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OFFICE OF PROGRAM POLICY ANALYSIS & GOVERNMENT ACCOUNTABILITY

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Division of Risk Management Performs Well, But Additional Steps Could Be Taken to Reduce Losses and Contain Costs

at a glance

Florida's Division of Risk Management continues to perform well in its primary function of processing claims. The program successfully processed its typical claims as well as claims related to recent hurricanes. Changes in the way property claims are managed should allow the division to improve its handling of such claims, including those associated with the 2005 hurricane season.

While the division has made significant efforts to improve statewide loss prevention activities, there are several steps the Legislature could take to improve Florida's loss prevention program. Casualty losses could be contained by developing loss prevention minimum standards, monitoring agency implementation of those standards, and modifying the method used to appropriate casualty premiums.

Scope

In accordance with state law, this progress report informs the Legislature of actions taken in response to a 2004 OPPAGA examination of the Department of Financial Services, Division of Risk Management.[1] This report also explores additional options that may be considered for containing casualty losses.

[1] *Justification Review: The State's Risk Management Program Could Be Authorized to Do More to Protect Florida's Assets,* Report No. 04-49, July 2004.

Background

The State of Florida delivers a broad range of services and has a large workforce, which exposes it to potential financial losses resulting from property damage, injuries to employees and the public, and negligent or improper acts of state employees. The Division of Risk Management within the Department of Financial Services acts as the state's insurance company.

The Division of Risk Management provides self-insurance coverages, purchases excess insurance, and processes and pays liability claims. It also oversees a contract for workers' compensation managed care with a private vendor, and arranges for legal representation for the state through the Attorney General's office and by contracting for private legal services.

Responsibility for loss prevention is decentralized to state agencies. Each state agency head is to designate a coordinator responsible for safety awareness, loss prevention, facility and equipment inspections, and investigating job-related employee accidents. The Division of Risk Management trains these coordinators and provides access to loss data for each agency, refers specific loss incidents that require mitigation or elimination of unsafe conditions to the agencies, and provides loss prevention training and resources. Agency coordinators represent their agencies at quarterly meetings of the Interagency Advisory

Council on Loss Prevention, and the advisory council and each department report annually to the Governor on workers' compensation prevention activities and suggestions for improvements. [2]

The division is funded through an annual assessment that prorates program costs based on each agency's loss experience and exposure. Agency risk management assessments for property insurance are paid with operating funds, and the Legislature appropriates specific funds to cover agency risk management assessments for workers' compensation and other liabilities. The budget available to pay casualty claims in Fiscal Year 2005-06 was $135.8 million. [3, 4]

Current Status

The Division of Risk Management continues to perform reasonably well in its primary responsibility of processing property and casualty claims for state agencies. The division also has taken steps to help agencies reduce statewide liability losses. The Legislature could consider several options for strengthening the division's oversight of state agency risk management activities, which could help contain costs.

[2] The Interagency Advisory Council on Loss Prevention is established by s. 284.50(2), *F.S.* The law requires that the safety coordinators of each department and designated representatives of the Division of State Fire Marshal and the Division of Risk Management serve as members of the council. The director of the Division of Risk Management, or the director's designee, serves as the chair of the council. The council is required to meet quarterly to discuss safety problems within state government and report annually to the Governor.

[3] Casualty assessments provide coverage for workers' compensation, general liability, automobile liability, federal civil rights liability, and liability for employment claims.

[4] The Legislature appropriated $128.5 million for state agency and university casualty insurance premiums based on estimated revenue. An additional $7.3 million was authorized and invoiced from other sources.

The division has streamlined its operations to process an increase in property claims related to hurricane damage. Our 2004 report concluded that the Division of Risk Management performed reasonably well in its primary function of processing property and casualty claims for state agencies, processing 98% of workers' compensation claims within its timeliness goal.

Although the division has experienced a significant workload increase due to hurricane-related property damage, it continues to efficiently process claims for state agencies. In Fiscal Year 2004-05, the division processed 97% of workers' compensation claims within its timeliness goal, and it handled 3,098 property claims associated with hurricane damage, which substantially increased its property claims workload (see Exhibit 1).

Exhibit 1
The Division's Property Claims Workload Substantially Increased Due to Hurricanes

Type of Claim	Fiscal Year 2002-03	2003-04	2004-05	2005-06 [1]
General Property	111	104	123	62
Hurricane Related	0	0	3,098	1,648
Total	111	104	3,221	1,710

[1] This reflects claims filed as of February 9, 2006.
Source: Division of Risk Management.

The division streamlined its operations to handle this increased workload. The most significant change was to modify its method of payment for losses from a system of reimbursements to paying estimated losses based on the cost to return the property to its pre-incident condition. [5] The division also contracted with independent adjusters to provide preliminary damage assessments and required documentation. In addition, the division reorganized its property insurance claims function to better utilize existing staff and hired temporary employees to handle the increased clerical workload.

[5] Cost is determined less depreciation.

The division has taken steps to reduce losses. Our 2004 report noted that the division could take additional steps to reduce casualty losses and increase its services to agencies. To assist state agencies in claims filing, the division has provided several training sessions for agency staff who prepare claims and has communicated the importance of reporting current property values for insurance coverage. The division also automated several property claims forms and facilitated internet filing. The division is reviewing property claims to identify the causes of large losses and develop mitigation strategies that may reduce future losses. The division also plans to develop a program that emphasizes hurricane preparedness and protection of state property.

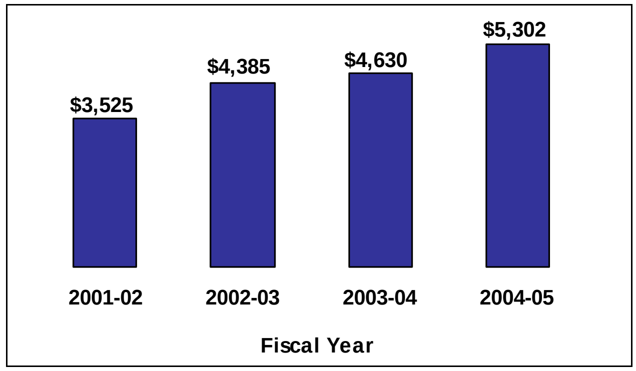
The division also is revising its administrative rules to encourage stronger agency loss prevention programs. For instance, while current law requires agencies to establish loss prevention programs, the proposed rules would require agencies to complete an annual risk assessment, establish written policies for their loss prevention programs, and provide copies of these policies to the division. The division also is developing a pilot program that will target agencies with the highest number of workers' compensation claims and focus on reducing these losses by evaluating agency safety programs; developing agency unique performance standards; evaluating risk control; and making recommendations for improvement. The division plans to measure the effect of this effort by monitoring agency property and casualty losses over time.

The Legislature could consider additional steps to help contain liability costs. The Legislature could consider several options to strengthen the state's loss prevention program. These actions could be beneficial, as the workers' compensation injury rate for state employees exceeds the national average and these costs have been increasing. In 2004, the national employee injury rate was 4.5 per 100 full-time workers, while Florida's was 5.04, 12% higher. [6]

[6] National statistics were only available for private businesses.

In addition, Exhibit 2 shows that the average cost of workers' compensation claims for state employees increased 14%, rising from \$4,630 in Fiscal Year 2003-04 to \$5,302 in Fiscal Year 2004-05.

Exhibit 2
Average Workers' Compensation Claims Costs for State Employees Have Grown Over Recent Years [1]



[1] Average workers' compensation claims cost is determined by accumulating costs for four years subsequent to claims occurrence. For example, the average claims cost for 2004-05 would be the average of all costs associated with claims that commenced in Fiscal Year 2001-02.

Source: Department of Financial Services Long Range Program Plans.

Some state agencies do not appear to have effective safety programs. For example, the Department of Health has a fragmented safety program delegated to 109 individual safety coordinators throughout the department. The department incurred 782 workers' compensation claims in Fiscal Year 2004-05, at a cost that exceeded \$2.4 million by March 22, 2006. Similarly, the Fish and Wildlife Conservation Commission has one of the highest injury frequencies among state agencies, at 10.95 claims per 100 employees in Fiscal Year 2004-05, which grew from 7.28 claims per 100 employees in Fiscal Year 2001-02. The individual providing safety coordination for the department retired in Fiscal Year 2001-02 and the position was used to fulfill other agency requirements.

In contrast, other agencies have taken steps that have helped reduce such claims. For example, the Department of Agriculture's Division of Plant Industry refocused its safety program in 2002, redirecting one employee from training to safety and creating an additional full-time safety position. The division also began using injury tracking information to change policies and target training to reduce identifiable risk factors. As a result, the division's workers' compensation claims declined from 727 to 290 between calendar years 2001 and 2003, which reduced its average annual workers' compensation losses by $1.7 million.

To address concerns about growing costs and ineffective risk management programs, the Legislature could consider two options. First, the Legislature could give the division statutory authority to develop minimum standards for agency loss control programs and monitor these activities. These standards should require agencies to have a written loss control program, return to work plans, a process for investigating and reviewing claims, and goals for reducing or containing claims. The division estimates that the minimum cost of developing such standards and monitoring agencies would be approximately $210,000 in the first year and $130,000 in subsequent years.

Second, the Legislature could alter its method of funding agency workers' compensation and liability costs. Currently, agencies' property insurance assessments are paid directly from their individual operating funds, while the Legislature provides a separate appropriation to each agency for the workers' compensation and liability assessment. Agency costs are based on actuarially estimated cash flow needs, and assessments vary due to changes in excess insurance premiums and cash carryovers from prior years. The current estimated budget for Fiscal Year 2005-06 is $135.8 million for workers' compensation and other liability assessments, including $92.5 million to be paid from the General Revenue Fund; 80% of the casualty assessment is based on an agency's prior loss experience.

Some states have experimented with alternative funding systems that provide an incentive to agencies to reduce these costs. For example, in 2001 Texas changed its methodology for collecting workers' compensation premiums from appropriating the premium directly to its State Office of Risk Management to appropriating these funds to each agency's operating budget. Agencies are then required to pay assessments above their baseline premium from their own budgets or request a special appropriation. If an agency's performance improves, the agency can use the premium savings elsewhere. Since this change was enacted, Texas workers' compensation claims have been reduced from $67 million in 2001-02 to $54 million in 2003-04, while Florida's costs increased from $66 million to $91 million over this period.

Similarly, Virginia implemented a program that allows agencies to retain 25% of premium reductions for future loss control initiatives and experienced a significant reduction in costs. In addition, Washington increased accountability for risk management by requiring individual agency self-insurance budget requests. Required information includes a five-year analysis of premiums and loss trends, strategies that will be used to prevent losses in the future, and risk management goals and measures against which to measure progress. [7]

We recommend that the Legislature consider similar funding systems, which would provide an incentive for agencies to actively manage loss prevention programs and reduce related costs.

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[7] Washington's program is recent and has not yet reported any results.

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