANAGEMENT FUNDING SOURCES

Funding for Risk Management programs is provided from the Risk Management Revolving Fund. Revenues into the fund are generated as follows:

- An actuarial projection is developed for property, liability, 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 and invoiced to agencies based on a formula assessing risk exposure as well as historical losses.

- An actuarial projection is also developed for workers' compensation time loss, 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.