



SORM
State Office of Risk Management



BOARD MEMBER TRAINING MANUAL

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Version	Date
1.0	September 19, 2019
1.1	December 10, 2020

Description of Changes

Section II

- Subsection B - Updated link to 2020 OAG PIA manual
- Subsection C - Updated link to 2020 OAG OMA manual
- Subsection D - Added information on temporary suspension of certain open meeting requirements in response to COVID-19

Section III

- **New** - Subsection H. Lobbying Activity

Section VI

- Added information on next Sunset Review

Section IX

- Updated link to 2020 Strategic Plan

Section XIV

- **New** - Funding and Assessment History

Section XV

- Updated links to Legislative Appropriation Request, Operating Budget, and Annual Financial Report

Section XVII

- Subsection C - Updated link to PBO
- Subsection D - Updated link to FY20 IA Report
- Subsection F - Updated information on Post-Payment Audit and link to report

Section XVIII

- **New** - Subsection B. Cost Containment Report
- Subsection D - Updated link to Staff Compensation Report

I. INTRODUCTION

A five-member Risk Management Board oversees the State Office of Risk Management (SORM). The Governor appoints the members, who must have demonstrated experience in insurance and insurance regulation, workers' compensation, and risk management administration. Board members serve staggered six-year terms.

After a Board member is appointed, the member must complete a training program that complies with Texas Labor Code Section 412.022. In the 86th Legislative Session, SB 612 revised the topics that must be included in the training program and required SORM's Executive Director to create a training manual with information on each topic.

This training manual, which was created to comply with SB 612, must be distributed annually to each Board member. Each Board member must sign the [Acknowledgment Statement](#) at the end of the training manual to confirm the member received and reviewed the training manual. A copy of the acknowledgement form must be maintained by SORM and made available for public inspection upon request.

II. LAWS APPLICABLE TO BOARD MEMBERS

A. Training

Each member of a governing body must complete training related to contract management¹ and conflicts of interest.² The Comptroller of Public Accounts (CPA) offers a 20-minute [free webinar](#)³ through its Statewide Procurement Education System that satisfies both training requirements. At the end of the webinar, a member must take a five-question test. All of the questions must be answered correctly to receive a course completion certificate.

Within 5 business days after viewing the webinar, a member must complete the CPA's acknowledgement form and submit the form to the CPA as outlined in the directions on the form. A copy of the acknowledgement form must be maintained by SORM and made available for public inspection upon request.

B. Public Information Act

The Public Information Act (PIA)⁴ gives the public the right to request access to information maintained by governmental bodies. The PIA provides the legal framework for open government and establishes a legal process for the disclosure and protection of public information.

Elected or appointed public officials are required to complete an open records training course within 90 days of taking the oath of office or otherwise assuming the responsibilities of office.⁵

¹ Texas Government Code Section 656.053.

² Texas Government Code Section 2155.003.

³ <https://spdedu.cpa.texas.gov/course/governing-bodies-webinar-registration/>

⁴ [Texas Government Code Chapter 552](#).

⁵ Texas Government Code §552.012.

The Office of the Attorney General's (OAG) [PIA training video](#)⁶ satisfies the open records training requirement. Board members can obtain a course completion certificate by following the directions at the end of the training video. The certificate must be maintained by SORM and made available for public inspection upon request. The [OAG's Public Information Act Handbook](#) provides more in-depth information intended to help public officials comply with the various provisions of the Texas Public Information Act.

C. Open Meetings Act

The Open Meetings Act (OMA)⁷ ensures that Texas government is transparent, open, and accountable to all Texans. The OMA was adopted to help make governmental decision-making accessible to the public. It requires meetings of governmental bodies to be open to the public, except for expressly authorized closed sessions, and to be preceded by public notice of the time, place, and subject matter of the meeting.

Members of a governmental body are required to complete an open meetings training course within 90 days of taking the oath of office or otherwise assuming the responsibilities of office.⁸

The OAG's [OMA training video](#)⁹ satisfies the open meetings training requirement. Board members can obtain a course completion certificate by following the directions at the end of the training video. The certificate must be maintained by SORM and made available for public inspection upon request. The [OAG Open Meetings Act Handbook](#) provides more in-depth information intended to help public officials comply with the various provisions of the Texas Open Meetings Act.

D. Videoconference Board Meetings

Under the OMA, in order to hold a Board meeting via videoconference, a quorum of the Board must be physically present at one location and the Board Chairman must be present at the location of the quorum. The location where the Chairman is physically present must be open to the public. The video and audio feed of the remote member's participation must be broadcast live at the meeting space and comply with other requirements in Section 551.127(e).

During the entire meeting, there must be two-way audio and video communication between the remote location and the location of the quorum.¹⁰ The face of each participant must be clearly visible while speaking and the voice must be audible to all persons at all locations during the open portions of the meeting. If a problem results in the meeting being no longer visible and audible to the public, the meeting must be recessed until the problem is resolved. If the problem is not resolved in six hours or less, the meeting must be adjourned.

On March 16, 2020, Governor Greg Abbott temporarily suspended certain requirements of the Open Meeting Act to allow telephonic or videoconference board meetings in response to the COVID-19

⁶<https://www.texasattorneygeneral.gov/open-government/governmental-bodies/pia-and-oma-training-resources/public-information-act-training>

⁷ [Texas Government Code Chapter 551](#).

⁸ Texas Government Code §551.005.

⁹ <https://www.texasattorneygeneral.gov/open-government/open-meetings-act-training>

¹⁰ The technology used for a videoconference Board meeting must comply with the Department of Information Resources' rules specifying the minimum standards for audio and video signals.

pandemic.¹¹ The Office of the Attorney General has compiled a list of the suspended provisions under the order, which will remain in effect until terminated by the Governor, or until the March 13, 2020, disaster declaration is lifted or expires.¹²

E. Administrative Procedure Act

The Administrative Procedure Act (APA)¹³ provides the general legal requirements that a state agency must adhere to when adopting rules or conducting a contested case. The [OAG's Administrative Law Handbook](#) covers adjudication, rulemaking, judicial review, and enforcement of agency orders and rules.

F. Holdover Provision

Section 17 of Article 16 of the Texas Constitution, commonly known as the Holdover Provision, states that if a Board member's term expires and the member is not reappointed or replaced before the last day of the legislative session that begins after their term expires, the office becomes vacant. According to the CPA, state agencies cannot use appropriated funds to reimburse unsalaried officials whose offices have been vacated.

G. Personal Financial Statement

Board members are required to file an annual Personal Financial Statement (PFS) with the Texas Ethics Commission.¹⁴ In certain circumstances, a member who resigns or whose term has expired may be required to file a PFS.¹⁵ The regular filing deadline for a PFS is April 30th.

III. ETHICAL POLICIES

A. Conflict of Interest

It is the policy of this state that a state officer or state employee may not have a direct or indirect interest, including financial and other interests, or engage in a business transaction or professional activity, or incur any obligation of any nature that is in substantial conflict with the proper discharge of the officer's or employee's duties in the public interest.¹⁶

An individual has a substantial interest in a business entity if the individual:

- has a controlling interest in the business entity;
- owns more than 10 percent of the voting interest in the business entity;
- owns more than \$25,000 of the fair market value of the business entity;
- has a direct or indirect participating interest by shares, stock, or otherwise, regardless of whether voting rights are included, in more than 10 percent of the profits, proceeds, or capital gains of the business entity;
- is a member of the board of directors or other governing board of the business entity;

¹¹<https://gov.texas.gov/news/post/governor-abbott-allows-virtual-and-telephonic-open-meetings-to-maintain-government-transparency>.

¹² <https://www.texasattorneygeneral.gov/open-government/open-meetings-act-update>.

¹³ [Texas Government Code Chapter 2001](#).

¹⁴ PFS Instruction Guide ([PDF](#))

¹⁵ A Guide For All Elected and Appointed State Officers, Members of the Boards Of River Authorities, Executive Heads of State Agencies, and State Political Party Chairs ([PDF](#))

¹⁶ Texas Government Code §572.001.

- serves as an elected officer of the business entity; or
- is an employee of the business entity.

B. Disclosure of Conflicts of Interest¹⁷

Board members who are involved in procurement or in contract management must disclose any potential conflict of interest with a private vendor for a contract or bid valued above \$25,000.

SORM may not enter into a contract with a private vendor if a Board member, or a member of the Board member's family, has a financial interest in the vendor. Financial interest includes ownership or control, directly or indirectly, of at least one percent, which also includes the right to share in profits, proceeds, or capital gains.

C. Required Nepotism Disclosure

Purchasing personnel of a state agency must disclose information regarding certain relationships with, and direct or indirect pecuniary interests in, any party to a major contract with the state agency prior to the award of a major contract. The most current version of the [Nepotism Disclosure Form](#)¹⁸ can be viewed on the Texas State Auditor's website.

D. Private Interest in a Measure or Action

A Board member who has a personal or private interest in a measure, proposal, or decision pending before the Board must publicly disclose that fact to the Board in a public meeting. The disclosure must be entered in the minutes of the meeting. The member may not vote or otherwise participate in the decision.¹⁹

E. Certain Employment Restricted for Former Board Members

If a Board member participates in a procurement or contract negotiation while in office, the former member may not accept employment from the contractor before the second anniversary of the date the contract is signed, or the procurement is terminated or withdrawn.²⁰

F. Representation by Former Board Member

A former Board member may not make any communication to or appear before an officer or employee of SORM, before the second anniversary of the date the member ceased to be a member, with the intent to influence agency action on behalf of a third party. In addition, a former Board member may not represent any person or receive compensation for services rendered on behalf of a person regarding a matter in which the former member participated, either personally or because the matter was within the Board's official responsibility.²¹

G. Speaking Fees

A public servant is prohibited from accepting money or any other thing of value for services that he/she would not have been requested to provide "but for" his official position or duties. Therefore, the

¹⁷ Texas Government Code §2261.252.

¹⁸ <http://www.sao.texas.gov/Documents/Forms/NepotismDisclosureForm.pdf>

¹⁹ Texas Government Code §527.058.

²⁰ Texas Government Code §572.069.

²¹ Texas Government Code §572.054.

permissibility of speaking fees must be determined on a case-by-case basis. Factor to consider in the analysis include:

- Public servant received fees for speaking before becoming a public servant;
- Public servant's expertise and experience in the subject matter;
- Payment reflects the actual value of services provided;
- Motivation of the person requesting the public servant to speak;
- Official status was not a deciding factor in the decision to request the public servant to speak.

H. Lobbying Activity

A person may not serve as a member of the board if the person is required to register as a lobbyist under Government Code Chapter 305.²²

I. Other Ethical Considerations

General ethics laws are explained in [A Guide to Ethics Laws for State Officers and Employees](#). Standards of conduct regarding gifts and travel are covered in the brochures [Can I Take It?](#) and [Can I Take this Trip?](#)

IV. RULEMAKING AUTHORITY OF BOARD

Texas Labor Code Section 412.031 gives the Board authority to adopt rules as necessary to implement Chapter 412 and Chapter 501, including reasonable rules for the prevention of accidents and injuries and establishing reporting requirements for state agencies.

SORM's Executive Director is responsible for recommending and preparing for adoption procedural rules and forms necessary for the effective administration of Chapter 412 and Chapter 501. The Executive Director is required to hold hearings on proposed rules and provide a reasonable opportunity for state agencies to testify on all proposed rules. The Executive Director is responsible for enforcing adopted rules for the prevention of accidents and injuries.²³

SORM's Board is required to develop and implement a policy to encourage the use of the negotiated rulemaking procedures in the Texas Negotiated Rulemaking Act.²⁴ Negotiated rulemaking is a consensus-based process through which an agency develops a proposed rule by using a neutral facilitator and a balanced negotiating committee composed of representatives of all interests that the rule will affect, including the rulemaking agency itself. This process gives everyone with a stake a chance to try to reach agreement about the main features of a rule before the agency proposes it in final form.²⁵ Section V.E. of the [Board Governance and Policy Manual](#) sets forth the required policy.

²² Texas Labor Code §412.023.

²³ Texas Labor Code §412.041.

²⁴ Texas Labor Code §412.035.

²⁵ This description is taken from the White Paper prepared by Jacques Wood of the Federal Mediation and Conciliation Service. The White Paper was a handout that went along with a presentation by Commissioner Wood at a USDA Rulemaking meeting in February 2011.

V. HISTORY OF SORM

In June 1995, Governor George W. Bush signed [Executive Order GWB 95-8](#) setting forth policy statements relating to workplace safety and health of state employees, citizens served, and preservation of state property. Reports to the 74th Legislature concluded that changes in the organization and management of the state risks and claims payments would reduce injuries, improve loss control and claims handling, and otherwise enhance the quality and effectiveness of the state's risk management and claims processing programs.

In 1997, the 75th Legislature directed resources to specifically address the organization and management of the state risks and claims payments. SORM was created by merging the responsibilities of the Risk Management Division of the Texas Workers' Compensation Commission (TWCC) with the duties of the Workers' Compensation Division of the OAG. The objective of [HB 2133](#) was to streamline the state's risk management and claims processing programs to reduce injuries, improve loss control and claims handling, and otherwise enhance the quality and effectiveness of the state's risk management and claims processing programs.²⁶

SORM was given additional risk management responsibility in 2001 when the insurance program was established by [HB 1203](#), 77th Legislature. The insurance program was created to address concerns that state entities may have purchased unnecessary or questionable insurance coverage, which posed an additional cost to the state.²⁷ During its first Sunset Review, supporters said that SORM's insurance program allows individual state entities to have a level of insurance expertise that likely would not be available in-house and to realize sizeable economic benefits.²⁸

When SORM underwent Sunset Review in 2007, the Sunset Advisory Commission determined that a centralized risk management system administered by SORM is more efficient and cost-effective than allowing each entity to administer its own program. By grouping most state employees in a single risk pool, SORM can balance risks in a manner that would not be possible for individual state entities, arriving at predictable loss trends and stabilizing costs. Also, SORM can recognize risk patterns that can affect more than a single entity. SORM's risk management efforts have created a safer work environment for state employees.²⁹

[SB 908](#), 80th Legislature, addressed concerns on the ability of the state to recover from a man-made or natural disaster. The [Sunset Advisory Commission's Summary of Recommendations](#) noted that while "Texas' key emergency response agencies are well prepared, the majority of state agencies have not planned for the resumption of their business operations and no single state agency is responsible for ensuring that all agencies plan for inevitable interruptions." SB 908 established SORM's responsibilities to assist state entities with the development of continuity of operations plans, create guidelines and models for key elements for the plans, and assist entities to ensure plans are workable.

²⁶ [HB 2133 bill analysis](#).

²⁷ [Bill Analysis HB 1203](#).

²⁸ [House Research Organization Bill Analysis SB 908](#).

²⁹ [House Research Organization Bill Analysis SB 908](#).

SUNSET STAFF REPORT AND SUNSET ADVISORY COMMISSION DECISIONS

Sunset is the regular assessment of the continuing need for a state agency or program to exist. Agencies typically undergo review once every 12 years. The review begins with an agency preparing a self-evaluation report that provides information to the Sunset Advisory Commission on the missions, programs, and activities of the agency.³⁰ After an on-site evaluation, Sunset staff issue a report that discusses noteworthy issues and makes recommendations regarding the identified issues.

SORM's most recent Sunset Review occurred in the 86th Legislative Session. The Sunset Staff Report with the [Sunset Advisory Commission's Decision](#)³¹ can be viewed on their website. SORM will undergo Sunset Review prior to the 2031 Legislative Session.³²

VI. LAW GOVERNING SORM'S OPERATIONS

[Texas Labor Code Chapter 412](#) sets out the duties and responsibilities of SORM, the Board, and the Director. SORM has adopted rules that provide guidance to client entities on the state employees' workers' compensation program and the state risk management and insurance programs.³³

VII. STATUTORY DUTIES

The Executive Director of SORM serves as the state risk manager and is responsible for supervising the development and administration of a system of risk management for the state. SORM'S mission is to protect the state's employees and physical and financial assets by reducing and controlling risk in the most efficient and cost-effective manner.

SORM's statutory responsibilities in Texas Labor Code Chapter 412 include:

- operate as a full-service risk manager and insurance manager for state agencies;
- maintain and review records of property, casualty, or liability insurance coverages purchased by or for a state agency;
- purchase insurance coverage under any line of insurance other than health or life insurance, including liability insurance for a state agency subject to Chapter 501;
- administer the program for the purchase of surety bonds for state officers and employees;
- perform risk management for each state agency subject to this chapter, with noted exceptions;
- administer guidelines adopted by the board for a comprehensive risk management program applicable to all state agencies to reduce property and liability losses, including workers' compensation losses;
- review, verify, monitor, and approve risk management programs adopted by state agencies;

³⁰ SORM's Sunset Self-Evaluation Report is located on SORM's website at <https://www.sorm.state.tx.us/wp-content/uploads/2017/08/2018-19sormselfevaluationreport.pdf>

³¹

<https://www.sunset.texas.gov/public/uploads/files/reports/State%20Office%20of%20Risk%20Management%20Staff%20Report%20with%20Commission%20Decisions%201-17-19.pdf>

³² Texas Labor Code §412.021(f).

³³ [28 Texas Administrative Code Chapters 251](#) and [252](#).

- assist a state agency that has not implemented an effective risk management program to implement a comprehensive program that meets the guidelines established by the Board;
- provide risk management services for employees of community supervision and corrections departments, as if the employees were employees of a state agency;
- administer the workers' compensation insurance program for state employees established under Chapter 501; and
- work with each state agency to develop an agency-level continuity of operations plan.

VIII. PROGRAMS AND FUNCTIONS

Detailed information regarding SORM's programs and functions is contained within [SORM's 2017 Self-Evaluation Report to the Sunset Commission](#).

Before each Legislative session begins, SORM must develop its Strategic Plan - a five-year planning document that contains the mission, goals, and objectives the agency seeks to accomplish and the strategies and measures by which success is tracked. The most recent [Strategic Plan](#)³⁴ can be found on the SORM website.

Similarly, a Biennial Report is submitted to the Legislature to provide information on the key components in Texas Labor Code Section 412.032. Within this report, the Executive Director also provides information regarding the services provided by SORM to state agencies subject to Texas Labor Code Chapter 501 as well as information related to state agencies' insurance purchases. SORM's most recent [Biennial Report](#)³⁵ is also located on the SORM website. The Biennial Report to the 87th Legislature is due January 1, 2021 and will be posted on SORM's website.

IX. PERFORMANCE MEASURES

The General Appropriations Act (GAA) establishes performance targets based on the Legislature's funding priorities. Performance measures are integrated into the state's external accountability and fiscal decision-making systems. Successful agencies use performance information to effectively and efficiently manage their operations.

SORM's enterprise risk management program has three key and two non-key performance measures. The objective of this program through FY 2017 is to provide guidance and direction to state entities to assist them in identifying, evaluating, and controlling risk and minimizing the adverse impact of loss. One of the SORM's outcome measures for this objective measures the *Incident Rate of Injuries and Illnesses per 100 Covered Full-Time State Employees*. This key outcome measure provides an objective measure of the results of implementation of covered state entities risk management plans and the results of SORM's risk management program, related specifically to occupational injury. The injury frequency rate is important as it reflects not only the effectiveness of SORM's risk management program identifying risks to covered state entities, but also reflects covered state entities actions in regard to implementation of recommendations to control and correct the conditions that lead to injured state employees.

³⁴ <https://www.sorm.state.tx.us/wp-content/uploads/2020/06/2020-STRATEGIC-PLAN-Final.pdf>

³⁵ <https://www.sorm.state.tx.us/wp-content/uploads/2019/01/SORM-2018-Biennial-Report.pdf>

SORM's claims administration program has five key and one non-key performance measures. The objectives of this program through FY 2017 are to review and determine eligibility on 100% 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.

SORM has two outcome measures for this objective to measure the *Cost of Workers' Compensation per Covered State Employee* and *Cost of Workers' Compensation per \$100 State Payroll*. Both key outcome measures provide information on the overall trends in workers' compensation costs and allow for comparison with the private sector.

SORM must report quarterly performance data for key output and efficiency measures and annual performance data for key outcome and explanatory measures. Copies of SORM's Performance Measure Reports can be provided upon request.

X. PARTICIPANTS IN SORM PROGRAMS

SORM provides access to risk management and insurance services to 136 state entities, which includes courts and institutions of higher education as well as Windham School District within the Department of Criminal Justice, and 122 community supervision and corrections departments.

SORM also provides continuity of operations planning services (COOP) to state entities. COOP plans must also be submitted by each state entity that is (1) involved in the delivery of emergency services as a member of the Governor's Emergency Management Council; (2) part of the State Data Center Services program (DCS); or (3) is subject to Texas Labor Code Chapter 412 or Chapter 501.

SORM administers the workers' compensation program for approximately 190,000 state employees. There are situations in which certain non-state employees are covered by SORM's workers' compensation program. Texas [Labor Code Section 501.026](#) extends coverage for certain services provided by volunteers. The definition of employee in Texas [Labor Code Section 501.001](#) includes a person who is (a) in the service of the state pursuant to an election, appointment, or express oral or written contract of hire; (b) paid from state funds but whose duties require that the person work and frequently receive supervision in a political subdivision of the state; (c) a peace officer employed by a political subdivision, while the peace officer is exercising authority granted under certain articles in the Code of Criminal Procedure; and (d) a member of the state military forces, who is engaged in authorized training or duty.

The definition in Texas Labor Code Section 501.001 also includes a Texas Task Force 1 member, who is activated by the Texas Department of Emergency Management (TDEM) or is injured during training sponsored or sanctioned by TDEM. Workers' compensation coverage must also be provided through SORM's program for members of an intrastate fire mutual aid system team or a regional incident management team who are injured during a TDEM activation or sponsored training.³⁶

³⁶ HB 919, 85th Legislature, added Section 88.126 to the Texas Education Code.

XI. PARTIAL PARTICIPATION IN SORM PROGRAMS

Texas Labor Code Section 412.011(c) specifically excludes Texas Tech University System (Texas Tech)³⁷ and Texas State University System (TSUS)³⁸ from SORM's risk management and insurance services. However, both entities participate in SORM's workers' compensation program. The workers' compensation costs for Texas Tech and TSUS are funded in the allocation program for SORM's operations and claim expenditures.

The Employees Retirement System of Texas (ERS) and Teacher's Retirement System (TRS) may, but are not required to, acquire risk management and insurance services provided by SORM.³⁹ ERS and TRS reimburse workers' compensation costs to SORM on a dollar-for-dollar basis but do not participate in the assessed allocations.

XII. EXCLUDED FROM PARTICIPATION IN SORM PROGRAMS

The Texas A&M University System (A&M), University of Texas System (UT), and Texas Department of Transportation (TXDOT),⁴⁰ do not participate in SORM's programs because these entities had workers' compensation insurance coverage or other self-insurance coverage with associated risk management programs before January 1, 1989.⁴¹

XIII. FUNDING AND ASSESSMENT HISTORY

SORM is financed wholly through interagency contracts with other state agencies. The funding program allocates an assessment, similar to a premium, to all participating agencies based on risk profile and other relevant factors identified by the Board.

When SORM was created in 1997, in addition to expenditure authority appropriated by the Legislature, SORM was funded by three mechanisms: through interagency contracts with state agencies for the risk management program, direct general revenue, and monies recovered from a third party through subrogation.

In 2001, Article 14 of HB 2600 required SORM to establish a cost-allocation program for the payment of workers' compensation claims and risk management services. The rules for the risk allocation program, 28 TAC Chapter 251, Subchapter E, were adopted to (1) equitably distribute the cost of funding workers' compensation losses, the cost of administering claims, and the cost of providing loss control services to participating state agencies; (2) encourage the development and implementation of risk management programs and practices designed to minimize occupational injuries and illnesses; protect state property; and provide appropriate safety and health training for all state employees; (3) pool large and small risks to enable catastrophic loss(es) to be spread throughout all participating state agencies; and (4) encourage compliance with SORM's regulations, policies, and programs.

³⁷ Texas Labor Code §412.011(c)(2)(A).

³⁸ Texas Labor Code §412.011(c)(2)(B) and (j).

³⁹ Texas Government Code §§815.103(f) and 825.103(c) and Labor Code §506.002.

⁴⁰ Texas Labor Code §501.024(5), (6), and (7).

⁴¹ Texas Labor Code §412.052.

SORM began the “reallocation” process in conjunction with the CPA and Legislative Budget Board (LBB) whereby the General Revenue (GR) appropriated to SORM was reappropriated to participating agencies as part of each of those agencies’ baselines.

The FY2004 risk assessment allocation for claim payments was approximately \$78.6 million. Despite actuarial projections that workers' compensation claims costs would continue to increase by several million each year after reaching \$70 million in FY2003, by the end of FY2004, claims costs had decreased to \$55.8 million. Ten percent of the \$78.6 million total was carried forward to reduce the cash basis assessment total for the next fiscal year and approximately \$15.6 million was returned to participating entities.

GAA Article IX, Rider 15.02, was modified effective for the 2008-2009 biennium. This non-discretionary transfer provision staggers the assessment allocation payments. Now, participating entities pay seventy-five percent of their assessment at the beginning of the fiscal year. The remaining amount due from each entity, if any, is calculated and collected during the final four months of the fiscal year.

SORM continued to receive direct GR for funding the administration of workers’ compensation until FY2006 when a portion (\$2.5 million) was funded by inclusion in the assessments. Assessment funding continued to replace GR until FY2010 when SORM became entirely funded through the annual assessment. Starting in FY2012 the appropriation to the OAG for SORM’s administrative attachment, previously direct GR to the OAG, is now funded by SORM through the assessments, in addition to the funding for employee benefits outside of the agency’s appropriation. Despite the increased items the current assessment is \$22.2 million lower than the FY2004 assessment for claim expenditures and risk management services only.

To date, this methodology has substantially reduced the total cost of SORM’s programs to the taxpayers of the state.

XIV. SORM’S BUDGET

The state of Texas has a performance-based budgeting system. Before each Legislative session begins, SORM must prepare a Legislative Appropriations Request (LAR) that includes the requested dollar amounts and descriptions of the goals, objectives, and strategies to be addressed by requested funding. SORM’s most recent [LAR](#)⁴² is located on the SORM website.

No later than December 1st in odd-numbered years, SORM must submit an Operating Budget to the Office of the Governor and the LBB. The Operating Budget is similar to the LAR but less extensive. It contains expended and budget data for strategies, measures, capital budgets, and supporting information for homeland security, federal funds, estimated revenue collections, and new or expanded initiatives by the more recent Legislature as applicable. You can view SORM’s most recent [Operating Budget](#)⁴³ is on the SORM website.

⁴² <https://www.sorm.state.tx.us/wp-content/uploads/2020/09/A479-SORM-LAR-22-23-Final.pdf>

⁴³ <https://www.sorm.state.tx.us/wp-content/uploads/2020/02/A479-Operating-Budget-2020-Amended-2-4-20.pdf>

An Annual Financial Report is required by Government Code Section 2101.011. Agencies submit their information by November of each year and the CPA uses the information to create a Statewide Financial Report by February of each year. SORM's most recent [Annual Financial Report](#)⁴⁴ is located on the SORM website.

XV. ADMINISTRATIVE ATTACHMENT TO OFFICE OF THE ATTORNEY GENERAL

The Office is administratively attached to the OAG but is a separate and independent entity.⁴⁵ Through an interagency contract, the OAG provides contracting, accounting, budget, information technology, and human resources support for SORM. In fiscal years 2020 and 2021, SORM will pay the OAG \$713,171 and \$717,039, respectively, for these services.

XVI. RESULTS OF RECENT AUDITS

A. Financial Audit

In 2018, the State Auditor's Office (SAO) conducted a financial audit of SORM. The objective of this audit was to determine whether SORM has processes and related controls to help ensure that it administers financial transactions in accordance with applicable statutes, rules, and agency policies and procedures. The audit scope included the Office's activities related to contracts in effect, workers' compensation claims, workers' compensation annual assessments calculated and collected, travel expenditures, and related information systems for fiscal year 2017 and the first five months of fiscal year 2018. The detailed results and conclusions are contained in [Report No. 18-032](#).

B. Strategic Fiscal Review

The LBB uses Strategic Fiscal Review (SFR) as a tool for comprehensive, bottom-up budgetary analysis of selected state entities. An SFR analysis informs members of the Legislature as they make decisions on the most appropriate and efficient means of funding the operations of the state, and it serves as a resource to conduct interim hearings.

The LBB conducted an SFR of SORM in the first quarter of FY2019. A significant element in the SFR is the LBB's assessment of the strength of the statutory authority and mission centrality for each of SORM's programs.⁴⁶ The LBB's recommendation to the Senate for approximately \$1.8 million in general revenue funding for implementation of a cloud-enabled risk management information system to integrate SORM's programs and update current technology systems to improve operations was approved in HB 1, 86th R.S.

C. Performance Based Oversight (PBO)

The Office has consistently been identified as a high performer by TDI-DWC.⁴⁷ During PBO, TDI-DWC measures SORM's compliance with the deadlines for initial payment of temporary income benefits,

⁴⁴ <https://www.sorm.state.tx.us/wp-content/uploads/2020/11/SORMs-FY-2020-Annual-Financial-Report-AFR.pdf>

⁴⁵ Texas Labor Code §412.0111.

⁴⁶ See pages 10 and 12 of the LBB's recommendations to the 86th Senate <https://www.sorm.state.tx.us/wp-content/uploads/2019/06/LBB-SFR.pdf>

⁴⁷ <https://www.tdi.texas.gov/wc/pbo/pboresults.html>

impairment income benefits and medical bill payments. The performance assessment also examines overall compliance records and dispute resolution and complaint resolution practices.

D. Internal Audit

SORM contracts with a private vendor for internal audit services. The internal auditor conducts an annual formal risk assessment of SORM's functions, activities, and processes. The internal auditor then uses the risk assessment to develop an annual audit plan. The annual audit report sets out the internal auditor's findings and recommendations regarding the audited area(s). The [FY2020 Annual Internal Audit Report](#)⁴⁸ is available in the SORM website.

E. Risk and Security Assessment

At least once every two years, each state agency is required to conduct an information security assessment of the agency's information resources systems, network systems, digital data storage systems, digital data security measures, and information resources vulnerabilities.⁴⁹ These reports are exempted from disclosure under the PIA but can be provided to Board members upon request.⁵⁰

F. Post-Payment Audit

The CPA issued Audit Report # 479-19-08 on March 23, 2020.⁵¹ The objectives of a post-payment audit include ensuring payments are documented, payment vouchers are processed according to statewide system requirements, and verifying payments are made in accordance with applicable state law.

XVII. OTHER IMPORTANT REPORTS

A. Insurable Asset Studies

The Office was charged by the 82nd and 83rd Legislatures to study and make recommendations on methods to manage the risk of the state's insurable assets. Both studies provided an analysis of several possible financing methodologies at the enterprise level.

- [2011 State Insurable Assets Study](#)⁵²
- [2013 State Insurable Assets Study](#)⁵³

[HB 3750](#), 84th Legislature, required SORM to consolidate information on state-owned real property into a single database accessible by the Legislature and all state entities and institutions of higher education. The Office was also required to produce an updated Insurable State Assets Interim Study with findings and recommendations to support an enterprise approach to reserve-based insurable asset management and develop a statewide strategy that will ensure all real property owned by the state is adequately insured. The [Final Report](#)⁵⁴ is available on the SORM website.

⁴⁸ <https://www.sorm.state.tx.us/wp-content/uploads/2020/10/SORM-FY2020-Annual-Report.pdf>

⁴⁹ Texas Government Code §2054.515.

⁵⁰ Texas Government Code §552.139.

⁵¹ <https://fmx.cpa.texas.gov/fm/audit/ar20-3q/SORM-479.pdf>

⁵² <https://www.sorm.state.tx.us/wp-content/uploads/2020/10/SORM-FY2020-Annual-Report.pdf>

⁵³ https://www.sorm.state.tx.us/wp-content/uploads/2017/06/state_insurable_assets_study_2013.pdf

⁵⁴ https://www.sorm.state.tx.us/wp-content/uploads/2017/06/state_insurable_assets_study_2016.pdf

B. Cost Containment Report

SORM is required to prepare an annual report detailing the effectiveness of cost containment measures undertaken during the fiscal year and proposing additional measures to reduce workers' compensation payments in future years.⁵⁵ The FY20 cost containment report is posted on SORM's website.⁵⁶

C. Contract Posting

SORM must post information regarding the purchase of goods and services from private vendors on its website.⁵⁷

D. Staff Compensation

A [Report of Staff Compensation](#)⁵⁸ is available on SORM's website.⁵⁹

⁵⁵ House Bill 1, 86th Legislature, RS.

⁵⁶<https://www.sorm.state.tx.us/wp-content/uploads/2020/10/FY20-Annual-Report-on-Cost-Containment-FINAL.pdf>

⁵⁷ <https://www.sorm.state.tx.us/about-us/legislative-reports/other-required-reporting>

⁵⁸ <https://www.sorm.state.tx.us/wp-content/uploads/2019/09/Staff-Compensation-Report-as-of-9-1-2019.pdf>

⁵⁹ Texas Government Code §659.026.



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ACKNOWLEDGEMENT STATEMENT

I am a member of the State Office of Risk Management’s Board of Directors.

I have received and reviewed the *Board of Directors Training Manual 2020 Update*.



Printed name

Signature

Date