RISK★TEX

INTERAGENCY COMMUNICATION FROM THE STATE OFFICE of RISK MANAGEMENT ★ APRIL 2008

SORM
STATE OFFICE of RISK MANAGEMENT

WHAT'S NEW ONLINE

Below is a list of new items on the SORM website at www.sorm.state.tx.us.

- The FY '07 Lost, Damaged, or Destroyed Personal Property data is intended for use by SORM client agencies for internal benchmarking of their individual property control systems. The data is based on information provided by the Comptroller of Public Accounts as reported by state agencies.
- SORM is aware some state agencies own or occupy trailers that were acquired from the Federal Emergency Management Agency (FEMA). High levels of formaldehyde or other contaminants in these trailers may present hazards to occupants. State agencies should review their property inventories to determine if they own or occupy potentially affected trailers.

Cost of risk management

By Andres Campo

Risk exists in every facet of state operations. Risk managers are concerned with reducing the frequency and severity of monetary losses to their individual state agencies and, by extension, to state government as a whole. It is imperative that they control risk in a cost-effective manner. It's known that money spent proactively on loss prevention and loss reduction will lead to a decrease in the amount of money the state loses. The challenge, however, is to determine whether there are any precise and measurable relationships between risk cost and loss.

SORM has been tracking risk management costs and monetary losses on an expanded basis for the State of Texas since FY '03. Thus far, there is not enough years of data to make this a definitive study; however, this study will establish a baseline by which we can move forward and develop more precise measures for state data.

Program Administration Cost and Monetary Loss Data

Cost of risk is the total of all quantified *program administration costs* and *monetary losses* associated

(See "Analysing," page 8)

Assessments rising

By Stuart B. Cargile

After years of decreasing claim costs and despite a continued reduction in active claims in the system, medical costs in the state's self-insured workers' compensation system are on the rise. The increase in costs follows four years of consecutive decreases in annual claim costs that reduced the size of agency assessments and resulted in three mid-year funding returns.

The increase in costs, which first appeared in the final months of FY '07, has now exceeded the FY '08 assessment. The base for the FY '08 claim payment portion of the annual assessment presented to agencies last year was $44 million. As required, SORM reduced this amount by the anticipated unspent assessment from the previous year, estimated to be $2.4 million at the time of the initial invoice distribution. However, due to rising medical costs, the actual FY '08 carry forward amount was less than $1.2 mil-

(See "Medical," page 7)

Claims Corner

Early, safe return to work

By Martin Hockett

The prevention of occupational injuries and illnesses is the responsibility of everyone at the work place. However, when injuries or illnesses happen, it is important for the injured employee and the employer to work together to try and minimize the impact. The most important and successful tool in minimizing the impact of an injury or illness is focusing on returning the injured employee to a safe and productive employment as soon as it is medically safe and possible to do so.

The majority of injured employees are able to return to work in some capacity even while they are recovering from and seeking treatment for their injuries, provided that the position they return to is medically suited to the injury or illness.

An early return to daily work can greatly assist in the recovery of an injured employee and reduce the chances of long-term disability. Research clearly shows that the longer an injured employee is off work, the less likely they are to return to work.

Both the employer and the injured employee reap benefits from an early return to work. The employer benefits by incurring less medical and indemnity benefit costs, maintaining a stable workforce, and minimizing the chance of re-injury. The injured employee's benefits include an enhanced physical and psychological recovery process, enhancement of sense of confidence and well being, and continuation of source of income

The responsibility of returning an injured employee to the work force is primarily between the employee and the employer. The other parties also include SORM and the medical provider. SORM is responsible for managing the claim and providing assistance to the employee and employer. The medical provider is responsible for providing timely documentation regarding the injured employee's functional capacities and limitations. When there are shared responsibilities, communication and cooperation toward a common goal is essential. Together all parties working toward a shared goal of an early and safe return to work has the ability to reduce the economic and human impact of a work-related injury or illness.

Martin Hockett is a supervisor in the Claims Operations division.

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Flammable liquid safety

By Joe Deering

Whether you work in an office, a shop, a kitchen, an industrial environment, or work predominately outdoors, you are working near chemical substances. In an office environment you may only be exposed to cleaning materials or paints; industrial facilities might contain a variety of extremely dangerous materials that can be life-threatening if mishandled. A great many of these chemicals pose a variety of dangers. One of the dangers is they are likely to cause a fire by being easily ignited and, when ignited, can burn vigorously.

These are referred to as flammable liquids and can be used in many different ways. They present unique hazards to the people who use them. Flammable liquids can cause a fire or explosion and, like many other substances, can also cause serious health effects from overexposure.

Flammable liquids are liquids with a flash point of less than 100 degrees Fahrenheit. The flash point is the lowest temperature at which a liquid gives off enough vapor to form a flammable mixture with air. On the National Fire Protection Agency diamond label, a fire hazard rating of three or four denotes a flammable liquid. Other labels used to identify flammable liquids are red with appropriate wording and usually contain a fire symbol.

The vapors of a flammable liquid often present the most serious hazard. The vapors can easily ignite or explode. Flammable liquid vapors are heavier than air and may settle in low spots or move a significant distance from the liquid itself.

The explosive concentration of vapors in the air has a lower and upper limit. The lower explosive limit, or LEL, is the lowest concentration that will ignite. The upper explosive limit, or UEL, is the highest concentration that will ignite. If the vapor concentration is between the LEL and UEL, there is serious risk of fire or explosion.

To minimize the risk of ignition of the flammable liquid or vapors, follow the precautions listed below

- Always check the material safety data sheet (MSDS) for the material you're using to understand the specific hazards involved.
- Store flammable liquids in cool, well-ventilated areas away from corrosives, oxidizers, and ignition sources.
- Label all containers and cabinets with appropriate "flammable materials" signs.
- Never smoke in an area where flammable liquids are used or stored.
- Minimize the amount of flammable liquids used.
- Use only approved safety cans to store flammable liquids.
- Ground and bond flammable liquid containers to prevent static charge buildup.
- Never pour flammable liquids down a drain or sink.
- Dispose of empty flammable containers in an approved manner.
- Wear appropriate personal protective equipment (PPE) such as splash aprons and goggles, when handling flammable liquids.

Flammable liquids also present health hazards from overexposure. The MSDS for the material you're using will list the allowable exposures. Overexposures to flammable liquids can cause a variety of effects.

Inhalation of flammable liquids can cause irritation to the respiratory passages, nausea, headaches, muscle weakness, drowsiness, loss of coordination, disorientation, confusion, unconsciousness, and death.

Skin contact with flammable liquids can cause the skin's oils to be removed, resulting in irritated, cracked, dry skin, rashes, and dermatitis.

Eye contact with flammable liquids can cause burning, irritation, and eye damage.

Ingestion of flammable liquids can irritate the digestive tract, cause poisoning, and death.

Appropriate PPE can help prevent exposure to flammable liquids. Use PPE faithfully to protect your good health.

Flammable liquids are used widely in many workplace and home situations. Careless mistakes and safety shortcuts lead to serious problems when it comes to flammable liquids. Their hazards can be deadly. Flammable liquids deserve a healthy respect for their dangers. When you use them, be on guard against the hazards. You can prevent problems from occurring by using your good sense and following the MSDS precautions.

Everyone should be aware of the possible chemical hazards that exist in their work areas and always follow instructions for handling chemicals safely. Take responsibility for your health and safety and that of your co-workers.

Joe Deering is a risk management specialist in the Risk Assessment and Loss Prevention division.

Article II agencies profile

By Mike Hay

The analysis of state agency risks by article of government continues in this issue with the Article II – Health and Human Services agencies. As you will recall from previous issues, article of government is what the Legislature uses as a means of grouping state agencies together for performance and funding purposes. Each grouping is generally based on the type of service provided to the public. Article II agencies provide health and human services to the public. These services vary widely, ranging from monitoring health and infectious diseases, providing outpatient and residential care for mentally challenged citizens, to administering foster care for children.

Although there are only five agencies in Article II, they employ approximately 30 percent [more than 47,000 full-time equivalents (FTEs)] of the state workforce covered by SORM's workers' compensation and risk management programs. Chart A displays the agencies and their authorized FTEs for FY '07. It should also be noted that the last legislature authorized more than a 10 percent increase in FTEs for the current biennium.

In 2004, Article II agencies underwent significant reorganization as result of passage of HB 2292, 78th legislative session. As part of this reorganization, several agencies were either abolished or consolidated into larger ones. The sources of funding for these agencies continued to rely heavily on state and federal dollars. The federal and grant funds often require additional program performance and reporting requirements.

Chart A

Agency Number and Name	FY '07 FTEs
A529 - Health and Human Services Commission	9,333
A530 - Department of Family and Protective Services	9,174
A537 - Department of State Health Services	11,638
A538 - Department of Assistive and Rehabilitative Services	3,094
A539 - Department of Aging and Disability Services	14,128

Chart B

3-Year Average Claims Costs By Article

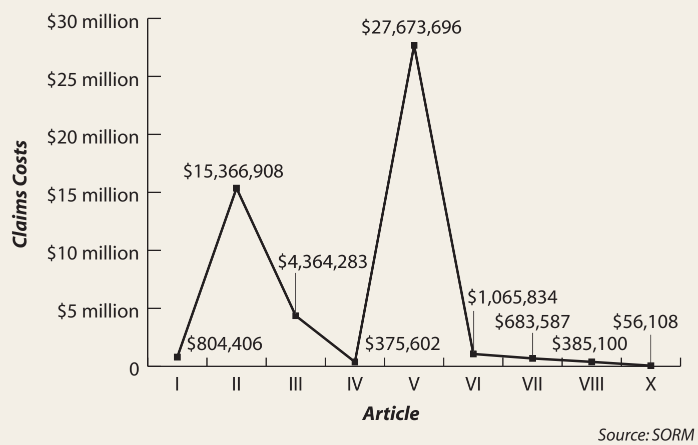
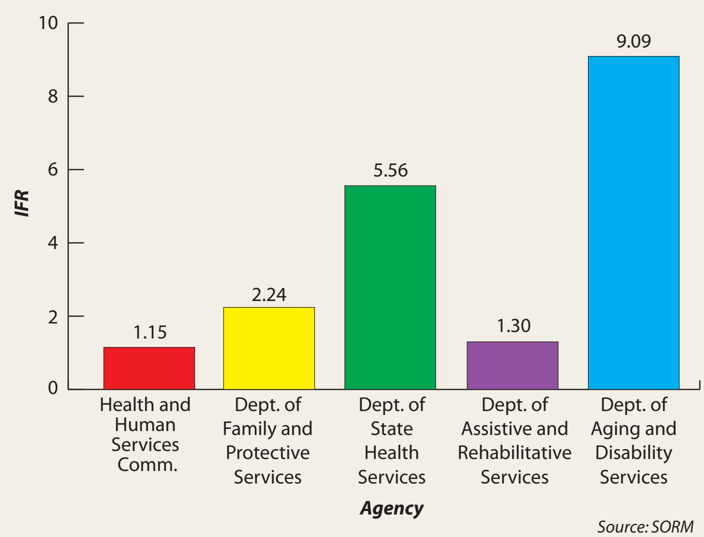


Chart C

3-Year Average Injury Frequency Rate



Due to the mission of these agencies, employees may be required to deal with hostile clients, provide direct health care-related services, travel regularly, or come into contact with various chemicals. As a result of these job requirements, employees in Article II experienced the second highest amount of paid claims over a three-year period as indicated in Chart B. During that time Article

(See "Review," page 5)

Review of Article II agencies

(Continued from page 4)

II agencies averaged 2,308 workers' compensation claims per year and an average payout value of $3,420 per claim. The statistical information indicates that although Article II agencies tend to have more injuries that most of the other articles of government, the costs of those injuries are usually less than the average cost for all other articles.

The number of injuries per 100 FTEs [injury frequency rate (IFR)] varies from agency to agency within Article II. Chart C below indicates that the Department of Aging and Disability Services has the highest IFR, followed by the Department of Health Services.

Chart D displays that Aggression, Falls and Slip,s and Strains account for more than 80 percent of all injuries sustained by employees in the health and human services category. These loss patterns correlate with the agencies performing their critical functions.

The three-year total loss pattern for the agencies is displayed in Chart E.

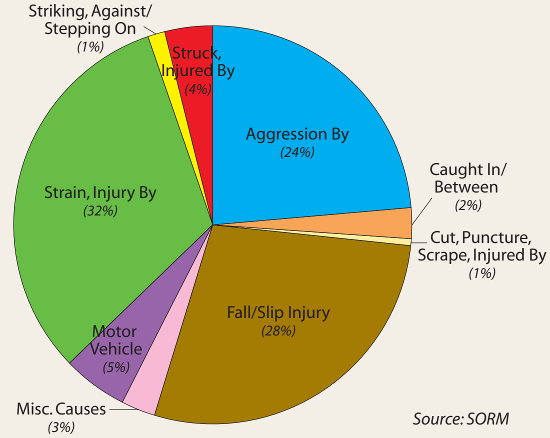
Other than workers' compensation payments, Lost, Damaged and Destroyed (LDD) personal property generally accounted for the largest losses during the three years. LDD is followed in order by Employment Practices Liability and automobile-related claims. The non-workers' compensation loss patterns also correlate with the types of jobs performed by the agencies within this article.

The agencies within Article II perform invaluable services to the citizens of the State of Texas. Their dedication to their mission is both acknowledged and appreciated by SORM. The next issue of Risk-Tex will look at Article V – Public Safety and Criminal Justice agencies. Questions or comments should be addressed to Mike Hay at mike.hay @sorm.state.tx.us or at (512) 936-1571.

Mike Hay is director of the Information Resources and the Risk Assessment and Loss Prevention divisions.

Chart D

3-Year Average Cause of Injury



Source: SORM

Chart E – 3-Year Total Loss Patterns

Category	FY '05 Loss/FTE	FY '06 Loss/FTE	FY '07 Loss/FTE
Workers' Compensation Payments	$115.15	$178.87	$185.78
Lost, Damaged, Destroyed Property	$14.51	$14.54	$82.26
Aircraft or Boat Physical Damage Claims	$0.00	$0.00	$0.00
Automobile Physical Damage Claims	$0.22	$0.08	$0.06
Accident Insurance Claims	$0.00	$0.00	$0.00
Automobile Liability Claims	$0.03	$0.70	$0.03
Aircraft Liability Claims	$0.00	$0.00	$0.00
Watercraft Liability Claims	$0.00	$0.00	$0.00
Boiler and Machinery Claims	$0.00	$0.00	$0.00
Crime Insurance Claims	$0.00	$0.00	$0.00
Directors' and Officers' Claims	$0.00	$0.00	$0.00
Electronic Data Claims	$0.00	$0.00	$0.00
Environmental Impairment Liability Claims	$0.00	$0.00	$0.00
Employment Practices Liability Claims	$0.06	$1.97	$0.00
Flood Insurance Claims	$0.00	$0.00	$0.00
General Liability Claims	$0.00	$0.00	$0.00
Inland Marine Claims	$0.00	$0.00	$0.00
Property Insurance Claims	$0.19	$0.00	$0.00
Professional Liability Claims	$0.00	$0.00	$0.00
Surety Bonds Claims	$0.00	$0.00	$0.00
Excess Automobile Liability Claims	$0.00	$0.00	$0.00
Excess Liability Claims	$0.00	$0.00	$0.00
Total Losses	$130.16	$196.16	$268.13

Infrared equipment testing

By Michelle Tooley
and Sandy Sanor

In 2006 the National Fire Protection Association recommended the implementation of electrical equipment testing and maintenance in an effort to decrease the number and severity of equipment failures and shut downs in commercial buildings. This code covers various test methods and practices, one of which is infrared thermographic testing (ITT). The use of ITT has increased in the past 10 years, and with that growth there have been various misunderstandings as to the strengths and weaknesses of IRT, as there is with any test method.

The testing of electrical and mechanical equipment is conducted using a device "camera" that detects the infrared energy given off by the area being scanned. The camera converts the various energy levels into an image and temperature readings that allow an experienced thermographer to evaluate the conditions to determine if anomalies exist that could be possible problems. These problems can range from faulty electrical connections, and overheating of motors and transformers in electrical equipment to overheated bearings and shaft misalignment of mechanical equipment. While the infrared cameras of today are relatively easy to use, only a highly trained and experienced person should be scanning and evaluating infrared images.

Infrared inspections should be performed by qualified and trained personnel or in-house teams, but it is recommended that all inspectors have an understanding of infrared technology, electrical equipment maintenance, and the safety issues involved. This form of electrical testing does not replace visual inspections, but adds to them.

Electrical and mechanical equipment must be in operation when the ITT is conducted. This is an advantage to the site having the ITT, as there is very little disruption to the site's operations, unlike other forms of testing. However, for electrical panels, these must be opened and covers removed to the point that allows a clear line of sight between the camera and any electrical connections. Safety of personnel is a concern and there are various standards that address this issue.

Inspection frequencies will vary but only after there has been an initial ITT survey conducted to evaluate the condition of the equipment. Some sites may need to be revisited after repairs are made to findings, while other sites may not be visited for a year or longer.

An agency may decide to conduct an additional infrared inspection if a new piece of electrical equipment has been installed, if there have been some changes to the environment where the equipment is located or the operation or load condition of the machinery has been altered.

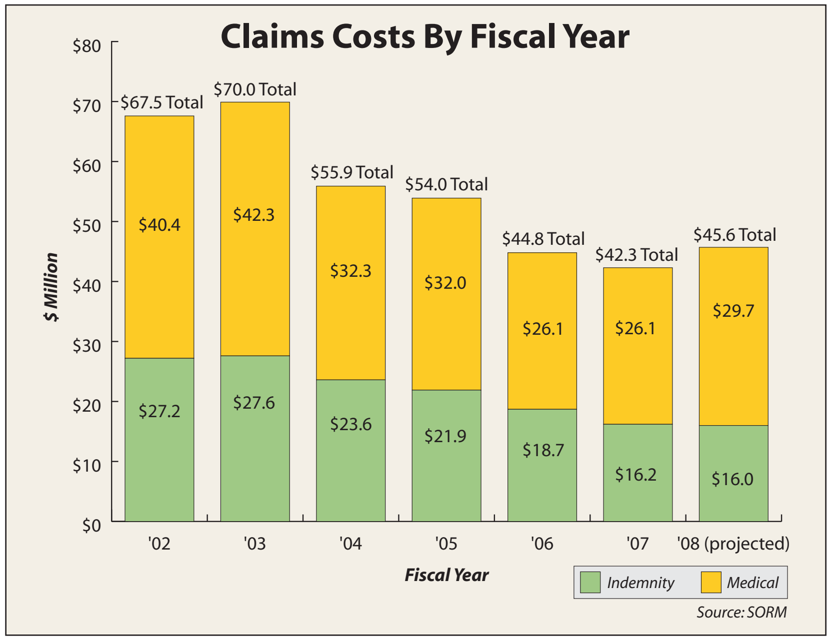
SORM works with Hartford Steam Boiler Inspection and Insurance Co. through Wachovia, which SORM contracts with for the Statewide Property Insurance program. All inspections conducted by Hartford Steam Boiler include the recommendation of thermographic evaluations. For more information, visit Hartford's website at www.hsb.com/infrared or contact Sandy Sanor at Sandy_Sanor@hsb.com or at (703) 739-0350.

Michelle Tooley is a risk management specialist in the Risk Assessment and Loss Prevention division. Sandy Sanor is director of HSB Thermography Services, a business unit of Hartford Steam Boiler Inspection and Insurance Co. He has been with HSB since 1974 in various capacities involved in risk management, accident investigations, engineering services, and infrared thermography.

Fall in love with the Safety Puzzle

SORM's Safety Puzzle provides important safety information, including a section on slips, trips, and falls. Go to **www.sorm.state.tx.us**, navigate to the "Outreach & Training" webpage, and click on the "Safety Puzzle" link.

Medical costs driving increase



(Continued from page 1)

lion, resulting in a $1.2 million shortfall to cover the estimated $44 million in claim expenditures.

In addition, based on current projections, FY '08 claim expenditures will be approximately $45 million, a $1 million increase. The net result is a funding shortfall for FY '08 of $2.2 million as SORM prepares to send out the second invoice for the FY '08 assessment.

This matter was taken in March to SORM's Board of Directors for formal determination. SORM had two options for covering this shortfall. The Office has the ability to borrow up to 20 percent of the annual base, up to $8.8 million this year, to cover the funding shortage. However, that borrowed amount must be added to the next year's assessment and immediately repaid. In light of the evidence indicating that claims costs will continue to rise in FY '09, this would result in a "double hit" to agencies in their 2009 assessment.

In the alternative, SORM could collect an additional $2.2 million in the secondary invoicing for this fiscal year. That represents a 4.7 percent increase over the initial FY '08 calculation but would result in an increase for FY '09 of less than $3.4 million (assuming annual costs stabilize at $45 million) compared to an additional $5.5 million without the mid-year adjustment.

The issue for the Board was primarily one of timing – whether client agencies could better bear the entire burden all within the second year or whether it was wiser to spread the cost more evenly between two fiscal years. The Board of Directors determined to adjust the total to $45 million and collect the projected FY '08 shortfall in the secondary assessment to avoid steeper increases in FY '09. Invoices reflecting this action were to be distributed during the last week of April, and the workbook for the adjusted FY '08 assessments is posted on the SORM website (http://www.sorm.state.tx.us/Legislative/assessments.php).

While projected claim expenditures are up, they remain $25 million per year less than just five years ago. Some fluctuation is to be expected in a system as large as the state's self insured workers' compensation system, and SORM understands that increased costs can have adverse impacts on client agencies, particularly if cost increases cannot be controlled. While SORM does not expect costs to approach the level of five years ago (see chart), it is possible that a new level of equilibrium has not yet been reached and continued vigilance will be required. The Office continues to scrutinize the increase in medical costs to better understand the external cost drivers in the system and is exploring ways to address those cost drivers.

Stuart B. Cargile is the director of Fund Accounting.

View it online

The *Risk-Tex* newsletter is a quarterly publication of the State Office of Risk Management. View it online at *www.sorm.state.tx.us.*

Analysing the state's cost of risk

(Continued from page 1)

with the risk management function of the State of Texas. For the purposes of this study, program administration cost refers to all money spent on a statewide basis for risk management activities. (Chart A itemizes the program administration costs and the variances in these costs from FY '06 to FY '07.)

Monetary loss is expressed in workers' compensation dollars paid per fiscal year (Chart B). In FY '07, the state paid a little more than $41 million for workers' compensation claims. This figure is the sum of all workers' compensation payments made to claimants in FY '07, including those injured in preceding fiscal years.

Charts C and D illustrate costs and expenses per full-time equivalent (FTE). Indexing expenses by FTE provides a common basis for agencies to compare their individual costs to statewide averages. SORM is providing this information so you can compare your agency's costs and losses per FTE to those of the state.

Chart A
Statewide Risk Management Costs For FY '06 and FY '07

	FY '06	FY '07	Incr/(Decr)	% Incr/Decr
State Agency Risk Management Programs	$30,762,585	$36,651,192	$5,888,607	19.14%
Cost Containment	$1,921,356	$1,737,865	($183,491)	-9.55%
Settlements and Judgments	$4,421,610	$3,411,737	($1,009,873)	-22.84%
Bonds, Insurance, and Deductibles	$17,991,551	$20,939,981	$2,948,430	16.39%
Actuarial Services	$17,000	$8,500	($8,500)	-50.00%
Court Costs and Attorney Fees	$1,794,646	$811,629	($983,017)	-54.77%
Statewide Risk Mgmt and Claims Admin (AY)	$6,816,913	$7,607,580	$790,667	11.60%
Total Cost of Risk Management	$63,725,661	$71,168,484	$7,442,823	11.68%

Chart B
Statewide Workers' Compensation Expenses Paid Out For FY '06 and FY '07

	FY '06	FY '07	Incr/(Decr)	% Incr/Decr
Workers' Comp Claims Paid (Net of Subrogation)	$43,755,813	$41,066,302	($2,689,511)	-6.15%

Chart C
Cost of Risk Management Per FTE for FY '06 and FY '07

	FY '06	FY '07	Incr/(Decr)	% Incr/Decr
FTE Count	155,436	157,511	2,075	1.33%
State Agency Risk Management Programs	$197.91	$232.69	$34.78	17.57%
Cost Containment	$12.36	$11.03	($1.33)	-10.76%
Settlements and Judgments	$28.45	$21.66	($6.79)	-23.87%
Bonds, Insurance, and Deductibles	$115.75	$132.94	$17.19	14.85%
Actuarial Services	$0.11	$0.05	($0.06)	-54.55%
Court Costs and Attorney Fees	$11.55	$5.15	($6.40)	-55.41%
Statewide Risk Mgmt and Claims Admin (AY)	$43.86	$45.04	$1.18	2.69%
Total Cost of Risk Management Per FTE	$409.99	$448.56	$38.57	9.41%

Chart D
Workers' Compensation Expenses Paid Out Per FTE for FY '06 and FY '07

	FY '06	FY '07	Incr/(Decr)	% Incr/Decr
Workers' Comp Claims Paid (Net of Subrogation)	$281.50	$260.72	($20.78)	-7.38%

Graph and Analysis

Chart E is the graphical display of the data contained in Charts A and B. The **dotted green line** represents workers' compensation payments per fiscal year, and the **dashed blue line** represents costs associated with administering risk management program activities. The **solid red line** represents the sum of these two sets of data – the total quantifiable cost of risk.

You can see that, over time, costs associated with administering risk management program activities have generally increased, while workers' compensation claims have generally decreased. Spending on state agency risk management programs account for the greatest increase in the total cost of risk management program administration from FY '06 to FY '07 ($5,888,607). This dramatic increase in spending comes primarily from increased spending from FY '06 to FY '07 reported by three large state agencies. The total of increased spending by these three agencies accounts for 77 percent of the net $5,888,607 total increase in state agency risk management program spending. An increase in personnel costs and spending on security equipment accounts for the majority of the reported increased spending.

Workers' compensation payments decreased by $2,689,511 from FY '06 to FY '07. When analyzing workers' compensation costs, it is important to note that there is temporal distortion in the data. Workers' compensation payments are often paid out over the course of several years. So if changes are made to a risk management program or to claims administration in a given fis-

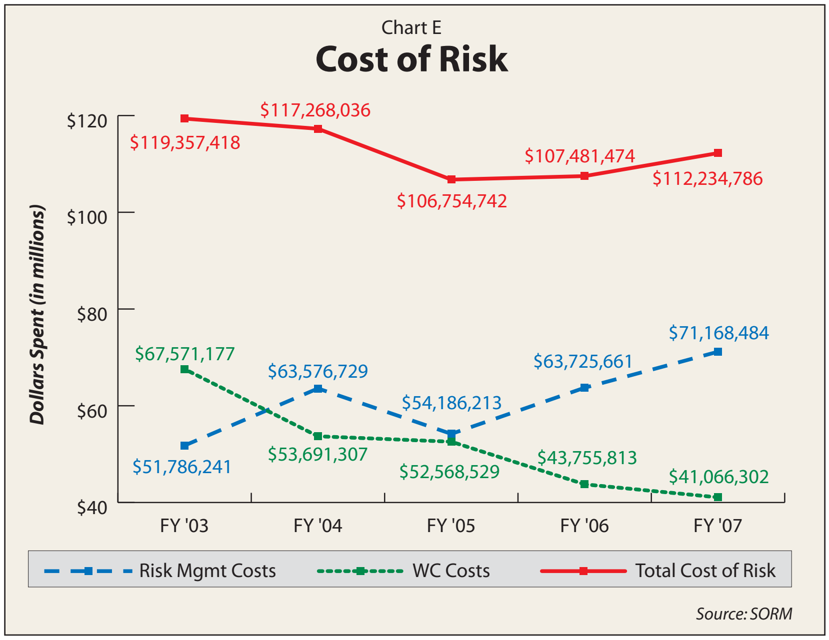
(See "State," page 9)

State risk management analysis

(Continued from page 8)

cal year, it may take several years to realize any changes in workers' compensation losses.

Although there are not enough years of data from which to draw a firm conclusion, the "total cost of risk" line suggests that SORM and state agencies have lowered the total cost of risk over time. While the adoption of better claims administration practices is reducing losses in the short term, an increase in expenditures for risk management prevention activities may also contribute to this overall decline and may continue forward into the distant future. Theoretically, proactive spending will reduce long-term costs; however, SORM cannot confirm this due to a lack of information.



While this is encouraging news, this graph only tells part of the story. Some risk management expenditures do not necessarily have a direct impact in reducing the frequency and severity of workers' compensation claims. The installation of expensive fire alarms, as is being done throughout the Texas Department of Criminal Justice, will not necessarily reduce workers' compensation costs over time, so the data will reflect a greater increase in risk management costs relative to workers' compensation savings. However, these increased costs yield benefits over time, because they aid in the evacuation and response to a potential fire, thus protecting workers and reducing property damage.

Essentially, increased risk management spending can decrease both the likelihood and impact of a catastrophic loss occurring, but this benefit is difficult to measure because SORM cannot track events that do not take place. However, one can assume that a strong risk management program will reduce the frequency and severity of catastrophic monetary losses.

Aside from an overall net reduction in monetary loss for the State of Texas, perhaps one of the most important benefits is that, through its risk management activities, the State of Texas shows that it cares for the welfare of its employees. Furthermore, a strong risk management program will show the citizens of Texas that the state is proactive in handling disasters and the state will look competent when the cameras are turned on following a catastrophic event. While these benefits may not have a direct influence on the downward trend of workers' compensation dollars paid out, such non-monetary benefits of risk management activities should be noted.

The findings in this article are based on a brief survey of statewide risk management financial activity. In order to draw concrete conclusions, it is necessary to pull data across more years. As such, this article is not necessarily a definitive analysis; rather, it serves as a baseline by which to develop more precise analyses as data becomes available over time. While not definitive, the data gathered thus far suggests that SORM and risk managers across the state are on the right track.

SORM would like to thank Texas state agencies for completing their SORM-200 forms online. The risk management expenditure data provided is invaluable to the completion of this report, and consequently for reporting to the state Legislature. SORM will use the information to make cost of risk information available online in the near future. State agencies will be able to review the online information and measure their financial information against that of the state.

Andres Campo is a risk management specialist in the Risk Assessment and Loss Prevention division.

Insurance myth busters

By Sally Becker

"The state self-insures its property damage." "State agencies are not allowed to purchase property insurance." How many times have you heard these statements?

Some of the first questions I received after starting to work for SORM as its insurance specialist involved these statements. And one of the first meetings I attended was with a couple of state agencies and the Federal Emergency Management Agency (FEMA) to discuss insuring state property suffering damage from Tropical Storm Alison.

Since I still hear these statements from time to time, this article is going to bust those "myths."

Myth #1: Self-Insurance

Self-insurance means an entity recognizes it has an exposure that may result in a financial loss, i.e. automobile accidents, employee injuries or loss to an asset such as a building or contents. Upon recognizing a potential loss, the entity considers avoiding, transferring, or controlling the risk, such as by leasing employees; renting space and equipment; and not owning vehicles. Or it may decide to retain the risk knowing there is a potential for loss. It is not knowing if it will happen, but when! So the entity sets aside funds to pay losses when they occur. This is self-insurance. An example of self-insurance is the State of Texas' workers' compensation fund for its workers' compensation exposure. There is a fund administered by SORM to pay for employee injuries. The fund is established based on loss history, payroll, and number of full-time equivalents.

In 1921, the Senate passed Concurrent Resolution No. 3 that made two statements regarding the purchase of property insurance for the state's assets.

> "State shall carry its own insurance upon State buildings and contents …"
>
> "… State hereafter at the end of each two years period to set aside approximately one per cent of the value of all public buildings owned by the State, as a sinking fund …"

Myth buster #1: A resolution is not a law or statute. There is no "sinking" fund that I have located available to repair or replace a state building or an agency's contents.

Myth #2: Purchased Insurance

There are several laws that address the purchase of property insurance.

> "Property damage insurance covering state facilities may be purchased by agencies of the state if necessary to qualify for federal disaster assistance funds." Government Code §418.172

This statute allows an agency that suffers property damage from declared disasters to meet FEMA's requirement for proof of insurance for future losses to the damaged property from the same peril causing the damage (i.e. flood, tornado, wildfire, wind). Example: A building suffers damage caused by rising water. FEMA will require the building owner to purchase flood insurance on this building releasing the funds. The intent is to remove FEMA from being in the insurance business.

> "The governing board of an institution of higher education may purchase insurance insuring the institution and its employees against any liability, risk or exposure and covering the losses of any institutional property." Education Code §51.966(a)

This statute applies only to institutions of higher education. Simply put, it allows them to purchase insurance to protect their assets.

Myth buster #2: In the absence of any statutes prohibiting the purchase of insurance and with SORM's authority grated by the Legislature, SORM's position is that the Legislature intends to allow state agencies to purchase certain insurance, as long as the agency obtains SORM's permission.

> "(c)(2) purchase insurance coverage for a state agency…under any line of insurance other than health or life insurance…" and
>
> "(e) A state agency…may not purchase property, casualty, or liability insurance coverage without the approval of the board." Labor Code §412.011

There is good news. SORM has established a statewide property insurance program. Any state agency under SORM's purview is eligible to participant in the program. The policy can cover buildings, personal property (contents), fine arts, electronic equipment, boiler and machinery, and business interruption. The terms and conditions are very favorable, such as all risk coverage including flood and named storm; per occurrence limits of up to $1 billion; deductibles of $10,000 or $100,000 per occurrence; and the rates are the same no matter the construction type or location, with a separate catastrophic rate for those located on the coast. The primary coverage is provided by National Union Fire Insurance Co. of Pittsburgh, an AIG company with a Best rating of A+

(See "Busting," page 11)

Filing workers' comp claims

By Mary Loza

All employees who are injured or become ill at work are entitled to workers' compensation benefits under the laws of the State of Texas if the injury/illness arises out of and occurs in the course of their employment. Of course to begin this process, the agency must notify SORM of the injury. To comply the Texas Department of Insurance, Division of Workers' Compensation rules, state agencies must report the First Report of Injury form (DWC-1S) within 8 days when notified that an employee has lost more than one day from work, has an occupational disease or repetitive claim regardless of lost time, or if the employee seeks medical treatment. SORM provides the capability for all agencies to file this report via a web-enabled portal. All reports must be filed through this portal. This process is designed to substantially increase the timeliness of report filings as well as provide a high level of accuracy of information being submitted. Agencies should ensure the information is accurate so SORM's claims adjusters may timely and accurately initiate compensation payments.

The web-based form includes several edits to assist the claims coordinator in filing accurate information; however inaccuracies are still being received. Some of the most common mistakes are addressed. Coding for Nature of Injury, Cause of Injury and part of body injured should be as accurate as possible. Miscellaneous codes should be rare and used only when the information on the claim is not available. The codes for each field are published by the International Association of Industrial Accident Boards & Commissions (IAIABC) to assist insurers and regulatory organizations with data collection. Statistics are gathered from these codes to determine the type of injuries occurring and the causes of those injuries. Information is provided to SORM's risk management specialists to identify trends and possible loss prevention measures. The online tables for these codes have been modified to provide a better description of each code so more accurate information is submitted. Up to three codes can be entered for each claim.

To prevent duplicate claims from being entered, the system will alert claims coordinators when a claim with the same Social Security number, date of injury, and time of injury matches a prior entry. If corrections are needed to the date of injury or Social Security number to a prior entry, a call should be made to the adjuster to correct the database manually rather than filing another report with the corrected information. This will prevent a second claim from being set up for the claimant.

Other common errors seen by agencies are inaccurate date of injury and Social Security numbers. SORM is currently working on enhancements to the online form where claimant information is automatically entered from prior transmitted claims. Data can be modified by the user, if necessary. This will assist in obtaining current address information and to verify Social Security numbers, date of birth, date of hire, etc.

Additional changes to the online form will be available in the future and will change the look of the form. More fields will be automatically populated with information already in the database and edits will be added to red flag dates that may be inaccurate. More detailed information on these changes will be reported in a future issue of *Risk-Tex*.

Training on how to file the First Report of Injury, as well as other required forms is available from the Agency Outreach and Training section. Check the training calendar (www.sorm.state.tx.us/Training/Courses/Calndr07.php) for the next Training for Claims Coordinators class.

Mary Loza is a risk management specialist in the Risk Assessment and Loss Prevention Division.

Busting some myths about state insurance

(Continued from page 10)

XV. Excess coverage is provided by Lexington Insurance and Travelers Insurance.

All SORM client agencies subject to Chapter 412 of the Texas Labor Code are eligible to participate in the program. Each agency should consider its unique exposures, amounts at risk, and loss history to determine if property insurance is a cost-effective risk transfer mechanism.

How would your agency finance damage to your building or replace the contents of your office? If you don't know, call the myth busters at SORM at (512) 936-1573 for one solution.

For more information, go to www.sorm.state.tx.us/Risk_Management/Bonds_and_Insurance/statewide_property.php.

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Continuity of operations

By Sam Arant

What is COOP?

Continuity of Operations (COOP) is a federal edict, required by Federal Decision Directive 67, to ensure federal executive branch departments and agencies are able to continue to perform their essential functions during and following emergencies or events. These emergencies or events can be due to natural disasters, man-made events, technological events, or national security emergencies.

Is COOP similar to business continuity?

Yes. Many private sector employers, state agencies, universities, counties, cities, and school districts have business continuity plans that address providing essential functions or services during emergencies. The goals of COOP and business continuity plans are the same -- to provide essential functions or services during emergencies. The objectives of COOP and business continuity planning are the same:

- Ensure the performance of an agency's essential functions or services during and following emergencies;
- Reduce or mitigate disruptions to agency operations;
- Ensure that an agency has alternate facilities form which to operate;
- Protect essential facilities, equipment, vital records, and other assets;
- Reduce loss of life by activating emergency action plans;
- Achieve a timely and orderly recovery from an emergency or event;
- Achieve a timely and orderly reconstitution of agency operations following an emergency or event; and
- Resume full service to internal and external customers.

Which type of plan should my agency have, COOP or business continuity?

Either plan would be acceptable. Good management practice would be to incorporate all elements of each plan into your agency plan. Many of the plan elements are the same or similar in both plans. Don't get hung up on the name of your agency plan, COOP or business continuity. The terms may be different, but the overall intent is the same.

For COOP information and COOP plan elements, go to http://www.fema.gov/ppt/government/coop/coop_awareness_training.ppt. For business continuity information and business continuity plan elements, go to http://www.drii.org/DRII/ProfessionalPractices/Introduction.aspx and http://www.sorm.state.tx.us/Risk_Management/Business_Continuity/init_overview.php.

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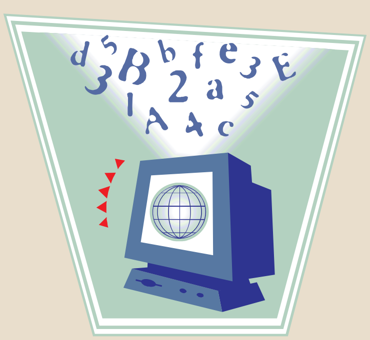

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