

SUBJECT: Requiring state agencies to adopt risk management plans

COMMITTEE: State Affairs — favorable, with amendment

VOTE: 7 ayes — Marchant, Madden, B. Cook, J. Davis, Elkins, Gattis, Goodman
0 nays
2 absent — Lewis, Villarreal

SENATE VOTE: On final passage, May 6 — 31-0, on Local and Uncontested Calendar

WITNESSES: No public hearing

BACKGROUND: Government Code, sec. 2056.002 requires each state agency to create a strategic plan. In even-numbered years, an agency must issue a plan for the next five fiscal years. The Legislative Budget Board (LBB) and the Governor's Office of Budget and Planning determine the elements required to be in each agency's strategic plan.

DIGEST: SB 147 would require the governing body of each state agency to adopt a risk management plan as part of the agency's strategic plan. An agency would have to send a copy of the risk management plan to the State Office of Risk Management (SORM) by July 15 of each even-numbered year. The bill would not expand, supersede, or replace SORM's authority to provide risk and insurance management services for state agencies, including the government employees workers' compensation insurance program. It also would not supersede or replace a state agency's duty to manage risks actively.

A risk management plan would have to contain information required by SORM, including a risk assessment, risk control strategies, and other information. A plan would have to include a business continuity strategy outlining plans and procedures to keep a business operational in case of disruptions to production, finance, administration, or other essential operations. Risk management and risk control strategies in the plan would have to:

- specify the operational, strategic, and financial objectives of the agency;
- assess the nature and extent of the risks of achieving the agency's objectives;
- identify significant risks that could impede achieving the agency's objectives;
- identify measures that could lessen or eliminate significant risks; and
- analyze the likelihood of a risk occurring and the cost of controlling the risk relative to the benefits of managing the risk.

A risk management plan would have to include a report on the agency's achievement in implementing risk management and control strategies, including:

- a review of the agency's progress in achieving its objectives;
- a description of any significant risk control strategy failings or weaknesses identified during the previous biennium;
- an assessment of whether any failings or weaknesses resulted in unforeseen outcomes preventing the agency from achieving its objectives, or having an impact on the agency's performance;
- a detailed examination of any corrective action taken by the agency; and
- an assessment of the agency's risk control strategy.

A state agency would have to implement its risk management plan, including risk control strategies, and provide semiannual reports on implementation to its governing body. An agency would have to notify its governing body promptly of the identification of any significant risk that threatened the achievement of agency objectives and mitigation measures.

SORM would have to assist and provide information for agencies preparing a risk management plan. In addition, SORM would have to include in its report to the Legislature:

- the identity of state agencies that had not developed a risk management plan or made substantial progress toward implementing a plan;
- a list of significant efforts by agencies to implement risk control strategies;

- an assessment and summary of the state's significant risks and exposure to loss; and
- recommendations for risk control, including recommendations for statutory change.

SORM would have to cooperate with the LBB in preparing the risk management plan portion of the strategic plans required of state agencies.

The bill would take immediate effect if finally passed by a two-thirds record vote of the membership of each house. Otherwise, it would take effect September 1, 2003.

**SUPPORTERS
SAY:**

SB 147 would require state agencies to adopt risk management plans. Although many state agencies currently have risk management plans in place, the bill would elevate the status of such plans by requiring their adoption by an agency's governing body, requiring risk management plans in statute, and linking them to an agency's strategic plan. Risk management is used in the business world to anticipate and control risks in order to prevent losses from occurring. Ensuring that all state agencies had risk management plans in place would reduce the state's exposure to risk and reduce potential losses.

An agency's risk management plan also would have to include a business continuity strategy. Preparing such a strategy can be vital to maintaining agency functions in the event of an unforeseen emergency or disaster. Tropical Storm Allison and the terrorist attacks of September 11th are two examples of unforeseen events that caused significant disruption to government and business services. Developing a business continuity strategy would help to mitigate the potential disruption to a state agency of such an event.

**OPPONENTS
SAY:**

No apparent opposition.

NOTES:

The committee amendment would specify that the bill would not expand SORM's authority to provide risk and insurance management services.