

Budget Brief – DAS Risk Management (ISF)

NUMBER CFAS-06-19

SUMMARY

The Division of Risk Management was organized in 1980 to implement a self- insurance program for the state. The division provides liability, property, and auto physical damage coverage to all state agencies, the forty school districts, 25 charter schools, and all state-owned colleges and universities except medical malpractice at the University of Utah. The liability insurance and auto physical damage programs are entirely self-funded, while the property insurance program is self-insured up to a \$2.5 million aggregate yearly deductible with private carriers.

The division has several internal sections:

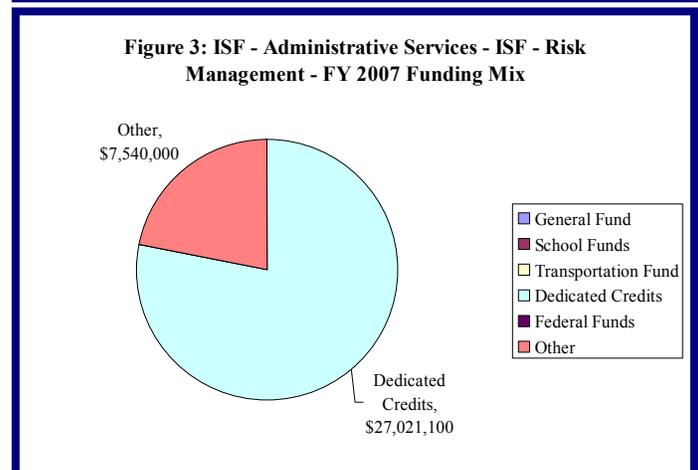
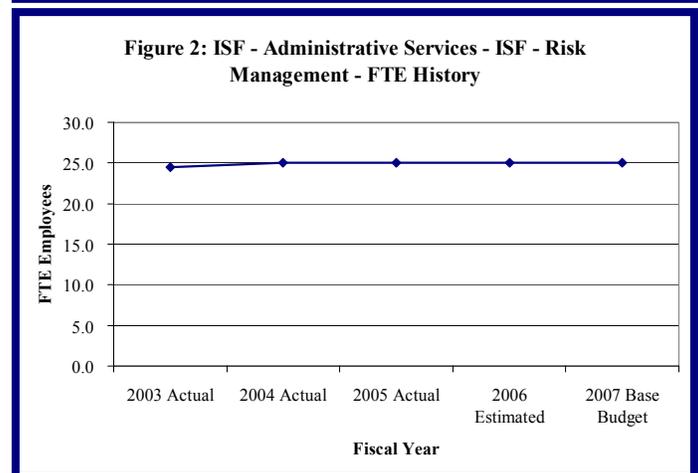
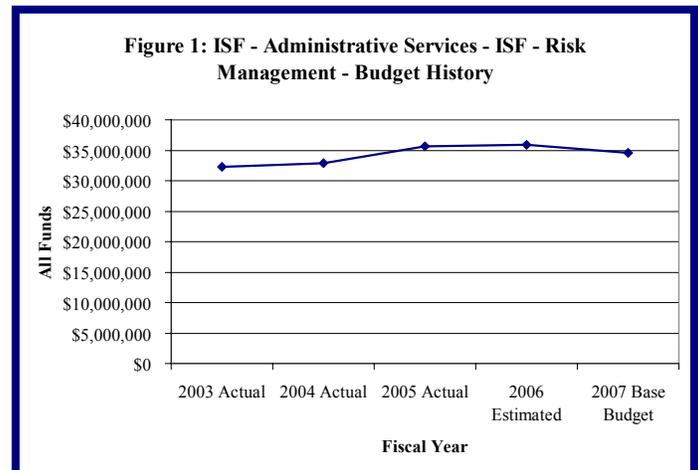
Administration/Support Staff, Claims, Workers Compensation/ADA, and Loss Control.

1. Support staff provides necessary functions to sustain division operations, such as administrative, financial, and data processing. They also manage property valuation and premium computation databases.
2. The Claims section processes losses by state agencies and handles claims against state agencies, school districts, and other insured agencies.
3. The Workers’ Compensation section provides training and assistance for issues relating to workers’ compensation and the Americans with Disabilities Act.
4. The Loss Control group presents training, makes annual inspections, suggests corrective actions, assists with all types of safety problems, monitors disposal of hazardous materials, reviews blueprints, and other tasks as needed to reduce the state’s risk exposure.

ISSUES AND RECOMMENDATIONS

Claims Audit

In July the division received the results of a claims audit conducted by a private consultant. The audit focused on the division’s claims handling procedures and analyzed a sample of 115 claims. The audit found the overall program meets industry best practices and statutory requirements with a n overall grade of 91%. This is a “commendable” rating that can be moved to “superior” at 95%. The chart on page 2 shows results for each component of the audit.



Retained Earnings

From time to time the Legislature has appropriated retained earnings from this division for statewide purposes. In FY 2004, for example, the Legislature appropriated \$3 million to replace the state's financial accounting system (FINET). In the 2005 General Session the Legislature appropriated \$4.5 million to the General Fund.

More funds may be available in the 2006 General Session. The Analyst will work with the division to identify an amount that can be safely transferred while maintaining a sound reserve.

ACCOUNTABILITY DETAIL***Retained Earnings***

Risk Management Retained Earnings					Estimated
	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>
Administration	2,678,000	5,689,800	8,427,200	7,152,200	8,128,700
Workers Comp	1,721,300	1,139,500	611,500	915,600	1,140,000
Total	4,399,300	6,829,300	9,038,700	8,067,800	9,268,700

Audit Grading Summary

The following chart summarizes the division's scores on its claims audit.

	Average <u>Grade</u>	Number of Claims Graded for <u>Component</u>	Performance <u>Level</u>
Reserves	3.76	115	94%
Payment Reconciliation	3.29	68	82%
Allocated Expenses	3.56	27	89%
File Documentation	3.94	113	98%
Regulatory Compliance	3.86	74	97%
Subrogation and Salvage	3.56	39	89%
Claims Reporting	3.03	110	76%
Coverage Verification	3.95	115	99%
Prompt Contacts	3.54	98	89%
Claims Investigation	3.69	114	92%
Liability/Damage Assessment	3.53	115	88%
Fraud	3.00	2	75%
Periodic Monitoring	3.50	106	88%
Cost Containment	3.95	73	99%
Payment Promptness/Accuracy	3.96	69	99%
Excess Reporting	3.50	8	88%
Case Finalization/Settlement	3.89	61	97%
Qualifications and Mgt of Staff	3.45	114	86%
Qual of Independent Adjustors	4.00	7	100%
Overall Claims Administration	3.64	115	91%

State Insurance Rate Discounts Compared to Private Rates

In FY 2005 the division's average rates were discounted 54 percent compared to commercial market rates. The division's target is to maintain at least a 50 percent discount.

BUDGET DETAIL

Revenue from Premiums represents rates paid by customer agencies for the traditional insurance programs. Restricted revenue comes from Workers' Compensation premiums.

Budget Recommendation for FY 2007:

- Estimated revenues of \$34,561,100
- Rates as presented separately
- 25.0 FTE
- Authorized Capital Outlay of \$100,000 for the possibility of unforeseen capital expenditures such as computer hardware or database replacement.

LEGISLATIVE ACTION

This section is a summary of what actions might be taken if the Legislature wishes to adopt the recommendations of this brief. The Analyst recommends the Legislature consider adopting:

1. Estimated revenues of \$34,561,100 for the Division of Risk Management ISF
2. Rates as presented separately
3. 25.0 FTE
4. Authorized Capital Outlay of \$100,000.

BUDGET DETAIL TABLE

ISF - Administrative Services - ISF - Risk Management						
	FY 2005	FY 2006		FY 2006		FY 2007*
Sources of Finance	Actual	Appropriated	Changes	Revised	Changes	Base Budget
Premiums	26,820,900	25,748,300	895,800	26,644,100	(1,383,000)	25,261,100
Interest Income	1,509,900	1,000,000	756,000	1,756,000	4,000	1,760,000
Restricted Revenue	7,350,900	7,434,500	15,500	7,450,000	90,000	7,540,000
Total	\$35,681,700	\$34,182,800	\$1,667,300	\$35,850,100	(\$1,289,000)	\$34,561,100
Programs						
ISF - Risk Management Admin	28,330,800	26,748,300	1,612,800	28,361,100	(1,370,000)	26,991,100
ISF - Workers' Compensation	7,350,900	7,434,500	54,500	7,489,000	81,000	7,570,000
Total	\$35,681,700	\$34,182,800	\$1,667,300	\$35,850,100	(\$1,289,000)	\$34,561,100
Categories of Expenditure						
Personal Services	1,901,400	1,926,600	58,700	1,985,300	(7,300)	1,978,000
In-State Travel	16,900	16,200	3,100	19,300	0	19,300
Out of State Travel	2,300	0	0	0	0	0
Current Expense	28,975,800	32,259,000	32,200	32,291,200	372,000	32,663,200
DP Current Expense	328,500	102,000	230,800	332,800	0	332,800
Other Charges/Pass Thru	(93,000)	0	0	0	200,200	200,200
Operating Transfers	5,500,000	0	0	0	1,500,000	1,500,000
Depreciation	20,700	84,200	(63,600)	20,600	19,100	39,700
Total	\$36,652,600	\$34,388,000	\$261,200	\$34,649,200	\$2,084,000	\$36,733,200
Other Data						
Budgeted FTE	25.0	25.0	0.0	25.0	0.0	25.0
Actual FTE	25	0	0	0	0	0
Authorized Capital Outlay	0.0	100,000.0	0.0	100,000.0	0.0	100,000.0
Retained Earnings	8,067,800.0	7,862,600.0	1,406,100.0	9,268,700.0	(2,172,100.0)	7,096,600.0
Vehicles	5	5	0	5	0	5

*Does not include amounts in excess of subcommittee's state fund allocation that may be recommended by the Fiscal Analyst.