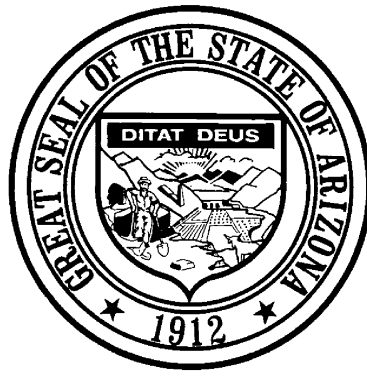


Douglas A. Ducey
Governor

Gilbert Davidson
Chief of Operations
and Interim Director

**ARIZONA DEPARTMENT OF ADMINISTRATION
RISK MANAGEMENT DIVISION**



FISCAL YEAR 2018 ANNUAL REPORT

RESPONSIBILITIES/STATUTES

The Fiscal Year 2018 Annual Report, as required by A.R.S. § 41-623, summarizes liability, property, and workers' compensation expenditures, and it 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.

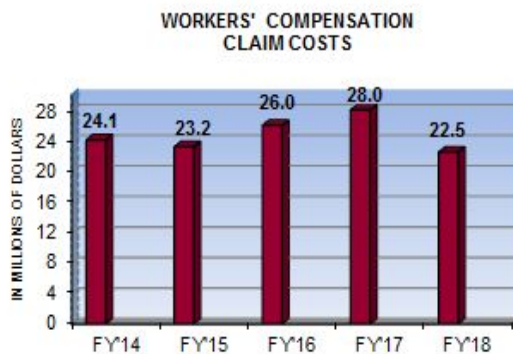
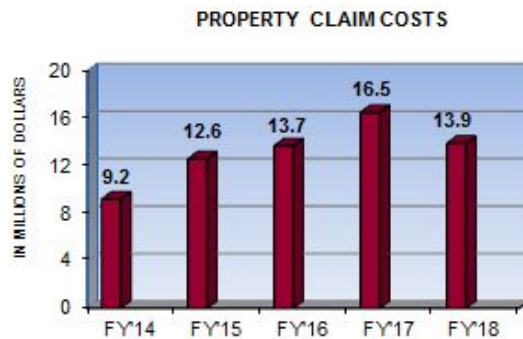
FISCAL YEAR 2018 COSTS AND COMPARISONS

Liability expenditures for Fiscal Year 2018 were \$27.2 million. The five-year average for liability expenditures is \$24.3 million.

Property expenditures in Fiscal Year 2018 were \$13.9 million. The five-year average for property expenditures is \$13.1 million.

Workers' Compensation expenditures in Fiscal Year 2018 showed a decrease of \$5.5 million over Fiscal Year 2017.

The following charts depict five-year cost comparisons:



LIABILITY PROGRAM

In Fiscal Year 2018, there were 2,963 liability claims reported to the Risk Management Division. Total liability claim payments for Fiscal Year 2018, including outside counsel and allocated loss adjustment expenditures, were \$27.2 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 72% of the total cost.

The following table lists by loss type the frequency of claims reported in Fiscal Year 2018 and amounts paid regardless of occurrence date:

Loss Type	Liability Losses FY 2018	Frequency FY 2018
General Liability - Bodily Injury	\$19,640,400.29	366
Auto Liability - Bodily Injury	\$1,096,755.32	62
Personal Injury	\$3,104,629.63	554
General Liability - Property	\$556,237.30	1,235
Auto Liability Property	\$803,792.44	714
Medical Malpractice	\$1,357,213.00	29
Personal Employment Injury	\$649,019.71	0
Unknown	\$39,613.53	3
Total	\$27,247,661.22	2,963

The following table shows Fiscal Year 2018 liability losses and frequency of claims for agencies with the largest liability losses:

Agency	Liability Losses FY 2018	Frequency FY 2018
Department of Transportation	\$13,474,698.12	619
Department of Corrections	\$1,557,547.00	794
Department of Public Safety	\$2,660,952.00	320
Attorney General's Office	\$544,362.22	23
Courts	\$530,430.42	70
Department of Economic Security	\$563,803.30	98
Department of Child Safety	\$744,897.00	347
University of Arizona	\$2,634,964.00	146
Sub-total	\$22,711,654.06	2,417
All Other Agencies	\$4,536,007.16	546
Total	\$27,247,661.22	2,963

PROPERTY PROGRAM

In Fiscal Year 2018, there were 508 property claims reported by state agencies. Losses totaled \$13.9 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 2018 and amounts paid regardless of occurrence date:

Loss Type	Property Losses FY 2018	Frequency FY 2018
Personal Property	\$3,650,471.54	78
Environmental Property	\$66,851.85	3
Real Property	\$10,156,710.92	427
Total	\$13,874,034.31	508

Property losses and frequency of claims reported in Fiscal Year 2018 for the agencies with the largest property losses are as follows:

Agency	Property Losses FY 2018	Frequency FY 2018
Department of Education	\$2,899,616.26	3
Arizona State University	\$1,900,949.85	184
University of Arizona	\$1,383,596.98	70
Department of Public Safety	\$1,019,332.00	13
AHCCCS	\$1,467,347.36	0
Northern Arizona University	\$1,413,637.98	60
Department of Corrections	\$481,692.68	31
Department of Transportation	\$508,531.09	39
Gaming	\$400,018.07	49
Department of Administration	\$235,968.05	43
Sub-total	\$11,710,690.32	492
All Other Agencies	\$2,163,343.99	16
Total	\$13,874,034.31	508

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 157 hospitals, 209,430 physicians and 1039 industrial clinics are available to employees within the network.

The Early Claims Notification System continues to be successful with 70% 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 a modified duty position enables the employee to make a smooth and safe transition to his/her former duties or to a new position that is suitable for the employee. 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 2018 and the frequency of claims reported by agency:

Agency	WC Losses FY 2018	Frequency FY 2018
Department of Corrections	\$7,856,828.77	1,493
Department of Public Safety	\$2,544,996.33	246
Department of Transportation	\$1,996,107.28	154
Department of Child Safety	\$2,070,548.28	137
University of Arizona	\$1,233,672.49	340
Arizona State University	\$1,016,832.67	223
Arizona Superior Courts	\$870,730.57	202
Department of Juvenile Corrections	\$711,923.54	110
Department of Health Services	\$634,445.15	158
Northern Arizona University	\$359,095.64	115
Sub-total	\$19,295,180.72	3,178
All Other Agencies	\$3,207,259.14	1,000
Total	\$22,502,439.86	4,178

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

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.