



OFFICE OF  
**INSPECTOR  
GENERAL**  
UNITED STATES POSTAL SERVICE

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**Postal Service  
Injury Compensation Program  
Audit Report**

July 25, 2013

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Report Number HR-AR-13-004



OFFICE OF  
**INSPECTOR  
GENERAL**  
UNITED STATES POSTAL SERVICE

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# HIGHLIGHTS

July 25, 2013

## Postal Service Injury Compensation Program

Report Number HR-AR-13-004

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### **BACKGROUND:**

U.S. Postal Service employees are covered by the Federal Employees' Compensation Act, which provides benefits to civilian federal employees who sustain an injury or occupational disease as a result of their employment. The U.S. Department of Labor administers, implements, and enforces this act. The Postal Service manages efforts to return injured employees to work through its Injury Compensation Program. For the 2012 billing period, the Postal Service incurred more than \$1.3 billion in workers' compensation costs and paid more than \$68 million in administrative fees — an increase of more than 25 and 23 percent, respectively, since the 2009 billing period.

The U.S. Postal Service Office of Inspector General (OIG) audits Postal Service programs to help determine whether they are efficient and cost-effective and has the authority and responsibility to investigate workers' compensation fraud involving Postal Service employees. Such investigations help protect Postal Service funds by detecting, deterring, and reducing health care fraud.

Our objectives were to assess the Postal Service's administration of workers' compensation claims and identify opportunities to reduce these costs by implementing best practices. This report

responds to a request from the Postal Service's vice president and controller.

### **WHAT THE OIG FOUND:**

Postal Service management needs to improve their administration of workers' compensation claims. Management did not consistently determine staffing levels and has reduced the number of staff significantly since 2009. Additionally, some health and resource management personnel were used for collateral duties and nurses were not fully used in case management. Further, specific performance measures did not exist nor did personnel receive adequate training.

In the Western Area, we identified internal best practices to more effectively return employees to work, such as an automated work search system and a quick reference guide for case management. We also identified industry practices for an effective workers' compensation program, including using nurse case managers, partnering with non-profit organizations, and using predictive analytics. We determined the Postal Service can reduce the number of employees receiving workers' compensation and save more than \$85.5 million annually.

The OIG uses predictive modeling to help identify high-risk workers' compensation claims. Predictive modeling data has allowed agents to bring investigations to a successful

resolution and has resulted in higher monetary impacts. Since October 2011, OIG investigators initiated 102 cases from predictive modeling data, resulting in \$9.5 million in recoveries, restitutions, and workers' compensation payments avoided.

***WHAT THE OIG RECOMMENDED:***

We recommended management conduct a formal staffing analysis to include using contract nurses for case management, establish district performance measures based on cost reductions, and implement a nationwide work search system, along with district rehabilitation program committees. We also recommended management establish a standardized quick reference guide, provide automated reminders of key tasks, explore the return-to-work benefits of partnerships with non-profit organizations, and evaluate the use of predictive analytics.

*[Link to review the entire report](#)*

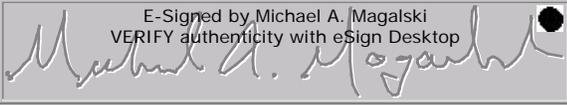


July 25, 2013

**MEMORANDUM FOR:** JEFFREY C. WILLIAMSON  
CHIEF HUMAN RESOURCES OFFICER AND EXECUTIVE  
VICE PRESIDENT

MEGAN J. BRENNAN  
CHIEF OPERATING OFFICER AND EXECUTIVE VICE  
PRESIDENT

ROSEMARIE FERNANDEZ  
ACTING VICE PRESIDENT, EMPLOYEE RESOURCE  
MANAGEMENT

E-Signed by Michael A. Magalski  
VERIFY authenticity with eSign Desktop  


**FROM:** Michael A. Magalski  
Deputy Assistant Inspector General  
for Support Operations

**SUBJECT:** Audit Report – Postal Service Injury Compensation  
Program (Report Number HR-AR-13-004)

This report presents the results of our audit of the Postal Service Injury Compensation Program (Project Number 12YG035HR000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Andrea L. Deadwyler, deputy director, Human Resources and Support, or me at 703-248-2100.

Attachment

cc: Timothy F. O'Reilly  
Linda DeCarlo  
Vice Presidents, Area Operations  
Corporate Audit and Response Management

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## Introduction

This report presents the results of our audit of the U.S. Postal Service Injury Compensation Program (Project Number 12YG035HR000). The report responds to a request from the vice president and controller and addresses financial risk. Our objectives were to assess the Postal Service's administration of workers' compensation claims and identify opportunities for reducing workers' compensation costs by implementing internal or external best practices.<sup>1</sup> See [Appendix A](#) for additional information about this audit.

The U.S. Department of Labor's (DOL) Office of Workers' Compensation Programs (OWCP) has the exclusive authority, except as otherwise provided by law, to administer, interpret, and enforce the Federal Employees' Compensation Act (FECA). The DOL pays providers, claimants, and beneficiaries; however, the Postal Service reimburses the DOL for costs related to Postal Service workers' compensation claims and must pay the DOL a fee to administer the program for Postal Service employees.

While facing diminishing revenue and limited resources for proactive case management, the Postal Service incurred more than \$1.3 billion in workers' compensation costs and more than \$68 million in administrative fees for chargeback year<sup>2</sup> 2012. These costs and fees increased by more than 25 and 23 percent, respectively, since chargeback year 2009. As of December 2012, the Postal Service had 16,999 employees on the periodic roll<sup>3</sup> and was facing a long-term workers' compensation liability of \$16.5 billion.

## Conclusion

Postal Service management needs to improve their administration of workers' compensation claims. We determined that management did not consistently determine staffing levels and reduced the number of staff significantly since 2009. Additionally, some health and resource management (HRM) personnel were used for collateral duties and nurses were not fully used in case management. Further, management had not established specific performance measures to ensure return-to-work efforts and associated cost reductions are a priority and HRM staff did not receive adequate training. We identified internal best practices implemented in the Western Area to more effectively and efficiently return employees to work. We also identified industry best practices for an effective workers' compensation program including using nurse case managers, partnering with non-profit organizations, and using predictive modeling to better manage high-cost claims. We determined the Postal Service can reduce the

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<sup>1</sup> This report does not concern, and we did not examine, the Postal Service's obligations to disabled employees under the Rehabilitation Act and the Americans with Disabilities Act. The U.S. Postal Service Office of Inspector General (OIG) and the Postal Service are aware that these statutes may impose obligations upon the Postal Service that are not treated in this report.

<sup>2</sup> Chargeback refers to the process the OWCP uses to bill employing agencies for its compensation costs. The chargeback year (July 1 through June 30) is the period for which the DOL bills agencies for OWCP benefits.

<sup>3</sup> Employees who receive workers' compensation benefits and have disabilities that are expected to be permanent or prolonged (more than 60-90 days).

number of employees receiving workers' compensation and save more than \$85.5 million annually. See [Appendix B](#) for our calculation of monetary impact.

## Staffing

Districts do not have the appropriate complement of HRM staff to effectively manage workers' compensation claims. We found that the Postal Service did not consistently determine the number of district HRM specialists needed and they significantly reduced HRM staff<sup>4</sup> in recent years. Additionally, some districts use HRM staff for work outside of their workers' compensation duties and do not take full advantage of nurses' medical expertise in their case management and return-to-work efforts. Finally, specially trained employees or contractors are not used to pursue third-party recoveries.<sup>5</sup> These conditions occurred because the Postal Service did not conduct a formal staffing analysis<sup>6</sup> to determine the appropriate number and type of district HRM staff needed to effectively support case management activities. As a result, there is an increased risk that injured employees will not return to work once medically able to do so and that staff will not pursue third-party recoveries and potential fraud.

## Staffing Determinations

Management did not consistently determine district HRM specialist staffing needs and the staffing guidance<sup>7</sup> does not account for other collateral duties. Also, we determined the majority of those districts with a lower percentage of periodic roll employees had staffing levels above staffing guidance levels. In fact, all of the districts in the Western Area with periodic roll percentages below the median<sup>8</sup> exceeded the specialist staffing guidance. For the 33 districts with periodic roll percentages below the median,<sup>9</sup> 27 exceeded the number of HRM specialists recommended by the guidance and only one was below the guidance. For example, the Central Plains District's periodic roll percentage was only .33 percent and it had two more specialists than recommended by the guidance. For the 33 districts with periodic roll percentages greater than the median, nine exceeded the number of HRM specialists recommended and 10 fell short. For example, the Bay-Valley District's periodic roll percentage was 6.49 and it was short one specialist. See [Table 1](#) for a summary of our results.

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<sup>4</sup> District HRM staff consists of managers, specialists, and nurses.

<sup>5</sup> A third-party liability case exists when an employee's compensable injury or death results from circumstances that create a legal liability on some party other than a U.S. agency.

<sup>6</sup> A formal staffing analysis could include surveys, focus groups, and job duty audits.

<sup>7</sup> The Postal Service staffing guidance recommends one specialist for every 322 new claims filed and one specialist for every 200 periodic roll cases.

<sup>8</sup> The middle number in a given sequence of numbers.

<sup>9</sup> We determined the median periodic roll percentage for the 67 districts was 2.35. We then determined the authorized number of staff for districts below and above the median percentage. Overall, the districts below the median had 37 more specialists and the districts above the median had one less specialist based on the staffing guidance.

**Table 1 – HRM Staffing Compared to Guidance**

<b>Staffing Levels</b>	<b>33 Districts With Periodic Roll Percentages Below the Median</b>	<b>33 Districts With Periodic Roll Percentages Above the Median</b>
Above Staffing Guidance	27	9
Meeting Staffing Guidance	5	14
Below Staffing Guidance	1	10

Source: OIG analysis.

### Staff Reductions

Nationwide, HRM staff has been reduced without sufficient justification, such as a formal analysis. Since 2009, the Postal Service has reduced the nationwide HRM authorized staffing complement, excluding nurses, by 135 (29 percent), although the number of periodic roll employees has increased each year.<sup>10</sup> For example, the current authorized staffing complement in the New York and Bay Valley<sup>11</sup> districts is five each, including the manager. Officials stated that the previous staff complements for those districts were eight and nine, respectively. According to district officials, while the complement was reduced, the workload either increased or remained the same. Also, in our survey, 28 of 36 respondents indicated there were not enough HRM specialists to process and manage claims.<sup>12</sup>

In addition to the HRM specialist reductions, management reduced the complement of its unionized occupational health nurses (OHNs). A 2009 memorandum of understanding authorized a complement of 94 OHNs nationwide.<sup>13</sup> As of February 2013, the Postal Service's OHN complement has decreased from 130 to 59 nationwide.<sup>14</sup>

### Collateral Duties

Officials at seven of eight districts we visited indicated they use HRM staff for work outside of their workers' compensation duties. For example, districts use HRM specialists for rural route counts, as lobby greeters, and for verification of scanning and mail dispatches. We also found one district HRM manager who stated that she spends

<sup>10</sup> As of January 2013, there were 38 headquarters staff and 300 district HRM managers and specialists.

<sup>11</sup> The district had only two specialists processing claims due to a long-standing vacancy and a specialist on extended sick leave.

<sup>12</sup> We published a blog and surveyed HRM employees regarding their experiences and challenges with the workers' compensation program. (see Appendix C for overall results.)

<sup>13</sup> *Postal Service and American Postal Workers Union Memorandum of Understanding on Occupational Health Nurses (OHN) Business Plan*, dated September 10, 2009. The OHN staffing model calls for zero, one, or two nurses per district depending on the number of employees.

<sup>14</sup> In addition to OHN, the Postal Service typically uses one Occupational Health Nurse Administrator at each district.

about 60 percent of her time performing duties other than those related to the Injury Compensation Program. Another HRM manager was also a member of three committees and was required to complete critical tasks outside of the Injury Compensation Program. Additionally, 75 percent of the respondents to our survey agreed that the HRM office had to perform work not directly related to workers' compensation duties and that it interfered with their ability to manage cases.

### Nurses as Part of Case Management

The Postal Service did not fully use its nurses to support case management. Most nurses we interviewed indicated that they spend only a small percentage of their day on the Injury Compensation Program. Additionally, HRM managers and specialists stated that nurses currently have a limited role in case management and they would welcome the nurses' expertise to assist with case management. Further, 92 percent of the HRM staff surveyed agreed that Postal Service nurses should have a more active role in supporting the HRM function and our benchmarking results support the use of nurses as a best practice.

In 2008 the Postal Service implemented a nurse case manager program in which nurses called injured employees to check on their medical status and care. Each district that participated had a unique contract and process for using the nurses, which resulted in the inconsistent and sometimes incorrect use of the nurses, such as assigning them filing duties. The Postal Service discontinued the program in 2010, because it was not yielding the desired results and there was a lack of employee cooperation as well as an overlap with the DOL's Nurse Intervention Program.<sup>15</sup> The nurses' position descriptions state they can provide guidance, act as medical liaisons with the OWCP, review and interpret medical documentation, and contact physicians for clarification of medical status and restrictions as needed. Therefore, opportunities exist for the Postal Service to enhance case management by more actively using its nurses or external contract nurses who have knowledge of the clinical aspects of a case from an educated medical perspective versus a specialist who may not have a medical background.

### Support for Third-Party Recoveries

In fiscal year (FY) 2012, the Postal Service collected more than \$12 million in third-party recoveries, but as of Quarter (Q) 3, FY 2012, 9,843 open cases represented more than \$84 million. A third-party liability case exists when a person or organization other than the Postal Service or another U.S. agency (third-party) is responsible for a job-related injury or illness. For example, a third-party claim may apply when injuries result from automobile accidents or animal attacks. With some exceptions, the Postal Service has an agreement with the OWCP that allows it to administratively pursue recovery of damages from the third party. Postal Service policy states that when potential third-party cases are identified, personnel should assess the feasibility of attempting to recover

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<sup>15</sup> The Nurse Intervention Program uses registered nurses to provide intervention at the earliest stages of disability management. The nurse provides liaison services to assist in medical and claims management with a return-to-work focus.

damages and take specific steps, such as investigating the incident, assigning responsibility for pursuing the recovery, monitoring progress, and negotiating settlements.

HRM managers and specialists we interviewed stated that they devote most of their time to processing initial claims and OWCP forms and do not have time to pursue third-party liabilities. Also, management in one district removed the option for the employee to assign the claim to the Postal Service. In addition, some specialists do not believe they have the necessary skills to pursue some of the third-party claims and 19 of 29 employee training records we reviewed did not show third-party training. Finally, as shown in Table 2, we reviewed 62 case files and found that 49 did not contain relevant documentation to show that third-party liabilities were properly pursued.

**Table 2 – Workers’ Compensation Case File Analysis**

<b>District</b>	<b>Did not contain consistent and relevant documentation for pursuit of third-party recoveries</b>
Bay-Valley	11 of 11
Central Pennsylvania	8 of 10
Central Plains	4 of 10
Greater Boston	7 of 10
New York	10 of 10
Sacramento	9 of 11
<b>Total</b>	<b>49 of 62</b>

Source: OIG analysis of OWCP cases.

The Postal Service should determine, as part of its staffing analysis, the resources needed to effectively pursue third-party liabilities, which may include using third-party contingency contractors or dedicated employees with special skills and training in this area.

Overall, a formal staffing analysis should enable the Postal Service to identify the optimal district staffing of HRM specialists, nurses, and other support staff to more effectively manage the Injury Compensation Program and reduce costs.

### **Internal Best Practices, Resources, and Tools**

We identified internal best practices that could benefit the Postal Service’s Injury Compensation Program if implemented nationwide. Additionally, management needs to enhance other resources and tools to more effectively and efficiently return employees to work and complete other case management activities (see [Table 3](#)).

**Table 3 – Best Practices, Other Resources, and Tools**

<b>Best Practices</b>	Electronic work search system.
	District committees that include operations staff and other employees outside of HRM to assist with work searches.
	Simplified guidelines for HRM specialists to easily reference and understand key tasks.
<b>Other Resources and Tools</b>	Automated reminders for HRM specialists to facilitate key case management activities.
	District performance measures or other incentives.
	Claims management training for HRM personnel.

Source: OIG analysis.

### Electronic Work Search System

The Western Area developed the Web Employee Search Program (WebESP), an electronic search tool to assist in searching for work in the limited duty and rehabilitation process. The Western Area’s periodic roll numbers<sup>16</sup> are significantly better than that of other areas, in part, because of the WebESP. District officials outside the Western Area manually search for available work within a 50-mile radius, which is time-consuming<sup>17</sup> and increases the risk that available work will not be identified for employees with restrictions. During our audit, the Postal Service indicated that it is implementing the WebESP nationwide; however, management did not provide a completion date.

### District Assessment Teams

During the National Reassessment Process, the Postal Service used District Assessment Teams (DAT) to facilitate injured employees’ return to work. After this process ended, some districts continued to use the teams to support their return-to-work efforts although there were no nationally defined roles and responsibilities. The two districts we reviewed in the Western Area used their DATs, which included operations staff, to assist with work searches. For example, the Colorado/Wyoming District, whose periodic roll percentage was below the median, had two full-time DAT members and reported that, as of March 2013, 10 percent of employees (50) with medical restrictions were classified as not working. The Central Plains District, whose periodic roll percentage was also below the median, had 19 DAT members who performed work searches outside of the employee’s facility. Consequently, the Central Plains District only had 30 periodic roll employees. Other districts we visited only used a part-time

<sup>16</sup> As of Q3, FY 2012, the Western Area’s percentage of periodic roll employees to on-the-rolls employees was 1 percent. The next lowest percentage was the Great Lakes Area with 2 percent and the highest was the Pacific Area with 4.6 percent of employees on the periodic roll.

<sup>17</sup> The return-to-work search uses a 10-step process starting with the employee’s current job and ending with a search outside the employee’s craft, tour, and facility. The last step is a referral to the District Reasonable Accommodation Committee (DRAC). The DRAC helps management to determine the eligibility of employees and applicants for reasonable accommodation and assesses the availability and feasibility of specific accommodations.

person or did not use a committee to support return-to-work efforts. For example, the Greater Boston District, which did not use a committee, had 493 periodic roll employees, which is higher than the median.

During our audit, the Postal Service instructed the districts to implement a Rehabilitation Program Committee (RPC) consisting of representatives from major functions and chaired by the senior HRM specialist. RPCs would be used if the manager of an office where an employee was officially assigned at the time of injury could not identify a permanent modified assignment with that office. Medical restrictions of potential program participants would be reviewed, placement priorities considered, and recommended assignments drafted. The Postal Service is currently working on RPC guidance to clearly define tasks and structure. Using RPCs should enhance return-to-work efforts and reduce workers' compensation costs.

### Simplified Guidance

The Western Area developed an 18-page quick reference guide that helps specialists with daily HRM activities, challenges, and case management. The current handbook, which is provided as a reference guide to injury compensation personnel, is more than 400 pages, contains outdated language, and is difficult to use as a quick reference guide.<sup>18</sup> Some specialists said they were either unaware of the handbook or did not use it to perform their duties. Simplified guidance would help injury compensation personnel better understand procedures and reduce the potential for errors.

### Automated Reminders for Key Duties

The Postal Service primarily uses two systems to help manage workers' compensation claims: the Employee Health and Safety (EHS) system to create and help manage accident and injury claims and the Injury Compensation Performance Analysis System (ICPAS), which provides workers' compensation data for analysis. However, neither system provides automated reminders to alert HRM specialists of key follow-up activities. Some officials stated the previous system<sup>19</sup> was better because it identified whether the employee's medical status was current and provided reminders for monitoring medical progress, limited duty, separations, and other case management tasks. Specialists currently track these tasks manually or use Microsoft Outlook.<sup>®</sup> As a result, there is an increased risk that key tasks, such as obtaining updated medical status for return-to-work considerations, could be overlooked or delayed. Automated reminders would help ensure timely performance of important case management activities.

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<sup>18</sup> Handbook EL-505, *United States Postal Service Injury Compensation*, October 1995, updated with *Postal Bulletin* revisions through July 20, 2006. Examples of outdated information include job banks for limited duty tasks; and names of officials, offices, and systems including the Injury Compensation Control office, Postal Inspection Service, Labor Distribution Code 68, and Human Resources Information System.

<sup>19</sup> Previously, the Postal Service used the Human Resource Information System and the Workers' Compensation Information Subsystem.

## Performance Measures or Other Incentives

The Postal Service has not established specific performance measures or other incentives for all district managers to ensure return-to-work efforts and associated cost reductions are a district priority. Additionally, for FYs 2012 and 2013 Pay for Performance (PFP), the Executive and Administrative Schedule field employees had no core goal requirements and final ratings were based on corporate National Performance Assessment (NPA)<sup>20</sup> indicators. NPA indicators do not include specific workers' compensation measures. Further, although FY 2013 district goals<sup>21</sup> exist for periodic roll reductions, district managers do not have specific performance measures related to the workers' compensation chargeback costs. As a result, competing district priorities could adversely affect the HRM staff's ability to effectively manage claims, return employees to work, and reduce costs. Establishing performance measures or other incentives would ensure that district managers are accountable for returning employees to work and reducing the Postal Service's long-term liability.

## Claims Management Training

HRM managers and specialists in the six districts we visited have not received adequate training in key areas of workers' compensation administration and, as a result, they may not fully understand their duties to manage claims. Our analysis of these individuals' training records showed that training was lacking for basic case management, the EHS system, limited duty, and third-party recoveries (see [Table 4](#)). HRM staff also stated that they did not have sufficient training to understand case management activities or the third-party recovery process, especially when determining lien amounts and dealing with attorneys and related legal matters. Other HRM staff expressed concerns about being self-taught, having only on-the-job training, or not receiving formal classroom training. In a prior audit report,<sup>22</sup> we recommended — and management agreed with — developing mandatory and refresher training for Postal Service officials responsible for workers' compensation to ensure they are aware of their roles and responsibilities. During our audit, management stated they are still developing training related to the recommendation; therefore, we are not recommending further action at this time.

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<sup>20</sup> The NPA is a stand-alone web-based program that collects performance-related metrics, such as retail revenue, on-time Express Mail delivery, and so forth, from source systems across the organization. NPA supports the PFP program.

<sup>21</sup> For FYs 2012 and 2013 PFP, no core goals were required for the HRM managers and specialists.

<sup>22</sup> *Postal Service Workers' Compensation Program*, Report Number HR-AR-11-007, September 30, 2011.

**Table 4 – Training Records Analysis**

District	Did not have any basic injury compensation training	Did not have EHS training	Did not have limited duty training	Did not have third-party training
Bay-Valley	0 of 5	1 of 5	0 of 5	4 of 5
Central Pennsylvania	0 of 3	1 of 3	0 of 3	1 of 3
Central Plains	3 of 4	0 of 4	3 of 4	4 of 4
Greater Boston	0 of 6	4 of 6	4 of 6	4 of 6
New York	0 of 5	2 of 5	2 of 5	3 of 5
Sacramento	2 of 6	6 of 6	4 of 6	5 of 6
<b>Total</b>	<b>5 of 29</b>	<b>14 of 29</b>	<b>13 of 29</b>	<b>19 of 29</b>

Source: OIG analysis of training records.

Inadequate resources and tools adversely affects the Postal Service's ability to more effectively and efficiently manage claims, prevent fraud, return employees to work, and reduce workers' compensation costs.

### Lean Six Sigma

In 2012, the Postal Service began a Lean Six Sigma (LSS)<sup>23</sup> initiative to streamline the workers' compensation process and eliminate non-value adding activities. Although currently suspended,<sup>24</sup> preliminary information from this initiative further supports our audit results. For example, the LSS project charter indicates that HRM specialists are currently bogged down with transactional (no value added) tasks and activities. Further, time spent following up with information providers to comply with legal and policy requirements is inhibiting HRM staff's ability to attend to more valuable but time-intensive endeavors, such as conducting case management, following up on third-party recoveries, and reviewing the periodic roll for opportunities to return individuals to work. The Postal Service also listed areas with the greatest impact on the workers' compensation claims process, which include lack of thorough accident investigations, difficulty obtaining current medical information, and inconsistency in conducting work searches.

As part of the LSS process, the Postal Service conducted a survey to understand root causes for problems to determine solutions. Survey participants were asked questions such as what frustrated them about their job and what information or changes could help make the workers' compensation process better. Responses included a lack of training, EHS not being user friendly, the large volume of data they are required to

<sup>23</sup> LSS is a methodology used to improve the quality of processes by identifying and removing waste.

<sup>24</sup> Postal Service officials indicated the LSS has been suspended to focus on return-to-work goals.

handle, not enough staff, tending to additional duties outside of case management, and a need for closer coordination with physicians and updating the EHS system to be more useful. The LSS team also determined that there was an inconsistent application of the Injury Compensation Program, a lack of standardized operating rules across core processes, as well as non-standardized, undefined outputs or process metrics.

### External Best Practices

Recognizing that other organizations deal with workers' compensation issues similar to those of the Postal Service, we identified industry best practices for administering workers' compensation claims and reducing associated costs. We contacted three federal agencies, four private sector and commercial companies, two commercial insurance companies, two workers' compensation third-party administrators (TPA), and one monopolistic state workers' compensation fund.<sup>25</sup> See [Appendix D](#) for benchmarking organization profiles. Additionally, we obtained insight from six recognized workers' compensation experts. As a result of these efforts, we determined there are external best practices that could provide benefits to the Postal Service's injury compensation program as described in [Table 5](#).

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<sup>25</sup> A statutorily established fund. In certain states, it is the only source of workers compensation insurance coverage available.

**Table 5 – External Best Practices**

<b>People</b>	Allow specialists to focus exclusively on workers’ compensation claims (no collateral duties).
	Increase training and education to Postal Service staff involved in the workers’ compensation claims process.
<b>Process</b>	Foster an environment of uniform claims handling procedures.
	Conduct full investigations before forwarding claims to the OWCP.
<b>Tools</b>	<p>Medical Management:</p> <ul style="list-style-type: none"> <li>▪ Incorporate nurse case managers on lost time claims.</li> <li>▪ Perform medical bill review/utilization reviews.<sup>26</sup></li> <li>▪ Move toward physician modeling and tracking of clinical outcomes.</li> </ul>
	<p>Return-To-Work:</p> <ul style="list-style-type: none"> <li>▪ Develop a database of job opportunities available for alternative work.</li> <li>▪ Create agreements with non-profit organizations to provide alternative work arrangements.</li> </ul>
	<p>Accountability:</p> <ul style="list-style-type: none"> <li>▪ Develop key metrics and monitor and communicate performance.</li> <li>▪ Create accountability at the senior management level for return of employees to work.</li> <li>▪ Develop cost allocation at the facility level.</li> </ul>
<b>Technology</b>	Improve accuracy of data management.
	Encourage electronic submission of forms and other documentation.
	Implement predictive modeling for early identification of potentially severe claims.

Source: Deloitte Consulting LLP.

### Nurse Case Managers

Benchmarking results show that nurse case managers are often instrumental in assisting employers with returning employees to work. Although there will be initial costs for case management, the outcomes of the claims are generally better with reduced costs. In the private sector, the use of nurse case managers usually involves an outsourced arrangement with vendors who employ nurses with strong occupational health backgrounds and expertise. These relationships often feature incentivized performance through the contract fee structure to provide savings. Additionally, the use of nurse case managers is effective when the nurse is involved early in the claim and receives the same first notice of injury as the OWCP. For example, one benchmarked federal agency contracts nurses responsible only for workers’ compensation claims

<sup>26</sup> Clinical assessments of timeliness and appropriateness of treatments, which are performed according to experienced-based medical treatment protocols and disability duration guidelines.

duties. The agency claimed a reduction of about 30 percent in its OWCP chargeback costs through the use of measures that included early intervention with contracted nurse case managers. The Postal Service should include in the staffing analysis methods for involving nurses more fully in case management or consider contracting out for nurse case managers.

### Non-Profit Organizations

Partnering with non-profit organizations is an emerging best practice in which employers assign their injured workers to charitable, volunteer, and non-profit organizations when restrictions prohibit meaningful and productive work with the employer. Organizations like the American Red Cross, the Young Men's Christian Association, Amtrak, local museums, animal shelters, hospitals, and others participate in these programs. These employee loaner programs allow injured workers to remain productive, retain the discipline of going to work every day, and provide social programs with needed resources. Because work provided to injured employees often accelerates recuperation if they are as active as possible, opportunities may exist for the Postal Service to assign employees to non-profit organizations when work is otherwise not available.

### Predictive Modeling

Predictive modeling is a well-established technology in the insurance industry and is becoming a best practice in identifying and acting on high-severity and high-cost claims. Results from the benchmarking study revealed that, typically, 20 percent of the most severe claims represent 60 percent or more of total costs. A predictive model uses sophisticated algorithms to effectively predict claim outcomes by level of exposure and frequency and measures the correlation of variables to claim outcomes.

The use of predictive models can typically reduce costs. For example, the OIG Office of Investigations (OI), supported by the Countermeasures and Performance Evaluations (CAPE) team, has developed two predictive models to help identify high-risk claims.<sup>27</sup> Since March 2010, information from the CRAM has allowed agents to identify and focus on potential problems, allowed them to work fewer hours to successfully resolve investigations, and resulted in higher monetary impacts. Based on information from the model, OI has initiated 102 cases and realized \$9.5 million in recoveries, restitution, and compensation payments avoided. The OI has used the CRAM in its workers' compensation investigations.

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<sup>27</sup> The CAPE team created the Claimant Risk Analysis Model (CRAM) and the Provider Risk Analysis Model (PRAM). The CRAM uses a predictive statistical model and 25 common variables to identify claimants with a high risk of fraud. The PRAM, started in January 2013, uses multiple advanced analytical techniques to identify medical providers most likely to be fraudulent and deserving a deeper examination.

For example:

- The OI pursued a lead involving a Postal Service sales and services associate who received about \$135,000 in workers' compensation payments after alleging total disability. Agents found the associate was performing activities inconsistent with the capabilities communicated to the physician and the DOL. The DOL terminated the associate's compensation benefits, realizing a savings of more than \$690,000 for the Postal Service.
- The OI initiated an investigation for a letter carrier who filed a traumatic injury claim indicating she hurt her back. The DOL accepted the carrier's claim and she received \$2,982 in monthly compensation. Agents determined the carrier was capable of numerous activities, contradicting her 'totally disabled' status. As a result of the investigation, the carrier resigned from the Postal Service and the DOL removed the carrier from the daily roll, realizing a cost avoidance of \$1,431,986.

Transportation reimbursement fraud is another area the OI successfully pursues via the CRAM.<sup>28</sup> As part of their efforts, the CAPE team provides agents with monthly transportation reimbursement reports by state to assist with identifying claimants with high-dollar reimbursements. In addition, the CRAM provides the estimated distance from the top three (by paid amount) providers for each claimant. Examples of cases pursued by the OI as a result of CRAM queries include:

- A former letter carrier who plead guilty to fraud of more than \$173,000 related to mileage, parking, and toll reimbursement claims from September 2007 through May 2012.
- An employee found guilty of fraudulently submitting mileage reimbursements for travel not related to medical appointments. An OI agent discovered the claimant was overpaid about \$110,000.
- An employee who received more than \$120,000 in travel reimbursement but did not travel to the location(s) listed on the claim form.

### **Efforts to Combat Fraud**

In addition to the OIG using risk modeling to identify potential fraud, Postal Service supervisors and HRM specialists have a responsibility to report and refer suspected workers' compensation fraud or abuse. To facilitate this process, the Postal Service outlined procedures for identifying and referring such cases and investigation of these cases helps reduce compensation costs.

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<sup>28</sup> Under DOL policy, claimants are allowed to claim mileage reimbursement for driving their privately owned vehicles to medical appointments. Transportation expenses can cover mileage, parking, tolls, and other related expenses.

Special agents work closely with HRM staff on all phases of workers' compensation investigations and these efforts have resulted in numerous arrests and convictions, including:

- \$92 million in compensation payments avoided.
- 487 fraud investigations resolved.
- 19 arrests.
- 30 indictments.
- 24 convictions.
- 83 personnel actions by management.

Examples of cases pursued by the OIG include:

- A letter carrier who received compensation for 3 years after falsely reporting that she had no employment. The OIG found the letter carrier was employed by the City of Oakland Fire Department as a dispatcher and also earned income with Solano County In-Home Support Services as a service provider. The investigation resulted in \$1,541,403 of cost avoidance.
- A rural carrier who filed a claim for an on-the-job injury to her back and was placed in a limited duty work status by her treating physician. Video surveillance conducted by agents showed the carrier repeatedly exceeding her medical restrictions. Agents determined the rural carrier participated in at least 80 separate marathons and triathlons since claiming her injury. As a result of the investigation, the Postal Service terminated the rural carrier, resulting in a cost avoidance of more than \$140,000.
- A rural carrier who received workers' compensation was operating three businesses, working as a male escort, and going to college for a fitness degree. The carrier was convicted of fraud and ordered to pay \$64,000 in restitution. He also lost his job and OWCP benefits. As a result of the OIG investigation, the Postal Service saved \$1 million in future payments.

## Recommendations

We recommend the chief human resources officer and executive vice president, in coordination with the chief operating officer and executive vice president:

1. Conduct a formal staffing analysis to determine the number and type of employees needed to handle workers' compensation claims, including health and resource management specialists, internal or contract nurses, specially trained or contract third-party recovery specialists, or other support personnel; and adjust staffing accordingly.
2. Establish performance measures or other incentives for district managers based on chargeback reductions.

3. Complete implementation of Rehabilitation Program Committees nationwide to include developing standard guidelines to facilitate returning injured employees to work.

We recommend the acting vice president, Employee Resource Management:

4. Complete nationwide implementation of the Web Employee Search Program to provide a more efficient and effective process for identifying and assigning available work for injured employees.
5. Develop a simplified and standardized quick reference guide of key process steps to help district health and resource management staff effectively perform their duties.
6. Enhance the Employee Health and Safety system to provide automated reminders for important case management activities.
7. Explore the benefits of partnerships through the U.S. Department of Labor with non-profit organizations to facilitate injured employees returning to work.
8. Evaluate how predictive analytics can be used to support claims management activities and reduce costs.

### **Management's Comments**

Management agreed with recommendations 1 through 5 and 8, but disagreed with recommendations 6 and 7. Also, in separate correspondence management stated that they neither agreed nor disagreed with the monetary amounts. Although they agreed that savings would be achieved through further training and legislative changes to the FECA system, they stated they were unable to confirm the amounts provided in the report.

Regarding recommendation 1, Safety and Health personnel will present a revised staffing plan to management for consideration and, in the interim, is providing training to field personnel on effective use of existing staff. Management plans to complete the staffing analysis by October 1, 2013. Regarding recommendation 2, management agreed to develop performance goals and is working to establish an NPA unit indicator goal for district managers to reduce compensation expenses by 3 percent by October 1, 2013. Regarding recommendation 3, management plans to distribute a best practice standard operating procedure regarding RPCs to all field locations by October 1, 2013.

Regarding recommendation 4, management will roll out the WebESP to each area individually by March 31, 2014. Regarding recommendation 5, management created a working group to prepare and distribute revised reference documents to all field personnel and expects to complete these actions by October 1, 2013. Regarding

recommendation 8, management has already begun using systems and active analysis of data to bring issues and cases to the attention of those with authority to impact future benefits.

Regarding recommendation 6, management stated that automated reminders were not included due to resource constraints, server capacity, and funding. They advised that, currently, other functional enhancements to the EHS system are a priority, but agreed to consider automated reminders after those are in place. In the interim, they agreed to develop a methodology for managing claims more effectively and timely as part of the standard operating procedure distributed to field personnel.

Regarding recommendation 7, management stated that partnering with non-profit organizations to facilitate returning injured employees to work would not reduce the compensation payable to the employee. In addition, they stated the FECA already provides medical rehabilitation services at a lower cost to the Postal Service than the vocational rehabilitation process. See [Appendix E](#) for management's comments in their entirety.

### **Evaluation of Management's Comments**

The OIG considers management's comments responsive to the recommendations and corrective actions should resolve the issues identified in the report. Regarding recommendation 6, we recognize funding priorities and believe the Postal Service's plan to include a methodology for managing claims as part of the standard operating procedure meets the intent of the recommendation.

Regarding recommendation 7, we continue to believe partnerships with non-profit organizations through the DOL would help facilitate and enhance return-to-work efforts. The best practice of using non-profit agencies would allow injured employees to continue to be productive and retain the discipline of going to work every day. DOL's OWCP is responsible for decisions to partner with non-profit organizations and, therefore, we will not pursue the issue further. However, we encourage management to promote the opportunity to the DOL, as appropriate.

Regarding recommendation 8, we agree that active analysis of workers' compensation data can enhance claims management, but need additional information before closing the recommendation. One recent concern is that the DOL suspended the Postal Service's access to electronic data gathered under the FECA.

We consider the monetary impact a conservative estimate of the cost reductions that could be realized through implementation of the recommendations. We did not include employees formally determined to have no wage-earning capacity or re-employment potential for the indefinite future. Additionally, we only quantified savings for 31 of the 67 Postal Service districts and reduced the amounts by the cost associated with potential resource investments or additions.

The OIG considers all the recommendations significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. These recommendations should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed. Recommendations 6 and 7, will be considered closed with the issuance of this report.

## Appendix A: Additional Information

### Background

Postal Service employees are covered by the FECA. The DOL's OWCP administers the FECA and determines the injured worker's eligibility for benefits. The OWCP has 12 district offices across the U.S. Each district has a director and two or more supervisory claims examiners or claims managers who are responsible for the operation of individual units. Each unit, staffed with senior claims examiners and claims examiners, is primarily responsible for rendering decisions and managing OWCP claims.

The OWCP has exclusive authority, except as otherwise provided by law, for administration, implementation, and enforcement of the FECA. Its main responsibility is to determine whether a claimant is eligible for benefits under FECA. If eligible, the OWCP provides benefit payments directly to providers, claimants, and beneficiaries. The Postal Service reimburses the OWCP for these costs and an associated administrative fee. The OWCP is also responsible for obtaining medical and non-medical evidence to determine the need for continued benefit payments. As of May 10, 2013, over 20,000 employees receive benefit payments, including 181 between the ages of 90 and 99, and two over the age of 100.

The primary role of the Postal Service's Injury Compensation Program is to assist injured workers with completing and submitting compensation claims to the OWCP and to facilitate their return to the workplace. The director of Safety and Health, through the vice president of Employee Resource Management, establishes policies and procedures for the Postal Service's Injury Compensation Program. Area human resources managers implement the program and oversee area-wide program activities to ensure compliance. Additionally, headquarters HRM analysts oversee area-wide OWCP activity, provide technical assistance, and manage and oversee cost-reduction initiatives. Nationally, district HRM managers and specialists administer the Injury Compensation Program; however, first-line supervisors perform claims management immediately following an injury, including accident investigations. Injured employees or persons acting on behalf of employees must notify the immediate supervisor of the injury and file the initial claim forms within the specified timeframes. The Postal Service incurred more than \$1.3 billion in workers' compensation costs and more than \$68 million in administrative fees for chargeback year 2012.

After claims are filed, the Postal Service relies on the OWCP to determine injured employees' eligibility for benefits and manage workers' compensation cases. In recent years, the U.S. Government Accountability Office (GAO), the Postal Service OIG, and the DOL OIG conducted audits related to the workers' compensation program and identified program challenges which could affect the Postal Service's ability to manage its workers' compensation costs.

These audits identified issues facing the DOL, including the need to:

- Improve oversight to manage long-term disability cases.
- Improve the DOL's responsiveness to reported fraudulent workers' compensation claims.
- Provide Postal Service OIG investigators timely access to case file information.
- Terminate benefits when DOL is notified of a claimant's death.
- Have performance measures for payment accuracy.
- Have adequate internal controls to prevent unreasonable and unallowable transportation cost reimbursements to FECA claimants.

The OIG performs audits of Postal Service programs to help determine whether they are efficient and cost-effective and has the authority and responsibility to investigate workers' compensation fraud for Postal Service employees. Investigations help prevent and detect fraud, waste, and misconduct and have a deterrent effect on postal crimes.

### Objectives, Scope, and Methodology

Our objectives were to assess the Postal Service's administration of workers' compensation claims and identify opportunities for reducing workers' compensation costs by implementing internal or external best practices.

The scope of the audit covered the Postal Service's Injury Compensation Program in judgmentally selected areas and districts. Specifically, we analyzed Postal Service district performance data in the key areas of workers' compensation administration and, based on two indicators,<sup>29</sup> we judgmentally selected three high- and five low-performing districts, as shown in [Table 7](#).

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<sup>29</sup> The districts' percentage of periodic roll employees to total employee complement and the Postal Service's analysis of compensation cases to average district workhours.

**Table 7 – Fieldwork Locations**

Area	District
Capital Metro	Capital <sup>30</sup>
Eastern	Central Pennsylvania
Northeast	Greater Boston
Northeast	New York
Pacific	Bay-Valley
Pacific	Sacramento
Western	Central Plains
Western	Colorado/Wyoming

Source: OIG analysis.

Our areas of review included, but were not limited to, return-to-work efforts, third-party recoveries, fraud and abuse mitigation, and other program administration duties. To accomplish our objectives, we:

- Used a contractor to identify external industry best practices.
- Interviewed Postal Service officials responsible for the Injury Compensation Program at Postal Service Headquarters, area, and district levels, as appropriate, to understand their roles and responsibilities and identify program challenges or enhancements.
- Identified and gained an understanding of regulations, policies, and procedures applicable to workers' compensation.
- Analyzed 182 judgmentally selected case files to determine whether select case management activities were completed in accordance with regulations, policies, and procedures.
- Identified internal best practices and tools used in select districts.
- Reviewed nationwide district HRM specialist staffing to determine whether districts met the current Postal Service staffing guidance for specialists and compared the results with our district periodic roll rankings.<sup>31</sup>
- Reviewed job-related training taken by HRM managers and specialists in selected districts.

<sup>30</sup> We conducted limited survey work in the Capital and Colorado/Wyoming districts.

<sup>31</sup> We ranked each district based on the percentage of periodic roll employees to the total employee complement.

- Identified and obtained an understanding of initiatives or programs related to workers' compensation such as:
  - LSS.
  - Investigating injury and illness claims.
  - Addressing fraud and abuse by claimants and providers.
  - Monitoring medical status and restrictions.
  - Returning employees to work.
  - Pursuing third-party recoveries.
- Obtained and reviewed available workers' compensation statistics, such as costs, daily and periodic roll numbers, cost savings, recovery initiatives and results, and other related information.
- Identified challenges related to the DOL based on available information such as external audits or Postal Service feedback.
- Identified data systems used by the DOL and the Postal Service and related challenges to case management activities.

We conducted this performance audit from June 2012 through July 2013 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. 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. We discussed our observations and conclusions with management on June 3, 2013, and included their comments where appropriate.

We assessed the reliability of computer-generated data by interviewing agency officials knowledgeable about the data, reviewing existing information about the data and the system that produced the data, and comparing the data to manual documentation and other systems with similar data elements. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact
<i>Workers' Compensation Data Systems</i>	HR-AR-13-001	12/24/2012	None
<p><b>Report Results:</b>                      The Postal Service OIG determined the EHS system does not always provide accurate and reliable information. Additionally, management could enhance the ICPAS reporting functions for effective analysis and decision making. The inaccuracies in EHS occurred because employees entering data into the system were not always sufficiently trained and did not comply with workers' compensation procedures. In addition, because of system limitations, ICPAS did not provide the reports that management needs to help the organization recognize program deficiencies. We recommended management provide additional training for personnel responsible for entering EHS data, issue supplemental guidance, and enhance internal controls to ensure that responsible officials consistently adhere to claims management procedures. We also recommended management assess options to enhance and integrate the reporting capabilities of ICPAS to provide the data necessary for effective analysis and decision making. Management agreed with all of our recommendations.</p>			
<i>Controls Over Transportation Cost Reimbursements to FECA Claimants Need Strengthening</i>	03-12-003-04-431	9/28/2012	\$3,771
<p><b>Report Results:</b>                      The DOL OIG determined OWCP did not comply with policies and procedures for reviewing and authorizing transportation claims and its controls were inadequate. Also, FECA claimants with large amounts of transportation payments committed abuse, and potential fraud, and large single reimbursements were improperly paid. Specifically, transportation claims were paid without any review or without any receipts. Reviews of other files found bill processing errors and inflated mileage that resulted in overpayment. These conditions occurred in part because the OWCP did not comply with its policies and procedures for reviewing and authorizing transportation claims, and the policies and procedures did not comply with FECA regulations.</p>			

Report Title	Report Number	Final Report Date	Monetary Impact
<i>Federal Employees' Compensation Act: Status of Previously Identified Management Challenges</i>	GAO-12-508R	3/21/2012	None
<p><b>Report Results:</b>                      The GAO found DOL and the inspectors general from employing departments and agencies have consistently reported similar FECA program management challenges, such as oversight and information technology, and have linked these to increased program costs through improper payments.</p>			
<i>OWCP's Efforts to Detect and Prevent FECA Improper Payments Have Not Addressed Known Weaknesses</i>	03-12-001-04-431	2/15/2012	None
<p><b>Report Results:</b>                      The DOL OIG found that the OWCP did not determine an improper payment estimation method that meets the requirements of the Improper Payments Elimination and Recovery Act, did not have plans to use program performance, did not always take timely action to terminate benefits, did not have sufficient control procedures to ensure that benefit payments are reduced for FECA claimants collecting Social Security Administration retirement, and did not include improper payment procedures to its enhanced training curriculums.</p>			

Report Title	Report Number	Final Report Date	Monetary Impact
<i>Federal Employees' Compensation Act - Preliminary Observations on Fraud-Prevention Controls</i>	GAO-12-402	1/25/2012	None
<p><b>Report Results:</b>                      The GAO found that limited access to necessary data is potentially reducing agencies' ability to effectively monitor claims and wage loss information. In addition, agencies' reliance on self-reported data related to wages and dependent status, lack of a government-selected physician throughout the process, and difficulties associated with successful investigations and prosecutions all potentially reduce the program's ability to prevent and detect fraudulent activity. DOL and employing agencies generally agreed with the preliminary findings presented in this report. The GAO planned to follow up on the promising practices and potential vulnerabilities as part of its ongoing work, although the progress has been slowed by difficulty in accessing certain databases.</p>			
<i>Postal Service Workers' Compensation Program</i>	HR-AR-11-007	9/30/2011	\$335 million a year
<p><b>Report Results:</b>                      We found workers' compensation claims were not always handled effectively and efficiently. Specifically, FECA reform was needed to improve the federal Workers' Compensation Program by implementing controls and efficiencies used in the private sector. Also, opportunities existed to improve claims management in the three districts we reviewed, strengthen billing guidelines for providers, reduce program abuses, and revise the methodology used to determine the Postal Service's administrative fee. The OIG recommended, and management agreed to, pursuing legislative change to transform, amend, and reform FECA. Management also agreed to provide training; however, they did not agree with our recommendation to request changes to allow employing agencies to present evidence at hearings, clarify responsibilities for fraud detection, and establish a 45-day response time for cases.</p>			

Report Title	Report Number	Final Report Date	Monetary Impact
<i>Veterans Health Administration Audit of Workers' Compensation Case Management</i>	10-03850-298	9/30/2011	\$334 million
<p><b>Report Results:</b>                      Since 2001, the Veterans Health Administration has nearly doubled its timeliness in initiating Workers' Compensation Program claims; however, claims initiation was not always accurate due to inadequate oversight to ensure evidence existed for submitted claims.</p>			
<i>Retirement for U.S. Postal Service Employees on Workers' Compensation</i>	HR-MA-11-001	4/22/2011	\$378 million
<p><b>Report Results:</b>                      We found 82 percent (2,290 of 2,798) of employees on the periodic roll age 65 and over were classified as having no re-employment potential or permanent or prolonged disabilities; however, they continue to receive workers' compensation benefits, which were more than what they would generally receive from federal retirement benefits. Although not intended, workers' compensation has become a retirement system for many disabled, retirement age Postal Service employees, resulting in loss of productivity and higher workers' compensation costs. We recommended, and management agreed, to continue to pursue legislative change to reform FECA to reduce workers' compensation benefits for retirement age employees.</p>			

### Appendix B: Monetary Impact

Recommendations	Impact Category	Amount
1, 2, 3, 4, 5, and 6	Funds Put to Better Use <sup>32</sup>	\$171,632,049

We calculated a conservative<sup>33</sup> cost savings by reducing the number of employees on the periodic roll by 3,412 for those districts that were above the mean<sup>34</sup> percentage nationwide.<sup>35</sup> The amount represents the savings over a 2-year period if each district above the mean percentage reduced its periodic roll employees to the nationwide average. We used data from the Postal Injury Compensation System, ICPAS, and the *Limited Duty Rehabilitation* report to calculate our cost savings. Specifically, we:

- Calculated the percentage of periodic roll (PR and PW)<sup>36</sup> employees to total on-the-rolls employees for each district by dividing the number of periodic roll employees by total on-the-rolls employees.
- Ranked each district according to its percentage.
- Calculated the percentage of reductions to the periodic roll for each district:
  - For all 67 districts, calculated the mean percentage of periodic roll to total on-the-rolls employees (2.23 percent).
  - Determined the number of districts above the mean (31 districts).<sup>37</sup>
  - For those districts above the mean, calculated the difference between the district percentage and the mean percentage (district percentage minus 2.23 percent).
  - For those districts above the mean, determined the percentage reduction needed to be at the mean (each district's difference divided by their actual percentage).<sup>38</sup>

<sup>32</sup> Funds that could be used more efficiently by implementing recommended actions.

<sup>33</sup> To provide a conservative approach, we did not include employees formally determined to have no wage-earning capacity or re-employment potential for the indefinite future. Additionally, we only quantified savings for 31 districts and reduced the amount by the cost associated with potential resource investments or additions.

<sup>34</sup> The mean is the arithmetic average of a set of values. It is equal to the sum of the values divided by the number of values.

<sup>35</sup> We calculated the number of periodic roll employees for all districts as a percentage of on-the-rolls employees as of June 2012. We determined that 31 of 67 districts were above the mean percentage.

<sup>36</sup> Case status code 'PR' identifies employees whose wage-earning capacity is not determined. Case status code 'PW' identifies employees who have a loss of wage-earning capacity. 'PN' identifies employees who have been determined to have no wage-earning or re-employment capacity for an indefinite future. To be conservative, we did not include 'PN' employees because they are not likely to return to work.

<sup>37</sup> No districts from the Western Area were above the mean.

<sup>38</sup> The percentage of reduction needed to be at the mean ranged from 1.11 to 62.99 percent. The overall calculated reduction to the periodic roll for the 31 districts are below the Postal Service's FY 2013 goals.

- Determined the periodic roll compensation cost for each district above the mean percentage for a 12-month period.<sup>39</sup>
- Calculated the gross compensation cost savings for each district above the mean percentage by multiplying each district's reduction percentage by its respective compensation cost for a 12-month period.
- Calculated the net compensation cost savings by reducing the gross amount by an estimate of costs associated with potential resource investments.<sup>40</sup>

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<sup>39</sup> The compensation period covered November 2011 through October 2012 and ranged from \$9.5 to \$16 million.

<sup>40</sup> To provide a conservative savings calculation, we made assumptions for potentially adding or investing in resources as a result of our recommendations which total about \$40 million.

**Appendix C: Blog and Survey Results**

We published a blog<sup>41</sup> seeking feedback from HRM staff on their experiences and challenges with the Injury Compensation Program. Feedback received included:

- The EHS system is not user friendly.
- Reductions in staff have led to lack of case management.
- HRM specialists need more time to focus on case management.
- Nationwide standard operating procedures are needed.

We also surveyed district HRM employees nationwide to determine their agreement with statements regarding the Injury Compensation Program. Of the 300 employees surveyed, we received 36 responses (12 percent) as shown in Table 8.

**Table 8 – HRM Analyst/Specialist/Manager Survey Responses**

Statement	Mostly Agree	Somewhat Agree	Neither	Somewhat Disagree	Mostly Disagree
Postal Service nurses should have a more active role in supporting the HRM function to review and interpret medical documentation and contacting treating physicians to obtain clarification of status and restrictions for employees.	24	9	2	0	1
There are not enough specialists to process and manage injured-on-duty claims.	23	5	1	4	3
Supervisors or other officials outside of HRM are not doing their part to provide critical information or performing needed tasks.	22	9	5	0	0

<sup>41</sup> We did not authenticate survey respondents; however, we did target HRM officials for participation.

Statement	Mostly Agree	Somewhat Agree	Neither	Somewhat Disagree	Mostly Disagree
Our HRM office has to perform work that is not directly related to workers' compensation duties and the work interferes with our ability to manage cases.	15	12	4	2	3
Clerks should be used to support the HRM function to perform lower level tasks, such as filing and other clerical work.	15	4	3	1	13

Source: OIG analysis.

## Appendix D: Benchmarking Organization Profiles

Category	High-Level Description of Operations	Approximate Number of Employees	Unionized Workforce	Annual Sales/ Revenue	Geography of Operations	Industry
Private/ Commercial	A global, U.S.-based beverage company that engages in the manufacture, marketing, and sale of non-alcoholic beverages worldwide; self-insured for workers' compensation exposures.	100,000–250,000	Partial	\$50–100 billion	International	Beverage
Private/ Commercial	Top retailer that operates general merchandise stores in the U.S.; self-insured for workers' compensation exposures.	250,000–500,000	No	\$50–100 billion	U.S.	Retail
Private/ Commercial	U.S.-based food service company that, with its subsidiaries, operates quick service restaurants in the U.S. and internationally; self-insured for workers' compensation exposures.	50,000–100,000	No	\$10–50 billion	International	Restaurant
Private/ Commercial	Large U.S.-based retailer with stores in various formats worldwide. It operates retail stores, restaurants, discount stores, supermarkets, supercenters, hypermarkets, warehouse clubs, apparel stores, and neighborhood markets, as well as online web stores.	More than 500,000	Partial	More than \$250 billion	International	Discount, variety stores
Insurers/ Third-Party Administrators	Leading global property, casualty, and general insurance organization with more than 44,000 employees serving more than 70 million clients around the world.	44,000	N/A	\$40.7 billion	International	P&C Insurance
Insurers/TPAs	Global property and casualty insurer providing multiple lines of coverage to businesses and individuals.	10,100	N/A	\$13.5 billion	International	P&C Insurance

Category	High-Level Description of Operations	Approximate Number of Employees	Unionized Workforce	Annual Sales/Revenue	Geography of Operations	Industry
Insurers/TPAs	Large TPA that provides cost-effective claims administration, managed care, program management and related services through the expertise of nearly 10,000 in more than 150 offices and service locations in the U.S. and Canada.	8,500 clients	N/A	\$808 million	U.S. and Canada	P&C Insurance
Insurers/TPAs	Large property/casualty TPA offering enlightening insights and services in the areas of claims management, information management, medical cost containment, and consultative services, which includes risk control consulting and appraisal services.	4,300 clients	N/A	\$401 million	International	P&C Insurance
State Funds Agencies	Competitive state fund that acts as an autonomous workers' compensation insurance entity supported solely from its own revenue.	26,000 employers	N/A	\$174 million net premium	Mono-state	Monopolistic state fund
Transportation Security Administration	Secures the nation's airports and screens all commercial airline passengers and baggage.	More than 58,000	Yes	N/A	U.S.	Federal
Veterans Health Administration	The largest integrated health care system in the U.S., with more than 1,700 care sites, serving 8.3 million veterans each year.	More than 53,000	Yes	N/A	U.S.	Federal
U.S. Forest Service	The U.S. Department of Agriculture's Forest Service is a federal agency that manages public lands in national forests and grasslands.	30,000	Yes	N/A	U.S.	Federal

Source: OIG analysis.

## Appendix E: Management's Comments

HUMAN RESOURCES



July 11, 2013

MICHAEL MAGALSKI  
DEPUTY ASSISTANT INSPECTOR GENERAL  
FOR SUPPORT OPERATIONS

SUBJECT: Postal Service Injury Compensation Program  
(Report Number HR-AR-13-DRAFT)

This memorandum responds to the subject audit report dated June 21, 2013. The audit report assesses the Postal Service's administration of workers' compensation claims to identify opportunities to reduce costs by implementing best practices.

**Recommendation 1:** Conduct a formal staffing analysis to determine the number and type of employees needed to handle workers' compensation claims, including Health and Resource Management specialists, internal or contract nurses, specially trained or contract third-party recovery specialists, or other support personnel; and adjust staffing accordingly.

Management agrees with this recommendation.

**Management Response/Action Plan:** The current formula for staffing is based on claim volume and workload. General staffing guidance is provided at the Headquarters level with input from the Areas and Districts. The formula currently used recommends one full time equivalent (FTE) for every 322 new claims created the previous year and one FTE for every 200 periodic roll claims (PR/PN status only).

Safety and Health is actively working on a revised staffing matrix to include a change in work assignments and will present a recommendation to the Vice President, Employee Resource Management and Chief Human Resources Officer for consideration.

While awaiting consideration of staffing level changes, the field will be provided with training on how to more effectively use the occupational health staff allocated to each district for case management and case review activities as well as with recommendations on workload distribution with existing staff.

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Target Implementation Date: Staffing analysis will be completed by October 1, 2013. Any staffing adjustments will be implemented in accordance with organizational change policies and associated timelines.

Responsible Official: Linda DeCarlo, Director, Safety and Health

**Recommendation 2:** Establish performance measures or other incentives for District Managers based on chargeback reductions.

Management agrees with this recommendation.

Management Response/Action Plan: Safety and Health is working with Finance to establish an National Performance Assessment (NPA) Unit Indicator goal for District Managers to reduce compensation expenses by three percent. In addition, Safety and Health will work with Finance on the Total Operating Expenses (TOE) NPA goal with a particular focus on 2J. A new methodology for determining 2J budgets needs to be implemented with an eye toward reduction. The current 2J is based on plan projections, not actual expenses.

Target Implementation Date: October 1, 2013

Responsible Official: Linda DeCarlo, Director, Safety and Health

**Recommendation 3:** Complete implementation of Rehabilitation Program Committees nationwide to include developing standard guidelines to facilitate returning injured employees to work.

Management agrees with this recommendation.

Management Response/Action Plan: Safety and Health will review locations with effective Rehabilitation Program Committees and create a best-practice standard operating procedure for distribution to all field locations.

Target Implementation Date: October 1, 2013

Responsible Official: Linda DeCarlo, Director, Safety and Health

**Recommendation 4:** Complete nationwide implementation of Web Employee Search Program to provide a more efficient and effective process for identifying and assigning available work for injured employees.

Management agrees with this recommendation.

Management Response/Action Plan: All required programming has been completed. Each area is being rolled out separately to allow for the uploading of area specific data such as facility, available work, and points of contact.

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Projected Go-Live Dates: Pacific Area (7/22/13); Great Lakes Area (8/19/13); Southern Area (9/16/13); Eastern Area (11/4/13); Capital Metro Area (12/2/13); Northeast Area (3/17/14); Western Area (3/26/14)

Target Implementation Date: March 31, 2014

Responsible Official: Linda DeCarlo, Director, Safety and Health

**Recommendation 5:** Develop a simplified and standardized quick reference guide of key process steps to help District Health and Resource Management staff effectively perform their duties.

Management agrees with this recommendation.

Management Response/Action Plan: The quick reference guide referenced in the OIG report was created by Headquarters but credited to the Western Area. To expand on this guidance, Safety and Health has developed a working group to gather all standard operating procedures and quick reference guides used in the field. These documents will be reviewed, consolidated and resent to the all field locations. The intent is that this new guidance documents will eventually replace the EL-505 and will serve as additional training aids for new employees entering the function.

Target Implementation Date: October 1, 2013

Responsible Official: Linda DeCarlo, Director, Safety and Health

**Recommendation 6:** Enhance the Employee Health and Safety system to provide automated reminders for important case management activities.

Management disagrees with this recommendation.

Management Response/Action Plan: The initial blueprint for the development of Employee Health and Safety (EHS) included automated reminders; however, as resources, server space/capacity and funding became unavailable the programming was halted.

Functional enhancements to EHS are deemed a higher priority and will be undertaken upon approval of funding. After these enhancements, automated reminders will be considered. However, in the interim, a methodology for managing claims more effectively and timely will be developed through the standard operating procedures and guidance issued to the field.

Target Implementation Date: N/A

Responsible Official: N/A

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**Recommendation 7:** Explore the benefits of partnerships through the U.S. Department of Labor (DOL) with non-profit organizations to facilitate injured employees returning to work.

Management disagrees with this recommendation.

**Management Response/Action Plan:** The purpose of vocational rehabilitation within the Division of Federal Employees' Compensation (DFEC) is to assist disabled employees who are covered by the Federal Employees' Compensation Act (FECA). Vocational rehabilitation is part of DFEC's Disability Management process, and the goal is to minimize the injured worker's disability and assist with a return to gainful work. Rehabilitation helps injured workers to become self-supporting and productive, and saves money by eliminating or reducing workers' compensation payments.

The loss of wage-earning capacity (LWEC) determination performed pursuant to 5 U.S.C. 8115 provides that an injured worker will not be penalized for returning to a lower-paying job because of a disabling condition. It also permits the adjustment of compensation to reflect partial rather than total disability, if the requirements of the law are strictly met.

1) LWEC Based on Actual Earnings. The worker's salary, after placement in a lower-paying position, may be used as a basis for LWEC determination if it fairly reasonably represents the worker's earning capacity. The worker receives compensation based on the difference between the pre-injury and post-injury wages. 20 C.F.R. § 10.520.

2) LWEC Based on Potential Earnings (Constructed LWEC). If an injured worker does not return to work during the rehabilitation effort, Office of Worker's Compensation Program (OWCP) may find that work suitable to the worker's physical condition, vocational abilities, and educational background was reasonably available in the worker's commuting area (or, in some cases, the area where the worker resided when injured). At the end of a rehabilitation program, if the claimant does not return to work, the rehabilitation counselor (RC) is required, if possible, to provide relevant information for two available and appropriate jobs, including salary and an explanation of how any specific vocational preparation requirements are met. Based on this information, the CE determines whether these jobs are suitable to form the basis of an LWEC determination. The RC or rehabilitation specialist (RS) should use available non-private sources, including the state employment services, to provide this information.

The recommendation to partner with non-profit organizations by placing employees in positions that are not paid will have no impact on the compensation payable to the injured worker. If the goal of the recommendation is to assist in the medical rehabilitation of our injured workers, the FECA already provides those services through medical professionals at a far lower cost to the USPS than the vocational rehabilitation process.

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Target Implementation Date: N/A

Responsible Official: N/A

**Recommendation 8:** Evaluate how predictive analytics can be used to support claims management activities and reduce costs.

Management agrees with this recommendation.

Management Response/Action Plan: The HCES Competency Center has created a database of all workers' compensation data collected in EHS and Injury Compensation Performance Analysis System (ICPAS). The data can now be analyzed to identify areas of cost savings opportunity. In addition, the ergonomics team has developed a dashboard that will allow the field to identify MSD injuries and the compensation costs associated with them to focus efforts on prevention. Safety and Health has now been granted access to the Risk Assessment Data Repository (RADR) Claimant Fraud Tool developed by the OIG. The staff uses this data and information gathered from case file reviews to recommend cases for potential fraud investigation.

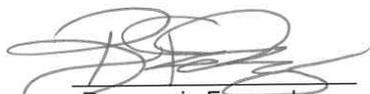
All of these systems are used to identify trends, focus safety activities on the most common injuries, identify training opportunities, and spotlight cases that need to be more aggressively managed by DOL claims examiners.

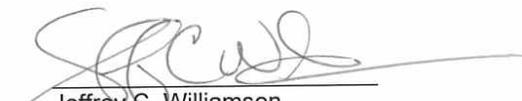
Predictive modeling and analytics in the insurance industry are more effective in case cost reduction than is possible under the FECA; however through more active analysis of our data, we are able to bring issues and cases to the attention of those parties with the authority to impact future benefits.

Target Implementation Date: Has been initiated and is currently ongoing. This recommendation should be considered complete and closed.

Responsible Official: Linda DeCarlo, Director, Safety and Health

This report and management's response do not contain information that may be exempt from disclosure under the Freedom of Information Act.

  
Rosemarie Fernandez  
Acting Vice President  
Employee Resource Management

  
Jeffrey C. Williamson  
Chief Human Resources Officer  
and Executive Vice President