SORM

State Office of Risk Management

BIENNIAL REPORT

TO THE

84th TEXAS LEGISLATURE

December 31, 2014

BOARD MEMBERS

SORM
State Office of Risk Management
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December 31, 2014

The Honorable Rick Perry
Governor of Texas

The Honorable David Dewhurst
Lieutenant Governor

The Honorable Joe Straus
Texas House of Representatives

Members of the 84th Texas Legislature:

On behalf of Board of Directors, the State Office of Risk Management (Office) respectfully submits this Biennial Report to the 84th Legislature. This report is submitted pursuant to the requirements of Texas Labor Code Sections 412.032 and 412.042, and Executive Order GWB 95-8.

The Office appreciates the opportunity to serve state employees and Texas state agencies, and we look forward to working with the members of the 84th Legislature during the legislative session. If you have any questions or require any additional information, please feel free to contact me at (512) 936-1508, or Paul Harris, the Office's Government Relations Liaison, at (512) 936-1452. We are available at your convenience to discuss any of the issues contained in the report and to provide all necessary assistance.

Respectfully,

Stephen S. Vollbrecht, J.D.
AINS, AIS, PCP
State Risk Manager for Texas
Executive Director, SORM

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General Overview

The State Office of Risk Management is administratively attached to the Office of the Attorney General and is governed by a five-member Board. The Office is charged by law to operate as a full-service risk and insurance manager for state agencies, including the government employees workers' compensation insurance program, the state entity insurance purchasing program, and the continuity of operations program. Its mission is 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.

The Office 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. A major reorganization of the agency's structure was completed in the last fiscal year, streamlining existing divisions and focusing on increasing accountability, communications, and efficiency. Risk Management is now a foundational focus in all departments.

1. Methods to reduce exposure of state agencies to the risks of property and liability losses, including workers' compensation losses.

Texas state agencies are exposed to a vast array of risks. To help agencies address those risks, the Office utilizes multiple approaches, including, but not limited to: comprehensive guidelines; oversight in the development and maintenance of risk management and continuity of operations programs; administration of property and casualty insurance programs; specialized assistance and training; data collection, monitoring, and analysis; and the self-insured workers' compensation program.

Guidelines

The Office publishes *Risk Management for Texas State Agencies* (RMTSA), a comprehensive set of guidelines for risk management programs, accessible to state agencies and the public on the Office's website at http://www.sorm.state.tx.us/RMTSA_Guidelines/volumes.php.

The four volume publication lays out the form, direction, and basis for developing and implementing a comprehensive risk management program to reduce property, liability, and workers' compensation losses. The guidelines are designed to assist in the creation of policies and procedures that address each agency's unique mission and risks.

The Office's risk managers work with each client agency to ensure that they have adopted the applicable RMTSA guidelines and other appropriate standards and best practices for use in their respective risk management programs.

The Office's website serves as a consolidated source for continuity of operations program development, accessible to state agencies and the public at http://www.sorm.state.tx.us/risk-management/business-continuity-planning. In addition to providing links to FEMA resources and training, the Office has created several resources that guide agencies in the step-by-step development of their continuity programs.

Oversight and Development

The Office's risk management staff provides direct, consultative assistance and oversight to client agencies via risk management program reviews (RMPRs) and on-site consultations (OSCs), as described below:

- **RMPRs** – Conducted approximately every four years, a RMPR is a comprehensive, cyclical assessment of a client agency's exposure to risk, and a full review of its risk management program. Risk management staff conduct walk-through inspections of agency facilities and compile formal reports of findings and recommendations. On-site reviews take approximately one to four days, depending on variables such as agency size and location of facilities, and may result in one or more follow-up visits. Full formal reports with recommendations are generally issued to agency leadership within 90 days.

- **Scheduled OSCs** – On-site Consultations are scheduled by the Office's Risk Managers and typically focus on a large loss or particular aspect of the client agency's risk management program. Scheduled OSCs take one to three days, with reports issued within 30 days.

- **Requested OSCs** – A client agency may also request assistance from a risk manager regarding a specific issue. Depending on the complexity of the issue, the risk manager may work with the client agency for several days or weeks to resolve the issue. Agencies with oversight responsibilities may also request that SORM conduct an OSC with client agencies in response to an emerging concern.

- **Insurance OSCs** – The Office's insurance staff also conduct OSCs. Participants in the Office's sponsored insurance programs may request that Office Insurance managers visit with them at renewal and as issues arise to provide advisement. In the course of developing a risk financing plan, non-participant agencies may request that the Office insurance managers visit with them to assist in a risk transfer feasibility analysis. Insurance managers also assist property loss control specialists in their inspections of insured buildings.

The Office performs a minimum of 29 RMPRs and 229 OSCs each fiscal year. During the past biennium, the Office's risk managers conducted 540 onsite visits with client agencies. The Office supports collaborative relationships that empower agencies to voluntarily and proactively address their risk management issues. The Office's staff are also available to assist client agencies outside of the formal RMPR and OSC processes.

Risk Transfer

Under the current statutory insurance program, each state agency makes an individual decision to transfer or retain risk. Except for workers' compensation, there are no other statutory retention programs. The Office procures and negotiates insurance programs tailored for the unique exposures and liabilities of the State, and encourages continuing competition to ensure that the State of Texas obtains the best value. The Office currently sponsors four lines of insurance: property; directors' and officers'; automobile; and volunteer. Other lines are under active review.

Risk Retention

The State of Texas self-insures for the purposes of workers' compensation through the Office. The program currently encompasses 138 state entities and 122 CSCDs, covering approximately 188,000 individual employees. The UT and A&M systems, and TxDOT are exempted by law and operate their own individual workers' compensation programs. The Office employs professional claims adjusters that handle all aspects of work-related injury claims as required by law and policy. Comprehensive detail respecting the workers' compensation program is provided in Section 2, *infra*.

Assistance and Training

Knowledge is key to enabling state agencies to manage risks and losses. The target audience for training includes client agency risk management staff, claims coordinators, supervisory staff, and employees. During FY14**,** the Office's trainers taught 168 on-site courses and reached approximately 3,787 students throughout Texas. The majority of these regional training sessions are hosted by client state agencies. Because this training is delivered locally, participation by staff in remote locations is increased at little or no cost to those agencies. By coordinating trainings, the Office has been able to dramatically reduce travel expense while maintaining student levels.

The Office has improved the accessibility of training to state employees through the production of short, online videos on various risk management topics. These videos accounted for an additional 130,219 individual training sessions during FY13 and FY14, and are available to any covered employee with access to the internet at no incremental cost to the State. The most popular videos include *Active Shooter Emergency Preparedness* and *Office Ergonomics.* The Office is also expanding the training initiative by exploring the design of certification training programs for risk managers, insurance specialists, continuity planners, and claims coordinators for Texas state agencies. These programs are currently in the curriculum design and delivery analysis phase.

Data Collection and Monitoring

The Office analyzes risk management expenditures and loss data submitted by client agencies, excepting institutions of higher education excluded from providing this information to the Office, and performs baseline trend analysis to monitor emerging exposures and losses. The Office collects this data through an online, interactive Risk Evaluation and Planning System (REPS) tool that leads client agencies through the identification, analysis, and mitigation of identified risks.

Other Methods

Through REPS, RMPRs and OSCs, the Office educates client agencies on emerging trends and provides in-depth guidance in risk management. The Office responds to any risks or needs of client agencies as they are identified, and cooperates with other oversight agencies in implementing viable loss control, risk financing, continuity, and workers' compensation administration programs for state agencies.

The Office continues its memorandum of understanding with the State Fire Marshal's Office and the Texas Facilities Commission, creating a cooperative framework for the agencies to communicate and work together to address risks from identified fire hazards or losses, and report any actions taken to mitigate the risks to state property.

2. Operation, financing, and management of risks.

Risk exists in every facet of governmental operations. In the normal course of business, the State is exposed to risks that may result in monetary loss, decreased efficiency, interruption or cessation of service, loss of resources, and loss of public confidence. Causes of loss include, but are not limited to, employee injuries, fire damage, automobile accidents, lawsuits, and natural and man-made disasters, including terrorism. The Office is focused on reducing the frequency and severity of losses for each client state agency and, by extension, for state government as an enterprise.

The Office's risk management program is concerned with all categories of risk and provides services to covered agencies and to other entities identified by statute, such as the Community Supervision and Corrections Departments (CSCDs) that are included in the State's government employee workers' compensation program.

Responsibility for the operation, financing, and management of risks shown in Chart A are shared between the Office and its client agencies and varies by risk. Client agencies are required to designate a risk manager and a claims coordinator who are responsible for oversight and reporting on agency risk management efforts, injuries, and losses.

CHART A: Statewide Risk Management Costs for FY13 and FY14

Category	FY '13	FY '14	Difference	% Change
Salary, Wages & Benefits	$35,406,355	$39,179,789	$3,773,434	10.66%
Statewide (SORM Enterprise) Risk Management Expense	$2,550,057	$2,609,058	$59,001	2.31%
Cost Containment	$1,715,659	$1,551,215	$(164,444)	-9.58%
Settlements & Judgments	$1,365,388	$ 3,361,175	$1,995,787	146.17%
Bonds, Insurance, & Deductibles	$11,806,572	$11,990,883	$184,311	1.56%%
Actuarial Services	$10,000	$ 10,000	$ -	0.00%
Court Costs and Attorney Fees	$3,724,074	$ 2,586,650	$ (1,137,424)	-30.54%
Workers' Compensation Claims Expense	$38,613,144	$35,500,399	$(3,112,745)	-8.02%
Workers' Compensation Claims Administration	$5,060,358	$5,246,867	$186,509	3.69%
Total Risk Management Cost	**$100,251,607**	**$102,036,036**	**$1,784,429**	**1.78%**

State agency program costs are self-reported and consist of risk management departmental salaries and benefits; staff training; supplies and equipment purchases; and other risk management–related expenditures. Large increases in costs are generally attributable to one-time project costs such as the installation of a fire suppression systems or security cameras.

Each state agency develops risk management parameters that are tailored to its unique needs (for example, some state agencies may count security personnel and maintenance staff as risk management FTEs, and therefore report the expenses associated with those positions to the Office as risk management expenditures).

Workers' Compensation

Injury frequency rates, expressed as a percentage of injuries per number of covered FTEs, have declined from 4.75% in FY02 to 3.43% in FY14, as shown in Chart F. In FY13 and FY14, there were approximately 500 fewer injuries per year than in the two previous years, as shown in Chart G.

Increased risk management and claims coordination efforts, as well as more effective processes have improved this loss experience. Changes in the funding structure for workers' compensation have also been key in emphasizing the value of effective risk management.

CHART B: Workers' Compensation Claims Payments

FY13	FY14	Incr/(Decr)	% Incr/Decr
$38,613,144	**$35,500,399**	**($3,112,746)**	**(8.02)**

As shown in Chart B, in FY14, the State paid $35,500,399 for workers' compensation claims on a cash basis. This figure is the sum of all workers' compensation payments made on behalf of claimants in FY14, including those injured in preceding fiscal years. This figure does not include future liabilities. When analyzing workers' compensation costs, it is important to note that the numbers represent a snapshot in time. Because the statutory program is a cash basis program without typical reserve authorization, workers' compensation payments are typically paid out over several years; therefore, changes made to a risk management program or claims administration in a given fiscal year may take several years to exhibit financial consequence.

Financing

The Risk Management program, which is an enterprise program that includes loss control, risk financing, and continuity planning services, and the Pay Workers' Compensation strategy are both funded through annual assessments to state agencies pursuant to Chapter 412, Texas Labor Code. The assessments, similar to annual premiums, are determined by a formula based on historic FTE, payroll, claims, and claims cost data.

The appropriation for Workers' Compensation Claim Payments is funded by Interagency Contracts (IAC) through these assessments. This funding is used for medical cost containment services and other costs directly related to reducing claim payments and risk.

CHART C: FY 14 Expenditures by Strategy and Method of Finance

Goal/Strategy	GR	IAC	Total
Goal 1.1.1/Risk Management Program	0	2,609,058	2,609,058
Goal 1.2.1/Pay Workers' Compensation	0	5,246,867	5,246,867
SUBTOTAL:	**0**	**7,855,925**	**7,855,925**
Goal 1.1.1/Workers' Compensation Payments (separate appropriation)		35,500,399	35,.500,399
GRAND TOTAL:	**0**	**43,356,324**	**43,356,324**

3. Handling of claims brought against the State.

Workers' compensation and other claims against the State, outside of the Office's insurance program, are handled by the Office of the Attorney General. Claims against the State, for which insurance has been purchased through the Insurance Program are handled by the insurance carrier with the Office acting as a liaison between the carrier and state agency, as appropriate.

If the insurance claim results in litigation, the Office of the Attorney General typically handles the matter through the litigation process. The Office offers access to the statewide insurance program to reduce the cost of risk associated with general liability, employment practices, professional liability and other non-tort related exposures.

The Office processes workers' compensation claims for all state agencies, and other entities identified in Chapter 501 of the Texas Labor Code. The Texas Department of Transportation, University of Texas System, and Texas A&M University System are outside the SORM program as they have established their own programs.

State law provides that employees injured in the course and scope of their employment are entitled to receive benefits for reasonable and necessary medical care and indemnification of wages for time lost from work due to the effects of their compensable injuries. Injured workers are entitled to receive medical treatment to cure and relieve the effects of their work-related injuries or illnesses, without any specific time or cost limits.

The Texas Department of Insurance Division of Workers' Compensation (TDI-DWC) monitors system participants' compliance with the Texas Workers' Compensation Act and Rules and corrects noncompliant behavior. Compliance objectives are measured every two years and are achieved through Performance Based Oversight (PBO) of Carriers. For the third assessment in a row, the Office was placed in the High Tier Performance category. This year's combined weighted measurements equaled 98.12 out of a possible 100 points.

Each state agency designates at least one claims coordinator who provides information about workers' compensation to injured employees and reports workers' compensation claims to the Office. The Office trains claims coordinators on handling claims and provides access to the Office's electronic Claims Management System (CMS). The Office's system automatically creates a claim when agencies report information electronically to the Office. Office staff may also enter information to the system manually.

The Office uses CMS to assign claims, maintain records, monitor deadlines, and coordinate benefits payments. The CMS also interfaces with the Office's medical cost containment vendors, TDI-DWC, the Office of the Attorney General, and the State Comptroller for the processing of state warrants. The Office uses a digital imaging system for record-keeping of claim documents, including medical billing and submitted forms promulgated by TDI-DWC.

The Office devotes a staff of forty-three (43) adjusters, located in Austin, to manage all workers' compensation claims, assess compensability, and authorize payment of wage replacement (indemnity) and medical benefits. The Office processes more than 500 indemnity payments each week, including direct claimant benefits, attorney's fees and related payments required by law.

Adjusters determine the amount of indemnity payments based on each injured worker's average weekly wage, from salary information provided by the employing agency.

In FY14, the Office processed 26,467 indemnity payments, representing a continuing decrease in the number of active, open claims administered from the previous year. Indemnity benefits are payable to injured workers as five types of awards as described in Chart D.

CHART D: Average Total Caseload of Awards to Injured Workers

Benefit Type	Benefit Description	Average Total Caseload
Temporary Income Benefits (TIBs)	Injured employees unable to work are eligible to receive TIBs after the seventh day of lost time for a maximum 104 weeks.	381
Impairment Income Benefits (IIBs)	Workers may be entitled to IIBs on the day after the date the employee reaches maximum medical improvement. Entitlement to IIBs ends the earlier of (1) the date of expiration of a period computed at the rate of three weeks for each percentage of impairment; or (2) the date of the employee's death.	137
Supplemental Income Benefit (SIBs)	Injured workers actively seeking re-employment or participating in a vocational rehabilitation program may receive SIBs monthly if they have an impairment rating greater than 15% and are not earning at least 80% of pre-injury wages because of injury.	28
Lifetime Income Benefits (LIBs)	Injured workers with severe and permanent impairments resulting from a work-related injury may receive LIBs.	13
Death Income Benefits (DIBs)	While not an income benefit, beneficiaries of workers who succumb to fatal injuries may receive DIBs.	57

Claims Operations

The Office's Claims Operations Department consists of dedicated claims units, a customer service call center, and a disability management unit, currently focusing on the workers' compensation program. Client agencies are assigned to specified claims units.

Upon receipt of the file, Claims Operations performs the initial investigation of each reported injury and determines compensability. Claims Operations follows all claims until their conclusion to ensure that each state worker receives the medical and income benefits due under the Texas Workers' Compensation Act.

In FY14, Office processed approximately 103,000 medical bills. The Medical Cost Containment unit within Claims Operations is comprised of the Medical Provider Assistance and Medical Audit departments. The Office contracts with two cost-containment vendors to conduct comprehensive audits of submitted medical bills and provide other services.

The Office implemented several new contracts beginning in FY15. ISG Services, LLC, is the contractor primarily responsible for auditing physician and hospital bills. The Office also has a contingency contract with Health Care Solutions, Inc., which is ready to take over any subset or all medical cost containment functions should the need arise, ensuring that the Office will maintain compliance with all medical bill processing timelines. Additionally, the Office contracts with myMatrixx, Inc., as its Pharmacy Benefits Manager (PBM).

State law and DWC rules require preauthorization and concurrent review by workers' compensation carriers for specific treatments. The Office may not pay the cost of these medical services unless preauthorization was granted. The Office also contracts with vendors to determine the medical necessity of services requiring preauthorization. In FY14, the contracted vendor processed 6,164 preauthorization requests. The contracted vendor also processes concurrent reviews to determine the medical necessity of extending treatments that were previously preauthorized.

The vendors review bills to ensure that treatment is reasonable, necessary, and related to the compensable injury; identify duplicate bills and billing errors; and adjust bills for payment in accordance with DWC fee schedules or applicable contracts. Payment recommendations are submitted to the Office for review and verification, and may be resubmitted to the vendors for correction. In FY14, the Office was billed $80 million for medical services. The cost containment functions provided by the vendors reduced those costs by almost $69 million.

In addition, pursuant to Texas Labor Code §408.028(b), the TDI-DWC adopted rules establishing a pharmacy closed formulary for the Texas workers' compensation system. The closed formulary provisions apply to certified network and non-network outpatient claims made on or after September 1, 2011 for dates of injury which occur on or after September 1, 2011.

CHART E: Summary of Cost Containment Savings

Strategy	FY 2012	FY 2013	FY 2014
Total Medical Bill Audit Savings	$58,704,854	$ 62,367,304	$60,275,836
Medical Bill Audit Savings due to Duplicate Bill Savings	($4,097,519)	($2,547,368)	($2,971,148)
Net Medical Bill Audit Savings	$54,607,335	$59,819,936	$57,304,689
WCHCN/PBM Savings	$1,776,873	$2,590,542	$2,665,327
Preauthorization of Medical Services*	$3,848,169	$3,742,784	$3,214,635
Total Cost Containment Savings	**$60,232,378**	**$66,153,262**	**$63,184,651**

** Cost of procedures not performed at time of request, as estimated by the cost containment vendor. The Texas Workers' Compensation Act and DWC adopted rules provide that health care providers are required to obtain preauthorization of certain medical procedures (e.g., psychiatric care and non-emergency hospitalizations) from workers' compensation insurance carriers prior to such procedures being performed. Preauthorization savings represent the avoidance of expenses related to unreasonable, unnecessary or non-workers' compensation related procedures prior to a treatment or service being provided and billed. Since a treatment or service was not authorized and no billing was received, the savings reported are cost-avoidance estimates provided by the Office's cost containment vendor.*

Case Management

The Office uses case management to assist injured workers in accessing quality health care in a cost-effective manner and to assist an injured worker to return to work at the earliest time it is safe for the employee to do so.

The Office employs three internal nurse case managers who maintain contact with the injured worker, treating doctor, and employer and provide expertise to the adjuster in developing an appropriate claims handling strategy from a medical perspective and advance the effort to get the injured worker to full productivity.

The case managers also assist in making determinations as to whether further telephonic or field case management is needed. In appropriate cases, the Office utilizes private vendors for field case management services performed by certified case managers, registered nurses, or licensed vocational nurses. Case managers meet with injured workers, consult with doctors about treatment plans, and may visit employers to assess the physical challenges that work may present to the injured worker.

The Texas Workers' Compensation Act grants parties the ability to use medical examinations of the injured worker by an independent physician to resolve questions about the appropriateness of treatments. These required medical exams (RMEs) verify whether ongoing and proposed care is reasonable, necessary, and related to the compensable injury. Peer reviews may also be used to advise whether medical services or prescription drugs are an appropriate course of treatment given an injured worker's diagnoses. These peer reviews involve a medical professional conducting a paper review of medical files. Both RMEs and peer reviews may identify needs for changes in treatment, and may be relevant in the event of a dispute regarding entitlement to certain benefits.

The Office reviews impairment ratings assessed to injured workers, and may, in appropriate circumstances, request an independent doctor review of an impairment rating. Reviewing ratings helps to ensure the accuracy of impairment ratings and to determine the appropriate benefits for injured workers.

Workers' Compensation Health Care Networks

House Bill 7 (79th R.S.) authorized the use of workers' compensation healthcare networks (WCHCNs) certified by the Texas Department of Insurance (TDI) under Chapter 1305, Texas Insurance Code. House Bill 473 (81st R.S.) required that all voluntary or informal networks be certified by TDI by January 1, 2011, or be discontinued.

In September 2014, SORM partnered with Injury Management Organization, Inc., to provide state employees with access to the certified Workers' Compensation Health Care Network (HCN), known as the IMO MedSelect Network. The HCN was rolled out in phases for all our client agencies' new claims beginning September, 2014, and for eligible transition claims. The rollout was completed in October, 2014.

Based on the DWC interpretation of HB 7, claims that occurred between September 1, 2005 and February 1, 2011 cannot be enrolled in the HCN. Additionally, some claims, based on geographic location in Texas will not be covered by the HCN.

The IMO MedSelect HCN is designed to provide employees who are injured on the job with access to primary and specialty medical providers who are familiar with workers' compensation injuries and will provide high-quality medical care to help facilitate quick recovery and return to work.

The HCN has enrolled approximately 49% of all claims that have occurred since February 2011 and are currently open. The majority of the remaining claims are outside of the geographic service area of the HCN. Of the claims enrolled in the HCN, first treatment with a network physician typically takes place less than two days after the injury.

Both the Office and IMO MedSelect are assessing the performance of the HCN and its value. While claims cost have gone down noticeably in the last year, there have been other changes to the Workers' Compensation Act and improvements in claims handling that account for some portion of the decline. One positive trend can be found in the reduction of physical therapies, chiropractic and related treatment request and denials. Chiropractors are specifically excluded as primary treatment providers in the HCN, but may provide care with a referral from the primary provider.

Special Investigations Activities

The Office employs three staff members to identify suspect billing practices and investigate allegations of fraud. The investigators interview involved parties, conduct surveillance, check wage records with the Texas Workforce Commission, and check for previous personal injury claims. One analyst primarily conducts forensic reviews of submitted billing and documentation.

If investigators find evidence that a person fraudulently obtained benefits, the case may be referred to the Texas Department of Insurance's Fraud Unit, or in some cases referred to law enforcement personnel. The Insurance Fraud Unit reviews the case to determine if it should be referred to a district attorney for prosecution, pursued as an administrative violation, or dropped.

Because cases of provider fraud are more difficult and time-consuming than claimant fraud, the Office's investigators may coordinate with or provide assistance to investigators from other entities. During the biennium, the Office opened approximately 64 fraud cases. The Office collected nearly $25,000 in restitution during the biennium.

Although avoided costs cannot be precisely calculated, the Office estimates costs avoided when ongoing fraudulent activities are detected and stopped are approximately $500,000.00 in potential costs for the biennium. The estimate of avoided cost does not include the deterrence value of special investigations activity.

Subrogation

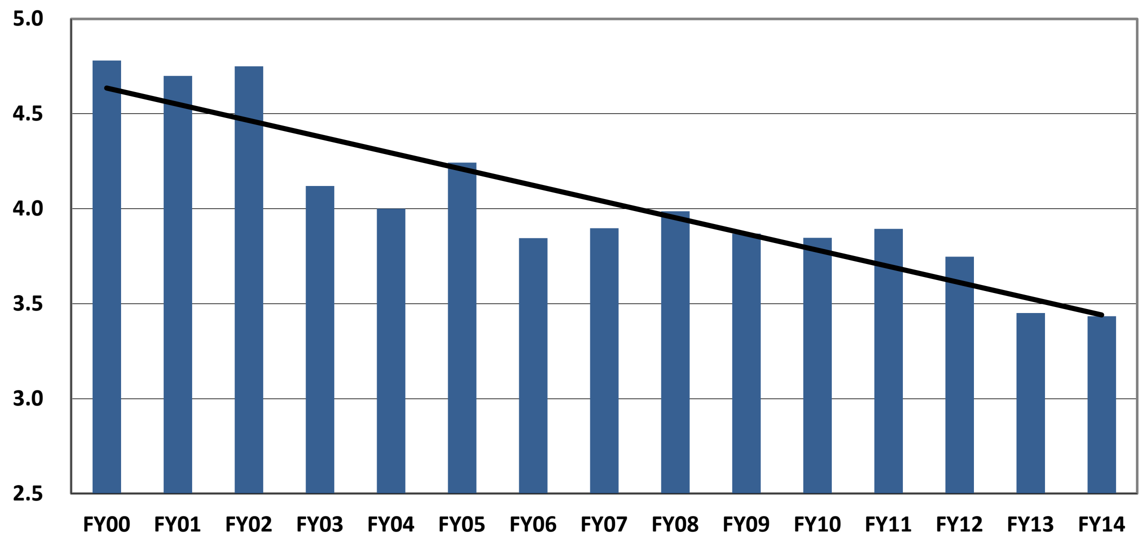
In claims where a state employee's injury is caused by a third party, the Office is entitled to recover expenses for medical and indemnity benefits through subrogation. When processing claims, adjusters question injured workers and claims coordinators to determine whether any third party is involved.

The Office employs a subrogation specialist who evaluates potential third-party liability, and pursues cases both directly and through referral to the Office of the Attorney General when litigation is necessary. The Office has recovered approximately $1.7 million through subrogation during the biennium.

4. Frequency, severity, and aggregate amount of open and closed claims in the preceding biennium by category of risk, including final judgments.

The total number of injuries per 100 Full-Time Equivalents (FTEs) has experienced a decline over the past decade.

CHART F: SORM Injury Frequency Rates



There has also been a downward trend in the total number of compensable workers' compensation claims for state employees over the past decade. Although the number of claims accepted rose during fiscal years 2008 through 2011, during the past biennium both the number of claims and the IFR decreased.

CHART G: Accepted Claims

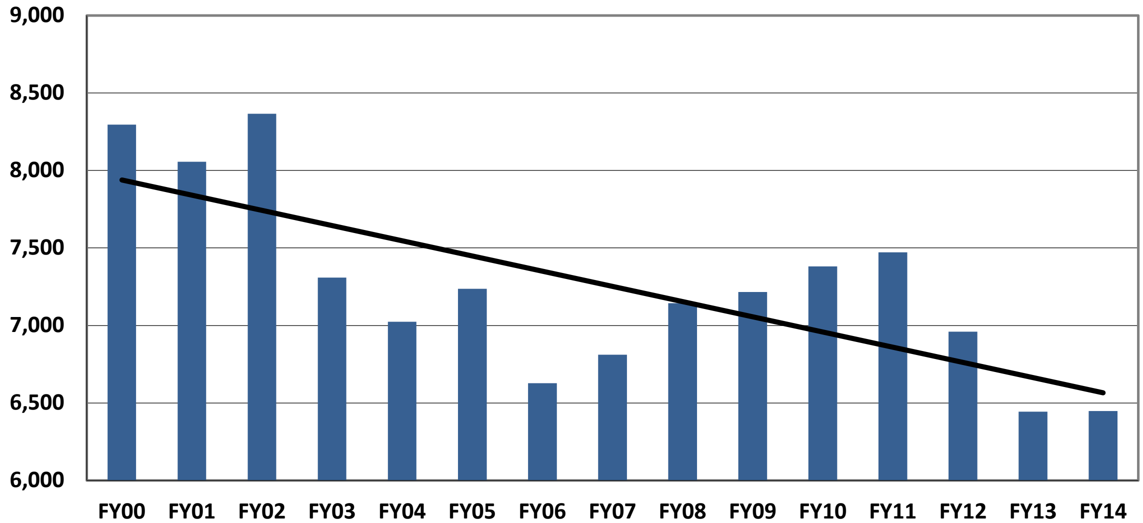
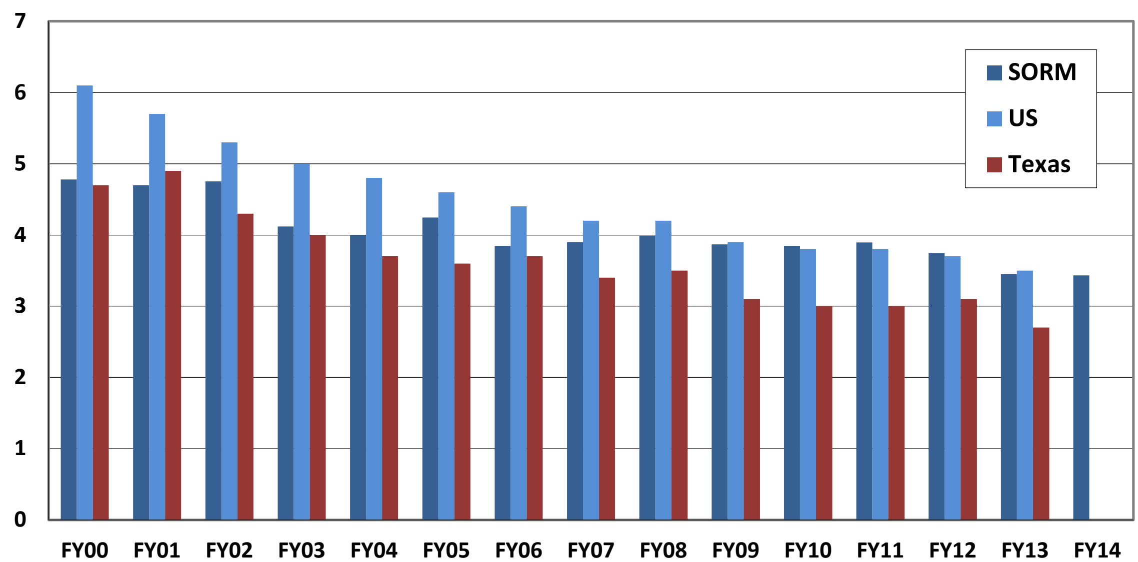


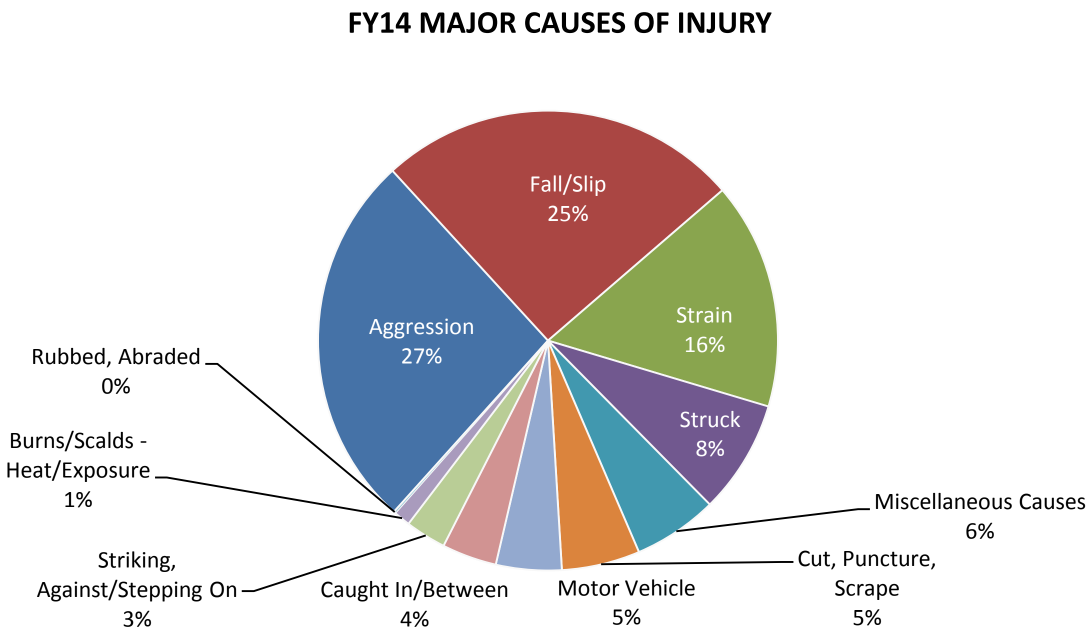
CHART H: SORM, US and Texas Injury Frequency Rates



** FY14 data for Texas and US not available.*

During the past biennium three covered employees died in work related accidents or incidents: one training accident (heart attack), one machinery incident and one vehicle related death. Causes of all injuries for the preceding biennium are presented below

CHART I: FY14 Major Causes of Injury



The leading causes of injury during the biennium remained relatively stable. As expected, agencies involved with criminal justice, juvenile offenders, law enforcement and mental health account for the vast majority of aggression injuries within the State. Notably, while motor vehicle accidents account for only 5% of all claims, it is the leading cause of work-related deaths.

Other losses incurred during the biennium include property and casualty claims, as reported to the Office. Many of the claims made during the biennium remain open and are uninsured. Claims listed may include claims where the State has immunity or has statutory liability caps in place to limit or prevent expenditure of State funds.

CHART J: Client Agency Frequency and Severity Data FY13

Category	Number of Claims	Loss or Paid Amount
Directors' & Officers', Employment Practices and Civil Liability	294	$309,722
Environmental	0	$0
Financial	2	$3,000
Motorized Vehicles and Equipment	832	$142,085
Professional	2	$0
Property	72	$500,000
Third Party and General Liability	78	$6,649
Totals:	**1,280**	**$961,456**

CHART K: Client Agency Frequency and Severity Data FY14

Category	Number of Claims	Loss or Paid Amount
Directors' & Officer's, Employment Practices and Civil Liabilities	120	$8,001
Environmental	0	$0
Financial	0	$0
Motorized Vehicles and Equipment	433	$79,431
Professional	3	$1
Property	52	$600,000
Third Party and General Liability	29	$4,760
Totals:	**637**	**$692,193**

It is important to note that the current claims data provided through the SORM 200 Property and Casualty Claims database is only as good as what the client agency provides to the Office, and universities and courts are now excepted by law from reporting annual insurance claims to the Office. For those universities and courts currently participating in SORM's sponsored lines, the insurance carriers provided their data for claims deductibles paid. An accurate analysis of the true cost of risk would require complete reporting.

Future reports will seek to include the claims activity for all lines of insurance listed in Chart N so that a comparison between the premium and the losses can be compared.

5. Identification of each state agency that has not complied with the risk management guidelines and reporting requirements of Chapter 412.

There are two significant reportable instances of non-compliance respecting the statutory insurance program which represent an ongoing high level of concern. Non-compliance in the insurance program creates significant instability and threatens legislative intent for insurance oversight functions.

The remaining instances of non-compliance respecting continuity of operations described below are not considered immediately significant given the recency, scope, and complexity of the continuity planning initiative. The Office will work cooperatively to assist all entities in completing the continuity planning and development process to ensure statutory compliance prior to the next reporting period.

CHART L: Non-compliant State Agencies

Agency	Issue
Texas State University System	Purchase of property insurance coverage outside of the SORM program without approval, as required by TLC §412.011(c) in both FY13 and FY14. The Office of the Attorney General has affirmed legislative language and intent that "a state agency subject to chapter 501 of the Labor Code must have SORM approval to purchase property, casualty, or liability insurance" on May 21, 2014. TSUS remains in non-compliance.
Texas Woman's University	Purchase of insurance coverage outside of the SORM program without approval, as required by TLC §412.011(c), non-compliant since inception. Failure to report the purchase of and losses related to: Property, Automobile, Commercial General Liability, Professional Liability, and Crime insurance purchases. TLC §412.053, non-compliant since inception. Office of the Attorney General affirmed that "a state agency subject to chapter 501 of the Labor Code must have SORM approval to purchase property, casualty, or liability insurance" on May 21, 2014. TWU remains in non-compliance.
Office of the Attorney General	Has not yet provided electronic copies of continuity plans to keep the agency operational in case of disruptions to production, finance, administration, or other essential operations as required by TLC §412.054, along with a completed Continuity Planning Crosswalk, to the Office by October 31, 2014, as required by the Texas Continuity Policy dated October 24, 2013.
Texas Public Finance Authority	Has not yet provided electronic copies of continuity plans to keep the agency operational in case of disruptions to production, finance, administration, or other essential operations as required by TLC §412.054, along with a completed Continuity Planning Crosswalk, to the Office by October 31, 2014, as required by the Texas Continuity Policy dated October 24, 2013.
Texas Ethics Commission	Has not yet provided electronic copies of continuity plans to keep the agency operational in case of disruptions to production, finance, administration, or other essential operations as required by TLC §412.054, along with a completed Continuity Planning Crosswalk, to the Office by October 31, 2014, as required by the Texas Continuity Policy dated October 24, 2013.
Health Professions Council	Has not yet provided electronic copies of continuity plans to keep the agency operational in case of disruptions to production, finance, administration, or other essential operations as required by TLC §412.054, along with a completed Continuity Planning Crosswalk, to the Office by October 31, 2014, as required by the Texas Continuity Policy dated October 24, 2013.
Texas Veterans Commission	Has not yet provided electronic copies of continuity plans to keep the agency operational in case of disruptions to production, finance, administration, or other essential operations as required by TLC §412.054, along with a completed Continuity Planning Crosswalk, to the Office by October 31, 2014, as required by the Texas Continuity Policy dated October 24, 2013.
Texas Commission on Jail Standards	Has not yet provided electronic copies of continuity plans to keep the agency operational in case of disruptions to production, finance, administration, or other essential operations as required by TLC §412.054, along with a completed Continuity Planning Crosswalk, to the Office by October 31, 2014, as required by the Texas Continuity Policy dated October 24, 2013.
Texas Alcoholic Beverage Commission	Has not yet provided electronic copies of continuity plans to keep the agency operational in case of disruptions to production, finance, administration, or other essential operations as required by TLC §412.054, along with a completed Continuity Planning Crosswalk, to the Office by October 31, 2014, as required by the Texas Continuity Policy dated October 24, 2013.

Texas State Board of Podiatric Medical Examiners	Has not yet provided electronic copies of continuity plans to keep the agency operational in case of disruptions to production, finance, administration, or other essential operations as required by TLC §412.054, along with a completed Continuity Planning Crosswalk, to the Office by October 31, 2014, as required by the Texas Continuity Policy dated October 24, 2013.
Executive Council of Physical and Occupational Therapy Examiners	Has not yet provided electronic copies of continuity plans to keep the agency operational in case of disruptions to production, finance, administration, or other essential operations as required by TLC §412.054, along with a completed Continuity Planning Crosswalk, to the Office by October 31, 2014, as required by the Texas Continuity Policy dated October 24, 2013.
Texas Department of Aging and Disability Services	Has not yet provided electronic copies of continuity plans to keep the agency operational in case of disruptions to production, finance, administration, or other essential operations as required by TLC §412.054, along with a completed Continuity Planning Crosswalk, to the Office by October 31, 2014, as required by the Texas Continuity Policy dated October 24, 2013.
Cancer Prevention and Research Institute of Texas	Has not yet provided electronic copies of continuity plans to keep the agency operational in case of disruptions to production, finance, administration, or other essential operations as required by TLC §412.054, along with a completed Continuity Planning Crosswalk, to the Office by October 31, 2014, as required by the Texas Continuity Policy dated October 24, 2013.
Texas Board of Veterinary Medical Examiners	Has not yet provided electronic copies of continuity plans to keep the agency operational in case of disruptions to production, finance, administration, or other essential operations as required by TLC §412.054, along with a completed Continuity Planning Crosswalk, to the Office by October 31, 2014, as required by the Texas Continuity Policy dated October 24, 2013.
Texas Southern University	Has not yet provided electronic copies of continuity plans to keep the agency operational in case of disruptions to production, finance, administration, or other essential operations as required by TLC §412.054, along with a completed Continuity Planning Crosswalk, to the Office by October 31, 2014, as required by the Texas Continuity Policy dated October 24, 2013.
University of Houston - Victoria	Has not yet provided electronic copies of continuity plans to keep the agency operational in case of disruptions to production, finance, administration, or other essential operations as required by TLC §412.054, along with a completed Continuity Planning Crosswalk, to the Office by October 31, 2014, as required by the Texas Continuity Policy dated October 24, 2013.
University of Houston - Downtown	Has not yet provided electronic copies of continuity plans to keep the agency operational in case of disruptions to production, finance, administration, or other essential operations as required by TLC §412.054, along with a completed Continuity Planning Crosswalk, to the Office by October 31, 2014, as required by the Texas Continuity Policy dated October 24, 2013.
University of Texas System & Component Institutions	Has not yet provided electronic copies of continuity plans to keep the agency operational in case of disruptions to production, finance, administration, or other essential operations as required by TLC §412.054, along with a completed Continuity Planning Crosswalk, to the Office by October 31, 2014, as required by the Texas Continuity Policy dated October 24, 2013.
Texas A&M University System & Component Institutions	Has not yet provided electronic copies of continuity plans to keep the agency operational in case of disruptions to production, finance, administration, or other essential operations as required by TLC §412.054, along with a completed Continuity Planning Crosswalk, to the Office by October 31, 2014, as required by the Texas Continuity Policy dated October 24, 2013.

Texas Tech University System & Component Institutions	Has not yet provided electronic copies of continuity plans to keep the agency operational in case of disruptions to production, finance, administration, or other essential operations as required by TLC §412.054, along with a completed Continuity Planning Crosswalk, to the Office by October 31, 2014, as required by the Texas Continuity Policy dated October 24, 2013.
Texas Department of Transportation	Has not yet provided electronic copies of continuity plans to keep the agency operational in case of disruptions to production, finance, administration, or other essential operations as required by TLC §412.054, along with a completed Continuity Planning Crosswalk, to the Office by October 31, 2014, as required by the Texas Continuity Policy dated October 24, 2013.

6. Recommendations for the coordination and administration of a comprehensive risk management program to serve all state agencies, including recommendations for any necessary statutory change.

Statewide Self-Insurance for Property

It is commonly assumed that the State self-insures its real and personal property. While it would be accurate to say that the State retains the risk of a loss, the absence of a specific insurance policy or funded and reserved program (retention), means that the State's real and personal property is, in actuality, uninsured. The State has no funded reserves for losses to real or personal property, and each agency makes an individual and voluntary decision to either insure their property or retain any potential loss.

When uninsured losses occur, the agency must absorb those losses in current budgets or request additional appropriations. In the event of a declared disaster, reimbursement by FEMA does not become an option until agencies purchase insurance on facilities that sustained damage.

The Office was charged the last two fiscal biennia with studying and making a recommendation to the Legislature 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. As the state lacks a single property schedule that details the location, value, and COPE information of all state property, the Office is unable to recommend a final actionable risk financing strategy. The Office recognizes the need and value for an enterprise retention to absorb attritional losses. Currently, Texas law does not establish or permit carrying an enterprise-level retention; however, this is a key recommendation to the Legislature in future sessions. It is most appropriate for Texas to carry a retention commensurate with the size and scope of enterprise operations and rely upon (re)insurance only for catastrophic events. In the immediate term, it is recommended that the Legislature consider creating a statewide property council to oversee the collection and analysis of all statewide real property for the purpose of determining the appropriate future strategy.

Continuity Planning and Confidentiality

The State of Texas must be prepared to ensure the continuing performance of critical government functions under all conditions, including emergencies that disrupt normal operations. In 2007, the legislature charged the Office to work with each state agency to develop an agency-level business continuity plan. In 2013, the Directors of the Texas Department of Public Safety, including the Division of Emergency Management and Office of Homeland Security; the Department of Information Resources; and the Office issued the Texas

Continuity Policy to provide additional guidance on continuity planning to state agencies, consistent with existing legislation and rules. This uniform policy adopts the FEMA Continuity of Operations Plan (COOP) standards, and sets timelines for plan submission, and training, testing, and exercising of the plan.

There are currently no confidentiality protections for COOP plans in statute, and the Office of the Attorney General cannot issue a ruling until it has received a public record request. Protecting the confidentiality is vital to the security of the State of Texas, since the plans provide what amounts to a blueprint to dismantle the functionality of a single state agency, or the entirety of the state enterprise. It is recommended that the Legislature consider appropriate protection of such information from disclosure pursuant to the Public Information Act.

Risk Management Training and Certification

Risk management expertise and executive support varies significantly from agency to agency. Despite ever-increasing demands on state agencies to identify and manage risk, many agencies are not familiar with principles of risk management. Lack of experience and training can result in a failure to identify and respond to risk, which leads to reactive engagement, increased losses and injuries, and an inability to maintain essential functions in the event of a natural or man-made disaster.

The Office recommends development of a certification program for state agency risk managers, insurance managers, continuity planners, and workers compensation claims coordinators similar to the program establishing minimum certification for state purchasing professionals. Such a program can help ensure that state agency personnel receive training and have proven competency in identification, analysis, mitigation, financing and administration of risk.

The program could potentially generate a noticeable reduction in exposure to significant loss and assist agencies in managing losses should they occur. Requiring certification of risk managers for all agencies with significant risks or losses would benefit agencies and the State.

Statutory Clarification

The Office was created through the merger of two divisions, each split from larger entities, and operates according to provisions from two separate chapters of the Labor Code. The interaction between the two chapters is largely efficient, but some problems have been associated with operating a cohesive program under language inherited from prior statutory chapters.

For example, the definition of “state agency” differs between Chapter 412 and Chapter 501: Chapter 412 defines a state agency as “a board, commission, department, office, or other agency in the executive, judicial, or legislative branch of state government that has five or more employees, was created by the constitution or a statute of this state, and has authority not limited to a specific geographical portion of the state”. Chapter 501 defines a state agency as “a department, board, commission, or institution of this state.”

This discrepancy has led to questions regarding the access and responsibilities of certain entities covered under Chapter 501 with respect to Chapter 412 services. Since the Office’s responsibilities extend only to administering the programs and reporting noncompliance to the Legislature, clarification of the scope of Chapters 412 and 501 may be warranted to avoid future confusion, to specify access and responsibilities of the Office's client agencies, and to clearly delineate the reporting requirements of the Office respecting non-complying agencies.

State Risk Manager
Since its inception in September 1997, the statutory mission of the Office has been expanded significantly by the Legislature to include full service risk and insurance management functions and enterprise continuity of operations. In the 17 years of operations, the Board has hired four executive directors, with staff serving in an interim capacity as required. The SAO's Classification Study of Exempt Positions indicates that the maximum salary currently authorized for this position is not competitive in the market average, raising concern for both the short- and long-term retention of a qualified Risk Manager for the State of Texas.

7. Implementation of Section 412.054, relating to the development of Business Continuity Plans (BCP) by state agencies pursuant to provisions of SB 908 (80th R.S.).

Approximately 85% of agencies submitted their COOP plans by the October 31, 2014 deadline. While the Office is in the initial phases of the plan evaluations, many agencies will need additional assistance in developing plans that meet minimally-compliant and long-term standards. The Office is working with the Office of Homeland Security and other partners to develop additional courses and resources to further assist state agencies in the development of their COOP programs, as well as focusing on ensuring statutory compliance.

8. Implementation of Section 412.01215, relating to the development of Return to Work Coordination Services and Case Management pursuant to provisions of SB 908 (80th R.S.).

The Office has Return to Work Guidelines published in Volume III, Section One, Chapter 5, of the *Risk Management Guidelines for Texas State Agencies*, and is focusing its existing Disability Management Team on disability management and Enhanced Return to Work outcomes through use of the Official Disability Guidelines and Medical Disability Advisor (treatment and return to work guidelines adopted by the Division of Workers' Compensation), medical profiling of claims information, and treatment planning. Appropriation for hiring the necessary case management expertise was authorized by the 81st Legislature.

The Office is currently evaluating appropriate administrative rule revisions in an effort to provide greater incentives for agencies to return employees to work as soon as they are medically able, even if in a limited capacity.

9. Director's §412.042 report.

The administrative operations for the Office, as well as claims costs, are funded exclusively through interagency contracts. Any collected funding not required for administrative operations or claim expenditures remains in the pool and is used to lower the cash assessment to pool members the following fiscal year.

The Office is administratively attached to the Office of the Attorney General, which provides significant administrative support and functions. The following data addresses the appropriations for administrative operations of the Office.

CHART M: Texas Labor Code §412.042(a)(1) Summary of Administrative Expense

Category	FY 14 Actual	FY 15 Budgeted	Biennium Total	Percent of Total
Salaries	5,492,214	6,299,586	11,791,80	55.01%
Other Personnel	370,281	370,000	740,281	3.45%
Contracted Services	1,620,823	2,301,797	3,922,620	18.30%
Consumable	25,490	25,963	51,453	0.24%
Utilities	2,063	3,218	5,281	0.02%
Travel	161,451	160,000	321,451	1.50%
Rent – Building	720	720	1,440	0.01%
Rent – Other	23,934	26,054	49,988	0.23%
Other Operating	2,090,243	1,972,540	4,062,783	18.95%
Capital	13,916	476,084	490,000	2.29%
Total	**$9,801,135**	**$11,635,962**	**$21,437,097**	**100.00%**

Texas Labor Code §412.042(a)(2)(A) Amount of the money appropriated by the preceding legislature that remains unexpended on the date of the report

Of the $11.6 million appropriated for FY 15 administrative purposes, cash basis payments as of December 18, 2014 total $3,036,454 and an additional $1,727,157 has been encumbered due to contractual or other obligations.

The Office's Board of Directors exercised $39 million in preliminary collection authority for workers' compensation claim payments, based on recent costs. Approximately $2.8 million was carried forward from FY14 assessments with the remaining amount collected by new assessments to client agencies.

As required by Article IX, Section 15.02, collection of 25% of the total assessments has been deferred until mid-third quarter of the fiscal year and will be adjusted as necessary. As of December 19, 2014, the cash balance remaining was $19,961,459.

Texas Labor Code §412.042(a)(2)(B) Estimated amount of balance necessary to administer Chapter 501 for the remainder of that fiscal year

The Office estimates that the full unexpended, unencumbered balance of $6.87 million for the administrative appropriation will be necessary for operations for the remainder of the fiscal year.

The Office estimates that roughly $26.6 million will be necessary for workers' compensation claim payments for the remainder of the fiscal year. The remainder of the final adjusted collected balance will be applied toward the necessary amount for FY 16 or will be returned to agencies as directed by Article IX, Section 15.02.

Texas Labor Code §412.042(a)(3) Estimate, based on experience factors, of the amount of money that will be required to administer Chapter 501 and pay for the compensation and services provided under Chapter 501 during the next succeeding biennium

The Office estimates that $11,240,613 each year for FY15 and FY16, a biennial total of $22,481,226, will be required to administer the workers' compensation program and provide risk management and insurance services for the succeeding biennium. The Office is requesting no General Revenue.

The single exceptional item the Office is requesting is an increase in the maximum authorized salary for the Executive Director, to $145,600. This request does not include any additional funding.

The Office requested estimated authority of $39.9 million each year of the next biennium for workers' compensation payments, funded by assessments. The Board of Directors determines the actual amounts to be collected each year based on the most current information available. Authority will be exercised only as necessary to pay statutorily mandated workers' compensation claim costs.

There are several factors which could result in potential increased costs. Decreases in administrative oversight and claims scrutiny due to resource reductions, and the inability to retain trained, experienced staff will likely have the effect of increasing overall costs. Increases to indemnity rates by DWC rule or medical costs due to market forces will increase costs moderately in the short term, with a larger effect in subsequent years.

10. Insurance coverage purchased for state agencies, premium dollars spent to obtain that coverage, and losses incurred under that coverage.

Addressing some, but not all, of the claims and losses experienced during the past biennium, state agencies acquired insurance coverage for a multitude of exposures. Following is a summary of reported or discovered policies acquired by fiscal year and line of coverage.

CHART N: Client Agency Insurance Purchases for FY13 & FY14[1,2]

Line of Insurance	FY13 Total Premiums Paid	FY14 Total Premiums Paid
Directors' & Officer's, Employment Practices and Civil Liabilities	$1,215,709.00	$1,215,709.00
Contractual Bonus Insurance – NCAA Athletic	$75,570	$75,570
Fiduciary	$410,819	$410,976
Automobile	$672,148	$124,224
Commercial Crime	$63,278	$40,902
Inland Marine	$134,747	$251,797
Commercial Package Policy	$24,498	$16,850
Professional Liability	$186,216	$536,856
Property	$7,890,929.82	$7,463,571.77
Third Party and General Liability	$195,926	$303,506.62

[1] Leading causes of Motorized Vehicle and Equipment loss are failure to control speed and failure to yield right of way. Leading cause of Property losses are weather related.

[2] Due to legislative changes in reporting requirements, not all covered agencies report their losses.

Excess Accident and Medical	$361,216	$389,186.95
Workers Compensation – Outside Texas	$28,009	$10,889
Business Owners Policy	$0	$18388
Flood	$1,186	$4,142
Foreign Travel	$9,769	$15,189.20
Postal Bond	$312	$0
Protection & Indemnity & Hull – Boat Insurance	$28,020	$28,449
Umbrella	$1,000	$0
Volunteer	$44,582.35	$46,325.96
Outdoor Advertisers Bond	$0	$100
Privacy and Network Security - Cyber	$0	$64,945.58
Ocean Marine - Cargo	$0	$3,187
Aircraft Third Party Use-New Zealand	$0	$821
Short Term Disability	$0	$60
Agriculture Crop CAT	$0	$250
Total premiums reported to SORM	**$13,629,665.00**	**$17,136,383.00**

The SORM 201 approval process involves the review and either approval or denial of insurance purchases made by all State agencies and institutions of higher education except; UT, TXDOT, A&M and TX Tech. Premiums to be paid at the time of binding insurance coverage are collected and were used to populate table N above. Since the sponsored lines (Property, Automobile, Directors' and Officers' and Volunteer) do not require a SORM 201 to be completed the renewal premiums for those participating agencies were combined and are provided for FY13 and FY14 in table N.