

# SORM

STATE OFFICE *of* RISK MANAGEMENT



## Agency Strategic Plan for the 2005-2009 Period



July 2, 2004



**Agency Strategic Plan  
for the Fiscal Years 2005-09 Period  
by the  
State Office of Risk Management**

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*Submitted July 2, 2004*

Signed: \_\_\_\_\_

  
SORM Executive Director

  
SORM Board Chairman

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# Statewide Vision, Mission, and Philosophy

**February 2004**

Fellow Public Servants:

Strategic planning offers us an important opportunity to assess and critically reexamine the role of Texas State Government and the efficiency of its operations. Our success in balancing the budget last session underscores the need for government's mission to be limited and its priorities clear. This document specifies our mission and priorities, reflects my philosophy of limited government and my belief in personal responsibility, and it is to be used as your agencies prepare their Strategic Plans.

Throughout the strategic planning process and the next legislative session, agencies will be asked to provide great detail about their operations as policymakers endeavor to address our state's priorities. I encourage you to provide not only open and complete information, but also your innovative ideas about how better to deliver government services.

Working together, I know we can accomplish our mission and achieve these priorities of the people of Texas. My Administration is dedicated to creating greater opportunity and prosperity for our citizens, and to accomplish that mission, I am focused on the following critical priorities:

*Assuring open access to an educational system that not only guarantees the basic core knowledge necessary for citizenship, but also emphasizes excellence and accountability in all academic and intellectual undertakings;*

*Creating and retaining job opportunities and building a stronger economy that will lead to more prosperity for our people, and a stable source of funding for core priorities;*

*Protecting and preserving the health, safety and well-being of our citizens by ensuring healthcare is accessible and affordable, and our neighborhoods and communities are safe from those who intend us harm; and*

*Providing disciplined, principled government that invests public funds wisely and efficiently.*

I appreciate your commitment to excellence in public service.

**RICK PERRY**

## **The Mission of Texas State Government**

Texas State Government must be limited, efficient, and completely accountable. It should foster opportunity, economic prosperity, focus on critical priorities and support the creation of strong family environments for our children. The stewards of the public trust must be men and women who administer state government in a fair, just, and responsible manner. To honor the public trust, state officials must seek new and innovative ways to meet state government priorities in a fiscally responsible manner.

*Aim High...We are not here to achieve inconsequential things!*

## **The Philosophy of Texas State Government**

The task before all state public servants is to govern in a manner worthy of this great state. We are a great enterprise, and as an enterprise we will promote the following core principles.

- First and foremost, Texas matters most. This is the overarching, guiding principle by which we will make decisions. Our state, and its future, is more important than party, politics or individual recognition.
- Government should be limited in size and mission, but it must be highly effective in performing the tasks it undertakes.
- Decisions affecting individual Texans, in most instances, are best made by those individuals, their families, and the local governments closest to their communities.
- Competition is the greatest incentive for achievement and excellence. It inspires ingenuity and requires individuals to set their sights high. And just as competition inspires excellence, a sense of personal responsibility drives individual citizens to do more for their future, and the future of those they love.
- Public administration must be open and honest, pursuing the high road rather than the expedient course. We must be accountable to taxpayers for our actions.
- State government has a responsibility to safeguard taxpayer dollars by eliminating waste and abuse, and providing efficient and honest government.

Finally, state government should be humble, recognizing that all its power and authority is granted to it by the people of Texas, and those who make decisions wielding the power of the state should exercise their authority cautiously and fairly.

# Statewide Goals and Benchmarks

## **The priority goal of general state government is:**

To support effective, efficient and accountable state government operations and to provide citizens with greater access to government services while reducing service delivery costs.

## Benchmarks:

- Total state taxes per capita
- Total state spending per capita
- Percent change in state spending, adjusted for population and inflation
- State and local taxes per capita
- Ratio of federal dollars received to federal tax dollars paid
- Number of state employees per 10,000 population
- Number of state services accessible by Internet
- Savings realized in state spending by making reports/documents/processes available on the Internet
- Strive to maintain and improve the state's high quality credit rating
- Manage the state's use of debt conservatively to protect the fiscal resources of current and future taxpayers
- Maintain efficient and cost-effective operations in debt issuance and administration to lower the cost of borrowing and the cost of on-going administration of the state's debt
- Ensure that Texas state bonds attain the highest possible bond rating and that these bonds are issued in a cost-effective manner
- Ensure that retirement programs and pension funds are actuarially sound and well-managed
- Percent of state professional licensee population without documented violations

# **SORM Mission Statement**

The State Office of Risk Management will provide active leadership to enable State of Texas agencies to protect their employees, the general public, and the state's physical and financial assets by reducing and controlling risk in the most efficient and cost-effective manner.

# **SORM Statement of Philosophy**

The State Office of Risk Management will act in accordance with the highest standards of ethics, fairness, accountability, and humanity for both our customers and our employees. Customer service is a cornerstone of our mission.

# External/Internal Assessment

## I. Overview of Agency Scope and Functions

The State Office of Risk Management (SORM, or the Office) administers the State's self-insured State Employees' Workers' Compensation Program and assists state agencies in identifying and controlling risks and losses.

The Office's operations are governed by the Texas Labor Code, Chapters 412 and 501. Operating costs for the risk management and workers' compensation strategies are funded by interagency contracts and direct General Revenue Fund appropriations. Costs for workers' compensation payments are funded by interagency contracts and subrogation receipts.

The Office is governed by a five-member board appointed by the Governor. Members of the Board serve staggered terms. The Board is responsible for:

- Oversight of the agency and the appointment of an Executive Director;
- Approval of risk management guidelines for distribution to state agencies;
- Approval of rules necessary for the implementation of the risk management and workers' compensation programs; and,
- Reporting to the Legislature on methods to reduce exposure to loss for state agencies; the operation, financing, and handling of risks by state agencies; and the handling of claims brought against the state.

The Office provides services to state agencies for the protection of the state's resources<sup>1</sup>. Currently, these resources include approximately 172,000 employees, more than \$8.8 billion dollars in capital investments in real property, and approximately \$2.2 billion in fixed assets at historical costs. The Executive Director of the Office serves as the state risk manager. SORM's responsibilities include:

- Providing immediate feedback to state agencies in identifying, evaluating, and reducing potential liability exposure and liability losses, including workers' compensation losses;
- Reviewing, verifying, monitoring, and approving risk management programs adopted by state agencies;
- Providing risk management training for state agencies;
- Consulting state agencies regarding their insurance needs;
- Approving and purchasing insurance on behalf of state agencies;

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<sup>1</sup> The University of Texas and Texas A&M University Systems and the Texas Department of Transportation are legislatively excluded from the services.

- Approving the purchase of surety bonds for state agencies, as warranted, including the scope and amount of the bond; and,
- Collecting data from insurers regarding insurance purchases by state agencies.

The Office publishes risk management guidelines, conducts safety reviews, devises protocols and responses at the request of state agencies or in response to external threats or risks, and provides risk management analyses, consultations, and insurance services to state agencies. State agencies are required to submit annual reports to the Office on claims and loss information, existing and potential exposure to loss, estimates by category of risk of losses incurred but not reported, and any additional information deemed necessary by the Executive Director. State agencies intending to purchase property, casualty, or liability insurance coverage other than through the services provided by the Office must report the purchase to the Office within 30 days of the purchase.

The Office administers the State Employees' Workers' Compensation Program for agencies.<sup>2</sup> SORM also administers workers' compensation claims for employees of Community Supervision and Corrections Departments. SORM's workers' compensation claims program is responsible for:

- Operating a self-insured workers' compensation program for the State of Texas pursuant to the Texas Labor Code and TWCC regulations;
- Receiving and investigating reports of injury filed on behalf of state employees;
- Determining whether a claim is compensable;
- Paying income and medical benefits as due;
- Reviewing medical bills to determine reasonableness, necessity, and compliance with TWCC fee guidelines;
- Appearing as an adversary before TWCC and the courts and presenting the legal defenses and positions of the workers' compensation program;
- Preparing reports for the Legislature on workers' compensation claims information; and,
- Providing workers' compensation training for state agencies.

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<sup>2</sup> The University of Texas and Texas A&M University Systems and the Texas Department of Transportation administer their own workers' compensation programs.

## II. Organizational Aspects

The Office has 124 full-time equivalent (FTE) positions authorized by the current General Appropriations Act. The following table presents current SORM workforce demographic information:

	White	Black	Hispanic	Other	Total
Male	32	4	8	2	46
Female	44	8	20	2	74
Total % by Race	63%	10%	23%	3%	100%

Officials / Administrators	4	0	1	0	5
3% of Total Employees	80%	0%	20%	0%	100%

Professionals	40	4	7	2	53
44% of Total Employees	33%	3%	5%	1%	100%

Para-professionals	11	4	9	1	25
20% of Total Employees	9%	3%	7%	1%	100%

Technicians	3	0	0	1	4
3% of Total Employees	2%	0%	0%	1%	100%

Clerical / Administrative	18	4	11	0	33
27% of Total Employees	15%	3%	9%	0%	100%

The Office's organizational structure is aligned with the mandates set forth by its enabling legislation. The organizational structure depicts program and administrative functions within the agency. An organizational chart is included in Appendix B.

Pursuant to enabling statutes, the Office is administratively supported by the OAG. The OAG provides support services including:

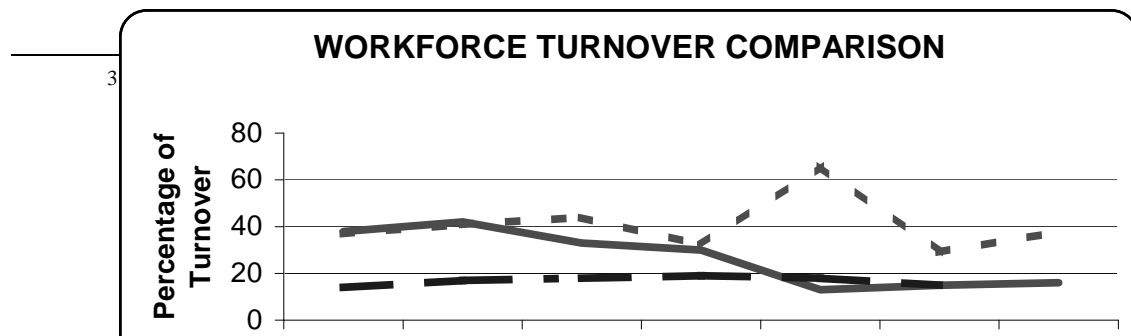
- Accounting – Processes and records SORM’s transactions;
- Budget & Purchasing – Prepares budget reports and processes the Office’s purchase orders and procurement documents (IFBs, RFPs);
- Information Resources – The Office’s workers’ compensation Claims Management System mainframe application resides within the OAG’s mainframe and SORM’s network is maintained by the OAG;
- Human Resources – Maintains the Office’s personnel files and processes all personnel action forms (PAFs), timekeeping records, and employee benefits;
- Support Services – Coordinates maintenance and support for the space occupied by the Office; and,
- Legal Divisions – Assists the Office with agency matters of specific division expertise.

The Office is located in the William P. Clements, Jr., building in Austin, Texas. This centralized location facilitates conduct of the Office’s mission for covered state agencies. SORM has no field office locations, although services are provided to agencies throughout the state.

SORM has had particular difficulties recruiting and retaining qualified staff, in particular in the claims area where our salaries are significantly below the market level. The Office has attempted to respond to this in part by putting programs in place to address this challenge with current resources. These include:

- Providing optional alternative work schedules (WALT program) where feasible to provide flexibility and improve morale;
- Encouraging an agency culture that is supportive of its employees, including a casual dress atmosphere, a voluntary employee association, and an Employee Recognition Committee; and,
- Providing opportunities for professional development.

These efforts have been effective in reducing turnover in the agency for most of the biennium. The following chart compares the Office’s turnover trend with the statewide trend for fiscal years 1997-2003.<sup>3</sup>



The impact of turnover in the claims area of SORM is more problematic because, as experienced adjusters leave for higher salaries, it has become impossible to attract applicants with similar levels of experience. Thus, we lose experienced adjusters and must replace them with applicants who have little or no experience. Currently one-half of our adjusting staff has less than two years experience and one-quarter has less than six months experience.

It is in the Office's best interest, and ultimately the state's best interest, to hire and retain experienced and competent staff. SORM is dedicated to promoting an atmosphere that stresses the importance and value of employees to accomplish our mission. The Office recognizes its limitations in competing with the statewide labor market and intends to maximize staff through training and professional development.

### **III. Fiscal Aspects**

Operating costs of SORM's Risk Management strategy are financed through interagency contracts. Operating costs of SORM's Workers' Compensation Administration strategy have historically been financed entirely by General Revenue appropriations but will have a significant portion financed by interagency contracts for medical cost containment of workers' compensation expenditures beginning in FY 2005.

Workers' compensation payments constitute a separate strategy, which prior to the 2002/2003 biennium were funded by General Revenue, OAG debt collections, and appropriated receipts (subrogations). Beginning in FY 2002 these payments are now funded entirely by interagency contracts through assessments paid by client agencies and subrogation receipts. The appropriations for the current biennium are detailed as follows:

- Operating Appropriations – A total of \$7,441,877 and \$7,983,571 was appropriated for FY 2004 and FY 2005, respectively, for recurring operating costs associated with the risk management and workers' compensation programs. SORM's risk management strategy is funded by interagency contracts. The Office's workers'

compensation administration strategy is funded entirely by General Revenue for FY 2004 and by a combination of General Revenue and interagency contracts for FY 2005. The General Revenue appropriated for FY 2004 includes a minimum \$531,020 in unexpended balance (UB) authority to offset the amount necessary from interagency contracts in FY 2005. A capital budget to enhance the information management system was appropriated \$177,900 in interagency contract funding for FY 2004 with UB authority into the second year of the biennium.

Although not part of the Office's appropriations, as discussed above, the OAG provides administrative support to SORM pursuant to enabling legislation. Due to budget cutbacks the OAG was appropriated \$651,653 each year for the current biennium. This was a reduction from \$807,909 per year in the previous biennium. While the OAG has been able to partially absorb the loss to appropriated funds for the administrative support of SORM in the short term, due to increased technological, legal, and other support requirements of the Office's programs, the current level of OAG appropriations may be inadequate in the long term.

- Claim Fund Appropriation – Authority to collect \$82,750,000 through interagency contracts was appropriated for both years of the current biennium. The Office also was given appropriation authority for all subrogated receipts, estimated at \$550,000 a year. Due to lower than expected costs and limited UB authority under the assessment program, SORM only utilized \$71.7 million of the interagency contract authority in FY 2004 and expects to have to utilize approximately \$60 million of the \$82.75 million in authority for FY 2005.

#### **IV. Service Population Demographics**

The number of state agencies within the purview of SORM has been relatively stable, but is expected to decrease as agency consolidations continue. However, the number of current covered state employees, in terms of FTEs, has increased from 147,847 in FY 1992 to 172,000 in FY 2003. State employees are geographically distributed throughout the state with concentrations in the major metropolitan areas.

#### **V. Technological Developments**

The State Office of Risk Management utilizes Internet technologies to provide current information to claimants, state agencies, and other interested individuals and entities. State agencies can access an ad hoc reporting system to get information on their injuries, claims, and losses. This information allows agencies to monitor and respond quickly to developing claims trends or check on individual claims during the first critical days after filing.

The Office has also implemented on-line claims filing through the use of Internet technology. This allows immediate input of claims information, bypassing two current manual processes. Validation of data received electronically reduces input errors and rejected transactions into the Office's workers' compensation claims management system.

The Office, in cooperation with OAG staff, has implemented a daily exchange of workers' compensation claims data between the mainframe and the Office database. The goal of this daily exchange is for the OAG to pass only data that has changed since the last transmission and for the Office to add the information to the existing database. This new process reduces transmission time and provides the Office with a more current database of claims information.

The Office is currently developing a Risk Management Information System (RMIS) to administer and pay workers' compensation claims and identify risk exposures within state agencies in a more efficient and effective manner.

## **VI. Economic Variables**

Changes to state government can alter the different types and levels of risk experienced by the state. Changes to the composition of the state workforce, such as an aging workforce, can affect the number and severity of injuries and impact the workers' compensation staffing and funding necessary to ensure that injured state employees are afforded benefits as entitled by statute.

Medical costs in the workers' compensation system have experienced double-digit inflation in recent years. An upward trend in the utilization and duration of medical treatment appears to be responsible for the rise in medical costs.

The indemnity rate paid for claims has risen as well. The state average weekly wage (based on the average weekly wage of manufacturing production workers in Texas), which is the basis for setting the indemnity rates that carriers are required to pay claimants, continues to increase annually. The maximum weekly indemnity benefit in FY 2004 is \$537.00, a 26% increase since the 1989 workers' compensation reform act was passed.

## **VIII. Other Legal Issues**

A number of other legal issues have risen since publication of the 2003-2007 Strategic Plan. The Legislature and the workers' compensation system stakeholders are working toward further refining the workers' compensation system in reaction to court rulings, world events, medical cost inflation, and other matters. A few of the recently enacted and potential required reforms are discussed below.

In 2002 the Texas Supreme Court affirmed an appellate court decision in *Downs v. Continental Casualty Co.* that Texas Labor Code §409.021 and §409.022 require an insurance carrier to begin benefit payment as required by the Texas Workers' Compensation Act or send a notice of refusal to pay benefits within seven days after it receives written notice of injury. The Court stated that a carrier that fails to take either action has not met the statutory requisite to later contest compensability. This decision resulted in the waiver provision being applied to such disputes, which increased the number of claims ruled compensable in the workers' compensation system based not on the merit of such claims but upon technical defects in the initiation of benefits or timeliness of disputes pursuant to the *Downs* precedent. This appeared inconsistent with other statutory direction that provided untimely payments and/or disputes would result in

possible administrative penalties, not waiver of the right to contest compensability.

The Office recommended in its Biennial Report to the 78<sup>th</sup> Texas Legislature that a statutory clarification be made that an insurance carrier does not waive the right to dispute compensability by failing to begin the payment of benefits or give notice of its refusal to make payments within seven days of receiving notice of an injury. In 2003 the 78<sup>th</sup> Legislature passed HB 2199, which clarified that its intent that an insurance carrier does not waive the carrier's right to contest the compensability of the injury for untimely initiation of benefits or filing of a dispute and extended the period for payment or denial to 15 days. Failure to timely pay or dispute may now result only in an administrative fine. Waiver may only occur after 60 days.

While the issue of waiver was adequately addressed by the Legislature, recent events have suggested that further Legislative action or court involvement may be required. The Office has been recently notified that the Commission intends to assess administrative penalties for failing to initiate benefits within seven days based upon the accrual date calculated pursuant to Texas Labor Code §408.082 (providing that when disability continues for longer than one week, weekly income benefits begin to accrue on the eighth day after the date of the injury). This does not appear to be consistent with the Legislative intent of HB 2199, and the Office anticipates further clarification will be necessary.

A second major court case that required Legislative intervention was *Fulton v. Associated Indemnity Corp.*, decided by the Third Court of Appeals. The Commission had historically provided by rule that an injured worker had 90 days from the date he or she received a first impairment rating to file a dispute before such determination became final. The *Fulton* decision determined the Commission exceeded its statutory authority in promulgating this rule and effectively removed any time limit to file a dispute of a determination of maximum medical improvement (MMI) and impairment rating.

The Office recommended in its Biennial Report to the 78<sup>th</sup> Texas Legislature a statutory change to place a reasonable time limit on when a dispute may be filed after reaching MMI. In 2003 the 78<sup>th</sup> Legislature passed HB 2198 (with HB 3168 and SB 820), which clarified its intent that the first certification of MMI and assignment of an impairment rating would become final if not disputed within 90 days after written notification is provided. The Legislature also included exceptions to the general rule for significant error by the certifying doctor, clear misdiagnosis or undiagnosed medical conditions, improper or inadequate treatment, or for other compelling circumstances.

Two other enactments by the 78<sup>th</sup> Legislature also affected the Office. The first, HB 2116, passed in response to the Sept. 11 attacks on the World Trade Center and concerns regarding terrorism in the United States. The legislation provides that members of TEXAS TASK FORCE 1, a program of the Texas Engineering Extension Service that provides training and responds to assist in search, rescue, and recovery efforts following natural or man-made disasters, are covered by workers' compensation insurance by the Office when the task force is activated or during any training session sponsored or sanctioned by the task force. The change added §501.001(5)(E) to the Texas Labor Code defining task force members as state employees and

also provided for specialized calculation of average weekly wage for task force members by adding §408.0445(b). The bill further specified that the governor's division of emergency management shall reimburse the Office for the actual medical and indemnity benefits paid on behalf of a covered member of Texas Task Force 1 at the beginning of the next state fiscal year occurring after the date the benefits are paid [Texas Education Code, §88.303(d)].

The second, House Bill 1230, requires the Office to provide risk management services for employees of Community Supervision and Corrections Departments (CSCDs). While Texas Labor Code §501 previously provided that workers' compensation benefits to injured employees of CSCDs were to be paid by the state employees workers' compensation program administered by the Office, the CSCDs had not been subject to the risk management services provided by the Office including accident prevention, safety, and loss control services. The Office recommended in its Biennial Report to the 78<sup>th</sup> Texas Legislature that CSCD employees be considered state employees for the purpose of workers' compensation insurance and provide for the ability of the Office to provide risk management services to the CSCDs.

After the 78<sup>th</sup> Legislative session, the Select Interim Committee on Workers' Compensation was established to evaluate the potential costs and benefits associated with workers' compensation health care networks; make recommendations to improve the quality of care for injured workers, reduce fraud and inefficiencies, reduce overall claim costs, and streamline the administration of the system; and study the efficiency and effectiveness of the state's workers' compensation system including a comparison of the medical and indemnity costs associated with the Texas A&M University System, the University of Texas System, the Texas Department of Transportation, and the State Office of Risk Management and evaluate the potential costs and benefits associated with state agency participation in workers' compensation networks.

The scope of this Committee's work and the work of the House Business and Industry Committee may result in significant recommendations for change to the workers' compensation system in Texas, including considerations of healthcare networks for workers' compensation. The evaluation of the Office may result in specific recommendations regarding the scope, function, and/or administration of programs by the Office pursuant to Texas Labor Code §412 and §501. The effects of any resulting legislation are unknown at this time; however, the Office will continue to monitor and participate in the evaluative processes and to respond both to inquiries by the Legislature and any changes in law.

## **XI. Self-Evaluation and Opportunities for Improvements**

In an effort to continue SORM's position as an innovative and creative driver for quality improvement, several initiatives were undertaken during the past biennium. The Office desired input from a variety of customers, both internal and external to the agency. In addition, external validation, comments, and recommendations for processes and services were sought.

In 2003, Darrell Rupert and Associates was selected to perform the internal audit function for SORM. After an in-depth risk analysis, the Board agreed on the priority order of the audits to be conducted. To date, one in-depth audit has been performed on SORM's Medical Cost

Containment procedures.

The intent of the audit was to evaluate the effectiveness and efficiency of SORM's procedures and the procedures of the Medical Cost Containment Vendor for medical cost containment. As the term medical cost containment can be applied in a very broad sense, the scope of the audit was limited to the review of the Medical Bill Audit, Pre-authorization, and Claims Operations. The results of the audit provided the Office with excellent recommendations to improve the efficiency and effectiveness of both vendor cost containment services and SORM internal processes. Many of the recommendations made in the audit focused on greater use of technology to improve the efficiency of operation. SORM has made great strides in the use of current technology and efforts are underway to implement many of the recommendations. As of the publication of this Strategic Plan, SORM is currently evaluating responses to an RFP from a number of vendors to provide medical cost containment services. The recommendations of the cost containment audit were considered in the drafting of the RFP and any relevant feasible recommendations will be implemented to the extent possible in the resulting vendor contract.

Texas Workers' Compensation Commission audits focusing on the filing of the Employers' First Report of Injury, SORM's initial payment of TIBs, and the transmission of four key data elements used by the Commission in its monitoring efforts have been conducted and have revealed inadequacies. The Office has identified a number of factors impacting compliance rates, including late reporting by agency employers, technological issues for reporting initial payments via EDI, high case loads, and training and experience deficiencies. In April 2004 the Office developed a compliance action plan and has begun implementation of all changes to ensure continued compliance with Commission standards.

In 2002, due to high caseloads and resource restraints, certain functions in the Claims Division were automated or reorganized to address immediate needs. The Office created a customer service function allowing assigned employees to develop some of the basic competencies required of entry level "medical-only" adjusters. This allowed training and licensing of these staff members as adjusters. Thus in August 2003, the Office was able to assign the entire medical-only claims workload (approximately 2,000 claims) to a medical management team. Two vacant adjuster positions, which could not be filled at available salaries, were reclassified to administrative assistant positions to assist with the claims work, adjuster administrative support, and customer service. The other two adjusters previously assigned medical-only workloads were reassigned to lost-time claim workloads.

As a result of this reorganization SORM achieved an average caseload of approximately 150 medical-only claims per handling adjuster. These actions also produced caseload reductions for our regular adjusters. As of January 2004, the average caseloads had been reduced to 160 claims per adjuster. While this caseload still exceeds industry standards, this reduction nonetheless represents a significant improvement over historical responsibilities. It remains the intent of the Office to continue its work in the reduction of caseloads through reorganization practices pending availability of funding to attract and retain necessary skilled claims management staff.

Beginning in FY 2002, the Office developed and implemented a workers' compensation cost

allocation program, which makes state agencies responsible for paying the costs of their workers' compensation losses and provides incentives for effective risk management and return-to-work programs. The result has been significant reductions in the number of injuries and workers' compensation claims during FY 2003 and FY 2004 and an estimated 20% decline in the cost of workers' compensation losses over FY 2003.

The Office continues to be burdened by late reporting of injuries and wage information by client agencies. To address this problem the Office has implemented technological solutions that are available to agencies. On March 24, 2004, the Office informed all chief administrative officers of state agencies, courts, colleges, universities, Community Supervision and Correction Departments, risk managers, and claims coordinators that mandatory electronic submission of the required reports would be effective May 3, 2004.

While the Office continues to improve compliance rates, including compliance exceptions relating to late reporting issues, the Texas Workers' Compensation Commission has announced it intends to begin collecting administrative fines for compliance violations from SORM. The Office does not receive an appropriation for payment of compliance fines nor are such costs calculated as a part of an agency's assessment. The Office has advised client agencies that it may be necessary to collect reimbursement should violations be issued against SORM for failure of an agency to timely submit relevant documentation.

The Office has also experienced significant challenges in its efforts to comply with TWCC's mandatory electronic data submission requirement as a result of vague and changing transmission standards, as well as inadequate programming resources to make necessary program modifications. The Office has worked closely with the Office of Attorney General to reprogram the OAG's EDI reporting system used to transmit information to the Commission and believes that in the future it will achieve accurate reporting of claims information to TWCC.

Numerous courses providing continuing education credits for claims adjusters were developed and certified by the Insurance Board to assist staff in accumulating those hours required for licensure and skills development.

Rising medical costs continue to be a national issue that impact workers' compensation costs within Texas as well as in other states. SORM is actively seeking methods for reducing medical costs through contracts for durable medical equipment, medical supplies, peer reviews, independent medical examinations, and other medical services. These services could result in significant reductions in costs charged to the claims fund.

Increasing the effective use of risk transfer to reduce the overall cost of risk for the state is the focus of SORM's insurance program. Risk and cost benefit analyses will assist the Office in determining which risk control technique, risk transfer or self-insurance would be the most appropriate method for implementation depending on the type of risk identified.

SORM will continue to identify areas of significant risk exposure where the state's interests may best be served through a statewide insurance program. During the past two years, SORM has

reviewed the exposures to employment practice-related risks, from the dishonest acts of employees, the use of automobiles, and volunteers. The results have been the establishment of a Statewide Directors' & Officers' Liability and Employment Practices Liability program; a general prohibition against the purchase of Employee Dishonesty coverage; and a Statewide Automobile Insurance program. The Office is currently evaluating proposals for a statewide Volunteer Liability Insurance program.

SORM will review individual insurance purchases on an exception basis for agencies with unique risks, assist in the purchase of individual insurance policies as appropriate, and approve the purchase of surety bonds for client agencies. SORM believes it can demonstrate significant state savings as a result of this program.

Studies have illustrated that state agencies' preparedness for disasters should continue to be monitored and improved. SORM's risk management specialists work with client agencies to ensure that they have initiated business continuity planning and evaluate their current plans in relation to industry standards. In this effort, SORM schedules meetings to assist agencies and has developed tools for agencies to use to create and improve their plans.

# Agency Goals

## *Goal 1 – Manage Risk and Administer Claims*

To manage costs for covered state agencies arising from the risk of loss through the delivery of professional risk management services and claims administration services that are customized to specific agency needs.

### *Objective 1*

To provide guidance and direction to state agencies to assist them in identifying, evaluating, and controlling risk and minimizing the adverse impact of loss.

### *Objective 2*

To review and determine eligibility on 100 percent of the state workers' compensation claims submitted within 15 days of receipt, and pay all approved requests for medical and indemnity benefits as specified under state law.

# Objectives and Outcome Measures

## *Objective 1*

To provide guidance and direction to state agencies to assist them in identifying, evaluating, and controlling risk and minimizing the adverse impact of loss.

### *Outcomes:*

- (1) Incident rate of injuries and illnesses per 100 covered full-time state employees.
- (2) Percent of state agencies with approved risk management plans.

## *Objective 2*

To review and determine eligibility on 100 percent of the state workers' compensation claims submitted within 15 days of receipt, and pay all approved requests for medical and indemnity benefits as specified under state law.

### *Outcomes:*

- (1) Cost of workers' compensation per covered state employee.

# Strategies and Output, Efficiency, and Explanatory Measures

## *Strategy – Risk Management Program*

Establish statewide risk management guidelines, work with agencies to develop programs that meet the guidelines, conduct on-site risk management program reviews, and provide safety evaluations, consultations, and training.

### *Output Measures:*

- (1) Number of written risk management program reviews conducted.
- (2) Number of on-site consultations conducted.
- (3) Number of risk management training sessions conducted.

## *Strategy – Pay Workers' Compensation*

Obtain and review all claims for workers' compensation in accordance with state law and administrative regulations, determine eligibility for medical and indemnity benefits, and determine the injured employee's weekly wage and indemnity payment rate.

### *Output Measures:*

- (1) Number of initial eligibility determinations made.
- (2) Number of medical bills processed.
- (3) Number of indemnity payments processed.

# Strategies and Output, Efficiency, and Explanatory Measures

## *Strategy – Risk Management Program*

Establish statewide risk management guidelines, work with agencies to develop programs that meet the guidelines, conduct on-site risk management program reviews, and provide safety evaluations, consultations, and training.

### *Efficiency Measures:*

- (1) Cost per hour of direct risk management service provided.

## *Strategy – Pay Workers' Compensation*

Obtain and review all claims for workers' compensation in accordance with state law and administrative regulations, determine eligibility for medical and indemnity benefits, and determine the injured employee's weekly wage and indemnity payment rate.

### *Efficiency Measures:*

- (1) Percentage of claims processed within statutory time frame (15 days).
- (2) Percentage of medical bills paid within 45 days.
- (3) Average cost to administer a claim.

# Strategies and Output, Efficiency, and Explanatory Measures

## *Strategy – Risk Management Program*

Establish statewide risk management guidelines, work with agencies to develop programs that meet the guidelines, conduct on-site risk management program reviews, and provide safety evaluations, consultations, and training.

### *Explanatory Measures:*

- (1) Percent of state agencies' facility locations provided with on-site consultations.
- (2) Percentage of total assessments collected used for claim payments.
- (3) Amount of grants awarded for loss prevention purposes.
- (4) Number of grants awarded for loss prevention purposes.

## *Strategy – Pay Workers' Compensation*

Obtain and review all claims for workers' compensation in accordance with state law and administrative regulations, determine eligibility for medical and indemnity benefits and determine the injured employee's weekly wage and indemnity payment rate.

### *Explanatory Measures:*

- (1) Amount of subrogation payments obtained.

### **Brief Description of Agency's Planning Process**

The strategic planning cycle was initiated on March 10, 2004, with a strategy session attended by all division directors and executive staff. The team reviewed the agency performance measures to determine if SORM's strategies and initiatives would require additions or revisions to current measures. It was determined that the efficiency definition for Goal 1, Objective 2, required revision since the time allotted to determine eligibility had changed from seven to 15 days. SORM made a formal request for the change to the LBB so the measure would be in accordance with the statute as of the effective date. The SORM Board was consulted with regard to the team's recommendation to make the single revision to the current performance measures or budget structure and agreement was obtained to continue the Office's focus on current strategies.

During this session, the team revisited the strategic plan developed for 2003-2007 and developed the changes to be incorporated in the updated 2005-2009 plan. Information pertaining to prior and recent legislative actions, agency initiatives, and customer service surveys were discussed and incorporated into the strategic plan. Workforce planning instructions were reviewed. Staff was charged with development of assigned sections for both the Workforce Plan and the 2005-2009 Agency Strategic Plan. SORM submitted its request for the single modification to the current performance measures or budget structure on the due date.

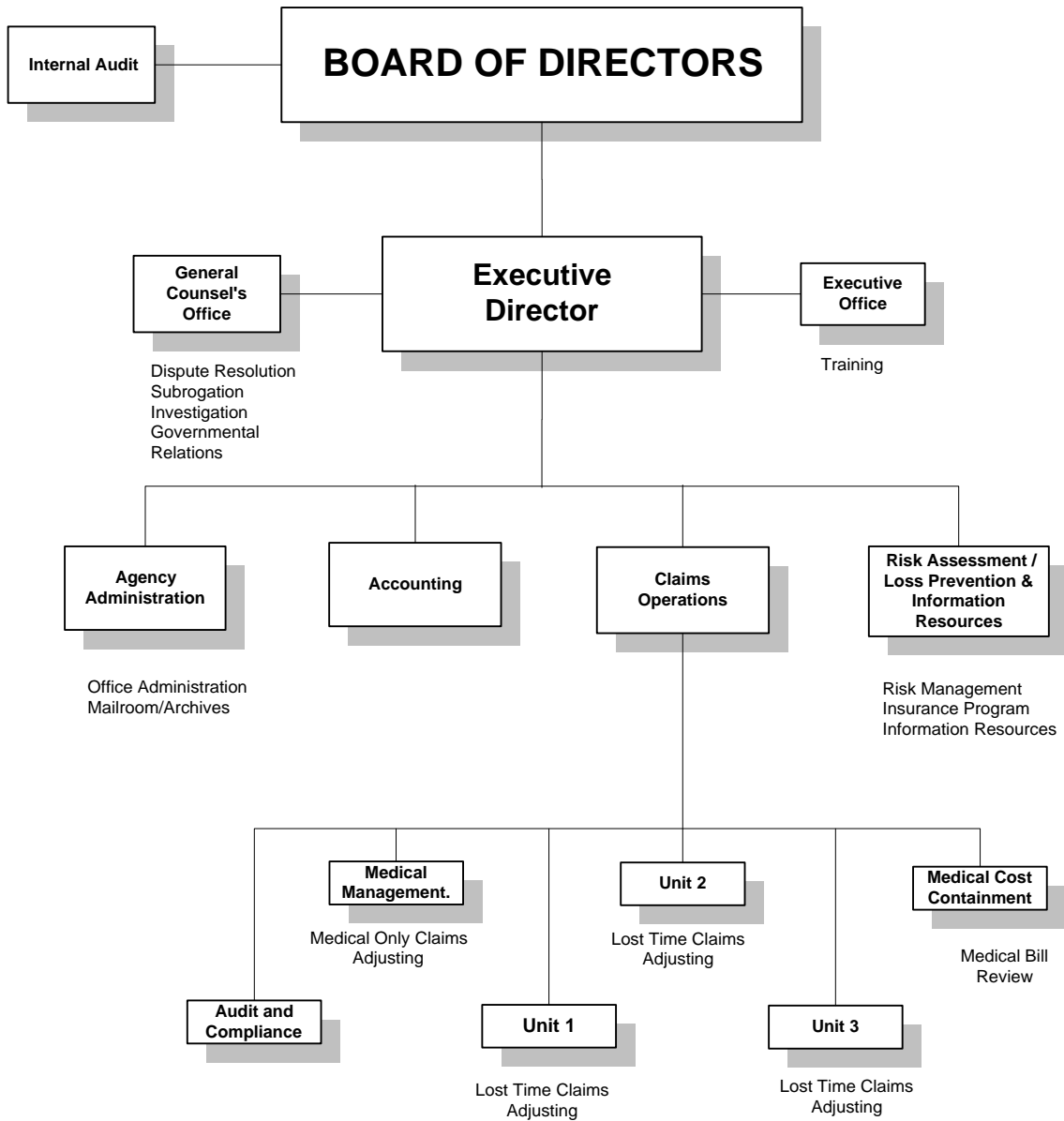
Executive and division-level staff reviewed each section of the document as it was developed to provide additional input or recommendations.

The draft was presented to SORM board on June 9, 2004, for approval, finalization, and submission on July 2, 2004.

Organizational Chart

**STATE OFFICE of RISK MANAGEMENT**

July 2, 2004



## APPENDIX C

### SORM Outcomes 2005-2009

<b>Outcomes</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
Incident rate of injuries and illnesses per 100 covered full-time state employees	4.20%	4.18%	4.18%	4.16%	4.16%
Percent of state agencies with approved risk management plans	100%	100%	100%	100%	100%
Cost of workers' compensation per covered state employee	\$417	\$416	\$416	\$415	\$415

PERFORMANCE MEASURE DEFINITIONS

**Measure:** Incident rate of injuries and illnesses per 100 covered full-time state employees.

*Goal - 01      Objective - 01      Type - Outcome 01*

**Short Definition:** Number of accepted on-job injuries and illnesses divided by the total number of state employees (measured by full-time equivalents) multiplied by 100. SORM may estimate fourth-quarter FTE data where the actual FTE data is not available at the time the report is due.

**Purpose/Importance:** This key outcome measure provides an objective measure of the results of implementation of covered state agencies risk management plans and the results of SORM’s risk management program. The injury frequency rate is important as it reflects not only the effectiveness of SORM’s risk management program identifying risks to covered state agencies, it also reflects covered state agencies actions in regards to implementation of SORM recommendations to control and correct the conditions that lead to injured state employees.

**Source/Collection of Data:** Workers’ compensation claims are opened and entered in the SORM Claims Management System (CMS) system as reports of injuries (TWCC-1 forms) are filed by covered state agencies. These reported claims are investigated and accepted or denied. The State Auditor’s Office Classification Division collects full-time employee data from covered state agencies, which is shared with SORM.

**Method of Calculation:** Number of reported on-job injuries and illnesses accepted divided by the total number of state employees (measured by full-time equivalents) multiplied by 100.

**Data Limitations:** The accuracy of this measure is dependant upon injuries being reported promptly and the FTE data being reported accurately to the State Auditor’s Office.

**Calculation Type:** Non-cumulative

**New Measure:** No

**Key Measure:** Yes

**Desired performance:** Lower than target.

## PERFORMANCE MEASURE DEFINITIONS

**Measure:** Percent of state agencies with approved risk management plans.

*Goal - 01      Objective - 01      Type - Outcome 02*

**Short Definition:** Number of approved risk management plans divided by the total number of state agencies.

**Purpose/Importance:** This outcome measure of the risk management strategy indicates the status (percentage) of covered agencies' risk management plans. It provides an indicator of the level of progress in the on-going approval process.

**Source/Collection of Data:** SORM database.

**Method of Calculation:** The number of approved risk management plans divided by the total number of covered state agencies.

**Data Limitations:** None

**Calculation Type:** Non-cumulative

**New Measure:** No

**Key Measure:** No

**Desired performance:** Equal to or higher than target.

## PERFORMANCE MEASURE DEFINITIONS

**Measure:** Number of written risk management program reviews conducted.

*Goal - 01*

*Objective - 01*

*Strategy - 01*

*Type - Output 01*

**Short Definition:** A risk management program review is a review and evaluation of a covered state agency's written risk management plan and program compared against SORM risk management guidelines. The results of a review is evidenced by a written report issued by SORM whereby the agency's plan is certified or not certified to be in accordance with SORM risk management guidelines.

**Purpose/Importance:** This output measure of the risk management strategy compares the actual number of risk management program reviews against the targeted number of reviews. It provides documentation that a covered state agency's risk management plan and program meets the requirements of the SORM risk management guidelines.

**Source/Collection of Data:** SORM database.

**Method of Calculation:** Summation of the number of risk management program reviews conducted.

**Data Limitations:** None

**Calculation Type:** Cumulative

**New Measure:** No

**Key Measure:** Yes

**Desired performance:** Equal to or above target level.

## PERFORMANCE MEASURE DEFINITIONS

**Measure:** Number of On-site Consultations conducted.

*Goal - 01*

*Objective - 01*

*Strategy - 01*

*Type - Output 02*

**Short Definition:** An on-site consultation is a site visit at a covered state agency's physical location or facility. The consultation provides risk management services to identify and expose risk exposures and to suggest risk prevention and control measures or techniques that may be implemented by the covered agency to prevent or reduce claims and losses.

**Purpose/Importance:** This output measure reports the number of covered state agencies provided assistance in the identification and assessment of specific risk exposures and recommendations to prevent or reduce claims and losses.

**Source/Collection of Data:** SORM database.

**Method of Calculation:** Summation of the on-site consultation visits conducted for the period reported.

**Data Limitations:** None

**Calculation Type:** Cumulative

**New Measure:** No

**Key Measure:** Yes

**Desired performance:** Equal to or higher than target.

## PERFORMANCE MEASURE DEFINITIONS

**Measure:** Number of risk management training sessions conducted.

*Goal - 01      Objective - 01      Strategy - 01      Type - Output 3*

**Short Definition:** The number of training sessions conducted for eligible state agencies. Training sessions address issues relating to property, liability, or workers' compensation exposures or losses.

**Purpose/Importance:** This output measure compares the actual number of training sessions conducted to the planned number of training sessions.

**Source/Collection of Data:** SORM database.

**Method of Calculation:** Training sessions conducted for eligible state agencies are entered in a database. The sessions conducted during the period reported are summed and reported.

**Data Limitations:** None

**Calculation Type:** Cumulative

**New Measure:** No

**Key Measure:** No

**Desired performance:** Equal to or higher than target.

## PERFORMANCE MEASURE DEFINITIONS

**Measure:** Cost per hour of direct risk management service provided.

*Goal - 01*

*Objective - 01*

*Strategy - 01*

*Efficiency - 01*

**Short Definition:** The total cost of the risk management strategy divided by the number of direct hours of risk management services provided. Direct hours are defined as hours spent preparing, conducting, and reporting upon risk management services provided. Non-direct hours include all staff hours charged to leave categories and hours of training received by risk management staff.

**Purpose/Importance:** This efficiency measure provides information to compare the direct cost of service provided. It is important as it can point to excessive overhead and can be used to compare the governmental cost of risk management services to private sector costs for equivalent services.

**Source/Collection of Data:** SORM database.

**Method of Calculation:** Hours of risk management services are categorized by agency and whether the hours are direct or non-direct service. Total costs (expenditures) of the risk management strategy are divided by the number of direct service hours to derive the actual cost per direct service hour.

**Data Limitations:** Errors could occur in data entry of hours charged. Expenditure data could be subject to potential coding errors or accruals.

**Calculation Type:** Non-cumulative

**New Measure:** No

**Key Measure:** No

**Desired performance:** Lower than target.

## PERFORMANCE MEASURE DEFINITIONS

**Measure:** Percent of state agencies facility locations provided with on-site consultations.

*Goal - 01*

*Objective - 01*

*Strategy - 01*

*Type - Explanatory 01*

**Short Definition:** The total number of on-site consultations provided at covered state agency locations divided by the number of physical locations.

**Purpose/Importance:** This measure provides the extent that risk management on-site consultation services have been provided to the population of covered state agency physical locations during the period reported.

**Source/Collection of Data:** SORM database.

**Method of Calculation:** The number of on-site consultation visits divided by the populations of state agency physical locations during the period reported.

**Data Limitations:** None

**Calculation Type:** Cumulative

**New Measure:** No

**Key Measure:** No

**Desired performance:** Equal to or above target.

## PERFORMANCE MEASURE DEFINITIONS

**Measure:** Percentage of total assessments collected used for claim payments.

*Goal - 01      Objective - 01      Strategy - 01      Type - Explanatory 02*

**Short Definition:** The annual amount of claim costs divided by the total amount collected for workers' compensation payments through annual assessments to covered state agencies.

**Purpose/Importance:** This explanatory measure for the workers' compensation payments strategy indicates the amount (expressed as a percentage) of the total assessments actually necessary for cash-basis claim payments for the fiscal year. It provides an indicator of the accuracy of the actuarial projection used to determine the total assessment amount.

**Source/Collection of Data:** SORM database.

**Method of Calculation:** Annual net claim cash payments (numerator) divided by the total workers' compensation portion of assessments collected (denominator).

**Data Limitations:** None

**Calculation Type:** Non-cumulative

**New Measure:** No

**Key Measure:** No

**Desired performance:** Lower than target.

## PERFORMANCE MEASURE DEFINITIONS

**Measure:** Amount of grants awarded for loss prevention purposes.

*Goal - 01      Objective - 01      Strategy - 01      Type - Explanatory 03*

**Short Definition:** The dollar amount of grants awarded to covered state agencies.

**Purpose/Importance:** This explanatory measure for the workers' compensation payments strategy indicates the total dollar amount of grants awarded during the period reported.

**Source/Collection of Data:** SORM database.

**Method of Calculation:** Summation of the dollar amount of grants awarded during the period reported.

**Data Limitations:** None

**Calculation Type:** Cumulative

**New Measure:** No

**Key Measure:** No

**Desired Performance:** Lower than target.

## PERFORMANCE MEASURE DEFINITIONS

**Measure:** Number of grants awarded for loss prevention purposes.

*Goal - 01      Objective - 01      Strategy - 01      Type - Explanatory 04*

**Short Definition:** Number of grants awarded to covered state agencies.

**Purpose/Importance:** This explanatory measure for the workers' compensation payments strategy indicates the number of grants awarded during the period reported.

**Source/Collection of Data:** SORM database.

**Method of Calculation:** Summation of the number of grants awarded during the period reported.

**Data Limitations:** None

**Calculation Type:** Cumulative

**New Measure:** No

**Key Measure:** No

**Desired Performance:** Lower than target.

## PERFORMANCE MEASURE DEFINITIONS

**Measure:** Cost of workers' compensation per covered State employee.

*Goal - 01*

*Objective - 02*

*Outcome - 01*

*Efficiency - 01*

**Short Definition:** The total cost of the workers' compensation program divided by the number of covered state employees. Total cost includes claims expenditures, cost containment expenditures, and administrative costs.

**Purpose/Importance:** This outcome measure of the workers' compensation strategy provides the dollar cost of workers' compensation cost per covered state employee. This measure can be used to provide the overall trend of workers' compensation cost when plotted with prior period calculations.

**Source/Collection of Data:** SORM database, SAO Quarterly Report of Full-Time Equivalent State Employees, OAG budget reports of actual and forecast expenditures.

**Method of Calculation:** Expenditures for the workers' compensation strategy (numerator) divided by the number for full-time equivalent state employees (numerator).

**Data Limitations:** Accuracy of the number of full-time equivalent state employees is subject to limitations in accuracy of data reported to the State Auditor's Office. Expenditure data is forecast upon information available at the time of reporting.

**Calculation Type:** Non-cumulative

**New Measure:** No

**Key Measure:** Yes

**Desired performance:** Lower than target.

## PERFORMANCE MEASURE DEFINITIONS

**Measure:** Number of initial eligibility determinations made.

*Goal - 01*

*Objective - 02*

*Strategy - 01*

*Type - Output 01*

**Short Definition:** Number of claims accepted or denied.

**Purpose/Importance:** This output measure of the workers' compensation strategy is an indicator of workload during the period reported.

**Source/Collection of Data:** State workers' compensation mainframe report.

**Method of Calculation:** Summation of claim denials or acceptances made during the period reported.

**Data Limitations:** None

**Calculation Type:** Cumulative

**New Measure:** No

**Key Measure:** No

**Desired performance:** Lower than target.

## PERFORMANCE MEASURE DEFINITIONS

**Measure:** Number of medical bills processed.

*Goal - 01*

*Objective - 02*

*Strategy - 01*

*Type - Output 02*

**Short Definition:** Number of medical bills processed includes those bills paid or denied.

**Purpose/Importance:** This output measure of the workers' compensation strategy is an indicator of workload processed for the period reported.

**Source/Collection of Data:** SORM database.

**Method of Calculation:** Sum of medical bills processed during the period reported.

**Data Limitations:** None

**Calculation Type:** Cumulative

**New Measure:** No

**Key Measure:** Yes

**Desired performance:** Higher than target.

## PERFORMANCE MEASURE DEFINITIONS

**Measure:** Number of indemnity payments paid.

*Goal - 01*

*Objective - 02*

*Strategy - 01*

*Type - Output 03*

**Short Definition:** Number of wage replacement payments made.

**Purpose/Importance:** This is an explanatory measure of the workers' compensation strategy. It provides an indicator of the workload during the period reported.

**Source/Collection of Data:** SORM database.

**Method of Calculation:** Sum of the number of indemnity payments paid during the period.

**Data Limitations:** None

**Calculation Type:** Cumulative

**New Measure:** No

**Key Measure:** Yes

**Desired performance:** Higher than target.

## PERFORMANCE MEASURE DEFINITIONS

**Measure:** Percentage of claims processed within statutory time frame (15 days).

*Goal - 01      Objective - 02      Strategy - 01      Type - Efficiency 01*

**Short Definition:** Percentage of claims processed within statutory time frame (15 days).

**Purpose/Importance:** This workers' compensation efficiency measure is an indicator of compliance with TWCC guidelines governing carriers' responsibilities to determine claim eligibility within 15 (fifteen) days.

**Source/Collection of Data:** SORM database.

**Method of Calculation:** Number of claims determined within 15 days as a percentage of the total determinations made for the reporting period.

**Data Limitations:** None

**Calculation Type:** Non-cumulative

**New Measure:** No

**Key Measure:** Yes

**Desired performance:** Higher than target.

## PERFORMANCE MEASURE DEFINITIONS

**Measure:** Percentage of medical bills processed within 45 days.

*Goal - 01      Objective - 02      Strategy - 01      Type - Efficiency 02*

**Short Definition:** Percentage of medical bills processed within 45 days.

**Purpose/Importance:** This measure reports compliance with TWCC guidelines governing the timeliness for processing medical bills.

**Source/Collection of Data:** SORM database.

**Method of Calculation:** The number of medical bills processed within 45 days as a percentage of the total number of medical bills processed for the same period.

**Data Limitations:** None

**Calculation Type:** Non-cumulative

**New Measure:** No

**Key Measure:** Yes

**Desired performance:** Higher than target.

## PERFORMANCE MEASURE DEFINITIONS

**Measure:** Average cost to administer a claim.

*Goal - 01*

*Objective - 02*

*Strategy - 01*

*Type - Efficiency 03*

**Short Definition:** The total cost of the workers' compensation strategy divided by the number of claims administered during the period expenditures were incurred. Total cost includes SORM workers' compensation administrative claim costs but excludes indemnity and medical provider payments.

**Purpose/Importance:** This efficiency measure of the workers' compensation strategy provides an indicator of relative efficiency when compared to the target and prior period reported measures.

**Source/Collection of Data:** SORM database, actual and projected expenditure reports.

**Method of Calculation:** The ratio of funds expended per claim administered is calculated by summing the administrative expenditures of the workers' strategy (excluding indemnity and medical payments) and dividing this dollar amount by the number of claims administered during the period.

**Data Limitations:** Expenditure data (numerator) can be limited by the accuracy of accruals and potential errors in expenditure coding. The accuracy of the number of claims administered (denominator) can be effected by potential errors made in entering claims on the Claims Management System during the period.

**Calculation Type:** Non-cumulative

**New Measure:** No

**Key Measure:** Yes

**Desired performance:** Lower than target.

## PERFORMANCE MEASURE DEFINITIONS

**Measure:** Amount of subrogation payments obtained.

*Goal - 01*

*Objective - 02*

*Strategy - 01*

*Type - Explanatory 01*

**Short Definition:** Dollar amount of subrogation payments recovered. Subrogation is defined as the assumption by a third party of another's legal right to collect a debt or damages.

**Purpose/Importance:** This is an explanatory measure of the workers' compensation strategy. It is also reflected in the appropriation bill as a method of finance.

**Source/Collection of Data:** SORM database.

**Method of Calculation:** Sum of subrogation dollars received during the period reported.

**Data Limitations:** None

**Calculation Type:** Cumulative

**New Measure:** No

**Key Measure:** No

**Desired performance:** Higher than target.

**STATE OFFICE *of* RISK MANAGEMENT**  
**WORKFORCE PLAN**  
**Fiscal Years 2005 – 2009**

**A. Overview of Agency Scope and Functions**

The State Office of Risk Management's goal is to administer the State's self-insured workers' compensation program for state employees in a manner that balances consideration for the rights and needs of the state worker with the protection of the legitimate interest of the State of Texas. This is a vigorous approach that involves assessing and addressing risks that either threaten the achievement of the State's strategic objectives or represent opportunities to exploit chances for competitive advantage

SORM is administratively attached to the Office of the Attorney General. The Supply Analysis in this report does not reflect the significant contribution in administrative support (payroll, benefits administration, etc.) made by the OAG.

The Office's operations are governed by the Texas Labor Code, Chapters 412 and 501. Operating costs for the workers' compensation strategy are paid for by a combination of interagency contracts and direct General Revenue Fund appropriations. Costs for the risk management program are funded by inter-agency contracts.

The Office is governed by a five-member board appointed by the Governor. Members of the Board serve staggered terms. The board is responsible for:

- Oversight of the agency and the appointment of an Executive Director;
- Approval of risk management guidelines for distribution to state agencies;
- Approval of rules necessary for the implementation of the risk management and workers' compensation programs; and
- Reporting to the Legislature on methods to reduce exposure to loss for state agencies; the operation, financing, and handling of risks by state agencies; and the handling of claims brought against the state.

The Office administers the State Employees' Workers' Compensation Program for state agencies<sup>1</sup>. The Office also administers workers' compensation claims for employees of Community Supervision and Corrections Departments. SORM's workers' compensation claims program is responsible for:

- Operating a self-insured workers' compensation program for the State of Texas pursuant to the Texas Labor Code and TWCC regulations;
- Receiving and investigating reports of injury filed on behalf of state employees;
- Determining whether a claim is compensable;
- Paying income and medical benefits as due;
- Reviewing medical bills to determine reasonableness and medical necessity and compliance with TWCC fee guidelines;
- Appearing as an adversary before TWCC and the courts and presenting the legal defenses and positions of the workers' compensation program;
- Preparing reports for the Legislature on workers' compensation claims information; and
- Providing workers' compensation training for state agencies.

The Office provides services to all state agencies for the protection of the state's resources<sup>2</sup>. Currently, these resources include approximately 172,000 employees, more than \$8.8 billion dollars in capital investments in real property, and more than \$2.2 billion in fixed assets at historical cost. The Executive Director of the Office serves as the state risk manager. SORM's responsibilities include:

- Providing immediate feedback to state agencies in identifying, evaluating, and reducing potential liability exposure and liability losses, including workers' compensation losses;
- Providing risk management training for state agencies;

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<sup>1</sup> The University of Texas and Texas A&M University Systems and the Texas Department of Transportation administer their own workers' compensation programs.

<sup>2</sup> The University of Texas and Texas A&M University Systems and the Texas Department of Transportation are legislatively excluded from these services.

- Reviewing, verifying, monitoring, and approving risk management programs adopted by state agencies;
- Consulting state agencies regarding their insurance needs;
- Purchasing insurance on behalf of state agencies;
- Reviewing and providing authorization for the purchase by state agencies of surety and fidelity bonds, including notary bonds; and
- Collecting data from insurers regarding insurance purchases by state agencies.

The Office publishes risk management guidelines, provides safety and loss prevention training for state agency personnel, conducts safety reviews, provides insurance services and risk management analyses and consultations, and devises protocols and responses at the request of state agencies or in response to external threats or risks to state agencies. State agencies are required to submit annual reports to the Office on claims and loss information, existing and potential exposure to loss, estimates by category of risk of losses incurred but not reported, and any additional information deemed necessary by the Executive Director. State agencies intending to purchase property or liability insurance coverage in a manner other than through the services provided by the Office must report the purchase to the Office within 30 days of the purchase.

## **B. SORM Mission Statement**

The State Office of Risk Management will provide active leadership to enable State of Texas agencies to protect their employees, the general public, and the state's physical and financial assets by reducing and controlling risk in the most efficient and cost-effective manner.

## **C. Key Strategies**

### **1. Strategy - Risk Management Program**

Establish statewide risk management guidelines, work with agencies to develop programs that meet the guidelines, conduct on-site risk management program reviews, and provide safety evaluations, consultations, and training.

### **2. Strategy - Pay Workers' Compensation**

Obtain and review all claims for workers' compensation in accordance with state law and administrative regulations, determine eligibility for medical and indemnity benefits, and determine the injured employee's weekly wage and indemnity payment rate.

## D. Supply Analysis

The State Office of Risk Management is authorized 124 full-time equivalent (FTE) positions.

Division/Section	Number of FTEs	Working Title
Executive Management	1	Executive Director
General Counsel	2	Attorneys
	2	Legal Assistants
	1	Rules Administrator
General Counsel/Proceedings	2	Proceedings Specialists
General Counsel/Subrogation	1	Legal Assistant
General Counsel/Investigations	2	Investigators
General Counsel/Gov't Relations	1	Governmental Relations Specialist
Agency Administration	1	Director
	1	Executive Assistant
	2	Receptionists
	1	Timekeeper/Purchasing Liaison
Agency Administration/Document Processing Unit	1	Program Manager
	11.5	Document Processing Clerks
Fund Accounting	1	Director
	1	Deputy Financial Officer
	2	Accountants
	1	Accounting Team Lead
	4	Accounting Clerks
Agency Outreach and Training	3	Senior Trainers
	2	Trainers
	1	Information Specialist
Risk Assessment and Loss Prevention	1	Director
	7	Risk Management Specialists
	2	Insurance Specialists

	1	Administrative Assistant
Information Resources	4	Programmers
	1	Systems Analyst
	1	Network Administrator
	1	Desktop Support Technician
Claims Operations	1	Director
	1	Claims Compliance Auditor
	3	Program Specialists
	4	Claims Supervisors
	32	Claims Adjusters
	9	Claims Assistants
Claims Operations/Medical Cost Containment Section	1	Supervisor
	6	Medical Bill Review Specialists
	1	Administrative Assistant
Unfilled due to budget constraints	3.5	

Although salaries in the risk management area are competitive, the current market for claims administration in the private sector is hardening and currently unfavorable to the Office's ability to acquire outside skills. Salaries in the claims administration area are not competitive with other state agencies that administer workers' compensation programs (the University of Texas and Texas A&M University Systems and the Texas Department of Transportation) and significantly less than the private sector. Although recent high turnover resulted from increased retirements due to legislative retirement bonuses and some terminations for compliance issues, the Office's historically high turnover in its claims adjusting staff is driven primarily by low salaries. In a number of instances, claims staff have accepted lower positions in the private sector that pay more than their supervisors make at SORM.

With the exception of the claims personnel, the Office has generally been able to hire qualified applicants within 60 days of posting a vacancy. In claims SORM is now experiencing extended periods in which no applications meeting minimum qualifications are received for posted vacancies.

With 17% of SORM's employees working second and third jobs to make ends meet, a more competitive compensation package would increase the Office's ability to retain its employees and to better compete with the private labor market for qualified applicants.

## **E. Demand Analysis**

The State Office of Risk Management administers insurance services obtained by state agencies, including the State's employees' workers' compensation insurance program and the state risk management programs.

The Office is committed to strengthening its core competencies by attracting and retaining qualified claims adjusting staff, protecting state personnel, and supporting improvements in the automated claims management system.

It is anticipated that medical utilization and associated costs, including pharmaceutical expenses, will continue to rise dramatically, impacting future State budgets. SORM believes these increases in medical utilization charges submitted for payment result in the need for more highly trained claims adjusters who will be able to manage complex medical cases. The number of medical disputes, relating to the cost for treatment and drugs and the medical necessity and appropriateness of certain procedures, continues to rise. Increased medical costs and state agencies' interests in containing losses through workers' compensation costs also require that SORM's current staff of claims adjusters acquire more medical expertise. Future claims adjusting staff must possess a stronger medical background, including medical terminology, generally accepted medical procedures and practices, and the ability to oversee complex claims. To accomplish these goals, the Office is committed to:

- Emphasizing efficiency and expertise in claims handling;
- Assisting state agencies in the development of risk management programs to protect state employees, the public, and state assets;
- Providing risk management education and training to state agencies to reduce loss exposures; and
- Ensuring claims adjusting staff has adequate medical background.

The Office's success in controlling claims costs depends on continued support of the agency's automated claims handling system. The office is currently developing a new Risk Management Information System (RMIS) that will leverage new technology to assist in the management of claims and collect important risk management information to identify exposures and loss trends for the State.

The following graph shows projected increases in the FTEs *per fiscal year* for FY 2005–2009 to accomplish these goals.

Working Title	FY05	FY06	FY07	FY08	FY09
Entry Level Claims Adjuster	0	1	0	0	0
Senior Claims Adjuster	0	4	0	0	0
Medical Bill Review Specialist	0	1	1	0	0
Document Imaging Technician	0	1	0	0	0
Sub-total per fiscal year	0	7	1	0	0

## F. Gap Analysis

The State Office of Risk Management adjusts claims for agencies with employees who are at a high risk for injury. These claims require the experience and expertise of seasoned claims adjusters. High turnover in the claims adjusting staff makes it difficult to perform quality claims administration on a consistent basis. Workers’ compensation is a complex medical and legal system that is not easily understood and accomplished by persons with no experience in the system. SORM continues to lose experienced adjusters to other workers’ compensation insurance carriers that are able to pay higher wages than SORM. The challenges SORM faces in this area include:

- Lack of employees currently on staff with subject-specific training in the claims administration field (e.g., handling medically complex claims, setting reserves, etc.);
- Shortage of training staff to meet increased internal and external training requests; and
- Budgetary restraints.

## G. Strategy Development

For the Office to address workforce competency gaps, the following strategies are planned:

- Continue with an agency culture that attracts top people in their field;
- Promote advanced professional licensing and certification of SORM employees;
- Encourage active involvement of risk management specialists in the training and certification of state agency risk managers;

- Continue to develop career paths that tie back to the agency's mission and strategies;
- Redesign the agency's in-house training matrix to target identified gaps in competencies; and
- Develop a mentoring program that complements succession planning.