Executive Summary

State Office of Risk Management

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The Legislature created the State Office of Risk Management (SORM) in 1997 to protect the state's employees as well as its physical and financial assets by reducing and controlling risk. As the risk manager and insurance provider for the state, SORM has the important task of helping state entities plan for and manage situations they hope never arise, including injuries or illnesses to state employees. SORM administers the state's workers' compensation insurance program; provides other lines of insurance, such as automobile and property insurance; and assists with the development of state entities' risk management programs and continuity of operations plans. The 265 state entities participating in SORM's programs pay assessments to fund the agency, with each entity's amount based on factors such as the entity's size, injury frequency rate, and past claims costs.

SORM generally performs well, but needs to take a more proactive approach to address several operational problems.

Serving such a large and diverse group of state entities is a difficult job that SORM has generally performed well. However, SORM needs to take a more proactive approach to address several operational problems, some of them long-standing, to maximize its limited resources to better serve and reduce costs. For example, SORM needs to fully implement needed improvements to its contracting processes to ensure the state gets what it pays for. Auditors recently identified contracting problems SORM is working to address, but Sunset staff found additional areas where SORM's contracting processes do not fully align with best practices. The agency's largest contracts, for workers' compensation cost containment services, lack performance measures specifying the work vendors must provide, and SORM's monitoring and enforcement efforts are minimal, making it difficult for the agency to ensure contractors perform adequately. SORM also misses out on opportunities to better coordinate with the office of the attorney general (OAG), with which SORM is administratively attached, to receive additional contracting support and expertise. SORM plans to re-procure these cost containment contracts in fiscal year 2019, a pivotal opportunity for the agency to get its contracting practices in order and demonstrate meaningful improvement. Additionally, SORM's risk management services are not targeted to agencies with the highest risk. Proactively using available data to determine the risk levels of the entities SORM supports would allow the agency to prioritize its limited resources on the highest risk entities and maximize its efforts.

SORM also needs to better tailor its services to best meet its customers' needs. The agency does not regularly assess customer needs to determine key areas where its support is most needed. For example, during the Sunset review, SORM customers reported a need for more training and useful resources on workers' compensation claims and risk management. However, SORM has not updated its state risk management guidelines since 2005, and these guidelines are lengthy and difficult to use. State entities also report SORM's continuity planning template and resources are complex and confusing, focusing more on federal recommendations than state entities' continuity planning needs. SORM also lacks objective, easy-to-use tools to help state entities determine whether they should purchase additional insurance, such as automobile or property insurance. Finally, Sunset staff found SORM does not provide sufficient return-to-work resources to help entities get injured employees back on the job quickly, which would save the state money and benefit the injured worker and their employer. The following material summarizes Sunset staff's recommendations on the State Office of Risk Management.

Issues and Recommendations

Issue 1

SORM's Contracting Processes Do Not Fully Align With Best Practices.

SORM spends more than $4.5 million in contracts each fiscal year, but the agency's contracting processes do not fully align with best practices. Sunset staff found the agency lacks sufficient contract management policies, procedures, and training; poorly defines contract terms; lacks a fully implemented contract monitoring process; and has weak enforcement tools. While SORM is currently implementing recommendations to improve deficiencies in its contracting processes identified in a recent State Auditor's Office report, it needs to fully address these concerns before re-procuring its largest medical cost containment contracts in fiscal year 2019. Additionally, the agency receives some contracting support from the OAG, but misses opportunities to maximize the potential benefits of the office's contracting expertise.

Key Recommendations

- Direct SORM to develop detailed contract management policies and procedures.
- Direct SORM to include detailed, actionable performance measures in contracts, and to monitor contracts more regularly and more closely to ensure proper performance.
- Direct SORM to maximize opportunities to use OAG's contract procurement and management expertise.

Issue 2

SORM Does Not Effectively Manage Cost Containment Efforts to Maximize Workers' Compensation Savings to the State.

As part of SORM's administration of workers' compensation for state entities, the agency uses several cost containment strategies designed to reduce overall costs. While these efforts have reduced some costs, SORM could better manage these programs to maximize savings. For example, the agency's medical bill auditor provides inconsistent and inaccurate services that require the agency to use additional resources

to perform duplicate bill reviews. The agency reports annually on its cost containment efforts, but does not include data needed to measure the agency's actual performance. Finally, SORM has not provided needed information and training to customers on developing successful return-to-work programs.

Key Recommendations

- Direct SORM to evaluate and adjust its workers' compensation healthcare network contract to obtain best value for the state, including providing adequate coverage for injured state employees.
- Direct SORM to evaluate the agency's medical bill quality assurance strategy and make any needed improvements to maximize cost savings.
- Direct SORM to provide additional information and resources regarding return-to-work programs, including collecting and reporting lost-time outcomes and return-to-work information as currently required by statute.

Issue 3

SORM Could More Effectively Help State Entities Plan for and Mitigate Risks.

SORM's mission is to provide leadership for state entities on risk management, but the agency does not provide the tools state entities need most to effectively mitigate their risk. SORM's risk management guidelines are outdated and difficult to use as is its continuity of operations planning template. SORM also does not regularly seek out or use customer input to tailor its risk management services and resources to meet customer needs and does not target its services to the state entities with the highest risk.

Key Recommendations

- Require SORM to regularly review and update risk management guidelines for state entities.
- Direct SORM to use existing data to determine state entity risk levels and needs, and to prioritize resources and requirements by risk.
- Direct SORM to regularly solicit and use customer input to better tailor risk management services and resources.

Issue 4

Texas Has a Continuing Need for the State Office of Risk Management.

Texas benefits from self-insuring for workers' compensation, and consolidating and coordinating risk management efforts among state entities. SORM generally carries out its key functions effectively, though the agency is sometimes slow to address identified problems. Sunset staff concluded that SORM serves an important role in state government and little benefit would result from organizational change.

Key Recommendations

- Continue the State Office of Risk Management for 12 years.
- Direct SORM to strengthen oversight by updating its board regularly on identified problems and improvements.

Fiscal Implication Summary

Overall, the recommendations in this report would not have a fiscal impact to the state and can be achieved with existing agency resources. Several of the recommendations are designed to improve internal operations and efficiency at the agency in ways that would have minimal impact on resources. Strengthening and improving SORM's cost containment efforts, as recommended in Issue 2, could result in some savings to SORM and the state, but the potential savings cannot be estimated until the agency implements these new strategies.