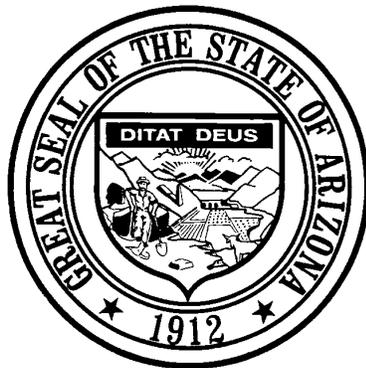


**ARIZONA DEPARTMENT OF ADMINISTRATION
RISK MANAGEMENT SECTION**

**JANET NAPOLITANO
GOVERNOR**

**BETSEY BAYLESS
DIRECTOR**



FISCAL YEAR 2003 ANNUAL REPORT

RESPONSIBILITIES/STATUTES

The Fiscal Year 2003 Annual Report, as required by A.R.S. § 41-623, summarizes liability, property and workers' compensation losses; and it provides information on the loss prevention efforts and overall achievements of the Risk Management Section during the fiscal year.

The Risk Management Section of the Arizona Department of Administration, established in 1976, is tasked with the management of the property, liability and workers' compensation losses of the state. 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 and limits of that coverage. The Risk Management Section provides consultants to state agencies to help agency personnel develop specific programs to reduce or eliminate risk to the state. In addition, Risk Management purchases all of the insurance policies for the state and administers the self-insurance program.

Funding for Risk Management programs is provided through the Permanent Risk Management Revolving Fund and the Workers' Compensation Revolving Fund. Moneys flow into the Risk Management Revolving Fund from the agencies on an allocation basis. An actuarial-projected need for the fiscal year is developed for property and liability losses. In addition, estimates are prepared for costs of administration, insurance premiums and the Liability Management Section of the Office of the Attorney General, which defends the state against lawsuits. 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 share of the total need.

The Workers' Compensation Revolving Fund moneys come to Risk Management every payroll cycle as an element of Employee Related Expenses (ERE). The amount charged to each agency for each employee is also on a formula basis starting with an actuarial-projected need for the year plus insurance and other related costs. A formula is used to divide the total funding requirement to agencies, using the classification of the employee modified by the loss history of the particular agency for that particular classification.

Achievements and Growth

Fiscal Year 2003 marked a year of significant achievements and continued growth of the Risk Management Section.

- The Risk Management Loss Prevention Safety Academy received the National Association of State Chief Administrators (NASCA) Outstanding Program Award. The award is presented annually to recognize state agencies, organizations or individuals that have demonstrated outstanding leadership skills in innovation, originality, effectiveness and applicability in state government.
- Sandy Estes, Industrial Hygienist, received the ADOA Career Excellence Award at the annual ADOA Employee Recognition ceremony. The award recognizes one ADOA employee who demonstrates exceptional levels of performance within their career field and makes an outstanding contribution to the agency and its goals.
- In FY 2003, two Loss Prevention Specialist Academies were completed with 38 graduates. While the Academy was only offered in Phoenix this year due to budget constraints, this unique safety training approach has proven so valuable to agencies that several state employees were sent from out-state locations to attend the training in Phoenix.
- A record number of state employees completed various defensive driving courses through the Loss Prevention Training Unit in FY 2003:
 - ✚ 2,436 in Behind-the-Wheel
 - ✚ 4,988 in Van Dynamics and Van Dynamics Instructor Training
 - ✚ 7,304 in Top Driver and Top Driver Instructor Training
- The Workers' Compensation Unit recovered \$77,284 from the Special Fund of Arizona on apportionment claims and \$133,870 from four claims that exceeded the reinsurance threshold.
- Risk Management continued the implementation of the RiskEnvision (including WebEnvisions, a web-based claims reporting system) information system that provides state of the art and streamlined claims adjusting and information for customer service and reporting.

FISCAL YEAR 2003 COSTS AND COMPARISONS

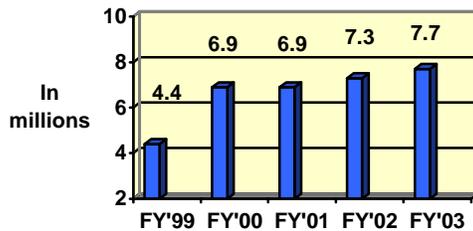
Risk Management compared Fiscal Year 2003 results for Workers' Compensation claim costs as well as the frequency and severity of Property and Liability losses against Fiscal Year 2002 and the last five years.

Workers' Compensation costs in FY 2003 increased by \$2.2 million versus FY 2002; \$15.6 million versus \$17.8 million.

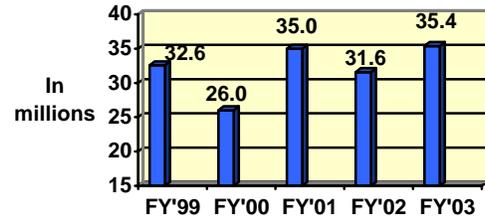
Property losses in FY 2003 were at \$7.68 million, which is an increase of \$340,000 from FY 2002; and \$1 million greater than the five-year average of \$6.6 million. Liability costs for FY 2003 were \$35.4 million, up from \$31.6 million in FY 2002. The five-year average for liability costs is \$32.1 million.

The charts that follow depict five-year comparisons, distribution of total costs for the year, and distribution of claims by loss type for the year.

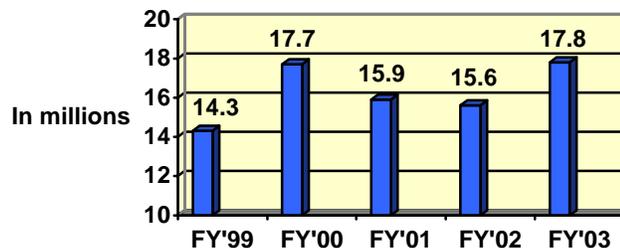
STATE PROPERTY CLAIM COSTS



LIABILITY CLAIM COSTS



WORKERS' COMPENSATION CLAIM COSTS



LIABILITY PROGRAM

In the Fiscal Year 2003, there were 3535 liability claims reported to the Risk Management Section against the state of Arizona. This figure is a slight decrease from the 3584 claims reported in 2002. The four most frequently occurring liability losses for FY 2003 were third party general liability claims, third party auto liability, personal injury claims and third party bodily injury claims. The category of personal injury includes such areas as employment discrimination, defamation, and civil rights violations. General liability covers slips and falls on state property, damage to third party property, highway maintenance, and negligence in oversight of state-managed programs. Automobile liability includes claims for injuries and damage to properties of third parties resulting from the use of automobiles by state employees engaged in state business. Figure 1 shows the number of incidents reported in Fiscal Year 2003 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 Transportation	24	97	196	481	0	23
Department of Corrections	19	45	59	604	1	282
Department of Public Safety	39	181	26	22	0	20
Department of Administration	19	126	2	24	0	4
Department of Economic Security	16	42	57	213	1	52
University of Arizona	5	54	14	34	47	22
Arizona State University	2	28	20	41	0	26
Northern Arizona University	2	25	9	10	1	11
All Other Agencies	16	73	95	111	10	205
Total Reported Incidents	142	671	478	1540	59	645

Dollars paid do not necessarily relate to claims filed in the same year, as liability claims are often open for several years before a settlement is reached or the claims go through the legal system. Figure 2 shows the actual dollars paid in FY 2003 for indemnity payments, processing expenses and legal defense. Total liability claim payments for Fiscal Year 2003 were \$35.4 million. The ten agencies with the highest losses are ranked in descending order.

Figure 2

Agency	Liability Losses
Department of Transportation	\$13,452,296
Department of Corrections	\$ 4,063,263
Mine Inspector	\$ 3,271,716
University of Arizona	\$ 2,663,043
Corporation Commission	\$ 2,266,774
Arizona State University	\$ 1,821,664
Department of Economic Security	\$ 1,755,002
Department of Administration	\$ 1,508,839
Department of Public Safety	\$ 1,127,513
Industrial Commission	\$ 793,425
Sub-Total	\$32,723,535
All Other Agencies	\$ 2,714,176
Total	\$35,437,711

General liability claims were the most frequent and the most expensive claims in the liability category, representing 63% of the total. Personal Injury was the second highest category with 20% of the total payments. Auto liability, medical malpractice and environmental liability payments make up the remainder. The following table breaks down the number of claims and amounts paid by loss type:

Figure 3

Loss Type	Frequency	Severity
Automobile Liability-Bodily Injury	142	\$ 783,124
Automobile Liability-Property	671	\$ 3,073,513
General Liability-Bodily Injury	478	\$17,580,459
General Liability-Property	1540	\$ 4,850,480
Medical Malpractice	59	\$ 1,945,900
Personal Injury	645	\$ 7,204,235
Total	3535	\$35,437,711

PROPERTY PROGRAM

In Fiscal Year 2003, there were 5,355 property claims filed by state agencies, which is a 3% increase over the previous year's reported 5,203 claims.

The top four loss types by frequency of occurrence are vehicle, personal property and real property. Covered under the vehicle category are state-owned vehicles; personal property includes furniture, computers and other tangible property excluding land or buildings. Real property covers the facilities owned by the state such as office buildings, prison facilities and general infrastructure. Figure 4 shows the frequency and severity for property losses.

Figure 4

Loss Type	Frequency	Severity
Real Property	589	\$3,916,848
Personal Property	608	\$1,236,169
Property-Vehicle	4148	\$2,494,289
Boiler and Machinery	9	\$ 16,213
Aircraft Hull	1	\$ 19,766
Total	5355	\$7,683,285

The following table shows the amount of payments made in FY2003 for the various property losses for the agencies with the largest losses ranked in descending order.

Figure 5

Agency	Property Losses
Department of Corrections	\$1,387,293
Arizona State University	\$1,064,383
Department of Transportation	\$ 898,873
University of Arizona	\$ 760,501
Department of Public Safety	\$ 645,365
Department of Administration	\$ 448,819
Department of Economic Security	\$ 364,132
State Land Department	\$ 229,861
Sub-Total	\$5,799,227
All Other Agencies	\$1,884,058
Total	\$7,683,285

WORKERS' COMPENSATION PROGRAM

The State Workers' Compensation Program provides benefits to state employees injured in the course and scope of their employment. The program pays medical, surgical and hospital disability benefits as provided by law under the Arizona Workers' Compensation Act.

In Fiscal Year 2003, the Workers' Compensation Unit cost increased from Fiscal Year 2002 by \$2.2 million. FY 2003 cost was \$17.8 million versus \$15.6 million for FY 2002.

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 successful. 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.

Listed in Figure 6 are total costs for claims paid in Fiscal Year 2003 and amounts recovered as a result of subrogation efforts.

Figure 6

Compensation	Medical	Expense	Recoveries	Total Cost
\$6,423,372	\$9,929,915	\$2,051,658	\$613,505	\$17,791,440

Figure 7 ranks the severity of payments for workers' compensation claims in FY 2003 by agency.

Figure 7

Agency	WC Losses
Department of Corrections	\$ 3,831,968
Department of Economic Security	\$ 2,369,498
University of Arizona	\$ 1,852,790
Department of Transportation	\$ 1,703,831
Department of Public Safety	\$ 1,217,716
Arizona State University	\$ 955,897
Northern Arizona University	\$ 860,133
Department of Health Services	\$ 806,091
Superior Courts	\$ 585,041
Sub-total	\$14,182,965
All other agencies	\$ 3,608,475
Total	\$17,791,440

Frequency of claims accepted in FY 2003 and corresponding incident rates by agency:

Figure 8

Agency Ranking	Claims Accepted	Incident Rate Per 100 FTE's
Department of Corrections	647	7.68
University of Arizona	406	3.29
Department of Economic Security	297	3.27
Department of Transportation	221	5.45
Arizona State University	207	2.19
Department of Health Services	153	9.42
Department of Public Safety	156	9.17
Northern Arizona University	149	5.09
Department of Juvenile Corrections	89	8.8
Veterans Service Commission	72	28.16
All Other Agencies	496	
Total of All Agencies	2896	4.64

OCCUPATIONAL HEALTH SERVICES

Occupational Health Services is responsible for the post offer physical examinations of potential state employees. Occupational Health Services schedules, evaluates, and pays for these examinations for various state agencies.

In Fiscal Year 2003, 1387 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 perspective state employee's medical information until the agency is notified of the candidate's status.

The total cost for Occupational Health Services in Fiscal Year 2003 was \$ 96,040.

LOSS PREVENTION PROGRAM

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 advice and assistance in a variety of areas including property, liability, environmental, and worker protections. The Loss Prevention Team consists of health and safety professionals dedicated to the identification and analysis of loss exposures. The following organizational chart depicts the Loss Prevention professionals' areas of expertise:



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

Loss Prevention provides professional Safety Consultants, Industrial Hygienists, Environmental Specialists and Training Officers 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 | ➤ Security | ➤ Site and Hazard Assessment |
| ➤ Industrial Safety | ➤ Course of Construction | ➤ Statewide Health and Safety Education |
| ➤ Hazard Communication | ➤ Motor Vehicle Safety | ➤ CPR |
| ➤ Fire Safety | ➤ Emergency Planning | ➤ Ergonomics |
| ➤ Fair Safety | | |

The Loss Prevention Safety Academy is designed for Agency Loss Prevention Coordinators and Supervisors as a training venue to address safety and loss prevention issues. The Safety Academy includes a statewide Fleet Safety Academy (Defensive Driving and Van Dynamics) designed for state employees driving state vehicles.