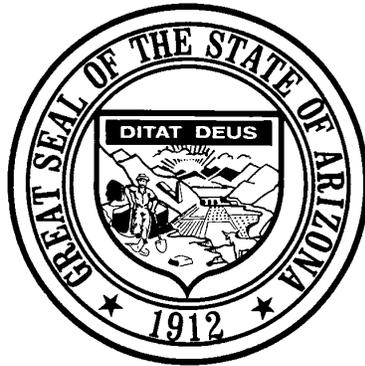


**JANICE K. BREWER
GOVERNOR**

**BRIAN C. MCNEIL
DIRECTOR**

**ARIZONA DEPARTMENT OF ADMINISTRATION
RISK MANAGEMENT DIVISION**



FISCAL YEAR 2014 ANNUAL REPORT

RESPONSIBILITIES/STATUTES

The Fiscal Year 2014 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 2014 marked a year of significant achievements:

- The State prevailed in six of nine court trials. Of the three judgments that were lost, all were awarded amounts significantly less than the final plaintiff offer.
- Risk Management recorded cost savings of over \$5 million through numerous claims adjusting subrogation efforts.
- The Property & Liability Section conducted in-house property procedure training for the Northern Arizona University Risk Management Department.
- The Workers' Compensation Section conducted a seminar for state agency workers' compensation liaisons. The seminar topic was Post-Traumatic Stress Disorder (PTSD). Guest speakers included representatives of the medical and legal communities as well as an injured state worker (an Arizona Department of Public Safety officer). Forty-two state agency workers' compensation liaisons representing twenty-six agencies attended the seminar.
- Risk Management enhanced its Document Management System (DMS) by streamlining work-flow processes and procedures including:
 - *The implementation of a centralized repository gateway for all workers' compensation email communications, documents, and images resulting in the proper relocation of professional and support functions*

- *A review of property and liability claims coding to begin clean-up procedures for a more streamlined indexing scheme*
- *Loss Prevention implemented a number of improvements and efficiencies to assist state agencies in addressing loss exposures including:*
- *Provided ongoing development, support, and implementation of Emergency Action Plans (EAP) for state buildings located on the Capitol Mall and at the Tucson complex*
 - *Established a Capitol Mall emergency plan working group (consisting of emergency coordinators from agencies located on the mall) to enhance communication regarding safety and security issues*
 - *Deployed the Mass Communication System for over 10,000 employees located on the Capitol Mall and at the Tucson complex which enables the Department of Public Safety to alert employees of immediate security issues occurring at these two complexes*
 - *Conducted risk insurance training sessions for three hundred fifty-five employees from twenty-six state agencies (curriculum included dynamics of risk, procurement insurance concepts and terminology, fidelity/insurance crime prevention, special contingency risk management, and contract compliance)*
 - *Provided loss prevention training to six hundred sixty-five employees from thirty-six state agencies (curriculum included driver safety training, emergency action plan development, fire protection awareness, OSHA 300, asbestos awareness refresher, AED/CCO-SPR, OSHA 10 & OSHA 30 certification, and indoor air quality)*
 - *Completed a health risk assessment of lead exposure at all (nine) Arizona Department of Game and Fish outdoor shooting ranges resulting in the implementation of revisions to best management practices to protect employees, the public, and the environment*
 - *Partnered with the Arizona Department of Environmental Quality and the Arizona State Land Department to mitigate the environmental impacts to Boulder Creek caused by a large tailings pile from the Hillside Mine located on State Trust Land*

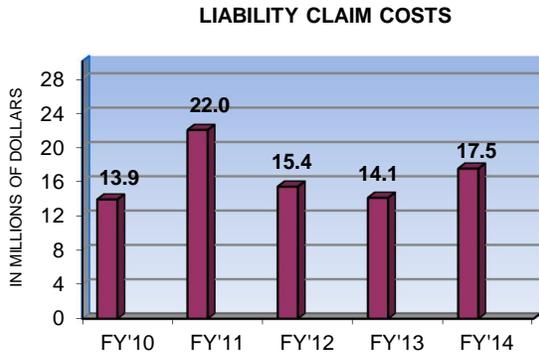
FISCAL YEAR 2014 COSTS AND COMPARISONS

Liability expenditures for Fiscal Year 2014 were \$17.5 million. Increases over Fiscal Year 2013 resulted from higher than average medical malpractice settlements. The five-year average for liability expenditures, excluding an extraordinary \$5 million bodily injury claim in Fiscal Year 2011, is \$15.6 million.

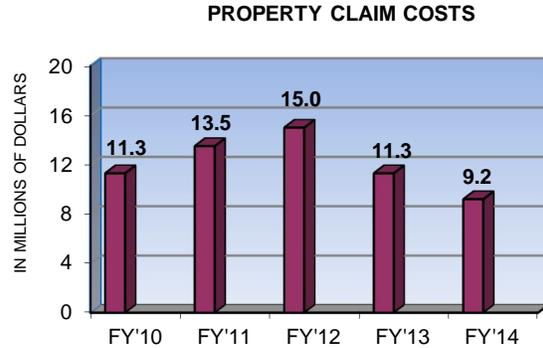
Property expenditures in Fiscal Year 2014 were \$9.2 million. Fiscal Years 2011, 2012, and 2013 include payments for a hail damage occurrence in Fiscal Year 2011. The five-year average for property expenditures, excluding extraordinary hail damage in Fiscal Years 2011, 2012 and 2013, is \$11.5 million.

Workers' Compensation expenditures in Fiscal Year 2014 showed a \$2.4 million dollar increase over Fiscal Year 2013. Increases resulted from medical inflation and statutory increases in lost time payments.

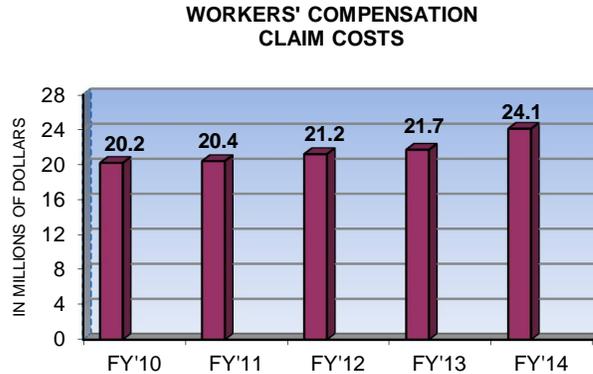
The following charts depict five-year cost comparisons:



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



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



LIABILITY PROGRAM

In the Fiscal Year 2014, there were 3,032 liability claims reported to the Risk Management Division. Total liability claim payments for Fiscal Year 2014, including outside counsel and allocated loss adjustment expenditures, were \$17.5 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 51% of the total cost. Personal Liability was second and represented 20% of the total cost.

The following table lists by loss type the frequency of claims reported in Fiscal Year 2014 and amounts paid regardless of occurrence date:

Loss Type	Frequency FY 2014	Liability Losses FY 2014
General Liability – Bodily Injury	499	\$8,950,000
Personal Liability	562	\$3,525,000
Medical Malpractice	61	\$3,125,000
Automobile Liability – Bodily Injury	80	\$945,000
General Liability – Property	1238	\$585,000
Automobile Liability – Property	592	\$395,000
Total	3032	\$17,525,000

The following table shows Fiscal Year 2014 liability losses and frequency of claims for agencies with the largest liability losses:

Agency	Liability Losses FY 2014	Frequency FY 2014
University of Arizona	\$4,250,000	185
Department of Corrections	\$3,185,000	844
Superior Courts	\$2,372,000	69
Department of Transportation	\$1,934,000	498
Department of Economic Security	\$1,194,000	387
Office of Attorney General	\$1,200,000	8
Department of Public Safety	\$766,000	248
Arizona State University	\$486,000	101
Department of Health Services	\$315,000	27
Department of Administration	\$269,000	190
Sub-Total	\$15,971,000	2557
All Other Agencies	\$1,554,000	475
Total	\$17,525,000	3032

PROPERTY PROGRAM

In Fiscal Year 2014, there were 4,683 property claims reported by state agencies. Losses totaled \$9.2 million.

The top two loss categories by frequency of occurrence and severity of payments were personal and real property. Personal property includes state-owned vehicles, furniture, computers and other tangible property. Real property covers state-owned facilities such as office buildings, prison facilities and general infrastructure. 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 2014 and amounts paid regardless of occurrence date:

Loss Type	Frequency FY 2014	Property Losses FY 2014
Personal Property	3957	\$4,247,000
Real Property	717	\$4,230,000
Fidelity and Surety	0	\$520,000
Environmental Property	9	\$238,000
Total	4,683	\$9,235,000

Property losses and frequency of claims reported in Fiscal Year 2014 for the agencies with the largest property losses are as follows:

Agency	Property Losses FY 2014	Frequency FY 2014
Arizona State University	\$3,600,000	315
University of Arizona	\$1,322,000	350
Northern Arizona University	\$975,000	321
Department of Corrections	\$703,000	726
Department of Public Safety	\$679,000	883
Department of Game and Fish	\$592,000	156
Department of Transportation	\$488,000	995
Department of Administration	\$353,000	221
Department of Economic Security	\$346,000	543
Sub-Total	\$9,048,000	4510
All Other Agencies	\$177,000	173
Total	\$9,235,000	4683

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 with sixty-five percent of injured workers using the service. 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 amounts paid in Fiscal Year 2014 regardless of occurrence date, and the frequency of claims reported by agency:

Agency	WC Losses FY 2014	Frequency FY 2014
Department of Corrections	\$7,280,000	1537
Department of Economic Security	\$2,440,000	432
Department of Public Safety	\$2,040,000	196
University of Arizona	\$1,876,000	291
Department of Transportation	\$1,865,000	229
Department of Health Services	\$1,456,000	207
Arizona Superior Courts	\$1,120,000	234
Arizona State University	\$1,111,000	257
Department of Juvenile Corrections	\$1,060,000	142
Northern Arizona University	\$550,000	148
Sub-total	\$20,798,000	3673
All other agencies	\$3,273,000	529
Total	\$24,071,000	4202

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 2014, 1,297 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 2014 was \$96,048.

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.