



Audit Report



OIG-07-043

GENERAL MANAGEMENT: Departmental Offices Did Not Have An Effective Workers' Compensation Program

July 13, 2007

Office of
Inspector General

Department of the Treasury

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Abbreviations

COP	Continuation of Pay
DO	Departmental Offices
FECA	Federal Employees’ Compensation Act
Fund	Employees’ Compensation Fund
OHR	Office of Human Resources for Departmental Offices
OIG	Office of Inspector General
OWCP	Office of Workers’ Compensation Programs
Treasury	Department of the Treasury
WCP	Workers’ Compensation Program

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*The Department of the Treasury
Office of Inspector General*

July 13, 2007

Rochelle F. Granat
Deputy Assistant Secretary for Human Resources
and Chief Human Capital Officer

The Federal Employees' Compensation Act (FECA) provides compensation benefits to civilian employees of the United States for disability due to personal injury or disease sustained while they are in the performance of duty. FECA also provides for payment of benefits to an employee's dependents if a work-related injury or disease causes the employee's death. We are conducting a series of audits at select Department of the Treasury bureaus to determine whether they have effective programs in place to monitor employees receiving workers' compensation payments. In this regard, we reviewed the workers' compensation program (WCP) within Treasury's Departmental Offices (DO).¹ This report presents the results of our review. Appendix 1 contains a description of our objective, scope, and methodology.

In brief, we found that DO did not (1) monitor the status of cases on the periodic rolls, (2) maintain adequate case files, (3) institute a return-to-work program, (4) review quarterly FECA chargeback reports for errors or potential program abuse, and (5) establish written policies and procedures for this activity. We are making three recommendations in this report to address these conditions, including a recommendation to determine, in light of the limited number of DO FECA cases, whether this activity should be outsourced to another Treasury bureau. In your management response, provided as Appendix 2, you concurred with these recommendations.

¹ DO is the title placed on the offices that support the Treasury Secretary in policy formulation and overall internal management and control.

Background

FECA benefits include compensation for lost wages, monetary awards for bodily impairment or disfigurement, medical care, and vocational rehabilitation. Rising government costs for FECA (increasing from \$1.4 billion in 1990 to \$2.3 billion in 2004) have prompted federal agencies and their Offices of Inspector General (OIG) to look for ways to reduce costs, return more people to work, and increase identification and prevention of fraud in the program.

The Department of Labor Office of Workers' Compensation Programs (OWCP) and more than 70 employing federal agencies share responsibilities for ensuring the efficiency, effectiveness, and integrity of the major benefit program established under FECA. OWCP's *Injury Compensation for Federal Employees* serves as a handbook for federal agency personnel specialists, compensation specialists, and supervisors.²

All workers' compensation claims are adjudicated by OWCP. FECA provides that an employee's regular pay may be continued for up to 45 calendar days to avoid interruption of an employee's income, while the case is being adjudicated by OWCP. This 45-day time frame is referred to as the continuation-of-pay (COP) period. OWCP begins paying FECA compensation benefits at the end of the COP period. Compensation for wage loss is paid as a percentage of the employee's salary. The Employees' Compensation Fund (Fund) finances OWCP FECA payments.

Workers' compensation costs are assigned to employing agencies annually at the end of the fiscal accounting period, which runs from July 1 to June 30. Each year, OWCP provides each agency with quarterly chargeback reports, then a final, annual chargeback billing list, which is a statement of payments made from the Fund on account of injuries to its employees. Employing agencies include these amounts in their budget requests to Congress. The sums appropriated to agencies as a result of these budget requests are deposited into the Fund.

² OWCP Publication CA-810, "Injury Compensation for Federal Employees" (January 1999).

Employing agencies play a major role in containing FECA costs by maintaining contact with the employee, helping recovering employees return to work, and accommodating light duty work, when possible.

The Deputy Assistant Secretary for Human Resources and Chief Human Capital Officer, through the Office of Human Resources for Departmental Offices (OHR),³ is responsible for providing consulting service to DO on human resources issues, including recruitment and retention, employee and labor relations, benefits and retirement, employee development and training, and pay administration. This office is also responsible for DO workers' compensation claims. From July 2005 to June 2006, DO cases accrued approximately \$571,000 in workers' compensation charges for employee medical benefits, death benefits, and wage loss. During January 2007, the Deputy Assistant Secretary for Human Resources and Chief Human Capital Officer issued guidance on the Treasury WCP that outlines responsibilities for bureau heads, bureau WCP staff, supervisors, and employees.⁴

Finding and Recommendations

Departmental Offices Did Not Have an Effective Workers' Compensation Program

We found that DO was doing little to manage its WCP. Specifically, we found that OHR did not (1) monitor the status of cases on the periodic rolls; (2) maintain case files adequately; (3) institute a return-to-work program; (4) review the quarterly FECA chargeback reports for errors or potential program abuse but did review the yearly chargeback bill; and (5) have written policies and procedures for the program. Each of these deficiencies is described in more detail below.

³ The name of the Office of Human Resources Operations, which was referred to as HR Ops, has been recently changed to Office Human Resources for Departmental Offices.

⁴ Office of Human Resources Strategy and Solutions, Human Resources Issuance System, Chapter 810, Transmittal No. 07-007, "Workers' Compensation Program" (January 21, 2007).

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- OHR did not monitor the status of DO workers' compensation cases listed on the periodic rolls.⁵ OHR staff members stated that the WCP was not a priority at DO after the March 2003 divestiture of personnel to the Department of Homeland Security. The OHR staff member responsible for the WCP function reported that she spends no more than 10 percent of her time on FECA related matters. She stated that, due to lack of resources, her office does not review long-term cases or contact long-term claimants and their doctors. In addition, she stated that the case file for a DO employee on the periodic rolls is updated only when either the claimant or OWCP voluntarily supplies DO with relevant documents. OWCP Publication CA-810 encourages active management of workers' compensation programs by agency personnel. We believe that active management of cases on the periodic rolls could result in decreased costs.
 - OHR was unable to locate 10 of the 15 WCP case files that we selected for review.⁶ OHR personnel speculated that their inability to locate the files could be attributable to multiple office moves. We also found that case files were not properly maintained. Some of the standard basic forms were missing from the 5 selected case files that were available for review. Additionally, case files had medical records that were outdated, and some files were unorganized and contained duplicate forms. OWCP Publication CA-810 states that the agency should establish a recordkeeping system which will enable it to maintain copies of claim forms, medical reports, correspondence with OWCP, and other materials related to each compensation claim in an orderly fashion. If case files are missing, OHR cannot actively monitor open claims. Also, without well maintained case files (including updated medical records), DO does not know whether, or when, claimants are eligible to return to work.

⁵ If medical reports indicate that disability will continue for at least 60 days after COP, OWCP places the employee on the periodic rolls and, with appropriate medical documentation, makes automatic payments every 4 weeks. See Footnote 7 for additional information on the cases that are on the periodic rolls for DO.

⁶ According to the OWCP chargeback report for 2006, DO had 26 workers' compensation claims that had a positive balance. The 15 cases in our sample were older cases that had dates of injury ranging from 1976 to 1999. For the 10 cases that could not be located, the dates of injury were as follows: four during 1976, five during the 1980s, and one during 1995.

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- DO did not have a return-to-work program, nor did it ensure that supervisors took actions to return employees to work when feasible. An OHR specialist acknowledged that OHR needs to develop a return-to-work program, and attributed not having one to a lack of management concern in the past. OWCP Publication CA-810 states that agencies should stay in touch with injured employees while they are receiving compensation, identify jobs suitable for them, and take steps to reemploy recovered or recovering employees as soon as the medical evidence shows that this is possible. A return-to-work program is an effective tool to help minimize FECA costs. Without such a program, DO could be paying benefits to employees who are able to return to work.
 - OHR did not review FECA quarterly chargeback reports. Instead, OHR checked only the yearly chargeback bill. OWCP Publication CA-810 states that each agency receives a quarterly report which lists all cases and costs for which charges will appear on the yearly chargeback bill. This report can be used to identify and correct errors before the agency is billed for them. In addition, reviews of chargeback reports may identify possible program abuse. Failure to conduct regular reviews of quarterly reports increases the risk that errors could go uncorrected and that program abuse could go undetected.
 - DO did not have written policies and procedures for its entire WCP. OHR management told us that it plans to draft policies and procedures. According to *Standards for Internal Control in the Federal Government*, internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination and may be in paper or electronic form.⁷ Guidelines are needed to ensure that employees, supervisors, and workers' compensation specialists comply with the FECA and with OWCP regulations. Lack of written policies and procedures increases the risk that key internal controls over the DO WCP may not be performed, thereby increasing the risk of errors or abuse related to the program.

⁷ Government Accountability Office, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-2.1.3.1 (November 1999).

Recommendations

We recommend that the Deputy Assistant Secretary for Human Resources and Chief Human Capital Officer do the following:

1. Determine whether, given the number of cases and available resources, the administration of DO's WCP should be retained in-house or outsourced to another Treasury bureau.

Management Response

OHR is evaluating the feasibility of outsourcing the administration of DO's WCP. If the decision is not to outsource, OHR will ensure that all appropriate steps will be taken to meet the program responsibilities in-house. The planned corrective action date, provided to us separately by OHR, is October 1, 2007.

OIG Comment

We believe that the actions taken or planned by DO address the intent of the recommendation.

2. Direct OHR to determine whether additional case files for FECA claims are missing and reconstruct appropriate documentation, as necessary, to monitor case status going forward for all missing cases. This action is necessary regardless of whether the FECA program is retained within DO or outsourced.

Management Response

OHR has requested master file copies of missing WCP records from DOL to ensure that all paid FECA claims are accounted for and appropriately monitored. The planned corrective action date, provided separately by OHR, is September 1, 2007.

OIG Comment

We believe that the actions taken or planned by DO address the intent of the recommendation.

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3. Ensure that OHR establishes and implements written policies and procedures, in conformance with recently issued Departmental guidance, that specify assignment of responsibility and detailed actions to be taken in administering Treasury's WCP. Among other things, the policies and procedures should (1) ensure that cases on the periodic rolls are monitored and case files are maintained in a complete and orderly manner, (2) provide for a return-to-work program, and (3) ensure that quarterly chargeback reports are reviewed in a timely manner. Such written policies and procedures should be established and implemented whether the FECA program is retained in DO or outsourced to another organization.

Management Response

OHR is in the process of developing a return-to-work program. OHR also plans to issue internal operating procedures to address matters such as monitoring cases and reviewing quarterly chargeback reports in a timely manner. The plan date for completing these correction actions, provided separately by OHR, is October 1, 2007.

OIG Comment

We believe that the actions taken or planned by DO address the intent of the recommendation.

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We appreciate the courtesies and cooperation provided to our staff. If you wish to discuss this report, you may contact me at (202) 927-5791 or Maria V. Carmona, Audit Manager, at (202) 927-6345. Major contributors to this report were Ms. Carmona; Gerald H. Kelly, Auditor-In-Charge; and Horace A. Bryan, Auditor.

Cedric E. Hammond, Sr.
Acting Director, Fiscal Service Audits

In accordance with the Office of Inspector General annual plans for fiscal years 2006 and 2007, we are conducting a series of audits at select Department of the Treasury bureaus to determine whether they have effective programs in place to monitor employees receiving workers' compensation payments. In this regard, we reviewed the workers' compensation program (WCP) within Treasury's Departmental Offices (DO).

We performed fieldwork primarily from September 2006 to December 2006 at DO in Washington, DC. As part of the fieldwork, we reviewed laws, regulations, and Treasury guidance. We developed an electronic survey questionnaire to obtain key information on program oversight and case management efforts from DO and the other bureaus.

We discussed controls with management, and conducted interviews, as appropriate, to gain an understanding of the workers' compensation process at DO. We interviewed the following personnel involved in DO's workers' compensation program: the Director of the Office of Human Resources for Departmental Offices, the Employee & Labor Relations Specialist, and the Resource Management Support Specialist.

We analyzed data from the 2006 chargeback report and files for indicators of program abuse, and referred such instances to our Office of Investigations for further inquiry.

We also selected for review the 15 workers' compensation cases with the highest compensation total amount from the 26 DO claims with a positive balance. These 15 cases accounted for 97 percent of the total amount charged on the DO chargeback report for compensation chargeback year 2006.

We conducted our audit in accordance with generally accepted government auditing standards.

Appendix 2
Management Response



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

MEMORANDUM FOR CEDRIC E. HAMMOND, SR.
ACTING DIRECTOR, FISCAL SERVICE AUDITS
OFFICE OF THE INSPECTOR GENERAL

FROM: Rochelle F. Granat *RFG 6/14/07*
Deputy Assistant Secretary for Human Resources and
Chief Human Capital Officer

SUBJECT: OIG Draft Report - *General Management: Departmental
Offices Did Not Have an Effective Workers' Compensation
Program*

Thank you for the opportunity to comment on the above referenced draft report. The Office of Human Resources for Departmental Offices (OHR) will take action to address each of the recommendations contained in the report. Specifically:

- (1) OHR has already obtained pricing information from the Bureau of the Public Debt's Administrative Resource Center (ARC) to provide workers' compensation program support in FY 2008. The Office is currently evaluating the feasibility of this outsourcing option and will ensure that if the function is not outsourced, all appropriate steps will be taken to meet program responsibilities in-house.
- (2) A request has been initiated to the Department of Labor for master file copies of missing workers' compensation program records to ensure all paid FECA claims are accounted for and appropriately monitored moving forward.
- (3) A return to work policy is currently being developed by OHR. The Director, OHR, will be held accountable for ensuring that cases on the periodic rolls are monitored appropriately and case files maintained properly. Responsibility for execution of this function will be reflected in a performance commitment of a staff member in OHR or as a service level standard under an agreement with ARC. Such monitoring will rely on the Department of Labor as the source for verification of current medical status. Quarterly chargeback reports will be reviewed timely.

Department of the Treasury

Office of Strategic Planning and Performance Management
Office of Accounting and Internal Control

Departmental Offices

Deputy Chief Human Capital Officer
Director, Office of Human Resources for Departmental Offices

Office of Management and Budget

OIG Budget Examiner