

U.S. Department of Labor

Office of Inspector General—Office of Audit

EMPLOYMENT
STANDARDS
ADMINISTRATION



**MECHANISMS USED TO IDENTIFY CHANGES IN
ELIGIBILITY ARE INADEQUATE AT THE FECA
DISTRICT OFFICE IN JACKSONVILLE, FLORIDA**

Date Issued: September 28, 2007
Report Number: 04-07-004-04-431

**U.S. Department of Labor
Office of Inspector General
Office of Audit**

BRIEFLY...

Highlights of Report Number 04-07-004-04-431, a report to the Assistant Secretary for Employment Standards Administration, dated September 28, 2007.

WHY READ THE REPORT

The Federal Employees' Compensation Act (FECA) program provides benefits for civilian employees of the United States who have suffered work-related injuries or occupational diseases. One program benefit is the compensation for wage loss, which is paid at two-thirds of the employee's pay rate if the claimant does not have dependents and at an augmented rate of three-fourths if the claimant does. Eligible survivors and dependents also receive compensation in death cases.

During FY 2004, more than 163,000 new FECA claims were filed with OWCP, and the program provided nearly 280,000 workers more than \$2.4 billion in benefits for work-related injuries and illnesses. Of this amount, \$131 million represented death benefits paid to surviving dependents.

WHY OIG DID THE AUDIT

The OIG conducted a performance audit of the Jacksonville, Florida, District Office, Division of Federal Employees' Compensation (DFEC) to determine if mechanisms were in place to reduce or terminate payments, as appropriate, when dependents or survivors were no longer eligible. Our audit covered FECA activities for FY 2004.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full agency response, go to:

<http://www.oig.dol.gov/public/reports/oa/2007/04-07-004-04-431.pdf>

Mechanisms Used to Identify Changes in Dependent Eligibility Are Inadequate at the FECA District Office in Jacksonville, Florida

WHAT OIG FOUND

We found that mechanisms used to identify changes in dependent eligibility status and to reduce or terminate payments were not always followed or sufficient.

The Jacksonville District Office (1) continued compensation payments even though claimants had not provided required evidence of their continuing eligibility, and (2) did not reduce compensation payments when evidence provided indicated a reduction should have occurred.

The Jacksonville District Office Overpayment Aging report dated February 28, 2005, identified 563 overpayment cases, totaling \$7.3 million. Included in these overpayments are those that resulted from the untimely reporting of changes in spousal relationships or dependent status.

WHAT OIG RECOMMENDED

We recommended that the Assistant Secretary for the Employment Standards:

1. Change the FECA Procedure Manual to conform with 20 CFR Section 10.537, which requires the semiannual submission of medical evidence for disabled dependent children.
2. Improve OWCP forms by including dependents' and survivors' Social Security Numbers on key forms.
3. Require claimants to submit their federal tax returns annually.
4. Ensure that the Jacksonville District Office performs timely follow-up and suspends payment of compensation when claimants do not provide required information timely.

In response to the draft report, the Assistant Secretary for Employment Standards agreed with recommendations 1, 2, and 4, but disagreed with recommendation 3.

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Executive Summary

The Office of Inspector General conducted a performance audit of the dependent eligibility process at the Jacksonville, Florida, District Office of the Division of Federal Employees Compensation (DFEC), Office of Workers' Compensation Programs (OWCP). Our audit covered payments processed during Fiscal Year (FY) 2004.

During FY 2004, more than 163,000 new Federal Employees Compensation Act (FECA) claims were filed with OWCP, and the program provided nearly 280,000 workers more than \$2.4 billion in benefits for work-related injuries and illnesses. Of this amount, \$131 million represented death benefits paid to surviving dependents. We limited our work to claims processed by the Jacksonville District Office. Of DFEC's 12 District Offices, Jacksonville processed the highest number of claims (approximately 20,000) during FY 2004.

The audit objective was to determine if appropriate mechanisms were in place at the Jacksonville District Office to reduce or terminate payments, as appropriate, when dependents or survivors were no longer eligible. To accomplish our objective, we tested augmented payments and death benefit payments processed by the Jacksonville District Office. Regular compensation is paid at two-thirds of the employee's pay rate if he or she has no dependents. Compensation payments are augmented to three-fourths of the employee's pay rate if he or she is married or has a dependent.

Results

We found that mechanisms used to identify changes in dependent eligibility status and to reduce or terminate payments were not always followed or sufficient.

The Jacksonville District Office (1) continued compensation payments even though claimants had not provided required evidence of their continuing eligibility, and (2) did not reduce compensation payments when evidence provided indicated a reduction should have occurred.

Nine of the 70 cases¹ we tested revealed how improper verification increases the risk of overpayments. In one case, the claimant's augmented payment rate was not reduced even though the claimant reported that his spouse was no longer a dependent.

Key claim forms used by the Jacksonville District Office do not include the dependent's or survivor's social security number (SSN). The addition of this information could improve OWCP's ability to ensure the legitimacy of the dependent or survivor being claimed. Furthermore, requiring claimants to submit a copy of their federal tax return annually would provide another means for OWCP to verify dependent status.

¹ We selected a total of 70 FECA claims for review. Our sample included 35 augmented payments and 35 death benefit claims.

The Jacksonville District Office Overpayment Aging report dated February 28, 2005, identified 563 overpayment cases, totaling \$7.3 million. Included in these overpayments are those that resulted from the untimely reporting of changes in spousal relationships or dependent status.

Recommendations

We recommend that the Assistant Secretary for the Employment Standards direct OWCP/DFEC to:

1. Change the FECA Procedure Manual to conform with 20 CFR Section 10.537, which requires the semiannual submission of medical evidence for physically or mentally disabled dependent children.
2. Improve OWCP forms by including dependents' and survivors' social security numbers on forms CA 5, CA 12, and CA 1032 so that information verification of the claimant data can be more easily performed.
3. Require claimants to submit their federal tax returns annually to assist DFEC in verifying dependent status.

We also recommend that the Assistant Secretary for Employment Standards ensure that the Jacksonville District Office of DFEC:

4. Performs timely follow-up and suspends payment of compensation when claimants do not provide required information within the time specified by regulation.

Agency Response

In response to the draft report, the Assistant Secretary for Employment Standards agreed with the findings and recommendation in this report, with the exception of the recommendation to require claimants to submit their Federal tax return annually. The Assistant Secretary stated that regulations are already in place to verify dependency status and requiring claimants to provide a copy of their federal tax returns would not greatly assist in that effort.

OIG Conclusion

We considered ESA's response in its entirety and found no additional information that would materially affect the report's findings and recommendations. Requiring claimants to submit Federal tax return annually is a viable tool that would assist claims examiners' efforts to verify a claimant's dependency status. Our findings and recommendations remain unchanged.

U.S. Department of Labor

Office of Inspector General
Washington, DC 20210



Assistant Inspector General's Report

Ms. Victoria Lipnic
Assistant Secretary for Employment Standards
U.S. Department of Labor
200 Constitution Avenue, N.W.
Washington, DC 20210

We audited the dependent eligibility process at the Jacksonville, Florida, District Office of the Division of Federal Employees' Compensation, Office of Workers' Compensation Programs (OWCP). Our audit covered payments processed during FY 2004.

Our audit objective was to determine if appropriate mechanisms were in place at the Jacksonville District Office to reduce or terminate payments, as appropriate, when dependents or survivors were no longer eligible.

We conducted our audit in accordance with Government Auditing Standards for performance audits. Our audit scope, methodology, and criteria are detailed in Appendix B.

Objective – Were Appropriate Mechanisms in Place at the Jacksonville District Office to Reduce or Terminate Payments, as Appropriate, When Dependents or Survivors Were No Longer Eligible?

The Federal Employees Compensation Act (FECA) program provides benefits for civilian employees of the United States who have suffered work-related injuries or occupational diseases. One program benefit is the compensation for wage loss, which is paid at two-thirds of the employee's pay rate if the claimant does not have dependents and at an augmented rate of three-fourths if the claimant does. Eligible survivors and dependents also receive compensation in death cases.

Federal regulations direct OWCP to implement specified controls to verify claimants' continuing eligibility for augmented compensation and death case beneficiaries' continuing eligibility for compensation. These controls require that claimants receiving augmented payments periodically verify their marital status and the eligibility of dependent children. Beneficiaries in death cases are required to annually submit a

report regarding their marital status and continuing eligibility of dependent children. An employee is required to submit proof of continuing eligibility for children over the age of 18 who are students or who are physically or mentally incapable of self support.

Results and Finding

Finding: Mechanisms Used to Identify Changes in Dependent Eligibility Status and to Reduce or Terminate Payments Were Not Always Followed or Sufficient.

Compensation payments were not reduced in accordance with regulations:

The Jacksonville District Office (1) continued compensation payments even though claimants had not provided required evidence of their continuing eligibility, and (2) did not reduce compensation payments when evidence provided indicated a reduction should have occurred.

During Fiscal Year 2004, claimants and beneficiaries continued to receive compensation payments even though they had not timely provided the following required evidence of their continuing eligibility: Form CA-1032 (OWCP form letter sent to claimants annually to verify work status, and dependent status); Form CA-12 (OWCP form letter sent to beneficiary claimants annually to verify their status); and Form CA-1617 (OWCP form used semiannually to verify that a child over the age of 18 is a student).

Nine of the 70 cases¹ we tested revealed how improper verification increases the risk of overpayments. In one case, the claimant's augmented payment rate was not reduced even though the claimant reported that his spouse was no longer a dependent.

A. Claimants did not return Form CA-1032 in FY 2004 and no action was taken by the Jacksonville District Office.

20 CFR 10.536 states:

If an employee fails to submit a requested statement or supporting document within 30 days of the date of the request, OWCP will suspend his or her right to augmented compensation until OWCP receives the requested statement or supporting document. At that time, OWCP will reinstate augmented compensation retroactive to the date of suspension, provided that the employee is entitled to receive augmented compensation.

1. Case No. 060178481 – The claimant was married according to the most recent Form CA-1032, dated October 15, 2002. OWCP mailed a subsequent Form CA-1032

¹ We selected a total of 70 FECA claims for review. Our sample included 35 augmented payments and 35 death benefit claims.

to the claimant on August 31, 2004; however, the claimant file shows that the claimant did not respond. OWCP continued to pay compensation to the claimant through December 2004. Per DOL regulations at 20 CFR 10.536 compensation should have been suspended 30 days after the claimant's failure to return Form CA-1032. We found no evidence of OWCP taking appropriate action to suspend compensation.

Jacksonville District Office officials agreed with the finding and stated they suspended the claimant's compensation benefits. Benefits were restored when the claimant submitted the Form CA-1032.

2. Case No. 060446645 – The claimant last submitted a Form CA-1032 on July 14, 2002, at which time the claimant indicated that he was married. OWCP mailed a Form CA-1032 to the claimant on July 1, 2004; however, the claimant's file shows that the claimant did not respond. OWCP continued to pay compensation to the claimant through December 2004. Compensation should have been suspended due to the claimant's failure to return the Form CA-1032. We found no evidence of the Jacksonville District Office taking appropriate action to suspend compensation.

Jacksonville District Office officials agreed with the finding but because subsequent forms were returned timely, no overpayment was established.

3. Case No. 060178438 – The claimant last submitted a Form CA-1032 on May 12, 2003. OWCP mailed a Form CA-1032 to the claimant during FY 2004; however, the claimant's file shows that the claimant did not respond. Compensation should have been suspended due to the claimant's failure to submit a Form CA-1032 for FY 2004.

Jacksonville District Office officials agreed with the finding but because subsequent forms were returned timely, no overpayment was established.

B. Claimant or beneficiary did not provide required medical evidence and the Jacksonville District Office did not take the appropriate action to obtain the information.

1. Case No. 070064398 – The beneficiary, a child of the deceased claimant, was a male with cerebral palsy who was 27 at the time of our audit. Semiannual medical reports were not submitted as required.

20 CFR Section 10.537 states:

- (a) Compensation payable on behalf of a child that would otherwise end when the child reaches 18 years of age will continue if and for so long as he or she is not married and is either a student as defined in 5 U.S.C. 8101(17), or physically or mentally incapable of self-support.
- (b) At least twice each year, OWCP will ask an employee who receives compensation based on the student status of a child to provide proof of continuing entitlement to such compensation, including certification of

school enrollment.

(c) Likewise, at least twice each year, OWCP will ask an employee who receives compensation based on a child's physical or mental inability to support himself or herself to submit a medical report verifying that the child's medical condition persists and that it continues to preclude self-support.

(d) If an employee fails to submit proof within 30 days of the date of the request, OWCP will suspend the employee's right to compensation until the requested information is received. At that time OWCP will reinstate compensation retroactive to the date of suspension, provided the employee is entitled to such compensation.

Jacksonville District Office officials disagreed with the finding. They stated:

The electronic file does not contain recent medical reports to support the fact that the beneficiary continues to be a disabled adult; the paper file contains medical evidence which supports a finding that the adult child will continue to be entitled to dependent survivor's benefits until his death due to cerebral palsy. Please refer to Procedural Manual Part 2 Section 700 which states: A dependent is incapable of self support if his or her physical condition is such that he or she is unable to obtain and retain a job, or engage in self employment that would provide a sustained living wage. The determination must be based on medical evidence. When medical evidence demonstrates incapacity for self-support this determination will stand unless refuted by sustained work performance. Based on this type of condition, medical reports are not required.

The FECA Procedural Manual does not comply with the requirements of 20 CFR 10.537(c). These regulations do not provide for any waiver of the requirement for semiannual submission of medical documentation. Therefore, compensation benefits should have been suspended.

2. Case No. X0798470 – The adult dependent child who was 52 years of age at the time of audit had been determined to be mentally challenged and unable to support himself. The most recent medical evidence in the case file dated back to 1985. Semiannual medical reports were not submitted as required.

20 CFR 10.537(c) states:

...at least twice each year, OWCP will ask an employee who receives compensation based on a child's physical or mental inability to support himself or herself to submit a medical report verifying that the child's medical condition persists and that it continues to preclude self-support.

Jacksonville District Office officials disagreed with this finding and stated the following:

Currently, the adult dependent child is 52 years of age. At the age of 32 the adult dependent child was functioning at the 1st to 2nd grade level. Clearly, the adult dependent child is unable to handle any type of day to day activity without assistance. Therefore, current medical evidence is not required. Although, the aforementioned information is not contained in the electronic file, it is contained in the paper file.

We do not dispute the issue that the beneficiary is unable to perform any type of day to day activity without assistance. However, based on the requirements specified at 20 CFR 10.537(c), we find that medical evidence is required to be submitted semiannually. Even in cases of long-term irreversible conditions, current federal regulations do not provide for a waiver of semiannual submission of medical documentation.

C. Widows did not return Form CA-12 and the Jacksonville District Office did not take the appropriate action.

1. Case No. 1193121 – A widow did not submit a Form CA-12 for FY 2004. The Jacksonville District Office did not suspend compensation benefits as required by 20 CFR 10.536.

20 CFR 10.536 states:

If an employee fails to submit a requested statement or supporting document within 30 days of the date of the request, OWCP will suspend his or her right to augmented compensation until OWCP receives the requested statement or supporting document. At that time, OWCP will reinstate augmented compensation retroactive to the date of suspension, provided that the employee is entitled to receive augmented compensation.

Jacksonville District Office officials agreed with the finding but because subsequent forms were returned timely, no overpayment was established.

2. Case No. 060058927 – A Widow did not submit the Form CA-12 timely. The CA-12 was returned to the District Office blank in December 2003, but the Jacksonville District Office continued to pay compensation. A Form CA-12 was not returned completed until December 2004. The Jacksonville District Office did not appropriately suspend compensation benefits as required by federal regulations 20 CFR 10.536.

Jacksonville District Office officials agreed with the finding but, because the claimant did submit a CA-12 in December 2004, an overpayment was not established.

D. The claimant did not return Form CA-1617 and no action was taken by the Jacksonville District Office.

Case No. 062000421 – Form CA-1617 was not returned as evidence to support the school enrollment of the claimant's dependent over the age of 18 years, and the Jacksonville District Office did not follow up to obtain the required information.

20 CFR 10.537 requires that any claim for dependent children who are over the age of 18 and in school include verifying documentation that the child remains a student. The verifying documentation should be submitted twice a year. 20 CFR 10.417 contains similar requirements for beneficiaries in death benefit cases.

Jacksonville District Office officials agreed with this finding but explained that the claims examiner's primary focus is to process claims and that time constraints do not permit semiannual confirmation of claimant information. Also, the claimant's compensation was reduced and one check issued incorrectly was returned. No overpayment was established.

E. Claimant's augmented payment was not reduced even though claimant's spouse was no longer a dependent.

Case No. 060000241 – The claimant indicated on Form CA-1032, dated March 2, 2004, that he was still married but no longer supported his wife nor did she live with him. He also indicated that she lived in a nursing home and was supported through Social Security and a small retirement income. Based on this information, the Jacksonville District Office should have reduced the claimant's augmented payment to two-thirds, but did not do so at that time. After the claimant's wife died on August 9, 2004, the Jacksonville District Office reduced the claimant's augmented payment to two-thirds.

The lack of oversight by Jacksonville District Office officials resulted in compensation overpayments to the claimant from March 2, 2004 (the date he signed the Form CA-1032 indicating that he no longer lived with nor supported his spouse) to August 9, 2004 (the date that his wife died).

Jacksonville District Office officials agreed with the finding and stated that they established an overpayment for the period when the claimant's wife entered the nursing home through her date of death. The amount of the overpayment totaled \$2,976.

Improvements to program forms and procedures could prevent overpayments

The goal of confirming dependent eligibility could be more readily met with the inclusion of dependents' and survivors' Social Security Numbers (SSNs) on key forms and by requiring claimants to submit copies of their Federal tax returns.

The Forms CA-5, CA-1032, and CA-12 do not require dependents' and survivors' SSNs. The lack of this critical information hampers DFEC's ability to verify these individuals'

eligibility status. By including the SSNs on the previously mentioned forms, claims examiners could ensure the legitimacy of the dependent or survivor being claimed. This information would also assist the Office of Labor Racketeering and Fraud Investigations (OLRFI) when it performs background verifications on claimants and their dependents.

One OWCP official stated that, “Although our forms do not presently collect SSNs for dependents or survivors, action is already underway to change this policy.” The official noted that OWCP must first obtain approval from OMB before making any changes to forms. Additionally, OWCP will need to add fields to its computer system to be able to enter the SSNs, which is less of a priority than other computer modifications.

Dependents’ and survivors’ status could also be verified through the submission of the claimants’ annual Federal tax returns. The annual tax returns would provide vital information attested to by the individual and should be easily verifiable by claims examiners.

Established overpayments demonstrate the effect of control weaknesses

When an overpayment occurs, the Jacksonville District Offices establishes overpayments and tracks the receivable until it is recovered or deemed uncollectible. According to a Jacksonville District Office official, overpayments occur for the following reasons:

- dependent no longer eligible,
- duplicate compensation check issued,
- duplicate bill payments for same date of service,
- change in life insurance,
- change in health benefits, and
- claimant returns to work and compensation check still issued.

The Jacksonville District Office Overpayment Aging report dated February 28, 2005 identified 563 delinquent overpayment accounts totaling \$7,348,171. The report showed that 72 of these accounts were more than 60 days old. Included in these overpayments are those that resulted from the untimely reporting of changes in spousal relationships or dependent status. The following five cases provide examples of overpayments, totaling nearly \$64,000 that OWCP had already established at the time of our review. These cases illustrate the impact of the Jacksonville District Office not properly following up to verify claimant and dependent information and the claimant’s failure to notify the District Office in a timely manner. However, it should be noted that when a claimant is without fault, the law states OWCP may not recover the overpayment. For example, in the five cases below the overpayments are being

satisfied by claimant's payments or deductions from the claimant's checks. In two of the five cases the claimant was without fault.

1. Case No. 060514557 – The Jacksonville District Office determined that the claimant was not entitled to the three-fourths augmented rate because the claimant's dependent son was either not enrolled in school on a full time basis or was over the age of 23. The overpayment occurred for several periods of time, from June 1992 through May 2003 and resulted in an overpayment of \$19,520.82. OWCP found the claimant was without fault.

2. Case No. 060740511 – The District Office determined that the claimant did not have any eligible dependents as claimed, thus reducing his augmented rate from three-fourths to two-thirds. The overpayment period began March 2000 through November 2001 and resulted in an overpayment of \$9,443.26. OWCP found the claimant was without fault.

3. Case No. 130850428 – The District Office determined that the claimant claimed a dependent daughter after she turned 18 years old and completed school, thereby no longer qualifying as an eligible dependent. The claimant was no longer entitled to the three-fourths augmented rate. This resulted in an overpayment of \$3,244.97 for the period of May 2002 through July 2003. OWCP found the claimant was at fault.

4. Case No. 060222582 – The District Office determined that the claimant divorced in February 2000 and did not report the change in dependent status. The claimant failed to report the dependent status of his daughter on subsequent Forms CA-1032. This omission resulted in the claimant receiving benefits at the incorrect augmented rate for a period beginning February 2000 through August 2003. The overpayment amount was \$10,433.78. OWCP found the claimant was at fault.

5. Case No. 250474288 – The District Office determined that the claimant was paid at the augmented compensation rate (three-fourths) for the period of November 1997 through June 2004. The claimant reported on the Form CA-1032 that she was divorced and had no dependents. This resulted in an overpayment of \$21,077.47. OWCP found the claimant was at fault.

Had the Jacksonville District Office complied with program regulations, and had claims examiners been provided survivors' and dependents' SSNs and claimants' annual tax returns, some or all of the overpayment examples we provided above could have been minimized or eliminated.

Recommendations

We recommend that the Assistant Secretary for the Employment Standards direct OWCP/DFEC to:

1. Change the FECA Procedure Manual to conform with 20 CFR Section 10.537, which requires the semiannual submission of medical evidence for physically or mentally disabled dependent children.
2. Improve OWCP forms by including dependents' and survivors' social security numbers on forms CA 5, CA 12, and CA 1032 so that information verification of the claimant data can be more easily performed.
3. Require claimants to submit their Federal tax returns annually to assist DFEC in verifying dependent status.

We also recommend that the Assistant Secretary for Employment Standards ensure that the Jacksonville District Office of DFEC:

4. Performs timely follow-up and suspends payment of compensation when claimants do not provide required information within the time specified by regulation.

Agency Response

In response to the draft report, the Assistant Secretary for Employment Standards agreed with the findings and recommendations, with the exception of the recommendation to require claimants to submit their Federal tax return annually. The Assistant Secretary stated that regulations are already in place to verify dependency status and requiring claimants to provide a copy of their federal tax returns would not greatly assist in that effort.

OIG Conclusion

We considered ESA's response in its entirety and found no additional information that would materially affect the report's findings and recommendations. Requiring claimants to submit Federal tax return annually is a viable tool that would assist claims examiners' efforts to verify a claimant's dependency status. Our findings and recommendations remain unchanged.



Elliot P. Lewis
June 27, 2007

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Appendices

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Appendix A

BACKGROUND

The Federal Employees' Compensation Act (FECA) provides benefits for civilian employees of the United States who have suffered work-related injuries or occupational diseases. These benefits include payment of medical expenses and compensation for wage loss. FECA also provides for payment of benefits to dependents of employees who die from work-related injuries or diseases. The Office of Workers' Compensation Programs (OWCP) was established in 1916 to administer claims under FECA. Benefits are available under this Act to more than three million federal employees and Peace Corps and Americorps Vista volunteers.

OWCP strives to make this program more efficient and responsive. In striving to protect worker benefits, OWCP pledges to work toward:

- minimizing the human, social and financial impact of work-related injuries;
- improving employer and employee representative performance in the delivery of services to injured workers and in the administration of OWCP statutes; and
- enhancing the fiscal integrity of managed public trust funds.

The Division of Federal Employees' Compensation adjudicates new claims for benefits and manages ongoing cases, pays medical expenses and compensation benefits to injured workers, and helps injured employees return to work when they are medically able to do so.

Beyond paying for medical benefits and claimants' compensation, FECA also provides additional or augmented compensation for:

- claimants who are married or have dependents; and
- survivors of deceased claimants who meet specified conditions.

Regular compensation is paid at two-thirds of the employee's pay rate if he or she has no dependents. Compensation is augmented to three-fourths of the pay rate if the claimant is married or has one or more dependents. To receive an augmented payment, the claimant must claim a spouse or a dependent on their claim.

Management informed us that OWCP reported in FY 2004, that more than 163,000 new FECA claims were filed, and the FECA program provided nearly 280,000 workers more than \$2.4 billion in benefits for work-related injuries and illnesses. Of these benefit payments, nearly:

- \$1.6 billion was for wage loss compensation;
- \$704 million was for medical and rehabilitation services; and
- \$131 million was for death benefit payments to surviving dependents.

Mechanisms Used to Identify Changes in Dependent Eligibility Are Inadequate at the FECA District Office in Jacksonville, Florida

According to Jacksonville District Office Officials, in FY 2004, the Jacksonville District Office, which processes claims in OWCP's Region IV, processed approximately 20,000 claims. As of FY 2005, there were approximately 25,000 claimants receiving FECA benefits in the Jacksonville District.

Objective, Scope, Methodology, and Criteria

Objective

Our objective was to determine if appropriate mechanisms were in place at the Jacksonville District Office to reduce or terminate payments when dependents or survivors were no longer eligible.

Scope and Methodology

We audited augmented payments to claimants and death benefit payments to eligible survivors serviced by the Jacksonville District Office for the FY 2004.

To accomplish our objective, we reviewed applicable laws, regulations and FECA program procedures and identified the system of controls required by Federal regulations. We also interviewed Jacksonville District Office Officials to gain an understanding of the FECA program, its functions and activities and compared the system of controls in place as described by program officials with those required by regulation.

Additionally, we obtained the universe of FECA claimants for FY 2004 from the DFEC National Office, and identified the universe of augmented and death benefit cases at the Jacksonville District Office. We selected a random sample of cases from each universe.

We also determined the FECA payments made to the universe of augmented case beneficiaries at Jacksonville during the Fiscal Year 2004. The total amount of payments was more than \$225 million, and death benefit payments was about \$26 million.

The universe size for claimants receiving augmented payments was 10,336 and 1,077 for claimants receiving death benefit payments. We randomly selected and tested a sample of 35 participants from each universe to determine whether augmented and death benefit payments were properly supported and the required controls were being adhered with. The total amounts of our augmented sample and death benefit sample were \$807,267.00 and \$772,541.00 respectively. We also independently verified that augmented and death benefit payments were legitimate. We received assistance from the Atlanta OIG Office of Labor Racketeering and Fraud Investigation (OLRFI) in our attempt to verify whether:

- Claimants who received augmented payments were alive in FY 2004.
- Claimants were married during FY 2004.
- Claimed dependents were alive in FY 2004.

We haphazardly selected 15 of the 563 overpayments from OWCP's Final Aging Report as of February 28, 2005. The total amount of the 15 cases was \$102,855.79, and were all augmented overpayments. We provided details for 5 of the 15 samples in the report as further evidence of internal control weaknesses in identifying changes in dependent status.

We conducted our audit in accordance with Government Auditing Standards for performance audits. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Fieldwork was performed at the Jacksonville District Office from May 10, 2005, through June 27, 2007.

Criteria

20 CFR Parts 10 and 25 (Claims for Compensation Under the Federal Employees' Compensation Act, As Amended)

Federal Employees' Compensation Act

FECA Procedure Manual Part 2, Claims

DFEC Handbook for Employing Agency Personnel

Acronyms and Abbreviations

CA 5	Claim for Continuance of Compensation Under the Federal Employees' Compensation Act
CA 12	Claim for Compensation by Widow, Widower, and/or Children
CA 1032	Claimant Employment and Marriage Verification form letter
CA 1615	Student Verification for Disability Cases
CA 1617	Student Verification for Death Cases
CFR	Code of Federal Regulations
DFEC	Division of Federal Employees' Compensation
ESA	Employment Standards Administration
FECA	Federal Employees' Compensation Act
FY	Fiscal Year
OIG	Office of Inspector General
OLRFI	Office of Labor Racketeering and Fraud Investigations
OWCP	Office of Workers' Compensation Programs
SSN	Social Security Number

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AGENCY RESPONSE

U.S. Department of Labor Assistant Secretary for
Employment Standards
Washington, D.C. 20210



SEP 25 2007

MEMORANDUM FOR ELLIOT P. LEWIS
Assistant Inspector General
for Audit

[Handwritten Signature]

FROM: VICTORIA A. LIPNIC

SUBJECT: Mechanisms Used to Identify Changes in
Dependent Eligibility Are Inadequate at the FECA District
Office in Jacksonville, Florida
Draft Report No. 04-07-002-04-431

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

You recommend that the Assistant Secretary for Employment Standards ensure that OWCP/DFEC:

1. "Changes the FECA Procedure Manual to conform with 20 CFR Section 10.537, which requires the semiannual submission of medical evidence for physically or mentally disabled dependent children."

Management Response:

DFEC agrees that further clarification of the Procedure Manual is necessary, and will make requisite modifications to correctly reflect Program policy regarding this regulation. However, it is noted that the Program will continue to exercise prudence in applying the regulations to avoid unnecessary, duplicative, or invasive requests for medical evidence. For example, in claims where the medical condition is critically debilitating or with no known cure (such as cerebral palsy or severe mental retardation lasting more than 25 years), we will continue to act appropriately in the spirit of the regulation. The 20 CFR Section 10.537 was created to ensure that continuing dependency of disabled dependents is established to support ongoing compensation payments, and the DFEC will continue to maintain those standards intended by the regulation.

2. "Improves OWCP forms by including dependents' and survivors' social security numbers on key forms so that information verification of the claimant data can be more easily performed."

Management Response:

The DFEC did not have the ability to track dependent's or survivor's social security numbers (SSN's) in its computer operating system until the recent implementation of the Integrated Federal Employees' Compensation System (iFECS) in 2005. Any change to forms prior to that time to collect this information would not have been supported by the Office of Management and Budget (OMB), since DFEC could not have supported a routine use and storage of the information. Now that the iFECS system has given DFEC the ability to capture the data, DFEC will begin changing the necessary forms to collect it as they come up for OMB clearance.

3. "Requires claimants to submit their Federal tax returns annually to assist DFEC in verifying dependent status."

Management Response:

The DFEC disagrees with this recommendation. As noted previously in the audit findings, the DFEC already has regulations in place to verify dependency status. It is doubtful that requiring the filing of a tax form would greatly assist in that effort. Furthermore, since many claimants have no other income beyond their DFEC compensation benefits (which are a tax-free benefit) they do not have any need to file a tax return form with the Internal Revenue Service (IRS) and the DFEC cannot compel them to do so. It is also noted that the definitions of a "dependent" differ for the IRS and the DFEC. This issue could cause further confusion of the actual status.

4. "Performs timely follow-up and suspends payment of compensation when claimants do not provide required information within the time specified by regulation."

Management Response:

The DFEC will always strive to ensure the compensation entitlement is properly supported, and in the quickest and most efficient timeframes possible. Towards that end, the DFEC has developed the Periodic Entitlement Review (PER) application in the iFECS operating system. This application monitors the timeliness of supporting documentation to establish ongoing compensation, such as the Form CA-1032 and the Form CA-12. In addition, the application sends prompts to the appropriate Claims Examiner to send out requests for information as required, to follow-up on prior requests that lack a response, and to suspend compensation should no response ever be received. Recent audit findings have confirmed that the PER application has greatly improved DFEC performance in this area, and we will continue to develop it to ensure compliance with Program policy and regulation

If you have any questions concerning this response, please contact Rose Broadwater of my staff on 693-0285.