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RISK MANAGEMENT DIVISION**



FISCAL YEAR 2015 ANNUAL REPORT

RESPONSIBILITIES/STATUTES

The Fiscal Year 2015 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 responsible for 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 combination of purchased commercial insurance and risk retention.

ACHIEVEMENTS

Fiscal Year 2015 marked a year of significant achievements:

- The State prevailed in four of seven court trials. Of the three judgments that were lost, one award was significantly less than the final plaintiff offer.
- Risk Management recorded cost savings of over \$2.5 million through numerous subrogation efforts.
- The Workers' Compensation Section began the implementation of a Medical Cost Containment Program aimed at significantly improving injured workers' medical care and providing an annual cost savings.
- The Workers' Compensation Section conducted two seminars for state agency workers' compensation liaisons. The first seminar addressed frequently-asked questions regarding workers' compensation procedures and legalities, and the second seminar introduced the new Medical Cost Containment Program. Guest speakers included representatives of the medical and legal communities. Seventy-eight state agency workers' compensation liaisons representing thirty-five agencies attended the seminars.
- The Loss Prevention Section provided training to eight hundred forty-two employees from thirty-nine state agencies (curriculum included NFPA life safety code, fire alarm and signaling code, fire alarm inspection testing and maintenance, fuel tank management, underground storage tank operator training, emergency action plan development, fire protection awareness, OSHA 300 log, asbestos awareness refresher,

international travel awareness, ergonomics train-the-trainer, and forklift operator training).

- The Loss Prevention Section reviewed and updated twenty-two Loss Prevention Program Elements which provide guidance to state agencies for the development of loss prevention programs.
- The Loss Prevention Section completed assessments of the following:
 - 126 contracts reviews
 - 50 building plan reviews
 - 9 site program reviews
 - 34 ergonomic reviews
 - 11 industrial hygiene studies

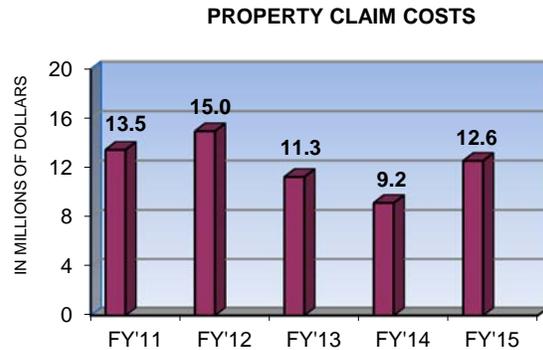
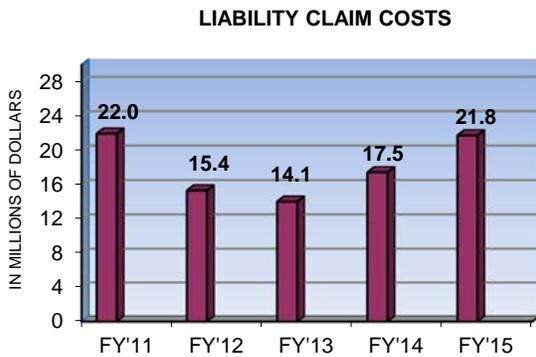
FISCAL YEAR 2015 COSTS AND COMPARISONS

Liability expenditures for Fiscal Year 2015 were \$21.8 million. The five-year average for liability expenditures (excluding two extraordinary bodily injury claims of \$5 million in Fiscal Year 2011, and \$7.8 million in Fiscal Year 2015) is \$15.6 million.

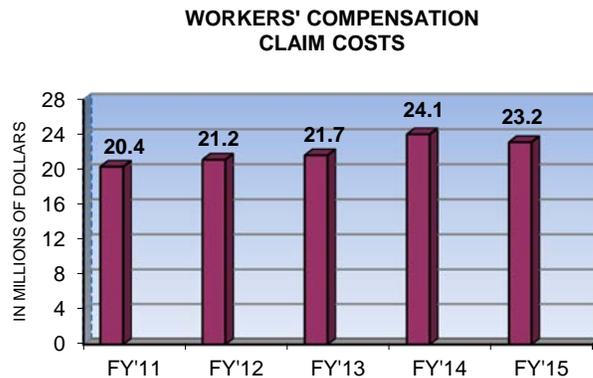
Property expenditures in Fiscal Year 2015 were \$12.6 million. The five-year average for property expenditures is \$12.3 million.

Workers' Compensation expenditures in Fiscal Year 2015 showed a \$900,000 dollar decrease over Fiscal Year 2014.

The following charts depict five-year cost comparisons:



FY'11 includes one extraordinary bodily injury claim of \$5 million
 FY'15 includes one extraordinary bodily injury claim of \$7.8 million



LIABILITY PROGRAM

In the Fiscal Year 2015, there were 3,289 liability claims reported to the Risk Management Division. Total liability claim payments for Fiscal Year 2015, including outside counsel and allocated loss adjustment expenditures, were \$21.8 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 78% of the total cost. Personal Liability was second and represented 9% of the total cost.

The following table lists by loss type the frequency of claims reported in Fiscal Year 2015 and amounts paid regardless of occurrence date:

Loss Type	Frequency FY 2015	Liability Losses FY 2015
General Liability – Bodily Injury	418	\$16,900,000
Personal Liability	594	\$2,000,000
Medical Malpractice	72	\$1,400,000
Automobile Liability – Bodily Injury	75	\$500,000
General Liability – Property	1455	\$520,000
Automobile Liability – Property	675	\$480,000
Total	3289	\$21,800,000

The following table shows Fiscal Year 2015 liability losses and frequency of claims for agencies with the largest liability losses:

Agency	Liability Losses FY 2015	Frequency FY 2015
Department of Transportation	\$10,100,000	708
Department of Economic Security	\$4,500,000	384
Department of Corrections	\$2,500,000	932
University of Arizona	\$1,700,000	190
Arizona State University	\$540,000	91
Department of Public Safety	\$486,000	249
Department of Forestry	\$389,000	1
Office of Attorney General	\$332,000	22
Department of Administration	\$275,000	122
Sub-Total	\$20,822,000	2699
All Other Agencies	\$978,000	590
Total	\$21,800,000	3289

PROPERTY PROGRAM

In Fiscal Year 2015, there were 5,597 property claims reported by state agencies. Losses totaled \$12.6 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 2015 and amounts paid regardless of occurrence date:

Loss Type	Frequency FY 2015	Property Losses FY 2015
Personal Property	4493	\$3,900,000
Real Property	1099	\$8,600,000
Environmental Property	5	\$100,000
Total	5,597	\$12,600,000

Property losses and frequency of claims reported in Fiscal Year 2015 for the agencies with the largest property losses are as follows:

Agency	Property Losses FY 2015	Frequency FY 2015
Arizona State University	\$4,600,000	606
Department of Transportation	\$1,800,000	1145
Department of Corrections	\$1,100,000	741
University of Arizona	\$1,000,000	447
Department of Public Safety	\$950,000	1002
Northern Arizona University	\$623,000	359
Department of Economic Security	\$485,000	599
Department of Administration	\$322,000	197
Department of Game and Fish	\$251,000	188
Sub-Total	\$11,131,000	5284
All Other Agencies	\$1,469,000	313
Total	\$12,600,000	5597

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 2015 regardless of occurrence date, and the frequency of claims reported by agency:

Agency	WC Losses FY 2015	Frequency FY 2015
Department of Corrections	\$7,900,000	1551
Department of Economic Security	\$2,200,000	416
Department of Public Safety	\$2,000,000	219
Department of Transportation	\$1,900,000	210
University of Arizona	\$1,600,000	280
Arizona State University	\$1,150,000	246
Department of Health Services	\$1,000,000	164
Arizona Superior Courts	\$1,000,000	203
Department of Juvenile Corrections	\$1,000,000	129
Northern Arizona University	\$560,000	177
Sub-total	\$20,310,000	3595
All other agencies	\$2,890,000	574
Total	\$23,200,000	4169

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 2015, 1,138 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 2015 was \$93,159.

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.