


July 28 2007



MEMORANDUM FOR: VICTORIA A. LIPNIC
Assistant Secretary for
Employment Standards

FROM: 
ELLIOT P. LEWIS
Assistant Inspector General
for Audit

SUBJECT: U.S. Postal Service's Schedule Award Program
Audit Recommendation
Management Letter No. 03-07-005-04-431

On December 13, 2006, the U.S. Postal Service (USPS) Office Inspector General (OIG) requested that the U.S. Department of Labor (DOL) OIG forward recommendations to DOL's Office of Workers Compensation Program (OWCP) to address two findings they identified in an audit of the USPS Schedule Award program in the New York Metro Area¹. Please refer to Attachment A for copies of the USPS December 13, 2006, transmittal letter and audit report. The USPS OIG forwarded these recommendations in accordance with the President's Council on Integrity and Efficiency's *Protocol for OIG Audits, Inspections, Evaluations, and Investigations of the Federal Employees' Compensation Act Program*. The related findings were:

1. USPS compensation managers did not know how to calculate and verify schedule award payments charged by OWCP because instructions on this area were not included in OWCP's handbooks and not in training course materials provided to employing agencies like the USPS.
2. USPS compensation managers were not aware of "new" weekly or monthly schedule award payments resulting from cost of living adjustment (COLA) increases. This occurred because OWCP does not provide employing agencies copies of the letters sent from the U.S. Treasury to Federal Employee Compensation Act (FECA) claimants notifying them of the change in payments.

¹ *Postal Service's Schedule Awards Program in the New York Metro Area – Report I*, Report Number HM-AR-06-007, dated September 29, 2006.

As a result of these findings, the USPS OIG recommended that OWCP:

- include in its handbooks and training course materials to employing agencies instructions on how to calculate and verify schedule award payments; and
- provide employing agencies with notifications of “new” weekly or monthly schedule award payments resulting from COLA increases.

We reviewed USPS OIG's audit report and supporting audit documentation and discussed the findings and recommendations with OWCP officials. We did not notice any instances where the USPS OIG's audit report and supporting audit documentation were not in accordance with generally accepted government auditing standards. OWCP officials informed us that they interpret the recommendations to mean that employing agencies be trained to readjudicate and recalculate the schedule award. However, according to OWCP, it is not appropriate for the employing agencies to review how the percentage of impairment was determined because this is done by the FECA claims examiner after reviewing the medical evidence. The award is then certified by a senior level or supervisory FECA claims examiner.

Concerning the COLA increases, OWCP stated that it would not be cost effective to make arrangements with the U.S. Treasury to send employing agencies thousands of notices because the COLA percentage is constant throughout the year, it is posted to the OWCP website, and it is available by contacting OWCP's fiscal office.

We agree with OWCP's position that employing agencies are not responsible for determining the degree and nature of permanent impairment and that it would not be cost effective to provide employing agencies with copies of the notification letters sent to claimants providing them the new weekly or monthly schedule award payments resulting from COLA increases.

However, we found that the USPS OIG auditors identified inaccurate payments because OWCP used incorrect pay rates. Therefore, we agree with the USPS OIG that agencies should have the opportunity to verify that the correct elements were used to calculate the schedule award. These elements are:

- The weekly base pay
- The dependent percentage (66.66 percent for employees without dependents or 75 percent for employees with dependents), and
- The number of weeks allowed for the impairment (number of weeks compensation multiplied by the percentage of impairment).

Recommendation

We recommend that the Assistant Secretary for Employment Standards require OWCP to include in its training for employing agencies the methodology to verify the accuracy of the Schedule Award payments in the charge back report. The training should include how employing agencies can locate COLA percentages used in their verification. Additionally, the training should be designed to delineate responsibilities between OWCP and the employing agencies so that employing agencies do not attempt to re-adjudicate the percentage of impairment.

Agency Response

In her response to the draft management letter, the Assistant Secretary for Employment Standards concurred with the recommendation. The response stated that OWCP agrees to include in its training for employing agencies the methodology for verifying the accuracy of the Schedule Award payments, including how they can locate the COLA percentages. The training will also differentiate the responsibilities of OWCP for adjudicating the percentage of impairment from the employing agencies' role of reviewing the accuracy of the award.

The Agency response is included in its entirety as Attachment B to this memorandum.

OIG Conclusion

We agree with the planned corrective action and the recommendation will be resolved when the Assistant Secretary for Employment Standards provides the date planned for implementing the training.

This final Management Letter is submitted for appropriate action. We request a response within 60 days providing the planned implementation date for the corrective action provided in response to the recommendation. If you have any questions regarding this Management Letter, please contact Michael Hill, Audit Director, in Philadelphia at (215) 446-3710.

Attachment

cc: Shelby Hallmark - Director, OWCP
Douglas Fitzgerald - Director, Division of Federal Employee Compensation, OWCP
Cecily Rayburn - Director, Director Division of Planning, Policy and Standards, OWCP
Rose Broadwater - Audit Liaison, Employment Standards Administration



Office of Inspector General

December 13, 2006

ELLIOT P. LEWIS
ASSISTANT INSPECTOR GENERAL,
DEPARTMENT OF LABOR

SUBJECT: Transmittal Letter – Postal Service's Schedule Awards
Program in the New York Metro Area – Report II
(Report Number HM-AR-07-001)

This letter and attached report¹ present the results of our self-initiated review of the Department of Labor's (DOL) Office of Workers' Compensation Programs (OWCP) Schedule Awards Program in the U.S. Postal Service's New York Metro Area (Project Number 06YG019HM001). Our objectives were to determine whether the Postal Service was over- or undercharged for schedule award payments and received credits due from the DOL OWCP for chargeback years (CBYs) 2004 and 2005.

In accordance with the DOL Office of Inspector General (OIG) *Protocol for OIG Audits, Inspections, Evaluations, and Investigations of the Federal Employees' Compensation Act Program*, we would like the DOL OIG to address two issues we identified during our review with the OWCP. These issues were that (1) OWCP handbooks and course materials do not contain information on how OWCP participating agencies should calculate and verify schedule award payments, and (2) participating agencies do not receive notifications from the OWCP of "new" weekly or monthly schedule award payments resulting from cost-of-living adjustment (COLA) increases.² The first issue was a primary cause why Postal Service managers and injury compensation specialists did not know how to calculate or verify authorized schedule award amounts. The second issue affects how participating agencies monitor increases to schedule award payments.

¹ *Postal Service's Schedule Awards Program in the New York Metro Area – Report I* (Report Number HM-AR-06-007, dated September 29, 2006).

² The COLA is an annual increase in benefits to cover increases associated with living expenses.

OWCP Course Materials Do Not Address Schedule Awards' Calculations

OWCP policy³ states quarterly chargeback reports can be used by participating agencies to identify and correct errors before the agency is billed for them. OWCP policy⁴ further states that agencies are responsible for informing the OWCP of incorrect entries appearing on the quarterly chargeback report. Postal Service policy⁵ further supports that it is required to monitor compensation payments via the chargeback summary and detail reports and immediately notify the OWCP district office of any overpayments.

Based on interviews with seven⁶ Postal Service district injury compensation managers, a primary reason employees were potentially over- and underpaid was because managers and injury compensation specialists did not know how to calculate or verify the authorized schedule award amounts.

The OWCP offers several courses to assist agencies in processing compensation claims.⁷ Materials for these courses, however, did not include information on how to calculate or verify a schedule award payment. Postal Service handbooks and training course materials related to claims management also did not address the calculation or verification of schedule awards payments. (See pages 6 through 10 in the attached report for additional information.)

Notifications to Employees and Agencies of COLAs

Employees approved by the OWCP for schedule award payments receive a schedule award of compensation letter outlining the:

- Number of weeks of compensation
- Weekly compensation
- Weekly pay rate
- Percentage of pay rate
- Period of award
- Degree and nature of impairment

The OWCP also sends a copy of the letter to the employing agency. However, the OWCP does not send agencies amended letters showing the “new” weekly or monthly payment amounts as a result of the COLA increase. Agencies are

³ Publication Compensation Act (CA)-810, *Injury Compensation for Federal Employees*, Section 9-5, Chargeback, (Part C) Quarterly Chargeback Reports.

⁴ Publication CA-810, *Injury Compensation for Federal Employees*, Section 9-5, Chargeback, (Part B) Errors.

⁵ Handbook Employee and Labor-505, *Injury Compensation*, Section 13.18, Recovering Compensation Overpayment, December 1995.

⁶ We interviewed the injury compensation managers in the Caribbean, Central New Jersey, Long Island, New York, Northern New Jersey, Triboro, and Westchester Districts.

⁷ Publication CA-810, *A Handbook for Agency Personnel*, February 1994, identifies the following four courses: the Federal Employees' Compensation Act (FECA) Seminar, the Basic Compensation Specialist Workshop, Advanced Compensation Specialist Training, and the FECA Supervisors' Workshop.

notified by letter of an upcoming COLA increase only if the COLA is known at the time the original schedule award of compensation letter is prepared.

According to OWCP's Deputy Director, Division of Federal Employees' Compensation, an employee receives notice of a COLA increase when they receive their schedule award payment. Regarding OWCP's notification to the agency, the Deputy Director said that when the COLA is applied each March 1, the agency is free to contact one of OWCP's offices to determine the amounts. He added that COLA information is also included in program bulletins that are posted to OWCP's Website, but stated there is a lag time before that happens. (See pages 10 through 11 in the attached report for additional information.)

Because the OWCP has program responsibility for schedule awards, it should provide participating agencies with instructions on how to calculate and verify schedule award payments, and should advise agencies of COLA changes to employees' schedule awards payments. This would help the agencies monitor increases in schedule award payments to ensure they are correct and would enable agencies to identify and correct errors before they are billed by the OWCP.

We request the DOL OIG recommend the DOL OWCP:

1. Include in their handbooks and training course materials instructions to participating agencies on how to calculate and verify schedule award payments. This information should be provided to all participating agencies as soon as it is available.
2. Provide participating agencies with notifications of "new" weekly or monthly schedule award payments resulting from COLA increases.

These recommendations should help the Postal Service and other participating federal agencies verify schedule award payments to employees.

If you have any questions or need additional information, please contact Chris Nicoloff, Director, Human Capital, or me at (703) 248-2100.



Mary W. Demory
Deputy Assistant Inspector General
for Headquarters Operations

Attachment

**Postal Service's Schedule Awards Program
in the New York Metro Area – Report II**

HM-AR-07-001

cc: Deborah M. Giannoni-Jackson
Gordon Heddell
Ronald E. Henderson
Steven R. Phelps



September 29, 2006

DAVID L. SOLOMON
VICE PRESIDENT, NEW YORK METRO AREA OPERATIONS

DEBORAH M. GIANNONI-JACKSON
VICE PRESIDENT, EMPLOYEE RESOURCE MANAGEMENT

RONALD E. HENDERSON
MANAGER, HEALTH AND RESOURCE MANAGEMENT

SUBJECT: Audit Report – Postal Service's Schedule Awards Program in the
New York Metro Area – Report I (Report Number HM-AR-06-007)

This report presents the results of our self-initiated review of the Department of Labor's (DOL) Office of Workers' Compensation Programs (OWCP) Schedule Awards (Project Number 06YG019HM000) in the U.S. Postal Service's New York Metro Area. Our objectives were to determine whether the U.S. Postal Service's New York Metro Area was over- or undercharged for schedule award payments and received credits due from the DOL OWCP for chargeback years¹ (CBYs) 2004 and 2005.

We concluded the Postal Service may have been overcharged \$10,750 and undercharged \$15,060 for schedule awards in the New York Metro Area. The potential over- and undercharges are less than 1 percent of the \$6.7 million in schedule awards paid to employees in the area in CBYs 2004 and 2005. Although the amounts are not significant when compared to the total schedule award payments, they highlight the fact that some employees may not have received benefits they were entitled to while others may have received more. Of the 35 potential incorrect charges we identified, the OWCP has issued a reimbursement check to one employee and the Triboro District requested the OWCP reimburse another. The Postal Service is in the process of requesting that the OWCP verify the validity of the remaining 33 potential incorrect charges.

The Postal Service has taken corrective actions, and the U.S. Postal Service Office of Inspector General (OIG) made eight recommendations to help the Postal Service improve its management of schedule awards. Of the eight recommendations, five are addressed to the Vice President, New York Metro Area Operations; and three are addressed to the Vice President, Employee Resource Management. The Vice

¹ The OWCP's Chargeback System is the mechanism by which the costs of compensation for work-related injuries and death are billed annually to employing agencies. The chargeback billing period is from July 1 of one year to June 30 the following year.

This report has not yet been reviewed for release under FOIA or the Privacy Act. Distribution should be limited to those within the Postal Service with a need to know.

President, New York Metro Area Operations, agreed with the findings and recommendations.

The Manager, Health and Resource Management, responded for the Vice President, Employee Resource Management, stating their agreement with the findings and recommendations. Management's comments in their entirety are in Appendix D.

Background

OWCP

The Federal Employees' Compensation Act (FECA) pays workers' compensation benefits to civilian employees, including Postal Service employees, who are injured on the job. The OWCP adjudicates claims and pays compensation, medical, and death benefits for these injured federal workers. The OWCP pays compensation and benefits from its Employees' Compensation Fund, which federal agencies later reimburse through the chargeback billing process. A schedule award is a form of compensation paid for specified periods of time for the permanent loss, or loss of use, of certain members, organs, and functions of the body. Payment is for a specified number of days or weeks, depending on the severity of the impairment.

Schedule Award

The schedule award compensation for proportionate periods of time is payable beginning on the date of maximum medical improvement.² In addition, a schedule award can be paid if the employee returns to work. However, employees may not receive wage-loss compensation and schedule award payments concurrently for the same injury.

The OWCP's district medical advisors determine the percentage of permanent impairment according to the American Medical Association's *Guide to the Evaluation of Permanent Impairment*. Title 5 of the U.S.C.³ defines the number of weeks allotted for payment by body part or organ. The OWCP schedule award compensation is computed by multiplying:

- The weekly base pay
- × 66 $\frac{2}{3}$ percent (for employees without dependents) or 75 percent (for employees with dependents) of the employee's weekly base pay
- × the number of weeks allowed for the impairment
- × the percentage of permanent impairment

For example, a schedule award payment for a married employee who earns a weekly base pay of \$961.54 and loses an arm or the use of an arm (100 percent permanent impairment) is computed as follows:

² Maximum medical improvement is defined as "a medical judgment that the condition has permanently stabilized."

³ Part III, Subpart G, Chapter 81, Subchapter I, Section 8107, Compensation Schedule.

- \$961.54 per week × 75 percent = \$721.16 per week
- \$721.16 per week × 312 weeks⁴ × 100 percent = \$225,000
- \$225,000 is the amount of the employee's schedule award

DOL policy states an employee can receive a schedule award in a lump-sum payment⁵ or periodic payments spread out over time. Periodic payments occur every 28 calendar days (4 weeks) and in the example just given would equal \$2,884.64 per month (\$721.16 per week x 4 weeks).

If an employee sustains a period of total disability during the award period, the payments may be interrupted while the employee is on total disability and resume after the employee is no longer on total disability. If an employee dies while receiving a schedule award from causes unrelated to the injury, his or her dependents are entitled to the balance of the award at the rate of 66 ⅔ percent.

Cost-of-Living Adjustment (COLA)⁶ Applied to Schedule Award Monthly Payments

When an employee receives schedule award compensation for longer than 1 year, the employee is entitled to a COLA that annually takes effect on March 1. However, if an employee received compensation related to the injury, including Continuation of Pay (COP),⁷ the 1-year entitlement period starts the date that compensation (not just schedule award compensation) was first paid.

The OWCP increases schedule award monthly payments by multiplying the COLA percentage by the authorized monthly payment in effect at the time of the COLA. Table 1 illustrates how the COLA increase would impact an employee's monthly schedule award payment in calendar years (CYs) 2003, 2004, and 2005.

Table 1. Example of COLA Effect on Schedule Award Payments

| Initial Monthly Amount Approved | March 1 | | | | | |
|---------------------------------|-----------------|-------------|-----------------|-------------|-----------------|-------------|
| | CY 2003 | | CY 2004 | | CY 2005 | |
| | COLA Percentage | New Payment | COLA Percentage | New Payment | COLA Percentage | New Payment |
| \$2,884.64 | 2.4 | \$2,953.87 | 1.6 | \$3,001.13 | 3.4 | \$3,103.17 |

Source: COLA percentages provided by Deputy Director, OWCP, San Francisco District Office
Note: Numbers are rounded.

⁴ As defined by Title 5. If the employee had a 50 percent permanent impairment, the number of weeks would be 156.
⁵ Federal Register, 20 Code of Federal Regulations, Part 10, Section 10.422(b), states that a lump-sum payment may be made to an employee entitled to a schedule award under 5 U.S.C. Section 8107, when the OWCP determines the payment is in the employee's best interest. A lump-sum payment is generally considered in the employee's best interest only if the employee does not rely on compensation payments as a substitute for lost wages (that is, the employee is working or is receiving annuity payments). An employee has no absolute right to a lump-sum payment of benefits under 5 U.S.C. 8107.

⁶ The COLA is an annual increase in benefits to cover costs associated with living expenses.

⁷ COP is regular pay provided immediately to an injured employee for up to 45 calendar days with no charge to sick or annual leave.

Schedule Award Payments by Postal Area Offices

Postal Service schedule award payments increased 12 percent from CBY 2002 (\$84.9 million) through CBY 2006 (\$95.4 million). Table 2 illustrates the schedule award payments for each Postal Service area office, including the New York Metro Area (highlighted) and Postal Service Headquarters for CBYs 2002 to 2006.

Table 2. Schedule Award Payments for Each Postal Service Area Office for CBYs 2002 to 2006

| Area Office | CBY | | | | |
|------------------------------|---------------------|---------------------|----------------------|---------------------|---------------------|
| | 2002 | 2003 | 2004 | 2005 | 2006 |
| Capital Metro | \$3,253,004 | \$4,916,146 | \$5,299,602 | \$4,667,609 | \$3,814,513 |
| Eastern/Allegheny | 11,462,059 | 12,406,483 | 13,316,209 | 11,736,310 | 12,361,815 |
| Great Lakes | 10,357,923 | 10,764,025 | 12,426,055 | 11,457,866 | 12,351,963 |
| Headquarters | 612,720 | 386,419 | 577,331 | 342,145 | 512,344 |
| Inactive Number ^b | 373,724 | 411,783 | 363,286 | 128,541 | 359,528 |
| New York Metro | 3,596,544 | 3,430,846 | 3,438,499 | 3,252,250 | 4,146,152 |
| Northeast | 3,498,465 | 4,042,075 | 4,259,813 | 4,490,540 | 5,307,221 |
| Pacific | 19,378,539 | 19,074,656 | 20,498,599 | 17,235,227 | 17,554,083 |
| Southeast | 8,488,754 | 8,170,322 | 10,551,280 | 8,887,489 | 8,795,848 |
| Southwest | 13,437,026 | 16,832,483 | 19,027,628 | 16,022,203 | 17,498,682 |
| Western | 10,514,377 | 11,962,087 | 14,406,475 | 13,356,342 | 12,743,472 |
| Total | \$84,973,135 | \$92,397,325 | \$104,164,777 | \$91,576,521 | \$95,445,621 |

Source: Postal Injury Compensation System (PICS)⁹

Postal Service Workers' Compensation Costs

The Postal Service was the largest participant in the OWCP in CBY 2006, representing about 49 percent of the total cases for the federal workforce. It was also the largest payee to the OWCP, with \$863.1 million in payments for the same year. This is about 36 percent of the \$2.4 billion in total federal workers' compensation payments. In addition to the \$863.1 million, the Postal Service also paid \$20.9 million in chargeback billing costs for the old Post Office Department¹⁰ and an administrative fee¹¹ of \$48.3 million. This brings the total CBY 2006 costs to \$932.3 million, as shown in Table 3.

⁸ Each Postal Service office has a finance number. The Inactive Number category represents inactive finance numbers.

⁹ PICS is an OIG system that contains weekly medical costs and workers' compensation data from the OWCP for each injured Postal Service employee.

¹⁰ The Post Office Department represented compensation claims incurred before the Postal Service reorganization in 1971. Under the Postal Reorganization Act of 1971, the Postal Service remained responsible for payment of all Post Office Department workers' compensation claims incurred before July 1, 1971.

¹¹ Administrative fees represent the amount the OWCP assesses for managing workers' compensation claims. The amount paid is approximately 5 percent of the Postal Service's medical and compensation costs. The Postal Service's administrative fees increased about 6.6 percent from CBY 2002 (\$45.2 million) through CBY 2006 (\$48.3 million).

Table 3. Postal Service Total Workers' Compensation and Medical Costs for CBY 2006

| Type of Cost | CBY 2006 (millions) |
|--|------------------------|
| Postal Service workers' compensation and medical costs | \$863.1 |
| Post Office Department workers' compensation and medical costs | 20.9 |
| Administrative fee | 48.3 |
| Total | \$932.3 |

Source: DOL OWCP Chargeback Billing Summary

Objectives, Scope, and Methodology

We discuss our objectives, scope, and methodology in detail in Appendix B.

Prior Audit Coverage

The OIG has issued two reports on the OWCP's schedule award compensation: *Audit Reports – OWCP's Schedule Award Payments to Postal Service Employees in the Pacific Area – Report I* (Report Number HM-AR-06-001, dated January 17, 2006); and *Report II* (Report Number HM-AR-05-011, dated September 29, 2005). The reports stated the Postal Service was overcharged about \$249,506 and undercharged about \$240,222 for schedule awards in the Pacific Area. The overcharge is about 1.2 percent of the \$20.6 million paid to Postal Service employees in the Pacific Area in CBY 2004. The over- and undercharges were less than 1 percent of the amount paid to employees; however, they indicated the OWCP over- and underpaid 4 percent of the Pacific Area employees who received schedule award payments. Although the amounts are not significant compared to the total schedule award payments, they highlight the fact that some employees did not receive benefits they were entitled to while others received more.

The reports also stated that FECA schedule award maximums were not comparable to state schedule award maximums. Finally, the auditors could not determine the extent to which private insurance companies' schedule award maximums were comparable to federal maximums because private companies compute their awards differently.

Audit Results

Postal Service Over- and Undercharges

The Postal Service may have been overcharged \$10,750 and undercharged \$15,060 for schedule awards in the New York Metro Area. The potential over- and undercharges are less than 1 percent of the \$6.7 million in schedule awards paid to employees in the New York Metro Area in CBYs 2004 and 2005. Although the amounts are not significant when compared to the total schedule award payments, they highlight the fact that some employees may not have received benefits they were entitled to while others may have received more. The Postal Service needs to ensure that it is not overcharged for schedule awards and that employees are paid the amounts authorized by reviewing their chargeback reports and reporting any discrepancies to the OWCP before they are billed.

We reviewed a sample of 110 Postal Service employee workers' compensation case files from a universe of 243 files to determine the total amount of over- and undercharges. Of the 110 case files reviewed, 35 employees who received schedule award payments in the New York Metro Area in CBYs 2004 and 2005 may have been paid more or less than the amounts authorized, as follows:

- Six employees may have been overpaid.
- Twenty-nine employees may have been underpaid.

See Appendices B and C for the methodology and statistical sampling, respectively.

Potential Overpayments Identified

Of the six employees that may have been overpaid, three payments were less than \$500 as shown in Table 4. The remaining three employees may have been overpaid more than \$1,000. Two of the potential overpayments occurred in one Postal Service district injury compensation office in the New York Metro Area – Central New Jersey (see the shaded row in Table 4). The largest potential overpayment occurred in the Caribbean District.

Table 4: Number of Potential Overpayments, by Postal Service District Injury Compensation Office

| Injury Compensation Office | Potential Overpayments: Amounts Paid Over the Authorized Amounts | | | | | Total |
|----------------------------|--|-----------------|-------------------|-------------------|-----------------------|-------|
| | \$5 to \$49.99 | \$50 to \$99.99 | \$100 to \$499.99 | \$500 to \$999.99 | \$1,000 to \$4,999.99 | |
| Caribbean | --- | --- | --- | --- | 1 | 1 |
| Central New Jersey | --- | --- | 2 | --- | 2 | 4 |
| Long Island | --- | --- | --- | --- | --- | 0 |
| New York | --- | --- | --- | --- | --- | 0 |
| Northern New Jersey | --- | --- | 1 | --- | --- | 1 |
| Triboro | --- | --- | --- | --- | --- | 0 |
| Westchester | --- | --- | --- | --- | --- | 0 |
| TOTAL | 0 | 0 | 3 | 0 | 3 | 6 |

Source: Schedule Award of Compensation Letters and OWCP Agency Query System (AQS)¹² Case Compensation Payment History

As shown in Table 5, the three potential overpayments of more than \$1,000 totaled \$9,838 and represented 92 percent of the \$10,750 that may have been overpaid. The remaining three employees may have been overpaid a total of \$912.

Table 5: Highest Three Potential Overpayments, by Employee, Compared to Total Overpayments

| Employee | Amount Authorized | Amount Paid | Potential Amount Overpaid | Percentage of Total Overpayments |
|---------------------------------|-------------------|-------------|---------------------------|----------------------------------|
| Employee A | \$62,356 | \$67,332 | \$4,977 | 46 |
| Employee B | 23,613 | 26,565 | 2,952 | 28 |
| Employee C | 53,677 | 55,587 | 1,909 | 18 |
| Total for employees A through C | 139,646 | 149,484 | 9,838 | 92 |
| Total for three other employees | 153,035 | 153,947 | 912 | 8 |
| Total for all six employees | \$292,681 | \$303,431 | \$10,750 | 100 |

Sources: PICS, Schedule Award of Compensation Letters, and AQS Case Compensation Payment History
Note: Numbers and Percentages are rounded.

In the cases of Employees A, B, and C the AQS payment history indicated the employees received more compensation than the amounts authorized on their Schedule Award of Compensation Letters. Neither the Postal Service employees' case files nor the AQS payment histories, however, contained explanations for why the OWCP paid the employees more than the amounts authorized in their letters.

For the remaining three employees who may have received a total of \$912 in overpayments, OWCP procedures¹³ allow amounts less than \$700 to be uncollected (written off) because the costs of pursuing collection may exceed the amount to be repaid. The OWCP will not recover these amounts.

¹² The AQS is a DOL system that allows employers access to employee data through an Internet server. The AQS contains data on current case status and compensation and medical bill payment history for all active compensation cases.

¹³ FECA Procedure Manual, Section 6-0200-8, Administrative Termination of Debt Collection (Overpayments Less Than \$700).

Potential Underpayments Identified

Of the 29 employees that may have been underpaid, four employees were underpaid \$1,000 or more as shown in Table 6. The remaining 25 employees may have been underpaid less than \$1,000. Most of the potential underpayments occurred in two Postal Service district injury compensation offices in the New York Metro Area – Central and Northern New Jersey. (See the shaded rows in Table 6.) The largest two potential underpayments occurred in the New York and Northern New Jersey Districts.

Table 6: Number of Potential Underpayments, by Postal Service District Injury Compensation Office

| Injury Compensation Office | Potential Underpayments: Amounts Paid Under the Authorized Amounts | | | | | Total |
|----------------------------|--|-----------------|-------------------|-------------------|-----------------------|-----------|
| | \$5 to \$49.99 | \$50 to \$99.99 | \$100 to \$499.99 | \$500 to \$999.99 | \$1,000 to \$4,999.99 | |
| Caribbean | --- | --- | --- | --- | --- | 0 |
| Central New Jersey | 2 | --- | 3 | 1 | 0 | 6 |
| Long Island | --- | --- | --- | 1 | --- | 1 |
| New York | --- | --- | --- | 2 | 1 | 3 |
| Northern New Jersey | --- | --- | 10 | 3 | 3 | 16 |
| Triboro | --- | --- | 1 | --- | --- | 1 |
| Westchester | --- | 1 | 1 | --- | --- | 2 |
| TOTAL | 2 | 1 | 15 | 7 | 4 | 29 |

Source: Schedule Award of Compensation Letters and AQS Case Compensation Payment History

As shown in Table 7, the four potential underpayments (of more than \$1,000) totaled \$7,217 and represented 48 percent of the \$15,060 that may have been underpaid. The remaining 25 employees may have been underpaid a total of \$7,843.

Table 7: Top Four Potential Underpayments, by Employee, Compared to Total Underpayments

| Employee | Amount Authorized | Amount Paid | Potential Amount Underpaid | Percentage of the Total Amount Underpaid |
|---------------------------------|-------------------|-------------|----------------------------|--|
| Employee D | \$84,834 | \$82,502 | (\$2,332) | 16 |
| Employee E ¹⁴ | 64,321 | 62,247 | (2,074) | 14 |
| Employee F | 34,768 | 33,061 | (1,707) | 11 |
| Employee G | 53,938 | 52,834 | (1,104) | 7 |
| Total for employees D through G | 237,861 | 230,644 | (7,217) | 48 |
| Total for 25 other employees | 1,202,323 | 1,194,481 | (7,843) | 52 |
| Total for all 29 employees | \$1,440,184 | \$1,425,125 | (\$15,060) | 100 |

Sources: PICS, Schedule Award of Compensation Letters, and AQS Case Compensation Payment History
Note: Numbers and percentages are rounded.

For all 29 employees, the AQS payment history indicates they were paid less than the amounts authorized on their Schedule Award of Compensation Letters. Like the

¹⁴ The OWCP recognized that Employee E had been underpaid and on April 7, 2006, the OWCP issued a check to the employee to correct this underpayment.

potential overpayments, neither the employees' case files nor the AQS payment histories contained information explaining why OWCP paid them less than the amounts authorized in their Schedule Award of Compensation Letters.

According to Postal Service policy,¹⁵ injury compensation managers are required to monitor compensation payments via the chargeback summary and detail reports and immediately notify the OWCP district office of any overpayments. In addition, injury compensation managers are required to monitor action taken by the OWCP on overpayments identified. It is the responsibility of the New York Metro Area and the districts' injury compensation managers to ensure this occurs. Postal Service policy is silent regarding the discovery of underpayments; however, OWCP policy¹⁶ states it can use quarterly chargeback reports to identify and correct errors before the agency is billed for them. OWCP policy¹⁷ further states that agencies are responsible for informing the OWCP of incorrect entries appearing on the quarterly chargeback report.

Based on interviews with the seven¹⁸ district injury compensation managers, the two primary reasons employees were potentially over- and underpaid were managers and injury compensation specialists (1) not reviewing chargeback reports and/or (2) not knowing how to calculate or verify the authorized schedule award amounts. The Northern New Jersey District Injury Compensation Manager, however, said her office did not identify underpayments because that is the responsibility of the employee and/or the OWCP. She said employees are aware of their workers' compensation entitlements (such as schedule awards) and employees should pursue their underpayments.

The Central New Jersey District Injury Compensation Manager said there are no standard operating procedures (SOPs) in his district describing how to identify over- or underpayments. He also said he has never been trained how to calculate or verify the schedule award authorized amounts. He further stated OWCP training courses and seminars did not include a discussion or review of how to determine or calculate schedule award compensation amounts.

The Westchester District Injury Compensation Manager, whose district had employees that were underpaid less than \$500, stated she would not request that the OWCP resolve her district's underpayments because the amounts were minimal and payroll adjustments for these cases would cost more than the employees' underpayments.

The New York Metro Area Injury Compensation Manager said that if he knew the district injury compensation managers were not reviewing chargeback reports, he would have told them to do so. He confirmed, however, there are no SOPs or policies for reviewing Schedule Award of Compensation Letters to ensure the data in the letters are complete

¹⁵ Handbook Employee and Labor (EL)-505, *Injury Compensation*, Section 13.18, Recovering Compensation Overpayment, December 1995.

¹⁶ Publication Compensation Act (CA)-810, *Injury Compensation for Federal Employees*, Section 9-5, Chargeback, (Part C) Quarterly Chargeback Reports.

¹⁷ Publication CA-810, *Injury Compensation for Federal Employees*, Section 9-5, Chargeback, (Part B) Errors.

¹⁸ We interviewed the injury compensation managers in the Caribbean, Central New Jersey, Long Island, New York, Northern New Jersey, Triboro, and Westchester Districts.

and accurate. He also said that, historically, the Postal Service has viewed the completeness and accuracy of schedule award data as the OWCP's responsibility.

The New York Metro Area Senior Injury Compensation Specialist added that, even without SOPs or policies requiring the review of Schedule Award of Compensation Letters, the district injury compensation managers are still responsible for reviewing chargeback reports every month to ensure schedule award payments are accurate.

Postal Service and OWCP Course Materials Do Not Address Schedule Awards' Calculations

We reviewed several Postal Service handbooks and training course materials related to claims management and none addressed the calculation or verification of schedule awards payments. Our review included the materials for the 2-week *Basic Injury Compensation Course* (19Q01-11), dated March 2005. This course was designed to provide the injury compensation specialist with a comprehensive understanding of their role in the Postal Service Injury Compensation Program.

In addition, the OWCP offers several courses to assist agencies in processing compensation claims.¹⁹ Materials for these courses did not include information on how to calculate or verify a schedule award payment.

Postal Service policy is clear that district injury compensation managers are required to monitor all workers' compensation payments, including schedule award payments. As such, both the Postal Service and the OWCP need to provide the necessary training to ensure that managers understand their responsibilities.

Notifications to Employees and Agencies of COLAs

Employees approved by the OWCP for schedule award payments receive a copy of a Schedule Award of Compensation Letter outlining the following:

- Number of weeks of compensation
- Weekly compensation
- Weekly pay rate
- Percentage of pay rate
- Period of award
- Degree and nature of impairment

The OWCP also sends a copy of the letter to the employing agency. However, the OWCP does not send agencies amended letters showing the "new" weekly or monthly payment amounts that result from COLA increases. The only time agencies are notified by letter of an upcoming COLA increase is if the COLA is known at the time the original

¹⁹ Publication CA-810, *A Handbook for Agency Personnel*, February 1994, identifies the following four courses: *The FECA Seminar*, *The Basic Compensation Specialist Workshop*, *The Advanced Compensation Specialist Training*, and *The FECA Supervisors Workshop*.

Schedule Award of Compensation Letter is prepared. For example, a letter dated January 16, 2003, would include the COLA because it was known at the time the letter was prepared (January 2003).

According to the OWCP's Deputy Director, Division of Federal Employees' Compensation, an employee receives notice of a COLA increase on the benefit explanation the Department of the Treasury sends with the check that includes the COLA increase (or in the case of electronic deposits, on the employee's benefit statement). Regarding the OWCP's notification to the agency, the Deputy Director said that when the COLA is applied each March 1, the agency is free to contact one of the OWCP's offices to determine the amounts. He added the COLA information is also included in program bulletins that are posted to the OWCP's website, but stated there is some lag time before that happens.

We believe that because the OWCP has program responsibility for schedule awards, it should advise agencies of COLA changes to employees' schedule awards payments. This would help the agencies to monitor increases to schedule award payments to ensure they are correct and would enable the agencies to identify and correct errors before the OWCP bills them.

Corrective Action

Of the 29 potential underpayments in the six districts, the OWCP has issued a reimbursement check of \$2,074 to one employee (Employee E). Also, using the underpayment information the OIG provided, the Triboro District Injury Compensation Manager sent a letter dated April 3, 2006, to the OWCP to request that one other employee be paid the underpaid amount of \$111. According to the manager, the employee had not been paid as of August 16, 2006.

In addition, in accordance with the DOL OIG's protocol for OIG audits of the FECA program,²⁰ we will send a letter asking that the DOL OIG review the issue of the absence of information on calculating or verifying schedule award payments in OWCP's handbooks and training course materials. We will request that, if they determine this information does not exist, they recommend it be added to OWCP's course materials. We will also request that the DOL OIG review the issue that the OWCP is not notifying employing agencies of "new" weekly or monthly schedule award payment amounts resulting from COLA increases. We will request that if the DOL OIG finds this to be true they recommend that OWCP implement notification procedures. We believe these actions will assist the Postal Service and other federal agencies in their verification of schedule award payments.

²⁰ Protocol for OIG Audits, Inspections, Evaluations, and Investigations of the Federal Employees' Compensation Act Program, effective July 1, 2006.

Recommendations

We recommend the Vice President, New York Metro Area Operations, direct the New York Metro Area Injury Compensation Manager to instruct the Caribbean, Central New Jersey, and Northern New Jersey Districts' Injury Compensation Managers to:

1. Work with the Office of Workers' Compensation Programs to determine if the potential overpayments identified in this report are accurate and, if they are, to request that credits be made and then ensure they appear on the chargeback reports. In addition, we request the Postal Service notify the U.S. Postal Service Office of Inspector General of the results of the Office of Workers' Compensation Programs' review of the potential overpayments.

We also recommend the Vice President, New York Metro Area Operations, direct the New York Metro Area Injury Compensation Manager to instruct the Central New Jersey, Long Island, New York, Northern New Jersey, and Westchester Districts' Injury Compensation Managers to:

2. Work with the Office of Workers' Compensation Programs to determine if the potential underpayments identified in this report (excluding Employee E) are accurate and, if they are, to request that the Office of Workers' Compensation Programs compensate employees according to the authorized amounts. In addition, we request the Postal Service notify the U.S. Postal Service Office of Inspector General of the results of the Office of Workers' Compensation Programs review of the potential underpayments.

In addition, we recommend the Vice President, New York Metro Area Operations, direct the New York Metro Area Injury Compensation Manager to:

3. Emphasize to all district injury compensation managers the requirement and responsibility for reviewing chargeback reports on a quarterly basis.
4. Remind all district injury compensation managers and specialists to verify the "new" authorized schedule award amounts (after the March 1 cost-of-living adjustment) and review chargeback reports to ensure employees receive the correct authorized amounts after the cost-of-living adjustment effective date.

Management's Comments

The Vice President, New York Metro Area Operations, agreed with the findings and recommendations. He provided us a copy of the New York Metro Area Injury Compensation Manager's memorandum dated September 18, 2006, that was sent to the area district injury compensation managers. The memorandum instructed the managers to implement the Postal Service OIG's recommendations. (See Appendix D for the memorandum.)

The memorandum also instructed the managers to review the identified cases for possible over- and underpayments, in conjunction with the OWCP, in order to validate discrepancies. The memorandum also stated that if overpayments are warranted, the district injury compensation managers should request a credit from the OWCP and review chargeback reports to ensure the credits were made. In cases of underpayments, the memorandum instructed the Central New Jersey, Long Island, New York, Northern New Jersey, and Westchester District Injury Compensation Managers to pursue the possible underpayment discrepancies with the OWCP.

In addition, the memorandum stated that reports concerning the results of the reviews (done in conjunction with the OWCP) and any necessary action regarding potential over- and underpayments are due to the New York Metro Area Injury Compensation Manager by October 10, 2006. The Vice President stated the New York Metro Area Injury Compensation Manager will notify the Postal Service OIG of the results once the reviews are completed.

The memorandum also instructed all New York Metro Area district injury compensation managers to review chargeback reports at least quarterly. It further instructed district injury compensation managers to review chargeback summary and detailed reports monthly and pursue payment discrepancies with the OWCP.

Finally, the memorandum instructed all New York Metro Area district injury compensation managers to review the chargeback reports generated immediately after the yearly COLA takes effect, to identify and verify that the COLA adjustment was applied correctly.

Evaluation of Management's Comments

Management's actions are responsive to the recommendations, and the planned actions should address the issues identified in the report. The OIG considers recommendations 1 and 2 significant and, as such, requires documentation of compliance with the recommendations be provided prior to their closure. The OIG considers the support provided by management sufficient to close recommendations 3 and 4.

Recommendations

We recommend the Vice President, Employee Resource Management:

5. Revise the *Basic Injury Compensation Course* (19Q01-11) to include training on how to calculate and verify the schedule award amounts the Office of Workers' Compensation Programs authorizes and include the revised portion as mandatory training for all injury compensation managers and specialists.

6. Implement, when feasible,²¹ a Schedule Award Verification Standard Operating Procedure that directs all injury compensation managers to review schedule award payment data for accuracy. The standard operating procedure should require district injury compensation managers to do the following at least once each quarter:
 - a. Build/create a Schedule Award Report in the Injury Compensation Performance Analysis System to include a column that displays the total amount of the award paid to date.
 - b. Review the Schedule Award Reports to ensure employees are paid the amounts authorized (compare the total amounts paid with the amounts authorized or the total amounts of the schedule awards).²²
7. Revise Postal Service policy to require injury compensation managers to monitor compensation payments via chargeback summaries and detail reports and immediately notify the Office of Workers' Compensation Programs' district offices of any underpayments.

Management's Comments

The Manager, Health and Resource Management, responded for the Vice President, Employee Resource Management, stating their agreement with the findings and recommendations. He stated that a revision of the *Basic Injury Compensation Course* (19Q01-11) is underway, and the revised course will be self-administered using the eLearning training methodology (on-line training). He also stated that a lesson on calculating and verifying OWCP schedule award amounts will be developed by the Postal Service Health and Resource Management Office, and made mandatory for injury compensation managers and specialists.

The Manager also stated the Postal Service will develop a Schedule Award Verification SOP for all injury compensation personnel. He said the SOP will include steps to generate a Schedule Award Report in the Injury Compensation Performance Analysis System, which will capture the total amount of the schedule awards paid to date, and will ensure the amounts paid are accurate.

The Manager further stated the Postal Service will revise case management policy to require injury compensation managers to review all chargeback report payments and to

²¹ According to the Manager, Health and Resource Management, the ability to build/create any new reports or make modifications to the Injury Compensation Performance Analysis System has been frozen for approximately a year – until human resource records and information have been transferred to SAP. He said as soon as the freeze is lifted, he would be able to implement this recommendation.

²² The Pacific Area implemented a similar SOP in response to our findings during an audit of their area. This information is contained in our report titled *OWCP's Schedule Award Payments to Postal Service Employees in the Pacific Area – Report II* (Report Number HM-AR-05-011, dated September 29, 2005).

immediately notify the OWCP of any identified discrepancies. Management's comments, in their entirety, are included in Appendix D.

Evaluation of Management's Comments

Management's actions are responsive to the recommendations, and the planned actions should address the issues identified in the report. The OIG considers recommendations 5, 6, and 7 significant and, as such, requires documentation of compliance with the recommendations be provided prior to their closure.

Missing Schedule Award of Compensation Letters

During our review of the 110 workers' compensation case files, we found that 19 Schedule Award of Compensation Letters were missing. Most instances of missing letters occurred in the Northern New Jersey District Injury Compensation Office. (See the shaded row in Table 8.)

**Table 8: Missing Schedule Award of Compensation Letters by
Postal Service District Injury Compensation Office**

| Injury Compensation Office | Number of Missing Letters |
|----------------------------|---------------------------|
| Central New Jersey | 2 |
| Long Island | 1 |
| New York | 2 |
| Northern New Jersey | 12 |
| Triboro | 1 |
| Westchester | 1 |
| Total | 19 |

Source: Postal Service employee workers' compensation case files

The Schedule Award of Compensation Letter can be used to determine (1) the amount authorized and (2) whether the Postal Service was over- or undercharged for schedule award payments. According to Postal Service policy,²³ a district's Injury Compensation Control Office (ICCO) is responsible for the maintenance, disclosure, and disposition of injury compensation program records within the Postal Service, consistent with the Privacy Act. The policy also states the ICCO prepares a case file for each new claim it receives and the files contain all relevant claim forms, medical documentation, correspondence, and any other pertinent information. In addition, the policy states the end of the fiscal year after the effective date of termination of all FECA benefits is the cutoff date for file retention purposes. Further, the policy states when the employee's compensation is terminated (no wage loss, no medical payments, and no limited duty), the case file must be placed in inactive files, retained for 5 years, and then destroyed.

²³ Handbook EL-505, *Injury Compensation, Records Management*, Section 12.3, Maintaining and Closing Files, December 1995.

The Northern New Jersey and Westchester Injury Compensation Managers told us that Schedule Award of Compensation Letters were missing from their files because the OWCP did not send the letters to their offices.

Because schedule award payments were not being verified and validated, injury compensation managers did not realize the letters were missing. When injury compensation managers do not ensure the OWCP provides Schedule Award of Compensation Letters, the Postal Service cannot calculate the authorized amounts, and thus cannot ensure employees are paid the authorized amounts and/or the Postal Service is charged properly.

Corrective Actions

New York Metro Area District Injury Compensation Managers obtained 12 of the 19 missing letters from the OWCP. They were not, however, able to obtain the remaining seven letters for a number of reasons. For example, an OWCP physician had one case file and other files had been scanned into the OWCP's paperless file system and the hard copy letters were no longer available.

The Northern New Jersey District Injury Compensation Manager told us her staff will monitor chargeback reports for employees receiving schedule award payments, verify the OWCP provides Schedule Award of Compensation Letters, and place them in each employee's case file. She also stated her office will request copies of Schedule Award of Compensation Letters from the OWCP if they do not provide them.

The Westchester District Injury Compensation Manager stated, in the future, the Schedule Award of Compensation Letters will be filed in employees' case files when received. The Manager also stated her district will request copies of Schedule Award of Compensation Letters from the OWCP if they do not provide them.

Recommendation

We recommend the Vice President, New York Metro Area Operations, direct the New York Metro Area Injury Compensation Manager to instruct the Central New Jersey, Long Island, New York, and Triboro District Injury Compensation Managers to:

8. Ensure they obtain Schedule Award of Compensation Letters from the Office of Workers' Compensation Programs and file them in the Postal Service case files of employees who receive schedule awards.

Management's Comments

The Vice President, New York Metro Area Operations, agreed with the finding and recommendation. He stated that to ensure the area's injury compensation program is applied uniformly, the New York Metro Area Injury Compensation Manager's memorandum instructs all district injury compensation managers to obtain copies of

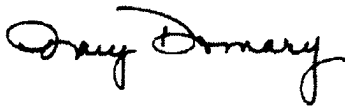
Schedule Award of Compensation Letters from the OWCP. The memorandum also instructs the managers to file the letters in the case files for those employees receiving schedule award payments. The Vice President said the district injury compensation managers will be directed to provide a progress report to the New York Metro Area Injury Compensation Manager, and a summary report of their review will be sent to the OIG.

The Vice President also said that since the Northern New Jersey District had a substantially higher number of missing schedule award letters than any other New York Metro Area district, an on-site audit of all Northern New Jersey schedule award case files will be completed no later than November 1, 2006, to ensure all files are complete.

Evaluation of Management's Comments

Management's actions are responsive to the recommendation, and the planned actions should address the issue identified in the report. The OIG considers the support provided by management sufficient to close recommendation 8.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Chris Nicoloff, Director, Human Capital, or me at (703) 248-2100.



Mary W. Demory
Deputy Assistant Inspector General
for Headquarters Operations

Attachments

cc: Anthony J. Vegliante
Alice G. Newman
John P. O'Connor
Steven R. Phelps

APPENDIX A. ABBREVIATIONS

| | |
|------|---|
| AQS | Agency Query System |
| CA | Compensation Act |
| CBY | Chargeback Year |
| COLA | Cost-of-Living Adjustment |
| COP | Continuation of Pay |
| CY | Calendar Year |
| DOL | Department of Labor |
| EL | Employee and Labor |
| FECA | Federal Employees' Compensation Act |
| ICCO | Injury Compensation Control Office |
| OIG | U.S. Postal Service Office of Inspector General |
| OWCP | Office of Workers' Compensation Programs |
| PICS | Postal Injury Compensation System |
| SOP | Standard Operating Procedure |

APPENDIX B. OBJECTIVES, SCOPE, AND METHODOLOGY

Our objectives were to determine whether the Postal Service's New York Metro Area was over- or undercharged for schedule award payments in CBYs 2004 and 2005 and received credits for overpayments from the DOL's OWCP. We also determined whether underpayments were made to employees.

To accomplish our objectives, we reviewed and analyzed schedule award payments extracted from PICS for CBYs 2004 and 2005. We also reviewed Postal Service and OWCP policies and procedures and interviewed Postal Service New York Metro Area officials and districts' injury compensation managers in the area's seven districts: Caribbean, Central New Jersey, Long Island, New York, Northern New Jersey, Triboro, and Westchester.

To determine whether the Postal Service was over- or undercharged for schedule award payments, we obtained a universe of New York Metro Area employee workers' compensation cases where at least one schedule award payment was made in CBYs 2004 or 2005. This resulted in a universe of 243 cases. We selected a statistical sample of 110²⁴ cases from the 243. We reviewed each case file and made a copy of the Schedule Award of Compensation Letters (including those that were amendments to the original letter) and other documents in the files related to the employees' schedule awards.

To determine whether the OWCP over- and undercharged the Postal Service through the chargeback process for schedule award payments, we compared the authorized schedule award amounts to the amounts actually paid to the employees. We based the authorized amounts on information in the Schedule Award of Compensation Letters sent to the employees and maintained in the Postal Service case files. We verified and calculated the authorized amounts by multiplying the number of weeks of compensation by the weekly compensation rate and included the COLAs, if applicable.

We obtained the amounts paid from the OWCP's AQS Case Compensation Payment History screens as of February 28, 2006.²⁵ The amounts actually paid were based on information recorded in the history screens. Copies of the AQS payment histories, in addition to information from the Postal Service's Workers' Compensation Information System (the latter system contains information obtained from the OWCP), were provided by a New York Metro Area Office Injury Compensation Specialist. We also prepared a spreadsheet to compare the amounts authorized to the amounts paid and to analyze payment data.

We interviewed injury compensation managers in the Caribbean, Central, Long Island, New York, Northern New Jersey, Triboro, and Westchester Districts to verify and validate the schedule award over- and underpayments. We also discussed the over- and underpayments with officials in the New York Metro Area Office and its

²⁴ We reviewed case files and each case file represented an employee.

²⁵ The OWCP provided copies of the AQS Case Compensation Payment History page for the 110 cases.

seven districts to ensure that the payments actually occurred. If a potential incorrect payment occurred, we determined whether the area was aware of the payments and, if so, what corrective actions had been taken. We discussed other information related to schedule award payments and authorized amounts. We also obtained and reviewed the Postal Service and OWCP policies and procedures to determine which agency (the Postal Service or the OWCP) was responsible for identifying the over- and underpayments.

In accordance with the DOL OIG protocol for OIG Audits, Inspections, Evaluations, and Investigations of the FECA Program, effective July 1, 2006, we contacted the OWCP's Deputy Director, Division of Federal Employees' Compensation, and asked him two questions regarding COLA notification to employees and the employing agency.

We conducted this audit from February through September 2006 in accordance with generally accepted government auditing standards and included such tests of internal controls as were considered necessary under the circumstances. We discussed our observations and conclusions with management officials and included their comments where appropriate.

Data Reliability Testing

For the case files we requested, we tested the data to determine whether the records were reliable. We compared data for specific fields extracted from PICS (employee's DOL case number, name, date of birth, Social Security number, date of injury, percent of disability, and weeks of compensation) to the information on the Schedule Award of Compensation Letter. Of the 110 case files we reviewed, PICS data did not match the Schedule Award of Compensation Letters in 11 cases, or 10 percent (see the following table). The purpose of our review was to determine whether over- and underpayments occurred and the data that did not match in the 11 cases was not significant to meet our objectives.

| Sample Number | Description of Data on Schedule Award of Compensation Letters that Did Not Match PICS |
|----------------------|--|
| 37 | Date of birth did not match PICS data |
| 51 | Date of birth did not match PICS data |
| 65 | Date of birth did not match PICS data |
| 75 | Percentage of disability did not match PICS data |
| 82 | Date of birth did not match PICS data |
| 84 | Percentage of disability did not match PICS data |
| 95 | Date of birth did not match PICS data |
| 102 | Date of birth did not match PICS data |
| 105 | Date of birth did not match PICS data |
| 108 | Date of birth did not match PICS data |
| 121 | Percentage of disability did not match PICS data |

APPENDIX C

STATISTICAL SAMPLING FOR REVIEW OF SCHEDULE AWARDS IN THE POSTAL SERVICE NEW YORK METRO AREA

Purpose of the Sampling

One of the objectives of this audit was to determine whether the New York Metro Area was over- or undercharged for schedule award payments. In support of this objective, the audit team used a simple random sample to select OWCP schedule award cases for review. We will attempt to project the over- and underpayments based on the amounts verified by the OWCP when we receive those amounts from the Postal Service. (See recommendations 1 and 2.)

Definition of the Audit Universe

The audit universe consisted of 243 cases that had at least one schedule award payment in CBYs 2004 or 2005. The OIG's Computer Assisted Assessment Techniques staff extracted the audit universe from the PICS database. The payments for these 243 cases, from the start of each individual case, constituted the total dollar universe for the audit.

Sample Design and Modifications

We chose a simple random sampling (without replacement) design because we had no basis for a stratified design. We sized the sample based on the gross payment from the audit universe. To size the sample, we assumed an expected coefficient of variation of about 70 percent based on the gross OWCP schedule award payment in the New York Metro Area. We calculated the sample size for a two-sided 95 percent confidence interval with about ± 10 percent precision. We determined that, for these parameters, we needed to sample approximately 110 payment cases. We made all case selections for the sample using the "randbetween" function in Excel to assign random numbers to the cases in the universe listing and used those random numbers to determine the cases included in the sample.

During the audit, the team encountered a sizeable number of cases for which the period of award had not ended, thus the employee was still being paid. Therefore, we increased the sample size to 125 in order to have a good representation of the cases for which the period of award had ended.

APPENDIX D. MANAGEMENT'S COMMENTS

VICE PRESIDENT, AREA OPERATIONS
NEW YORK METRO AREA



September 14, 2006

Kim H. Stroud
Office of Inspector General
Director, Audit Reporting
1735 North Lynn Street
Arlington, VA 22209-2020

SUBJECT: OIG Draft Audit Report (HM-AR-06-DRAFT)
Postal Service's Schedule Awards Program in the New York Metro Area

Following is the New York Metro Area's response to the subject audit report:

RECOMMENDATIONS

1. We recommend the Vice President Area Operations, New York Metro Area, direct the Manager, Injury Compensation (Area), to instruct the Caribbean, Central New Jersey, and Northern New Jersey District Managers, Injury Compensation, to work with the Office of Workers' Compensation Programs (OWCP) to determine if the potential overpayments identified in the reference audit report are accurate and, if they are, to request that credits be made and then ensure they appear on the chargeback reports. Additionally, we request the Postal Service notify the U.S. Postal Service Office of Inspector General (OIG) of the results of the OWCP review of the possible overpayments.

Response

The attached memorandum has been sent by the Manager, Injury Compensation (Area), to the district Managers, Injury Compensation, in the New York Metro Area requiring them to review the cases with possible overpayment and possible underpayment discrepancies with the OWCP. Managers, Injury Compensation, were instructed to request any overpayment if warranted. Additionally, the Managers, Injury Compensation, will follow-up by reviewing the chargeback reports to ensure that the credits are made. The Manager, Injury Compensation (Area), will notify the OIG of the results of the case review once it is completed.

2. We also recommend the Vice President, Area Operations, New York Metro Area, direct the Manager, Injury Compensation (Area), to instruct the Central New Jersey, Long Island, New York, Northern New Jersey, and Westchester District Managers, Injury Compensation, to work with the OWCP to determine if the possible underpayments identified in this report (excluding Employee E) are accurate and, if they are, to request that the OWCP programs compensate employees accordingly. In addition, we request the Postal Service notify the OIG of the results of the OWCP review of the possible underpayments.

Response

The attached memorandum to the Central New Jersey (six cases), Long Island (one case), New York (three cases), Northern New Jersey (fifteen cases), and Westchester (two cases) districts requires them to review the identified cases in depth and pursue the possible discrepancies with the OWCP. The Postal Service will notify the OIG of the results of our review of these cases once it is completed.

APPENDIX D. MANAGEMENT'S COMMENTS (CONTINUED)

3. In addition, we recommend the Vice President, Area Operations, New York Metro Area, direct the Manager, Injury Compensation (Area), to emphasize to all District Managers, Injury Compensation, that they are responsible to review chargeback reports on a quarterly basis.

Response

The attached memorandum instructs the district Managers, Injury Compensation, to review the chargeback reports no less than once every quarter.

4. Remind all Managers, Injury Compensation, to verify the "new" authorized schedule award amounts (after the March 1st COLA) and review chargeback reports to ensure employees receive the correct authorized amounts after the COLA effective date.

Response

The attached memorandum instructs the Managers, Injury Compensation, to review the chargeback reports generated immediately after the yearly COLA to identify and verify that the COLA was applied.

5 – 7.

Recommendations 5 – 7 will be addressed by the Office of the Vice President, Employee Resource Management, at Headquarters.

8. We recommend the Vice President, Area Operations, New York Metro Area, direct the Manager, Injury Compensation (Area), to instruct the Central New Jersey, Long Island, New York, and Triboro District Injury Compensation Managers to ensure they obtain schedule award letters from the OWCP and file them in the Postal Service case files of employees.

Response

In order to ensure that the Injury Compensation Program in the New York Metro Area is applied uniformly, the attached memo instructs all Managers, Injury Compensation that they must obtain copies of the schedule award letters from OWCP and file them in the USPS injury compensation case files for those employees receiving schedule award payments. The districts will be advised to provide a progress report to the Manager, Injury Compensation (Area) a summary report of the results of our review will be sent to the OIG. Additionally, since the Northern New Jersey District (NNJ) had a substantially higher number of missing schedule award letters than any other district in the NYMA, an on-site audit of all NNJ schedule award case files will be completed no later than November 1, 2006 to insure all NNJ schedule award case files are complete.

David L. Solomon
David L. Solomon (AM)

Attachment

cc: A. Newman
J. O'Connor

APPENDIX D. MANAGEMENT'S COMMENTS (CONTINUED)

Manager, Injury Compensation
New York Metro Area



September 18, 2006

NYMA MANAGERS, INJURY COMPENSATION

Subject: OIG Draft Audit Report (HM-AR-06-DRAFT)
Postal Service Schedule Award Program in the New York Metro Area

The Office of the Inspector General (OIG) conducted an audit of the Postal Service Schedule Award Program in the New York Metro Area (NYMA). The objectives of the audit were essentially to determine whether the U.S. Department of Labor's, Office of Workers' Compensation Program (OWCP) overpaid or underpaid claimants receiving schedule award payments in NYMA.

The following is pertinent:

- The OIG made it clear that according to Postal Service policy, Managers, Injury Compensation are required to monitor compensation payments via chargeback summary report and detail reports. If review of those reports reveal any payment discrepancies, Managers, Injury Compensation should immediately notify the OWCP district office.
- Additionally, Managers, Injury Compensation must monitor action taken by the OWCP. Postal policy is silent regarding the discovery of underpayments. However, OWCP policy states that quarterly chargeback reports can be used to identify and correct errors before the agency is billed for them. Agencies are responsible for informing OWCP of any incorrect entries. Therefore, discrepancy notification is the responsibility of the New York Metro Area and the Managers, Injury Compensation at the District level to ensure this notification occurs.
- The audit resulted in findings of possible underpayments and possible overpayments of schedule awards by the OWCP. As a result of the audit, and to ensure that employees are paid the proper amounts, the OIG made eight specific recommendations, five of which we have direct responsibility.
 1. Possible overpayments were identified by the OIG with reference to claims in the Caribbean, Central New Jersey, and Northern New Jersey Districts (Specific claims and overpayment information has been furnished under separate cover).

Action

Each Manager, Injury Compensation is required to review the identified cases, in conjunction with the OWCP, in order to validate discrepancies. If warranted, we must request that the OWCP declare overpayments. You are expected to review and follow-up the chargeback reports to ensure that credits are made. A report concerning the results of your case review and any necessary action regarding potential overpayments is due from each of you no later than Tuesday, October 10, 2006.

360 WEST 33RD STREET, RM 4632
NEW YORK, NEW YORK 10199-8602
1(846)473-3681
FAX: 1(846)473-3638

APPENDIX D. MANAGEMENT'S COMMENTS (CONTINUED)

- 2 -

2. Potential underpayments were also identified by the OIG in the following District: Central New Jersey, Long Island, New York, Northern New Jersey, and Westchester (Specific claims and underpayment information is attached.)

Action

Each Manager, Injury Compensation is required to review the identified cases, in conjunction with the OWCP to determine if the potential discrepancies identified are accurate. A report concerning the results of your review and any necessary action regarding possible underpayments is due from each of you no later than Tuesday, October 10, 2006.

3. Chargeback reports are not reviewed, minimally, on a quarterly basis.

Action

Managers, Injury Compensation will review the chargeback summary and detail reports on a monthly basis to include all schedule award cases and pursue payment discrepancies with OWCP.

4. Chargeback reports are not verified annually to identify "new" authorized schedule award amounts after the March 1st COLA adjustment nor is there any validation that correct payments are being received by employees.

Action

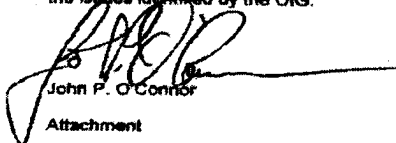
Managers, Injury Compensation must review the first chargeback report after the annual COLA adjustment to identify that the COLA has been applied to the schedule award payments.

5. Schedule award letters are missing from some NYMA injury compensation files.

Action

Managers, Injury Compensation will review the chargeback report and verify that the schedule award letters are in the appropriate files.

Your immediate action on these action items is expected and will ensure a successful resolution to the issues identified by the OIG.



John P. O'Connor

Attachment

cc: D. Solomon
A. Newman
Manager, Human Resources

APPENDIX D. MANAGEMENT'S COMMENTS (CONTINUED)

MANAGER
HEALTH & RESOURCE MANAGEMENT



September 18, 2008

Kim H. Stroud
Director of Audit Reporting
1735 North Lynn Street
Arlington VA. 22209-2020

SUBJECT: Draft Audit Report – Postal Service's Schedule Awards Program in the New York Metro Area – Report I (Report Number HM-AR-06-DRAFT)

This memorandum responds to the subject audit report dated September 1, 2008, specifically recommendations 5, 6, and 7. The audit report represents an in depth review of Office of Workers' Compensation Programs (OWCP) Schedule Awards in the New York Metro Area.

RECOMMENDATIONS

5. Revise the Basic Injury Compensation course (19Q01-11) to include training on how to calculate and verify the schedule award amounts the Office of Workers' Compensation Programs authorizes and include the revised portion as mandatory training for all injury compensation managers and specialists.

Response: At this time, the Basic Injury Compensation course (19Q01-11) is in the final stages of a format revision. The revised basic course will be self-administered utilizing the eLearning training methodology. Therefore, the postal service will ensure that a mandatory training lesson will be developed by the Health and Resource Management function for Injury Compensation management covering how to calculate and verify schedule award amounts from the Office of Workers' Compensation Programs.

6. Implement, when feasible, a Schedule Award Verification Standard Operating Procedure that directs all injury compensation managers to review schedule award payment data for accuracy. The standard operating procedure should require district injury compensation managers to do the following at least once each quarter:
- Build/create a Schedule Award Report in the Injury Compensation Performance Analysis System to include a column that displays the total amount of the award paid to date.
 - Review the Schedule Award Reports to ensure employees are paid the amounts authorized (compare the total amounts paid with the amounts authorized or the total amounts of the schedule awards).

Response: The postal service will develop a Schedule Award Verification Standard Operating Procedure for all injury compensation personnel. This Standard Operating Procedure will include steps: a.) to generate a Schedule Award Report in ICPAS capturing the total amount of the award paid to date; and b.) to ensure paid amounts are accurate.

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APPENDIX D. MANAGEMENT'S COMMENTS (CONTINUED)

- 2 -

7. Revise Postal Service policy to require injury compensation managers to monitor compensation payments via chargeback summaries and detail reports and immediately notify the Office of Workers' Compensation Programs' district offices of any underpayments.

Response: The postal service will revise case management policy requiring injury compensation managers to review all chargeback report payments and to immediately notify OWCP of any identified discrepancies.

Sincerely,


Ronald E. Henderson

APPENDIX D. MANAGEMENT'S COMMENTS (CONTINUED)

- 3 -

cc: Anthony J. Vegliante
Deborah Giannoni-Jackson
Mary Anne Gibbons
David L. Solomon
John P. O'Connor
Alice G. Newman
Steven R. Phelps



SEP 5 2007

Attachment B

MEMORANDUM FOR ELLIOT P. LEWIS

**Assistant Inspector General
for Audit**

A handwritten signature in black ink, appearing to read "Victoria A. Lipnic", with a stylized flourish at the end.

FROM: VICTORIA A. LIPNIC

**SUBJECT: U. S. Postal Service's Schedule Award Program
Audit Recommendation
Draft Management Letter Report No. 03-07-005-04-431**

This responds to your September 13, 2007 memorandum requesting comments on the subject draft letter report. ESA has reviewed the report and our response is provided below.

You recommend that the Assistant Secretary for Employment Standards require OWCP to perform the following:

Recommendation:

"Include in its training for employing agencies the methodology to verify the accuracy of the Schedule Award payments in the charge back report. The training should include how employing agencies can locate COLA percentages used in their verification.

Additionally, the training should be designed to delineate responsibilities between OWCP and the employing agencies so that employing agencies do not attempt to readjudicate the percentage of impairment."

Response:

OWCP concurs with the recommendation.

The payment of the schedule award based on the determined percentage of impairment is the responsibility of the OWCP claims examiner and each award is certified by a senior, journey level, or supervisory claims examiner. Schedule awards are included in OWCP's accountability reviews of the district offices to ensure quality. The agency is provided a copy of the CA-181 that shows the accepted percentage of impairment, the pay rate, and the period of the award. They can then review payments to ensure they are in accordance with the CA-181 and bring any errors to OWCP's attention.

All of the applicable COLAs are applied annually on March 1st. The percentage of the COLA is published in a bulletin and posted on the FECA web site each year. Agencies can also contact the FECA fiscal office to verify the amount.

OWCP agrees to include in its training for employing agencies the methodology for verifying the accuracy of the Schedule Award payments, including how they can locate COLA percentages. Training will also differentiate the responsibilities of OWCP for adjudicating the percentage of impairment from the employing agencies' role of reviewing the accuracy of the award.