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Automated Crossmatches with SSA Would Result in Program Savings

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ACRONYMS

ACPS	Automated Compensation Payment System
AQS	Automated Query System
CA-1032	Report of Earnings
CA-936	Consent for Disclosure of Wage Information
CA-1036	Request for Earnings Confirmation
CE	Claims Examiner
CFR	Code of Federal Regulations
CY	Calendar Year
DFEC	Division of Federal Employees' Compensation
DIB	Data Integrity Board
DOL	U.S. Department of Labor
ECAB	Employees' Compensation Appeals Board
ESA	Employment Standards Administration
FECA	Federal Employees Compensation Act
FY	Fiscal Year
HHS	U.S. Department of Health and Human Services

ACRONYMS (Continued)

IRC	Internal Revenue Code
IRS	Internal Revenue Service
LWEC	Loss of Wage-Earning Capacity
OI	Office of Investigations
OIG	Office of Inspector General
OWCP	Office of Workers' Compensation Programs
PN	Case status code: entitled to payment on the periodic roll; formally determined to have no wage-earning capacity or re-employment potential for indefinite future
PR	Case status code: entitled to payment on the periodic roll; reemployment or earning capacity not yet determined
PW	Case status code: entitled to payment on the periodic roll at reduced rate; reflecting a partial wage-earning capacity or actual earnings
SESA	State Employment Security Agency
SSA	Social Security Administration
TTD	Temporary Total Disability
WEC	Wage-Earning Capacity

EXECUTIVE SUMMARY

The Office of Workers' Compensation Programs (OWCP) is charged with administering the Federal Employees Compensation Act (FECA), under which Federal employees who become disabled are paid wage loss compensation based on their former salaries and degree of disability. During Fiscal Years 1996 and 1997, OWCP paid \$1.3 billion annually in compensation benefits. During this time, there were about 50,000 claimants annually on the FECA long-term disability roll, of which 27,000 were determined by OWCP to be totally disabled without any regular wage-earning capacity. When a claimant is judged to possess wage-earning capacity, the amount of compensation payments should be adjusted accordingly.

OIG conducted an audit to determine:

1. Whether FECA claimants earned wages while receiving long-term total disability compensation.
2. Whether automated crossmatches with Federal or state wage records would provide an independent source of information which could assist OWCP in identifying potential claimant fraud or overpayments and in monitoring claimants' continuing eligibility.
3. Whether internal controls adequately ensured that claimant wages were detected and benefit amounts were adjusted accordingly.

Audit Results

Wages Earned by Totally Disabled FECA Claimants

To help determine whether totally disabled FECA claimants were earning wages, we conducted two crossmatches. The first crossmatch included 27,050 FECA claimants who had received total disability compensation for the entire Calendar Year (CY) 1996, with wage records maintained by the Social Security Administration (SSA). The second crossmatch included the 27,050 and 25,973 FECA claimants for CYs 1996 and 1997, respectively, against state wage records.

In the SSA crossmatch, we found that:

- 905 of the claimants (more than 3 percent of the 27,050) had total earnings of \$2.9 million;
- almost 5 percent of the Social Security numbers (SSNs) in our sample taken from OWCP's benefit payment system were incorrect; and

- we could not identify the 905 claimants and review their claim files to determine whether the earnings were reported and whether there was potential fraud or overpayments because privacy laws restrict OIG access to personal earnings' information.

Crossmatches with States Revealed Potential Fraud and Overpayments

We conducted the second automated crossmatch of 27,050 and 25,973 FECA claimants for CYs 1996 and 1997, respectively, with the wage records maintained by 6 cooperating states (Maryland, New Jersey, Oklahoma, Pennsylvania, Texas, and Virginia) in order to identify which individual FECA claimants earned wages and to determine whether the wages were properly reported. This crossmatch covered about 24 percent of the totally disabled claimants who reside in the 48 contiguous states and the District of Columbia (DC).

The 6-state crossmatch revealed a total of 33 potential fraud cases which were subsequently referred to the OIG Office of Investigations (OI). These cases represent a potential total of \$6.1 million cost avoidance over 10 years (or an average of \$187,000 per claimant). Even if the 33 claimants are not convicted of fraud, OWCP could establish overpayments for an additional \$956,000 in compensation paid over the 15-month period covered by a falsified form CA-1032 (or an average of \$29,000 per claimant).

Internal Control Weaknesses

Our audit of OWCP's internal control procedures for detecting wages of claimants and adjusting benefit amounts accordingly was conducted in five FECA district offices, (Dallas, Jacksonville, National Operations in Washington, D.C., New York, and Philadelphia). We found that the staff in the district offices we visited did not consistently:

- follow policies and procedures to detect earnings of claimants and to determine the effect, if any, that earnings may have on their continuing entitlement to eligibility, resulting in payments being made to claimants who were either not entitled to compensation or were entitled to reduced compensation;
- take appropriate action when there was documented evidence of earnings; and
- declare overpayments when cases contained evidence of sporadic earnings.

Conclusions

As a result of our audit, we concluded that:

- automated crossmatches with SSA would result in program savings;
- FECA district offices need to follow prescribed procedures to detect claimants with earnings; and

- FECA district offices should take appropriate action(s) on periodic roll cases when earnings are disclosed.

The vast majority of FECA claimants in our sample proved to be honest in their dealings with OWCP. However, legislation to change the Internal Revenue Code (IRC) to provide OWCP routine access through the SSA to Internal Revenue Service (IRS) wage data could provide a cost-effective tool to ferret out the small number of dishonest claimants who, in the 6 states covered by our audit, may be bilking the FECA program out of an estimated \$500,000 per year.

Moreover, conducting automated crossmatches on an annual basis would be less expensive administratively and provide better assurance of claimants' continuing eligibility. We estimate that, if an automated SSA crossmatch is conducted annually (as opposed to the current system of once every 3 years), OWCP's savings in SSA charges, clerical costs, and postage would be \$347,000 in the first year, and at least \$359,000 in subsequent years. This totals a minimum of \$3.6 million in reduced administrative expenses over 10 years. An annual crossmatch would also enable OWCP to better identify claimants who fraudulently conceal earnings and timely remove them from the disability rolls.

Recommendations

We recommend that the Assistant Secretary for Employment Standards ensures that the Director, OWCP:

1. Continues to pursue legislation to change the IRC, Section 6103(1), to allow OWCP to conduct a computer crossmatch between the SSNs of FECA claimants on the periodic roll and earnings reported to SSA.
2. Requires staff to take appropriate action(s) on all cases with earnings, including the 33 cases referred to OI, once the investigative results are returned to the district offices.
3. Requires staff to adhere to existing internal control policies and procedures regarding the mailing, tracking, and reviewing of the CA-1032, CA-936, and CA-1036 and the SSA itemized earnings reports.
4. Requires staff to comply with the FECA Procedures Manual ensuring that appropriate action is taken on cases with evidence of earnings and that any action taken is documented in the case file.
5. Reemphasizes appropriate agency procedures for handling cases that contain sporadic earnings.

Our findings and recommendations resulting from the audit along with OWCP's response dated September 22, 2000, are discussed below. We have included the full text of OWCP's response at the end of this document.

OWCP agreed with all of our recommendations. Therefore, these recommendations are resolved but remain open pending completion of actions which will close the recommendations.

BACKGROUND AND PRINCIPAL CRITERIA

The Federal Employees Compensation Act (FECA), Public Law 103-3, enacted February 5, 1993, provides compensation and medical benefits to Federal civilian employees and their dependents for job-related injuries, diseases, or deaths.

The U.S. Department of Labor (DOL), through the Employment Standards Administration's (ESA's) Office of Workers' Compensation Programs (OWCP), is charged with administering the FECA program. Within OWCP, the Division of Federal Workers' Compensation (DFEC) has responsibility for establishing policies and procedures for the administration and operation of the FECA program. According to OWCP, at the end of Fiscal Years (FYs) 1996 and 1997, there were about 50,000 Federal employees on the long-term disability roll.

Our audit focused on claimants who were listed on the periodic roll as totally disabled and without any regular wage-earning capacity. These claimants were listed in case status codes PR or PN. PR means that the reemployment or earnings capacity of a claimant has not yet been determined by OWCP; PN means that the claimant has no wage-earning capacity or re-employment potential for the indefinite future.

However, if the claimant is no longer totally disabled or earns wages, the FECA program requires that compensation be adjusted to reflect the loss of wage-earning capacity (LWEC) which is figured on the basis of the new actual earnings. These claimants are listed in case status code PW (periodic roll with wage-earning capacity).

We performed this audit, in part, because of prior audit findings in (1) the DOL Consolidated Financial Statement Audit Reports for each of Calendar Years (CYs) 1995 through 1998, and (2) the Special Benefits Fund Financial Statements and Related Reports Audit for the year ending September 30, 1992. Those reports found that OWCP does not always request automated wage data from Social Security Administration (SSA) every 3 years, and OWCP needs updated wage data from SSA in order to determine continuing eligibility for compensation. This audit was undertaken to determine if automated crossmatches would benefit the FECA program.

The Privacy Act of 1974 prohibits agencies, including the SSA, from disclosing earnings without the claimant's authorization. OWCP cannot gain access through SSA to Internal Revenue Service (IRS) wage information without specific statutory authorization. However, OWCP has proposed legislation in the FECA Reform Act of 2000 to change the Internal Revenue Code (IRC) to allow automated matches of FECA data with SSA earnings to identify individuals whose benefits may be reduced or who may be removed from the FECA rolls.

OIG supports OWCP's need for access to data that is maintained by other agencies, including the State Employment Security Agency (SESA) and Social Security wage records, and wage data contained in such databases as the U.S. Department of Health and Human Services' (HHS') National Directory of New Hires.

FECA regulations, 20 Code of Federal Regulations (CFR) §10.527, Final Rule, effective January 4, 1999, authorizes OWCP to conduct computer matches with records of state agencies. However, access to earnings maintained by SSA would allow OWCP to discontinue the process of manually obtaining the claimants' written authorization to release earnings and more accurately detect earnings of claimants on the periodic roll on a yearly basis. Further, crossmatches with state wage data are less accurate, than with SSA data, and very time-consuming.

Other criteria used for this audit were:

- S FECA, Public Law 103-3, enacted February 5, 1993
- S Federal regulations in 20 CFR Part 10 and Part 25
- S FECA Procedures Manual Part 2 (Claims) and Part 6 (Debt Management)
- S Published decisions of the Employees' Compensation Appeals Board (ECAB)
- S Basics of Claims Examining Resource Books published by ESA OWCP dated August 1994
- S Periodic Roll Cases Resource Book published by ESA OWCP dated 1998
- S FECA Program Memoranda, Bulletins, and Circulars

See Exhibit A for a flow chart describing the LWEC process if the claimant is partially disabled for work; Exhibit B for the CA-1032 process in the district office; Exhibit C for the CA-936/CA-1036 process in the district office, and Exhibit D for cases with earnings identified in CYs 1996 and 1997 crossmatches.

FINDINGS AND RECOMMENDATIONS

I. Automated Crossmatches with SSA Would Result in Program Savings

OWCP's system for detecting claimants with earnings is mainly based on voluntary disclosure and submission of an annual CA-1032 (Report of Earnings) whereby the claimant is expected to report all wages earned. (See Exhibit B.) In addition, every 3 years, OWCP relies on the claimant to voluntarily sign a CA-936 which is a written authorization for SSA to release earnings information (see Exhibit C). However, this is not always done. Sometimes the claimant does not sign the CA-1032, and other times, OWCP neglects to send the CA-936 to SSA. In both instances, the process to obtain the report of earnings and the release of earnings information is costly, time-consuming, and does not effectively identify all claimants with earnings.

Currently, the Privacy Act prohibits the SSA from disclosing earnings information without the claimant's authorization, and OWCP is prohibited from gaining access through SSA to IRS wage information without specific statutory authorization. We estimate that, if an automated crossmatch were conducted each year with SSA, OWCP would save \$347,000 in administrative expenses during the first year and at least \$359,000 in subsequent years, and, on average, could uncover an additional 40 percent more claimants with unreported earnings.

Based on OWCP's data in their Automated Compensation Payment System (ACPS), we computed the universe of claimants who were either on the PR or PN for CY 1996 and CY 1997. After eliminating claimants with invalid SSNs, claimants living outside the U.S., and claimants not on the periodic roll for the entire year, we determined the universe of FECA claimants with long-term disability for CYs 1996 and 1997 as 27,050 and 25,973, respectively. The universe of 27,050 claimants for CY 1996 was matched against earnings reported by SSA to identify the number of claimants with earnings. Because SSA could not provide us the wage data by individual, we were unable to perform our audit based on the SSA crossmatch. As a result, we performed a similar crossmatch of FECA claimants against the wage records of six states that agreed to conduct the crossmatch. Conducting crossmatches against the state wage records is very time-consuming and less accurate than conducting crossmatches against SSA wage data.

Based on our audit results, we determined that crossmatches with SSA would assist OWCP in detecting claimants with earnings. For example, our crossmatches in the 6 states disclosed 33 potential fraudulent claimants with earnings which could result in \$956,000 in forfeited compensation over a 15-month period. If the claimants are removed from the disability rolls, this could result in future compensation avoided of \$6.1 million over 10 years. Further, crossmatches with SSA could save OWCP an estimated \$3.6 million in administrative expenses over 10 years.

Our audit concluded that conducting automated crossmatches against SSA wage data will afford more timely coverage than the current system.

A. Crossmatches would assist OWCP in detecting claimants with earnings

Our audit determined that conducting crossmatches would assist OWCP in detecting claimants with earnings. Through our state crossmatches in CYs 1996 and 1997, we identified and selected for review 78 and 68 cases, respectively, with earnings. We found that OWCP was unaware of 35 percent of the claimants with earnings in 1996 (27 of 78 cases) and 44 percent in 1997 (30 of 68 cases). Claimant earnings were not disclosed on the CA-1032 or there was no CA-1032 in the case file for the period state wage records showed earnings. Thus, on average, the crossmatch uncovered 40 percent more claimants with earnings than existing procedures based on claimants' voluntary reporting. See Exhibit D detailing the cases with earnings identified from our CY 1996 and CY 1997 crossmatches.

OWCP's principal means to detect claimants with earnings is based on voluntary disclosure by the claimant to report earnings, i.e., submission of the CA-1032 and the CA-936. The process of verifying whether claimants are reporting earnings can be performed automatically if claimants' SSNs could be matched electronically with earnings' databases that SSA maintains at the Federal level. If OWCP conducted crossmatches with earnings' information maintained by SSA, it could discontinue the time-consuming process of manually obtaining the claimant's written authorization for SSA to release earnings' information to OWCP. Currently, the Privacy Act prohibits the SSA from disclosing earnings information without the claimant's authorization, and OWCP is prohibited from gaining access through SSA to IRS wage information without specific statutory authorization.

B. Crossmatches uncovered 33 potential fraud cases which could result in future cost avoidance of \$6.1 million and recovery of compensation of \$956,000

In the 5 FECA district offices where we conducted crossmatches with state wage data, we found 33 potential fraud cases which we referred to the OIG Office of Investigations (OI). We referred these cases after taking into consideration the following factors:

- the case file contained a signed CA-1032 claiming no earnings,
- the amount of reported earnings provided by the state wage data from 1996 through 1999,
- the claimant's age, and
- the nature of the disability.

Two of the 33 cases were referred to OI because the claimants received compensation for a number of years without returning the CA-1032. Five of the 33 cases were referred although the potential fraud occurred in 1998 or 1999.

20 CFR §10.125 states that “. . . if, in making an affidavit or report, an employee knowingly omits or understates any earnings or remuneration, the employee shall forfeit the right to compensation with respect to any period for which the affidavit or report was required.” Further, false or evasive statements, omissions, or misrepresentations “. . . may, in addition to forfeiture, subject the employee to criminal prosecution.”

As of May 31, 2000, OI initiated two investigations from our 1996 crossmatch and five from our 1997 crossmatch.

In 30 of the 33 potential fraud cases, OWCP calculated an estimated cost avoidance of \$5.6 million over a 10-year period, and in the remaining 3 cases, OIG calculated an estimated cost avoidance of \$570,000 over a 10-year period for a total of \$6.1 million. Thus, we calculated an average cost avoidance per claimant of \$187,185 if all 33 claimants are convicted of fraud for not reporting earnings and are removed from the rolls. We also calculated an additional \$955,766 or \$28,963 per claimant in forfeited compensation, on average for omitting or understating earnings on the CA-1032.

The table below reports the 33 case files referred to OI and the amount and average of potential forfeitures for 1996 and 1997.

Year	Cases Referred to OI	Potential Forfeiture Amount	Average Forfeiture
1996	14	\$409,694	\$29,264
1997	14	\$393,256	\$28,090
1998 - 1999	5	\$152,816	\$30,563
Total	33	\$955,766	\$28,963

C. OWCP could save an estimated \$3.6 million over a 10-year period by conducting automated crossmatches with SSA

Our audit determined that conducting automated crossmatches is much less expensive and provides more coverage than the current system. We estimate that, if an automated crossmatch were conducted each year with SSA, OWCP’s savings in SSA charges, clerical costs, and postage would be \$347,000 in the first year and at least \$359,000 in subsequent years. More importantly, all claimants on the periodic roll would be checked annually rather than once every 3 years. The savings would be even greater if we factor in OWCP’s cost of second and third mailings to claimants that do not respond to the initial CA-936.

The estimated cost of performing a crossmatch between OWCP and SSA would be \$20,000 for the

first year which would include project design, development, and quarterly reports. Once the initial design is established, costs in subsequent years would be approximately \$8,000. In addition, it will cost OWCP \$138,000 per year to analyze the results of the automated crossmatch with SSA.

OWCP's cost to obtain SSA earnings was approximately \$505,000 for 1999. The cost includes SSA's charges of \$329,679 to complete the itemized statement of earnings for each claimant and \$175,321 for OWCP's clerical expenses, claims examiner (CE) time to analyze the forms, and postage.

The following chart shows the potential annual cost savings using automated crossmatches compared to OWCP's current system.

Year	Estimated Cost to Confirm Claimant Earnings with SSA		OWCP's Annual Cost Savings
	Using OWCP's Current System	Using Automated Crossmatch with SSA	
First year	\$505,000	\$158,000	\$347,000
Subsequent years	\$505,000	\$146,000	\$359,000

Recommendations

We recommend that the Assistant Secretary for Employment Standards ensures that the Director, OWCP:

1. Continues to pursue legislation to change the IRC Section 6103(1) to allow OWCP to conduct a computer crossmatch between the SSNs of FECA claimants on the periodic roll and earnings reported to SSA.
2. Requires staff to take appropriate action(s) on all cases with earnings, including the 33 cases referred to OI, once the investigative results are returned to the district office.

OWCP'S RESPONSE:

Recommendation 1. OWCP plans to continue to pursue legislation to allow OWCP access to individual report of earnings records maintained by SSA.

Recommendation 2. OWCP plans to take appropriate action(s) on all cases with earnings, including the 33 cases referred to OI, once the investigative results have been returned.

AUDITOR'S CONCLUSIONS:

Recommendation 1. This recommendation is resolved, but will remain open pending completion of actions which will close the recommendation.

Recommendation 2. We recognize the inherent problem that not all SSNs contained in the files of the states, SSA, or OWCP are valid. We plan to work with OWCP to further investigate those cases where earnings between SSA and the states differed in the 33 potential fraud cases we referred to OI.

This recommendation is resolved, but will remain open pending completion of actions which will close the recommendation.

II. FECA District Offices Need to Follow Prescribed Procedures to Detect Claimants with Earnings

FECA district offices we visited did not consistently follow policies and procedures to detect earnings of claimants and determine the effect, if any, earnings may have on the claimants' continuing entitlement to eligibility. As a result, payments were made to claimants who were either not entitled to compensation or were entitled to reduced compensation. Earnings are detected when disclosed by the claimant on the CA-1032 or when reported by SSA to OWCP on the Itemized Statement of Earnings forms. FECA Procedures Manual requires OWCP to:

- mail a CA-1032 to each claimant on the periodic roll once a year,
- suspend compensation if the CA-1032 is not returned timely, and
- mail a CA-935/936 to the claimant once every 3 years and a CA-1036 to SSA requesting an Itemized Statement of Earnings Report.

Our review of 225 periodic roll cases in 5 FECA district offices found that:

- A. in 45 percent of the cases, the CA-1032 for 1 or more years was not found in the case file;
- B. in 30 percent of the cases, compensation payments were not suspended when the CA-1032 was not returned; and
- C. in 32 percent of the cases, SSA earnings reports were not current, which means an SSA Itemized Statement of Earnings Report was not found in the case file dated within 3 years of the OIG review.

A. In 45 percent of the cases in our sample, the CA-1032 was not found in the case file for 1 or more years

The CA-1032 was not found in the case file for 1 or more years for 101 (45 percent) of the 225 case files reviewed. There was no evidence that:

- the form had been sent to the claimant [76 of 101, or 75 percent], or
- a followup and/or suspension for the CA-1032s were mailed to the claimant [30 of 101, or 30 percent].

Note that 53 cases had more than 1 missing CA-1032 which accounts for the difference in the numbers above.

The FECA Procedures Manual requires OWCP to mail a CA-1032 annually to claimants on the periodic roll to determine if the claimants had earnings, but OWCP was unable to utilize this tool because the CA-1032s were not mailed. The FECA Procedures Manual Part Two Chapter 2-0812-9 states that the CA-1032 serves as a report of earnings for claimants on the periodic roll. The Manual further states in Chapter 2-0812-10 that “. . . *information received in response to requests for information on earnings . . . may require the CE to adjust the compensation rate. . . .*”

B. In 30 percent of the cases in our sample, compensation payments were not suspended when the CA-1032 was not returned

The CA-1032 was not found in the case file for 1 or more years for 101 of the 225 case files reviewed. For 30 of the 101 cases, FECA district offices did not consistently follow procedures to suspend compensation benefits when the CA-1032 was not returned by the claimant after 60 days. As a result, OWCP was unable to utilize this tool to determine if the claimants had earnings. FECA Procedures Manual Part Two Chapter 2-0812-6 states that “. . . *after two requests for reports of earnings on CA-1032, the CE is expected to begin suspension proceedings.*”

The table below reports the time frame OWCP continued paying compensation benefits without receiving the CA-1032 from the claimant:

Compensation Benefits Continued Without CA-1032			
Initial CA-1032 Mailed	Cases	61 days to 6 months	More than 6 months
Prior to 1999	18	0	18
1999	12	10	2
Total Cases	30	10	20

Our analysis of the 18 CA-1032s mailed prior to 1999 determined that these forms were returned by the claimants in subsequent years. Because the claimant is only required to report earnings for the immediate 15 months prior to signing the form, OWCP was unable to use this tool to determine whether those claimants had any earnings for the time period covered by the original CA-1032.

C. In 32 percent of the cases in our sample, current SSA earnings reports were missing

For 72 of the 225 cases reviewed (32 percent), there was no Itemized Statement of Earnings from SSA dated within 3 years of the review. As a result, OWCP was unable to utilize this tool to determine if the claimants had earnings. The reasons that OWCP did not consistently document the SSA report of earnings were:

1. CA-936 was not mailed to the claimant,
2. CA-1036 was not mailed to SSA, or
3. OWCP did not consistently follow up with the claimant or SSA when the forms were not returned.

The following chart reports the 72 case files and reasons that OWCP did not consistently document SSA report of earnings:

Cases with no Current SSA Earnings Reports				
District Office	No Evidence that CA-936 was Mailed to Claimant	CA-936 Mailed but not Returned by Claimant, and no Evidence of Followup by FECA District Office	CA-936 Signed, but no Evidence CA-1036 was Mailed to SSA	CA-1036 Mailed to SSA, no Response, and no Followup by FECA District Office
DC	21	6	7	1
Phila.	9	3	2	0
NY	1	2	2	1
Dallas	9	1	3	2
Jax	0	0	1	1
Totals	40	12	15	5

In 1 case, the crossmatch uncovered a claimant with total earnings of \$21,811 (from the third quarter of 1997 through the third quarter of 1998), who did not disclose earnings to OWCP on the CA-1032 dated June 13, 1998. The case file contained no evidence that OWCP requested current earnings' confirmation from the SSA.

In another case, the crossmatch uncovered a claimant with total earnings of \$21,727 (from the third quarter of 1997 through the first quarter of 1998), who did not disclose earnings to OWCP on the CA-1032 dated September 29, 1997. The case file contained no evidence that OWCP requested current earnings' confirmation from the SSA.

Had OWCP requested earnings' confirmations as required by the FECA Procedures Manual, OWCP may have become aware that these claimants were earning wages.

Recommendation

We recommend that the Assistant Secretary for Employment Standards ensures that the Director, OWCP, requires staff to adhere to existing internal control policies and procedures regarding the mailing, tracking, and reviewing of the CA-1032, CA-936, CA-1036, and the SSA itemized earnings reports.

OWCP'S RESPONSE:

Recommendation 1. OWCP plans to address procedures and policy issues relating to the CA-1032, CA-1036, and CA-936 process by having the district offices submit plans for strengthening oversight of the release, return, and review of these documents. OWCP also plans to:

- S Adopt the concept of requesting a completed CA-936 on an annual basis in conjunction with the CA-1032 for all claimants in receipt of compensation.

- S Maintain in the case file the completed CA-936 when signed and returned. If information is received that alludes to possible employment/earnings, the current CA-936 of record will be sent to SSA for possible supporting evidence and referral to the OIG for appropriate action.

AUDITOR'S CONCLUSION:

Recommendation 1. This recommendation is resolved but will remain open pending OWCP's implementation of plans requiring staff to adhere to existing internal control policies and procedures regarding the mailing, tracking, and reviewing of the CA-1032, CA-936, CA-1036, and the SSA itemized earnings reports.

III. FECA District Offices Should Take Appropriate Action(s) on Periodic Roll Cases When Earnings are Disclosed

Our audit found that FECA district offices we visited did not consistently take appropriate action(s) on 56 periodic roll cases with documented evidence of earnings. OWCP is made aware of earnings when disclosed by the claimant on the CA-1032, reported by SSA on the Itemized Statement of Earnings, or obtained through other sources including employing agencies and rehabilitation counselors. By not taking action, FECA district offices did not consistently comply with its Procedures Manual which requires documenting the presence of earnings and the effect, if any, on the claimants' continuing entitlement to FECA benefits. In 56 cases with documented evidence of earnings, we found no documentation that either an overpayment or adjustment to the claimants' compensation was considered. No explanations were documented in the case files. As a result, these 56 claimants may have received compensation to which they were not entitled.

Of the 225 case files reviewed, OWCP documented evidence of earnings in 113 (50 percent) of them. However, based on our review of the case files, OWCP did not consistently take appropriate action on 56 of these 113 cases (50 percent). FECA's manual requires that the CE must review the earnings and circumstances in the case file and then either (1) initiate the process to implement a WEC, including referral for second medical examinations, and/or (2) declare an overpayment based on the earnings. Also, the CEs must document the action taken in the case file. We found that OWCP took appropriate action (or no action was needed) for the remaining 57 cases.

FECA's Procedures Manual Part 2, section 2-0600-3, states that a "*CE must actively manage a FECA case until the claimant returns to work, an LWEC decision is issued, or a finding of no wage earning capacity is made. . . .*" An LWEC or loss of wage-earning capacity is computed if the claimant is no longer totally disabled or earns wages.

The Procedures Manual also specifies the actions the CE must take when he or she knows of claimants who have earnings. Upon reviewing and confirming the facts of the case, the CE is required to decide whether the amount of actual earnings fairly represents the claimant's WEC. FECA Resource Book II, Basics of Claims Examining Part II, states "*If the claimant has already been performing the job for at least 60 days, (the CE) may make a finding that the actual earnings fairly and reasonably represent the claimant's wage earning capacity.*" In these cases an LWEC may be computed, using a computer-generated formula, on the basis of these actual earnings. Further, FECA Section 8106 requires a reduction in compensation to reflect an LWEC when the disability for work is partial.

In some cases, actual earnings may not represent the claimant's WEC. FECA Resource Book II, Basics of Claims Examining Part II, states "*This is usually true if the earnings are of a sporadic nature . . . (OWCP) would not 'rate' him (i.e., use the actual earnings in computing the WEC by formula) for these sporadic earnings; (OWCP) would merely reduce compensation for the actual earnings. . . .*"

Because we reviewed FECA claimants on the periodic roll who had earnings, an overpayment of compensation would likely occur. The Reviewing Periodic Roll Cases Resources Book, published by ESA in 1998, defines an overpayment as “*the difference between the net amount the claimant was paid for a particular period of time and the net amount he or she should have been paid for this same period.*”

The FECA Procedures Manual requires the CE to enter information concerning the correct period of entitlement and the actual period paid onto the proper forms when an overpayment is discovered. The ACPS calculates the overpayment.

OWCP has policies and procedures in place to handle small overpayments. According to the Procedures Manual, debt collection actions on overpayments of less than \$100 generally can be administratively terminated at any time after the overpayment has been identified if the cost of further collection action would exceed the recovery expected. The CE must prepare a memo to the District Director, for review by the senior CE, describing the reasons. An account receivable is created and then written off without notice to the claimant.

When an overpayment amount is between \$100 and \$599, OWCP may, on a case-by-case basis, elect to accept or propose a compromise offer, or terminate collection action if the costs of collection of the full overpayment are likely to exceed the amount recoverable. A preliminary finding must be issued. The senior CE will prepare a memo to the file detailing the reasons for the decision and advise the claimant.

An analysis of the 56 cases for the period 1996 through 1999 showed that 21 of the 56 cases (38 percent) had earnings greater than \$10,000, 8 (14 percent) had earnings between \$5,000 and \$9,999, 9 (16 percent) had earnings between \$1,000 and \$4,999, and the remaining 18 cases (32 percent) had earnings of less than \$1,000.

In one case, the CA-1032s disclosed earnings of \$33,622 from 1996 through 1999, and the state crossmatch reported \$35,402 for the same period. However, the case file contained no documentation that OWCP had initiated the process of adjusting the claimant's compensation and/or declared an overpayment. In another case, \$6,500 self-employment earnings were disclosed by the claimant on the CA-1032 for 1996 and 1997, and the state crossmatch reported \$8,660 for the same period. Again, the case file did not contain documentation that OWCP initiated the process of implementing a WEC and/or declared an overpayment.

After presenting the results of our case file review, the district offices began taking action on these cases with earnings. For example, in one district office, overpayments were declared in four cases for \$22,611, \$21,482, \$6,388, and \$3,634, respectively. In another district office, we were informed that OWCP is in the process of calculating an overpayment based on earnings reported by the claimant of nearly \$19,356 from 1996 to mid-1998, and reported by the state crossmatch for the same period in the amount of \$21,798.

Recommendations

We recommend that the Assistant Secretary for Employment Standards ensures that the Director, OWCP:

1. Requires staff to comply with the FECA Procedures Manual ensuring that appropriate action is taken on cases with evidence of earnings and that any action taken is documented in the case file.
2. Reemphasize appropriate agency procedures for handling cases that contain sporadic earnings.

OWCP'S RESPONSE:

Recommendations 1 & 2. OWCP plans to maintain or improve, as necessary, its management control to ensure that appropriate actions are taken on cases as recommended above.

AUDITOR'S CONCLUSION:

Recommendations 1 & 2. These recommendations are resolved but will remain open pending OWCP's completion of actions which will close the recommendations.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

The objectives of this audit were to determine:

1. Whether FECA claimants earned wages while receiving long-term total disability compensation.
2. Whether automated crossmatches with Federal or state wage records would provide an independent source of information which could assist OWCP in identifying potential claimant fraud or overpayments and in monitoring claimants' continuing eligibility.
3. Whether internal controls adequately ensured that claimant wages were detected and benefit amounts were adjusted accordingly.

Scope

To help determine whether totally disabled FECA claimants received wages, we conducted two crossmatches. The first crossmatch included 27,050 FECA claimants who had received total disability compensation for the entire CY 1996, with wage records maintained by the SSA. The second crossmatch included the 27,050 and 25,973 FECA claimants for CYs 1996 and 1997, respectively, against state wage records.

We performed the state crossmatch in order to identify which individual FECA claimants earned wages and determine whether the wages were properly reported. We conducted the second automated crossmatch of the 27,050 and 25,973 FECA claimants for CYs 1996 and 1997, respectively, with the wage records maintained by 6 cooperating state agencies (Maryland, New Jersey, Oklahoma, Pennsylvania, Texas, and Virginia).

We determined that 174 FECA claimants had wages in CY 1996 and 141 in CY 1997 or a total of 315. Of the 315 claimants with wages in CYs 1996 and 1997, we selected 146 cases for review (78 in CY 1996 and 68 in CY 1997). These cases were reviewed in five FECA district offices (Dallas, Jacksonville, National Operations Office in Washington, D.C., New York, and Philadelphia) to determine if the claimants reported these wages to OWCP as required by law.

We also evaluated the district offices internal control procedures for detecting earnings of claimants on the periodic roll. Because state wage records were reported through 1999, we expanded our scope and selected an additional 137 claimants (115 in CY 1996 and 22 in CY 1997). After eliminating 52 duplicate claimants that were reported in both years of the crossmatch results, and 6 claimants that had earnings in more than 1 state, we arrived at a

sample of 225 cases. Thus, the 225 cases were arrived at by adding the CYs 1996 and 1997 claimants selected for the crossmatch review (146 cases), plus the additional 137 claimants selected for the internal control evaluation through CY 1999, less 52 duplicate cases, less 6 claimants that received earnings in more than 1 state.

Scope Limitations

Existing Federal laws prohibit SSA from divulging individual wage data to OWCP or the OIG for audit purposes. Because of existing constraints on OIG access to individual records for audit purposes, the scope of our audit was restricted to matching FECA claimants with state wage record data only. Thus, we could not address the issue of invalid SSNs, claimants who may have been self-employed or paid as independent contractors while receiving disability benefits (reported through IRS Form 1099-MISC), or claimants whose employment may have been reported through HHS' National Directory of New Hires.

Methodology

We conducted a crossmatch with the SSA, starting with a universe of the 41,869 claimants on FECA's ACPS tapes in CY 1996. We eliminated FECA claimants not receiving long-term benefits for all 12 months (11,820), invalid SSNs (215), and claimants with addresses outside the continental United States (2,784). This resulted in a universe of 27,050 FECA claimants which was matched against SSA files. SSA determined there were 1,178 invalid SSNs and 24,967 claimants with no wages, leaving 905 claimants with earnings of \$2.9 million. Because SSA could not provide the wage data by individual, we were unable to perform our audit based on the SSA crossmatch.

As a result, we performed a similar crossmatch of FECA claimants against the state wage records for CY 1996 and CY 1997 to determine if any recipients on total disability received wages in the state without reporting those wages to OWCP as required by law. In CY 1997, the ACPS tape started with a universe of 41,820 FECA claimants on the periodic roll. We eliminated FECA claimants not receiving long-term benefits for all 12 months (7,885), and claimants with addresses outside the continental United States (7,962) to arrive at our universe of 25,973 for CY 1997.

Using a universe of 40 states (after eliminating states with fewer than 2 "hits"), we selected 12 states using a two-stage stratified sampling methodology. The states were divided into different stratum based on the amount of earnings (of individuals) reported by SSA in CY 1996. A random sample of 12 states was selected from these strata. Six states were selected from the strata with the most SSA earnings, and two states were selected from each of the remaining three strata. In the second stage, a random sample of cases was reviewed from each of the selected states. The table below lists the number of sampled states by strata:

Strata	Dollar	No. States	Sampled States
I	\$1 - \$35,000	17	2
II	35,001 - 55,000	9	2
III	55,001 - 145,000	8	2
IV	145,001 - Over	6	6
Total		40	12

As required by the Computer Matching and Privacy Protection Act of 1988, a written agreement was negotiated with each state participating in the crossmatch, OWCP, and OIG. We contacted the 12 states by telephone and submitted a computer matching agreement. Of the 12 states, 6 agreed to conduct the crossmatch. (Four of the six states were contained in the stratum with the greatest number of earnings reported by SSA.) The DOL Data Integrity Board (DIB) granted approval on February 1, 1999, and the notice was published in the *Federal Register* on February 9, 1999.

The CY 1996 and CY 1997 crossmatch results provided by the state included the individual's name, SSN, employer's name/address, and earnings (by quarter) from 1996 to the date on which the state conducted the match. After documenting the number of claimant "hits" received from each state, we compared the name and SSN to the FECA Automated Query System (AQS) which contains such information such as claimant's name, case status, and case file location.

We selected a sample of cases for review from the total number of claimants received from the state wage data to determine if the reported earnings were associated with the claimant and were properly reported to the FECA district office. The bases for selection were (a) the name and SSN on FECA's AQS matched the name and SSN provided by the state, and (b) the case file was located in the district office selected for review. The bases for not selecting a case were:

- (1) Names from FECA's AQS and the state did not match.
- (2) Names were not provided by the state.
- (3) No AQS was found on the claimant.
- (4) Cases were located in other district offices.
- (5) Status change (claimant's status changed from temporary total disability to a wage-earning capacity status or was no longer receiving compensation).
- (6) Duplicate names (for CY 1997 only).

Through the case file reviews, we determined if the:

- a. claimant disclosed the earnings reported by the state wage records,
- b. claimant was entitled to earnings while receiving compensation and if OWCP reduced benefits when required,
- c. SSA report of earnings were current and reported in the state wage records, and
- d. claimant submitted a CA-1032 annually.

Upon completion of our audit fieldwork, we coordinated with the ESA Division of Planning, Policy, and Standards to determine the future cost savings for the 33 potential fraud cases revealed by our crossmatch. ESA calculated the cost savings for 30 of the 33 potential fraud cases based on a 10-year projection via a computer program utilizing the following factors:

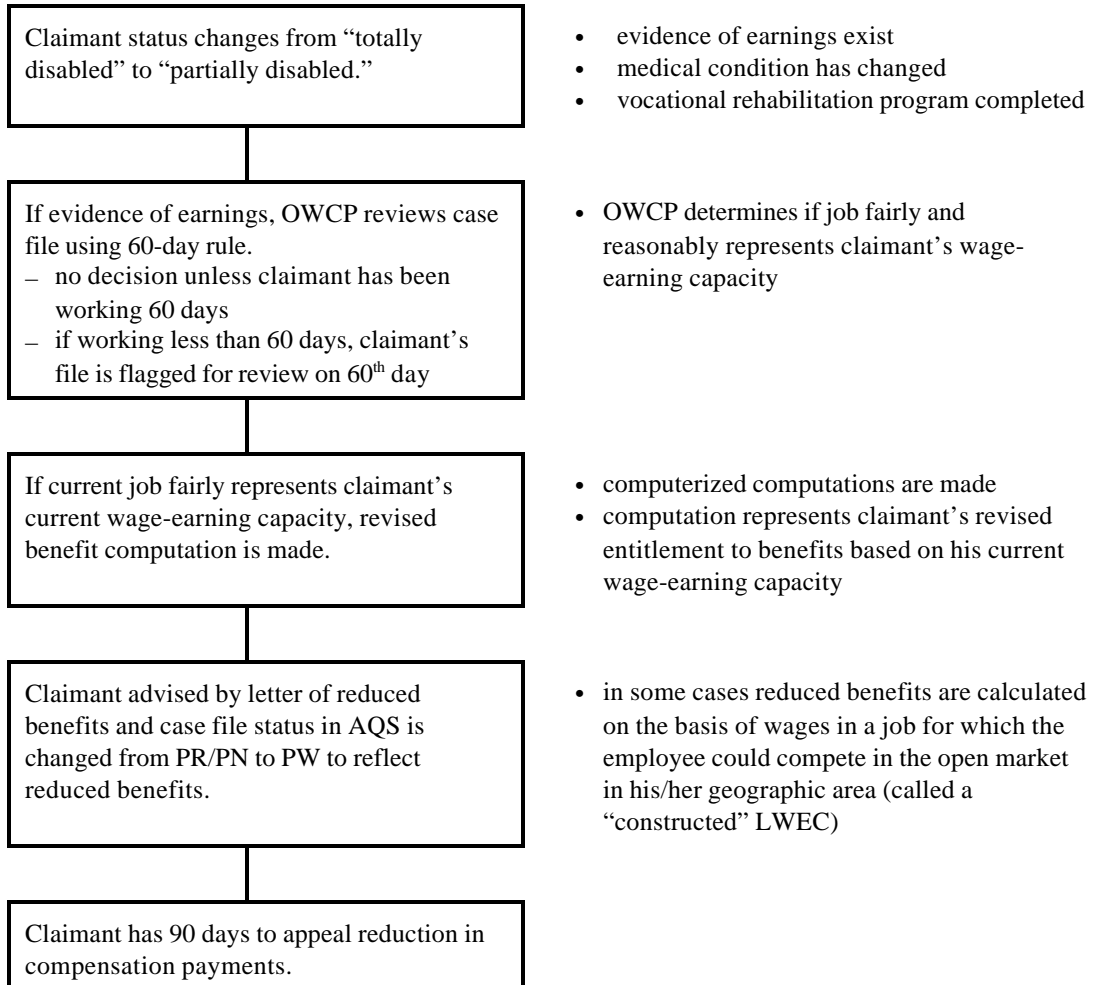
- (1) Claimant name
- (2) FECA case file number
- (3) Sex
- (4) Date of birth
- (5) Date of injury
- (6) Date of termination
- (7) Nature of injury code
- (8) Accepted condition
- (9) US Postal Service or non-USPS
- (10) Period in receipt of compensation
- (11) Last compensation payment
- (12) Compensation after reduction, if applicable

OIG calculated the cost savings on the remaining three potential fraud cases (by multiplying the claimant's last compensation payment by 120 months) because ESA did not have all the needed data to utilize its computerized program to complete the task. All 33 potential fraud cases were referred to the OIG OI.

We conducted our fieldwork from April 12, 1999 to March 20, 2000. We conducted an exit conference at each FECA district office and provided the District Office Director with a copy of our conclusions based on our case file review. We requested a written response from the district offices and incorporated all written responses received before May 31, 2000. Because OWCP said that it had been adequately briefed in February, it declined a formal exit interview in August 2000.

This audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Loss of Wage-Earning Capacity (LWEC) Process



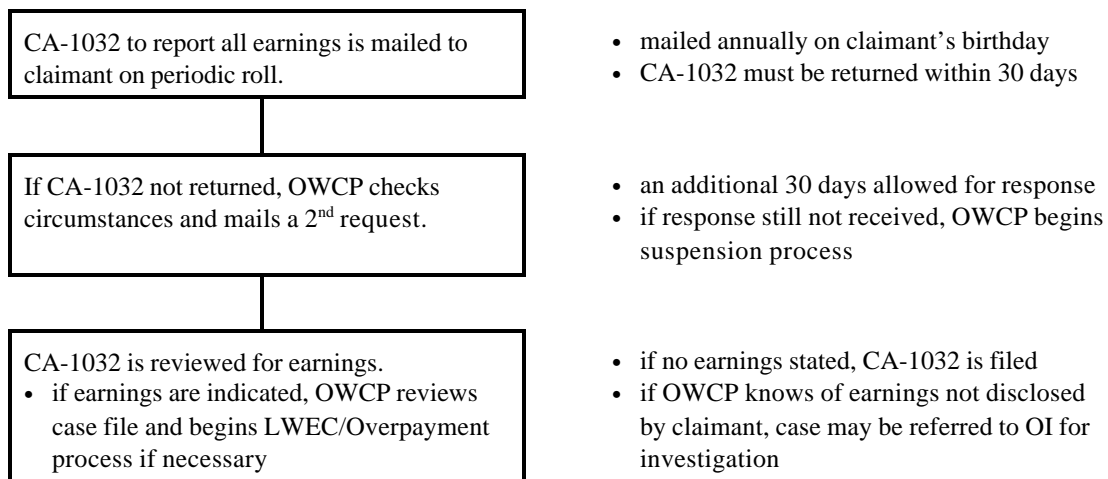
CA-1032 Process in the District Office

The periodic roll cases require a special type of case management known as the *periodic roll review*. This review is conducted yearly and examines the earnings, dependency status, and medical records of the claimant. The two methods for the detection of earnings are:

- (1) CA-1032 Report of Earnings
- (2) CA-936 Consent for Disclosure of Wage Information
CA-1036 Request for Earnings' Confirmation

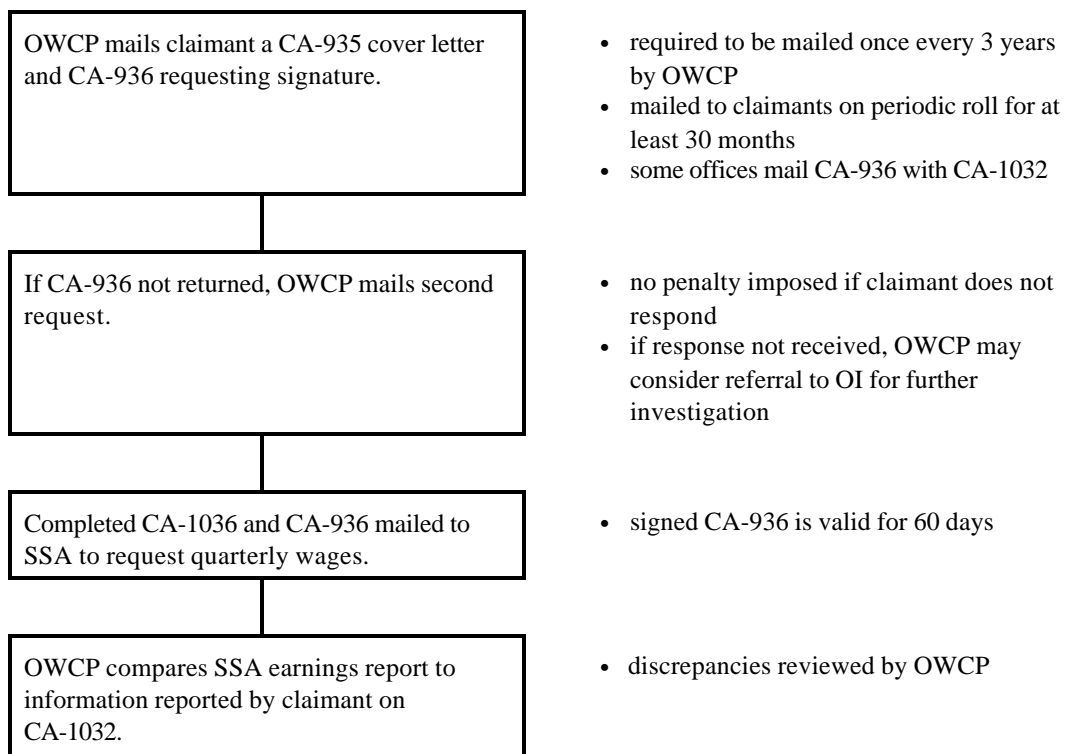
Form CA-1032

Once a year, the CA-1032 is mailed to claimants on the periodic roll to verify continued entitlement to compensation. Each claimant is required to report all earnings, including those from self-employment and unremunerated employment. Failure to submit the CA-1032 may result in the suspension of benefits. A false or evasive statement, omission, concealment, or misrepresentation of employment or earnings by the claimant may also result in criminal prosecution. The following flow chart describes the CA-1032 process in the district office:



CA-936/CA-1036 Process in the District Office

In addition to mailing a CA-1032, FECA regulations require mailing a CA-1036 to the SSA every 3 years to verify earnings. The CA-1036 is accompanied by a signed release from the claimant on CA-936. Because the CA-936 is valid for 60 days from the date signed by the claimant, OWCP mails the CA-1036 to SSA upon receiving the release from the claimant. The following flow chart describes the CA-1036 process in the district office:



Cases with Earnings Identified in CY 1996 Crossmatches

District Office	1996 Cases with Earnings Identified from the Crossmatch	Earnings not Disclosed on CA-1032		Earnings not Contained in Case File i.e., no CA-1032		Earnings Disclosed on CA-1032		Earnings not Applicable to Claimant***	
		Cases	Total Amount	Cases	Total Amount	Cases	Total Amount	Cases	Total Amount
DC**	37	9	\$71,311	4	\$59,780	23	\$114,476	0	0
Phila	14	3	\$39,004	2	\$16,398	6	\$26,763	3	N/A
NY	8	1	\$435	0	0	4	\$21,754	3	N/A
Dallas	16	4	\$2,942	2	\$4,083	9	\$14,452	1	N/A
Jax	3	2	\$11,043	0	0	1	\$2,783	0	0
Total**	78	19*	\$124,735	8*	\$80,261	43	\$180,228	7	N/A

Cases with Earnings Identified in CY 1997 Crossmatches

District Office	1997 Cases with Earnings Identified from the Crossmatch	Earnings not Disclosed on CA-1032		Earnings not Contained in Case File i.e., no CA-1032		Earnings Disclosed on CA-1032		Earnings not Applicable to Claimant***	
		Cases	Total Amount	Cases	Total Amount	Cases	Total Amount	Cases	Total Amount
DC**	38	14	\$80,042	3	\$19,032	18	\$92,610	0	0
Phila	5	0	0	2	\$3,193	2	\$12,248	1	N/A
NY	5	1	\$222	0	0	3	\$26,379	1	N/A
Dallas	15	3	\$8,049	3	\$9,960	9	\$29,392	0	0
Jax	5	4	\$49,752	0	0	1	\$10,783	0	0
Total**	68	22*	\$138,065	8*	\$32,185	33	\$171,412	2	N/A

* These cases with earnings were identified from the crossmatches with the states.

** DC district office could not locate 1 case file with reported earnings of \$1,643 in CY 1996 and 3 case files with reported earnings of \$8,724 in CY 1997.

*** Earnings received from a court settlement and/or not associated with the claimant as confirmed by employer.