

**State Office of Risk Management
Summary of Recommendations - Senate**

Section 1

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Stephen Vollbrecht, Executive Director

Louellen Lowe, LBB Analyst

Method of Financing	2018-19 Base	2020-21 Recommended	Biennial Change (\$)	Biennial Change (%)
General Revenue Funds	\$0	\$0	\$0	0.0%
GR Dedicated Funds	\$0	\$0	\$0	0.0%
<i>Total GR-Related Funds</i>	<i>\$0</i>	<i>\$0</i>	<i>\$0</i>	<i>0.0%</i>
Federal Funds	\$0	\$0	\$0	0.0%
Other	\$107,046,199	\$107,046,199	\$0	0.0%
All Funds	\$107,046,199	\$107,046,199	\$0	0.0%

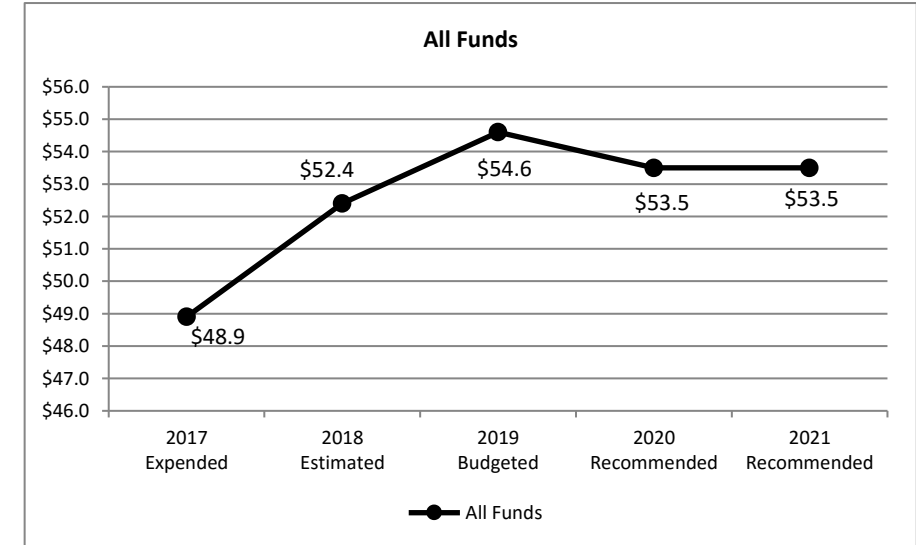
	FY 2019 Budgeted	FY 2021 Recommended	Biennial Change	Percent Change
FTEs	121.6	121.6	0.0	0.0%

Agency Budget and Policy Issues and/or Highlights

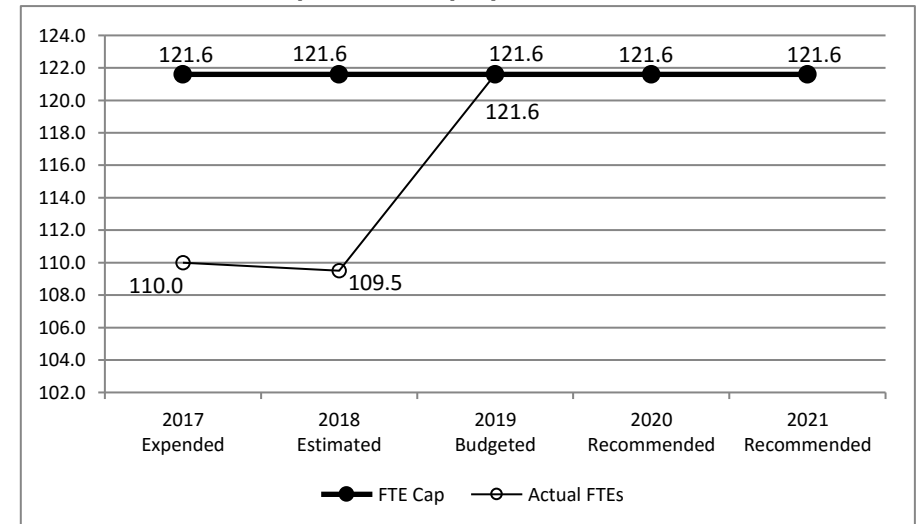
- State Office of Risk Management (SORM) is under Strategic Fiscal Review and Sunset Review for the Eighty-sixth Legislative Session.
- SORM provides risk management planning services, insurance purchasing and review, and continuity of operations planning services to state agencies. Additionally, SORM administers the state's workers' compensation program for some state agencies.
- Since 2010, SORM's funding has been comprised of interagency contracts received through its allocation program and subrogation receipts.

The bill pattern for this agency (2020-21 Recommended) represents an estimated 100% of the agency's estimated total available funds for the 2020-21 biennium.

Historical Funding Levels (Millions)



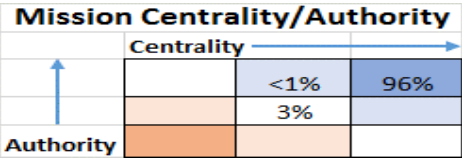
Historical Full-Time-Equivalent Employees (FTEs)



State Office of Risk Management
Strategic Fiscal Review Program Summary - Senate

State Office of Risk Management

The mission of the State Office of Risk Management is to 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.



					2018-19 Base Funding	2020-21 Recommendations	Percent Change from Base	GR-Related Percentage of Rec. Total	2020-21 Agency Total Request
Total Budget 100%	Budget, Ordered by Mission Centrality and Authority	Strategy	Agency Ranking		\$107,046,199	\$107,046,199	0%	0%	\$107,046,199
		1.1.1 Enterprise Risk Mgmt/claims Admin	7	Contracted Medical Cost Containment	\$3,606,132	\$3,600,000	-0%	0%	\$3,600,000
	97%	1.1.1 Enterprise Risk Mgmt/claims Admin	2	Continuity of Operations Planning	\$241,765	\$271,410	12%	0%	\$271,410
	96%	2.1.1 Workers' Compensation Payments	6	Workers' Compensation Payments: Medical Payments	\$49,944,126	\$49,944,126	0%	0%	\$49,944,126
	50%	2.1.1 Workers' Compensation Payments	5	Workers' Compensation Payments: Indemnity Payments	\$35,691,374	\$35,691,374	0%	0%	\$35,691,374
	16%	1.1.1 Enterprise Risk Mgmt/claims Admin	4	Workers' Compensation Claims Operations	\$12,839,945	\$12,615,928	-2%	0%	\$12,615,928
	5%	1.1.1 Enterprise Risk Mgmt/claims Admin	3	Insurance Purchasing	\$380,575	\$414,868	9%	0%	\$414,868
	4%	1.1.1 Enterprise Risk Mgmt/claims Admin	1	Enterprise Risk Management	\$4,342,282	\$4,508,493	4%	0%	\$4,508,493

**State Office of Risk Management
Selected Fiscal and Policy Issues - Senate**

1. **Strategic Fiscal Review Overview.** The State Office of Risk Management (SORM) is under Strategic Fiscal Review (SFR) for the Eighty-sixth Legislative Session. Significant observations and considerations include:
 - Regarding the 7 programs reviewed under SFR, all are within statutory requirements and/or authorizations (See Section 1a and SFR Appendices 1 and 3 for additional details). The assessment of mission centrality and authority highlights that SORM operates each of its programs with moderate to strong mission centrality and authority.
 - Regarding its Insurance Purchasing Program, the agency has broad authority under statute to add new lines of insurance based on recommendations of staff and adoption by the board. The agency should develop a cost-benefit justification or methodology for the state procurement of new lines of insurance. The agency captures data including cause and condition of incidents but lacks strong performance measures to demonstrate the program's efficacy. The agency ranks this program number 3 out of 7.
 - In addition to the recommendations included for 2020-21, one alternative funding option is presented for consideration in Appendix 3d related to SORM's Strategy A.1.1., Enterprise Risk Management.

2. **Audit Findings.**
 - *State Auditor's Office: Financial Processes at the State Office of Risk Management.* In a review of SORM's activities related to contracts for FY 2017 and the first five months of FY 2018, SAO Report No. 18-032, June 2018, found significant weaknesses in SORM's contracting processes, planning, procurement, and formation. The SAO made recommendations to bring SORM's contracting practices in line with the *State of Texas Contract Management Guide* as well as with the Contract Advisory Team's guidance. The report also identified weaknesses in administrative practices as well as change management policies and procedures for its information systems. The agency agreed with the SAO's recommendations and has completed or will complete implementation of recommendations by the end of this calendar year.
 - *Internal Audit:* The agency's annual internal audit of its processes and internal controls for FY 2018, completed in October 2018, identified three high risk internal control weaknesses related to the allocation assessment of agencies, and three low risk weaknesses pertaining to the agency's inconsistent or incomplete adherence to the rules and codes that govern the assessment process. The agency's Director of Accounting and Finance is working to document internal processes and procedures related to interagency assessments and bring agency operations into alignment with code and best practices. Additionally, the agency is working to develop automated solutions for its assessment process which would enhance consistency and accuracy of agency assessments. Finally, agency leadership is working to strengthen existing quality controls and will begin documenting when an assessment has been reviewed and by whom.

3. **Sunset Review.** The Sunset Advisory Commission recommends continuation of the State Office of Risk Management for another 12 years. Sunset's review identified four issues for which it made recommendations:
 - Contract management policies and procedures, solicitation, monitoring, and enforcement. Sunset recommendations aim to maximize best contracting practices and enhance utilization of the agency's administrative attachment to the Office of the Attorney General to ensure SORM gets the best value for its dollar as it relates to contracts. Sunset indicates its recommendations for improvement could be implemented utilizing current resources. (See SFR Appendix 5d for more information.)
 - Cost containment strategy. Issues included gaps in the geographical coverage of SORM's healthcare network provider, deficiencies in the agency's medical bill review related to inaccurate and inconsistent services provided by its re-pricing vendor, insufficient data collection to inform the Legislature of cost containment initiatives and outcomes, and inadequate solicitation of information from agencies to fully assess lost-time and return-to-work data. Sunset indicates its recommendations for improvement may require additional resources, but the extent is unknown. (See SFR Appendix 5g for more information.)

- Risk management assessments. Issues included a lack of standardized rubrics or templates for risk assessors to use in on-site assessments, dated and difficult-to-use risk management tools for agencies including for its continuity of operations planning, and insufficient data collection which the agency could use to better tailor its products to suit clients' needs and to target its resources to agencies with higher risk profiles. Sunset indicates its recommendations for improvement could be implemented utilizing current resources, though it mentions updated technology could maximize the agency's capability in this area. (See SFR Appendix 5a, b, and c for more information.)
- Implementation of recommendations to address problems identified in audits. Issues included slow implementation of audit recommendations, lack of standardized training materials for board members, and inadequate technology as the source of many of its issues. Sunset indicates most of its recommendations for improvement could be implemented utilizing current resources.

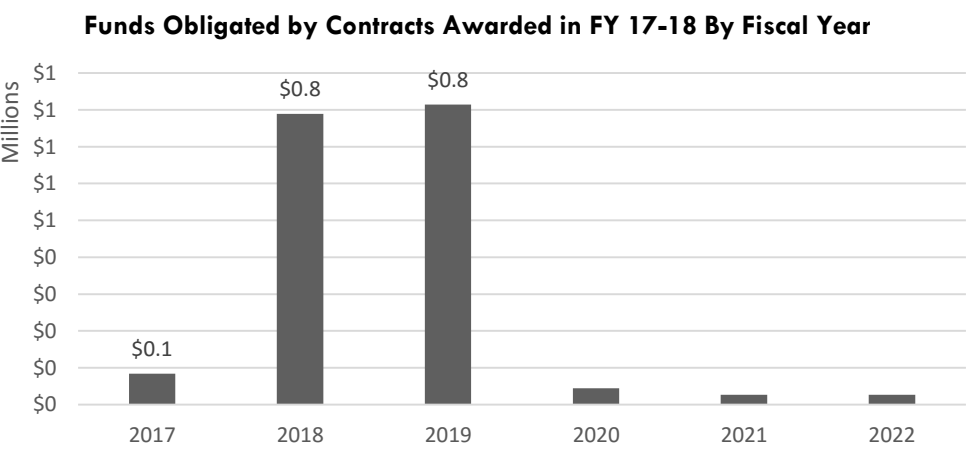
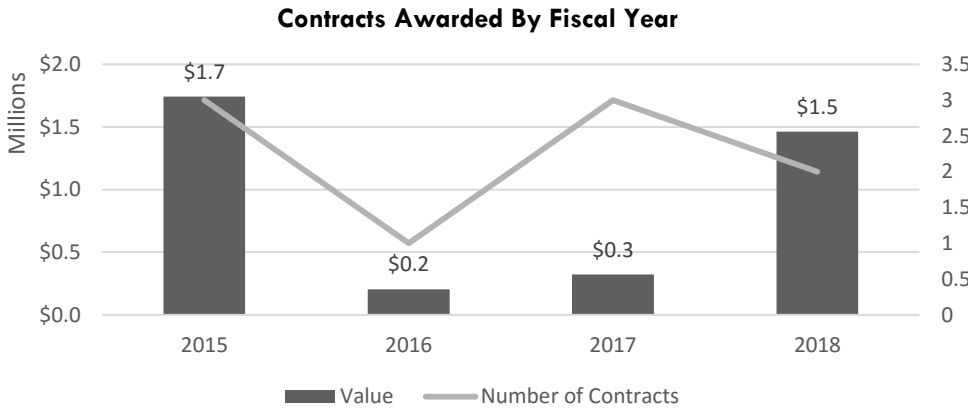
State Office of Risk Management
Contracting Highlights

As of 8/31/2018, the State Office of Risk Management had 11 active procurement contracts valued at \$23.5 million and no revenue generating contracts

Summary of Contracts Awarded in Fiscal Years 2017-2018 and Reported to LBB Contracts Database¹

(Dollar values rounded to the nearest tenth of a million)

	Number	Total Value	Average Value	% of total
Procurement Contracts	5	\$ 1.8	\$ 0.4	100%
Award Method				
Total Competitive Contracts	3	\$ 0.2	\$ 0.1	13.5%
Total Non-Competitive	2	\$ 1.5	\$ 0.8	86.5%
Sole Source	1	\$ 0.2	\$ 0.2	9.0%
Interagency Agreement	1	\$ 1.4	\$ 1.4	77.5%
Procurement Category				
Other Services	1	\$ 0.2	\$ 0.2	8.6%
Information Technology	1	\$ 0.2	\$ 0.2	9.0%
Legal Services	2	\$ 0.1	\$ 0.0	4.9%
Professional Services	1	\$ 1.4	\$ 1.4	77.5%
Revenue Generating Contracts	0	\$ -	\$ -	



¹These figures reflect the total value of reported contracts awarded in FY 17-18 and reported to the LBB contracts database. Values can include planned expenditures for subsequent years and represent the amounts contracted which may include funds from sources other than appropriated or General Revenue Funds.

State Office of Risk Management
Contracting Highlights

(Dollar values rounded to the nearest tenth of a million)

Largest Active Contracts from Previous Fiscal Years	Award Method	Total Value	% Change*	Award Date	Length	Renewals	Vendor
1 Medical Cost Containment Services	Competitive	\$ 9.9	22.5%	06/24/14	5 years	2	Injury Management Organization
2 Medical Cost Containment Services	Competitive	\$ 7.5	0.0%	06/24/14	5 years	0	Matrix Healthcare Services Inc
3 Medical Cost Containment Services	Competitive	\$ 3.3	0.0%	06/25/14	5 years	0	ISG Services LLC
4 Medical Cost Containment Services	Competitive	\$ 0.5	19.9%	07/10/14	5 years	1	Medical Equation Inc
5 Risk Management Information Systems	Competitive	\$ 0.2	0.0%	02/16/16	5 years	0	Origami Risk LLC

Largest Competitive Contracts Awarded in FY 17-18

1 Internet Database Subscription Services	Competitive	\$ 0.2	0.0%	11/16/16	3 years	0	ISO Services Inc
2 Internal Audit Services	Competitive	\$ 0.1	0.0%	03/08/18	1 year	0	McConnell & Hones LLP
3 Acturial Services	Competitive	\$ 0.0	0.0%	12/05/16	1 month	0	Rudd and Wisdom Inc

Largest Non-Competitive Contracts Awarded in FY 17-18

1 OAG Administrative Support Services	Interagency	\$ 1.4	0.0%	03/26/18	1 year	0	Office of the Attorney General
2 Microsoft Volume Licensing	Sole Source	\$ 0.2	0.0%	10/31/16	6 years	0	SHI Government Solutions

*Note: The percent change is the difference in contract value between initial the award amount and the current contract value. This calculation includes contract amendi

State Office of Risk Management
Rider Highlights - Senate

New Riders

7. **Sunset Contingency.** Recommendations add this rider as the agency is currently under Sunset Review.

Deleted Riders

2. **Capital Budget.** Recommendations delete this rider as the personal computer replacement project will be completed in the current biennium.

State Office of Risk Management
Items Not Included in Recommendations - Senate

	2020-21 Biennial Total			Information Technology Involved?	Contracting Involved?	Estimated Continued Cost 2022-23
	GR & GR-D	All Funds	FTEs			

Agency Exceptional Items - In Priority Order

1)	Authority classification change for Executive Director salary increase. The agency is requesting an increase in authority for the Executive Director Exempt position from the current Group 3 classification to Group 4. The agency is not requesting additional appropriations.	\$0	\$0	0.0	No	No	\$0
2)	Funding for a cloud-enabled Risk Management Information system to integrate SORM's programs and update current technology systems to improve operations.	\$0	\$1,797,188	2.0	Yes	Yes	\$1,408,594

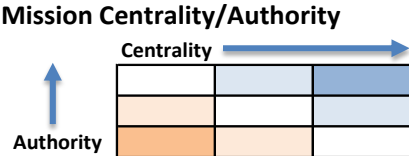
TOTAL Items Not Included in Recommendations		\$0	\$1,797,188	0.0			\$1,408,594
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**State Office of Risk Management
Strategic Fiscal Review Appendices - Senate**

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* Appendix is not included - no significant information to report

State Office of Risk Management
Strategic Fiscal Review Appendix 1 Program Listing -- Services and Administration - Senate
(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)



Agency Submission		LBB Staff Review and Analysis								
Agency Ranking	Program Name	Year Implemented	State Authority	Federal Authority	Authority	Mission Centrality	State Service	Service Area	Significant Audit and/or Report Findings	Contracts for Outsourced Services
1	Enterprise Risk Management	1998	Executive Order, Other, Statute	No Federal Requirement	Strong	Strong	State Government Administration & Support	Statewide	Yes	Yes
2	Continuity of Operations Planning	2008	Statute	No Federal Requirement	Strong	Moderate	State Government Administration & Support	Statewide	No	Yes
3	Insurance Purchasing	2003	Statute	No Federal Requirement	Strong	Strong	State Government Administration & Support	Statewide	No	Yes
4	Workers' Compensation Claims Operations	1998	Constitution, Statute	No Federal Requirement	Strong	Strong	State Government Administration & Support	Statewide	Yes	Yes
5	Workers' Compensation Payments: Indemnity Payments	1998	Statute	No Federal Requirement	Strong	Strong	Employee Benefits Services	Statewide	No	Yes
6	Workers' Compensation Payments: Medical Payments	1998	Admin Code, Statute	No Federal Requirement	Strong	Strong	Employee Benefits Services	Statewide	No	Yes
7	Contracted Medical Cost Containment	1998	Statute	No Federal Requirement	Moderate	Moderate	State Government Administration & Support	Statewide	No	Yes

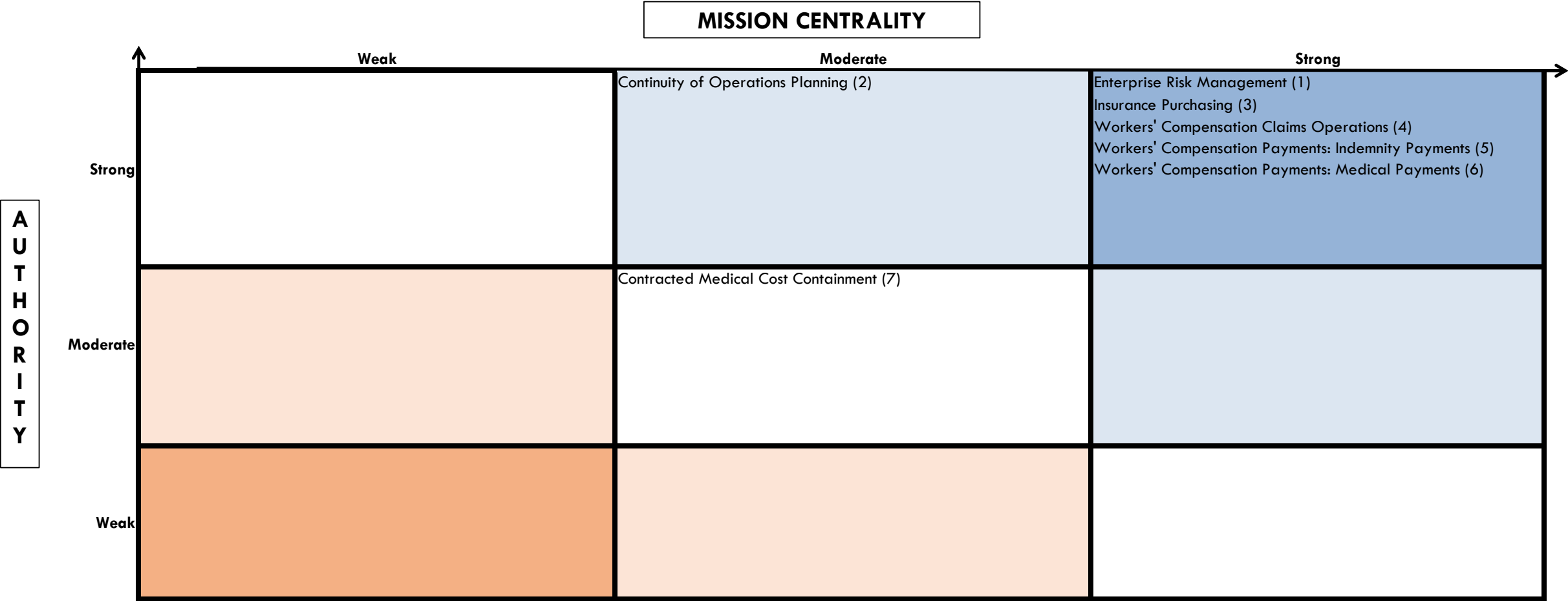
State Office of Risk Management
Strategic Fiscal Review Appendix 2: Program Listing -- Fiscal - Senate
(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)

Agency Submission				LBB Staff Review and Analysis							
Agency Ranking	Program Name	2014-15 Expended	2016-17 Expended	2018-19 Est / Budg	2019 FTEs Budg	2020-21 Recommended	2021 FTEs Rec.	Percent Change from Base	FTEs Change from Base	Revenue Supported?	Appropriate Use of Constitutional and GR-Dedicated Funds?
1	Enterprise Risk Management	\$ 5,240,192	\$ 5,687,509	\$ 4,342,282	26.1	\$ 4,508,493	26.1	3.8%	0.0	Yes	N/A
2	Continuity of Operations Planning	\$ 113,045	\$ 117,702	\$ 241,765	2.0	\$ 271,410	2.0	12.3%	0.0	Yes	N/A
3	Insurance Purchasing	\$ 313,437	\$ 476,884	\$ 380,575	3.0	\$ 414,868	3.0	9.0%	0.0	Yes	N/A
4	Workers' Compensation Claims Operations	\$ 11,096,863	\$ 10,370,103	\$ 12,839,945	90.5	\$ 12,615,928	90.5	-1.7%	0.0	Yes	N/A
5	Workers' Compensation Payments: Indemnity Payments	\$ 29,240,288	\$ 32,308,583	\$ 35,691,374	0.0	\$ 35,691,374	0.0	0.0%	0.0	Yes	N/A
6	Workers' Compensation Payments: Medical Payments	\$ 44,971,412	\$ 45,673,932	\$ 49,944,126	0.0	\$ 49,944,126	0.0	0.0%	0.0	Yes	N/A
7	Contracted Medical Cost Containment	\$ 2,816,136	\$ 2,375,209	\$ 3,606,132	0.0	\$ 3,600,000	0.0	-0.2%	0.0	Yes	N/A
Total		\$ 93,791,373	\$ 97,009,922	\$ 107,046,199	121.6	\$ 107,046,199	121.6	0.0%	0.0		

	2018-19 Est/Budg	2020-21 Recommended
Inside the Treasury	\$ 107,046,199	\$ 107,046,199
Total	\$ 107,046,199	\$ 107,046,199

State Office of Risk Management
Strategic Fiscal Review Appendix 3: Assessment of Mission Centrality and Authority - Senate
(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)

Mission centrality is a judgment of how directly connected a program is to the core mission and goals of the agency, as identified in statute, agency strategic plans, or other documents.
Authority is an assessment of how strong and explicit the legal basis is for the existence of the program and the way in which the agency is administering it.



State Office of Risk Management
Strategic Fiscal Review Appendix 5a: Program Summary - Senate
(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)

Mission Centrality/Authority			
	Centrality	Authority	
			X
Authority			

Program: Enterprise Risk Management

Agency Ranking
1 out of 7

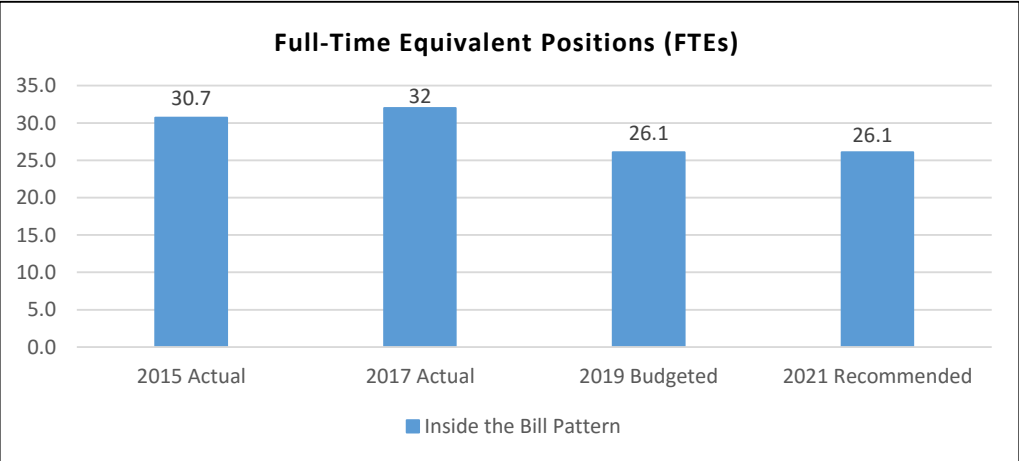
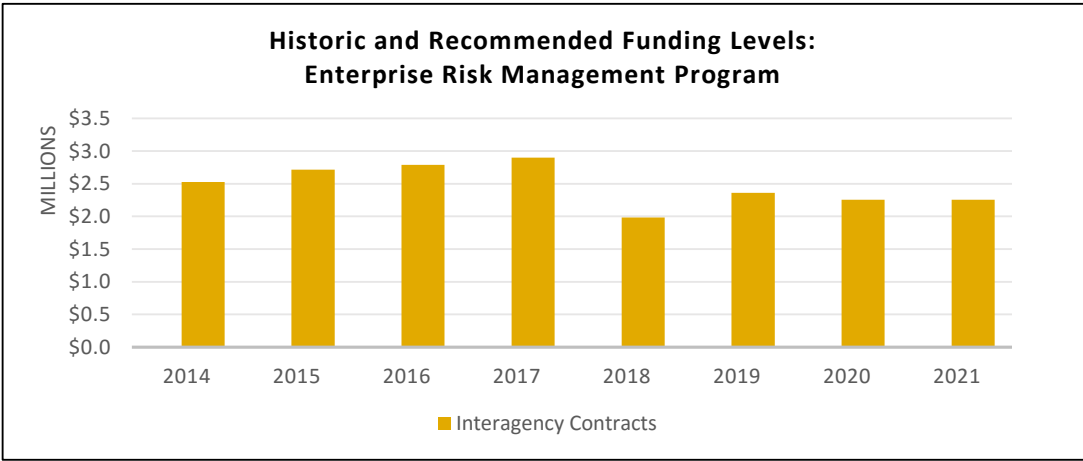
Assist state entities in establishing and maintaining comprehensive risk management programs designed to control, reduce, and finance risk.

Legal Authority: Risk Management - Labor Code Sections 412.011(b)(1), (b)(4), (b)(5), (b)(6), (b)(8), and (c)(1); Executive Order GWB 95-8; GAA, Article IX, Section 15.02

Year Implemented	1998	Performance and/or	Revenue Supported	Yes
Authority	Strong	Operational Issues	Appropriate Use of Constitutional and	
Centrality	Strong	Outsourced Services	General Revenue-Dedicated Funds	N/A
Service Area	Statewide	State Service(s)	State Government Administration & Support	

Objects of Expense	2018-19 Estimated / Budgeted	2020-21 Recommended	% of Total Rec. Funding
Personnel Costs	\$ 3,245,168	\$ 3,595,415	79.7%
Operating Costs	\$ 1,067,714	\$ 913,078	20.3%
Capital Costs	\$ 29,400	\$ -	0.0%
Total	\$ 4,342,282	\$ 4,508,493	100.0%

	2020-21 Recommended	% of Total
Funds Inside the State Treasury	\$ 4,508,493	100%
Funds Outside the State Treasury	\$ -	0.0%
Total	\$ 4,508,493	100.0%



Summary of Recommendations and Fiscal and Policy Issues

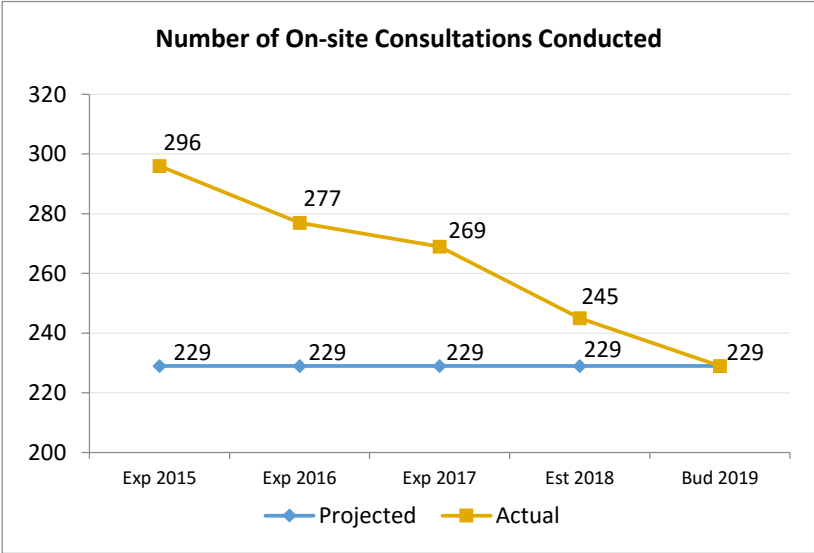
- 1 Recommendations for 2020-21 maintain current funding levels for this program. The agency should develop new performance measures that would demonstrate cost-savings to the state of risk management plan implementation. The agency captures data including cause and condition of incidents; the potential for enhanced transparency exists and would bolster the agency's mission.
- 2 In its report published on November 9, 2018, the Sunset Advisory Commission indicated that SORM's risk management on-site assessments do not follow a standardized rubric to guide risk managers which can lead to inconsistent evaluation standards. Additionally, SORM does not seek customer input to tailor its services to the needs of the state entities. SORM's risk management tools are dated and difficult to use. Though SORM collects the information to do so, it does not target its assistance to entities with the highest risk profiles. Sunset recommendations would standardize risk assessments, update tools and resources for risk management into easy-to-use formats, and target agency resources to entities with higher risk levels.

Recommended Statutory Changes for Program Improvement

- 1 The agency indicates that greater clarity in Labor Codes 412 and 501 as to which agencies must adhere to which requirements would increase program efficacy and reduce inefficiencies. Due to specific agency exemptions from certain programs operated by SORM, uncertainty exists as to which agencies are subject to the requirements for developing a risk management program and continuity of operations planning. Furthermore, the agency indicates it is unclear which agencies must submit insurance purchases for review before the purchase occurs.

Challenges and Enhancement Opportunities

- 1 As part of its risk management assessments, SORM makes recommendations for implementation to mitigate risk. These recommendations may include but are not limited to policies and procedures, structural enhancements, or insurance purchase(s). However, implementation of recommendations is constrained by each agency's budgetary restraints and competing priorities.
- 2 Agencies are not required or adequately incentivized to implement risk management recommendations. Statute allows SORM to implement discounting modifiers, factors which would lower an agency's allocation amount, to the assessment allocation as an incentive for agencies to complete risk management plans and recommendations, but this option has not yet been utilized.



Alternative Funding Options

- 1

SORM performs risk management assessments of each agency approximately every five years. Timely follow up of risk management assessments and implementation of recommendations would further enhance the efficacy of this program. One alternative funding option considered is a performance measure to identify the percentage of agencies that substantially adopt recommendations made by SORM.

The agency indicated a reasonable target of 25 percent of the agencies assessed each year and believes this would best fit as an explanatory measure. Furthermore, the agency asserts that tracking the status of recommendations made during risk management assessments would require the additions of one Risk Management Specialist II and one Administrative Assistant II, an increase of \$175,000 per fiscal year.
- 2

The agency frequently cites dated technology used to conduct day-to-day operations for all programs as a significant challenge for optimizing program execution. Full implementation of a comprehensive, configurable, and cloud-enabled Risk Management Information System (RMIS) would provide the agency the tools to consolidate, monitor, and analyze data regarding the overall cost of risk to the state. This data would inform agency practices and recommendations in all programs based on real-time data collection and analysis.

The agency projects full implementation of the new system would cost approximately \$1.8 million. Under SORM's current funding structure, funding would be folded into agency assessment allocations. However, should the legislature adopt this alternative funding option, the agency has indicated it would make a one-time appropriation request of General Revenue for implementation costs - the physical changeover from the current system to the new, estimated to be between \$125,000 and \$250,000. Ongoing support for the system would cost between \$25,000 and \$50,000 each fiscal year based on the final scope of the project. This would require an increase of between 1.5 percent and 1.9 percent in the total assessment collected.

State Office of Risk Management
Strategic Fiscal Review Appendix 5b: Program Summary - Senate
(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)

Mission Centrality/Authority			
	Centrality	Authority	
		X	
Authority			

Program: Continuity of Operations Planning

Agency
Ranking

2 out of 7

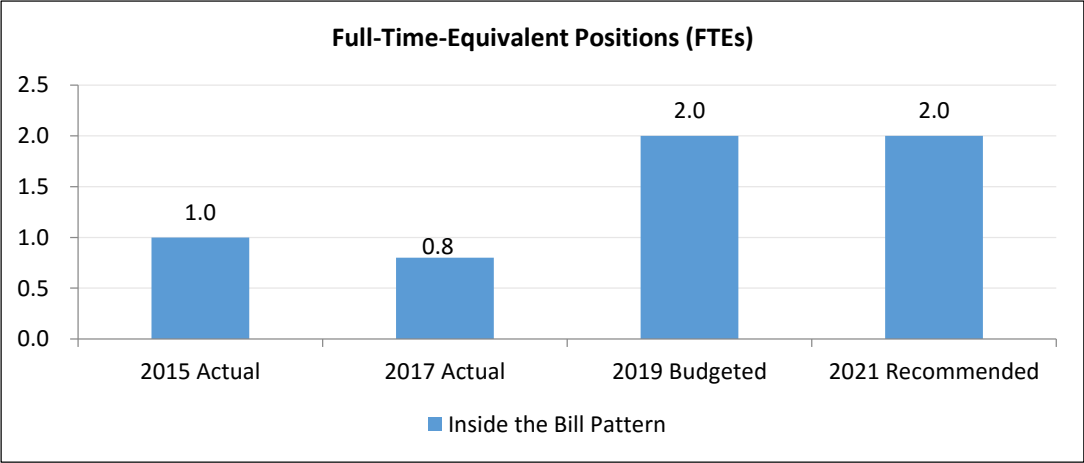
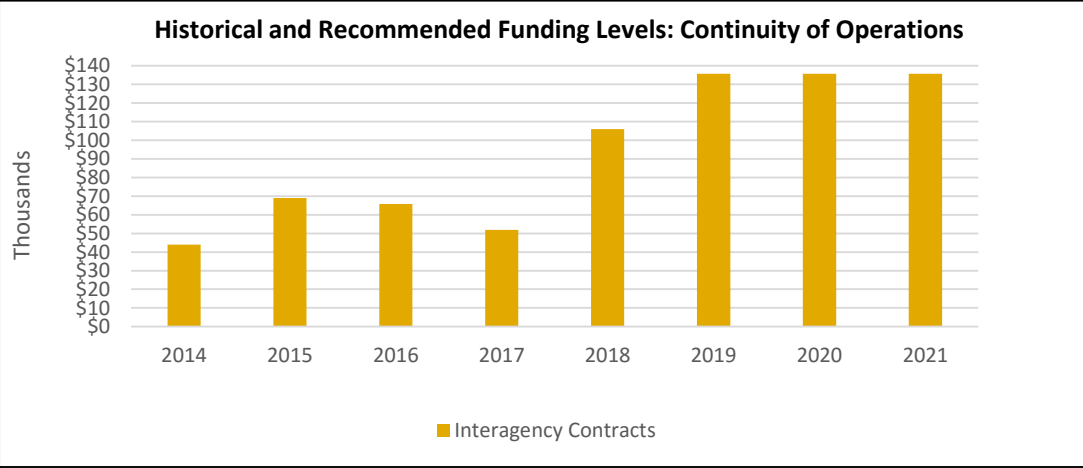
Assist with the development of continuity of operations plans, create guidelines and models for key elements for the plans, and assist state entities to ensure plans are workable.

Legal Authority: Labor Code Sections 412.011(f) and (g) and 412.054.

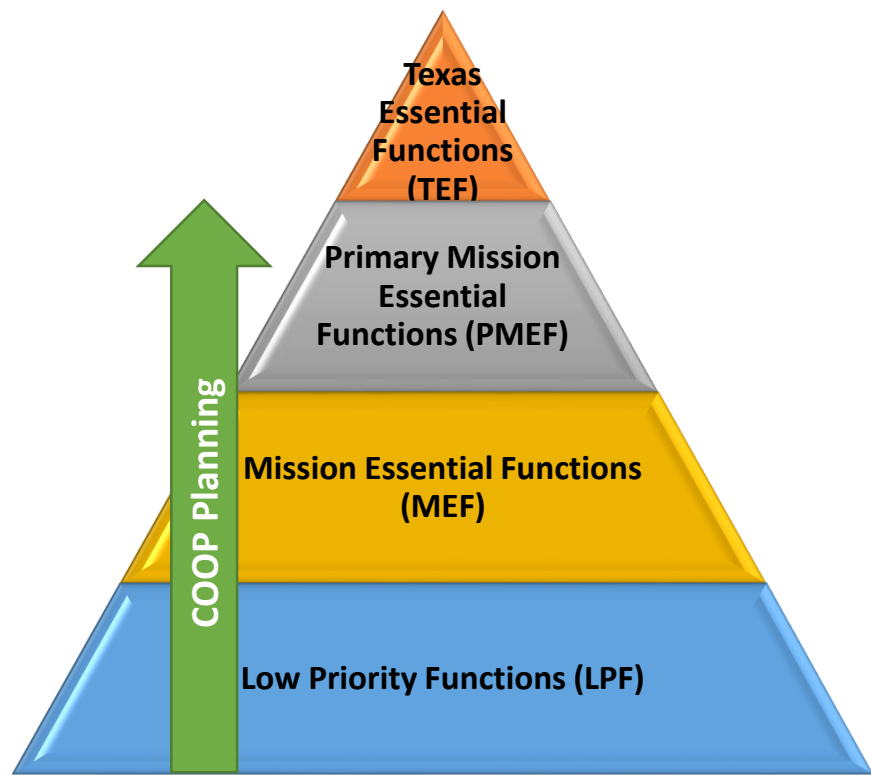
Year Implemented	2008	Performance and/or	Revenue Supported	Yes
Authority	Strong	Operational Issues	Appropriate Use of Constitutional and	
Centrality	Moderate	Outsourced Services	General Revenue-Dedicated Funds	N/A
Service Area	Statewide	State Service(s)	State Government Administration & Support	

Objects of Expense	2018-19 Estimated / Budgeted	2020-21 Recommended	% of Total Rec. Funding
Personnel Costs	\$ 235,467	\$ 263,808	97.2%
Operating Costs	\$ 6,298	\$ 7,602	2.8%
Total	\$ 241,765	\$ 271,410	100.0%

	2020-21 Recommended	% of Total
Funds Inside the State Treasury	\$ 271,410	100%
Funds Outside the State Treasury	\$ -	0.0%
Total	\$ 271,410	100.0%



Continuity of Operations Planning Pyramid



Each agency must identify Primary Mission Essential Functions, Mission Essential Functions, and Low Priority Functions which support Texas Essential Functions as outlined by the state. These layers of functionality form the basis of the agency's continuity of operations planning.

**Source: SORM Website*

Summary of Recommendations and Fiscal and Policy Issues

- 1 Recommendations for 2020-21 maintain current funding levels for this program. The agency collaborates with the Texas Divisions of Emergency Management, Homeland Security, and Information Resources in execution of its Continuity of Operations Planning services to agencies. This program has been administered by the agency for 10 years, and the agency should develop appropriate performance measures that would indicate the efficacy and benefit of this program to the state.
- 2 In its report published on November 9, 2018, the Sunset Advisory Commission indicated that SORM's continuity of operations planning (COOP) tools and resources for agencies are outdated and difficult to use. Sunset recommends simplifying templates and formats for COOP, providing regular updates based on customer feedback and best practices, and utilizing feedback to tailor these resources when appropriate to the unique needs of state agencies.

Recommended Statutory Changes for Program Improvement

- 1 The agency indicates that greater clarity in Labor Codes 412 and 501 as to which agencies must adhere to which requirements would increase program efficacy and reduce inefficiencies. Due to specific agency exemptions from certain programs operated by SORM, uncertainty exists as to which agencies are subject to the requirements for developing a risk management program and continuity of operations planning. Furthermore, it is unclear which agencies must submit insurance purchases for review before the purchase occurs.

Challenges and Enhancement Opportunities

- 1 The agency asserts that technology upgrades which would integrate data collection and information dissemination into accessible formats would strengthen the COOP program. This would allow SORM to collect data as well as feedback, enabling them to better tailor resources and information for COOP development and implementation.

Alternative Funding Options

1 The agency frequently cites dated technology used to conduct day-to-day operations for all programs as a significant challenge for optimizing program execution. Full implementation of a comprehensive, configurable, and cloud-enabled Risk Management Information System (RMIS) would provide the agency the tools to consolidate, monitor, and analyze data regarding the overall cost of risk to the state. This data would inform agency practices and recommendations in all programs based on real-time data collection and analysis.

The agency projects full implementation of the new system would cost approximately \$1.8 million. Under SORM's current funding structure, funding would be folded into agency assessment allocations. However, should the legislature adopt this alternative funding option, the agency has indicated it would make a one-time appropriation request of General Revenue for implementation costs - the physical changeover from the current system to the new, estimated to be between \$125,000 and \$250,000. Ongoing support for the system would cost between \$25,000 and \$50,000 each fiscal year based on the final scope of the project. This would require an increase of between 1.5 percent and 1.9 percent in the total assessment collected.

State Office of Risk Management
Strategic Fiscal Review Appendix 5c: Program Summary - Senate
(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)

Mission Centrality/Authority			
	Centrality	Authority	
			X
Authority			

Program: Insurance Purchasing

Agency Ranking 3 out of 7

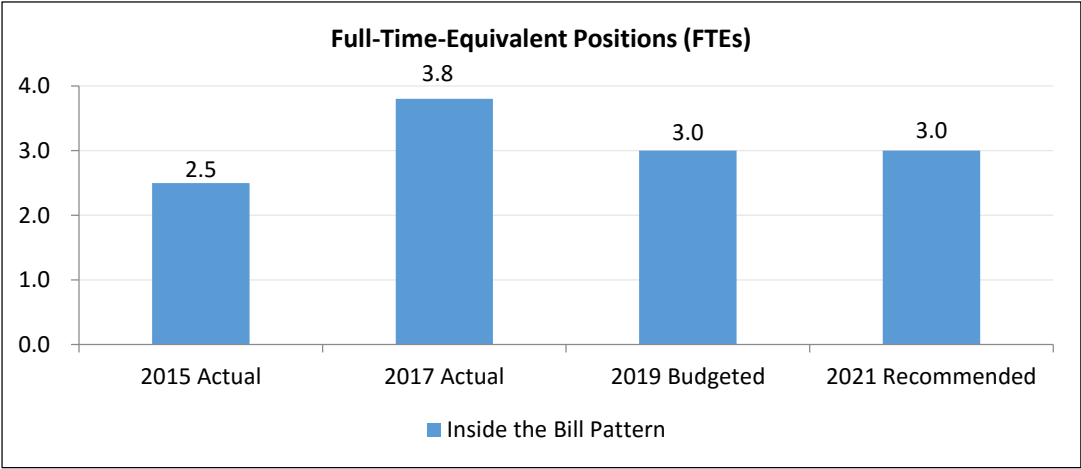
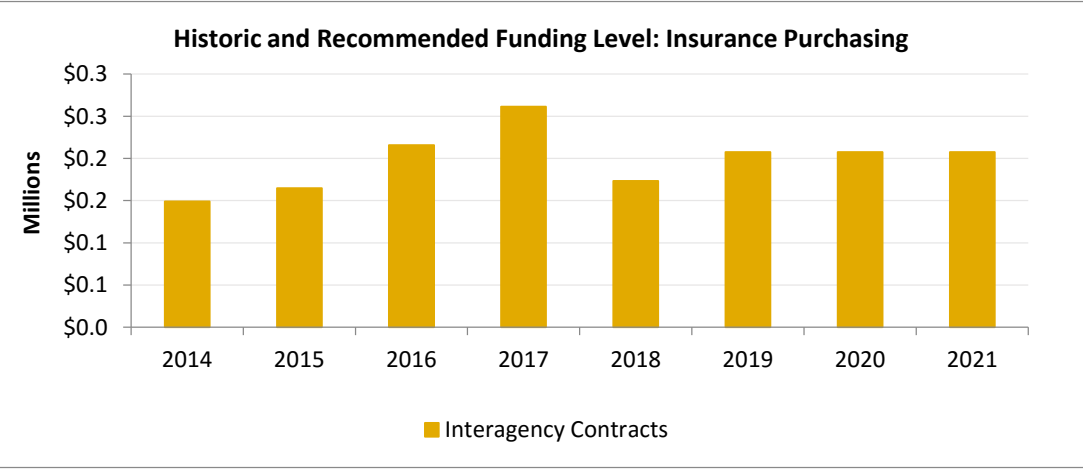
Perform comprehensive reviews of proposed insurance purchases submitted by applicable state entities for sponsored and non-sponsored lines of insurance.

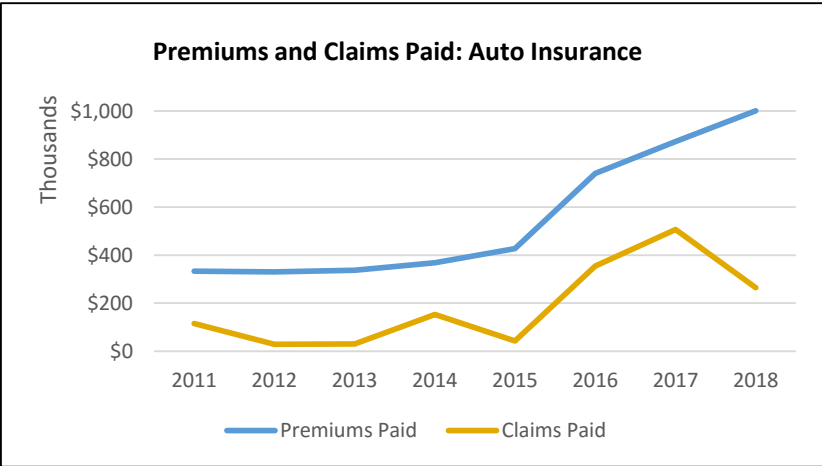
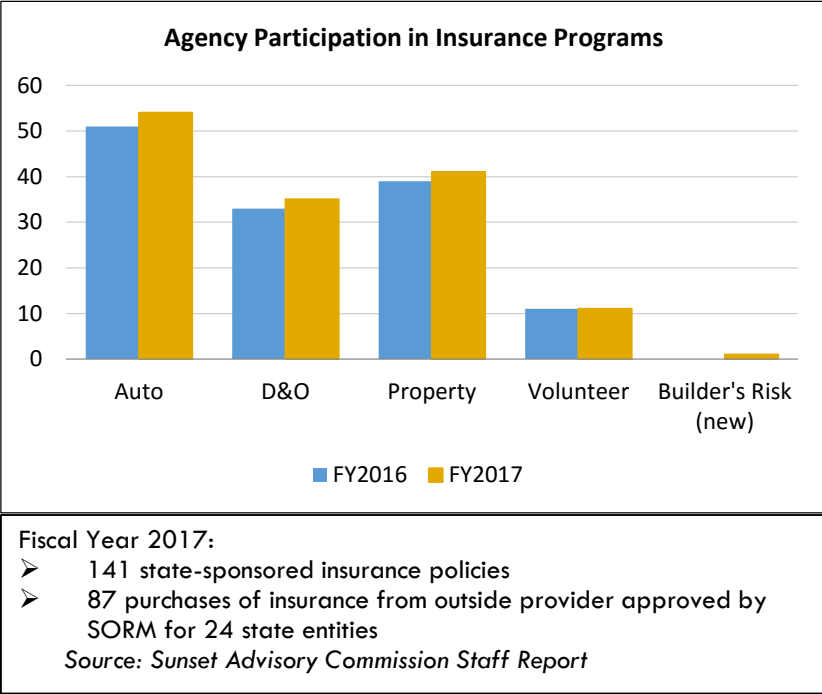
Legal Authority: Labor Code, Ch. 412.011 (a),(b)(1),(2),(3),(c)(2),(d),(e); Labor Code, Ch. 412.041 (b); Labor Code, Ch. 412.051

Year Implemented	2003	Performance and/or	Revenue Supported	Yes
Authority	Strong	Operational Issues	Appropriate Use of Constitutional and	
Centrality	Strong	Outsourced Services	General Revenue-Dedicated Funds	N/A
Service Area	Statewide	State Service(s)	State Government Administration & Support	

Objects of Expense	2018-19 Estimated / Budgeted	2020-21 Recommended	% of Total Rec. Funding
Personnel Costs	\$ 361,917	\$ 391,000	94.2%
Operating Costs	\$ 18,658	\$ 23,868	5.8%
Total	\$ 380,575	\$ 414,868	100.0%

	2020-21 Recommended	% of Total
Funds Inside the State Treasury	\$ 414,868	100%
Funds Outside the State Treasury	\$ -	0.0%
Total	\$ 414,868	100.0%





Summary of Recommendations and Fiscal and Policy Issues

- Recommendations for 2020-21 maintain current funding levels for this program. The agency exercises its broad authority under statute to sponsor new lines of insurance for the state requiring only board approval. Because SORM is not a licensed insurance agency, it contracts with brokers to negotiate rates and deal with insurance companies. The agency should develop a cost-benefit methodology for the state sponsorship of new lines of insurance. The agency aims to provide value-added, cost-efficient insurance plans tailored to the specific needs of state agencies and conducts extensive market research to that end. As there is not a statewide standard as to the maximum or minimum required insurance or risk retention, the agency bases its decisions to add insurance and grant or deny waivers based on market indicators and general best practices.
- According to its report published on November 9, 2018, the Sunset Advisory Commission indicates that SORM provides limited guidance or justification for an agency’s need for insurance based on its risk profile. Additionally, SORM utilizes underwriting guidelines from an insurance rating agency that are broad and targeted to the purchase of insurance as a primary tool for risk assessment. Sunset recommends the agency develop objective tools to help state agencies determine the necessity and level of insurance coverage.

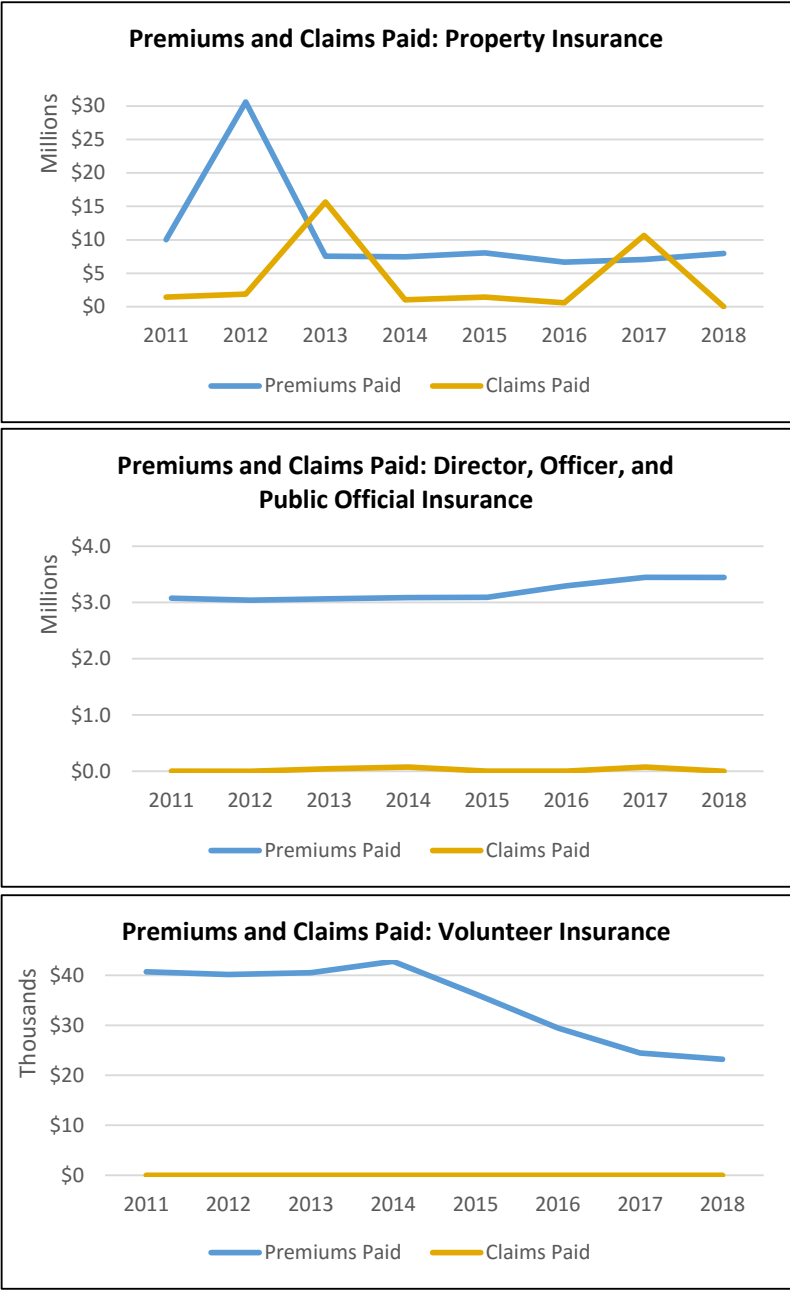
Recommended Statutory Changes for Program Improvement

- The agency indicates that greater clarity in Labor Codes 412 and 501 as to which agencies must adhere to which requirements would increase program efficacy and reduce inefficiencies. Due to specific agency exemptions from certain programs operated by SORM, uncertainty exists as to which agencies are subject to the requirements for developing a risk management program and continuity of operations planning. Furthermore, it is unclear which agencies must submit insurance purchases for review before the purchase occurs.

Program: Insurance Purchasing

Agency
Ranking

3 out of 7



Challenges and Enhancement Opportunities

- 1
- An agency's decision to purchase insurance is constrained by its budgetary limitations and competing priorities. There is no requirement to purchase insurance unless for the purpose of eligibility for federal financial assistance for catastrophic loss as the result of disaster. The Federal Emergency Management Agency (FEMA) requires previously uninsured entities that receive federal assistance to secure appropriate insurance following disaster-related catastrophic loss, or it cannot receive federal assistance should similar loss be incurred in the future.
- 2
- The agency frequently cites dated technology used to conduct day-to-day operations for all programs as a significant challenge for optimizing program execution. For this program, the agency contends that technology upgrades that would allow for data centralization would enable the agency to conduct more comprehensive incident, or claims, trend analysis leading to more accurate, targeted insurance-related recommendations. Furthermore, using the collected data, the agency would be able to better standardize value or liability assessments for insurance purposes.

Alternative Funding Options

- 1
- The agency frequently cites dated technology used to conduct day-to-day operations for all programs as a significant challenge for optimizing program execution. Full implementation of a comprehensive, configurable, and cloud-enabled Risk Management Information System (RMIS) would provide the agency the tools to consolidate, monitor, and analyze data regarding the overall cost of risk to the state. This data would inform agency practices and recommendations in all programs based on real-time data collection and analysis.

The agency projects full implementation of the new system would cost approximately \$1.8 million. Under SORM's current funding structure, funding would be folded into agency assessment allocations. However, should the legislature adopt this alternative funding option, the agency has indicated it would make a one-time appropriation request of General Revenue for implementation costs - the physical changeover from the current system to the new, estimated to be between \$125,000 and \$250,000. Ongoing support for the system would cost between \$25,000 and \$50,000 each fiscal year based on the final scope of the project. This would require an increase of between 1.5 percent and 1.9 percent in the total assessment collected.

- 2
- The agency recommends the implementation of a state-wide, mandatory property insurance program which would require approximately \$2.6 million in additional program funding. As outlined in the agency's *Insurable State Assets Interim Study* issued December 2016, the agency recommends a hybrid property insurance system which would incorporate a financial pooling and reserve approach in concert with a self-insured retention limit and reinsurance for larger, catastrophic losses. The greatest challenge to implementation of this recommendation is the lack of comprehensive and accurate information and assessment of the state's owned property. Once collected, the data would then need to be maintained and updated regularly to ensure consistent accuracy and completeness.

Source for Charts: SORM
Note: Volunteer Insurance is excess coverage that pays claims only after personal insurance has been exhausted.

State Office of Risk Management
Strategic Fiscal Review Appendix 5d: Program Summary - Senate
(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)

Mission Centrality/Authority			
	Centrality	Authority	
			X
Authority			

Program: Workers' Compensation Claims Operations

Agency Ranking

4 out of 7

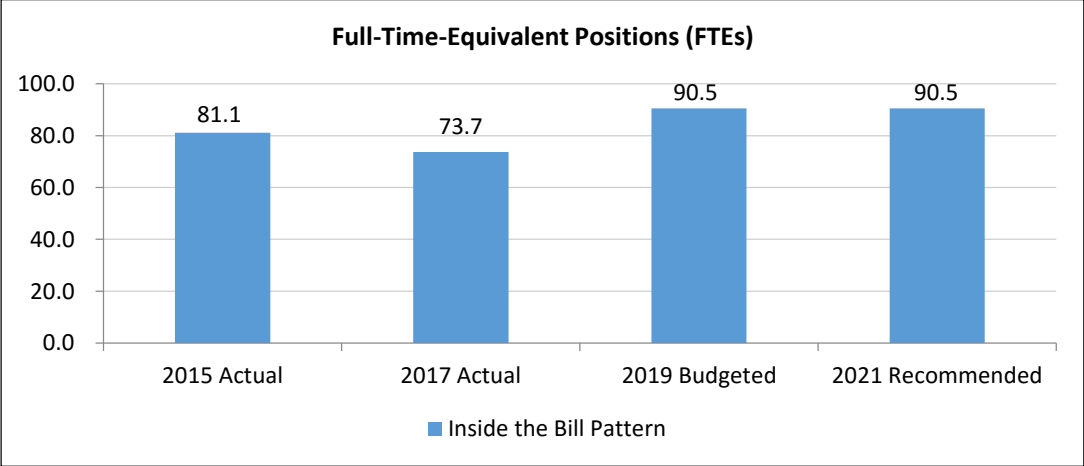
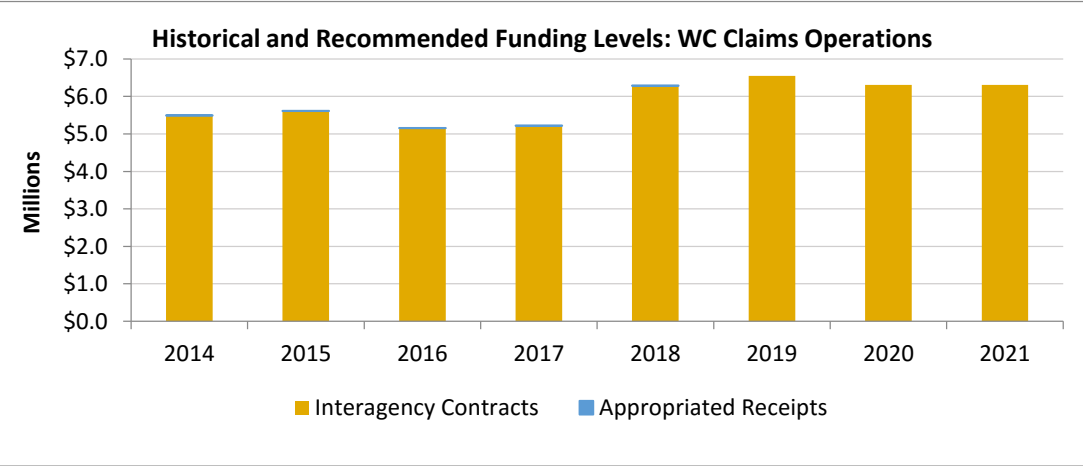
Administer the state workers' compensation program including investigating injury claims, determining indemnity and medical benefits for claims, and maintaining a customer service call center to provide claims processing information.

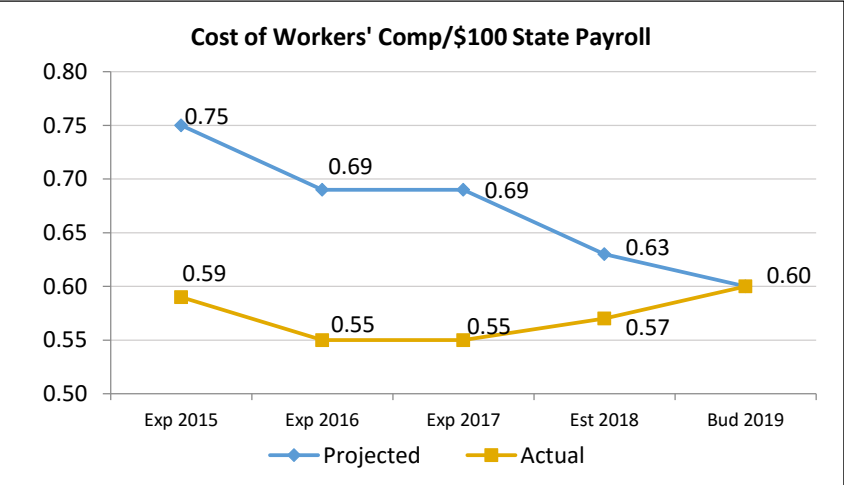
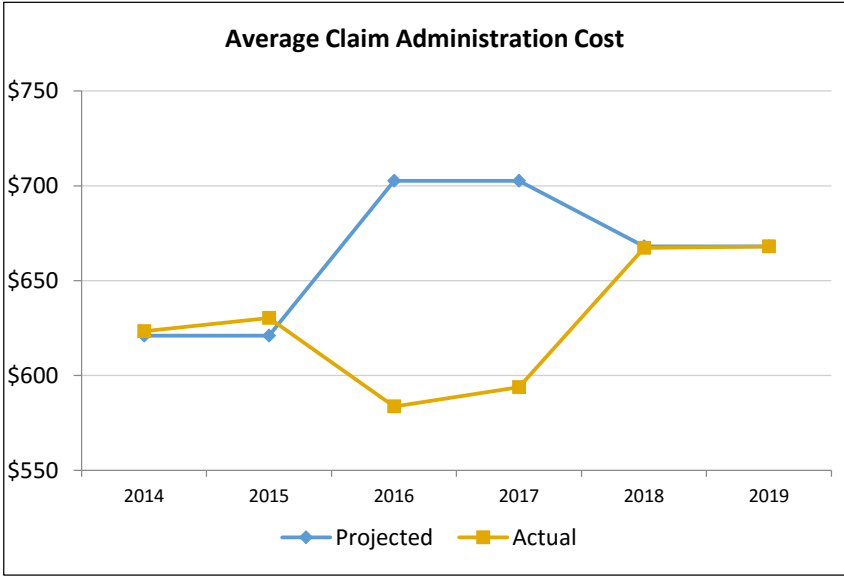
Legal Authority: Labor Code Sections 412.011(b)(7), (b)(8), 412.041(e); Labor Code, Ch. 501; Tex. Constitution, Art 3, Sec. 59; GAA, Article IX, Section 15.02

Year Implemented	1998	Performance and/or	Revenue Supported	Yes
Authority	Strong	Operational Issues	Appropriate Use of Constitutional and	
Centrality	Strong	Outsourced Services	General Revenue-Dedicated Funds	N/A
Service Area	Statewide	State Service(s)	State Government Administration & Support	

Objects of Expense	2018-19 Estimated / Budgeted	2020-21 Recommended	% of Total Rec. Funding
Personnel Costs	\$ 10,425,835	\$ 10,672,075	84.6%
Operating Costs	\$ 2,345,510	\$ 1,943,853	15.4%
Capital Costs	\$ 68,600	\$ -	0.0%
Total	\$ 12,839,945	\$ 12,615,928	100.0%

	2020-21 Recommended	% of Total
Funds Inside the State Treasury	\$ 12,615,928	100%
Funds Outside the State Treasury	\$ -	0.0%
Total	\$ 12,615,928	100.0%



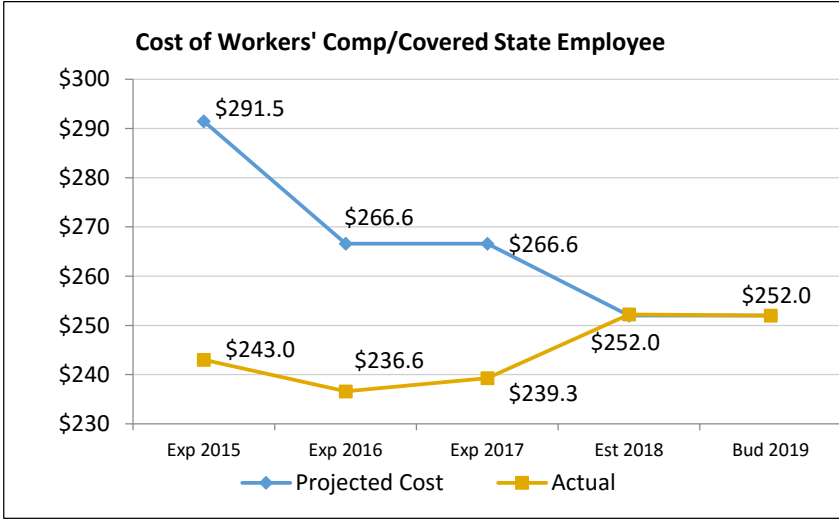
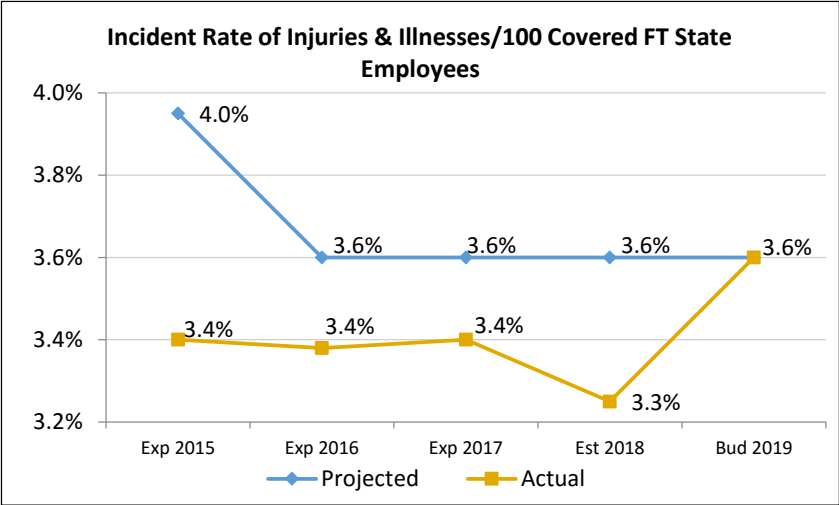


Summary of Recommendations and Fiscal and Policy Issues

- 1 Recommendations for 2020-21 maintain current funding levels for this program. Workers Compensation covers 192,000 employees in 265 state entities. The Texas Department of Transportation, the University of Texas System, and Texas A&M University System are exempt from the state self-insured workers' compensation program as they each operate their own programs. In Fiscal Year 2017, SORM accepted over 6,400 claims out of approximately 7,600 new workers' compensation claims received and paid over \$39 million in medical costs and benefits to claimants.
- 2 According to its report published on November 9, 2018, the Sunset Advisory Commission found that SORM lacks sufficient contract management policies, procedures, and training. Additionally, it lacks clearly defined contract terms and comprehensive contract monitoring for the life of the contract. Sunset recommends the agency implement missing enforcement tools in its contract negotiations as well as improve existing contract enforcement tools. Finally, Sunset recommends the agency maximize its opportunities to utilize the Office of the Attorney General's contracting procurement and management expertise beyond the scope of what is currently practiced. Sunset recommendations would maximize best contracting practices to potentially save the state money or at the very least ensure the state gets the best value for its dollar.

Recommended Statutory Changes for Program Improvement

- 1 The agency indicates that greater clarity in Labor Codes 412 and 501 as to which agencies must adhere to which requirements would increase program efficacy and reduce inefficiencies. Due to specific agency exemptions from certain programs operated by SORM, uncertainty exists as to which agencies are subject to the requirements for developing a risk management program and continuity of operations planning. Furthermore, it is unclear which agencies must submit insurance purchases for review before the purchase occurs.
- 2 The agency asserts that the legislature should clarify language Labor Code Section 406.034 to clearly indicate whether state employees can or cannot waive workers' compensation and align this determination with stipulations in Labor Code Chapter 501. Labor Code Section 406.034 indicates that an employee may waive, in writing, workers' compensation coverage during the first few days of employment. Additionally, the Texas Tort Claims Act creates a specific waiver of immunity for state employee workers' compensation claims. SORM interprets this to be inconsistent with Chapter 501 and suggests modifying language to clarify that state employees may not waive workers' compensation.



Challenges and Enhancement Opportunities

- 1 SORM experiences a relatively high turnover rate for claims examiners. In Report No. 17-701 issued in September 2016, the SAO reported turnover for this position to be 20.1%.
- 2 The agency frequently cites dated technology used to conduct day-to-day operations for all programs as a significant challenge for optimizing program execution.

Alternative Funding Options

- 1 The agency frequently cites dated technology used to conduct day-to-day operations for all programs as a significant challenge for optimizing program execution. Full implementation of a comprehensive, configurable, and cloud-enabled Risk Management Information System (RMIS) would provide the agency the tools to consolidate, monitor, and analyze data regarding the overall cost of risk to the state. This data would inform agency practices and recommendations in all programs based on real-time data collection and analysis.

The agency projects full implementation of the new system would cost approximately \$1.8 million. Under SORM's current funding structure, funding would be folded into agency assessment allocations. However, should the legislature adopt this alternative funding option, the agency has indicated it would make a one-time appropriation request of General Revenue for implementation costs - the physical changeover from the current system to the new, estimated to be between \$125,000 and \$250,000. Ongoing support for the system would cost between \$25,000 and \$50,000 each fiscal year based on the final scope of the project. This would require an increase of between 1.5 percent and 1.9 percent in the total assessment collected.

State Office of Risk Management
Strategic Fiscal Review Appendix 5e: Program Summary - Senate
(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)

Mission Centrality/Authority			
	Centrality	Authority	
			X
Authority			

Program: Workers' Compensation Payments: Indemnity Payments

Agency Ranking 5 out of 7

Provide indemnity payments to approved workers' compensation claimants.

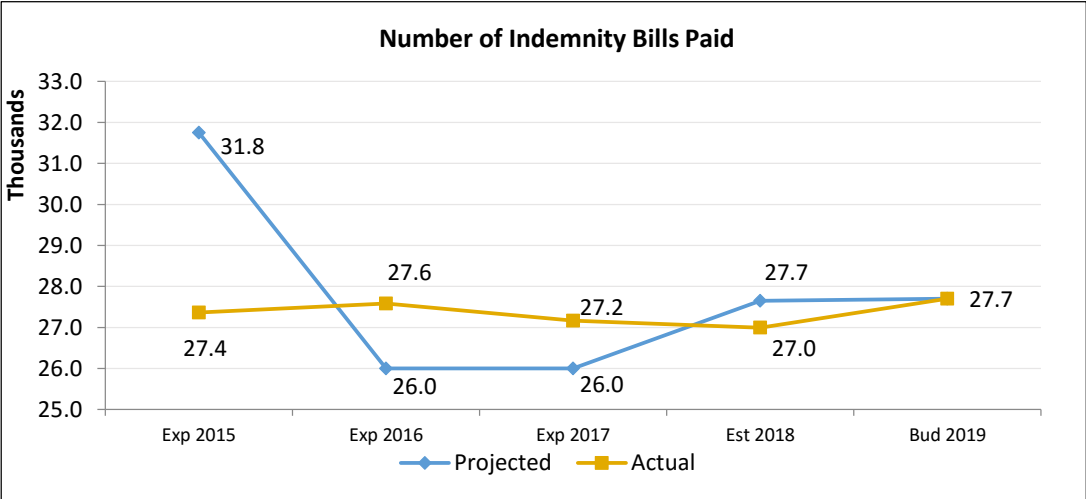
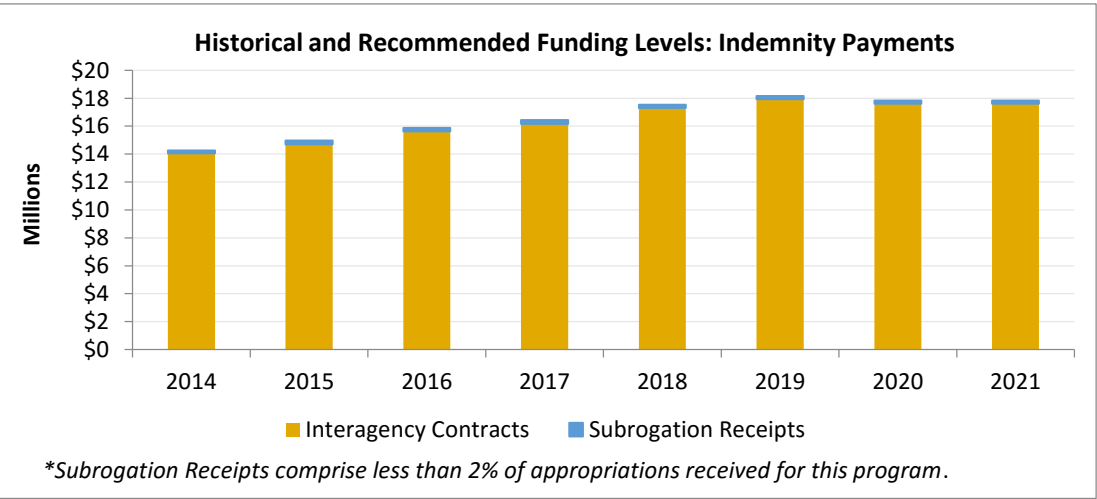
Legal Authority: Labor Code, Ch. 409

Year Implemented	1998	Performance and/or	Revenue Supported	Yes
Authority	Strong	Operational Issues	Appropriate Use of Constitutional and	
Centrality	Strong	Outsourced Services	General Revenue-Dedicated Funds	N/A
Service Area	Statewide	State Service(s)	Employee Benefits Services	

Objects of Expense	2018-19 Estimated / Budgeted	2020-21 Recommended	% of Total Rec. Funding
Operating Costs	\$ 35,691,374	\$ 35,691,374	100.0%
Total	\$ 35,691,374	\$ 35,691,374	100.0%

	2020-21 Recommended	% of Total
Funds Inside the State Treasury	\$ 35,691,374	100%
Funds Outside the State Treasury	\$ -	0.0%
Total	\$ 35,691,374	100.0%

Note: This program is administered under the Worker's Compensation Claims Administration program, therefore program info is not provided here.



State Office of Risk Management
Strategic Fiscal Review Appendix 5f: Program Summary - Senate
(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)

Mission Centrality/Authority			
	Centrality	Authority	
			X
Authority			

Program: Workers' Compensation Payments: Medical Payments

Agency Ranking 6 out of 7

Provide payments to medical providers and related parties for approved workers' compensation claimants, excluding direct indemnity payments to the claimant.

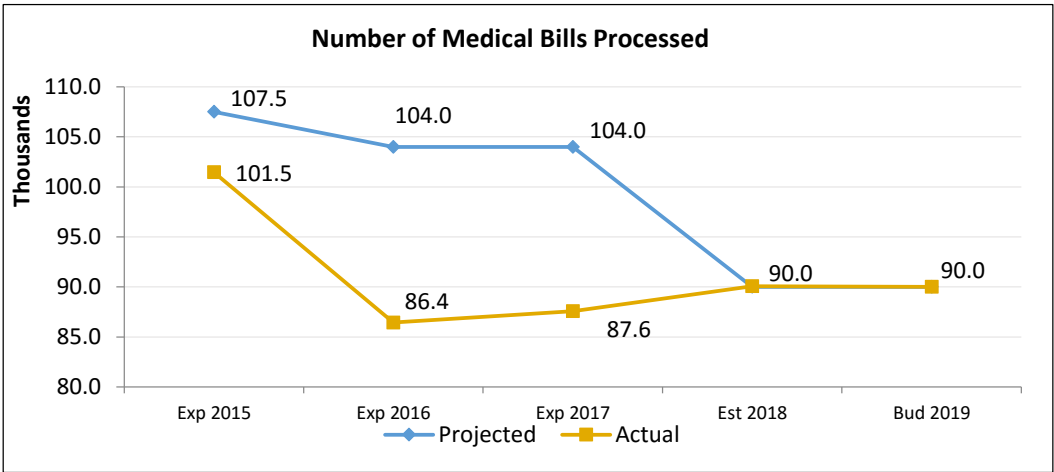
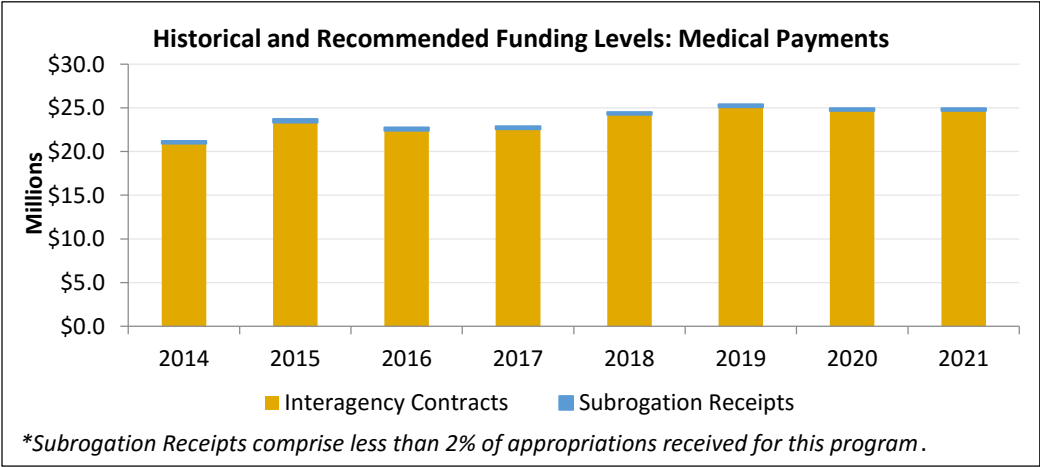
Legal Authority: Labor Code Sections 408.021 and 408.027; 28 Texas Administrative Code Chapter 133

Year Implemented	1998	Performance and/or	Revenue Supported	Yes
Authority	Strong	Operational Issues	Appropriate Use of Constitutional and	
Centrality	Strong	Outsourced Services	General Revenue-Dedicated Funds	N/A
Service Area	Statewide	State Service(s)	Employee Benefits Services	

Objects of Expense	2018-19 Estimated / Budgeted	2020-21 Recommended	% of Total Rec. Funding
Operating Costs	\$ 49,944,126	\$ 49,944,126	100.0%
Total	\$ 49,944,126	\$ 49,944,126	100.0%

	2020-21 Recommended	% of Total
Funds Inside the State Treasury	\$ 49,944,126	100%
Funds Outside the State Treasury	\$ -	0.0%
Total	\$ 49,944,126	100.0%

Note: This program is administered under the Worker's Compensation Claims Administration program, therefore program info is not provided here.



State Office of Risk Management
Strategic Fiscal Review Appendix 5g: Program Summary - Senate
(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)

Mission Centrality/Authority			
	Centrality	Authority	
		X	
Authority			

Program: Contracted Medical Cost Containment

Agency
Ranking

7 out of 7

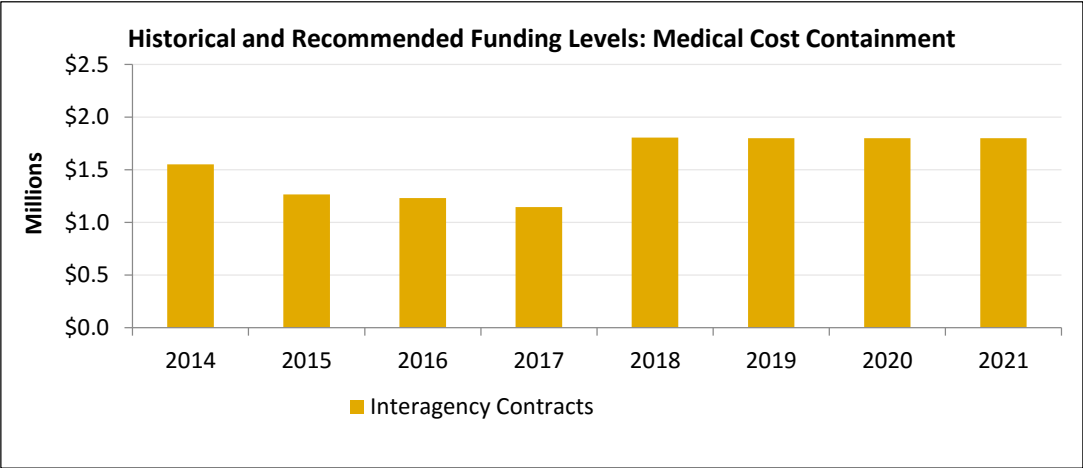
Contract with medical cost containment vendors that provide a workers' compensation health care network, process pre-authorization requests for medical procedures, audit medical bills to comply with fee guidelines, act as a pharmacy benefit manager, and provide ancillary services.

Legal Authority: Authorizing statute (Labor Code 412) grants the Executive Director broad authority to hire technical staff necessary to execute the functions of the agency. Additionally, Rider 7 in SORM's appropriations bill pattern, added per HB 1, 72nd Legislature, requires an annual report by the agency on medical cost containment measures.

Year Implemented	1998	Performance and/or	Revenue Supported	Yes
Authority	Moderate	Operational Issues	Appropriate Use of Constitutional and	
Centrality	Moderate	Outsourced Services	General Revenue-Dedicated Funds	N/A
Service Area	Statewide	State Service(s)	State Government Administration & Support	

Objects of Expense	2018-19 Estimated / Budgeted	2020-21 Recommended	% of Total Rec. Funding
Operating Costs	\$ 3,606,132	\$ 3,600,000	100.0%
Total	\$ 3,606,132	\$ 3,600,000	100.0%

	2020-21 Recommended	% of Total
Funds Inside the State Treasury	\$ 3,600,000	100%
Funds Outside the State Treasury	\$ -	0.0%
Total	\$ 3,600,000	100.0%



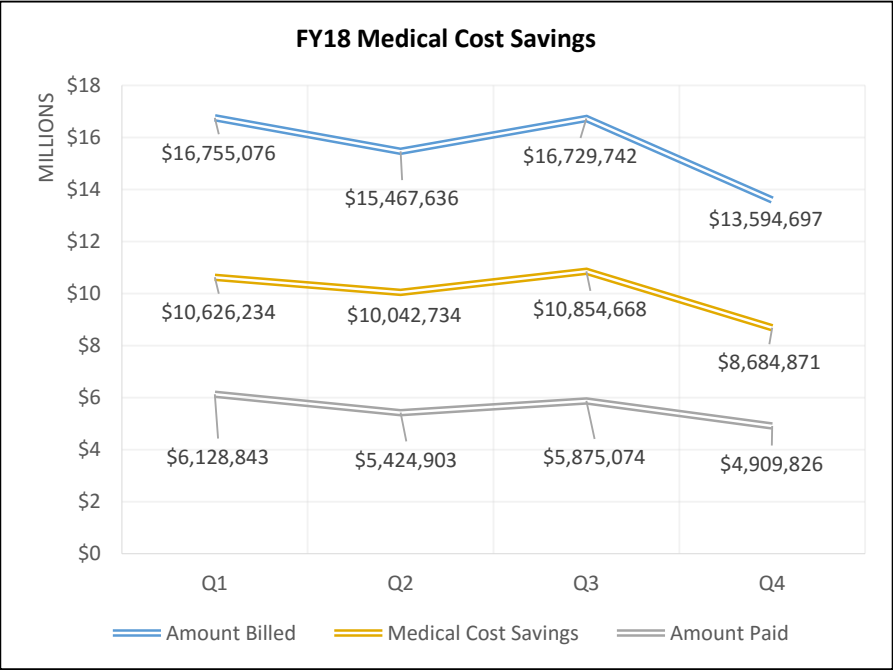
Summary of Recommendations and Fiscal and Policy Issues

1 In its report published November 9, 2018, the Sunset Advisory Commission found that SORM lacks sufficient contract management policies, procedures, and training. Additionally, it lacks clearly defined contract terms and fully implemented contract monitoring. Finally, the agency should improve enforcement tools and maximize its opportunities to use the Office of the Attorney General’s contracting procurement and management expertise.

2 According to its report published on November 9, 2018, the Sunset Advisory Commission indicated the following issues pertaining to SORM’s healthcare network contract:

- Geographical coverage for in-network care. In Fiscal year 2017, approximately 60 percent of accepted claims were in the network area, and the remaining out-of-network claims cost almost as much as the total in-network claims.
- Claims review process. SORM re-reviews claims already re-priced by its repricing vendor as the vendor often provides inaccurate and inadequate services in which it fails to find maximum cost-savings for the state.
- Cost containment reporting. SORM provides basic information regarding its cost containment initiatives but should include better year over year trend information, a summary total of savings, and greater context for cost containment results.
- Return-to-work program. SORM’s return-to-work programs provide insufficient resources and tools for state agencies, and the agency does not adequately collect information from agencies that is required by legislative mandate to fully assess lost-time and return-to-work data across the state.

Sunset recommendations would require the agency to negotiate better health network coverage in its new contract, create a new performance measure for the healthcare network regarding an accurate listing of providers, incorporate specific performance measures in the new medical bill audit contract to ensure efforts are not duplicative in medical bill review, collect better data to incorporate in its cost containment reporting, and improve return-to-work tools and analysis to accurately portray cost-savings to the state. Finally, Sunset recommends the exploration of contracting with a second healthcare network.



Medical Cost Savings (orange line) are calculated by subtracting the Amount Paid (grey line) from the Amount Billed (blue line).

**Source: SORM FY18 Cost Containment Report*

Challenges and Enhancement Opportunities

- 1 The agency asserts that its ability to control medical costs is limited as it contracts with a workers' compensation health care network. The cost of treatment is dictated by the provider and the network, but SORM contends that it lacks legal standing to negotiate or re-negotiate medical treatment costs as it is not a party to the network-provider contract. Reimbursements may at times exceed amounts recommended under Texas Department of Insurance’s Department of Workers’ Compensation medical fee guidelines.
- 2 SORM will implement new medical cost containment contracts in FY 2019 which will stipulate specific performance expectations, deliverables, and performance discounts. SORM’s medical quality assurance staff already review re-priced medical bills before payment is issued, and the agency would like to explore the opportunity to perform medical bill audits completely in-house.

Alternative Funding Options

- 1 The agency recommended an alternative funding option to no longer outsource this program and perform this work internally. This option would allow for line-by-line review of medical claims cost which would allow the agency to verify that billings are within the allowable rates (see challenges above) and follow best practices for medical necessity. The agency asserts that moving this process in-house instead of contracting it out could save the state money, though exact savings would depend on claims filed and paid. This change would require an increase of approximately \$500,000 in program funding primarily related to additional staff and training.

State Office of Risk Management
Strategic Fiscal Review Appendix 6: Program and Strategies Crosswalk - Senate

Agency Ranking	Program	Strategy
1	Enterprise Risk Management	1.1.1 Enterprise Risk Mgmt/claims Admin
2	Continuity of Operations Planning	1.1.1 Enterprise Risk Mgmt/claims Admin
3	Insurance Purchasing	1.1.1 Enterprise Risk Mgmt/claims Admin
4	Workers' Compensation Claims Operations	1.1.1 Enterprise Risk Mgmt/claims Admin
5	Workers' Compensation Payments: Indemnity Payments	2.1.1 Workers' Compensation Payments
6	Workers' Compensation Payments: Medical Payments	2.1.1 Workers' Compensation Payments
7	Contracted Medical Cost Containment	1.1.1 Enterprise Risk Mgmt/claims Admin

Note: Indirect administration program names are italicized.

**State Office of Risk Management
Appendices - Senate**

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B	Summary of Federal Funds	*
C	FTE Highlights	33
D	Performance Measure Highlights	*
E	Summary of Ten Percent Biennial Base Reduction Options	*

* Appendix is not included - no significant information to report

State Office of Risk Management
Funding Changes and Recommendations - Senate, by Strategy -- ALL FUNDS

Strategy/Goal	2018-19 Base	2020-21 Recommended	Biennial Change	% Change	Comments
ENTERPRISE RISK MGMT/CLAIMS ADMIN A.1.1	\$21,410,699	\$21,410,699	\$0	0.0%	
Total, Goal A, MANAGE RISK AND ADMINISTER CLAIMS	\$21,410,699	\$21,410,699	\$0	0.0%	
WORKERS' COMPENSATION PAYMENTS B.1.1	\$85,635,500	\$85,635,500	\$0	0.0%	Recommendations include agency estimates of \$1,135,500 in Subrogation Receipts for this strategy.
Total, Goal B, WORKERS' COMPENSATION PAYMENTS	\$85,635,500	\$85,635,500	\$0	0.0%	
Grand Total, All Strategies	\$107,046,199	\$107,046,199	\$0	0.0%	

State Office of Risk Management
FTE Highlights - Senate

Full-Time-Equivalent Positions	Expended 2017	Estimated 2018	Budgeted 2019	Recommended 2020	Recommended 2021
Cap	110.0	109.5	121.6	121.6	121.6
Actual/Budgeted	121.6	121.6	121.6	NA	NA

Schedule of Exempt Positions (Cap)					
Executive Director, Group 3	\$138,102	\$139,582	\$139,582	\$139,582	\$139,582

Notes:
The State Auditor's Office Report, *Executive Compensation at State Agencies* (Report No. 18-705, August 2018), indicates a market average salary of \$158,487 for the Executive Director (State Risk Manager) position at the State Office of Risk Management and recommends a change from the current Group 3 classification to Group 4. The agency is requesting authority to change this exempt position from the current Group 3 classification to Group 4 with a maximum salary authorization to \$171,688.