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OFFICE OF WORKERS' COMPENSATION PROGRAMS



OWCP'S EFFORTS TO DETECT AND PREVENT FECA IMPROPER PAYMENTS HAVE NOT ADDRESSED KNOWN WEAKNESSES

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

BRIEFLY...

Highlights of Report Number **03-12-001-04-431**, to the Acting Director for the Office of Workers' Compensation Programs (OWCP).

WHY READ THE REPORT

The Federal Employees' Compensation Act (FECA) is a workers' compensation law covering more than 3 million federal and postal employees. The U.S. Department of Labor (DOL), Office of Workers' Compensation Programs (OWCP), is charged with administering the FECA program. In fiscal year (FY) 2010, federal employees filed approximately 127,500 new injury claims and more than 19,000 claims for wage loss compensation. FECA benefit expenditures totaled nearly \$2.8 billion for wage-loss compensation and medical treatment to more than 251,000 beneficiaries.

In July 2010, the President signed into law the Improper Payments Elimination and Recovery Act (IPERA) which amended the Improper Payments Information Act (IPIA) of 2002 and requires federal agencies to review their programs annually, identify programs that may be susceptible to significant improper payments, perform testing of programs considered high risk, and develop and implement corrective action plans for high-risk programs. In FY 2009, DOL requested a waiver — in accordance with the provisions of the IPIA — from reporting FECA improper payments, by demonstrating to OMB that its estimates were below the reportable thresholds for FYs 2005 through 2008. OMB approved the waiver request. Based on the waiver provisions, DOL will be required to report on FECA again beginning in FY 2012.

WHY OIG CONDUCTED THE AUDIT

We conducted an audit to determine to what extent OWCP has addressed known weaknesses in detecting and preventing improper payments for the FECA program.

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/2012/03-12-001-04-431.pdf>.

February 2012

OWCP'S EFFORTS TO DETECT AND PREVENT FECA IMPROPER PAYMENTS HAVE NOT ADDRESSED KNOWN WEAKNESSES

WHAT OIG FOUND

OWCP needs to plan how it will estimate improper payments considering the enactment of IPERA. OWCP did not estimate improper payments since it received the OMB waiver; and the improper estimation method OWCP used before it received the waiver may not be sufficient to meet IPERA requirements.

Some progress has been made in addressing improper payments and OWCP's strategy has continued to evolve. OWCP completed the rollout of its FECA benefit payment system, the Integrated Federal Employee Compensation System and has sought legislative authority to allow it access to SSA wage records. However, OWCP's efforts have not resulted in addressing all reported weaknesses.

OWCP did not have performance measures for payment accuracy, which are common for other federal disability programs. We also found that OWCP did not always take timely action to terminate benefits when notified of FECA claimants' death and had not designed effective procedures to ensure that benefit payments were reduced for FECA claimants who were collecting SSA retirement benefits. Also, OWCP had not yet implemented additional training for claims examiners on preventing improper payments by ensuring payment accuracy. Unless these weaknesses are sufficiently addressed, overpayments will go undetected such as the \$690,000 in payments we identified that were made to deceased FECA claimants in CY 2010.

WHAT OIG RECOMMENDED

The OIG recommended that OWCP develop a process for estimating FECA improper payments based on a comprehensive risk assessment, and incorporate the process into the internal control structure used to manage the FECA program. We also recommended that OWCP develop a program performance measure on payment accuracy and address the weaknesses we identified in the audit.

In response to the draft report, OWCP stated it will implement the recently enacted IPERA requirements. OWCP did not agree with the recommendation to develop a program performance measure on payment accuracy.

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U.S. Department of Labor

Office of Inspector General
Washington, D.C. 20210



February 15, 2012

Assistant Inspector General's Report

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The Federal Employees' Compensation Act (FECA) is a workers' compensation law covering more than 3 million federal and postal employees. It authorizes medical benefits, income replacement, and certain supportive services to employees with work-related injuries or, in the case of deaths, survivor benefits to family members. The U.S. Department of Labor (DOL), Office of Workers' Compensation Programs (OWCP), is charged with administering the FECA program. OWCP is responsible for making eligibility determinations of claims. Benefits are paid from the Employees' Compensation Fund, which is principally funded through charge backs to the federal agencies that employ the injured worker. Therefore, the FECA program affects the budgets of all federal agencies. In fiscal year (FY) 2010, federal employees filed approximately 127,500 new injury claims and more than 19,000 claims for wage-loss compensation. FECA benefit expenditures totaled nearly \$2.8 billion for wage-loss compensation and medical treatment to more than 251,000 beneficiaries.

In July 2010, the President signed into law the Improper Payments Elimination and Recovery Act (IPERA). IPERA amended the Improper Payments Information Act (IPIA) of 2002. IPERA requires federal agencies to review their programs and activities annually, identify programs that may be susceptible to significant improper payments, perform testing of programs considered high risk, and develop and implement corrective action plans for high-risk programs. OMB Circular A-123 provides guidance to federal agencies on implementing IPIA and IPERA.

In February 2008, the Government Accountability Office (GAO) reported that OWCP had not established an effective strategy for managing improper payments in the FECA program. GAO concluded that OWCP did not sufficiently emphasize preventing, detecting, and recovering improper payments and that none of the performance goals for the program addressed improper payments. Furthermore, GAO believed OWCP did not collect the information it needed to accurately assess the FECA program's risk of improper payments, such as information on their magnitude and causes. Without such data, OWCP could not focus on the program's most vulnerable areas. These concerns have been included in OIG's annual Management Challenges report for several years.

GAO recommended OWCP should revise its program performance measures to ensure increased emphasis on payment accuracy, adequate internal controls, and overpayment recoveries. Additionally, GAO recommended that OWCP collect more detailed information on improper payments, such as the causes of under and overpayments, and use these data to better identify improper payment risks and to address areas of high risk. GAO also recommended that OWCP take steps to reduce common causes of improper payments by requiring agencies to report to OWCP more timely when a FECA claimant returns to work, ensuring that its data match with SSA's death records is conducted regularly and consistently, taking steps to ensure that wage-loss compensation payments for claimants covered by the federal retirement system are appropriately reduced by the amount of their SSA benefits attributable to their federal service, seeking legal authority to enter into a data-matching agreement with the U.S. Department of Health and Human Services (HHS) to identify FECA claimants who have wage earnings reported in the National Directory of New Hires (NDNH) and determining what additional training claims examiners may need to improve payment accuracy.

In FY 2009, DOL requested a waiver — in accordance with the provisions of the IPIA — from reporting FECA improper payments, by demonstrating to OMB that its estimates were below the reportable thresholds for FYs 2005 through 2008. OMB approved the waiver request. Based on the waiver provisions, DOL will be required to report on FECA again beginning in FY 2012.

We conducted an audit to determine to what extent OWCP has addressed known weaknesses reported by GAO in 2008 in detecting and preventing improper payments for the FECA program. Specifically, we considered OWCP's overall strategies for detecting and preventing improper payments, OWCP's processes for detecting and managing improper payments, such as terminating deceased claimants' benefits, identifying claimants' unreported income and Social Security Administration (SSA) retirement benefits, processing employing agencies reporting of FECA claimants who return to work, and training claims examiners on preventing improper payments. We tested OWCP's actions to timely terminate benefits for deceased claimants. The audit covered OWCP's internal controls related to the areas reported in the 2008 GAO report that were in place and corrective actions taken as of June 2011.

RESULTS IN BRIEF

OWCP needs to plan how it will estimate improper payments considering the enactment of IPERA. OWCP did not estimate improper payments since it received the OMB waiver; and the improper payments estimation method OWCP used before it received the waiver may not be sufficient to meet IPERA requirements. Specifically, the improper payment estimates reported in FYs 2005 to 2008 fluctuated widely, from \$3.3 million in FY 2005 down to \$722,000 in FY 2006, and then up to \$2.6 million in FY 2007, and down again to \$500,000 in FY 2008. These estimates appear to be low in comparison to the fraud and abuse found by OIG investigations. For example, in FY 2008, DOL OIG investigations alone identified more than \$6 million in restitution for FECA compensation

and medical fraud. Additionally, in FY 2010, our audit work on OWCP's FECA match with SSA death records identified more than \$690,000 in improper payments; and OIG investigations identified more than \$1.3 million in restitution for FECA fraud. As a result, OWCP may need to explore other methods to ensure its estimates provide sufficient information to enable the agency to make informed judgments on the magnitude of improper payments in the FECA program.

To date, some progress has been made in addressing improper payments and OWCP's strategy has continued to evolve. For example, OWCP completed the rollout of its FECA benefit payment system, the Integrated Federal Employee Compensation System (iFECS). This system is designed to track due dates of medical evaluations, revalidate eligibility for continued benefits, use data sharing to help prevent improper payments, boost efficiency, and improve customer satisfaction. OWCP implemented an electronic forms process so employing agencies can report a FECA claimant's return to work more timely and has sought legislative authority to allow it access to SSA wage records to identify unreported wages.

However, OWCP's efforts have not resulted in addressing all reported weaknesses. OWCP did not have performance measures for payment accuracy, which are common for other federal disability programs. OWCP believed payment accuracy should not rise to the level of an operating plan goal but should continue to be monitored and the results addressed through program initiatives, system enhancements, accountability reviews, and measurement of claims examiners compliance with FECA requirements. However, without such program performance measures, we believe OWCP is unable to demonstrate its progress in improving payment accuracy.

We also found that OWCP did not always take timely action to terminate benefits when notified of FECA claimants' death. Additionally, OWCP had not designed effective procedures to ensure that benefit payments were reduced for FECA claimants who were collecting SSA retirement benefits, and OWCP had not yet implemented additional training for claims examiners on preventing improper payments by ensuring payment accuracy. We believe these conditions can be attributed to OWCP not sufficiently emphasizing the importance of detecting and preventing improper payments. As a result, overpayments will go undetected such as the \$690,000 in payments we identified that were made to deceased FECA claimants in calendar year (CY) 2010.

We recommended the OWCP Acting Director develop a process for estimating FECA improper payments based on a comprehensive risk assessment, and incorporate the process into the internal control structure used to manage the FECA program. We also recommended that OWCP develop a program performance measure on payment accuracy; improve procedures to ensure timely termination of benefits for all cases when notification of a claimant's death is received and verified; develop effective procedures to ensure that claimants who receive SSA retirement benefits are identified and their FECA payments are adjusted accordingly; and implement a requirement for training all claims examiners on improper payments.

OWCP stated it will implement the requirements of the recently enacted IPERA and will explore opportunities to incorporate additional payment reviews OIG recommended into its existing Accountability Review process. However, OWCP believed it has an effective internal control structure to manage FECA payment accuracy, and did not agree with establishing a related performance measure. OWCP stated that training for claims examiners on proper payments has been implemented and a training module on improper payments was released in January 2012. The module, available to the claims staff in the eLearning training environment, is considered procedural reference material and is not intended as annual "refresher" training. Review of the training materials is mandatory for all incoming claims staff, but not for the existing journey-level claims examiners.

The OWCP Acting Director's response is included in its entirety as Appendix D.

We continue to believe that OWCP needs to develop a performance measure on payment accuracy to allow it to monitor the progress of reducing improper payments and evaluate the effectiveness of its prevention efforts. Although OWCP stated it has an effective internal control structure to manage FECA payment accuracy, it cannot demonstrate its effectiveness because it does not have a reliable estimate of improper payments. We also believe that training on improper payments should be a requirement of all claims examiners.

RESULTS AND FINDINGS

Objective — Has OWCP effectively addressed known weaknesses in detecting and preventing improper payments in the FECA program?

Although OWCP made progress to detect and prevent improper payments it has not addressed all known weaknesses.

OWCP has made some progress in addressing improper payments in the FECA program and OWCP's strategy has continued to evolve. For example, OWCP completed the rollout of its FECA benefit payment system, iFECS.¹ OWCP determined it was not feasible to pursue a data-matching agreement with HHS to identify FECA claimants who have wage earnings reported in the NDNH, but instead has sought legislative authority to allow it access to SSA wage records. OWCP also implemented an electronic forms process so employing agencies can report a FECA claimant's return to work more timely. However, OWCP did not know the magnitude of FECA improper payments, nor did it have program performance measures for payment accuracy. OWCP was not required to estimate the improper payments for FECA since it received the OMB waiver in 2009. OWCP reviewed the possibility of developing an operating plan performance measure for payment accuracy, but determined that current assessment tools were sufficient based on program history and the focus on improved

¹ iFECS is a system designed to track due dates of medical evaluations, revalidate eligibility for continued benefits, use data sharing to help prevent improper payments, boost efficiency, and improve customer satisfaction.

payment accuracy. However, we found such measures were used by SSA and the Department of Veterans Affairs (DVA) for their disability programs. Additionally, OWCP did not adequately address weaknesses found in its process for using SSA death records and for ensuring benefit payments were reduced for FECA claimants who were collecting SSA retirement benefits. Finally, OWCP did not implement additional training for claims examiners regarding improper payments.

Finding 1 — OWCP did not yet determine an improper payment estimation method that meets the requirements of IPERA.

Since receiving an OMB waiver in FY 2009 exempting it from the reporting requirements under IPIA, OWCP did not estimate the improper payments for FECA. At the time of our audit, OWCP did not have a plan on how it will estimate improper payments under IPERA requirements. The method OWCP used previous to the waiver is not sufficient considering the changes made under provisions in IPERA regarding the requirements for estimating improper payments. As a result, OWCP may not have sufficient information to enable it to make informed judgments on the magnitude of improper payments in the FECA program.

IPIA of 2002, Section 2(b), required federal agencies to estimate the annual amount of improper payments. IPERA of 2010 amended Section 2(b) to specify that agencies produce a statistically valid estimate — or an estimate that is otherwise appropriate using a methodology approved by OMB — of the improper payments made by the program. Both acts require the agencies to report the estimates in the accompanying materials to the agency's annual financial statements. OMB Circular A-123, Appendix C, provides the guidance for agencies to follow in implementing both IPIA and IPERA. Appendix C, issued in August 2006 and updated in March 2010, requires agencies to develop a statistically valid estimate of improper payments. The goal is for statistical estimates to be based on a sample size sufficient to yield an estimate with a 90 percent confidence interval, plus or minus 2.5 percent. Agencies could alternatively use a 95 percent confidence interval of plus or minus 3 percentage points around the estimate of the percentage of improper payments.

In FY 2009, DOL obtained a waiver from OMB for reporting FECA improper payment information barring any significant changes to legislation or funding. The OMB waiver provided that DOL will next be required to report on FECA in FY 2012. OWCP officials told us they may seek another waiver from OMB for FY 2012.

For FY 2008 — the last year DOL reported FECA improper payment estimates — OWCP used a monetary-unit sampling approach to estimate improper payments for both medical and compensation payments. Medical payment sampling was designed to test for proper number of payments (duplicate payments), appropriate receipts, consistency with regional allowances, payments made for appropriate procedures, and eligibility at date of service. Compensation payment sampling was designed to test for consistency with the identified injury, current medical evidence supporting continued compensation payments, claimant eligibility, and calculations of compensation amounts.

OWCP applied the methods above in testing of 264 items from the population of the FECA compensation and medical payments made during the period July 1, 2007 through June 30, 2008. The Department's annual Performance and Accountability Reports (PAR) showed that OWCP's improper payment estimates for each of the reported fiscal years were below the threshold for a high-risk designation. Although the estimates were below the threshold, DOL had to report on FECA in the PAR because OMB Circular A-123 listed FECA as one of the programs being at a high risk of improper payments because of the amount of outlays.

OWCP officials told us that they are in the early planning stage of developing a methodology for estimating FECA improper payments for FY 2012, and that they may be able to use the same methodology as in FY 2008. We concluded that the methodology used previous to the waiver is not sufficient to estimate improper payments under IPERA. Specifically, the improper payment estimates reported in FYs 2005 to 2008 fluctuated widely, from \$3.3 million in FY 2005, down to \$722,000 in FY 2006, then up to \$2.6 million in FY 2007, and down again to \$500,000 in FY 2008. The estimated amounts appear low and do not cover all the areas susceptible to improper payments. For example, in FY 2008, DOL estimated FECA overpayments to total \$500,000. However, DOL OIG investigations alone identified more than \$6 million in restitution for FECA fraud and abuse. Additionally, in FY 2010, our audit work on OWCP's FECA match with SSA death records found more than \$690,000 in improper payments; and DOL OIG investigations found more than \$1.3 million in restitution for FECA fraud. Other OIGs, such as the U.S. Postal Service, have FECA cases as well that we did not quantify. Furthermore, OWCP's previously used methodology did not encompass all the risks associated with improper payments such as those identified in GAO's February 2008 audit — late or no notice of when claimants returned to work; late or no notice of when claimants or their survivors died; unverified self-reported data on wage earnings and other federal benefits; and inaccurate data from employing agencies.

Our review of how other agencies responsible for administering federal compensation programs reported improper payments found that they used a quality control process to estimate their improper payment rates. SSA, which administers the Old-Age, Survivors, and Disability Insurance (OASDI) program, used a process referred to as "stewardship reviews." These involved an examination of a sample of OASDI cases to determine payment accuracy rates. For each sample case, the reviewer interviewed the beneficiary or representative payee, made collateral contacts as needed, and redeveloped all non-medical factors of eligibility as of the sampled month. SSA then input the findings into a national database and used case error dollars to compute accuracy rates for monthly payments. SSA reported that the stewardship review findings provided the data necessary to meet IPIA reporting requirements, as well as other reports to monitoring authorities. The Department of Veterans Affairs (DVA), which administers the Compensation and Pension programs, used a process named the Systematic Technical Accuracy Review (STAR). This was a quality assurance review program for compensation and pension benefit claims processing that provided a comprehensive review and analysis of disability compensation. The DVA stated that

since the STAR review process for claims processing accuracy review included a random sample of cases, the only additional review step required to meet IPIA was to capture under and overpayment rates and calculate the dollar amount.

OWCP performs Accountability Reviews, which are similar to SSA's stewardship reviews and DVA's STAR program. OWCP performs Accountability Reviews annually covering all 12 District Offices, choosing elements to test and randomly sampling at least 42 cases for each office and element. For FY 2010, we determined that the Accountability Reviews covered 16 elements and randomly sampled a total of 6,613 cases. The following table lists the 16 elements and sample cases covered in the Accountability Reviews for FY 2010.

Table 1 - FY 2010 Accountability Review Elements and Sample Sizes		
	Element	Sample Size
1	Initial Development	494
2	Initial Acceptances	500
3	Initial Denials	487
4	Controversions	435
5	Compensation Claim Development	481
6	Initial Payments	483
7	QC Management - Claims Examiner Case Management	477
8	Third Party Identification	429
9	Routine Correspondence	499
10	Staff Nurse, Quality of Direction, Coding and Authorizations	473
11	Vocational Rehab Closures	423
12	Bill Processing Cash Receipts	504
13	Compensation Cash Receipts	504
14	Cash Receipts (Payment Over Cancellation)	96
15	Debt Management - Debt Monitoring	
16	iFECS User Role Access Verification	328
	Total Cases	6,613

Currently, the Accountability Reviews do not calculate the amount of improper payments. Depending on the element, an error will not necessarily result in an improper payment.

We concluded that the Accountability Review process provides a good basis for assessing payment errors and, with modifications, could provide a better statistically valid estimate of improper payments than what was previously used.

Finding 2 — OWCP did not have plans to use program performance measures to improve FECA payment accuracy.

OWCP does not have program performance measures that address payment accuracy like other federal agencies that manage similar compensation programs. For various reasons, OWCP did not believe the area of improper payments rose to the level of needing a performance measure. OWCP believed payment accuracy should not rise to the level of an operating plan goal, but should continue to be monitored and the results addressed through program initiatives, system enhancements, accountability reviews, and measurement of claims examiners' compliance with FECA requirements. However, without a program measure on payment accuracy OWCP does not have the ability to measure its progress and demonstrate the effectiveness of its efforts in reducing improper payments.

According to Section 2 of the Government Performance and Results Act of 1993 (GPRA), waste and inefficiency in federal programs undermine the confidence of the American people in the government. Federal managers were seriously disadvantaged in their efforts to improve program efficiency and effectiveness because of insufficient articulation of program goals and inadequate information on program performance. Therefore, the purpose of GPRA was to improve the confidence of the American people in the capability of the federal government, by systematically holding federal agencies accountable for achieving program results.

GPRA program performance measures for FECA covered lost production day rates, the percent of injured federal workers that are reemployed, and the timely receipt of forms for reporting injuries. However, one of the key aspects of the FECA program is to ensure that accurate benefits are paid to claimants and OWCP has no performance measures that address this.

GAO's 2008 report recommended that OWCP consider revising its program performance measures by developing a performance goal to ensure the FECA program's emphasis on quickly processing and paying FECA claims is balanced with the need for payment accuracy. In OWCP's February 2011 updated response to GAO's recommendation, it stated there are a wide variety of reasons improper payments are generated, many outside the program's control. With the wide range of causes and the growing number of automated controls, OWCP believed the issue did not lend itself to the level of an operating plan goal. Rather, it should continue to be monitored and the results addressed through program initiatives, accountability reviews, and system enhancements. OWCP explained that its review of the improper payment reporting codes did not reveal any specific pattern for either under or overpayments. OWCP also stated it has made major changes to the program's internal quality review process, allowing the program to look with more consistency at payment performance on a program-wide basis. Additionally, OWCP stated it has updated the FECA Procedure Manual guidance to claims examiners which addressed underpayment issues, and that training on making accurate payments was available and training on improper payments

was under development. OWCP stated a review of the results from FYs 2009 and 2010 indicated the program's approach has been very successful.

OWCP analyzed the five most significant improper payment reporting codes for under and overpayments. We reviewed OWCP's analysis and concluded it was insufficient to support the agency's decision. The analysis stated that the claims examiners' prevalent use of "Other" as a reason code for overpayments (43 percent) made it difficult to analyze the data. The analysis stated that a similar issue was found for underpayments in that the most prevalently used code "Additional Compensation Due Same Period" was frequently not an improper payment, but rather reflected intermittent payments made with overlapping periods. OWCP's analysis concluded that no single code rose to the level of requiring a program performance goal, but stated that additional training was needed for proper coding. OWCP concluded that with improved coding, a more targeted focus on improper payments was under development. We concluded that OWCP needs to determine the causes for the frequent use of the reason code "Other" and implement corrective actions to calculate the dollar value of the under and overpayments.

Other federal agencies operating disability compensation programs demonstrated the importance of providing correct benefit payments by developing payment accuracy measures for their programs. We found that SSA's Disability Insurance Program and the DVA's Disability Compensation program had performance measures for payment accuracy. SSA stated the measure is determined by an annual review of sampled individuals receiving disability payments. The DVA explained that monitoring accuracy helps ensure it provides the correct level of benefits to the veterans.

We believe that implementing a program measure on payment accuracy will provide OWCP the capability to demonstrate the progress made in reducing improper payments.

Finding 3 — OWCP did not always take timely action to terminate benefits when notified of claimants' death.

Our review of the SSA results of matches of FECA claimant SSN to SSA death records provided to OWCP during CY 2010 found OWCP did not always take timely action to terminate benefits when notified of FECA claimants' death through either family members, a third party, or its matches with SSA death records. This occurred because OWCP did not have control procedures to ensure the District Offices that were responsible for terminating benefits took timely action upon receiving notice of a claimant's death. Furthermore, OWCP did not always provide the results of the matches to the District Offices in a timely manner. Our review of a sample of claims identified 43 benefit payments, totaling \$76,773 paid to deceased claimants that could have been prevented. Additionally, benefit payments made to deceased claimants could adversely affect the FECA program reputation.

GAO's 2008 report focused on OWCP's use of SSA death records in its FECA program. Therefore, although the District Offices also received notification of claimants' death by

other means, our audit focused on OWCP's use of SSA death records and its corrective action efforts in response to GAO's report. GAO had recommended that OWCP conduct data matches with SSA death records regularly. According to its February 2011 update to GAO, OWCP stated the SSA death match is being performed regularly to avoid payments to deceased claimants.

We found that OWCP is conducting monthly matches of FECA claimants to the SSA death records. However, OWCP needs to ensure that benefits are terminated in a timely manner to prevent instances where payments continue after death as found in our audit.

The OWCP National Office officials informed us that they send e-mails to each District Office Director containing the monthly SSA death match results for claimants in their respective jurisdictions. However, OWCP did not have an overall procedure for District Offices to follow subsequent to receiving the notification. Rather, the District Offices were responsible for having procedures in place to terminate FECA benefits upon notification of a claimant's death. Our review of the SSA death match results found that in most cases, the District Office was notified of a claimant's death by a relative or a third party such as the employing agency, before it received the SSA death match. OWCP officials explained that the SSA death match results are supposed to act as a "firewall" in cases where they were not notified of the claimant's death by a relative or third party. For benefit payments made after date of death, the claimant's estate is entitled to compensation up to and including the date of death and the remaining amount is determined to be an overpayment. A delay in OWCP receiving notification of a claimant's death will result in an overpayment.

For CY 2010, the monthly matches showed 815 FECA claimants were matched to SSA death records. Using all 815 SSA death matches, we ranked the matches by the level of risk in which an improper payment could have occurred because of untimely action by OWCP to stop benefits after the date of death.

Table 2 – Auditor's Risk Ranking and Number of Death Matches

Condition	Risk	Number of Death Matches	Percent
One or no benefit payment was made after the date of death.	Low	512	63
More than one benefit payment was made 60 days or less after the date of death.	Moderate	271	33
Multiple benefit payments were made and continued more than 60 days after the date of death.	High	32	4
Total		815	100

We selected 52 of the 815 matches for testing — all 32 high-risk matches, and a sample of 10 moderate and 10 low-risk matches — and found overpayments occurred in 51 of the matches. Specifically, for the 51 matches combined, 161 overpayments occurred totaling \$276,960. Of the 161 overpayments, OWCP could have prevented 43 totaling

\$76,773 had it taken prompt action to terminate compensation when notified of the claimant's death.²

For the 32 high-risk matches, which consisted of 132 benefit payments totaling \$238,837, we found OWCP could have prevented 40 overpayments totaling \$71,587. These 40 overpayments were for 19 of the 32 high risk death matches. For 13 of the 32 high-risk matches, the SSA death match was the method by which OWCP learned of the claimant's death. For the remaining 19 matches, either a family member or third party had already notified OWCP of the claimants' death before OWCP received the SSA death match. The overpayments occurred because OWCP did not take timely action when they were notified of the claimants' death. We found OWCP initiated procedures to collect the overpayments. At the time of our field work there were two claimants who continued to receive benefits because documentation from their survivors made it appear the claimant was still living. We referred these 2 cases to OIG's Office of Labor Racketeering and Fraud Investigations for investigation. The following are some examples.

- A claimant died on September 9, 2010, and the OWCP District Office was notified through the death match, which it received December 28, 2010. OWCP should have initiated action no later than January 5, 2011, in order to prevent further overpayments. At the time of our review (April 2011), OWCP had not taken action to terminate benefit payments. As a result, OWCP made 4 payments totaling \$10,454 to a deceased claimant. Our review of the case file showed possible fraudulent documents from the claimant's family after the date of death. We referred this case for investigation.
- In another case, a claimant died on July 2, 2010, and the OWCP District Office was notified through the death match, which it received September 23, 2010. We determined that OWCP should have initiated action no later than October 13, 2010, in order to prevent further overpayments. OWCP did not take action until March 2, 2011, to terminate benefit payments. As a result, OWCP made 5 payments totaling \$3,166 to a deceased claimant.

For the 10 low risk and 10 moderate risk matches, we found OWCP appropriately established an overpayment for cases in which payments were made after the date of death.

We found several problems in OWCP's process for handling SSA death match reports that caused untimely termination of benefits. First, OWCP did not provide the SSA death match reports in a timely manner to the OWCP District Offices. Our analysis of the monthly SSA death match reports for CY 2010 showed a wide variance in the amount of time between when OWCP received the reports and when it sent them to the District Offices. As shown in Table 3, 9 of the 12 reports took more than 5 days to be sent to the District Offices, with 7 reports taking 20 days or longer.

² For the remaining 118 overpayments, totaling \$100,187, the notice of death occurred too late in the month for OWCP to avoid an overpayment.

Table 3 - Number of Days Taken to Send SSA Report to OWCP District Offices

Month Matched	SSA Report Date	Date Sent to District Office	Number of Days from SSA Report Date to Date Sent to District Office
January 2010	02/03/2010	03/22/2010	47
February 2010	03/02/2010	03/22/2010	20
March 2010	04/07/2010	04/12/2010	5
April 2010	05/19/2010	06/23/2010	35
May 2010	06/23/2010	06/24/2010	1
June 2010	07/29/2010	09/02/2010	35
July 2010	09/01/2010	09/02/2010	1
August 2010	09/16/2010	09/23/2010	7
September 2010	10/01/2010	11/10/2010	40
October 2010	12/02/2010	12/28/2010	26
November 2010	12/10/2010	12/28/2010	18
December 2010	01/14/2011	02/11/2011	28

Secondly, the OWCP National Office did not have a process to monitor the District Offices management of the death match results. Specifically, OWCP did not identify death match results that would indicate potential multiple overpayments or ensure that the District Offices took timely action to confirm the claimant's death and terminate the benefits.

Finding 4 — OWCP did not have sufficient control procedures to ensure that benefit payments are reduced for FECA claimants who are collecting SSA retirement benefits.

OWCP did not have sufficient procedures to ensure it reduced benefit payments for FECA claimants who had reached retirement age and were collecting SSA retirement benefits (Social Security). OWCP relied primarily on FECA claimants to self-report if they were collecting Social Security. As a result of not actively seeking out this information, OWCP is at risk of incurring overpayments because it does not know to reduce claimants' FECA benefits.

Section 8116(d)(2) of FECA requires that a claimant's continuing compensation benefits be reduced if he or she begins receiving Social Security based upon his or her age and federal service.

GAO's 2008 report recommended that OWCP take steps to ensure that wage-loss compensation payments for claimants covered by the federal retirement system were appropriately reduced by the amount of their SSA benefits that were attributable to their federal service. According to its February 2011 update to GAO, OWCP stated that in September 2009, it implemented a monthly batch process that automatically generates a notice to claimants as they approach their 65th birthday. In order to reduce potential

SSA dual benefit overpayments, the notice reminds claimants of their responsibility to report any retirement income they may be receiving so that OWCP can make the necessary adjustments to compensation. OWCP also annually sends form CA 1032 to claimants, which includes a request for them to report if they received retirement from SSA or the Office of Personnel Management. The OWCP reviews the responses for consideration of a reduction in compensation, and is supposed to suspend compensation payments if the claimant fails to return the CA 1032.

We observed that the OWCP District Office generated a monthly SSA Retirement List which showed all the claimants who were approaching retirement age. The District Office then identified claimants who would be eligible for Social Security under the Federal Employees Retirement System (FERS). The District Office mailed a letter to these claimants notifying them of the requirement to inform OWCP if they were currently or in the future receiving Social Security and that failure to report receipt of such benefits could result in an overpayment of FECA compensation subject to recovery.

We concluded that this process is not adequately designed because it is only sent once to the claimant when they are approaching retirement age and the process relies on the claimant to self report receipt of Social Security on the CA 1032. A more effective process would be to perform, on a regular basis, data matches with SSA of FECA claimants who are eligible for Social Security under FERS to determine if they are collecting dual benefits. However, this would require legislative authority.

Finding 5 — OWCP's enhancements to its training curriculums did not include improper payments.

GAO recommended OWCP determine what additional training claims examiners may need to improve payment accuracy. OWCP had not yet implemented additional training for claims examiners to detect and prevent improper payments and ensure payment accuracy. OWCP completed the development of the training on payment accuracy and officials told us they were in the process of developing training on improper payments. The proposed course content was not available for our review prior to completing our audit fieldwork. Training specifically focused on improper payments would provide OWCP with additional assurance that its claims examiners are effectively managing improper payments.

According to its February 2011 update to GAO, OWCP stated it completed a revision of the FECA procedure manual regarding payments which provided better reference materials for claims examiners. OWCP officials told us they prepared and implemented an on-line training curriculum that was available to all claims examiners to improve claims processing performance and payment accuracy.

We found the training OWCP cited was available on the OWCP intranet. However, no curriculum specific to improper payments was included in the training. OWCP did have a “coming soon” module entitled Overpayments and Adjustment, but officials could not provide details on the course material or when it would be available. We also noted that

all claims examiners could take the training but it was not mandatory, and OWCP did not keep a record of who completed the training.

The GAO Standards for Internal Control in the Federal Government, on Control Environment, emphasizes the need for management to ensure all personnel maintain a sufficient level of competence to perform assigned duties and understand the importance of good internal controls.

Mandatory training to detect improper payments can assist in OWCP's efforts to improve payment accuracy.

Overall, we believe that the conditions described in Findings 2 through 5 can be attributed to OWCP not sufficiently emphasizing the importance of detecting and preventing improper payments. As a result, overpayments will go undetected such as the \$690,000 in payments we identified that were made to deceased FECA claimants in CY 2010.

RECOMMENDATIONS

We recommend the OWCP Acting Director:

1. Develop a process for improper payment estimates that is compliant with IPERA.
2. Develop a program performance measure on payment accuracy.
3. Provide SSA death match reports to the District Offices in a timely manner and monitor those reports that show multiple payments made after claimants' date of death to verify timely action was taken to terminate benefits.
4. Develop effective procedures, including seeking legislative authority to conduct matches with SSA retirement records, to ensure that claimants who receive SSA retirement benefits are identified timely and their FECA benefits are adjusted accordingly.
5. Implement a requirement for training on improper payments for all claims examiners.

We appreciate the cooperation and courtesies that OWCP personnel extended to OIG during this audit. OIG personnel who made major contributions to this report are listed in Appendix E.



Elliot P. Lewis
Assistant Inspector General
for Audit

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Appendices

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Appendix A**Background**

FECA is a workers' compensation law covering more than 3 million federal and postal employees. It authorizes medical benefits, income replacement, and certain supportive services to employees with work-related injuries, or in the case of deaths, survivor benefits to family members. FECA also provides for vocational rehabilitation of injured employees to facilitate their return to work. DOL's OWCP is charged with administering the FECA program. Within OWCP, the Division of Federal Workers' Compensation adjudicates new claims for benefits and manages ongoing cases; pays medical expenses and compensation benefits to injured workers and survivors; and helps injured employees return to work when medically able to do so. Benefits are paid from the FECA Special Benefits Fund, which is principally funded through chargebacks to the federal agencies that employ the injured worker. Therefore, the FECA program affects the budgets of all federal agencies.

For FY 2010, the FECA program paid more than \$1.9 billion in wage-loss compensation to claimants who were unable to work because of injuries incurred while performing their work duties, and more than \$900 million for medical costs related to work injuries. According to the FY 2012 OWCP Budget justification, for FY 2010, there were approximately 127,500 new injury cases and more than 19,000 initial claims for wage loss compensation filed. Total beneficiaries paid in FY 2010 were 251,000. The following table provides FECA benefits paid from FYs 2007 to 2010.

Table 4 – Compensation and Medical Benefits Paid From the FECA Special Benefit Fund				
	2007	2008	2009	2010
Compensation	\$ 1,790,371,000	\$ 1,842,130,000	\$ 1,857,809,000	\$ 1,930,115,000
Medical	\$ 753,157,000	\$ 789,271,000	\$ 859,100,000	\$ 926,701,000
Total	\$ 2,543,528,000	\$ 2,631,401,000	\$ 2,716,909,000	\$ 2,856,816,000

Since 2002, Congress enacted several laws to increase federal government efforts to reduce improper payments. In July 2010, the President signed into law the IPERA, as implemented by OMB Circular A-123. IPERA amended IPIA of 2002.

IPIA, (Public Law 107-300), enacted on November 26, 2002, required the heads of federal agencies to annually review all programs and activities they administer, identify those that may be susceptible to significant improper payments, estimate and report the annual amount of improper payments in those programs and activities, along with the corrective action plans developed and implemented to address the causes of improper payments, and submit the information to Congress before March 31 of the following year.

IPIA defines an improper payment as any payment that should not have been made or that was made in an incorrect amount (including under and overpayments) under statutory, contractual, administrative, or other legally applicable requirements. Improper payments also include payments to an ineligible recipient, payments for an ineligible

service, duplicate payments, payments for services not received, and payments that do not account for credit for applicable discounts.

On November 20, 2009, the President issued Executive Order 13520 for the purpose of reducing improper payments by intensifying efforts to eliminate payment error, waste, fraud, and abuse in the major programs administered by the federal government. The Executive Order intended to reduce improper payments by boosting transparency, holding agencies accountable for reducing improper payments, and examining creative incentives for states and other entities to reduce improper payments.

IPERA of 2010 (Public Law 111-204), enacted on July 22, 2010, amended IPIA of 2002. It required the head of each federal agency to review agency programs and activities during the year following enactment and subsequently every 3 fiscal years to identify those that may be susceptible to significant improper payments. IPERA of 2010 defined “significant” to mean improper payments in program or activity payments in the preceding fiscal year that may have exceeded \$100 million, or \$10 million and 2.5 percent of program outlays (1.5 percent prior to FY 2013). IPERA also revised requirements for estimating improper payments by directing agency heads to produce statistically valid estimates of the improper payments in their agencies and to include such estimates in their annual financial statements. IPERA expanded the reporting requirements for describing the actions agencies took to reduce improper payments by including a statement of whether the agency had sufficient resources with respect to internal controls, human capital, and information systems and other infrastructure to prevent improper payments. IPERA also required a statement of reduction targets approved by OMB and coverage of specific criteria in agency reports on actions to recover improper payments.

OMB Circular A-123, Appendix C, contained the implementing guidance for IPIA and IPERA and required agencies to determine whether the risk of erroneous payments is significant. OMB Circular A-123 defined significant erroneous payments as annual erroneous payments in the program exceeding both 2.5 percent of program payments and \$10 million. However, OMB may determine certain programs that do not meet the threshold requirements may still be subject to the annual reporting requirement. This would most likely occur in programs with relatively high annual outlays. OMB considered FECA one of a number of federal programs as being at a high risk of improper payments because of the amount of outlays, and therefore required DOL to report improper payment information on it. OMB required agencies to develop a statistically valid estimate of improper payments for all programs identified as susceptible to significant improper payments and prepare corrective action plans where the estimate exceeds \$10 million in annual improper payments. OMB also requires agencies to report the improper payment results in their annual PAR.

OWCP reported the following improper payment results in its annual PAR for FYs 2005 to 2008:

Table 5 - DOL Reported FECA Estimated Improper Payments and Rates		
FY	Estimated Improper Payments	Improper Payment Rate (Percent)
2005	\$3,300,000	.13
2006	\$ 722,000	.03
2007	\$2,600,000	.10
2008	\$ 500,000	.02

In FY 2009, OMB granted DOL relief from reporting for FECA because it documented two consecutive years of improper payments that were less than 10 million annually.³ Barring any significant changes to legislation or funding, DOL will next be required to report on FECA in FY 2012.

DOL reported in the PAR for FYs 2005 to 2008, that the causes of improper payments consisted of the following:

- Incorrect or incomplete information submitted for the claims record (such as pay rate, night differential rate, retirement plan, etc.);
- OWCP errors including mistakes in judgment or interpretation in making decisions;
- miscalculations in making payments; and
- claimant fraud or misrepresentation.

In February 2008, GAO issued a report entitled Federal Workers' Compensation: Better Data and Management Strategies Would Strengthen Efforts to Prevent and Address Improper Payments.⁴ The audit's objective was to assess OWCP's overall strategies for preventing, detecting, and recovering improper payments.

GAO concluded that OWCP had not established an effective strategy for managing improper payments in the FECA program. The agency did not sufficiently emphasize preventing, detecting, and recovering improper payments. None of the performance goals for the program addressed improper payments. Furthermore, OWCP did not collect the information it needed to accurately assess the FECA program's risk of improper payments, such as information on their magnitude and causes. Without such

³ OMB Circular A123, Appendix C Part I, Section K, provides that if any agency program has documented a minimum of two consecutive years of improper payments that are less than \$10 million annually, the agency may request relief from the annual reporting requirements for this program.

⁴ Better Data and Management Strategies Would Strengthen Efforts to Prevent and Address Improper Payments, GAO-08-284, February 2008

data, OWCP could not focus on the most vulnerable areas. Our concerns have been included in our annual Management Challenges report for several years.

GAO recommended OWCP should revise its program performance measures to ensure increased emphasis on payment accuracy, adequate internal controls, and overpayment recoveries. Additionally, GAO recommended that OWCP collect more detailed information on improper payments, such as the causes of under and overpayments, and use these data to better identify improper payment risks and to address areas of high risk. GAO also recommended that OWCP take steps to reduce common causes of improper payments by requiring agencies to report to OWCP more timely when a FECA claimant returns to work, ensuring that its data match with SSA's death records is conducted regularly and consistently, taking steps to ensure that wage-loss compensation payments for claimants covered by the federal retirement system are appropriately reduced by the amount of their SSA benefits attributable to their federal service, seeking legal authority to enter into a data-matching agreement with the HHS to identify FECA claimants who have wage earnings reported in the NDNH and determining what additional training claims examiners may need to improve payment accuracy.

Appendix B**Objective, Scope, Methodology, and Criteria**

Objective

The audit objective was to answer the following question:

Has OWCP effectively addressed known weaknesses in detecting and preventing improper payments in the FECA program?

Scope

For the purpose of our audit, we considered the weaknesses GAO reported in 2008 in OWCP's overall strategies for detecting and preventing improper payments for the FECA program and OWCP's corrective action addressing GAO's recommendations. Specifically, our audit covered OWCP's methods for estimating and reporting improper payments, and measuring payment accuracy. The audit also covered OWCP's processes for identifying and managing the causes of improper payments, such as the use of the SSA death records for terminating benefits of deceased claimants, identifying unreported income and SSA retirement benefits by claimants, and training claims examiners on preventing improper payments. Our audit did not include OWCP's efforts to recover overpayments. We conducted the field work at OWCP's National Office in Washington, D.C. and at the District Office, in Philadelphia, Pa. The audit covered OWCP's internal controls in place and corrective actions taken in response to the GAO report, as of June 2011.

We conducted this performance audit in accordance with generally accepted government auditing standards. 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Methodology

In planning and performing our audit, we considered whether internal controls significant to the audit were properly designed and placed in operation. This included reviewing OWCP's policies and procedures related to identifying, estimating, reporting, and managing improper payments. We confirmed our understanding of these controls and procedures through interviews and case file review and analysis. We evaluated internal controls used by OWCP to address the weaknesses identified in the 2008 GAO report. Our consideration of OWCP's internal controls related to improper payments would not necessarily disclose all matters that might be significant deficiencies. Because of inherent limitations in internal controls, misstatements or noncompliance may nevertheless occur and not be detected.

We reviewed the annual PARs for DOL, SSA, and DVA. We also analyzed the results of OWCP's Accountability Reviews for FY 2010. We interviewed OWCP staff on the methods used for estimating improper payments and the status of the corrective action to address the recommendations made by GAO in its February 2008 audit report.

To determine if OWCP consistently performed a cross match between FECA claimants and SSA death records and timely terminated benefits for deceased claimants, we interviewed OWCP National Office and Philadelphia District Office officials to understand the matching process, and analyzed the results of data matches provided by SSA to OWCP for CY 2010. We performed tests of the data matches' authenticity by matching the computer-based records to each source record in iFECS. The results of matching these records confirmed that the data was accurate and valid and represented data that could be used in testing for claimant overpayments. The data was consistent in that there were results for all the months in 2010 for all the District Offices. We determined the data to be sufficient and appropriate for the purpose of our audit, which was to establish the population of cases where there was a match of the claimants' SSN to the SSA death files between January 1, and December 31, 2010.

Of the 815 FECA cases that appeared on SSA's death match report, 303 received multiple payments after the claimant's date of death. We selected our sample based on the risk in which an improper payment could have occurred because of untimely action by OWCP to stop benefits after the date of death. High-risk cases were cases where payments continued more than 60 days after the date of death; moderate risk were cases where multiple payments were made 60 days or less after the date of death; and low risk were cases where only one payment or no payments were made after the date of death. We tested 100 percent of the 32 high-risk cases, and judgmentally selected 10 of the 303 moderate-risk cases and 10 of the 512 low-risk cases. We then reviewed documents in the iFECS claimant case files.

To determine if OWCP developed and implemented improper payment reason codes we gained an understanding of the codes developed, and reviewed OWCP's summary of its analysis of the codes. We also observed how the codes were implemented in iFECS.

To determine the extent of claims examiner training we interviewed OWCP officials on the status of its implementation and reviewed training modules contained on OWCP's intranet.

Criteria

The Federal Employee Compensation Act, as amended, Title 5 of the United States Code, Chapter 81 – Compensation for Work Injuries

IPIA, Public Law 107-300, November 26, 2002

OMB Circular A-123, Appendix C, August 10, 2006

Executive Order 13520, Reducing Improper Payments and Eliminating Waste in Federal Programs, November 20, 2009

OMB Circular A-123, Appendix C, Part III, March 22, 2010

IPERA, Public Law 111–204, July 22, 2010

OWCP FECA Procedure Manual

Government Performance and Result Act of 1993

GAO Standards for Internal Control in the Federal Government, 1999

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Appendix C**Acronyms and Abbreviations**

DOL	United States Department of Labor
DVA	Department of Veterans Affairs
FECA	Federal Employees' Compensation Act
FERS	Federal Employees Retirement System
FY	Fiscal Year
GAO	Government Accountability Office
GPRA	Government Performance Results Act of 1993
HHS	U.S. Department of Health and Human Services
iFECS	Integrated Federal Employees' Compensation System
IPERA	Improper Payments Elimination and Recovery Act of 2010
IPIA	Improper Payment Information Act
NDNH	National Directory of New Hires
OASDI	Old-Age, Survivors, and Disability Insurance
OIG	Office of Inspector General
OLRFI	Office of Labor Racketeering and Fraud Investigations
OMB	Office of Management and Budget
OWCP	Office of Workers' Compensation Programs
PAR	Accountability and Performance Reports
SSA	Social Security Administration
SSN	Social Security Numbers
Social Security	Social Security Act Retirement Benefits
STAR	Systematic Technical Accuracy Review
UI	Unemployment Insurance

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Appendix D

OWCP Response to Draft Report

U.S. Department of Labor

Employment Standards Administration
Office of Workers' Compensation Programs
Washington, D.C. 20210



FEB - 2 2012

File Number:

MEMORANDUM FOR: ELLIOTT P. LEWIS
Assistant Inspector General
For Audit

FROM: GARY A. STEINBERG *Gary Steinberg*
Acting Director
Office of Workers' Compensation Programs

SUBJECT: Response to Audit of FECA Improper Payments
Draft Audit Report No. 03-11-002-04-31

Thank you for the opportunity to provide a response addressing the draft report's findings and recommendations as transmitted on September 19, 2011. Attached is a full response for Appendix D of the report as well as a summary of the OWCP response for inclusion in the body of the report.

If there are questions, please contact Cecily Rayburn at 693-0990.

Attachments

Cc: Michael Hill, OIG Audit Director

Working for America's Workforce

Improper Payments Audit – Management Response

February 2012

Summary OWCP Management Response:

OWCP will implement the requirements of the recently enacted Improper Payments Elimination and Recovery Act (IPERA). As evinced by the waiver received under the Improper Payments Improvement Act (IPIA), OWCP has an effective internal control structure to manage FECA payment accuracy. This is in strong contrast to the payment accuracy performance of certain other Federal agencies that make benefit payments. Given OWCP's long history of payment accuracy, the recommendation to implement management practices used by other federal agencies with very high improper payment rates as well as much larger benefit payments is not appropriate for OWCP. Other more appropriate tools are in place and routinely reviewed for improvement. The program's payment performance is evidence of the effectiveness of its practices. In keeping with program practices to improve its processes, OWCP will explore opportunities to incorporate additional payment reviews into the existing Accountability Review process as recommended by the OIG. Also in response to an OIG recommendation, the death match with SSA will be run weekly rather than monthly and procedures improved to ensure timely termination of benefits. Note that training for claims examiners on proper payments has been implemented on January 10, 2012 and additional training on overpayments will be released this calendar year. Legislative proposals to enhance data matching with SSA have been included in the President's Budget over the past few years. Without a change in legislation, the current process is all that is possible.

The OWCP Acting Director's response is included in its entirety as Appendix D.

Full Response for Appendix D:

As noted in the audit report, OWCP was granted a three-year waiver by the Office of Management and Budget (OMB) from publishing an official improper payments rate in FY2008. During the waiver period the program continued to monitor improper payments performance and also undertook many initiatives to improve what was recognized by OMB as a high level of performance in this important area. It is noted that additional improper payments guidance was issued during the waiver period, which will be taken into account when calculating the rate for FY2011. OWCP fully intends to adhere to all reporting requirements in order to properly track and report on improper payments, including the new IPERA guidance.

Despite the fact that OWCP was given a waiver from the IPIA/IPERA reporting requirements, the program has continued to far exceed the sampling requirements. According to the mandates of the updated IPERA guidance in OMB Circular A-123 Appendix C, a potential error rate of 3% would require a minimum sample size of 126 cases and a potential error rate of 4.5% would require a minimum sample of 186. Even using the highest error rate previously reported by DFEC (1.3%) would still only indicate a minimum sample of 56. As noted by the OIG, OWCP sampled 264 cases in FY2008 when last reporting of an erroneous pay rate, almost five times the requirement under the current guidance. Despite using a much larger sample size, the error rate was still found to only be 0.2%. As a result the program does not agree that the monetary unit sampling approach is invalid or that a far greater sample size is needed.

In addition, OWCP has historically reported rates of 1.3% (FY2005), 0.3% (FY2006), 1.0% (FY2007), and 0.2% (FY2008). The range of fluctuation between the numbers is a little more than one percent and can be largely attributed to systemic issues experienced with the new computer operating system (iFECS). Despite that fluctuation, OWCP has never approached the required reporting threshold of 2.5%. As a result the program does not rise to the level of "significant erroneous payments" per the required steps of Appendix C and would not even be required to perform the annual estimated amount of erroneous payments, much less take on an even greater sampling burden. Furthermore, the dollar amount of fraud and abuse reported by the OIG cannot be considered a valid measure of the efficacy of our improper payments measure since it is not known what period those recoveries covered, even though they were reported in a single year.

OWCP has historically had very low rates for improper payments. Program performance in this area was significant enough for OMB to grant the reporting waiver to OWCP during a time when improper payments were an especially sensitive issue. Since the time of the waiver, OWCP has created many additional systemic controls and significantly updated training materials in an effort to reduce improper payments even further. Additionally, the program is increasing internal auditing by moving the Accountability Review process to an annual, rather than bi-annual, cycle. Given past performance, improved tools and increased self-scrutiny, OWCP does not believe at this time that limited resources should be expended to achieve marginal improvements in payment accuracy at the expense of other mission critical needs. It is felt that high-level performance measures should be reserved to pursue improvements in mission-critical outcomes rather than procedural aspects of the program.

OWCP has always made great efforts to provide SSA death match reports to the District Offices in a timely manner, as well as monitor the reports to verify timely action was taken to terminate benefits. The program acknowledges that performance could still be improved in this area, and towards that end has increased the frequency of running the death match reports. Instead of a

monthly match OWCP now performs it weekly to shorten the notice period of a claimant's death. This will reduce the number of payments that are issued in error by giving the district office a more prompt notice of a claimant's death.

OWCP acknowledges the advantages to a data-matching agreement with SSA and has been working for some time to make it a reality. The legislative proposal included in the President's 2012 Budget for FECA reform already contains provisions to allow data matching between SSA and OWCP. While principally focused on obtaining wage information, OWCP will also explore ways of creating a data match for retirement benefits. There may be additional hurdles to overcome by SSA to make this happen as this is largely a manual process at this time. There does not appear to be an automated database from which to obtain the information from SSA, which may prevent data matching.

In the area of training, OWCP has created a training module on improper payments which was released on January 10, 2012. The module addresses all areas of improper payments, from identifying the common types that occur to creating debts and following them through to collection. The module is available to the claims staff in the eLearning training environment. These are considered procedural reference materials for the claims staff. They are not intended as annual "refresher" training as many on-line materials tend to be. As a result, while review of the training materials is mandatory for all incoming claims staff, it is not for the existing journey-level claims examiners.

Appendix E

Acknowledgements

Key contributors to this report were Michael Hill (Audit Director), Daniel Pompili (Audit Manager), Elisa Larosa, Eric Rann, Joseph Pomianek, and Ajit Buttar.

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