

**SPECIAL REPORTS RELATING TO THE
FEDERAL EMPLOYEES' COMPENSATION ACT
SPECIAL BENEFIT FUND**

MARCH 31, 2004 AND SEPTEMBER 30, 2004

This audit was performed by CPAs under contract to the Office of Inspector General, and by acceptance, it becomes a report of the Office of Inspector General.

Eeiel A. Jemin

Assistant Inspector General for Audit

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**U.S. Department of Labor
Office of Inspector General
Report Number: 22-05-003-04-431**

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OCT 15 2004

MEMORANDUM FOR: SEE DISTRIBUTION LIST

FROM: *Elliot P. Lewis*
ELLIOT P. LEWIS
Assistant Inspector General for Audit

SUBJECT: Special Report Relating to the Federal Employees' Compensation Act Special Benefit Fund – FY 2004
Report No. 22-05-003-04-431

Attached is a special report on the Federal Employees' Compensation Act (FECA) Special Benefit Fund (the Fund) that was prepared to assist in the audit of your agency's annual financial statements. The U.S. Department of Labor, Employment Standards Administration, Office of Workers' Compensation Programs (OWCP), administers the Fund and the DOL Office of Inspector General is responsible for auditing the Fund.

The Office of Inspector General contracted with the independent certified public accounting firm of M.D. Oppenheim & Company to prepare the special report on the Fund as of and for the year ended September 30, 2004. This special report consists of three separate reports. The first report is an *opinion* on the total actuarial liability, net intra-governmental accounts receivable, and total benefit expense of the Fund as of and for the year ended September 30, 2004. The auditor issued an unqualified opinion on this report. The second report is an agreed-upon procedures (AUP) report on the schedules of actuarial liability, net intra-governmental accounts receivable and benefit expense by agency as of and for the year ended September 30, 2004. This report includes a description of the procedures performed and the results of those procedures. The third report, conducted in accordance with *Statements on Auditing Standards* (SAS) 70, is a service auditor report on the description and design of controls placed in operation by OWCP as of March 31, 2004 and tests of their operating effectiveness related to the Federal Employees' Compensation System for the period October 1, 2003 through March 31, 2004. The auditor qualified the opinion based on 1) the failure of the primary control to support continuing eligibility for compensation and medical benefits for work-related injuries and illnesses; 2) the failure of controls to ensure medical bill payments were paid accurately; and 3) the failure of controls to restrict user access at one of the subservicers.

The sufficiency of the procedures referred to in the agreed-upon procedures report is solely the responsibility of the parties specified in this report. Consequently, neither the Office of Inspector General nor M.D. Oppenheim & Company make any representations regarding the sufficiency of the procedures. Because the agreed-upon procedures performed did not constitute an audit, the auditor did not express an opinion on any elements, accounts or items as they pertained to the

agreed-upon procedures report. Further, neither the Office of Inspector General nor M.D. Oppenheim & Company has any obligation to perform any procedures beyond those listed in the attached report.

M.D. Oppenheim & Company is responsible for the attached special report dated October 8, 2004, and the conclusions expressed in the report. We reviewed M.D. Oppenheim & Company's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on: the total actuarial liability, net intra-governmental accounts receivable, and total benefit expense of the Fund as of and for the year ended September 30, 2004; the AUP report on the schedules of actuarial liability, net intra-governmental accounts receivable and benefit expense by agency as of and for the year ended September 30, 2004; or the service auditor report, conducted in accordance with SAS 70, on the description and design of controls placed in operation by OWCP as of March 31, 2004 and tests of their operating effectiveness related to the Federal Employees' Compensation System for the period October 1, 2003 through March 31, 2004. However, our review disclosed no instances where M.D. Oppenheim & Company did not comply, in all material respects, with generally accepted government auditing standards.

This report contains proprietary and other sensitive information, including information derived from SAS 70 reports from other entities. It is being provided solely for the internal use of your office and should not be further distributed or disclosed without prior authorization from the U.S. Department of Labor, Office of Inspector General.

If you have any comments or suggestions on the contents or sufficiency of this report or the procedures performed that you would like considered for future audits, please send your comments via regular mail, facsimile, or e-mail to:

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TABLE OF CONTENTS

	<u>Page</u>
Acronyms	i
1. A. Independent Auditors' Report on the Schedule of Actuarial Liability, Net Intra-Governmental Accounts Receivable and Benefit Expense	1
B. Schedule of Actuarial Liability, Net Intra-Governmental Accounts Receivable and Benefit Expense	2
C. Notes to the Schedule of Actuarial Liability, Net Intra-Governmental Accounts Receivable and Benefit Expense	3
2. A. Independent Accountants' Report on Applying Agreed-Upon Procedures	7
B. Schedules	
Schedule of Actuarial Liability by Agency	9
Schedule of Net Intra-Governmental Accounts Receivable by Agency	11
Schedule of Benefit Expense by Agency	13
C. Agreed-Upon Procedures & Results	
Summary	15
Actuarial Liability	16
Net Intra-Governmental Accounts Receivable	21
Benefit Expense	22
3. A. Independent Service Auditors' Report	27
B. Division of Federal Employees' Compensation Description of Controls	
Overview of Services Provided	30
Overview of the Control Environment	32
Overview of Computer Information Systems	36
Overview of Transaction Processing	40
Control Objectives and Related Controls	50
User Control Considerations	50
C. Information Provided by the Service Auditor	
Overview of Information Provided	51
Tests of Control Environment Elements	51
ACPS and CBP Transaction Processing Controls	52
Sampling Methodology	52
Control Objectives, Related Controls, and Tests of Controls	55
ACPS Application Controls	66
CBP General Computer Controls	82

ACRONYMS

AchieveHCS	Achieve Healthcare Solutions
ACF2	Access Control Facility 2
ACPS	Automated Compensation Payment System
ACS	Affiliated Computer Services, Inc.
ADP	Automatic Data Processing
AWP	Average Wholesale Price
BPO	Business Process Outsourcing
BLS	Bureau of Labor Statistics
BPS	Bill Processing System
CBS	Chargeback System
CBP	Central Bill Processing System
CCR	Cost-to-Charge Ratio
CE	Claims Examiner
CFO	Chief Financial Officers' Act
CNS	Corporation for National and Community Service
CMF	Case Management File
CMS	Centers for Medicare and Medicaid Services
COLA	Cost of Living Allowance
COP	Continuation of Pay
CPI	Consumer Price Index
CPI-Med	Consumer Price Index for Medical
CPT	Current Procedural Terminology
CSR	Customer Service Request
DASD	Direct Access Storage Device
DBMS	Database Management System
DCE	Designated Claims Examiner
DD	District Director
DFEC	Division of Federal Employees' Compensation
DHS	U.S. Department of Homeland Security
DIRM	Directorate of Information Resource Management
DITMS	Division of Information Technology Management and Services
DMA	District Medical Advisor
DMD	District Medical Director

ACRONYMS

DMS	Debt Management System
DMZ	Demilitarized Zone
DO	District Office
DOJ	U.S. Department of Justice
DOL	U.S. Department of Labor
DOLAR\$	Department of Labor Accounting and Related Systems
DOT	U.S. Department of Transportation
DRG	Diagnosis Related Group
ECC	Enterprise Command Center
EOP	Executive Office of the President
ESA	Employment Standards Administration
FECA	Federal Employees' Compensation Act
FECS	Federal Employees' Compensation System
FISCAM	Federal Information System Controls Audit Manual
GOALS II	Government On-line Accounting Link System
GPCI	Geographic Practice Cost Index
HCPCS	Healthcare Common Procedural Coding System
HHS	U.S. Department of Health and Human Services
IBNR	Incurred But Not Reported
ICD-9CM	International Classification of Diseases, Ninth Revision, Clinical Modification
ID	Identification
IPAC	Intra-Governmental Payment and Collection
IS	Information Systems
IT	Information Technology
JCL	Job Control Language
LBP	Liability to Benefits Paid
MOU	Memorandum of Understanding
MSA	Metropolitan Statistical Areas
NASA	National Aeronautics and Space Administration
NDC	National Drug Codes

ACRONYMS

NO	National Office
NOS	Network Operating System
NRC	Nuclear Regulatory Commission
NSF	National Science Foundation
OASIS	OWCP Automated System for Imaging Services
OCR	Optimal Character Recognition
OMB	Office of Management and Budget
OPM	Office of Personnel Management
OWCP	Office of Workers' Compensation Programs
PPS	Medicare Prospective Payment System
QA	Quality Assurance
RCC	Revenue Center Code
RS	Rehabilitation Specialist
RVU	Relative Value Units
SBA	Small Business Administration
SCE	Senior Claims Examiner
SFFAS	Statement of Federal Financial Accounting Standards
SIR	Stored Image Retrieval
SOL	Office of the Solicitor
SSA	Social Security Administration
SunGard	SunGard eSourcing, Inc.
TMS	Tape Management System
TPCUP	Timely Payment of Compensation
TVA	Tennessee Valley Authority
UPS	Uninterruptible Power Supply
U.S.C.	United States Code
USAID	U.S. Agency for International Development

SECTION 1A

**Independent Auditors' Report on the
Schedule of Actuarial Liability, Net Intra-Governmental
Accounts Receivable and Benefit Expense**

Victoria A. Lipnic, Assistant Secretary
Employment Standards Administration, U.S. Department of Labor,
Government Accountability Office, Office of Management and Budget,
and Other Specified Agencies:

We have audited the accompanying Schedule of Actuarial Liability, Net Intra-Governmental Accounts Receivable and Benefit Expense (the Schedule) of the Federal Employees' Compensation Act Special Benefit Fund as of and for the year ended September 30, 2004. This schedule is the responsibility of the U.S. Department of Labor's management. Our responsibility is to express an opinion on this schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule of Actuarial Liability, Net Intra-Governmental Accounts Receivable and Benefit Expense is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule of Actuarial Liability, Net Intra-Governmental Accounts Receivable and Benefit Expense. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Schedule of Actuarial Liability, Net Intra-Governmental Accounts Receivable and Benefit Expense referred to above presents fairly, in all material respects, the actuarial liability, net intra-governmental accounts receivable and benefit expense of the Federal Employees' Compensation Act Special Benefit Fund as of and for the year ended September 30, 2004, in conformity with accounting principles generally accepted in the United States of America.

This report is intended solely for the information and use of the U.S. Department of Labor, Government Accountability Office, Office of Management and Budget and those Federal agencies listed in Section 2B of this report and is not intended to be and should not be used by anyone other than these specified parties.

M.D. Oppenheim & Company, P.C.

October 8, 2004

SECTION 1B
U.S. Department of Labor
Federal Employees' Compensation Act Special Benefit Fund
Schedule of Actuarial Liability, Net Intra-Governmental
Accounts Receivable and Benefit Expense
As of and For the Year Ended September 30, 2004

	<u>(Dollars in Thousands)</u>
Actuarial Liability	<u>\$ 25,570,725</u>
Net Intra-Governmental Accounts Receivable	<u>\$ 3,631,746</u>
Benefit Expense	<u>\$ 950,269</u>

See independent auditors' report and accompanying notes to this financial schedule.

SECTION 1C

Notes to the Schedule of Actuarial Liability, Net Intra-Governmental Accounts Receivable and Benefit Expense As of and For the Year Ended September 30, 2004

1. Significant Accounting Policies

a. Basis of Presentation

This schedule has been prepared to report the actuarial liability, net intra-governmental accounts receivable and benefit expense of the Federal Employees' Compensation Act (FECA) Special Benefit Fund. The Special Benefit Fund was established by the Federal Employees' Compensation Act to provide for the financial needs resulting from compensation and medical benefits authorized under the Act. The U.S. Department of Labor (DOL), Employment Standards Administration (ESA) is charged with the responsibility of operating the Special Benefit Fund under the provisions of the Act. The schedule has been prepared from the accounting records of the Special Benefit Fund.

The actuarial liability, net intra-governmental accounts receivable and benefit expense of the Special Benefit Fund have been considered specified accounts for the purpose of this special report and have been reported thereon. ESA is responsible for providing annual data to the CFO Act and other specified agencies. ESA's annual data is defined as the actuarial liability of the Special Benefit Fund. This annual data is necessary for the specified agencies to support and prepare their respective financial statements.

The actuarial liability for future workers' compensation benefits is an accrued estimate as of September 30, 2004. The net intra-governmental accounts receivable is the amount due from Federal agencies for benefit payments paid to employees of the employing agency. The net intra-governmental accounts receivable includes amounts which were billed to the employing agencies through June 30, 2004, but not paid as of September 30, 2004, including prior years, if applicable, plus the accrued receivable for benefit payments not yet billed for the period of July 1, 2004 through September 30, 2004, less credits due from the public. Benefit expense consists of benefits paid and accrued for the period from October 1, 2003 to September 30, 2004, plus the net change in the actuarial liability for the year.

Benefit payments are intended to provide income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease and beneficiaries of employees whose death is attributable to job-related injury or occupational disease. The actuarial liability is computed from the history of benefits paid. The benefits paid, inflation and interest rate assumptions, and other economic factors are applied to the actuarial model that calculates the liability estimate.

SECTION 1C

Notes to the Schedule of Actuarial Liability, Net Intra-Governmental Accounts Receivable and Benefit Expense As of and For the Year Ended September 30, 2004

b. Basis of Accounting

The accounting and reporting policies of the Federal Employees' Compensation Act Special Benefit Fund relating to the Schedule conform to accounting principles generally accepted in the United States of America.

Statement of Federal Financial Accounting Standards (SFFAS) Number 5, Section 38, *Accounting for Liabilities of the Federal Government*, requires that a contingent liability be recognized when three conditions are met. First, a past event or exchange transaction has occurred. Second, a future outflow or other sacrifice of resources is probable. Finally, the future outflow or sacrifice of resources is measurable.

An estimate of claims that have been incurred but not reported (IBNR) are included in the actuarial liability. Therefore, the actuarial liability represents the estimated present value of future compensation and medical payments based upon approved claims, plus a component for incurred but not reported claims.

2. Actuarial Liability (Future Workers' Compensation Benefits)

The Special Benefit Fund was established under the authority of the Federal Employees' Compensation Act to provide income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. The fund is reimbursed by other Federal agencies for the FECA benefit payments made on behalf of their workers.

The actuarial liability for future workers' compensation reported on the schedule includes the expected liability for death, disability, medical and miscellaneous costs for approved cases. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period.

Consistent with past practice, these projected annual benefit payments have been discounted to present value using the Office of Management and Budget's (OMB) economic assumptions for 10-year Treasury notes and bonds. The interest rate assumptions utilized for discounting was 4.88% in year 1 and 5.24% in subsequent years.

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (cost of living allowance or COLA) and medical inflation factors (consumer price index-medical or CPI-Med) are applied to the calculation of projected future benefits. These factors are also used to adjust the historical payments to current year constant dollars. The liability is determined assuming an annual payment at mid-year.

SECTION 1C

Notes to the Schedule of Actuarial Liability, Net Intra-Governmental Accounts Receivable and Benefit Expense As of and For the Year Ended September 30, 2004

The compensation COLA and the CPI-Med used in the model's calculation of estimates were as follows:

<u>FY</u>	<u>COLA</u>	<u>CPI-Med</u>
2005	2.03%	4.14%
2006	2.73%	3.96%
2007	2.40%	3.98%
2008	2.40%	3.99%
2009	2.40%	4.02%

The medical inflation rates presented represent an average of published quarterly rates covering the benefit payment fiscal year. The compensation factors presented are the blended rates used by the model rather than the published June 15, 2004 FECA-COLA factor from which the blended rates are derived.

3. Net Intra-Governmental Accounts Receivable

Net intra-governmental accounts receivable is the total of the amounts billed to Federal agencies through June 30, 2004 but had not been paid as of September 30, 2004, including prior year's amounts billed, if applicable, plus an estimated accrued receivable for benefit payments not yet billed for the period July 1, 2004 through September 30, 2004, less applicable credits. The Special Benefit Fund also receives an appropriation for special cases and older cases where employing agencies are not charged for benefit payments.

Each Federal agency is required by the Federal Employees' Compensation Act to include in their annual budget estimate a request for an appropriation in the amount equal to the agency cost. Agencies not receiving an appropriation are required to pay agency costs from funds directly under their control.

In addition, certain corporations and instrumentalities are assessed under the Federal Employees' Compensation Act for a fair share of the costs of administering disability claims filed by their employees. The fair share costs are included in the net intra-governmental accounts receivable.

4. Benefit Expense

Benefit expense for the year ended September 30, 2004 was comprised of the following (dollars in thousands):

Benefits paid for compensation	\$ 1,738,784
Benefits paid for medical benefits	688,564
Change in accrued benefits	6,249
Change in actuarial liability	<u>(1,483,328)</u>
Total benefit expense	<u>\$ 950,269</u>

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SECTION 2A

**Independent Accountants' Report
on Applying Agreed-Upon Procedures**

Victoria A. Lipnic, Assistant Secretary
Employment Standards Administration, U.S. Department of Labor,
Government Accountability Office, Office of Management and Budget,
and Other Specified Agencies:

We have performed the procedures described in Section 2C, Agreed-Upon Procedures and Results, which were agreed to by the U.S. Department of Labor, Government Accountability Office, Office of Management and Budget, the CFO Act agencies and other specified agencies listed in the Schedules of Actuarial Liability by Agency, Net Intra-Governmental Accounts Receivable by Agency and Benefit Expense by Agency (Section 2B) of this special report, solely to assist you and such agencies with respect to the accompanying Schedules of Actuarial Liability by Agency, Net Intra-Governmental Accounts Receivable by Agency and Benefit Expense by Agency (Section 2B) of the Federal Employees' Compensation Act Special Benefit Fund as of and for the year ended September 30, 2004.

The Department of Labor is responsible for the Schedules (Section 2B). The Schedule of Actuarial Liability by Agency at September 30, 2004, represents the present value of the estimated future benefits to be paid pursuant to the Federal Employees' Compensation Act. The Schedule of Net Intra-Governmental Accounts Receivable by Agency is the total of the amounts billed to Federal agencies through June 30, 2004 which had not yet been paid as of September 30, 2004 plus the estimated accrued receivable for benefit payments not yet billed for the period July 1, 2004 through September 30, 2004, less applicable credits. The Schedule of Benefit Expense by Agency is the benefits paid and accrued for the fiscal year ended September 30, 2004, plus the net change in the actuarial liability for the year.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and with *Government Auditing Standards*, issued by the Comptroller General of the United States.

An actuary was engaged to perform certain procedures relating to the actuarial liability as described in Section 2C.

We express no opinion on the Federal Employees' Compensation Act Special Benefit Fund's internal controls over financial reporting or any part thereof.

The sufficiency of the procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described in Section 2C either for the purpose for which this report has been requested or for any other purpose. Our agreed-upon procedures and results are presented in Section 2C of this report.

We were not engaged to, and did not perform an audit of the Schedules of Actuarial Liability by Agency, Net Intra-Governmental Accounts Receivable by Agency and Benefit Expense by Agency, the objective of which is the expression of an opinion on the Schedules or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. This report is intended solely for the information and use of the U.S. Department of Labor, Government Accountability Office, Office of Management and Budget and those Federal agencies listed in Section 2B of this report and is not intended to be and should not be used by anyone other than these specified parties.

M.D. Oppenheim & Company, P.C.

October 8, 2004

SECTION 2B

**U.S. Department of Labor
Employment Standards Administration
Federal Employees' Compensation Act Special Benefit Fund**

**Schedule of Actuarial Liability by Agency
As of September 30, 2004**

AGENCY	Actuarial Liability (Dollars in thousands)
Agency for International Development	\$ 24,523
Environmental Protection Agency	40,281
General Services Administration	176,351
National Aeronautics and Space Administration	68,876
National Science Foundation	1,465
Nuclear Regulatory Commission	8,114
Office of Personnel Management	13,077
United States Postal Service	8,379,832
Small Business Administration	28,436
Social Security Administration	288,158
Tennessee Valley Authority	594,461
U. S. Department of Agriculture	836,341
U. S. Department of the Air Force	1,418,832
U. S. Department of the Army	1,937,818
U. S. Department of Commerce	179,186
U. S. Department of Defense – other	858,146
U. S. Department of Education	19,882
U. S. Department of Energy	95,184
U. S. Department of Health and Human Services	266,389
U. S. Department of Homeland Security	1,398,161
U. S. Department of Housing and Urban Development	78,622
U. S. Department of the Interior	664,856

SECTION 2B

**U.S. Department of Labor
Employment Standards Administration
Federal Employees' Compensation Act Special Benefit Fund**

**Schedule of Actuarial Liability by Agency
As of September 30, 2004**

AGENCY	Actuarial Liability (Dollars in thousands)
U. S. Department of Justice	829,336
U. S. Department of Labor	236,560
U. S. Department of the Navy	2,744,041
U. S. Department of State	59,984
U. S. Department of Transportation	1,020,500
U. S. Department of the Treasury	678,272
U. S. Department of Veterans Affairs	1,752,895
Other agencies ¹	872,146
Total - all agencies (Memo Only)	\$ 25,570,725

¹ Non-billable and other agencies for which ESA has not individually calculated an actuarial liability.

SECTION 2B

**U.S. Department of Labor
Employment Standards Administration
Federal Employees' Compensation Act Special Benefit Fund**

**Schedule of Net Intra-Governmental
Accounts Receivable by Agency
As of September 30, 2004**

AGENCY	Amounts Billed Not Yet Paid (1) (Dollars in thousands)	Amounts Expended Not Yet Billed (2) (Dollars in thousands)	Credits Due from Public (3) (Dollars in thousands)	Net Intra-Governmental Accounts Receivable (4) (Dollars in thousands)
Agency for International Development	\$ 6,046	\$ 966	\$ (27)	\$ 6,985
Environmental Protection Agency	7,549	1,188	(33)	8,704
General Services Administration	30,975	4,808	(132)	35,651
National Aeronautics and Space Administration	13,889	2,274	(63)	16,100
National Science Foundation	242	39	(1)	280
Nuclear Regulatory Commission	1,433	228	(6)	1,655
Office of Personnel Management	2,385	394	(11)	2,768
United States Postal Service	22,856	269,332	(7,412)	284,776
Small Business Administration	4,840	666	(18)	5,488
Social Security Administration	46,029	7,436	(205)	53,260
Tennessee Valley Authority	69,913	18,358	(505)	87,766
U. S. Department of Agriculture	141,480	21,851	(602)	162,729
U. S. Department of the Air Force	264,738	40,806	(1,123)	304,421
U. S. Department of the Army	325,831	51,015	(1,404)	375,442
U. S. Department of Commerce	27,239	4,394	(121)	31,512
U. S. Department of Defense – other	161,962	25,105	(691)	186,376
U. S. Department of Education	3,460	444	(12)	3,892
U. S. Department of Energy	15,453	2,913	(80)	18,286
U. S. Department of Health and Human Services	45,288	7,117	(196)	52,209

1 Amounts billed through June 30, 2004 (including prior years) but not yet paid as of September 30, 2004.

2 Amounts paid and accrued but not yet billed for the period July 1, 2004 through September 30, 2004.

3 Allocation of credits due from public through September 30, 2004.

4 Total amount due to the fund for each agency as of September 30, 2004.

SECTION 2B

**U.S. Department of Labor
Employment Standards Administration
Federal Employees' Compensation Act Special Benefit Fund**

**Schedule of Net Intra-Governmental
Accounts Receivable by Agency
As of September 30, 2004**

AGENCY	Amounts Billed Not Yet Paid (1) (Dollars in thousands)	Amounts Expended Not Yet Billed (2) (Dollars in thousands)	Credits Due from Public (3) (Dollars in thousands)	Net Intra-Governmental Accounts Receivable (4) (Dollars in thousands)
U. S. Department of Homeland Security	205,066	38,236	(1,053)	242,249
U. S. Department of Housing and Urban Development	15,207	2,431	(67)	17,571
U. S. Department of the Interior	113,853	18,017	(496)	131,374
U. S. Department of Justice	139,425	23,370	(643)	162,152
U. S. Department of Labor	47,784	7,974	(219)	55,539
U. S. Department of the Navy	490,606	77,409	(2,130)	565,885
U. S. Department of State	16,199	2,433	(67)	18,565
U. S. Department of Transportation	187,366	29,259	(805)	215,820
U. S. Department of the Treasury	110,534	16,058	(442)	126,150
U. S. Department of Veterans Affairs	311,648	49,067	(1,350)	359,365
Other agencies	83,997	15,197	(418)	98,776
Total - all agencies (Memo Only)	\$ 2,913,293	\$ 738,785	\$ (20,332)	\$ 3,631,746

1 Amounts billed through June 30, 2004 (including prior years) but not yet paid as of September 30, 2004.

2 Amounts paid and accrued but not yet billed for the period July 1, 2004 through September 30, 2004.

3 Allocation of credits due from public through September 30, 2004.

4 Total amount due to the fund for each agency as of September 30, 2004.

SECTION 2B**U.S. Department of Labor
Employment Standards Administration
Federal Employees' Compensation Act Special Benefit Fund****Schedule of Benefit Expense by Agency
For the Year Ended September 30, 2004**

AGENCY	Benefits Paid and Accrued (Dollars in thousands)	Change in Actuarial Liability (Dollars in thousands)	Total Benefit Expense (Dollars in thousands)
Agency for International Development	\$ 3,141	\$ (2,877)	\$ 264
Environmental Protection Agency	3,915	(3,815)	100
General Services Administration	15,591	(19,201)	(3,610)
National Aeronautics and Space Administration	7,384	(570)	6,814
National Science Foundation	126	(184)	(58)
Nuclear Regulatory Commission	763	(959)	(196)
Office of Personnel Management	1,092	(1,320)	(228)
United States Postal Service	875,441	(349,197)	526,244
Small Business Administration	2,115	(3,386)	(1,271)
Social Security Administration	23,940	(17,131)	6,809
Tennessee Valley Authority	58,971	(70,208)	(11,237)
U. S. Department of Agriculture	70,900	(103,477)	(32,577)
U. S. Department of the Air Force	132,071	(139,523)	(7,452)
U. S. Department of the Army	176,791	(144,153)	32,638
U. S. Department of Commerce	14,406	(20,870)	(6,464)
U. S. Department of Defense - other	69,224	(97,806)	(28,582)
U. S. Department of Education	1,444	(2,383)	(939)
U. S. Department of Energy	9,239	(7,369)	1,870
U. S. Department of Health and Human Services	23,102	(29,926)	(6,824)
U.S. Department of Homeland Security	127,636	294,760	422,396

SECTION 2B

**U.S. Department of Labor
Employment Standards Administration
Federal Employees' Compensation Act Special Benefit Fund**

**Schedule of Benefit Expense by Agency
For the Year Ended September 30, 2004**

AGENCY	Benefit Payments (Dollars in thousands)	Change in Actuarial Liability (Dollars in thousands)	Total Benefit Expense (Dollars in thousands)
U. S. Department of Housing and Urban Development	7,906	(5,618)	2,288
U. S. Department of the Interior	58,621	(46,709)	11,912
U. S. Department of Justice	76,438	(10,412)	66,026
U. S. Department of Labor	21,117	(43,838)	(22,721)
U. S. Department of the Navy	251,149	(255,783)	(4,634)
U. S. Department of State	7,359	(1,644)	5,715
U. S. Department of Transportation	94,507	(94,102)	405
U. S. Department of the Treasury	51,503	(104,631)	(53,128)
U. S. Department of Veterans Affairs	158,687	(134,806)	23,881
Other agencies ⁽¹⁾	89,018	(66,190)	22,828
Total - all agencies (Memo Only)	\$ 2,433,597	\$ (1,483,328)	\$ 950,269

¹ Non-billable and other agencies for which ESA has not individually calculated an actuarial liability.

SECTION 2C

Agreed-Upon Procedures & Results

Summary

Our objective was to perform specified agreed-upon procedures on the Schedules of Actuarial Liability by Agency, Net Intra-Governmental Accounts Receivable by Agency, and Benefit Expense by Agency as of and for the year ended September 30, 2004. These procedures were performed in accordance with attestation standards established by the American Institute of Certified Public Accountants and *Government Auditing Standards*, issued by the Comptroller General of the United States.

We applied the following agreed-upon procedures as summarized below:

Actuarial Liability - Consistent with prior years, the actuarial liability was evaluated by an independent actuary. Agreed-upon procedures were performed on the methodology, assumptions and information used in the model. The 2004 benefit payments predicted by the model for 2003 were compared to actual payments made in 2004, and analytical procedures were performed relating the change in the liability amount by agency to the change in the aggregate liability.

Net Intra-Governmental Accounts Receivable - Confirmation letters regarding the accounts receivable due as of September 30, 2004, were mailed and confirmed with the CFO Act agencies and other selected Federal agencies. Agreed-upon procedures were performed on FY 2004 accounts receivable and compared with FY 2003 accounts receivable regarding new receivables and collections. We reviewed the 4th quarter estimation methodology for reasonableness and compared the current year estimate to the actual.

Benefit Expense - Agreed-upon procedures were applied to the benefit payments made during the current fiscal year by District office and by agency as compared to benefit payments of the prior fiscal year. Agreed-upon procedures were applied to DOL's 4th quarter estimation methodology. We calculated the change in the actuarial liability from the prior year to the current year.

SECTION 2C

Agreed-Upon Procedures & Results

ACTUARIAL LIABILITY

Overview

An independent actuary evaluated the actuarial model and the resulting actuarial liability. The independent actuary issued a report stating the aggregate actuarial liability was reasonably stated in accordance with Actuarial Standards. We performed agreed-upon procedures on the calculation of the actuarial liability by employing agency. Our procedures included considerations of how the change in each agency's liability related to the change in the total estimate, its own history, its group, and to the benefit payments made during the current year.

Procedures and Results

Agreed-Upon Procedures Performed	Results of Procedures
<p>Engaged a certified actuary to review the calculations of the actuarial liability as to:</p> <ul style="list-style-type: none"> • Whether or not the assumptions used by the model were appropriate for the purpose and method to which they were applied. • Whether or not such assumptions were applied correctly and if other calculations within the model were performed in a manner as to generate appropriate results. • Whether or not tests of calculations provided a reasonable basis regarding the integrity of the model as a whole. • Whether or not the overall results were reasonable. 	<p>The actuary’s review of the model indicated that the assumptions were appropriate for the purpose and method applied. The actuary tested the calculations included in the model and reported that they were performed consistent with the model's stated assumptions.</p> <p>The actuary’s review of the model indicated that the assumptions were applied correctly and that calculations were performed in such a way as to generate results which are appropriate overall. Additional detailed checks of calculations and data flow revealed no errors in the methodology used.</p> <p>The methodology and assumptions applied to the calculations tested provide a reasonable basis in regard to the integrity of the model as a whole.</p> <p>The actuary indicated that the model calculation of the liability and the overall results were reasonable under the method and assumptions used.</p>
<p>Confirmed with the American Academy of Actuaries and the Casualty Actuarial Society as to whether the actuary was accredited and in good standing with the associations. Obtained a statement of independence from the actuarial firm and two references from clients of the actuarial firm as to the actuary's work.</p>	<p>The actuarial specialist was accredited and in good standing with the American Academy of Actuaries and the Casualty Actuarial Society. The actuarial consulting firm certified that they were independent from the DOL and the FECA Special Benefit Fund. The actuarial consulting firm provided references stating experience in the type of work required for this engagement. The references were contacted, and they confirmed the actuary possessed the expertise and experience required for this engagement.</p>

SECTION 2C

Agreed-Upon Procedures & Results

Agreed-Upon Procedures Performed	Results of Procedures
<p>Compared and evaluated the economic assumptions used by the model for 2003 to the assumptions used during the current year.</p>	<p>The model utilizes estimates of prospective inflation and interest rates to project and then discount future benefit payments. As published by OMB, prospective interest rates of 10-year Treasury bills increased from 4.3% for the prior year to an average of 5.2% for the current year. The Bureau of Labor Statistics' (BLS) estimates of COLA increased from a 10-year average of 2.11% for the prior year to a 10-year average of 2.4% for the current year, and CPI-Med factors increased from a 10-year average of 3.78% for the prior year to a 10-year average of 4.02% for the current year. In combination, these rate changes resulted in an increase in the net effective rate (interest rate less inflation rate) of approximately 35% (from 1.83% to 2.47%). The result of the changes in estimated prospective rates was to decrease the estimated actuarial liability by approximately 7% from what the liability would have been had 2003 rates been used for the year 2004 calculation.</p>
<p>Compared the interest (used for discounting the future liability to the present value) and inflation rates used by the model to the source documents from which they were derived.</p>	<p>The interest rates used in the model were the same interest rates stated in OMB's publication. The inflation rates used in the model were derived from the BLS indices cited. No exceptions were noted.</p>
<p>Compared the estimated actuarial liability by agency, as reported in a Memorandum to the CFOs of Executive Departments issued by DOL's Chief Financial Officer, to the liability calculated by the model and reported on the Projected Liability Reports.</p>	<p>The liability reported in the Memorandum issued to the CFOs of Executive Departments of the unaudited, estimated actuarial liability for future workers' compensation benefits agreed with the liability calculated by the model and reported on the Projected Liability Reports.</p>
<p>Compared by agency and in aggregate, the 1999-2004 benefit payments used by the model with the amount of benefit payments reflected in the Summary Chargeback Billing Report. Determined whether the benefit payment data used by the model was the same data on which agreed-upon procedures for benefit payments were performed.</p>	<p>The amounts by agency agreed without exception. Aggregate medical benefit payments per the model were \$15 million higher than the Summary Chargeback Billing Report.</p> <p>During 2004, DOL implemented a new medical bill processing system. Implementation of the system resulted in processing delays and an overall reduction in the number of medical bills paid. In actual dollars, medical bill payments declined approximately \$33.7 million (-4.9%). DOL's actuary recommended that \$15 million be added to the actual benefit payment data to allow for the decline in medical payments due to the processing delays. The impact of this adjustment resulted in an increase to the actuarial liability of approximately \$123.5 million or .49% of the total liability.</p>

SECTION 2C

Agreed-Upon Procedures & Results

Agreed-Upon Procedures Performed	Results of Procedures
<p>Determined the basis of the agency groupings and performed tests to compare the consistency of the grouping with the prior year. Determined the impact of such inclusion in a grouping.</p>	<p>The groupings were consistent with the prior year. The grouping was determined premised on a claim duration probability study performed by a DOL economist. Both the designers of the model and the independent actuary agreed that the study provided a basis for such groupings. The groupings were traced to the study. The study included data through 1991, and therefore, agencies without claims under FECA prior to 1991 had not been studied. These agencies were placed in Group III, whose average probability approximated the average of the aggregate population. These agencies are USAID, NSF, NRC, OPM, SBA, and SSA. In 2003, Homeland Security was added to Group II premised on the understanding that more than half the total chargeback transferred originated from Group II agencies (DOT and Treasury).</p> <p>Agency groupings are used to group agencies with similar historical benefit payment patterns. The liability estimate is calculated by grouping to minimize potential distortion in the calculation due to variable historical payment patterns among the agencies. In 2004 DOL altered the model to permit Homeland Security's estimate to increase in accordance with its growing history. The result of this modification was to decrease the groups' impact upon its agencies, and to increase reliance on an agency's individual payment history.</p>
<p>Calculated the change in the actuarial liability by agency and in the aggregate. Determined, based on a predictive test, if variances were consistent with the Liability to Benefits Paid (LBP) ratio applied to each agency's prior year liability adjusted for their change in benefit payments and economic assumptions. Identified the reason for or requested explanations for agencies whose change in liability was not consistent with predictive test results.</p>	<p>The aggregate liability decreased approximately 5.5%. The following agencies' liabilities changed by more than 10%:</p> <ul style="list-style-type: none"> • HHS -10.1% • TVA -10.6% • Treasury -13.4% • Education -10.7% • Commerce -10.4% • Homeland Security +26.7% • NSF -11.2% • SBA -10.6% • NRC -10.6% • USAID -10.5% • All Other Defense -10.2% • Agriculture -11.0% • DOL -15.6%

SECTION 2C

Agreed-Upon Procedures & Results

Agreed-Upon Procedures Performed	Results of Procedures
	<p>For all agencies except SBA, the model calculation was consistently within 10% of the predictive test results, indicating changes in these liabilities are reasonable. SBA's predictive test calculated 11.7% lower than the actual liability which indicates the 10.6% decrease from the prior year is reasonable.</p>
<p>Calculated the ratio of the agency liability to the benefit payments (LBP) by agency and compared this to the group ratio. Identified and requested explanations for those agencies for which the ratio varied by more than 10 percent from their group ratio and lay outside the range of group averages based on predictive test results.</p>	<p>The Liabilities to Benefits Paid ratio (LBP) was 10.8. By group, the ratio ranged from 9.8 (Group V-Postal Service) to 12.0 (Group III).</p> <p>The following agencies varied by more than 10% from their group's ratio and fell outside the range of group ratios: Treasury (13.4- Group II), Education (14.1- Group II), SBA (13.5- Group III), USAID (8.0-Group III), All Other Defense (13.4- Group III), State (8.8- Group IV) and NASA (9.6- Group IV).</p> <p>The model calculated within 10% of a predictive test based upon each agency's prior year liability adjusted for their change in benefit payments and economic assumptions for all but SBA. The model calculation for SBA was higher than the prediction by approximately 11.7%.</p> <p>We noted that SBA's benefit payments decreased by 15% in actual dollars during 2004. The model is designed to gradually reflect such fluctuations as part of an overall history of benefit payments. The LBP ratio as calculated does not consider the overall history.</p>
<p>Compared the benefit payments predicted by the model for year 2004 to the actual benefit payments. Identified the agencies where the model computed benefit payments that varied by more than 20 percent and \$2 million from actual benefit payments made during 2004.</p>	<p>Actual payments were approximately 15.6% lower than predicted. The following agencies' actual payments varied from the prediction by more than 20% and \$2 million: HHS -22.4% (-\$6.5 million), Treasury -30.0% (-\$21.8 million), Agriculture -20.4% (-\$17.7 million), DOL -25.9% (-\$6.8 million), and Postal Service -20.4% (-\$218.3 million).</p> <p>In 2004 medical payments did not follow historical patterns due to the implementation of a new bill processing system. The decrease in medical payments resulted in a decline in benefit expense and variances in these agencies outside exception limits. The model will gradually reflect such changes if maintained.</p>

SECTION 2C

Agreed-Upon Procedures & Results

Agreed-Upon Procedures Performed	Results of Procedures
<p>Compared an estimate of the liability by agency (calculated from the agency’s prior year balance, the change in their benefit payments, and the overall effect of the change in economic factors) to the liability computed by the actuarial model.</p>	<p>The calculated amounts were within 10% of amounts derived by DOL’s model for all agencies except SBA (11.7%) and OPM (-14.1%).</p>
<p>Performed a limited survey of interest and inflation rates utilized by the Postal Service, OPM, and two other sources with governmental actuarial liabilities experience. Determined how the surveyed, net effective rates compared to the interest rates used in the model and explained the effect of the rate difference.</p>	<p>Surveyed rates for compensation ranged from 2.2% to 3.3% and for medical ranged from -2.8% to 1.4%. The model's rates compute to net effective rates of approximately 2.8% for compensation and 1.2% for medical. The model’s rates fell within the range of surveyed rates.</p>
<p>Compared the actuarial liability for the Postal Service calculated by the model to the actuarial liability calculated by the Postal Service’s independent model.</p>	<p>The actuarial liability calculated by DOL for the Postal Service is 10.6% higher than the Postal Service calculation. The difference in the net effective discount rates used by the Postal Service and by DOL accounts for 7.6% of the variance.</p>

SECTION 2C

Agreed-Upon Procedures & Results

NET INTRA-GOVERNMENTAL ACCOUNTS RECEIVABLE

Overview

Confirmation letters regarding the accounts receivable due as of September 30, 2004, were mailed and confirmed with the CFO Act agencies and other selected Federal agencies. Agreed-upon procedures were performed on FY 2004 accounts receivable and compared with FY 2003 accounts receivable with regards to new receivables and collections. We reviewed the new 4th quarter estimation methodology for reasonableness and compared the current year estimate to the actual.

Procedures and Results

Agreed-Upon Procedures Performed	Results of Procedures
Compared prior year ending net intra-governmental accounts receivable balances to the current year net intra-governmental accounts receivable balance by Federal agency. Determined whether the increase or decrease was in proportion to the change in amounts billed and collected.	The change in the net intra-governmental accounts receivable balances was in proportion to the increases in benefit payments billed to and paid by each Federal agency.
Compared the chargeback billing report for the period July 1, 2003 through June 30, 2004, to the amounts billed to the Federal agencies.	The amounts billed to the Federal agencies for the period July 1, 2003 through June 30, 2004, agreed to the chargeback billing report.
Confirmed accounts receivable balances due as of September 30, 2004, for all CFO Act agencies except DOL and other selected Federal agencies.	Confirmations were reviewed and explanations for any differences were obtained from the agencies and/or DOL. A confirmation was not received from the U.S. Capitol Police. DOL's CFO office has an interagency workgroup which works to resolve any differences with the agencies.
Recalculated the allocation of credits due from the public.	No exceptions were noted.
Determined, for a non-statistical sample of at least 50 items, whether claimant accounts receivable overpayments were properly established and classified.	No exceptions were noted.
Reviewed the 4th quarter estimation methodology for reasonableness and compared the current year estimate to actual.	The difference between the estimate and the actual was \$9 million or 1.6%.

SECTION 2C

Agreed-Upon Procedures & Results

BENEFIT EXPENSE

Overview

Agreed-upon procedures were applied to compensation and medical benefit payments in total and by agency for the fiscal year ended September 30, 2004, the chargeback year ended June 30, 2004, and for the sampling period of October 1, 2003 to March 31, 2004. Changes in the actuarial liability from the prior year to the current year were calculated. Agreed-upon procedures were applied to DOL's current year 4th quarter estimation methodology.

Procedures and Results

Agreed-Upon Procedures Performed	Results of Procedures
Compared the benefit payments recorded in the Automated Compensation Payment System (ACPS) and Central Bill Processing (CBP ¹) databases to the Department of Treasury's SF-224s as of March 31, 2004, and September 30, 2004.	The benefit payments recorded in the Automated Compensation Payment System (ACPS) and the Central Bill Processing System (CBP) databases varied from the SF-224s by 3.75% (\$45.9 million) as of March 31, 2004. As of September 30, 2004, the ACPS and CBP databases varied from the SF-224s by 1.86% (\$44.5 million).
Performed a trend analysis on the total benefit payments for the last 5 chargeback years ended June 30. We requested explanations from DOL for variances over 10 percent, if any.	The 2004 benefits increased by 0.71% over 2003. No variances over 10 percent were noted.
Compared the summary chargeback billing list to the total benefit payments in the ACPS and CBP databases for the fiscal year ended September 30, 2004.	The agency chargeback billing list varied from the benefit payment databases for the fiscal year ending September 30, 2004 by -1.94% (-\$46.3 million).

¹ Effective September 2003, the medical bill payments are processed by a contractor through a new Central Bill Processing (CBP) system. Benefit data are then converted to the BPS format for chargeback billing purposes by DOL.

SECTION 2C

Agreed-Upon Procedures & Results

Agreed-Upon Procedures Performed	Results of Procedures																								
<p>Compared by agency, benefit payments for the nine months ending June 30, 2004, with total benefit payments made for the nine months ending June 30, 2003. We requested explanations from DOL for any variances over 10 percent.</p>	<p>Benefit payments for the nine months ending June 30, 2004 increased 2.6% overall from June 30, 2003. Benefit payments increased or decreased by more than 10% for the following agencies for the nine months ending June 30, 2004:</p> <table border="0"> <tr> <td>EOP</td> <td align="right">-21.13%</td> <td>DOJ</td> <td align="right">40.05%</td> </tr> <tr> <td>Smithsonian</td> <td align="right">15.77%</td> <td>DHS</td> <td align="right">16.84%</td> </tr> <tr> <td>DOL</td> <td align="right">-12.54%</td> <td></td> <td></td> </tr> <tr> <td>CNS</td> <td align="right">-18.75%</td> <td></td> <td></td> </tr> <tr> <td>SBA</td> <td align="right">-19.45%</td> <td></td> <td></td> </tr> <tr> <td>OPM</td> <td align="right">-14.68%</td> <td></td> <td></td> </tr> </table> <p>DOL stated that for the small agencies, a single claim can affect the total chargeback costs. Therefore changes in just a small number of cases can result in large percentage changes. For DOL, the reduction in payments is due to increased scrutiny of compensation claims. For DOJ and DHS, the changes are primarily due to reorganization of these agencies.</p>	EOP	-21.13%	DOJ	40.05%	Smithsonian	15.77%	DHS	16.84%	DOL	-12.54%			CNS	-18.75%			SBA	-19.45%			OPM	-14.68%		
EOP	-21.13%	DOJ	40.05%																						
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CNS	-18.75%																								
SBA	-19.45%																								
OPM	-14.68%																								
<p>Compared by agency, benefit payments for the fiscal year ending September 30, 2004 with benefit payments made for the fiscal year ending September 30, 2003, and verified that explanations obtained as of June 30 were consistent with September 30 results.</p>	<p>Benefit payments for the fiscal year ending September 30, 2004 increased 4.25% overall from September 30, 2003. Benefit payments increased or decreased by more than 10% for the following agencies for the fiscal year ending September 30, 2004:</p> <table border="0"> <tr> <td>Smithsonian</td> <td align="right">12.23%</td> </tr> <tr> <td>DOL</td> <td align="right">-10.32%</td> </tr> <tr> <td>SBA</td> <td align="right">-13.58%</td> </tr> <tr> <td>OPM</td> <td align="right">-22.09%</td> </tr> <tr> <td>DOJ</td> <td align="right">37.65%</td> </tr> <tr> <td>DHS</td> <td align="right">23.26%</td> </tr> <tr> <td>NRC</td> <td align="right">11.94%</td> </tr> </table> <p>Except for EOP, CNS and NRC, the explanations obtained as of June 30 were consistent with the September 30 results.</p>	Smithsonian	12.23%	DOL	-10.32%	SBA	-13.58%	OPM	-22.09%	DOJ	37.65%	DHS	23.26%	NRC	11.94%										
Smithsonian	12.23%																								
DOL	-10.32%																								
SBA	-13.58%																								
OPM	-22.09%																								
DOJ	37.65%																								
DHS	23.26%																								
NRC	11.94%																								

SECTION 2C

Agreed-Upon Procedures & Results

Agreed-Upon Procedures Performed	Results of Procedures						
<p>Compared the benefit payments made by each District office for the nine months ended June 30 2004, to the prior year data. We requested explanations from DOL for variances over 10 percent, if any.</p>	<p>For the nine-month period ended June 30, 2004, benefit payments increased or decreased from the nine-month period ended June 30, 2003, by more than 10% for the following districts:</p> <table data-bbox="797 583 1143 684"> <tr> <td>Philadelphia</td> <td>18.69%</td> </tr> <tr> <td>Chicago</td> <td>16.64%</td> </tr> <tr> <td>National Office</td> <td>13.74%</td> </tr> </table> <p>DOL stated that the increase in the Philadelphia District office is due to a reorganization of District office jurisdictions, resulting in the transfer of a large number of cases from the Washington DC District office to Philadelphia. Because Philadelphia is the smaller District office, the transfer resulted in a larger variance than experienced by the Washington DC District office. The increase noted in the Chicago office is due to a bill payment pilot project which caused a significant drop in bills paid in FY 2003, and an unusually large amount of medical bills paid to a single case in FY 2004. Finally, DOL stated that the increase in the National office is due to a large number of appeals related to bill payment issues in FY 2004 temporarily transferred to the National office (which handles all appeals).</p>	Philadelphia	18.69%	Chicago	16.64%	National Office	13.74%
Philadelphia	18.69%						
Chicago	16.64%						
National Office	13.74%						
<p>Compared by District office, benefit payments for the fiscal year ending September 30, 2004 with benefit payments made for the fiscal year ending September 30, 2003, and verified that explanations obtained as of June 30 were consistent with September results.</p>	<p>For the year ended September 30, 2004, benefit payments increased or decreased from the year ended September 30, 2003, by more than 10% for the following districts:</p> <table data-bbox="797 1493 1143 1593"> <tr> <td>Philadelphia</td> <td>23.74%</td> </tr> <tr> <td>Chicago</td> <td>14.18%</td> </tr> <tr> <td>National Office</td> <td>16.84%</td> </tr> </table> <p>The explanations obtained as of June 30 were consistent with the September results.</p>	Philadelphia	23.74%	Chicago	14.18%	National Office	16.84%
Philadelphia	23.74%						
Chicago	14.18%						
National Office	16.84%						
<p>Calculated a 12-month projected benefit payment based on the March 31, 2004 ACPS and CBP databases (6 months). Compared the projected 12-month total benefit payments to the actual 12-month total benefit payments as of September 30, 2004.</p>	<p>The actual 12-month total benefit payments varied from the projected 12-month total benefit payments for the fiscal year ending September 30, 2004, by -4.24%.</p>						

SECTION 2C

Agreed-Upon Procedures & Results

Agreed-Upon Procedures Performed	Results of Procedures
Compared the FY 2004 4 th quarter benefit payment estimate to the actual benefits paid for the 4 th quarter per the ACPS and CBP databases.	The estimated 4 th quarter benefit payments varied from the actual 4 th quarter benefit payments per the ACPS and CBP databases by -0.37%.
Calculated the change in the actuarial liability reported on the current year and prior year's compilation report prepared by DOL.	The change in the actuarial liability was calculated correctly by DOL for the fiscal year ended September 30, 2004.
Obtained and reviewed the reconciliations of Central Bill Processing database to the BPS database used for chargeback billings for the period October 1, 2003 to June 30, 2004.	No exceptions were noted.
Obtained and reviewed the most recent Independent Service Auditors' Report on the ACS Central Bill Processing System.	An Independent Service Auditors' report for the period ending March 31, 2004 was obtained and reviewed. A description of ACS General Computer Controls and the results of their operating effectiveness have been included as part of the FECA system. See Service Auditors' Report (Section 3C).

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SECTION 3A

Independent Service Auditors' Report

Victoria A. Lipnic, Assistant Secretary
Employment Standards Administration, U.S. Department of Labor:

We have examined the accompanying description of the controls of the Division of Federal Employees' Compensation (DFEC) and Affiliated Computer Services (ACS) State Healthcare, an independent service organization that provides medical bill processing services to DFEC, applicable to the processing of transactions for users of the Federal Employees' Compensation Act (FECA) Special Benefit Fund. Our examination included procedures to obtain reasonable assurance about whether (1) the accompanying description presents fairly, in all material respects, the aspects of DFEC and ACS controls that may be relevant to a user organization's internal control as it relates to an audit of financial statements; (2) the controls included in the description were suitably designed to achieve the control objectives specified in the description, if those controls were complied with satisfactorily and users of the FECA Special Benefit Fund applied the controls contemplated in the design of DFEC's controls, as described in Section 3B; and (3) such controls had been placed in operation as of March 31, 2004. The control objectives (Section 3C) were specified by the management of DFEC and ACS.

We did not audit the computer controls of ACS, a subservicer. Those controls were audited by other auditors whose service auditors' report has been furnished to us, and our opinion, insofar as it relates to ACS computer controls, is based solely on the report of the other auditors.

DFEC also uses SunGard eSourcing, Inc. (SunGard), to process information and to perform various functions related to the data processing services of the FECA Special Benefit Fund. The accompanying description includes only those controls and related control objectives at DFEC and ACS, and does not include controls and related control objectives at SunGard, a subservicer. Our examination did not extend to the controls of SunGard.

Our examination was performed in accordance with standards established by the American Institute of Certified Public Accountants, *Government Auditing Standards*, issued by the Comptroller General of the United States, and included the procedures considered necessary in the circumstances to obtain a reasonable basis for rendering our opinion.

Victoria A. Lipnic, Assistant Secretary
Employment Standards Administration, U.S. Department of Labor

In our opinion, based on our audit and the report of the other auditors, the accompanying description of the aforementioned controls presents fairly, in all material respects, the relevant aspects of DFEC's and ACS' controls that had been placed in operation as of March 31, 2004. Also, in our opinion, based on our audit and the report of the other auditors, the controls, as described, are suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described controls were complied with satisfactorily and users of the FECA Special Benefit Fund applied the internal controls contemplated in the design of the DFEC's and ACS' controls.

In addition to the procedures considered necessary to render our opinion as expressed in the previous paragraph, we applied tests to specified controls to obtain evidence about their effectiveness in meeting the related control objectives during the period from October 1, 2003 through March 31, 2004. The specific controls and the nature, timing, extent, and results of the tests are summarized in Section 3C. This information has been provided to the users of the FECA Special Benefit Fund and to their auditors to be taken in consideration, along with information about the internal control at user organizations, when making assessments of control risk for user organizations.

DFEC states in its description of controls that it has controls in place that require the review of medical evidence annually or every two or three years depending on the type of compensation paid. Our tests of operating effectiveness noted that a significant number of case files contained no current medical evidence as required by DFEC's policy. This resulted in the nonachievement of the control objective "Controls provide reasonable assurance that claimants submitted medical evidence to support continuing eligibility for compensation and medical benefits."

DFEC states in its description of controls that it has controls in place to correctly and completely enter medical bills into the Central Bill Processing system, to pay medical bills at the correct amount, and to review the accuracy of medical bill payments. Our tests of operating effectiveness noted a significant number of duplicate payments and payments paid in incorrect amounts. This resulted in the nonachievement of the control objective "Controls provide reasonable assurance that medical bill payments were properly authorized, approved, input, and reviewed."

DFEC states in its description of controls that it has controls in place to control and restrict access to authorized users of the Automated Compensation Payment System (ACPS) and to logically segregate incompatible functions. Our tests of operating effectiveness noted that access request and review procedures are not consistently followed and users can perform incompatible functions. This resulted in the nonachievement of the control objective "Controls provide reasonable assurance that the system is secure and restricted to authorized users, and users are limited in what transactions they can enter."

Victoria A. Lipnic, Assistant Secretary
Employment Standards Administration, U.S. Department of Labor:

In our opinion, based on our audit and the report of the other auditors, except for the matters described in the preceding paragraphs, the controls that were tested, as described in Section 3C, were operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that the specified control objectives were achieved during the period from October 1, 2003 through March 31, 2004. However, the scope of our engagement did not include tests to determine whether control objectives not listed in Section 3C were achieved; accordingly, we express no opinion on the achievement of control objectives not included in Section 3C.

The relative effectiveness and significance of specific controls at DFEC and ACS and their effect on assessments of control risk at user organizations are dependent on their interaction with the controls and other factors present at individual user organizations. We have performed no procedures to evaluate the effectiveness of controls at individual user organizations.

The description of controls at DFEC and ACS is as of March 31, 2004, and information about tests of operating effectiveness of specified controls covers the period October 1, 2003 through March 31, 2004. Any projection of such information to the future is subject to the risk that, because of change, the description may no longer portray the controls in existence. The potential effectiveness of specified controls at DFEC and ACS are subject to inherent limitations and, accordingly, errors or fraud may occur and not be detected. Furthermore, the projection of any conclusions, based on our findings, to future periods is subject to the risk that (1) changes made to the system or controls, (2) changes in processing requirements, or (3) changes required because of the passage of time may alter the validity of such conclusions.

This report is intended solely for the information and use of the U.S. Department of Labor, users of the FECA Special Benefit Fund (Federal agencies listed in Section 2B of this report), and the independent auditors of its users.

M.D. Oppenheim & Company, P.C.

October 8, 2004

SECTION 3B
Division of Federal Employees' Compensation
Description of Controls

OVERVIEW OF SERVICES PROVIDED

Overview

The Federal Employees' Compensation Act Special Benefit Fund was established by FECA to provide income and medical cost protection worldwide for job-related injuries, diseases, or deaths of civilian employees of the Federal Government and certain other designated groups. The DOL-ESA is charged with the responsibility of operation and accounting control of the Special Benefit Fund under the provisions of FECA. Within ESA, the Office of Workers' Compensation Programs, Division of Federal Employees' Compensation (DFEC), administers the FECA program.

In 1908, Congress passed legislation providing workers' compensation to Federal workers whose jobs were considered hazardous. Due to the limited scope of this legislation, FECA was passed in 1916, extending workers' compensation benefits to most civilian Federal workers. FECA provided benefits for personal injuries or death occurring in the performance of duty.

FECA provides wage replacement (compensation) benefits and payment for medical services to covered Federal civilian employees injured on the job, employees who have incurred a work-related disease, and the beneficiaries of employees whose death is attributable to a job-related injury or disease. Not all benefits are paid by the program since the first 45 days from the date of the injury are usually covered by the injured workers being paid by their respective agencies in a continuation of pay (COP) status. FECA also provides rehabilitation for injured employees to facilitate their return to work.

Operational Offices

DFEC administers FECA through 12 District offices and a National headquarters located in Washington, D.C. The District offices and the areas covered by each District office are:

<u>District</u>	<u>Location of District Office</u>	<u>States or Regions Covered by District Office</u>
1	Boston	Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont
2	New York	New Jersey, New York, Puerto Rico, Virgin Islands
3	Philadelphia	Delaware, Pennsylvania, West Virginia
6	Jacksonville	Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, Tennessee
9	Cleveland	Indiana, Michigan, Ohio
10	Chicago	Illinois, Minnesota, Wisconsin
11	Kansas City	Iowa, Kansas, Missouri, Nebraska, all DOL employees
12	Denver	Colorado, Montana, North Dakota, South Dakota, Utah, Wyoming

SECTION 3B
Division of Federal Employees' Compensation
Description of Controls

<u>District</u>	<u>Location of District Office</u>	<u>States or Regions Covered by District Office</u>
13	San Francisco	Arizona, California, Guam, Hawaii, Nevada
14	Seattle	Alaska, Idaho, Oregon, Washington
16	Dallas	Arkansas, Louisiana, New Mexico, Oklahoma, Texas
25	Washington, D.C.	District of Columbia, Maryland, Virginia, and overseas/special claims
50	National Office	Branch of Hearings and Review

Subservicers

DFEC utilizes a subservicer, SunGard, to provide computer hardware and a communications network between the National office and the District offices for the transmission of case and compensation information, to maintain a tape library and disk drive backup and for other computer mainframe functions. SunGard's controls and related control objectives were omitted from the description of control objectives, tests of controls and operating effectiveness contained in this report.

DFEC utilizes another subservicer, Affiliated Computer Services (ACS) State Healthcare to process medical bills. ACS receives medical bills, inputs the medical bills into the Central Bill Processing (CBP) system, performs edits on the medical bills and processes them in accordance with business rules established by DFEC. Approved payments are then transmitted to OWCP for payment. The description of the controls and control objectives related to the medical bill process at the subservicer has been reported to DFEC in a service auditors' report. Control objectives, tests of controls and operating effectiveness included in this report include the objectives that both DFEC's and ACS' controls are intended to achieve.

SECTION 3B
Division of Federal Employees' Compensation
Description of Controls

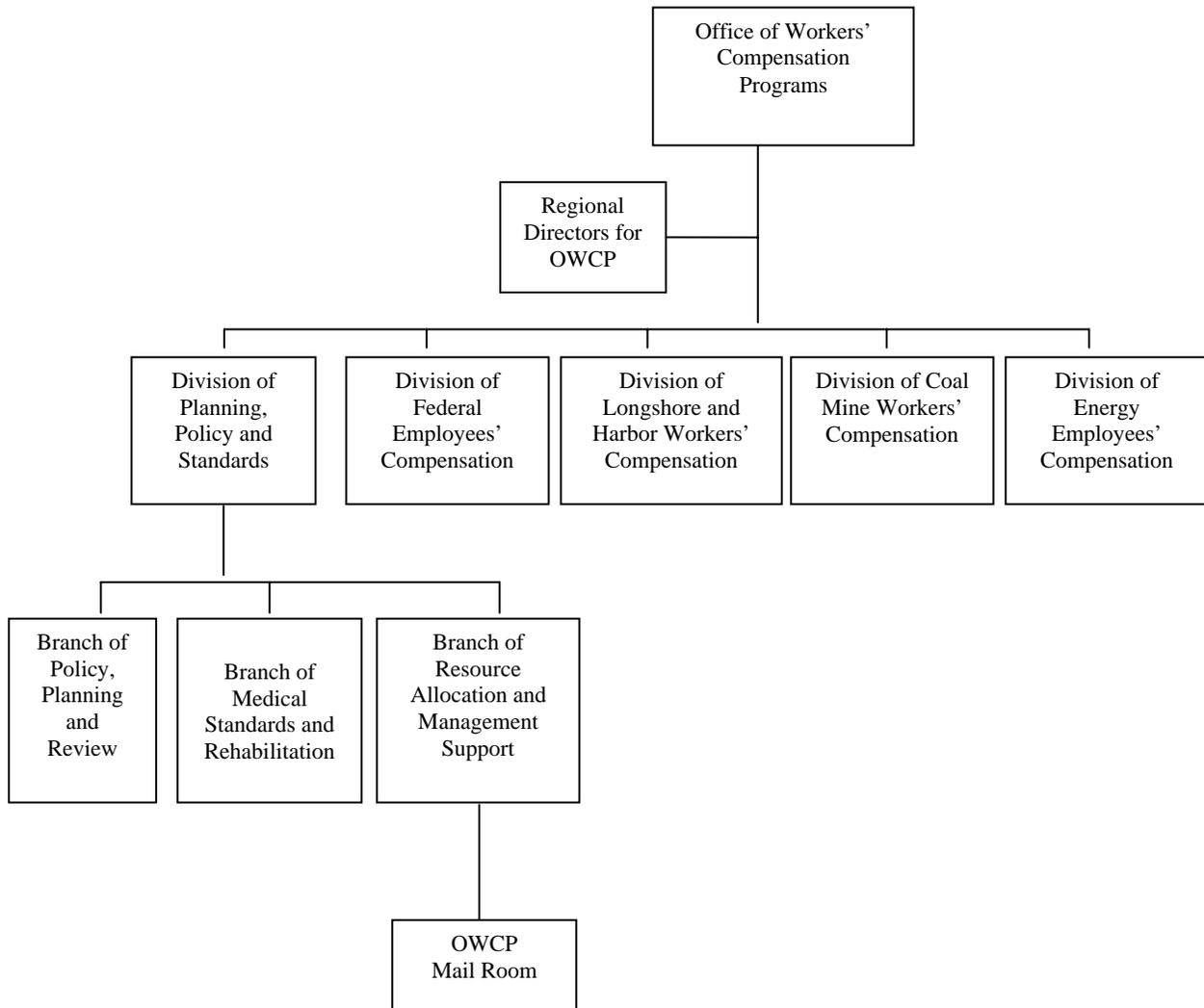
OVERVIEW OF THE CONTROL ENVIRONMENT

An organization's control environment reflects the overall attitude, awareness and actions of management and others concerning the importance of controls and the emphasis given to control in the organization's policies and procedures, methods, and organizational structure. The following is a description of the key controls that are generally considered to be part of the control environment.

Organization and Management

OWCP is one of four offices within ESA. DFEC is one of five divisions within OWCP.

ESA, Office of Workers' Compensation Programs

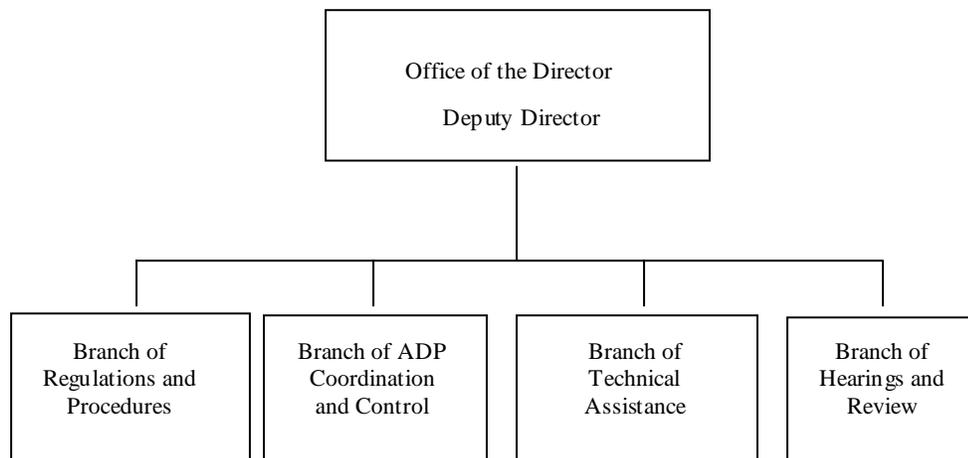


SECTION 3B
Division of Federal Employees' Compensation
Description of Controls

DFEC has four branches:

1. Branch of Regulations and Procedures - This Branch assists in developing claims and benefit payment policies, regulations and procedures; prepares and maintains the program's manuals; plans and conducts studies of claims and benefit payment functions; and participates in training activities and accountability reviews of District offices.
2. Branch of Automatic Data Processing (ADP) Coordination and Control - This Branch provides ADP support services for the FECA program. It coordinates the overall ADP work of DFEC and provides policy direction for ADP systems activities.
3. Branch of Technical Assistance - This Branch develops materials for use by District offices and other Federal agencies to educate Federal employees in reporting injuries and claiming compensation under the FECA. They also hold workshops for compensation personnel in various Federal agencies and for groups of employee representatives.
4. Branch of Hearings and Review - This Branch is responsible for conducting hearings and reviews of the written record in FECA cases. Hearing Representatives issue decisions which sustain, reverse, modify, or remand cases to the OWCP District offices.

Division of Federal Employees' Compensation (DFEC)



SECTION 3B
Division of Federal Employees' Compensation
Description of Controls

Branch Operations

A Branch Chief reports directly to the Deputy Director. The Director and Deputy Director coordinate the operations of the 12 District offices.

District Offices

A District Director (DD) oversees the daily operations at each of the 12 District offices. The DD is primarily assisted by an Assistant Director (in the larger District offices) that oversees the Claims Section and a Fiscal Officer that oversees the Fiscal Section.

The District offices serve the persons residing within their districts. When an individual moves from one district to another, the individual's case file and responsibility for monitoring the case is transferred to the District office where the individual has moved, unless the case is for a claimant specified as a special employee. Cases specified as special employee cases are always processed at District office 50 (the National office).

The specific functions within the District offices are:

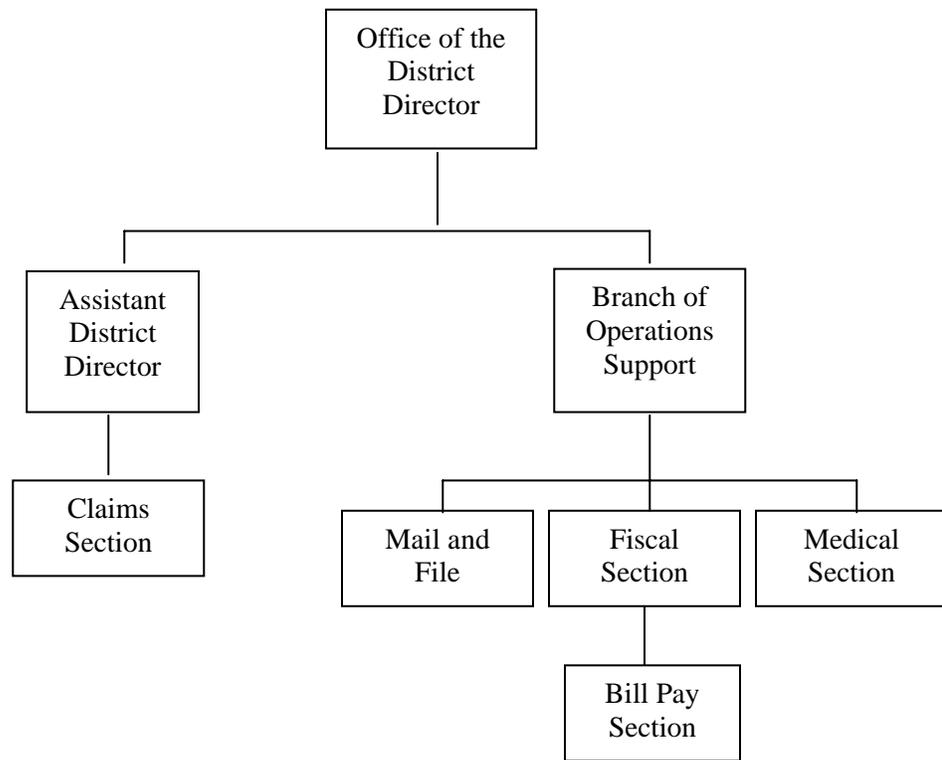
1. Claims Functions. In each District office there are two or more Supervisory Claims Examiners, who are responsible for the operation of individual claims units, and a number of Senior Claims Examiners (SCE) and Claims Examiners (CE), who have primary responsibility for handling claims, including authorization of compensation and eligibility for medical benefits. Individuals at each level of authority from DD to CE have been delegated specific responsibilities for issuing decisions on claims.
2. Fiscal Functions. Each District office usually has a Fiscal Operations Specialist and at least one Benefit Payment Clerk. Some District offices have a Bill Pay Supervisor as well. The unit is generally responsible for resolution of problems with medical bills, complex calculations of benefits and overpayments, adjustments to compensation and bill pay histories, changes in health benefits and life insurance coverage, and financial management records. In some District offices, fiscal personnel enter compensation payments into the electronic system.
3. Medical Functions. Each District office usually has at least one District Medical Adviser (DMA) who works under contract to review individual cases, and some District offices have a District Medical Director (DMD) as well. Each District office also has a Medical Management Assistant, who arranges referrals to second opinion and referee specialists. Each District office also has a Staff Nurse, who is responsible for coordinating a number of Field Nurses who monitor claimant's medical progress and assist their efforts to return to work.

SECTION 3B
Division of Federal Employees' Compensation
Description of Controls

4. Mail and File Functions. Personnel in this area open, sort, and place mail; set up case files, retire case records according to established schedules; and transfer case files in and out of the District office. OWCP also uses a centralized mailroom located in London, Kentucky, for routine mail. Mail such as Forms CA-1, CA-2, CA-7, CA-16, congressional inquiries and certain types of medical provider bills are processed by the District offices and not in the centralized mailroom.

5. Vocational Rehabilitation Functions. Each District office has at least one Rehabilitation Specialist (RS) and usually a Rehabilitation Clerk. The RS manages a number of Rehabilitation Counselors, who work under contract with OWCP to help return claimants to suitable work, preferably with little or no loss of earnings. The emphasis of the rehabilitation program is on early referral and evaluation of all injured workers who need services; case management standards to ensure that plans are efficient and of good quality; flexibility to provide the widest range of services from private and public rehabilitation agencies; preference for reemployment with the previous employer; and placement of workers in jobs where disability does not prevent them from competing with non-disabled employees.

DFEC District Office Structure¹



¹ The organizational structure regarding the Vocational Rehabilitation functions varies among the District offices.

SECTION 3B
Division of Federal Employees' Compensation
Description of Controls

OVERVIEW OF COMPUTER INFORMATION SYSTEMS

The computerized accounting system used by the Federal Employee's Compensation Special Benefit Fund maintains the data for each of the claimants applying for FECA benefits. The Federal Employees' Compensation System (FECS) is the electronic data processing system for FECA benefits. The FECS supports the Department of Labor's general ledger.

The FECS provides authorized users with on-line access to the various subsystems for file maintenance and information purposes. Access to the FECS through computer terminals located in the National and 12 District offices permits authorized users to perform a variety of functions, such as query, add, and update claims data, track claims and overpayments, calculate retroactive benefit payments and enroll approved claimants for benefits in the FECS.

In addition to storing information relevant to claims adjudication, benefit entitlement and payment status, the FECS generates reports primarily used by management in administering the FECA program. The System also processes payments for covered medical expenses and monthly and supplemental benefit payments to or on behalf of program beneficiaries.

System Components

The FECS computer system is comprised of the following five subsystems:

- Case Management File (CMF)
- Automated Compensation Payment System (ACPS)
- Central Bill Processing System (CBP)
- Chargeback System (CBS)
- Debt Management System (DMS)

The following provides a brief description of each FECS subsystem.

Case Management File

The primary function of CMF is to record the receipt of claims for FECA benefits and the steps taken in the adjudication of those claims including the recording of information related to the injured workers' eligibility for compensation and/or medical benefits. This system enables users to create, maintain, and track case-specific records.

Automated Compensation Payment System

The primary function of ACPS is to process the payment of weekly, monthly and supplemental (lump sum) benefits to claimants. The ACPS interfaces with CMF to ensure that a valid case number supports an approved claim.

SECTION 3B
Division of Federal Employees' Compensation
Description of Controls

Central Bill Processing System

OWCP uses a third party provider, ACS, to process medical bill payments. The CBP covers all aspects of bill processing from the receipt of paper and electronic bills, the imaging and data entry of paper bills; editing of bills against criteria established by DFEC; resolution of suspended bills and the creation of payment files that are sent to DFEC for transmission to Treasury. Although ACS maintains the CBP, it provides files to DFEC which are used to update the CMF and the Chargeback System, and therefore, is included here as part of FECS.

Chargeback System

The primary function of the CBS or the Intra-Governmental Accounts Receivable System is to produce an accurate, complete, and detailed chargeback billing list, used to bill the appropriate Federal agencies on an annual basis for benefit payments made on their behalf.

Debt Management System

The primary function of DMS is to provide a system of recording and tracking accounts receivable as a result of overpayments to claimants, reimbursements from third parties, and application of cash received from the public. The fund control component of DMS records data on disbursements and receipts in each District office that is used in preparing the monthly SF-224 for Treasury.

System Description

The District office mini-computers use the telecommunications equipment located at the National office in order to transmit data in an acceptable format either to the National office mini-computers or to the SunGard mainframe.

The National office mini-computers are used to gather data from the District offices to produce system wide reports. Each District office generates an accounting report and sends a copy to the National office. The National office compares the two accounting reports to ensure that the data is identical. The mini-computers at the National office contain the master reference tables and any changes/modifications to these tables are distributed among the District office mini-computers. In addition, the Branch of Hearings and Review, the District office located in the Department of Labor, uses the National office mini-computers.

The CBP system is accessed by DFEC staff via a secure web portal. DFEC staff may query paid, denied and suspended bills, adjustment requests, pending and final medical authorizations, correspondence, bill images, appeals, and reports. In addition, a connection for the exchange of data between DFEC and ACS is maintained between DFEC and the ACS mail facility in London, Kentucky.

SECTION 3B
Division of Federal Employees' Compensation
Description of Controls

Organization and Administration

A System Administrator within DFEC's Branch of ADP Coordination and Control is responsible for overseeing all data processing activities at the National office level. DFEC has contracts with outside computer consulting firms who provide software development and maintenance and network and computer hardware maintenance for DFEC.

At each District office, a System Manager is responsible to the District Director and Regional Director for overseeing all the data processing activity performed at the District office level (including user access). The Systems Managers are under the supervision of the Division of Information Technology Management and Services (DITMS). DITMS includes both Federal government employees and outside contractors. The System Managers have access to system data for report generation and submission purposes. The System Managers can only extract information from the database, not change any of the source codes (i.e., programs).

The function of the DITMS is to maintain computer networks, operating systems and computer hardware systems. The DITMS installs all of the data processing applications and modifications developed by DFEC. In addition, DITMS employs and supervises all District office system managers and subordinate staff.

Operations

DOL's Directorate of Information Resource Management (DIRM) contracted with SunGard eSourcing, Inc. (SunGard), for computer mainframe time-sharing services. SunGard provides computer hardware and a communications network between the National office and the District offices. In addition, SunGard maintains a tape library and disk drive backup.

FECS encompasses four levels of hardware, software, communications, supplies and facility resources: SunGard mainframe, National office Sequent minicomputers, District office Sequent minicomputers and the user and programmer development terminal personal computers with authorized access into the mainframe or mini-computer system. The National office servers maintain the secure link between OWCP and Treasury which was previously maintained between SunGard and Treasury.

Formal operator and user manuals are available for some components of the system. The software contains extensive input edit checks. Errors are automatically rejected by the system and queued for review by the appropriate individuals. Reports that track the errors, including aging information, are routinely produced.

Access

Access to the FECS is limited to only certain employees, and their degree of access is based upon the users' functions within the program. The FECA ADP Security Officer within the Branch of ADP Coordination and Control is responsible for assigning passwords and other

SECTION 3B
Division of Federal Employees' Compensation
Description of Controls

procedures required to permit access to the FECS at the National office; District System Managers are responsible for assigning passwords and other procedures required to permit access to the FECS at the District office level. Controls to restrict access to the FECS to authorized personnel, at both the National and District office level include the following:

- A security briefing is given for each person having access to the system;
- Access and an access profile for authorized users are established through a security software package (Access Control Facility);
- Computer Information Control System establishes terminal access to the host computer;
- Log-on attempts are restricted to three attempts;
- An audit trail report of unauthorized attempts to access the system is available;
- Terminals are secured in locked rooms at the end of the work day; and
- Written procedures exist for both physical hardware and software security.

Documentation

Hardware: DITMS maintains an extensive list of the hardware used in the FECS processing at all sites.

Software: DITMS maintains an extensive list of the third party software used in the FECS processing which includes operating system software, compilers and utilities. DFEC is responsible for the maintenance of FECS application software. OWCP requests hardware and software modifications, DFEC designs and tests the modifications, and DITMS installs the modifications.

Acceptance testing is performed using an environment that closely copies the development environment. The procedures used for the acceptance testing varies according to subsystem. No formal documentation of the acceptance testing is maintained. However, DFEC maintains a history of all prior source code versions which provides evidence of all modifications of the source code.

The System Administrator has two assistants. One is responsible for computer design development, programming and analysis, and the other is responsible for evaluating the testing of all new and modified source codes (programming) including the distribution to the District offices and the supervision of all staff programmers.

Anti-Virus Control

The FECS currently runs a variety of anti-virus or virus checking routines. Each file server runs an anti-virus module resident on the server. Anti-virus software is used to scan disks to identify and remove viruses. All of the personal computers utilize anti-virus software that can be run in a scheduled or unscheduled ad hoc mode.

SECTION 3B
Division of Federal Employees' Compensation
Description of Controls

OVERVIEW OF TRANSACTION PROCESSING

Identification and Registration of the Recipient of FECA Benefits

Authorized recipients of FECA benefits are those individuals who meet all five eligibility criteria. Workers with an injury or occupational illness can submit claim information to the District office that serves the geographical location in which the claimant resides. Claims are processed by the District office using the Case Management File (CMF) system.

The CMF uses a standard identification number of nine characters to identify each case file. This number is called the case number. All recipients of FECA benefits must have a unique case number recorded in the CMF, some individuals could have multiple case numbers if the individual has sustained more than one injury.

The CMF maintains an automated data file which identifies all recipients who have filed claims with FECA. These records contain data elements that identify the claimant, the mailing and/or location address for the claimant, and additional injury and case status information.

Benefit Payments - Compensation

FECA claimants may be entitled to compensation for injury, occupational illness and lost wages, schedule awards, death benefits and payment of medical expenses related to the work-related injury or illness. The payments for lost wages, schedule awards and death benefits are processed through the Automated Compensation Payment System (ACPS).

Continuing Eligibility Requirements - Current Medical Evidence

OWCP requires the periodic review of medical evidence to verify continuing disability. The frequency of the medical review required depends on the type of compensation the claimant is receiving. Some claimants are required to submit medical evidence annually and others every 2 to 3 years.

Where occupational illness or injury-related disability has ceased, the CE is to notify the claimant of proposed termination of benefits. OWCP has the burden of proof to justify the termination of benefits by positive and specific evidence that occupational illness or injury-related disability has ceased. The inadequacy or absence of a report in support of continuing benefits is not sufficient to support termination, and benefits should not be suspended for that reason.

Continuing Eligibility Requirements - Current Earnings and Dependent Information

OWCP mails each claimant receiving disability benefits a Form CA-1032 each year. The Form CA-1032 requires that the claimant verify the status of their dependents and report any and all earnings by the claimant. The information reported by the claimant on Form CA-1032 is to be reviewed by a claims examiner and the compensation rate or amount adjusted accordingly.

SECTION 3B
Division of Federal Employees' Compensation
Description of Controls

Additionally, OWCP sends claimants a CA-935 Cover Letter and a SSA-581, *Authorization to Obtain Earnings Data from the Social Security Administration*, request form. Earnings may be requested from the Social Security Administration (SSA) on Form CA-1036 to determine whether an adjustment is needed to a claimant's compensation rates. A claimant's compensation rate can be adjusted based on the information supplied by the SSA in response to Form CA-1036. The ACPS system must be changed to reflect the information updated by the SSA to ensure that benefits are being paid at the proper compensation rate.

Schedule Awards

To support a schedule award, the file must contain competent medical evidence which: 1) shows that the impairment has reached a permanent and fixed state and indicates the date on which this occurred; 2) describes the impairment in sufficient detail for the claims examiner to assess the character and degree of disability; and 3) gives a percentage evaluation of the impairment.

Death Benefits

Supporting documentation for the establishment of death claims and rights of the beneficiary include, as applicable: 1) death certificates; 2) names and addresses of next of kin; 3) marriage certificates (civil certificates); 4) birth certificates for each child; 5) divorce, dissolution, or death certificates for prior marriages; and 6) itemized burial bills, if paid.

Periodic review of death benefits is performed annually by the CE by utilizing Form CA-12, *Claim for Continuation of Compensation*. For children, grandchildren and siblings receiving death benefits, Form CA-1615 is released to the guardian three months before the child reaches the age of 18 to determine continuing entitlement to compensation on the basis that the child is a student incapable of self-support.

Amount of Compensation Payment

The CE is responsible for determining the factors used in computing compensation. ACPS performs the compensation payment calculations, and the Branch of ADP Coordination and Control is responsible for system updates.

Compensation payments are periodically adjusted to reflect the increase in the cost of living. Consumer Price Index (CPI) adjustments are automatically calculated by the ACPS. The primary function of ACPS is to process the payment of weekly, monthly, and supplemental (lump sum) benefits to claimants. The ACPS interfaces with the CMF to ensure that approved claims are supported by valid case numbers. District office personnel input compensation payment data worksheets into the ACPS. The inputs onto the payment data worksheets are reviewed for accuracy by a Senior Claims Examiner. If the information is correct, no further action is required, and payments will be made during the next appropriate payment cycle.

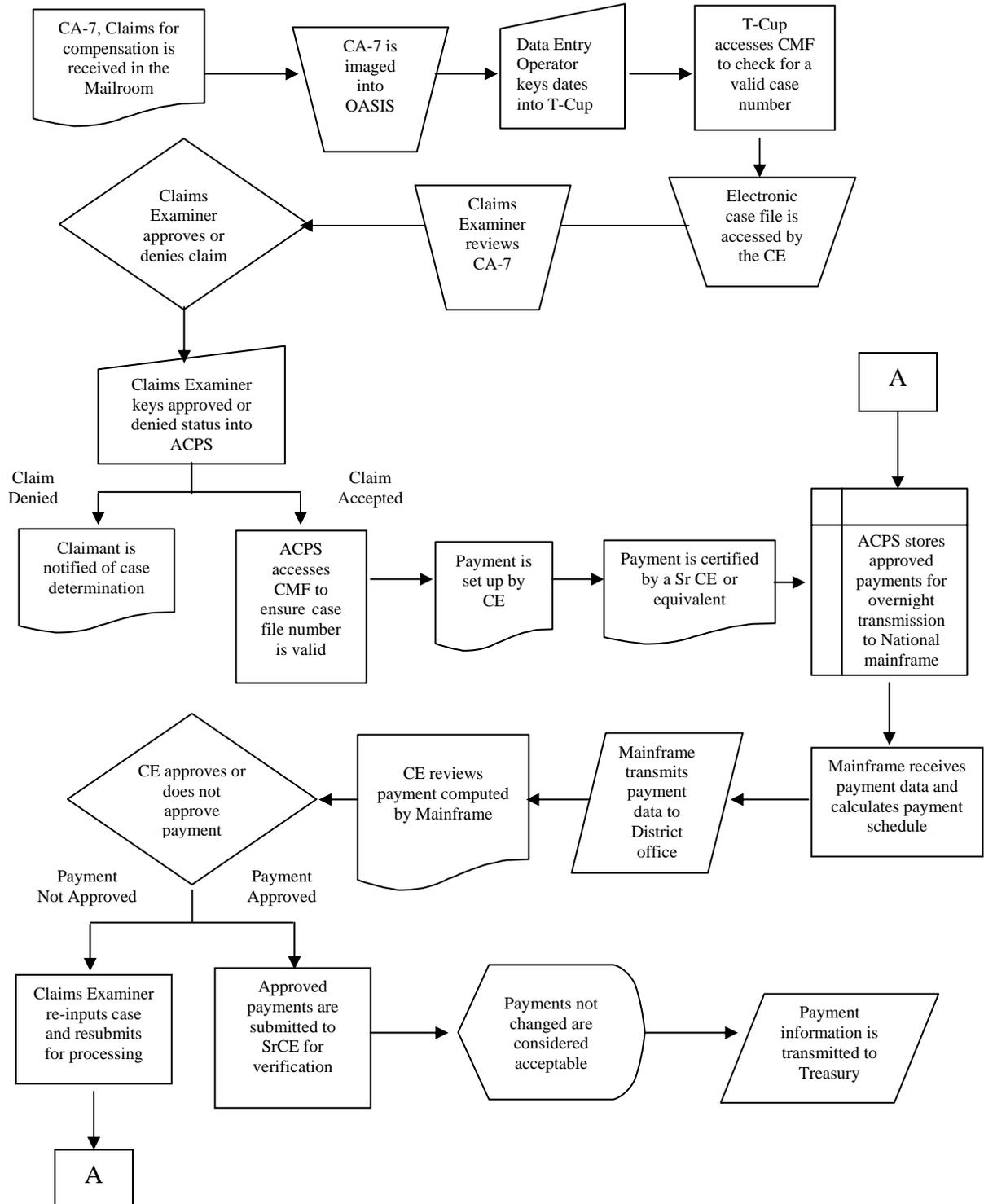
SECTION 3B
Division of Federal Employees' Compensation
Description of Controls

Approved payments are stored in a temporary file for the duration of the appropriate compensation payment cycle: Daily Roll (5 days), Death Benefits (28 days), or Disability (28 days). At the end of the cycle, the mainframe runs automated programs to format the data to Treasury specifications, to update the compensation payment history files for use in the Chargeback System, and to send summarized information to the District office fund control system. The specially formatted Treasury information is sent to Treasury via a secure modem over a dedicated line for payment processing.

SECTION 3B
Division of Federal Employees' Compensation
Description of Controls

The following chart sets forth an overview of transaction processing at DFEC:

Processing of Compensation Payments



SECTION 3B
Division of Federal Employees' Compensation
Description of Controls

Benefit Payments – Medical Bills

In September 2003, OWCP began processing medical bills using a third party contractor and following a new business model. Under the new model, the bill processing activities are decoupled from the claims examination and adjudication functions. This allows the bill processing functions to be executed independently while preserving the CE authorization function.

To support the independent processing of bills, business rules and decisions have been grouped into “Treatment Suites”. These consist of a diagnosis or diagnoses (expressed as ICD-9CM codes) linked to the medical procedures, pharmaceuticals, and other services used in its treatment. This concept allows for the consistent application of DOL/OWCP policy across programs, minimizes the need for manual review, and keeps the CE informed of the nature and quantity of treatment for a given accepted condition.

Within this model, bills are now processed centrally, incorporating automated processing of business rules and policies. Responsibilities linked to the bill processing functions were reallocated, and new relationships defined. The new responsibilities are outlined below.

Program Responsibilities

OWCP National Office

- Manage subservicer contract.
- Develop and update medical policy (business rules).
- Define and maintain treatment suites, service limitations, fee schedules, etc.
- Provide medical review oversight.
- Define technical interfaces.
- Manage technical interfaces between the contractor and the National and District offices.
- Ensure resolution to technical issues.
- Perform quality reviews and/or review results of contractor conducted quality reviews.
- Review for fraud and abuse.
- Perform utilization review.
- Establish performance and quality metrics.
- Review of internal QA product and process audits.
- Evaluate the process.
- Perform trend analysis on bill payment data.
- Establish provider file parameters.

SECTION 3B
Division of Federal Employees' Compensation
Description of Controls

OWCP District Offices

- Determine accepted conditions (including appeals) in case management systems or files.
- Perform and/or approve prior authorization requests.
- Adjudicate bills suspended for eligibility issues.
- Provide feedback to National office regarding the medical policy.

Bill Processing Contractor

The Bill Processing Facility is managed and manned by the contractor, who is responsible to:

- Input and process bills.
- Provide remittance advice to providers and claimants.
- Provide working hour support to claimants and providers for inquiries and appeals.
- Provide electronic file of approved payments for transmission to the Treasury Department.
- Provide medical review recommendations to a Claims Examiner for prior authorization requests and appeals related to accepted conditions.
- Provide timely and accurate reports to OWCP.
- Provide assistance to DOL/OWCP in coding using the ICD-9 nomenclature to ensure the specificity and accuracy of ICD-9 codes assigned as accepted conditions.
- Provide statistics for quality reviews including utilization review and fraud and abuse detection.
- Assist in table maintenance, including Provider Master File.
- Manage and track correspondence and inquiries.
- Maintain interfaces as defined by DOL/OWCP.
- Maintain, retain, and make available bill payment history as needed by the programs.

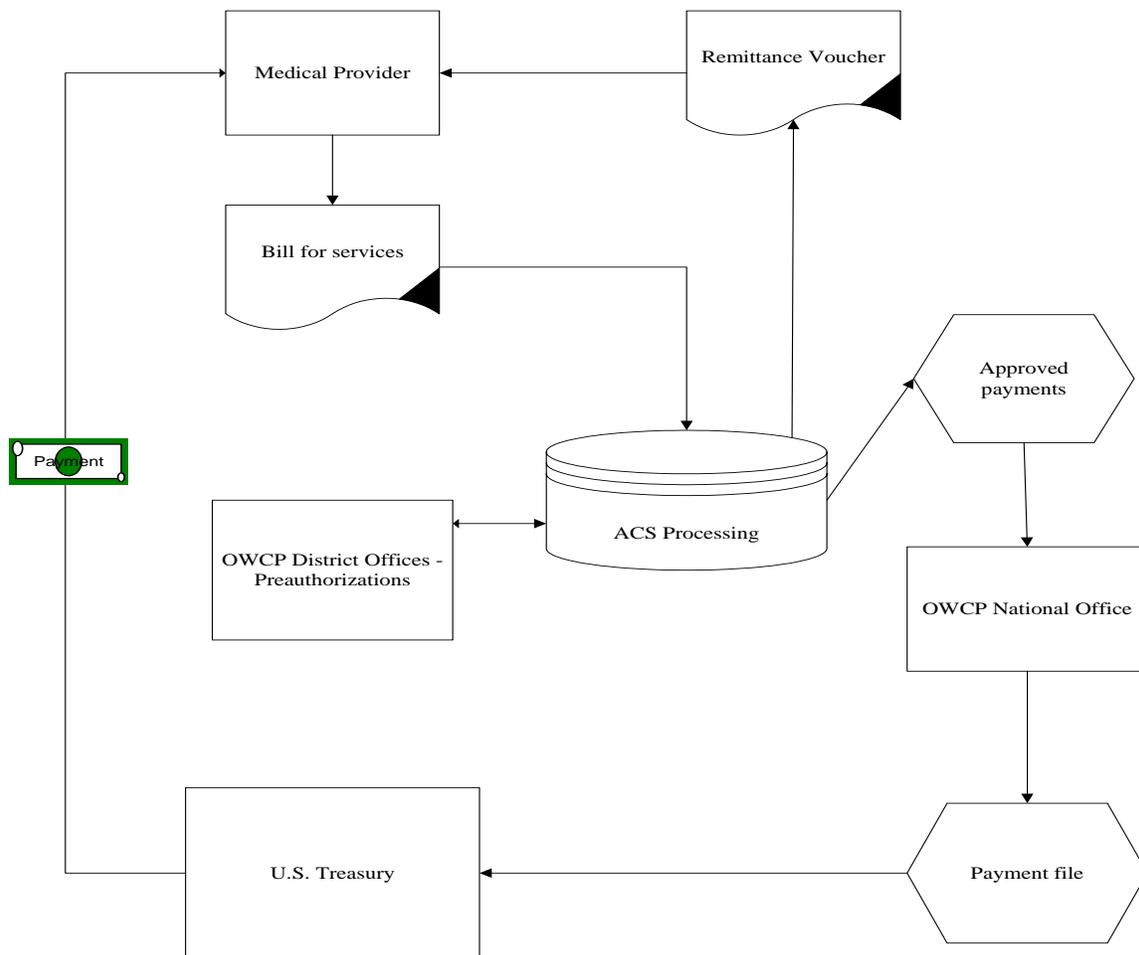
The Treatment Suite

Key to the new medical bill process is the treatment suite. The new model provides the logic for incorporating DOL/OWCP business rules into the automated edits and activity flows of the bill processing function. Based on the ICD-9 code approved by the District office as work-related, services acceptable for payment are identified and expressed in terms of Current Procedural Terminology (CPT) codes, Healthcare Common Procedural Coding System (HCPCS) codes, Diagnosis Related Group (DRG) codes, National Drug Codes (NDC), and other nomenclatures. Additionally, services can require prior authorization and/or be bundled into packages, such as surgery or home health care. If a package is authorized for an accepted condition, all services within the package are authorized for payment.

SECTION 3B
Division of Federal Employees' Compensation
Description of Controls

The following chart sets forth an overview of transaction processing by DFEC and ACS:

Processing of Medical Bill Payments



Approved payments are stored in a temporary file on the Bill Pay Contractor's system for the duration of the bill payment cycle of 7 days. At the end of the cycle, the Bill Pay Contractor runs automated programs to format the data to meet Treasury specifications. Payment files and history update files are sent from the CBP system to the DFEC National office. Treasury payment files are sent to the Treasury facility in Philadelphia, Pennsylvania. The specifically formatted and encrypted Treasury information is transmitted to Treasury via a dedicated line.

SECTION 3B
Division of Federal Employees' Compensation
Description of Controls

Fee Schedules

The payments of medical bills are made in accordance with fee schedules established by OWCP. The fee schedule is applicable to charges for services by medical professionals. OWCP also applies a schedule to certain durable medical equipment, supplies and other items or services covered under the program. The covered services are for one of the following: (1) Inpatient Services; (2) Outpatient Services; (3) Ambulatory Surgical Center Services; (4) Prescription Drugs; (5) Other Services; and (6) Home Health Services.

Inpatient Services: Inpatient hospital services provided under FECA are subject to a reimbursement schedule based on the Medicare Prospective Payment System (PPS). That system assigns services to diagnostic-related groups (DRGs) and adjusts rates for individual hospitals according to their specific cost index. OWCP uses the Medicare DRG program and their hospital cost indices, but has devised its own reimbursement formulae. Inpatient services not covered under the Medicare PPS are reimbursed under a formula that is based on the cost-to-charge ratio (CCR) data tables published by the Centers for Medicare and Medicaid Services (CMS) for rural and urban hospitals in each state.

Outpatient Services: Ancillary charges for hospital outpatient services (emergency room, recovery room, operating room) are paid under the appropriate Revenue Center Code (RCC). All outpatient professional services are paid under the appropriate CPT/HCPCS/OWCP procedure codes.

Ambulatory Surgical Center Services: Bills from Ambulatory Surgical Centers are paid using a multiplier of 175% for each service charged, with the highest priced procedures to be paid at 100% and secondary, tertiary and all other procedures at 50% of the maximum allowable charges. Actual payment is based on the lesser of the calculated payment rate or the billed charged.

Prescription Drugs: The maxima allowable for pharmacy billings are based on the *Blue Book* Average Wholesale Price (AWP) for prescription drugs plus a dispensing fee, or the billed amount, whichever is less.

Other Services: OWCP establishes maxima for certain services, items of durable medical equipment, facility use fees, and other charges not currently on the schedule. Providers are notified of major schedule changes. All fees without an OWCP-established maxima are subject to review based on prevailing reasonable and customary charges in the area where the service was provided.

Home Health Services: Home health services are paid under the appropriate HCPCS codes.

Other factors used in calculating reimbursement amounts are Geographic Practice Cost Index values (GPCI) and OWCP Conversion Factors. GPCI values are specific to geographic locations most recently defined by the Bureau of the Census as Metropolitan Statistical Areas (MSA).

SECTION 3B
Division of Federal Employees' Compensation
Description of Controls

Conversion Factors for converting Relative Value Units (RVU) and GPCI into maximum dollar amounts per medical service or item based on program-specific data, and national billing data from other Federal programs, state workers' compensation programs and the U.S. Department of Labor's Bureau of Labor Statistics consumer price index (CPI) data have been devised by OWCP.

Chargeback System

The ACPS and CBP history files are combined on a quarterly and annual basis into the Chargeback System (CBS). CBS is used to generate financial data that is interfaced into DOL's core financial management system, DOLAR\$. CBS also provides a method for tracking intra-governmental accounts receivable activity and for billing Federal agencies.

DFEC is required to furnish to each agency and instrumentality, before August 15th of each year, a statement or bill showing the total cost of benefits and other payments made for the program year which is from July 1 through June 30. CBS creates the bills which are sent to each employing agency for benefits that have been paid on the agency's behalf.

Each agency is required to include in its annual budget estimates for the fiscal year beginning in the next calendar year, a request for an appropriation for the amount of these benefits. These agencies are to reimburse the Special Benefit Fund the amount appropriated for these benefits within 30 days after the appropriation is available. If an agency is not dependent on an annual appropriation, then the funds are to be remitted during the first 15 days of October following the issuance of the bill.

The bills sent to agencies contain identifying codes for both the fiscal year being billed and the fiscal year in which the bill is to be paid. Each bill sent out in fiscal year 2003 and due in fiscal year 2004 would be coded as follows: 03-XXX-04. The 03 indicates the year the bill is generated, the XXX indicates the numerical sequence of the bill, and the 04 indicates the year that the bill is due and payable.

The Intra-Governmental Payment and Collection (IPAC) system is utilized to facilitate the electronic billing between Federal agencies through Treasury. Agencies can use IPAC to complete payments by choosing the IPAC payment option in Treasury's GOALS II system and entering the required payment information to complete the transaction and transfer funds.

Third Party Settlements

An injury or death for which compensation is payable to a FECA claimant that is caused under circumstances creating a legal liability on a person or persons other than the United States (a third party) to pay damages will result in the case being classified as a third party case. Status codes are used to track the progress of third party cases in the CMF. OWCP generally requires the claimant to pursue legal action; however, the United States government can pursue action on its own by requiring the beneficiary to assign rights of action to the United States.

SECTION 3B
Division of Federal Employees' Compensation
Description of Controls

A case may be closed as "minor" and not pursued if the claimant has an injury where the total medical bills, compensation and time lost from work do not exceed or are not expected to exceed \$1,000. Any case where compensation must be paid for wage loss does not qualify as this type of "minor" claim.

When a settlement is reached in a third party case, the DCE prepares a summary of all disbursements made to the claimant for compensation payments and to medical providers on the claimants behalf, and forwards it to the Fiscal Section. If an amount owed from the claimant is received by OWCP, the amount is credited against the ACPS and CBP, as appropriate. By recording the amount in the ACPS and CBP, the proper employing agency is credited with the amounts recovered from third party settlements.

If a full reimbursement from the third party refund is not received by OWCP from the claimant, an accounts receivable balance is set up for the amount still due. If the amount recovered by the claimant exceeds the amount already paid by OWCP to the claimant for compensation and medical benefits, then the excess amount recovered by the claimant is recorded and tracked in the case file to prohibit any additional benefits from being paid to the claimant until the amount of eligible benefits to the claimant exceeds the excess amount.

SECTION 3B
Division of Federal Employees' Compensation
Description of Controls

CONTROL OBJECTIVES AND RELATED CONTROLS

DFEC's and ACS's control objectives and related controls are included in Section 3C of this report, "Information Provided by the Service Auditor," to eliminate the redundancy that would result from listing them here. Although the control objectives and related controls are included in Section 3C, they are, nevertheless, an integral part of DFEC's and ACS' description of controls.

USER CONTROL CONSIDERATIONS

DFEC's and ACS' processing of transactions and the controls over transaction processing were designed with the assumption that certain internal controls would be in operation at user organizations to complement the controls at DFEC and ACS. User auditors should determine whether user organizations have established internal controls that ensure the following:

- Employing agencies understand their responsibilities under FECA.
- Employing agencies provide injured employees with accurate and appropriate information regarding injuries covered under FECA, including the employees' rights and obligations and claim forms.
- Employing agencies timely and accurately report all work-related injuries and deaths to DFEC via the injury and death reporting forms such as the CA-1, CA-2, and CA-5, once completed by injured employee or claimant in the case of death. Supervisors should encourage persons witnessing injuries to record and report what was witnessed to DFEC.
- Employing agencies provide complete and accurate information regarding a claimant's rate of pay, hours worked, leave taken, and continuation of pay to DFEC.
- Employing agencies promptly controvert questionable claims.
- Employing agencies monitor the medical status of injured employees to be aware of what work the injured employee is capable of to enable the employing agency to provide additional information on the requirements of a position, or modified position, when applicable.
- Employing agencies assist DFEC in returning employees to work by establishing or identifying positions, either modified or light-duty, to return the injured employee to work as early as possible. The employing agency also needs to inform DFEC directly of the positions available.
- Employing agencies review the chargeback coding notification (postcard) sent by DFEC when an injury report is received to ensure the individual will be charged to the proper agency and department.
- Employing agencies review quarterly chargeback billings to ensure that each injured employee charged to their department and agency are employees or former employees of the agency, and that the amounts charged for compensation costs appear reasonable in light of the injured employee's compensation and the date of injury.

SECTION 3C
Information Provided by the Service Auditor

OVERVIEW OF INFORMATION PROVIDED

This report is intended to provide users of the FECA Special Benefit Fund with information about the controls at the DFEC and ACS that may affect the processing of user organizations' transactions and also to provide users with information about the operating effectiveness of the controls that were tested. This report, when combined with an understanding and assessment of the internal controls at user organizations, is intended to assist user auditors in (1) planning the audit of the user organizations' financial statements and (2) assessing control risk for assertions in user organizations' financial statements that may be affected by controls at DFEC and ACS.

The Department of Labor, Office of Inspector General, developed a Five-Year Risk-Based Audit Plan which targets specific DOL financial and financial-related systems for reviews during each audit cycle. This methodology involved assessing the risk ratings for each application and environment in five risk areas. The intent of this audit strategy is to ensure that all critical applications are given a complete FISCAM audit over approximately a 5-year period. Risk factors will be re-evaluated each year to ensure the risk rating remains appropriate and accurate. In FY 2004, in addition to FECA application control testing, the audit approach included follow-up on the status of prior FECA ACPS general computer control exceptions. Two exceptions noted were the continued lack of completed Data Sharing forms from user organizations prior to allowing access to data from the FECA system, and contingency and disaster recovery plans have not been completed and tested.

Our testing of DFEC's transaction processing and application controls and the testing of CBP general computer controls, based on the report of other auditors, was restricted to the control objectives and the related controls listed in this section of the report and was not extended to procedures described in Section 3B but not included in this section or to procedures that may be in effect at user organizations. It is each user auditor's responsibility to evaluate this information in relation to the internal controls in place at each user organization. If certain complementary controls are not in place at user organizations, DFEC's and ACS' internal controls may not compensate for such weaknesses.

TESTS OF CONTROL ENVIRONMENT ELEMENTS

The control environment represents the collective effect of various elements in establishing, enhancing or mitigating the effectiveness of specific controls. In addition to tests of operating effectiveness of the controls listed in this section of this report, our procedures also included tests of, and consideration of, the relevant elements of the DFEC's control environment including: 1) DFEC's organizational structure and the segregation of duties; 2) management control methods; and 3) management policies and procedures.

Such tests included inquiry of appropriate management, supervisory, and staff personnel; inspection of DFEC's documents and records, and observation of DFEC's activities and operations. The results of these tests were considered in planning the nature, timing, and extent of our tests of the specified controls related to the control objectives described within this report.

SECTION 3C
Information Provided by the Service Auditor
ACPS and CBP Transaction Processing Controls

SAMPLING METHODOLOGY

To facilitate the testing of transaction processing controls, we developed a sampling plan as outlined below.

Continuing Compensation and Medical Bills

We performed tests on a sample of compensation for lost wages, schedule awards, death benefits (continuing compensation) and medical benefit payments paid during the period October 1, 2003 to March 31, 2004, at 5 of 12 District offices. The sample design involved a two-stage process.

The first stage in our sample design was the selection of District offices. District offices were randomly selected by first forming two strata of the districts and then taking all the districts from the first strata, and selecting three districts from the second strata. This procedure resulted in the selection of five District offices. The five District offices comprised approximately \$647 million of the \$1.27 billion or 51 percent, of FECA payments during the six-month period ended March 31, 2004.

The second stage of the sample design was the selection of sampling units. The sampling unit was a medical bill (represented by a Transaction Control Number) or the total compensation payments paid to a single case number for the sampling period. The universe of the sample districts was stratified into 13 strata for the compensation payments and into 12 strata for the medical payments. The sample size was determined for each of the 13 strata for compensation and 12 strata for the medical payments using the following parameters:

- Total number of items and dollar value of the strata universe;
- Estimated variance within each strata;
- 95% confidence level (5% risk of incorrect acceptance);

Using statistical formulas, these parameters yielded a total sample of 487 items. Of the total sample, 203 were medical bill payments and 284 were compensation payments. The sample items were then randomly selected. However, based on our initial testing results, we expanded our medical bill sample and randomly selected an additional 155 medical bills from the statistical sample, resulting in a total of 358 medical bills tested.

Our detailed substantive testing was performed at the following District offices with the following number of items tested (including the additional medical bill sample):

<u>District Office</u>	<u>Number of Statistical Items</u>
Boston	126
New York	123
Philadelphia	113
Jacksonville	144
Dallas	<u>136</u>
Total	<u>642</u>

SECTION 3C
Information Provided by the Service Auditor
ACPS and CBP Transaction Processing Controls

Our testing at the District offices consisted of control tests in the following categories:

- Case Creation
- Initial Eligibility
- File Maintenance
- Continuing Eligibility - Medical Evidence
- Continuing Eligibility - Earnings Information
- Accuracy of Compensation Payments
- New Schedule Awards
- Medical Bill Payment Processing
- Third Party Settlements

The number of sample items for control tests was statistically selected based on the sampling plan detailed previously. The number of sample items tested was determined based on the number of items to which the test of controls applied. The control tests would not be applicable to some sample items due to factors such as the age of the injury. Additional testing was performed on items that were selected in a non-statistical method as follows:

Initial Eligibility Cases

Audit queries were generated which determined all of the cases in which claimants were injured and began receiving compensation during the sampling period of October 1, 2003 to March 31, 2004. From a population of 7,526 initial eligibility cases in the 5 District offices tested, 10 cases per District office, for a total non-statistical sample of 50, were selected. We reviewed the case files to ensure that the proper procedures had been followed in determining whether or not the claimants were eligible to receive benefit payments and whether benefit payments were paid at the correct amount.

Multiple Claim Payments

Audit queries were generated which compared certain elements of each compensation payment made during the period October 1, 2003 to March 31, 2004. The query compared case files in which the social security number was the same for multiple case files. This situation would normally occur when an employee has suffered more than one injury, as a separate case number is assigned for each injury. We selected a non-statistical sample of 50 multiple claim compensation payment items to be tested and analyzed the payments to ensure that a claimant was not receiving excessive or overlapping compensation.

Third Party

Audit queries were generated which determined all claimants that had a third party status indicator in the CMF. We then randomly selected a non-statistical sample of 50 cases from a population of 374 cases with third party indicators, active within the sampling period, in the District offices in which test work was to be performed.

SECTION 3C
Information Provided by the Service Auditor
ACPS and CBP Transaction Processing Controls

Current Medical Evidence

Audit queries were generated which determined all claimants with a short term disability status, on which compensation was currently being paid, but for which no medical payments were made in the past two years, to determine which cases may not have current medical evidence. We then randomly selected a non-statistical sample of 50 cases from a population of 9,473 cases which met our query definition, in the District offices in which testwork was to be performed.

Summary of Sample Items

The following sample items were selected for substantive testing of transactions:

Sample Type	Boston	New York	Philadelphia	Jacksonville	Dallas	Sub-total	Total
Continuing Compensation (S)	57	49	49	68	61	284	642
Medical Bills (S)	69	74	64	76	75	358	
Initial Eligibility (N)	10	10	10	10	10	50	100
Multiple Claim (N)	10	10	8	12	10	50	
New Schedule Awards (N)	10	10	10	10	10	50	50
Current Medical (N)	10	10	10	10	10	50	50
Potential Duplicates (N)	10	10	10	10	10	50	50

The following sample items were selected for testing of internal controls:

Sample Type	Boston	New York	Philadelphia	Jacksonville	Dallas	Sub-total	Total
Continuing Compensation (S)	42	43	43	47	40	215	379
Medical Bills (S)	32	32	32	34	34	164	
Initial Eligibility (N)	10	10	10	10	10		50
Third Party (N)	6	10	10	10	14		50
New Schedule Awards (N)	10	10	10	10	10		50

(S) – Statistically selected sample

(N) – Non-statistically selected sample

SECTION 3C
Information Provided by the Service Auditor
ACPS and CBP Transaction Processing Controls

CONTROL OBJECTIVES, RELATED CONTROLS, AND TESTS OF CONTROLS

This section presents the following information provided by the DFEC and ACS:

- The control objectives specified by management of DFEC and ACS.
- The controls established and specified by DFEC and ACS to achieve the specified control objectives.

Also included in this section is the following information provided by the service auditors:

- A description of the tests performed in regard to the described controls by the service auditors to determine whether DFEC's and ACS' controls were operating with sufficient effectiveness to achieve stated control objectives.
- The results of the service auditors' tests of the described controls.

Transaction processing controls for compensation and medical benefit payments were tested in the following areas:

- | | |
|--|--------------------------------------|
| 1. Case Creation | 6. Accuracy of Compensation Payments |
| 2. Initial Eligibility | 7. New Schedule Awards |
| 3. File Maintenance | 8. Medical Bill Payment Processing |
| 4. Continuing Eligibility - Medical Evidence | 9. Third Party Settlements |
| 5. Continuing Eligibility - Earnings Information | |

Control Objective 1: Case Creation - Controls provide reasonable assurance that case files were set up properly initially and information related to the claimant was input into the computer systems correctly.

Description of Controls:

The FECA Procedure Manual 2-401(3) and (4) contains the requirements for proper set up of the case file and input into the appropriate computer systems.

The manual assigns the duties of keeping the case management file data accurate and up-to-date to the CE. The case management file is set up by a Case Create Clerk and from this set up, a case number is assigned and notated on the CA-1 or CA-2. The claim documents are then imaged. Accurate data in the CMF is essential to ensure that the information used to set up the ACPS is correct. Once the ACPS is set up for each claimant, all vital data must be updated in both the CMF and ACPS. This data includes such items as the claimant's name, address, date of birth, social security number, chargeback code and date of injury. The CE verifies the accuracy of the information entered by the Case Create Clerk by comparing Form CA-1, CA-2 or CA-5 completed by the claimant to the information in the CMF.

SECTION 3C
Information Provided by the Service Auditor
ACPS and CBP Transaction Processing Controls

The employing agency is charged with the responsibility of providing the chargeback code on the CA-1, CA-2, or CA-5. If the employing agency does not designate a chargeback code, the Case Create Clerk determines which chargeback code should be applied based on the employing agency. Once the case file is created, a postcard is sent to the employing agency to confirm the chargeback code. A negative confirmation process is used.

Tests of Described Controls:	Results of Tests:
<p>For a non-statistical sample of 50 case creation items, we compared case originating forms, such as Forms CA-1, CA-2 and CA-5, to the information contained in the CMF and ACPS to ensure that the case origination process resulted in the proper setup of the case files (to include agency chargeback codes) and related computer systems with current and accurate information.</p>	<p>Two of the 50 items tested did not have the correct third party indicator. No other exceptions were noted.</p>

Control Objective 2: *Initial Eligibility* - Controls provide reasonable assurance that each participant met the requirements of 1) time; 2) civil employee; 3) fact of injury; 4) performance of duty; and 5) causal relationship prior to acceptance as an eligible participant.

Description of Controls:

An injured worker must satisfy five basic criteria to be eligible for compensation benefits. These criteria are: 1) time; 2) civil employee; 3) fact of injury; 4) performance of duty; and 5) causal relationship.

1) Time - The FECA Procedure Manual 2-801(3) contains the requirements for the filing of notice of injury or occupational disease. A timely notice of injury must be filed for a claimant to be eligible for compensation payments. The time period filing requirements are specified in 5 U.S.C. 8119. For injuries on or after September 30, 1974, written notice of injury must be filed within 30 days after the occurrence of the injury. The FECA Procedure Manual 2-801(3) also contains the requirements for filing a compensation claim. A timely compensation claim must be filed for a claimant to be eligible for compensation payments. The time period filing requirements are specified in 5 U.S.C. 8122. For injuries on or after September 30, 1974, compensation claims must be filed within 3 years after the occurrence of the injury. A few exceptions to these requirements are allowed.

2) Civil Employee - The FECA Procedure Manual 2-802(2) and (4) contain the requirements for determining whether an individual meets the second of the five requirements for benefits, being a civil employee. The definition of a civil employee is in 5 U.S.C. 8101(1). Basically, status as a civil employee is met when: a) the service performed for the reporting office by the individual was of a character usually performed by an employee as distinguished from an independent contractor; and b) that a contract of employment was entered into prior to the injury.

SECTION 3C
Information Provided by the Service Auditor
ACPS and CBP Transaction Processing Controls

3) Fact of Injury - The FECA Procedure Manual 2-803(3)(a) contains the requirements for the "fact of injury." The fact of injury consists of two components which must be considered in conjunction with each other. First is whether the employee actually experienced the accident, event or other employment factor which is alleged to have occurred; and, second is whether such accident, untoward event or employment factor caused a personal injury.

The FECA Procedure Manual 2-803(5) contains the requirements for the evidence necessary to establish the occurrence of an unwitnessed accident. In establishing the fact of injury for an unwitnessed accident, OWCP should consider the surrounding circumstances. The CE must be able to visualize the accident and relate the effects of the accident to the injuries sustained by the injured worker, especially where the claimant delayed seeking medical evidence.

4) Performance of Duty - The FECA Procedure Manual 2-804 contains the requirements for the performance of duty criterion. The performance of duty criterion is considered after the questions of "time," "civil employee," and "fact of injury" have been established. Even though an employee may have been at a fixed place of employment at the time of injury, the injury may not have occurred in the performance of duty. The employee is generally not covered for travel to and from work. There are five exceptions to this rule. Statutory exclusions exist under which claims for compensation should be denied due to the willful misconduct of the employee. These claims are denied even though the injured worker has met the fact of injury and performance of duty requirements.

5) Causal Relationship - The FECA Procedure Manual 2-805(2) contains the requirements for obtaining medical evidence necessary to establish a causal relationship between the injury and employment factors. An injury or disease may be related to employment factors in any of four ways: a) Direct Causation; b) Aggravation; c) Acceleration; or d) Precipitation.

The FECA Procedure Manual 2-807(17)(d)(2) contains the requirements for the 3-day waiting period which is required by 5 U.S.C. 8117. An employee is not entitled to compensation for the first 3 days of temporary disability, except when: a) the disability exceeds 14 days; b) the disability is followed by permanent disability; or c) claimant is undergoing medical services or vocational rehabilitation during the 3-day period.

The CEs are required to evaluate the injury reports and supporting medical evidence submitted by claimants. The injury reports and medical evidence must support that the claimant has met the burden of proof with regards to the five criteria to establish initial eligibility. If the claimant has not submitted documentation which fully supports the eligibility of the claimant, it is the CE's responsibility to request such further information as the CE deems necessary. Once a CE concludes that a claimant is either eligible or not eligible for benefits under the FECA program, the CE updates the eligibility code in the CMF system. Claimants are notified of the CE's decision with regards to eligibility. If the claimant disagrees with the CE's decision concerning eligibility, the claimant may request a hearing for resolution.

SECTION 3C
Information Provided by the Service Auditor
ACPS and CBP Transaction Processing Controls

Tests of Described Controls:	Results of Tests:
<p>For a non-statistical sample of 50 initial eligibility transactions, we reviewed the case file to determine whether the notice of injury was filed timely, whether the claimant was a civil employee, whether sufficient evidence was provided to prove the injury occurred as reported, whether sufficient evidence was provided to prove the employee was in performance of their duties at the time of injury, whether sufficient evidence was provided to prove the injury was causally related to employment factors, and whether the CE accepted the condition and indicated approval of the accepted condition in the case file.</p>	<p>No exceptions were noted.</p>

Control Objective 3: *File Maintenance* - Controls provide reasonable assurance that claimant's address and social security number were correct in the ACPS and the chargeback code was correct in the CMF.

Description of Controls:

The FECA Procedure Manual 5-308(5) contains the requirements for updating the ACPS when corrections are necessary to the claimant's address, social security number and chargeback code. When a report of injury is first received, a record is created in the CMF. When a request is made for compensation for lost wages, a schedule award or for death benefits, a complete case record is then created in the ACPS. The information transferred to the ACPS for the address, social security number and chargeback code is the information in the CMF at the time the record is created. If any of the information changes, both the ACPS and the CMF must be updated with the new information.

Tests of Described Controls:	Results of Tests:
<p>For a total of 314 cases, from a sample of 214 statistically selected internal control compensation transactions and 100 non-statistically selected initial eligibility and new schedule award transactions, we reviewed documentation in the case files to ensure that the social security number, date of birth and the address were accurate in the ACPS and CMF.</p>	<p>In 1 of the 314 cases, the claimant's date of death was not updated in the ACPS. No other exceptions were noted.</p>
<p>For a total of 264 cases, from a sample of 214 statistically selected compensation transactions and 50 non-statistically selected cases, we reviewed documentation in the case files to ensure that the chargeback code was accurate in the CMF.</p>	<p>In 2 of the 264 cases, the chargeback code per case file did not agree with the chargeback code in CMF. No other exceptions were noted.</p>

Control Objective 4: *Continuing Eligibility (Medical Evidence)* - Controls provide reasonable assurance that claimants submitted medical evidence to support continuing eligibility for compensation and medical benefits.

SECTION 3C
Information Provided by the Service Auditor
ACPS and CBP Transaction Processing Controls

Description of Controls:

The FECA Procedure Manual 2-812(6) contains the requirements for the periodic review of medical evidence to verify continuing disability. The frequency of the medical review required depends on the type of compensation the claimant is receiving. Some claimants are required to submit medical evidence annually and others every 2 or 3 years.

The FECA Procedure Manual 2-812(8) provides the procedures for obtaining and reviewing medical reports. If a medical report is not received within the specified time (30-60 days is considered reasonable), or the report does not contain the requested information, the CE should direct the claimant to undergo examination by the attending physician or a second opinion specialist as appropriate. OWCP should make an appointment for the examination. The notification to the claimant should include warning that under 5 U.S.C. 8123(d) benefits may be suspended for failure to report for examination.

Where injury-related disability has ceased, the CE is to notify the claimant of proposed termination of benefits. OWCP has the burden of proof to justify the termination of benefits by positive and specific evidence that injury-related disability has ceased. The inadequacy or absence of a report in support of continuing benefits is not sufficient to support termination, and benefits should not be suspended for that reason.

Tests of Described Controls:	Results of Tests:
Based on our internal control testing of a total of 213 cases, from a sample of 163* statistically selected lost wage cases and 50 non-statistically selected current medical cases, 209 cases (159 statistical and 50 non-statistical) required updating of medical evidence within the past year. We reviewed medical evidence in the case files to ensure that the current medical evidence supported the disability status for the compensation being received.	In 18 of 159 statistically selected lost wage cases no current medical evidence was contained in the claimant's case file. For 10 of 50 non-statistical current medical cases, medical evidence was not located within the case file. No other exceptions were noted. (See Service Auditors' Report, page 2)

* A statistical sample of 163 claimants were tested for continuing eligibility controls, however, some specific tests did not apply to all claimants due to the length of time of the claimant's injury, the date of the claim for benefits, or the claimant's case status. Therefore, the number of tests indicated is the number of items to which tests were actually applied.

Control Objective 5: Continuing Eligibility (Earnings Information) - Controls provide reasonable assurance that claimants submitted earnings information and authorization to obtain earnings information from the Social Security Administration to support continuing eligibility for compensation and medical benefits.

SECTION 3C
Information Provided by the Service Auditor
ACPS and CBP Transaction Processing Controls

Description of Controls:

OWCP mails each claimant a Form CA-1032 each year. The Form CA-1032 asks the claimants to verify the status of their dependents and report any and all earnings by the claimants. The information reported by the claimant on Form CA-1032 is to be reviewed by a CE and the compensation rate or amount adjusted accordingly.

The FECA Procedure Manual 2-812(6) contains the requirements for the frequency with which claimants must complete Form CA-1032. The FECA Procedure Manual 2-812(10) contains the requirements for changing the ACPS system when benefit changes are indicated by the claimant on the Form CA-1032. The ACPS system must be changed to reflect the information provided by the claimant to ensure that benefits are being paid at the proper compensation rate and amount.

The FECA Procedure Manual 2-812(9), contains the requirements for obtaining a claimant's earnings report from the SSA. OWCP cannot obtain earnings information from SSA without the claimant's authorization. Obtaining earnings information is a secondary control, as the claimant is not required to authorize the release of this information as a condition for receiving benefits. In addition, the request to SSA is only made in selected cases. OWCP sends the claimants a CA-935, Cover Letter and a SSA-581, *Authorization to Obtain Earnings Data from the Social Security Administration* request form. Earnings may be requested from the SSA on Form CA-1036 to determine whether an adjustment is needed to a claimant's compensation rates. A claimant's compensation rate can be adjusted based on the information supplied by the SSA in response to Form CA-1036. The ACPS system must be changed to reflect the information updated by the SSA to ensure that benefits are being paid at the proper compensation rate.

Tests of Described Controls:	Results of Tests:
<p>For a total of 264 cases, from a statistical sample of 214 compensation claimants (163* lost wage cases, 26 death cases and 25 schedule award cases), and 50 non-statistical new schedule awards, 178 cases required current eligibility verification due to the age of the case. We reviewed the case file to determine whether a CA-1032 had been requested and received within the past year to verify earnings and dependent information.</p>	<p>In 10 of 178 items sampled, CA-1032s had not been obtained from the claimants to verify earnings and dependent information within the last year. In 2 of 10 cases a CA-1032 was not sent to the claimant. For 7 of the 10 cases a CA-1032 was sent to the claimant, but not returned and a second request was not sent to the claimant. For 1 of the 10 cases, a second request was sent, but not returned, and the claimant's payments were not suspended. No other exceptions were noted.</p>
<p>From a statistical sample of 163* lost wage claimants, 118 cases required current earnings information due to the age of the case. We reviewed the case file to determine whether a CA-935 and SSA-581 had been released to the claimant to obtain earnings information from SSA in the past year.</p>	<p>In 8 of 118 items sampled, a release for authorization to obtain earnings information from SSA was not in the case file. In all 8 of the cases, SSA-581's were sent to the claimants and never returned and second requests were not issued. No other exceptions were noted.</p>
<p>From a statistical sample of 163* lost wage claimants, 10 cases had SSA-581s returned from the claimant that should have been sent to SSA for current earnings information. We reviewed the case file to determine whether the Senior Claims Examiner had requested earnings information from SSA.</p>	<p>No exceptions were noted.</p>

SECTION 3C
Information Provided by the Service Auditor
ACPS and CBP Transaction Processing Controls

Tests of Described Controls:	Results of Tests:
For a total of 264 cases, from a statistical sample of 214 compensation claimants (163* lost wage cases, 26 death cases and 25 schedule award cases) and 50 non-statistical new schedule award cases, 28 cases had CA-1032s or CA-1036s returned with information requiring update of the claimant's case file. We reviewed the case file to determine whether the case was updated with the information reported on the CA-1032 or CA-1036.	No exceptions were noted.

*A statistical sample of 163 claimants were tested for continuing eligibility controls, 26 claimants for death and 25 claimants were tested for schedule awards, however, some specific tests did not apply to all claimants due to the length of time of the claimant's injury, the date of the claim for benefits, or the claimant's case status. Therefore, the number of tests indicated is the number of items to which tests were actually applied.

Control Objective 6: Accuracy of Compensation Payments - Controls provide reasonable assurance that components of compensation payments including the correct compensation percentage, pay rate, number of hours paid, verification of leave without pay status, absence of dual compensation, and proper reimbursement of burial bills.

Description of Controls:

The FECA Procedure Manual 2-900 contains the requirements for the computation of compensation where the injury occurred after September 12, 1960. The Branch of Claims Services is responsible for the computation of compensation payments. The CE is responsible for determining the several factors used in computing compensation.

The FECA Procedure Manual 2-901 contains the requirements to periodically adjust compensation payments to reflect the increase in the cost of living. CPI adjustments are automatically calculated by the ACPS.

Tests of Described Controls:	Results of Tests:												
For a total of 434 cases, from a statistical sample of 284 substantive compensation cases and non-statistical samples totaling 150 cases (50 initial eligibility cases, 50 new schedule award cases and 50 multiple claim cases), we reviewed documentation in the case files to ensure that the components comprising compensation benefits were determined correctly.	In 16 of 434 total sample items, claimants were overpaid a net of \$10,535. These errors resulted from the use of incorrect: <table style="margin-left: 20px; border: none;"> <tr> <td>Payrates (10 cases)</td> <td style="text-align: right;">\$ 17,457</td> </tr> <tr> <td>Incorrect effective date (2 cases)</td> <td style="text-align: right;">987</td> </tr> <tr> <td>Payments not made (2 cases)</td> <td style="text-align: right;">(8,148)</td> </tr> <tr> <td>Duplicate payments (1 case)</td> <td style="text-align: right;">174</td> </tr> <tr> <td>CPI not applied (1 case)</td> <td style="text-align: right;"><u>65</u></td> </tr> <tr> <td>Net Overpayment</td> <td style="text-align: right;"><u>\$ 10,535</u></td> </tr> </table>	Payrates (10 cases)	\$ 17,457	Incorrect effective date (2 cases)	987	Payments not made (2 cases)	(8,148)	Duplicate payments (1 case)	174	CPI not applied (1 case)	<u>65</u>	Net Overpayment	<u>\$ 10,535</u>
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Net Overpayment	<u>\$ 10,535</u>												
From a statistical sample of 213* substantive compensation cases and 100 non-statistical cases (50 initial eligibility and 50 new schedule awards) 3 cases had transactions whereby a single payment was in excess of \$50,000. We reviewed the transactions over \$50,000 to ensure the payment was authorized by an official at a GS-13 or higher.	No exceptions were noted.												

SECTION 3C
Information Provided by the Service Auditor
ACPS and CBP Transaction Processing Controls

Tests of Described Controls:	Results of Tests:
For a non-statistical sample of 50 multiple claim cases, we reviewed the appropriateness of the receipt of compensation for more than one injury for the same period of time (multiple claims cases). This concurrent payment of benefits is allowable up to certain amounts and in certain instances.	There was 1 case in which the receipt of compensation for more than one injury was not appropriate. No other exceptions were noted.

*A statistical sample of 213 cases and 100 non-statistical cases were tested for accuracy and proper processing of the compensation payments. Some specific tests did not apply to all claimants due to the test applying only to payments over \$50,000. Therefore, the number of tests indicated is the number of items to which tests were actually applied.

Control Objective 7: *New Schedule Awards* - Controls provide reasonable assurance that claimants had reached maximum medical improvement prior to receipt of a schedule award, medical evidence was obtained, and medical evidence stated the percentage of impairment.

Description of Controls:

The FECA Procedure Manual 2-808(6) contains the requirements for supporting a schedule award. The file must contain competent medical evidence which: 1) shows that the impairment has reached maximum medical improvement and indicates the date on which this occurred; 2) describes the impairment in sufficient detail for the CE to visualize the character and degree of disability; and 3) gives a percentage evaluation of the impairment. DMAs calculate the percentage of impairment for the schedule award.

Tests of Described Controls:	Results of Tests:
For a non-statistical sample of 50 new schedule award cases, we reviewed documentation in the case files to ensure that claimants receiving compensation for schedule awards had medical evidence in the case files that supported their impairment or disability.	No exceptions were noted.

Control Objective 8: *Medical Bill Payment Processing* - Controls provide reasonable assurance that medical bill payments were properly authorized, approved, input, and reviewed, as required.

Description of Controls:

The OWCP National office, OWCP District offices and the Bill Processing Contractor are all involved in the adjudication and payment of medical bills. The OWCP National office establishes treatment suites, service limitations, and fee schedules to be used by the contractor. The OWCP National office also performs reviews of the medical bill process. The Bill Processing Contractor receives the bills from the provider or claimant, scans or keys in the bills,

SECTION 3C
Information Provided by the Service Auditor
ACPS and CBP Transaction Processing Controls

and processes them in accordance with OWCP defined business rules. The processing system contains numerous edits to ensure the correct processing of the bill. The OWCP District offices determine accepted conditions of claimants and perform authorization requests.

Tests of Described Controls:	Results of Tests:																		
<p>For a statistical sample of 358 substantive medical bill payments, we reviewed the medical bill payments to ensure that the payments were: correctly entered into the CBP; contained all information for proper adjudication; were not paid in excess of established limits without proper approval by authorized personnel; discounts were taken, if offered; and, were for services considered proper charges against the Special Benefit Fund.</p>	<p>We noted 22 overpayments totaling \$32,033 and 6 underpayments totaling \$20,095.</p> <p>The overpayments resulted from:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding-left: 20px;">4 DRG formula used instead of CCR</td> <td style="text-align: right;">\$ 7,372</td> </tr> <tr> <td style="padding-left: 20px;">1 Keying/Scanning error</td> <td style="text-align: right;">328</td> </tr> <tr> <td style="padding-left: 20px;">2 Documentation was not provided</td> <td style="text-align: right;">13,574</td> </tr> <tr> <td style="padding-left: 20px;">12 Other fee schedule calculations</td> <td style="text-align: right;">7,602</td> </tr> <tr> <td style="padding-left: 20px;">3 Used billing instead of service zip code</td> <td style="text-align: right;"><u>3,157</u></td> </tr> <tr> <td style="padding-left: 20px;">22 Total Overpayments</td> <td style="text-align: right;"><u>\$ 32,033</u></td> </tr> </table> <p>The underpayments resulted from:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding-left: 20px;">2 CCR method instead of DRG formula</td> <td style="text-align: right;">\$ 1,203</td> </tr> <tr> <td style="padding-left: 20px;">4 Line items denied improperly</td> <td style="text-align: right;"><u>18,892</u></td> </tr> <tr> <td style="padding-left: 20px;">6 Total Underpayments</td> <td style="text-align: right;"><u>\$ 20,095</u></td> </tr> </table> <p>(See Service Auditors' Report, page 2)</p>	4 DRG formula used instead of CCR	\$ 7,372	1 Keying/Scanning error	328	2 Documentation was not provided	13,574	12 Other fee schedule calculations	7,602	3 Used billing instead of service zip code	<u>3,157</u>	22 Total Overpayments	<u>\$ 32,033</u>	2 CCR method instead of DRG formula	\$ 1,203	4 Line items denied improperly	<u>18,892</u>	6 Total Underpayments	<u>\$ 20,095</u>
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<p>For a statistical sample of 358 substantive medical bill transactions, we reviewed payments made to the same provider for the same dates of service related to the same claimant to determine if there were any duplicate payments.</p>	<p>We noted 7 duplicate payments totaling \$235,982, including one bill that was paid four times.</p> <p>(See Service Auditors' Report, page 2)</p>																		
<p>For a statistical sample of 155 internal control medical bill transactions, we reviewed the payments to ensure that a medical report was submitted for the services provided. For payment of surgical procedures, we reviewed to ensure the provider submitted the name of the surgical procedure, the condition, the type of surgery, the reason surgery was needed and a copy of the operative report, when required; and that the medical services rendered related to the accepted condition.</p>	<p>No exceptions were noted.</p>																		
<p>For a statistical sample of 155 internal control medical bill transactions, 10 transactions were subject to the Prompt Payment Act. We reviewed bills that were subject to the Prompt Payment Act to ensure the bills were paid within 45 days or interest was paid if the bill was paid after 45 days.</p>	<p>No exceptions were noted.</p>																		

SECTION 3C
Information Provided by the Service Auditor
ACPS and CBP Transaction Processing Controls

Control Objective 9: *Third Party Settlements* - Controls provide reasonable assurance that third party settlements are identified, tracked, and collected.

Description of Controls:

The FECA Procedure Manual 2-1100 outlines the procedures for processing third party cases:

Sections (2) and (3) define authorities and responsibilities involved with third party cases.

Section (4) describes the letters, forms and status codes used to process and track the progress of third party cases.

Section (5) defines a minor injury.

Section (7) provides instructions for third party case development by key personnel, such as CEs and DCE's.

Section (8) provides instructions to close out third party cases that are not economical to pursue or that would not be successful with further efforts.

Section (9) lists certain third party cases that are not to be closed by the DCE and should be sent to the appropriate Office of the Solicitor.

Section (10) provides instructions for handling settlement cases where the injury is "minor" and the claimant is negotiating or has made a settlement without the benefit of an attorney.

Section (11) provides instructions for the referral of third party cases to the SOL.

Section (13) provides instructions for when a settlement has been made or is imminent in third party cases referred to the SOL.

Tests of Described Controls:	Results of Tests:
<p>From a non-statistical sample of 50* third party cases, 20 cases required case originating correspondence during the current year. We reviewed these cases to determine whether the Letter CA-1045, which requests information from the claimant regarding the action taken against a third party by the claimant, including the hiring of an attorney, was released to the claimant, when necessary, and that the proper follow-up actions were conducted if the claimant did not reply within 30 days.</p>	<p>In 1 of 20 cases a second request for information was not returned and no follow-up actions were taken within 30 days.</p>

SECTION 3C
Information Provided by the Service Auditor
ACPS and CBP Transaction Processing Controls

Tests of Described Controls:	Results of Tests:
From a non-statistical sample of 50* third party cases, 14 cases required correspondence with the claimant's attorneys during the prior year. We determined whether the appropriate forms were released to the attorneys of claimants involved in third party cases.	No exceptions were noted.
From a non-statistical sample of 50* third party cases, 3 cases required referral to the SOL due to the nature of the third party aspect of the case. We determined whether the third party cases were referred to the SOL, when required and the appropriate actions were taken to track, monitor and resolve third party cases through the SOL.	No exceptions were noted.
From a non-statistical sample of 50* third party cases, 7 cases required actions pertaining to third party credits or settlements. We determined whether claimants were notified when the third party settlement was not in excess of the prior compensation suspended via a Letter CA-1120.	No exceptions were noted.
From a non-statistical sample of 50* initial eligibility cases, 6 cases required a third party indicator to be input into ACPS. We determined whether the CE entered a third party indicator into ACPS if there was information in the case file to indicate a third party claim.	In 2 of the 6 cases a third party indicator was not input into ACPS when there was information in the case file to indicate a third party claim.

*A non-statistical sample of 50 third party cases was tested for third party processing. Some specific tests did not apply to all claimants as only the actions to be taken on the case during the year were tested. Therefore, the number of tests indicated is the number of items to which tests were actually applied.

Section 3C
Information Provided by the Service Auditor
Automated Compensation Payment System
Application Controls

Application controls help make certain that transactions are valid, properly authorized, and completely and accurately processed by the computer. The description of controls and the tests of operating effectiveness related to the ACPS include access controls, input controls, processing controls, and output controls.

Access Controls – ensure that the system is secure and restricted to authorized users, and users are limited in what transactions they can enter. Access controls examined included password settings, public access, segregation of duties/user recertifications, and security monitoring. (See Service Auditors’ Report, page 2.)

Control Objective: Authentication is required to gain access to the application.		
Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
FECS authentication requirements are sufficient to safeguard access to the application.	<ol style="list-style-type: none"> 1. Determined the method of user authentication (password, token, biometrics, etc.). 2. Obtained an understanding of specific information concerning: <ol style="list-style-type: none"> i. Password character composition; ii. Password length (minimum and maximum); iii. Password aging; iv. Password generations; v. Forced change of initial password; vi. User passwords are encrypted; vii. Restricted use of concurrent sessions. 3. Determined through inquiry, observation, and inspection the following management procedures used by the agency: <ol style="list-style-type: none"> i. Procedures for password changes; ii. Procedures for handling lost passwords (password resetting); iii. Procedures for handling password compromise. 	No exceptions noted.

Section 3C
Information Provided by the Service Auditor
Automated Compensation Payment System
Application Controls

Control Objective: User access to the application is controlled. Password authentication exists and standards are in accordance with generally accepted agency requirements and government practices.

Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
A user is forced to enter a new password the first time the user attempts to log on once the 90 day period has expired. ESA Policy requires the use of a password screen saver. The screen saver will lock out a workstation if it is has been inactive, or idle for a period of time no more than ten minutes.	<p>Inspected or observed the following:</p> <ol style="list-style-type: none"> 1. If access was permitted only by valid combination of logon and individual passwords; 2. How many invalid logon attempts were allowed before action was taken. Observed a user executing invalid logons, and described the actions taken; and 3. If there is application-level logoff and how long a terminal remained idle before the user was automatically logged off by the system. 	<ul style="list-style-type: none"> • A user ID was not disabled after successive failed attempts to access the FECS application. The logon attempt was terminated by the system, but the user was able to reattempt logon without delay. A user ID was also not disabled after successive failed logon attempts to access Windows XP. • FECS allowed users to open more than one concurrent session, though a warning message was displayed requiring the user to confirm their desire to log on to another terminal. • No other exceptions noted.

Control Objective: Access to the application is restricted to authorized users.

Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
<p>Security briefings are given for each person having access to the system.</p> <p>The FECS access control lists (user authorization tables) are maintained by DFEC management.</p>	<p>Verified for a sample of new users:</p> <ol style="list-style-type: none"> 1. Access request form or other authorizing documentation existed for the user; 2. Access request form or document had adequate information to determine the security level needed and granted; 3. Access request form had been properly authorized by the user's manager and the application's security administrator; 4. The access approved on the access request form agreed to the access level assigned to the user within the application. 	<p>Access forms were not consistently or accurately completed:</p> <ul style="list-style-type: none"> • 1 user did not have an OWCP Program-Specific form; • 1 user did not have documentation of account creation; • 7 user access forms did not contain security level information; • 9 user access forms were not signed by the supervisor or security administrator. • No other exceptions noted.

Section 3C
Information Provided by the Service Auditor
Automated Compensation Payment System
Application Controls

Control Objective: Public access is controlled.		
Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
No users outside of the DOL have access to the FECA application. User agencies (Federal agencies) have query only access to the data within the FECA application. User agency access is controlled via OWCP issued user names and passwords.	Determined the following related to public access to the application: 1. Identification and authentication. 2. Access controls for limiting the user (read, write, modify, delete). 3. Use of digital signatures. 4. Prohibition of direct access by the public to live databases and restricted/sensitive records. 5. Legal considerations (i.e. Privacy laws)	No exceptions noted.

Control Objective: Policies and procedures are established to ensure access to the application is controlled and reviewed periodically.		
Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
Policies and procedures control access to the application based on least privilege.	1. Reviewed formal policies that define the authority granted to each user or class of users (i.e. a segregation of duties policy). 2. Inquired about the application's capability to establish an Access Control List or register of the users and the types of access permitted. 3. Reviewed formal policies that control application user access to the operating system. 4. Determined how often Access Control Lists were reviewed to identify and remove users who have left the organization or whose duties no longer required access to the application.	<ul style="list-style-type: none"> • FECS System Security Plan provides general guidance on segregation of duties but not the appropriate level of details and restrictions for proper implementation. • Access control lists were not reviewed to identify and remove FECS users who have left the organization or whose duties no longer required access to the application. • No other exceptions noted.

Section 3C
Information Provided by the Service Auditor
Automated Compensation Payment System
Application Controls

Control Objective: Security monitoring procedures include timely review of invalid or unauthorized attempts to access the application and access to sensitive functions.

Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
Security monitoring procedures exist for identifying violations and taking action.	Determined whether the application security administrator received security monitoring and violation reports on a regular basis, that reviews were performed timely, and that exception items received prompt follow up.	No exceptions noted.

Control Objective: Security monitoring procedures include timely review of administrator activity.

Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
<p>The FECS has audit trail capability to record the user ID for many of the significant actions. These mechanisms are protected from unauthorized modification or circumvention.</p> <p>Application audit trail logs are monitored by staff of the application owner. DITMS staff maintains DBMS logs that show access to application tables.</p>	Determined whether someone outside of the security function received security monitoring and violation reports of administrator activity on a regular basis, that reviews were performed timely, and that exception items received prompt follow up.	No exceptions noted.

Section 3C
Information Provided by the Service Auditor
Automated Compensation Payment System
Application Controls

Control Objective: The functions of generating and posting transactions are logically segregated between application users.		
Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
The FECS Access Control Lists (user authorization tables) are maintained by DFEC management. The lists enable management to restrict a user to specific tasks within FECS.	Determined if functions within menus/screens conflict, and evaluated screens surrounding core system functions to ensure that menu options within these screens are not incompatible.	<ul style="list-style-type: none"> • Users with the ability to input a payment on the daily roll could also direct a payment through the address verification screen. • Access to the gross overrides screen was not limited to only CEs performing this function.

Control Objective: There is segregation of duties between the security administration function of the application and the user functions.		
Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
There is adequate segregation of duties between the security administration function of FECS and the user functions.	<ol style="list-style-type: none"> 1. Determined whether individuals with security administration functions had access to input, process, or approve transactions. 2. Determined whether security administrators had access to only the application security administration functions and were prevented from accessing production data. 	A security administrator in a DO and the Security Office at the NO had access to all FECS functions covering input, processing, and approving transactions.

Section 3C
Information Provided by the Service Auditor
Automated Compensation Payment System
Application Controls

Control Objective: The functions of generating and posting transactions are logically segregated between application users.		
Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
<p>FECS roles and responsibilities are divided into the following categories:</p> <p><u>Read-only</u> - access is limited to case information (browsing) only and report functions if appropriate/needed.</p> <p><u>Case Create/Clerk function</u> - access is limited to creating cases and cannot enter payment information or edit cases once created.</p> <p><u>Claims Examiner</u> - has all necessary functions (as deemed appropriate by the local DD) except for District Director's functions and Case Create. Their responsibilities include entering adjudicatory decisions and payment processing information.</p> <p><u>District Director</u> - Has all functions since this individual has control and responsibility for the entire district office operations.</p> <p>* Access to these specific functions is based on each individual's specific duties and is controlled by limiting system capabilities through the permissions established with their User ID. (DFEC Program Manual)</p>	<p>Inspected a sample listing of users and determined whether access to menus/screens corresponded to the users' defined duties. Evaluated duties and access to the various screens surrounding core system functions to ensure that employees were not performing incompatible duties. Performed the following:</p> <ol style="list-style-type: none"> 1. Obtained a user listing for the application. 2. Observed the user listing to detect any shared, test, or generic IDs. 3. Obtained an understanding of sensitive transactions and functions within the application. 4. For the selected sample of users, inspected users' access profiles to ensure that access was appropriate. 5. For the selected sample of users, inspected users' access profiles and determined whether any of the users had access to menus with conflicting duties. 6. Inspected critical or privileged IDs and determined if activity was logged. 	<ul style="list-style-type: none"> • Access control lists were not reviewed to identify and remove FECS users who have left the organization or whose duties no longer required access to the application. • A CE had access to the System Maintenance function which should be restricted to SCEs only. • A security administrator in a DO and the Security Office at the NO had access to all FECS functions covering input, processing, and approving transactions. • FECS did not provide adequate trails for tracing and differentiating the originator of a payment transaction from the certifier of a payment. • No other exceptions noted.

Section 3C
Information Provided by the Service Auditor
Automated Compensation Payment System
Application Controls

Control Objective: Terminated employees are communicated to application administrators and their access is removed from the application in a timely manner.		
Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
Individuals who are terminated have their accesses removed in a timely manner.	Determined whether terminated application users were removed from the system in a timely manner.	Access for 4 of the 10 terminated employees was not removed from the FEC application in a timely manner.

Control Objective: Application users are periodically reminded of security awareness and attend training.		
Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
User guidelines on the ESA intranet include Employee Orientation Guidance, a User Information page, and links to ESA and DOL Policies and Procedures on IT security.	<ol style="list-style-type: none"> 1. Determined whether training was provided prior to the user having access to the application and determined the type and frequency of training. 2. Determined whether contractors were subject to training. 3. Determined whether security awareness and training had been implemented. 	No exceptions noted.

Section 3C
Information Provided by the Service Auditor
Automated Compensation Payment System
Application Controls

Input Controls – ensure that data is authorized, converted to an automated form, and entered into the application in an accurate, complete, and timely manner. Input controls examined included manual and automated inputs, procedures for entering data, and procedures for resolving data input errors.

Control Objective: Procedures are established to ensure that all source documents have been input from authorized sources.		
Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
Source documents confirm all data processed is authorized. The CMF has several source documents and the ACPS has the CA-7 form as a source document.	<ol style="list-style-type: none"> 1. Identified and documented all sources of data input into the system (e.g., file transfer, manual entry, etc). 2. Identified procedures for creating and entering data through inquiry of the system administrator and users. 	The same individual may enter data into the Exam ID and Cert ID fields. FECS does not reference a user table to ensure that the letters in these fields are a valid combination of initials or user IDs. No other exceptions noted.

Control Objective: Data control unit personnel verify that source documents are properly prepared, controlled, and authorized.		
Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
Claims examiners review cases for adjudication and approval, at District office level where cases are stamped, keyed into CMF and given a unique nine-character number, a count of processed records is maintained. ACPS cases are first date stamped and keyed to the TPCUP system which validates the case number with CMF systems.	<ol style="list-style-type: none"> 1. Inspected written procedures regarding preparation of source documents. 2. Inquired of management and data control unit personnel regarding preparation of source documents. 3. Observed the process regarding preparation of source documents. 4. Determined whether managerial or supervisory approval was required to enter certain transactions, and if so, how this requirement was enforced. 	No exceptions noted.

Section 3C
Information Provided by the Service Auditor
Automated Compensation Payment System
Application Controls

Control Objective: Procedures are established to ensure that all inputs into the application have been processed and accounted for; and any missing or unaccounted for source documents have been followed up.

Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
Input controls ensure that all inputs are processed and accounted for. Cases are stamped when received and given a unique ID number. CMF data may be accessed by ACPS to check the validity of case numbers.	<ol style="list-style-type: none"> 1. Inspected reports to ensure that all of the necessary inputs were processed. 2. Inquired as to how source documents were tracked and maintained, to ensure completeness. 	CEs and SCEs can delete any batch in ACPS. The system does not record batch delete actions and the corresponding user who executed the deletion. No other exceptions noted.

Control Objective: Error logs are used to ensure timely follow-up and correction of unresolved data input errors and irregularities where they are not detected by edits and validations.

Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
CP040 Daily Error Log of Rejected Data Transmitted is used to determine why the data was rejected in the first place.	<ol style="list-style-type: none"> 1. Determined which key management reports were used to monitor input errors. 2. Selected a sample of input error reports for processing and noted what percentage of transactions were corrected during the period and the results of aging uncorrected entries. 	No exceptions noted.

Section 3C
Information Provided by the Service Auditor
Automated Compensation Payment System
Application Controls

Control Objective: Edits are used to ensure that data is valid and recorded in the proper format.		
Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
<p>Edits and Validations routines over the CMF data by other systems (ACPS) to check the case numbers for each transaction. CP030, Daily adjustments to ACPS files is used to monitor and verify that adjustments (edits) are correct. CP285 & CP295 query reports requested by DO can be generated for verification of compensation data entered.</p> <p>System prompts identify when a claimant is receiving compensation on more than one case.</p> <p>Changes to compensation are edit checked for appropriate range limitations.</p> <p>Overlapping compensation periods are appropriately controlled.</p>	<p>Observed an authorized data entry clerk inputting transactions, and inspected edits and validations for the various transaction entries, such as:</p> <ol style="list-style-type: none"> 1. Authorization or approval codes; 2. Field format controls; 3. Required field controls; 4. Limit & reasonableness controls; 5. Valid combination of related data field values; 6. Duplicate processing controls; and 7. Balancing controls. <p>Tested whether edits identified as critical were working as identified.</p>	<p>The number of characters allowed in the override-of-gross-payments field accepts six figures, an excessive dollar amount. The data field for Optional Life Insurance codes is not large enough, allowing two rather than three characters. No other exceptions noted.</p>

Section 3C
Information Provided by the Service Auditor
Automated Compensation Payment System
Application Controls

Control Objective: Procedures exist to monitor overrides applied to transactions in a timely manner.		
Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
<p>Input controls over overrides are properly restrictive, ensure authorized use, and generate appropriate documentation.</p> <p>Reasonableness data range limitations control override amount.</p>	<ol style="list-style-type: none"> 1. Inspected existing procedures for reviewing supervisor overrides or bypassing data validation and error routines. 2. If an override log existed, observed that adequate review and follow up of overrides was performed. 	<ul style="list-style-type: none"> • The number of characters allowed in the override-of-gross-payments field accepts six figures, an excessive dollar amount. • At one DO the Monthly Gross Override Report was not reviewed on a timely basis. • No other exceptions noted.

Section 3C
Information Provided by the Service Auditor
Automated Compensation Payment System
Application Controls

Processing Controls – ensure that data are properly processed by the computer and files are updated correctly. Processing controls examined included audit trails, external connectivity, and error tracking.

Control Objective: Computer-generated control totals (run-to-run totals) are automatically reconciled between the application’s batch jobs to check for completeness of processing.

Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
There are automated reconciliation totals which are used by the District office to perform daily reconciliations between items transmitted from the District office and items received by the National office.	<ol style="list-style-type: none"> 1. Interviewed application programmers to determine how run-to-run totals operated within the application. 2. Observed the process and inspected evidence of reconciliations. 	The FECA Transaction Activity Report generated by DOL’s general ledger was not reviewed to ensure all transactions output from FECS get input into the general ledger completely and accurately. No other exceptions noted.

Control Objective: External connections to other systems/applications are authorized by management.

Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
External connections have been approved and are documented in writing.	Determined through inquiry and observation if the application had interconnection with other systems/applications and if the organization had documentation in the form of a Memorandum of Understanding or Service Level Agreement.	OWCP is in the process of developing MOUs and Service Level Agreements with external users which are due April 2005. No other exceptions noted.

Control Objective: A suspense file is used for management review and analysis of uncorrected transactions.

Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
Management reviews available reports and corrects suspended transactions.	Inquired as to what procedures were used to correct suspended transactions and observed management review of applicable reports.	No exceptions noted.

Section 3C
Information Provided by the Service Auditor
Automated Compensation Payment System
Application Controls

Control Objective: Corrected transactions are reviewed, authorized, and subjected to the same or similar program edit and validation checks.

Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
Management reviews corrected transactions and indicates approval.	<ol style="list-style-type: none"> 1. Determined that corrections to suspended entries were authorized prior to posting. Determined that corrected transactions were submitted through the same update and edit process as original entries. 2. Determined if managerial or supervisory approval was required for corrections. 	No exceptions noted.

Control Objective: Errors identified during data processing are corrected and resubmitted for processing in a timely manner.

Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
Management reviews available reports and corrects suspended transactions.	<ol style="list-style-type: none"> 1. Reviewed volume and aging of suspense file items and determined potential impact on processing of records. 2. Determined whether errors identified during data processing were corrected and resubmitted for processing in a timely manner. 	No exceptions noted.

Control Objective: The application generates audit trails, which are reviewed regularly.

Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
Audit trails are effectively used.	<p>Identified and inspected audit trails that exist within the application to determine whether:</p> <ol style="list-style-type: none"> 1. Transactions entered into the system were dated, time-stamped and logged to provide an audit trail. 2. Audit trail supported accountability by providing a trace of user action. 3. Audit trails were stored and maintained. 4. Access to online audit trails were strictly controlled. 5. Audit trails were reviewed. 	<ul style="list-style-type: none"> • Logging capability did not provide adequate trails for tracing and differentiating the originator of a payment transaction from the certifier of a payment. • Audit trails were not utilized to monitor critical user activities. • No other exceptions noted.

Section 3C
Information Provided by the Service Auditor
Automated Compensation Payment System
Application Controls

Output Controls – ensure files and reports generated by the application actually occur, accurately reflect the results of processing, and reports are controlled and distributed to the authorized users. Output controls examined included outputs to other applications and key reports.

Control Objective: All application outputs are identified by management.		
Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
Output controls over output reports are effective; reports are generated daily or by query request.	Identified and documented all sources of data output from the system (e.g., file transfers, interfaces, reports, etc).	No exceptions noted.

Control Objective: System generated reports are reviewed to ensure the integrity of production data and transaction processing.		
Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
Output controls over generated reports (CP030 report Daily Adjustment to ACPS files, CP040 report Daily computation Log, and CP040 report Daily Error Log) verify transaction processing is working as described.	<ol style="list-style-type: none"> 1. Inquired of user management and personnel to determine the key reports used to track processing results. 2. Obtained and inspected the reports identified. 	Payment Transaction Reports were delivered to CEs based on batch number. The manually entered batch number had no restrictive parameters to ensure reports were directed to the proper individual. No other exceptions noted.

Control Objective: System interfaces require that the sending applications' output control counts equal the receiving application's determined input counts.		
Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
A compensation batch system (ACPS) interface file is used to interface data into the DOL general ledger.	Identified key interfaces and inspected a sample of interface control reports for record counts and control totals.	The FECA Transaction Activity Report generated by DOL's general ledger was not reviewed to ensure all transactions output from FECS get input into the general ledger completely and accurately.

Section 3C
Information Provided by the Service Auditor
Automated Compensation Payment System
Application Controls

Control Objective: Controls ensure that all outputs meet system requirements and design.		
Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
Controls meet system requirements and design standards.	Inquired of IS and user management to determine how output production and distribution meets user requirements.	No exceptions noted.

Control Objective: Distribution of sensitive materials is restricted to authorized users.		
Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
Key financial reports from FECS are documented and restricted to authorized users.	Inquired of authorized users as to their receipt of sensitive output and verified the designated recipients were all authorized to receive sensitive reports.	No exceptions noted.

Control Objective: Production and distribution of system-generated reports is performed in a timely manner.		
Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
Output controls ensure that reports are generated daily or by query request and distributed timely.	Inquired of users and determined whether they received reports in a timely manner. Inspected available reports for the time and date of production to ensure reports were produced and distributed to users in a timely manner.	No exceptions noted.

Control Objective: Printed reports contain a title page with report name, time and date of production, the processing period covered, and have an "end-of-report" message.		
Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
Key financial reports produced by FECS provide a report name, run date, the period covered, and report totals, signifying the end of the report.	Inspected printed reports for the existence of a title page with report name, time and date of production, the processing period covered; and an "end-of-report" message.	No exceptions noted.

Section 3C
Information Provided by the Service Auditor
Automated Compensation Payment System
Application Controls

Control Objective: Reports are retained in a secure location for the amount of time prescribed by Federal standards.		
Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
Output controls ensure that reports are retained as long as claims data is retained.	<ol style="list-style-type: none"> 1. Inquired of the various user groups and determined if the procedures were in place to ensure compliance with the retention standards. 2. Inspected the area where the reports were being stored to determine if it was a secure location. 	No exceptions noted.

Control Objective: Controls are in place to ensure the accuracy and completeness of data for ad hoc reports.		
Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
The DFEC Query System allows a user to generate ad hoc reports.	<ol style="list-style-type: none"> 1. Inquired of the application owner as to the existence and use of ad hoc reports and inspected a list of users authorized to run ad hoc reports (e.g. system-generated reports, spreadsheets, databases). 2. Inquired of the various user groups to determine the procedures in place to comply with standards for using and relying on ad hoc reports. 3. Inquired of management to determine if ad hoc reports were used to support the financial statements or performance reports. 	There were no standards for using and relying on the DFEC Online Query System due to the age of FECS. No other exceptions noted.

Section 3C
Information Provided by the Service Auditor
Central Bill Processing System
General Computer Controls

General computer controls are the structure, policies, and procedures that apply to an entity’s overall computer operations. They create the environment in which application systems and controls operate. This description of controls and the tests of operating effectiveness are applicable to the subservicer, ACS, and not DFEC. The controls are related to the CBP and include computer operations, tape and disk management, change management and technical support, logical security, physical security and environmental controls; and telecommunications and computer networks.

Computer Operations

Control Objective: Controls provide reasonable assurance that processing is appropriately scheduled, and that processing problems are identified and resolved in a timely manner.

Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
Production services is responsible for monitoring and reporting activity with job scheduling and for recovering production abends. Only authorized production services personnel have access to alter job schedules. Job schedules are maintained using automated job schedules.	<ul style="list-style-type: none"> • Examined an <i>On Call Report</i> with specific assignment of responsibilities and shift rotation. • Examined the AchieveHCS disaster recovery policies and procedures manual. • Verified through examination of the system that all changes to the schedules currently implemented in the Zeke scheduler are logged in the Peregrine tracking system. • Examined the job schedule change log and noted that all AchieveHCS schedule changes are performed by Production Control as directed by the Systems group. Noted that management approval is required for change implementation. • Examined the Production Control team responsibilities for daily monitoring of the job queue which displays all jobs currently running on the AchieveHCS environment. • Examined a work order utilized to make 	No exceptions noted.

Section 3C
Information Provided by the Service Auditor
Central Bill Processing System
General Computer Controls

Control Objective: Controls provide reasonable assurance that processing is appropriately scheduled, and that processing problems are identified and resolved in a timely manner. (continued).

Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
	<p>changes to the production environment. Noted that the appropriate level of management approval is required to implement a change in the production environment.</p> <ul style="list-style-type: none"> • Examined documentation supporting the approval of changes implemented in the production environment. • Examined a sample of CSR files noting that incidents that cannot be resolved by Production Control are escalated to System Development and assigned to a programmer. 	

Control Objective: Controls provide reasonable assurance that printed reports, microfiche, and other forms are appropriately distributed to ACS' users.

Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
Pittsburgh mainframe report printing is performed at a secured, offsite facility.	<ul style="list-style-type: none"> • Through corroborative inquiry, confirmed report printing is performed at a secured, offsite facility. • Visited the offsite storage facility and observed report printing is performed at the facility. 	No exceptions noted.

Section 3C
Information Provided by the Service Auditor
Central Bill Processing System
General Computer Controls

Control Objective: Controls provide reasonable assurance that printed reports, microfiche, and other forms are appropriately distributed to ACS' users.

Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
Only authorized personnel are allowed access to Pittsburgh offsite facilities and visitors are required to sign in and must be escorted.	<ul style="list-style-type: none"> • Observed visitors being required to sign in and be escorted at the Pittsburgh offsite vault location. • Inspected the list of users with access to the Pittsburgh offsite facility and confirmed, through inquiry, access was commensurate with job responsibilities. • Observed access to the Pittsburgh offsite storage and print facility is restricted by key locks. 	No exceptions noted.

Control Objective: Controls provide reasonable assurance that only appropriate providers are enrolled in the OWCP AchieveHCS system.

Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
Policies and procedures related to provider enrollment are documented to help ensure the enrollment process is consistently performed.	<ul style="list-style-type: none"> • Examined the provider enrollment policies and procedures manual and confirmed policies and procedures are in place. • Observed provider enrollment specialists handling provider application forms and entering data into the provider enrollment subsystem. 	No exceptions noted.

Section 3C
Information Provided by the Service Auditor
Central Bill Processing System
General Computer Controls

Control Objective: Controls provide reasonable assurance that only appropriate providers are enrolled in the OWCP AchieveHCS system.

Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
Formal provider application forms must be completed before enrolling in the system and are reviewed by provider enrollment specialists for accuracy and completeness.	<ul style="list-style-type: none"> • Examined a provider application form noting providers generate sufficient data for the enrollment specialists to enter the new applicant into the system. • Observed a provider enrollment specialist separating provider application forms with missing information so the forms can be returned to the provider to furnish all required information. • Examined provider files for a sample of providers enrolled during the period under audit and confirmed the required application forms were appropriately completed and retained in the file. 	No exceptions noted.
All documents of the provider application are imaged and are accessible on the computer imaging system.	<ul style="list-style-type: none"> • Through corroborative inquiry, determined that all provider applications are imaged into the Stored Image Retrieval (SIR) system with paper applications retained in boxes located in the warehouse facility. 	No exceptions noted.
To change an address, a provider must submit a written request on letterhead or the standard provider address change form.	<ul style="list-style-type: none"> • Examined a standard provider address change form noting the required information contains provider name, old address, new address, tax identification number, provider number, signature and date. 	Provider enrollment associates can enter a provider address change with limited control over that change of address. No log of requested address changes is used to control the receipt and processing of these change requests.

Section 3C
Information Provided by the Service Auditor
Central Bill Processing System
General Computer Controls

Control Objective: Controls provide reasonable assurance that only appropriate providers are enrolled in the OWCP AchieveHCS system. (continued).

Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
	<ul style="list-style-type: none"> • Examined a sample of provider address change forms and agreed all relevant data on the form to data entered into the system. 	
<p>Providers requesting electronic payments must note the electronic fund transfer routing and account numbers on the application form, which is entered into the system by a provider enrollment associate.</p>	<ul style="list-style-type: none"> • Examined a provider application form and noted the request for electronic fund transfer documentation. • Observed a provider enrollment associate enter electronic fund transfer information into the system. • During data entry of electronic fund transfer information into the system, observed a provider enrollment associate research an electronic fund transfer number by utilizing a Web search tool to identify all bank routing numbers. • Observed a provider enrollment associate correct the routing number originally stated on the provider application by changing the routing number to the information obtained during the Web search. 	<p>A provider enrollment associate changes provider submitted data for an electronic fund transfer routing number to information obtained through the associate's Web research. Although an excellent customer service task, this creates a point of vulnerability for one individual to change data based on their own research.</p>
<p>The system automatically assigns unique provider numbers to ensure the number can only be assigned once.</p>	<ul style="list-style-type: none"> • Examined the enrollment of a provider noting that the provider number was assigned by the system. • Discussed with systems personnel that a formula exists within the program to determine a provider number. 	<p>No exceptions noted.</p>

Section 3C
Information Provided by the Service Auditor
Central Bill Processing System
General Computer Controls

Control Objective: Controls provide reasonable assurance that only appropriate providers are enrolled in the OWCP AchieveHCS system. (continued).		
Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
An enrollment status effective date is entered and used by the bill processing system to verify a provider is active during the dates of service associated with the bill.	<ul style="list-style-type: none"> • Examined appropriate section of the system and verified that provider status effective dates do exist within the bill processing system. • Examined a sample of enrolled providers noting that a standard commencement date is utilized on all providers. 	Noted that providers were enrolled through March 31, 2004 without being enrolled through the ACS provider enrollment process. If the provider existed in the original Department of Labor provider file sent to ACS on March 23, 2003, the provider did not have to re-enroll until March 31, 2004. Noted that all providers are enrolled with a start date of January 1, 1964, the initial date of inception of this Department of Labor program. The timely filing edit will prevent a bill being paid that is too old. The duplicate edit check will prevent paying a duplicate bill. No provider end date is entered as the system relies on the license expiration date to prevent payment of bills to providers with expired licenses.

Section 3C
Information Provided by the Service Auditor
Central Bill Processing System
General Computer Controls

Control Objective: Control policies and procedures should provide reasonable assurance that OWCP AchieveHCS bill processing is performed accurately, completely and according to management's intentions.

Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
<p>Paper bills are received into the mailroom where they are logged and tracked to ensure compliance with forty-eight hour requirement from receipt date until bill is transmitted for adjudication or returned to the provider.</p>	<ul style="list-style-type: none"> • Observed that bills are placed into trays and logs, with tray headers noting receipt date and tray number, are generated and logged into a tracking database. • Through corroborative inquiry, noted that all bills are either sent to adjudication or returned to providers within forty-eight hours of receipt. 	<p>No exceptions noted.</p>
<p>Paper bills and attachments are manually sorted by bill type and scanned into the system. Document Control Numbers are assigned to bills and attachments, if any, during the imaging process. Bills are systematically assigned batch numbers. After a manual review for image quality and proper bill type, the batches are released into the data entry program.</p>	<ul style="list-style-type: none"> • Examined the process of sorting bills by bill type and preparing for imaging by placing patch sheets between bills with more than a single sheet. • Through corroborative inquiry, noted that stacks are reviewed by Quality Control personnel for proper sorting before forwarding to imaging. • Examined bills being imaged and noted that document control numbers are assigned by imaging machines. • Through corroborative inquiry, noted that all bills are systematically batched by the system after imaging. • Through corroborative inquiry and observation, noted that all imaged bills are reviewed by quality control for image quality before being released into data entry and that a <i>Scan Reject Report</i> is used to ensure that any documents that were sent back for reprocessing are imaged. 	<p>No exceptions noted.</p>

Section 3C
Information Provided by the Service Auditor
Central Bill Processing System
General Computer Controls

Control Objective: Control policies and procedures should provide reasonable assurance that OWCP AchieveHCS bill processing is performed accurately, completely and according to management's intentions.		
Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
Formalized procedures exist to verify data entry accuracy and completeness, as well as proper performance of related computerized functions.	<ul style="list-style-type: none"> Observed that certain bill types are routed through the OCR process where they are read by the OCR program and then routed to data entry. Observed that other bill types are fully keyed from the image by data entry operators. Observed that in both processes, various edit checks were in place during data entry keying and verifying. 	No exceptions noted.

Control Objective: Controls provide reasonable assurance that bills requiring edit resolution as well as adjustments of bills are resolved in accordance with Department of Labor guidelines		
Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
Policies and procedures related to bill resolution and adjustment are documented to help ensure the enrollment process is consistently performed.	<ul style="list-style-type: none"> Examined the bill resolution and adjustment policies and procedures manual and confirmed policies and procedures are in place. Observed resolution specialists handling edit exceptions on bills and forcing resolution of that edit in the system. 	No exceptions noted.
The system will determine to either pay or deny a bill according to criteria contained in the exception control file.	<ul style="list-style-type: none"> Examined the Requirements Analysis Document to verify the existence of criteria established for creating the exception control file. Examined online, the existence of criteria available for use by resolution department personnel. 	No exceptions noted.

Section 3C
Information Provided by the Service Auditor
Central Bill Processing System
General Computer Controls

Control Objective: Controls provide reasonable assurance that bills requiring edit resolution as well as adjustments of bills are resolved in accordance with Department of Labor guidelines (continued).

Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
	<ul style="list-style-type: none"> • Examined resolution associates utilizing the exception control criteria in resolving a bill containing an edit exception. 	
<p>Certain exception codes posted to a bill may be forced or denied but only based upon specific exception edit text approved by the Department of Labor.</p>	<ul style="list-style-type: none"> • Reviewed the process of bill resolution associates forcing or denying live bills with posted exceptions. • Examined a sample of bills containing posted exceptions and reviewed, the proper disposal of the exception. 	<p>No exceptions noted.</p>
<p>Adjustments of existing bills generated by providers are imaged, assigned a control number and placed in a queue to be worked by an adjustment specialist.</p>	<ul style="list-style-type: none"> • Examined batching of adjustment bills received in the London, Kentucky facility noting control numbers assigned to individual adjustments. • Examined batches being imaged in the Stored Image Retrieval system located in the London, Kentucky facility. • Examined a sample of adjustment bills located in the Stored Image Retrieval queue noting adjustment department personnel working adjustment bills to final resolution. 	<p>No exceptions noted.</p>
<p>Any change in cash disbursed related to a paid bill is adjusted in the AchieveHCS system.</p>	<ul style="list-style-type: none"> • Through corroborative inquiry, verified that the Department of Labor notifies the adjustments department upon cancellation of an issued check, a provider refund or an undeliverable check. • Examined a sample of bills being adjusted due to a provider refund, with the assistance of an adjustment associate, by adjusting the net paid amount to equal the net amount of the paid bills after the refund. 	<p>No exceptions noted.</p>

Section 3C
Information Provided by the Service Auditor
Central Bill Processing System
General Computer Controls

Control Objective: Controls provide reasonable assurance that bills requiring edit resolution as well as adjustments of bills are resolved in accordance with Department of Labor guidelines (continued).

Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
	<ul style="list-style-type: none"> Examined a sample of bills associated with a lost or old, outstanding check being voided by performing a history only void and keying the new bill to create a system generated check. 	

Control Objective: Controls provide reasonable assurance that quality control procedures are applied against controls in place to evaluate the effectiveness of those controls.

Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
Policies and procedures related to quality assurance are documented to help ensure the quality assurance process is consistently performed.	<ul style="list-style-type: none"> Examined the quality assurance policies and procedures manual and confirmed policies and procedures are in place. Observed provider quality assurance personnel performing quality control testing in accordance with the Quality Assurance Report Card. 	No exceptions noted.
Quality control testing should be performed on various functional areas of the operations.	<ul style="list-style-type: none"> Examined that the Quality Assurance team performs quality control testing on the following functional areas of the Tallahassee operations – application processing, customer service call center, prior authorizations and resolutions and adjustments. Examined results of testing from November 2003 through March 31, 2004 for each report card noting the tests performed dealt with accuracy, timeliness and proper identification. 	No exceptions noted.

Section 3C
Information Provided by the Service Auditor
Central Bill Processing System
General Computer Controls

Tape and Disk Management

Control Objective: Controls provide reasonable assurance that disk space is monitored and managed to adequately support AchieveHCS processing.		
Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
Disk usage is monitored and managed to help ensure adequate disk space is available to support AchieveHCS processing.	<ul style="list-style-type: none"> • Through corroborative inquiry, confirmed that disk usage is monitored weekly and managed to ensure adequate disk space. • Examined a sample of Peregrine tickets requesting additional DASD and noted the following information was included: name, request number, number of DASD, and region to be allocated. 	No exceptions noted.

Control Objective: Controls provide reasonable assurance that tape management is monitored and that backup of data files are taken regularly and rotated to an offsite location.		
Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
A tape management system is utilized for the control of tape media.	<ul style="list-style-type: none"> • Through corroborative inquiry, confirmed a tape management system provides for the use and control of tape media. • Observed the Tape Management System (TMS) being used for tape management. • For a sample of tapes, verified that correctly labeled tapes were physically located in the library location depicted by TMS. 	No exceptions noted.

Section 3C
Information Provided by the Service Auditor
Central Bill Processing System
General Computer Controls

Control Objective: Controls provide reasonable assurance that tape management is monitored and that backup of data files are taken regularly and rotated to an offsite location.

Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
Tapes located in Pittsburgh offsite storage are assigned a unique serial number and filed in the library and inventory reports are used to track the location of tapes.	<ul style="list-style-type: none"> • Observed the current rotation of back-up tapes was located at the offsite facility. • Observed the Daily Distribution List and Daily Pick List are utilized by Vault personnel to pick the tapes to be sent to and returned from the offsite storage facility. • Examined a sample of tapes picked for transportation back to the data center from a daily pick list. • Selected a sample of tapes from the inventory report for State Healthcare locations and had vault personnel locate the tape in the racks. 	Noted one tape selected from a tape and disk inventory sample was not located in the tape rack. Through review of a tape services standard audit procedure, noted that missing tape was not sent to storage and in fact had become a scratch tape. Noted on the online tape inventory system that the tape status had been updated to a scratch tape.
The offsite storage facility has security and environmental controls installed.	<ul style="list-style-type: none"> • Through corroborative inquiry, confirmed the offsite storage facility has security and environment controls installed. • Toured the offsite storage and print facility and observed it appears to be physically and environmentally secure. 	No exceptions noted.
Back-up tapes for critical systems and programs are available at the offsite facility.	<ul style="list-style-type: none"> • Through corroborative inquiry, confirmed back-up tapes for critical systems and programs are available at the offsite facility. • Confirmed master files, transactions files, systems and application programs, and JCL tape backups are located offsite and rotated offsite. 	No exceptions noted.

Section 3C
Information Provided by the Service Auditor
Central Bill Processing System
General Computer Controls

Change Management And Technical Support

Control Objective: Controls provide reasonable assurance that maintenance and enhancements are authorized, tested, approved, properly implemented and adequately documented

Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
<p>A written change control process exists and is used to document maintenance and enhancements to the system. The change control process documents management authorizations to implement changes. Separate regions have been established for test, acceptance, and production. AchieveHCS System changes are made utilizing Endeavor platform for migration. Procedures exist to make and document emergency fixes to the system. Written evidence exists to document maintenance and enhancements to the system.</p>	<p><i>Pittsburgh Data Center</i></p> <p><u>Change Tracking, Approval, Escalation and Resolution</u></p> <ul style="list-style-type: none"> • Through corroborative inquiry, noted that a formalized change management process exists within the Pittsburgh Data Center operations. • Examination of organization charts noted that proper segregation of duties exists within the Pittsburgh Data Center operations. • Through corroborative inquiry and examination of minutes, noted that representatives of Account Management, Systems Engineering Services, Operations and Engineering, Commercial Solutions Group, Network, Hardware, Facilities, and Contract Administration attend and participate in the weekly change management meetings. • Through corroborative inquiry and review of the Pittsburgh Data Center change control process, noted that internally generated change requests, customer initiated change requests, and account management generated change requests are captured and tracked within a central repository. 	<ul style="list-style-type: none"> • In early October 2003, it was determined that the system was programmed to allow payments directly to providers or to claimants. A third party biller, on behalf of providers, was not programmed to receive payments. Because no third party biller existed in the system and the default in the programming was to pay the claimant, all bills submitted by a third party biller were paid to a claimant instead. • For payment dates of April 1, 2004 and April 8, 2004, representing bills submitted within the audit period, certain provider addresses were changed in the AchieveHCS system through an interface from the Prescription Drug Card system. The incorrect addresses coming through the interface initialized changes to the AchieveHCS provider master file system, resulting in checks being sent to a wrong address although the check was made payable to the correct provider.

Section 3C
Information Provided by the Service Auditor
Central Bill Processing System
General Computer Controls

Control Objective: Controls provide reasonable assurance that maintenance and enhancements are authorized, tested, approved, properly implemented and adequately documented (continued).

Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
	<ul style="list-style-type: none"> • Through examination of minutes of meetings, noted that priority (high, medium, low) is set for each change item presented for consideration during the weekly Change Management meetings. • Through corroborative inquiry, noted that Atlanta and Pittsburgh computer operations personnel jointly participate in the weekly Change Management meetings. Noted that projects with corporate-wide implication are directed and coordinated during the meeting. • Through examination of problem tracking databases, noted that operational incidents discovered by the Enterprise Command Center personnel are captured and documented in the centralized issues tracking database. • Through corroborative inquiry and review of CSR files, noted that Change Control Board approval is required before any change is placed on the Timeline Report. Noted that all changes included on the Timeline report are assigned Priority 1 status for immediate implementation. Noted that items assigned a Priority status of 2 or higher are considered during subsequent Change Control Board meetings. 	<ul style="list-style-type: none"> • Certain payments to pharmacy providers between March 26, 2004 and May 8, 2004 (submitted within the audit period) were directed into the wrong provider bank account through a misdirected electronic fund transfer payment. Appropriate provider fields were not initialized when data was passed from the Prescription Drug Card System to the AchieveHCS system, causing provider electronic fund transfer information to be repeated on each subsequent provider record until the next provider that was set up to receive electronic fund transfer payments.

Section 3C
Information Provided by the Service Auditor
Central Bill Processing System
General Computer Controls

Control Objective: Controls provide reasonable assurance that maintenance and enhancements are authorized, tested, approved, properly implemented and adequately documented (continued).

Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
	<ul style="list-style-type: none"> • Through corroborative inquiry and review of CSR files, noted that each proposed change is discussed in the Change Control Board meeting and responsibility for fixing the defect or implementing the new feature is assigned to the appropriate operational team. Noted that a change requiring the involvement and effort of multiple functional areas or changes impacting multiple platforms are assigned to the appropriate team members. A project manager is assigned responsibility for coordinating the activities. • Through corroborative inquiry, noted that some changes are considered ineligible for inclusion on the Timeline Report due to priority requirements not being technically feasible to implement in the timeline. These changes require the client's approval prior to being placed in a work in process status. <p><u>Testing</u></p> <ul style="list-style-type: none"> • Through corroborative inquiry and review of CSR files, noted that the development team performs unit testing of all changes made to program modules. 	

Section 3C
Information Provided by the Service Auditor
Central Bill Processing System
General Computer Controls

Control Objective: Controls provide reasonable assurance that maintenance and enhancements are authorized, tested, approved, properly implemented and adequately documented (continued).

Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
	<ul style="list-style-type: none"> • Through corroborative inquiry and examination of testing artifacts, noted the department implementing the change is responsible for testing. Noted each change release package includes a test plan developed and executed by the department or groups responsible for implementing the change. The test plan is published and submitted for review by the project team. <p><u>Implementation and Release Management</u></p> <ul style="list-style-type: none"> • Through corroborative inquiry and examination of CSR files, noted a test plan is developed and executed to ensure that all changes scheduled for implementation are fully functional and do not introduce error conditions in the production environment. • Through corroborative inquiry, noted operating instructions are developed and published for all changes made to the production environment. • Through corroborative inquiry and examination of a back out plan, noted that actions to be taken to restore the production environment to its original state are documented and reviewed by the implementation team. • Through corroborative inquiry, noted that release notes are published informing end users and project team members of application and system changes. 	

Section 3C
Information Provided by the Service Auditor
Central Bill Processing System
General Computer Controls

Control Objective: Controls provide reasonable assurance that maintenance and enhancements are authorized, tested, approved, properly implemented and adequately documented (continued).

Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
	<p><u>Emergency Change Management</u></p> <ul style="list-style-type: none"> • Through corroborative inquiry, noted the existence of procedures for emergency change management. Emergency changes are escalated for immediate action. • Through corroborative inquiry and review of emergency change documentation, noted that management and client approval is required for all emergency changes made to the production environment. <p><u>Post Mortem Review</u></p> <ul style="list-style-type: none"> • Through corroborative inquiry, noted the existence of a formalized post mortem review process. Noted that production support, system development, quality assurance and network operations are active participants in the process. • Through corroborative inquiry, noted that a <i>Change Result Report</i> is published immediately following the implementation of a change in the production environment. The <i>Change Result Report</i> describes the impact of the change. • Through corroborative inquiry, noted that a <i>Monthly Performance Report</i> is published to track and monitor the result of the change in the subsequent months following the implementation of the change. 	

Section 3C
Information Provided by the Service Auditor
Central Bill Processing System
General Computer Controls

Control Objective: Controls provide reasonable assurance that maintenance and enhancements are authorized, tested, approved, properly implemented and adequately documented (continued).

Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
	<p><i>Change Management – AchieveHCS Processing Operations</i></p> <ul style="list-style-type: none"> • Through corroborative inquiry and review of documentation, noted the existence of a formalized written <i>Change Management and Tracking Procedure</i> plan. • To facilitate change logging, tracking and control, examined the existence of a centralized database with restricted access to authorized individuals. • Through corroborative inquiry and review of CSR files, noted that all changes flow through the Customer Service Request process. The CSR process tracks all changes from initiation through impact assessment, approval, resolution and implementation. • Observed systems personnel handling Customer Service Request (CSR) forms noting the form contained identifying number, description of system change, date, signature of preparer of the form and signature of manager approving the change. • Through examination of documentation, noted an <i>Open CSR Report for Department of Labor</i> is created in summary form to assist in prioritizing CSRs. 	

Section 3C
Information Provided by the Service Auditor
Central Bill Processing System
General Computer Controls

Control Objective: Controls provide reasonable assurance that maintenance and enhancements are authorized, tested, approved, properly implemented and adequately documented (continued).

Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
	<ul style="list-style-type: none"> • Through examination of agenda documents, determined that a <i>CSR Prioritization and Status</i> meeting is held weekly with DOL to prioritize CSRs, discuss status of CSRs, and to assign top ten CSRs to work. • Examined a sample of Customer Service Requests during the audit period noting that unit acceptance testing was performed and documented in the file. • Noted the existence of pending CSRs queued for sign-off. Unapproved change requests are not considered for implementation until the proper level of management and client approval is obtained. • Through examination of a sample of CSRs, noted the folders included a <i>CSR Request Form</i>, <i>CSR Design Document</i>, unit testing plan and documents, acceptance test plan and documents, <i>Implementation Plan</i>, and a <i>CSR/Issue Package Signoff</i> form. • For a sample of CSRs, noted appropriate signatures to approve emergency or normal migration to production. 	

Section 3C
Information Provided by the Service Auditor
Central Bill Processing System
General Computer Controls

Control Objective: Controls provide reasonable assurance that maintenance and enhancements are authorized, tested, approved, properly implemented and adequately documented (continued).

Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
<p>System input, application processing and output problems resolution procedures exist and are adhered to by systems developers, system testing personnel and systems management.</p>	<ul style="list-style-type: none"> • Through corroborative inquiry, confirmed systems problem resolution policies and procedures are documented. • Examined the system change policies and procedures manual and confirmed policies and procedures are in place for systems problem resolution issues. • Examined a sample of Customer Service Requests containing documentation on problem resolutions that occurred during the audit period. • Met with senior systems management to examine the root cause of selected issues during the audit period to identify if it was an isolated incident or was deemed to be a system design or testing issue that required significant programming changes. 	<ul style="list-style-type: none"> • During the period under audit, certain inpatient bills were determined to have been priced incorrectly. Pricing was being impacted depending on whether the provider submitted a Medicare number. If a provider submitted an accurate Medicare number, the bill would price according to a Diagnosis Related Group (DRG) table. If the provider submitted no Medicare number or an incorrect Medicare number, the pricing defaulted to a separate table, which priced the bill higher than the DRG table. The AchieveHCS system was not programmed to allow a bill to be denied or suspended if a correct Medicare number was not submitted. • It was noted that an extremely high number of pharmacy bills had been transmitted to the AchieveHCS system for processing on two days in October 2003. Through further analysis, it was determined that multiple copies of the same bills had been transmitted to the AchieveHCS adjudication cycle resulting in inappropriate payments to providers.

Section 3C
Information Provided by the Service Auditor
Central Bill Processing System
General Computer Controls

Control Objective: Controls provide reasonable assurance that maintenance and enhancements are authorized, tested, approved, properly implemented and adequately documented (continued).

Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
The customer is provided with timely copies of updated system documentation after implementation of a Customer Service Request.	<ul style="list-style-type: none"> • Examined the system change policies and procedures manual and confirmed policies and procedures are in place for providing updated systems documentation created through a Customer Service Request. • Examined a sample of Customer Service Requests containing documentation on system changes that occurred during the audit period and confirmed that updated system documentation was provided to all relevant parties. 	No exceptions noted.

Section 3C
Information Provided by the Service Auditor
Central Bill Processing System
General Computer Controls

Logical Security

Control Objective: Controls provide reasonable assurance that access to online functions is adequately restricted to authorized users.		
Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
Policies and procedures related to computer data security are documented.	<ul style="list-style-type: none"> • Through corroborative inquiry, confirmed guidelines related to data security are documented. • Obtained documentation and noted responsibilities and security access procedures were included. • Examined a list of ACF2 users with administrative privileges, and confirmed access was commensurate with job responsibilities. 	No exceptions noted.
Security access is properly added or removed upon proper notification.	<ul style="list-style-type: none"> • Through corroborative inquiry, confirmed that security access is properly added or removed upon proper notification. • Confirmed, through corroborative inquiry, that the security administrator removes access upon receiving notification from management. • For a sample of terminated employees from the period under review, confirmed that access was properly terminated upon notification. 	Noted that the London BPO had no formalized procedures for adding system access to users.

Section 3C
Information Provided by the Service Auditor
Central Bill Processing System
General Computer Controls

Physical Security And Environmental Controls

Control Objective: Controls provide reasonable assurance that physical access to facilities is adequately restricted.		
Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
Physical access controls have been installed and implemented to reduce the risk of unauthorized access to the facilities.	<ul style="list-style-type: none"> • Through corroborative inquiry, confirmed physical access controls have been installed to reduce the risk of unauthorized access to facilities. • Confirmed, through observation, that electronic card key access systems are installed to restrict and monitor physical access. • Observed that only personnel with authorized card key may access restricted areas within facilities. • Attempted to gain access to restricted areas using card keys with different access levels and confirmed access was denied or accepted based on the card access levels. • Observed visitors are required to sign in on an access log, present proper ID, and be escorted while onsite. • For a sample of employees, examined the access list and confirmed the employees' access was commensurate with their job responsibilities. 	No exceptions noted.
Physical access controls have been installed to reduce the risk of unauthorized access to the data center and offsite storage and print facility.	<ul style="list-style-type: none"> • Through corroborative inquiry, confirmed physical access controls have been installed to reduce the risk of unauthorized access to the offsite storage print facility. • Toured the offsite storage and print facility and observed the facility is secured by key locks and the security system is monitored twenty-four hours a day. 	No exceptions noted.

Section 3C
Information Provided by the Service Auditor
Central Bill Processing System
General Computer Controls

Control Objective: Controls provide reasonable assurance that environmental controls are established to monitor and assure the protection of physical assets.		
Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
Water, smoke and fire prevention and detection environmental controls have been installed in the facilities.	<ul style="list-style-type: none"> • Through corroborative inquiry, confirmed that water, smoke and fire prevention and detection environmental controls have been installed in the data center. • Toured facilities and observed that water, smoke and fire detectors are installed throughout the computer areas. Observed fire extinguishers are located throughout the computer rooms. 	No exceptions noted.
Current equipment is protected with UPS to minimize damage due to power variations.	<ul style="list-style-type: none"> • Through corroborative inquiry, confirmed current equipment is protected by UPS equipment to minimize damage due to power variations. • Toured equipment installations and observed UPS equipment is installed and operational. 	No exceptions noted.
Environmental controls are periodically tested and inspected.	<ul style="list-style-type: none"> • Through corroborative inquiry, confirmed that environmental controls are periodically tested and inspected. • Obtained maintenance documentation and noted it contains various inspections, tests, and maintenance performed on environmental equipment. • Observed and confirmed that there are diesel generators installed, routinely tested, and operational to support facilities in Pittsburgh, Tallahassee and Atlanta. 	No exceptions noted.

Section 3C
Information Provided by the Service Auditor
Central Bill Processing System
General Computer Controls

Control Objective: Controls provide reasonable assurance that environmental controls are established to monitor and assure the protection of physical assets.

Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
Water, fire and smoke prevention and detection environment controls have been installed in the offsite storage and print facility.	<ul style="list-style-type: none"> • Toured the offsite storage and print facility and observed fire extinguishers designed for burning paper are located in the forms storage and report distribution areas. • Toured the offsite storage and print facility and observed it is physically and environmentally secured. Noted fire detection (heat and smoke) and fire suppression (wet pipe sprinkler system and fire extinguishers), temperature and humidity controls for the separate vault areas and main area. Noted air conditioning units for the separate vault areas and main area. 	No exceptions noted.

Section 3C
Information Provided by the Service Auditor
Central Bill Processing System
General Computer Controls

Telecommunications and Computer Networks

Control Objective: Control policies and procedures provide reasonable assurance that access to telecommunications equipment and computer networks is secured from all form of unauthorized access, that data transmission occurs through secured channels and that the network has built-in redundancy and resiliency.

Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
<p>Critical network control areas are secured. Dial up networks and connections are secured. An appropriate network support function is established and monitored to support network communications. Controls and policies are in place to ensure problems are properly addressed and reviewed. Redundant systems or facilities are available in the event of a failure.</p>	<p><u>Security</u> Through corroborative inquiries, inspections, and review of documentation, noted that</p> <ul style="list-style-type: none"> • dial-up networking is implemented through secured channels; • Pittsburgh and Atlanta communications equipment and facilities are protected through physical access security mechanisms; • virus protection is implemented on network servers and is updated on a periodic and consistent basis; • nightly incremental and weekly full backup are performed on networking devices; • DMZs and firewalls are implemented at critical access points within the network; and • networking resources are backed up separately by client region and through redundant paths. <p><u>Telecommunications and Network Configuration Management and Testing</u> Through corroborative inquires and review of documentation, noted</p> <ul style="list-style-type: none"> • management and client approval is required for implementation of changes or reconfiguration of the network; and 	<p>No exceptions noted.</p>

Section 3C
Information Provided by the Service Auditor
Central Bill Processing System
General Computer Controls

Control Objective: Control policies and procedures provide reasonable assurance that access to telecommunications equipment and computer networks is secured from all form of unauthorized access, that data transmission occurs through secured channels and that the network has built-in redundancy and resiliency.

Description of Controls	Tests of Operating Effectiveness	Results of Testing Performed
	<ul style="list-style-type: none"> • that all network changes are channeled through the corporate change management process and the appropriate level of management approval is required to implement NOS upgrades and patches. <p><u>Network and System Monitoring</u> Through inquiries, inspections, and reviews of documents, noted</p> <ul style="list-style-type: none"> • the Enterprise Command Center (ECC) monitors network and system activities for mainframe and mid-range computing platforms; • Pittsburgh and Atlanta data centers are monitored continuously; and • that network design implementation and testing activities are managed through the corporate change control process. <p><u>Web Platform Development, Security and Maintenance and Testing</u> Through inquiries, noted</p> <ul style="list-style-type: none"> • that all changes to the Web platform are documented, logged and tracked through the Change Control process. • that Web security is implemented and controlled through an authentication gateway. • the existence of a dual firewall and DMZ access control configuration. • the existence of three separate environments for testing, pilot and production processing. 	