

SPECIAL REPORTS RELATING TO THE
FEDERAL EMPLOYEES' COMPENSATION ACT
SPECIAL BENEFIT FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2001

U.S. Department of Labor
Office of Inspector General
Report Number: 22-02-001-04-431
Date Issued: NOV 26 2001

**Carmichael
Brasher Tuvell**

Certified Public Accountants & Company

This audit was performed by Carmichael, Brasher, Tuvell & Company, Certified Public Accountants, under contract to the Inspector General, and, by acceptance, it becomes a report of the Office of Inspector General.

/s/

Assistant Inspector General for Audit

MEMORANDUM FOR: SEE DISTRIBUTION LIST

FROM: JOHN J. GETEK
 Assistant Inspector General
 for Audit

SUBJECT: Special Report Relating to the Federal Employees' Compensation Act
 Special Benefit Fund - FY 2001
 Report No. 22-02-001-04-431

Attached is a special report on the Federal Employees' Compensation Act (FECA) Special Benefit Fund (the Fund) that our office prepared to assist in the audit of your agency's annual financial statements. The U.S. Department of Labor, Employment Standards Administration, Office of Workers' Compensation administers the Fund and the DOL Office of Inspector General is responsible for auditing the Fund.

This special report was prepared by Carmichael, Brasher, Tuvell & Company under contract with the Office of Inspector General, and consists of three separate reports. The first report is an *opinion* on the total actuarial liability as of September 30, 2001, and the net intra-governmental accounts receivable and the total benefit expense made by the Fund on behalf of the employing agencies for the year then ended. The second report is an agreed-upon procedures (AUP) report on the schedule of actuarial liability and net intra-governmental accounts receivable and benefit expense by Agency. The third report is a service provider report on the policies and procedures placed in operation and tests of the operating effectiveness of the Division of Federal Employees' Compensation Organization for the period October 1, 2000 through April 30, 2001.

The sufficiency of the procedures referred to in the agreed-upon procedures report is solely the responsibility of the parties specified in this report. Consequently, neither we nor the firm make any representations regarding the sufficiency of the procedures. Because the agreed-upon procedures performed did not constitute an audit, the auditor did not express an opinion on any elements, accounts or items as they pertained to the agreed-upon procedures report. Further, the firm has no obligation to perform any procedures beyond those listed in the attached report.

If you have any comments or suggestions on the contents or sufficiency of this report or the procedures performed that you would like considered for future audits, please send your comments via regular mail, facsimile, or e-mail to:

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This report is available at our web site <http://www.oig.dol.gov/public/reports/oa/2002/main.htm>

Attachment

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ACRONYMS

ACPS	Automated Compensation Payment System
ADP	Automatic Data Processing
AID	Agency for International Development
BPS	Bill Payment System
BLS	Bureau of Labor Statistics
CBS	Chargeback System
CDSI	Computer Data System, Inc.
CE	Claims Examiner
CFO	Chief Financial Officer
CFR	Code of Federal Regulations
CMF	Case Management File System
COLA	Cost of Living Allowance
COP	Continuation of Pay
CPI	Consumer Price Index
CPI-U	Consumer Price Index for all Urban Consumers
CPI-Med	Consumer Price Index for Medical
DBMS	Data Based Management System
DITMS	Division of Information Technology Management and Services
DCE	Designated Claims Examiner
DD	District Director
DFEC	Division of Federal Employees' Compensation
DMA	District Medical Advisor
DMD	District Medical Director
DO	District Office
DOL	United States Department of Labor
DOLAR\$	Department of Labor Accounting and Related Systems
DPPS	Division of Planning, Policy and Standards
DRP	Disaster Recovery Plan
EDP	Electronic Data Processing
EPA	Environmental Protection Agency
ESA	Employment Standards Administration
FCS	Fund Control System
FECA	Federal Employees' Compensation Act
FEMA	Federal Emergency Management Agency
FISCAM	Federal Information System Controls Application Manual
FMFIA	Federal Managers' Financial Integrity Act
GSA	General Services Administration

ACRONYMS

HBI	Health Benefit Insurance
HHS	U.S. Department of Health and Human Services
HUD	U.S. Department of Housing and Urban Development
IBNR	Incurred But Not Reported
IS	Information Systems
LBP	Liability Benefits Paid (ratio)
LWEC	Loss of Wage Earning Capacity
NASA	National Aeronautics and Space Administration
NRC	Nuclear Regulatory Commission
NSF	National Science Foundation
OIG	Office of Inspector General
OLI	Optional Life Insurance
OMAP	Office of Management and Planning
OMB	Office of Management and Budget
OPAC	On-line Payment and Collection System
OPM	Office of Personnel Management
OWCP	Office of Workers' Compensation Programs
RS	Rehabilitation Specialist
SAS 70	Statement on Auditing Standards, Number 70
SBA	Small Business Administration
SCE	Senior Claims Examiner
SDLC	System Development Life Cycle
SFFAS	Statement of Federal Financial Accounting Standards
SOL	Solicitor of Labor
SSA	Social Security Administration
SunGard	SunGard Computer Services, Inc.
TTD	Temporary Total Disability
U.S.C.	United States Code
USPS	United States Postal Service
VA	U.S. Department of Veterans Affairs

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**SECTION IA
INDEPENDENT AUDITORS' REPORT ON THE
SCHEDULE OF ACTUARIAL LIABILITY,
NET INTRA-GOVERNMENTAL ACCOUNTS RECEIVABLE
AND BENEFIT EXPENSE**

**D. Cameron Findlay, Deputy Secretary of Labor
Employment Standards Administration, U.S. Department of Labor,
General Accounting Office, Office of Management and Budget and Other Specified Agencies:**

We have audited the accompanying Schedule of Actuarial Liability, Net Intra-Governmental Accounts Receivable and Benefit Expense (the Schedule) of the Federal Employees' Compensation Act Special Benefit Fund as of and for the year ended September 30, 2001. This schedule is the responsibility of the U.S. Department of Labor's management. Our responsibility is to express an opinion on this schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the applicable provisions of OMB Bulletin 01-02, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule of Actuarial Liability, Net Intra-Governmental Accounts Receivable and Benefit Expense is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule of Actuarial Liability, Net Intra-Governmental Accounts Receivable and Benefit Expense. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Schedule of Actuarial Liability, Net Intra-Governmental Accounts Receivable and Benefit Expense referred to above presents fairly, in all material respects, the actuarial liability, net intra-governmental accounts receivable and benefit expense of the Federal Employees' Compensation Act Special Benefit Fund as of and for the year ended September 30, 2001, in conformity with accounting principles generally accepted in the United States of America.

This report is intended solely for the information and use of the U.S. Department of Labor, General Accounting Office, Office of Management and Budget and those Federal agencies listed in Section IIB of this report and is not intended to be and should not be used by anyone other than these specified parties.

Carmichael, Brasher, Tuvell & Company

November 26, 2001

SECTION IB
U.S. DEPARTMENT OF LABOR
EMPLOYMENT STANDARDS ADMINISTRATION
FEDERAL EMPLOYEES' COMPENSATION ACT
SPECIAL BENEFIT FUND
SCHEDULE OF ACTUARIAL LIABILITY,
NET INTRA-GOVERNMENTAL ACCOUNTS RECEIVABLE
AND BENEFIT EXPENSE
AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2001

	<u>(Dollars in Thousands)</u>
Actuarial Liability	\$ 24,994,376
Net Intra-governmental Accounts Receivable	\$ 3,365,092
Benefit Expense	\$ 5,145,882

See independent auditors' report.
The accompanying notes are an integral part of this schedule.

SECTION IB
NOTES TO THE SCHEDULE OF ACTUARIAL LIABILITY,
NET INTRA-GOVERNMENTAL ACCOUNTS RECEIVABLE
AND BENEFIT EXPENSE
AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2001

1. SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Presentation

This schedule has been prepared to report the actuarial liability, net intra-governmental accounts receivable and benefit expense of the Federal Employees' Compensation Act (FECA) Special Benefit Fund, as required by the CFO Act of 1990. The Special Benefit Fund was established by the Federal Employees' Compensation Act, to provide for the financial needs resulting from compensation and medical benefits authorized under the Act. The U.S. Department of Labor (DOL), Employment Standards Administration (ESA) is charged with the responsibility of operating the Special Benefit Fund under the provisions of the Act. The schedule has been prepared from the accounting records of the Special Benefit Fund.

The actuarial liability, net intra-governmental accounts receivable and benefit expense of the Special Benefit Fund have been considered specified accounts for the purpose of this special report and have been reported thereon. ESA is responsible for providing annual data to the CFO Act and other specified agencies. FECA's annual data is defined as the actuarial liability of the Special Benefit Fund. This annual data is necessary for the CFO Act and other specified agencies to support and prepare their respective financial statements.

The actuarial liability for future workers' compensation benefits is an accrued estimate as of September 30, 2001. The net intra-governmental accounts receivable is the amount due from Federal agencies for benefit payments paid to employees of the employing agency. The net intra-governmental accounts receivable includes amounts which were billed to the employing agencies through June 30, 2001, but not paid as of September 30, 2001, including prior years, if applicable, plus the accrued receivable for benefit payments not yet billed for the period July 1, 2001 through September 30, 2001, less credits due from the public.

Benefit payments are intended to provide income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease and beneficiaries of employees whose death is attributable to job-related injury or occupational disease. The actuarial liability is computed from the benefits paid history. The benefits paid, inflation and interest rate assumptions, and other economic factors are applied to the actuarial model which calculates the liability estimate.

SECTION IB
NOTES TO THE SCHEDULE OF ACTUARIAL LIABILITY,
NET INTRA-GOVERNMENTAL ACCOUNTS RECEIVABLE
AND BENEFIT EXPENSE
AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2001

b. Basis of Accounting

The accounting and reporting policies of the Federal Employees' Compensation Act Special Benefit Fund relating to the Schedule conforms to accounting principles generally accepted in the United States.

The actuarial liability for future workers' compensation benefits is an accrued estimate as of September 30, 2001. Net intra-governmental accounts receivable is the total of the amounts billed to Federal agencies which had not yet been paid plus the accrued receivable for benefit payments not yet billed for the period July 1, 2001 through September 30, 2001, less credits due from the public. Benefit expense consists of payments paid and accrued for the period from October 1, 2000 to September 30, 2001, plus the net change in the actuarial liability for the year.

Statement of Federal Financial Accounting Standards (SFFAS) Number 5, Section 138, *Accounting for Liabilities of the Federal Government*, requires that a contingent liability be recognized when three conditions are met. First, a past event or exchange transaction has occurred. Second, a future outflow or other sacrifice of resources is probable. Finally, the future outflow or sacrifice of resources is measurable. Claims which had been incurred but not reported (IBNR) are included in the actuarial liability. Therefore, the actuarial liability represents the estimated present value of future compensation and medical payments based upon approved claims, plus a component for incurred but not reported claims.

2. ACTUARIAL LIABILITY (FUTURE WORKERS' COMPENSATION BENEFITS)

The Special Benefit Fund was established under the authority of the Federal Employees' Compensation Act to provide income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. The fund is reimbursed by other Federal agencies for the FECA benefit payments made on behalf of their workers.

The actuarial liability for future workers' compensation reported on the schedule includes the expected liability for death, disability, medical and miscellaneous costs for approved cases. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period.

SECTION IB
NOTES TO THE SCHEDULE OF ACTUARIAL LIABILITY,
NET INTRA-GOVERNMENTAL ACCOUNTS RECEIVABLE
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AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2001

Consistent with past practice, these projected annual benefit payments have been discounted to present value using the Office of Management and Budget's (OMB) economic assumptions for 10-year Treasury notes and bonds.

The interest rate assumptions utilized for discounting were as follows:

5.21% in year 1 and thereafter.

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (cost of living allowance or COLA) and medical inflation factors (consumer price index-medical or CPI-Med) are applied to the calculation of projected future benefits. These factors are also used to adjust the historical payments to current year constant dollars.

The compensation COLA and the CPI-Med used in the model's calculation of estimates were as follows:

<u>FY</u>	<u>COLA</u>	<u>CPI-Med</u>	<u>FY</u>	<u>COLA</u>	<u>CPI-Med</u>
1990	4.43%	8.40%	1998	2.70%	2.77%
1991	5.03%	9.36%	1999	1.53%	3.50%
1992	5.00%	7.96%	2000	1.97%	3.70%
1993	2.83%	6.61%	2001	2.93%	4.42%
1994	2.77%	5.27%	2002	3.33%	4.44%
1995	2.57%	4.72%	2003	3.00%	4.15%
1996	2.63%	3.99%	2004	2.56%	4.09%
1997	2.77%	3.11%	2005+	2.50%	4.09%

The medical inflation rates presented are the average of published quarterly rates covering the benefit payment fiscal year. The compensation inflation rates presented are the blended rates used by the model rather than the published March 1 FECA-COLA factor from which the blended rates are derived.

3. NET INTRA-GOVERNMENTAL ACCOUNTS RECEIVABLE

Net intra-governmental accounts receivable is the total of the amounts billed to Federal agencies which had not yet been paid as of September 30, 2001, plus the accrued receivable for benefit payments not yet billed for the period July 1, 2001 through September 30, 2001, less applicable credits. The Special Benefit Fund also receives an appropriation for the special cases where employing agencies are not charged for compensation or medical bill payments.

SECTION IB
NOTES TO THE SCHEDULE OF ACTUARIAL LIABILITY,
NET INTRA-GOVERNMENTAL ACCOUNTS RECEIVABLE
AND BENEFIT EXPENSE
AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2001

Other agencies for whom the Fund does not receive an appropriation recognize the amount of the current chargeback billing as an expense. Some of these agencies receive, as part of their annual appropriation, funding for FECA benefits.

In addition, certain corporations and instrumentalities are assessed under the Federal Employees' Compensation Act for a fair share of the costs of administering disability claims filed by their employees. The fair share costs are included in the net intra-governmental accounts receivable.

4. BENEFIT EXPENSE

Benefits paid and accrued consists of benefit payments for compensation for lost wages, schedule awards, death benefits and medical benefits paid and accrued under FECA for the period October 1, 2000 through September 30, 2001, plus the net change in the actuarial liability for the year. The amount paid and accrued for compensation for lost wages, schedule awards, death benefits and medical benefits totaled \$2.201 billion. The net change in the actuarial liability for the year was \$2.945 billion. The total amount of benefit expense for the fiscal year was \$5.146 billion.

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**SECTION IIA
INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES**

**D. Cameron Findlay, Deputy Secretary of Labor
Employment Standards Administration, U.S. Department of Labor,
General Accounting Office, Office of Management and Budget and Other Specified Agencies:**

We have performed the procedures described in the Agreed-Upon Procedures and Results, Section IIC, which were agreed to by the U.S. Department of Labor, General Accounting Office, Office of Management and Budget, the CFO Act agencies and other specified agencies listed in the Schedules of Actuarial Liability by Agency, Net Intra-Governmental Accounts Receivable by Agency and Benefit Expense by Agency, Section IIB-1, 2 and 3 (the parties specified) of this special report, solely to assist you and such agencies with respect to the accompanying Schedules of Actuarial Liability by Agency, Net Intra-Governmental Accounts Receivable by Agency and Benefit Expense by Agency (Section IIB 1, 2 and 3, respectively) of the Federal Employees' Compensation Act Special Benefit Fund as of and for the year ended September 30, 2001.

The Department of Labor is responsible for the Schedules (Section IIB 1, 2 and 3). The Schedule of Actuarial Liability by Agency at September 30, 2001, represents the present value of the estimated future benefits to be paid pursuant to the Federal Employees' Compensation Act. The Schedule of Net Intra-Governmental Accounts Receivable by Agency is the total of the amounts billed to Federal agencies through June 30, 2001 which had not yet been paid as of September 30, 2001 plus the accrued receivable for benefit payments not yet billed for the period July 1, 2001 through September 30, 2001, less the credits due from the public. The Schedule of Benefit Expense by Agency is the benefits paid and accrued for the fiscal year ended September 30, 2001, plus the net change in the actuarial liability for the year.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and with *Government Auditing Standards*, issued by the Comptroller General of the United States.

An actuary was engaged to perform certain procedures relating to the actuarial liability as described in Section IIC.

We express no opinion on the Federal Employees' Compensation Act Special Benefit Fund's internal controls over financial reporting or any part thereof.

The sufficiency of the procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described in Section IIC either for the purpose for which this report has been requested or for any other purpose. Our agreed-upon procedures and results are presented in Section IIC of this report.

We were not engaged to, and did not perform an audit of the Schedules of Actuarial Liability by Agency, Net Intra-Governmental Accounts Receivable by Agency and Benefit Expense by Agency, the objective of which is the expression of an opinion on the Schedules or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. This report is intended solely for the information and use of the U.S. Department of Labor, General Accounting Office, Office of Management and Budget and those Federal agencies (listed in Section IIB) of this report and is not intended to be and should not be used by anyone other than these specified parties.

Carmichael, Beasley, Jewell & Company

November 26, 2001

SECTION IIB-1
U.S. DEPARTMENT OF LABOR
EMPLOYMENT STANDARDS ADMINISTRATION
FEDERAL EMPLOYEES' COMPENSATION ACT
SPECIAL BENEFIT FUND
SCHEDULE OF ACTUARIAL LIABILITY BY AGENCY
AS OF SEPTEMBER 30, 2001

AGENCY	Actuarial Liability (Dollars in thousands)
Agency for International Development (AID)	\$30,905
Environmental Protection Agency (EPA)	39,633
Federal Emergency Management Agency (FEMA)	25,241
General Services Administration (GSA)	198,853
National Aeronautics and Space Administration (NASA)	69,672
National Science Foundation (NSF)	1,806
Nuclear Regulatory Commission (NRC)	10,849
Office of Personnel Management (OPM)	13,752
United States Postal Service (USPS)	7,399,470
Small Business Administration (SBA)	32,255
Social Security Administration (SSA)	278,345
Tennessee Valley Authority	657,530
U. S. Department of Agriculture	878,963
U. S. Department of the Air Force	1,529,893
U. S. Department of the Army	1,955,183
U. S. Department of Commerce	223,716
U. S. Department of Defense - other	954,116
U. S. Department of Education	22,723
U. S. Department of Energy	95,748
U. S. Department of Health and Human Services	293,355
U. S. Department of Housing and Urban Development	84,758
U. S. Department of the Interior	663,471
U. S. Department of Justice	\$1,193,590

**SECTION IIB-1
U.S. DEPARTMENT OF LABOR
EMPLOYMENT STANDARDS ADMINISTRATION
FEDERAL EMPLOYEES' COMPENSATION ACT
SPECIAL BENEFIT FUND
SCHEDULE OF ACTUARIAL LIABILITY BY AGENCY
AS OF SEPTEMBER 30, 2001**

AGENCY	Actuarial Liability (Dollars in thousands)
U. S. Department of Labor	250,278
U. S. Department of the Navy	2,968,541
U. S. Department of State	56,645
U. S. Department of Transportation	1,202,987
U. S. Department of the Treasury	1,076,106
U. S. Department of Veterans Affairs (VA)	1,812,675
Other agencies ¹	973,317
Total - all agencies (Memo Only)	\$24,994,376

¹ Non-billable and other agencies for which ESA has not individually calculated an actuarial liability.

SECTION IIB-2
U.S. DEPARTMENT OF LABOR
EMPLOYMENT STANDARDS ADMINISTRATION
FEDERAL EMPLOYEES' COMPENSATION ACT
SPECIAL BENEFIT FUND
SCHEDULE OF NET INTRA-GOVERNMENTAL
ACCOUNTS RECEIVABLE BY AGENCY
AS OF SEPTEMBER 30, 2001

AGENCY	Amounts Billed Not Yet Paid(1) (Dollars in thousands)	Amounts Expended Not Yet Billed (2) (Dollars in thousands)	Credits Due from Public (3) (Dollars in thousands)	Net Intra-Governmental Accounts Receivable(4) (Dollars in thousands)
Agency for International Development	\$6,591	\$854	(\$30)	\$7,415
Environmental Protection Agency	6,807	993	(33)	7,767
Federal Emergency Management Agency	4,762	668	(24)	5,406
General Services Administration	32,806	4,636	(162)	37,280
National Aeronautics and Space Administration	13,651	1,980	(71)	15,560
National Science Foundation	267	31	(1)	297
Nuclear Regulatory Commission	1,547	241	(8)	1,780
Office of Personnel Management	2,110	307	(10)	2,407
United States Postal Service	55,092	221,770	(7,095)	269,767
Small Business Administration	4,606	731	(24)	5,313
Social Security Administration	39,753	6,039	(195)	45,597
Tennessee Valley Authority	67,046	17,680	(585)	84,141
U. S. Department of Agriculture	131,508	19,347	(657)	150,198
U. S. Department of the Air Force	262,240	38,377	(1,320)	299,297
U. S. Department of the Army	268,863	39,777	(1,334)	307,306
U. S. Department of Commerce	32,437	5,090	(209)	37,318
U. S. Department of Defense - other	159,336	22,706	(790)	181,252
U. S. Department of Education	3,278	1,541	(18)	4,801
U. S. Department of Energy	14,773	2,625	(90)	17,308
U. S. Department of Health and Human Services	42,283	6,474	(212)	48,545
U. S. Department of Housing and Urban Development	14,596	2,035	(73)	16,558

1 Amounts billed through June 30, 2001 (including prior years) but not yet paid as of September 30, 2001.

2 Amounts expended but not yet billed for the period July 1, 2001 through September 30, 2001.

3 Allocation of credits due from public through September 30, 2001.

4 Total amount due to the fund for each agency as of September 30, 2001.

SECTION IIB-2
U.S. DEPARTMENT OF LABOR
EMPLOYMENT STANDARDS ADMINISTRATION
FEDERAL EMPLOYEES' COMPENSATION ACT
SPECIAL BENEFIT FUND
SCHEDULE OF NET INTRA-GOVERNMENTAL
ACCOUNTS RECEIVABLE BY AGENCY
AS OF SEPTEMBER 30, 2001

AGENCY	Amounts Billed Not Yet Paid(1) (Dollars in thousands)	Amounts Expended Not Yet Billed (2) (Dollars in thousands)	Credits Due from Public (3) (Dollars in thousands)	Net Intra-Governmental Accounts Receivable(4) (Dollars in thousands)
U. S. Department of the Interior	98,923	14,497	(495)	112,925
U. S. Department of Justice	175,616	26,531	(898)	201,249
U. S. Department of Labor	47,169	7,823	(262)	54,730
U. S. Department of the Navy	488,466	68,422	(2,431)	554,457
U. S. Department of State	15,745	2,349	(80)	18,014
U. S. Department of Transportation	196,181	28,854	(979)	224,056
U. S. Department of the Treasury	162,102	26,088	(822)	187,368
U. S. Department of Veterans Affairs	288,264	43,373	(1,437)	330,200
Other agencies	116,264	21,127	(611)	136,780
Total - all agencies (Memo Only)	\$2,753,082	\$632,966	(\$20,956)	\$3,365,092

1 Amounts billed through June 30, 2001 (including prior years) but not yet paid as of September 30, 2001.

2 Amounts expended but not yet billed for the period July 1, 2001 through September 30, 2001.

3 Allocation of credits due from public through September 30, 2001.

4 Total amount due to the fund for each agency as of September 30, 2001.

SECTION IIB-3
U.S. DEPARTMENT OF LABOR
EMPLOYMENT STANDARDS ADMINISTRATION
FEDERAL EMPLOYEES' COMPENSATION ACT
SPECIAL BENEFIT FUND
SCHEDULE OF BENEFIT EXPENSE BY AGENCY
AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2001

AGENCY	Benefits Paid and Accrued (Dollars in thousands)	Change in Actuarial Liability (Dollars in thousands)	Total Benefit Expense (Dollars in thousands)
Agency for International Development	\$2,964	\$1,086	\$4,050
Environmental Protection Agency	3,333	5,960	9,293
Federal Emergency Management Agency	2,381	3,245	5,626
General Services Administration	16,228	19,857	36,085
National Aeronautics and Space Administration	7,339	8,091	15,430
National Science Foundation	108	39	147
Nuclear Regulatory Commission	839	2,619	3,458
Office of Personnel Management	1,044	1,016	2,060
United States Postal Service	738,581	1,101,040	1,839,621
Small Business Administration	2,359	1,509	3,868
Social Security Administration	20,358	38,931	59,289
Tennessee Valley Authority	60,746	71,142	131,888
U. S. Department of Agriculture	67,353	110,431	177,784
U. S. Department of the Air Force	133,926	192,692	326,618
U. S. Department of the Army	170,515	223,505	394,020
U. S. Department of Commerce	20,368	68,069	88,437
U. S. Department of Defense - other	64,679	78,010	142,689
U. S. Department of Education	1,797	3,903	5,700
U. S. Department of Energy	9,158	11,263	20,421
U. S. Department of Health and Human Services	21,513	29,462	50,975
U. S. Department of Housing and Urban Development	7,373	10,105	17,478
U. S. Department of the Interior	50,716	78,641	129,357
U. S. Department of Justice	90,953	\$208,077	299,030

SECTION IIB-3
U.S. DEPARTMENT OF LABOR
EMPLOYMENT STANDARDS ADMINISTRATION
FEDERAL EMPLOYEES' COMPENSATION ACT
SPECIAL BENEFIT FUND
SCHEDULE OF BENEFIT EXPENSE BY AGENCY
AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2001

AGENCY	Benefits Paid and Accrued (Dollars in thousands)	Change in Actuarial Liability (Dollars in thousands)	Total Benefit Expense (Dollars in thousands)
U. S. Department of Labor	20,973	28,998	49,971
U. S. Department of the Navy	248,162	303,107	551,269
U. S. Department of State	6,925	6,729	13,654
U. S. Department of Transportation	99,446	116,242	215,688
U. S. Department of the Treasury	85,117	160,468	245,585
U. S. Department of Veterans Affairs	147,582	227,644	375,226
Other agencies ⁽¹⁾	98,075	(166,910)	(68,835)
Total - all agencies (Memo Only)	\$2,200,911	\$2,944,971	\$5,145,882

¹ Non-billable and other agencies for which ESA has not individually calculated an actuarial liability.

SECTION IIC
AGREED-UPON PROCEDURES & RESULTS

SUMMARY

Our objective was to perform specified agreed-upon procedures to the Schedules of Actuarial Liability by Agency, Net Intra-Governmental Accounts Receivable by Agency and Benefit Expense by Agency as of and for the year ended September 30, 2001, as summarized below:

- C Applied certain agreed-upon procedures as detailed in this section of the report to the estimated accrued actuarial liability of future FECA benefit payments as of September 30, 2001. A certified actuary was engaged to review the calculation of the actuarial liability.
- C Applied certain agreed-upon procedures as specified in this section of the report to the net intra-governmental accounts receivable billings and balances for the period ending September 30, 2001.
- C Applied certain agreed-upon procedures as outlined in this section of the report to the compensation and medical payments for the period October 1, 2000 to April 30, 2001 (sampling period), and for the period October 1, 2000 to September 30, 2001, and to DOL's cut-off process. Calculated the change in the actuarial liability from the prior year to the current year.

These procedures were performed in accordance with the attestation standards established by the American Institute of Certified Public Accountants and with *Government Auditing Standards*, issued by the Comptroller General of the United States.

Each section of this agreed-upon procedures report has a general overview of the section followed by a detailed listing of the agreed-upon procedures performed and the results of the procedures for each section of this engagement.

In summary, we applied the following agreed-upon procedures:

Actuarial Liability -Consistent with prior years, the actuarial liability was evaluated by an independent actuary. Agreed-upon procedures were performed on the methodology, assumptions and information used in the model. The 2001 benefit payments predicted by the model for 2000 were compared to actual payments made in 2001, and ratios were calculated that compared the change in the liability by agency to the change in the aggregate liability and the agency groupings. We also, calculated the liability to benefits paid ratio by agency.

Net Intra-Governmental Accounts Receivable - Confirmation letters regarding the accounts receivable as of September 30, 2001, were mailed and confirmed with the CFO Act and other selected agencies. Agreed-upon procedures were performed on FY 2001 accounts receivable as compared with FY 2000 accounts receivable with regards to new receivables, collections, write-offs, and chargebacks and explanations were requested for changes of over 5 percent.

Benefit Expense - Agreed-upon procedures were applied to the benefit payments made during the current fiscal year by district office, by strata, and by agency as compared to benefit payments of the prior fiscal year and to DOL's cut-off process. Calculated the change in the actuarial liability from the prior year to the current year.

SECTION IIC
AGREED-UPON PROCEDURES & RESULTS

ACTUARIAL LIABILITY

General Overview

The actuarial model and the resulting actuarial liability were evaluated by an independent actuary. The independent actuary issued a report which stated the aggregate actuarial liability was reasonably stated in accordance with Actuarial Standards. We performed agreed-upon procedures on the calculation of the actuarial liability by employing agency. Our procedures included considerations of how the change in each agency's liability related to the change in the total estimate, its own history, its group, and to the benefit payments made during the current year.

Procedures and Results

<i>Agreed-Upon Procedures Performed</i>	<i>Results of Procedures</i>
<p>Engaged a certified actuary to review the calculations of the actuarial liability as to:</p> <p>C Whether or not the assumptions used by the model were appropriate for the purpose and method to which they were applied.</p> <p>C Whether or not the assumptions were reasonable representations for the underlying phenomena which they model.</p> <p>C Whether or not such assumptions were being applied correctly and if other calculations within the model were being performed in a manner as to generate appropriate results.</p> <p>C Whether or not changes in the assumptions over the years affected trends.</p> <p>C Whether or not tests of calculations provided a reasonable basis regarding the integrity of the model as a whole.</p> <p>C Whether or not the overall results were reasonable.</p>	<p>The actuary's evaluation of the methodology used in the model did not disclose any specific concerns regarding the methodology and assumptions.</p> <p>The actuary concluded that the model calculated a liability that was generally reasonable under the method and assumptions used. The actuary tested the calculations included in the model and found that they were performed consistent with the model's stated assumptions.</p>

SECTION IIC
AGREED-UPON PROCEDURES & RESULTS

<i>Agreed-Upon Procedures Performed</i>	<i>Results of Procedures</i>
<p>Confirmed with the American Academy of Actuaries and the Casualty Actuarial Society as to whether the actuary was accredited and in good standing with the associations. Obtained a statement of independence from the actuarial firm. Obtained two references from clients of the actuarial firm as to the actuary's work.</p>	<p>The actuarial specialist was accredited and in good standing with the American Academy of Actuaries and the Casualty Actuarial Society. The actuarial consulting firm certified that they were independent from DOL-FECA. The actuarial consulting firm provided references stating experience in the type of work required for this engagement. The references provided confirmed the work of the actuarial firm.</p>
<p>Compared the economic assumptions used by the model for 2000 to the assumptions used during the current year.</p>	<p>The model utilizes estimates of prospective inflation and interest rates to project and then discount future benefit payments. As published by OMB, prospective interest rates of 10-year Treasury bills decreased from 6.3% for the prior year to 5.21% for the current year. The liability was approximately 11% higher due to the decrease in the interest rate from the prior year.</p> <p>The short-term increases in both inflation factors predicted were offset by minor decreases in the long-term predictions. For instance, the Bureau of Labor Statistics' (BLS) estimates of COLA for the current period increased from 1.97% last year to 3.33% this year. However, starting in 2004, BLS predicts a recurring inflation factor of 2.5%, which is a .1% lower recurring factor than had been predicted last year for the long-term. This pattern repeats itself with the current medical inflation rate increasing from 3.69% to 4.44% for 2002, offset by a recurring factor of 4.09% starting in 2004, .07% lower than the long-term factors predicted last year (4.16%). The change in inflation factors resulted in an estimate approximately .21% lower than would have been estimated using the 2000 estimated inflation rates which indicates that the effect of the change in inflation rates is minimal.</p>
<p>Compared the interest and inflation rates used by the model to the source documents from which they were derived.</p>	<p>We determined that the interest rates used in the model were the same interest rates stated in OMB's publication.</p> <p>We determined that the inflation rates used in the model were derived from the BLS indices cited with a minor exception, as described below. The rates from the BLS indices were adjusted to accommodate the difference between the year end of the actuarial model and the year end of the cited rates. We recalculated the blended rates without exception.</p> <p>In updating the settings page, data entry inadvertently carried forward the wrong historic inflation rate for year 2000 which resulted in a .15% overstatement in the actuarial liability. The range of impact by agency varied from .07% to .23%.</p>

SECTION IIC
AGREED-UPON PROCEDURES & RESULTS

<i>Agreed-Upon Procedures Performed</i>	<i>Results of Procedures</i>
<p>Compared the actuarial liability by agency as reported in a Memorandum to the CFOs of Executive Departments of the unaudited estimated actuarial liability for future workers' compensation benefits to the liability calculated by the model and reported on the Projected Liability Reports.</p>	<p>The liability reported on the Memorandum issued to the CFOs of Executive Departments of the unaudited estimated actuarial liability for future workers' compensation benefits agreed with the liability calculated by the model and reported on the Projected Liability Reports.</p>
<p>Compared by agency and in aggregate, the 1998-2001 benefit payments downloaded to the model with the amount of benefit payments reflected in the Summary Chargeback Billing Report, to determine whether the benefit payment data used by the model was the same data upon which agreed-upon procedures for benefit payments were performed.</p>	<p>The amounts in aggregate agreed without exception. By agency, approximately \$168,000 of 1998 DOT benefit payments had been downloaded as "Other Agencies". This amount represented approximately .17% of DOT's 1998 payments. No other exceptions were noted.</p>
<p>Determined the basis of the agency groupings and perform tests to establish the consistency of the grouping. Determined the impact of such inclusion in a grouping.</p>	<p>The grouping was determined premised on a claim duration probability study performed by a DOL economist. Both the designers of the model and the independent actuary agreed that the study provided a basis for such groupings. The groupings in the model agreed to the groupings in the study. The study included data through 1991, and therefore, agencies newer to FECA had not been studied. These agencies were placed in Group III, whose average probability approximated the average of the aggregate population. These agencies are AID, FEMA, NSF, NRC, OPM, SBA, and SSA.</p> <p>Group experience is used to develop the backfilling factors and is factored into the loss development feature used to project the pattern of future payments. Experience of the group would calculate most significantly in smaller agencies.</p> <p>The independent actuary has recommended a reduction in the weighting factor associated with agency experience due both to the age and completeness of the study upon which it was based and certain aspects of group behavior.</p> <p>The groupings for 2001 were consistent with 2000.</p>

SECTION IIC
AGREED-UPON PROCEDURES & RESULTS

<i>Agreed-Upon Procedures Performed</i>	<i>Results of Procedures</i>
<p>Calculated the change in the actuarial estimate by agency and in aggregate. Identify those agencies that changed more than 5% of the aggregate change.</p>	<p>The aggregate liability increased 14.95% over the prior year. By group, the increases ranged from 12.59% to 17.48%. Eight agencies were identified that increased by less than 8% or more than 18%. These agencies included NSF (2.21%), SBA (4.91%), OPM (7.98%), AID (3.64), Education (20.74%), Commerce (43.73%), NRC (31.82%), and Justice (21.11%).</p> <p>An analysis of these agencies' benefit payments as a factor in estimating their future liability produced results within 10% of the model's estimate for Education, Commerce, OPM, NRC, and Justice indicating that the disproportionate increase in these agencies' liabilities to the overall increase was due in part to the change in the agencies' benefit payments.</p> <p>The indication that the remaining three agencies (NSF, AID and SBA) might be understated based on their disproportionately low increase was contradicted by other procedures performed. For example, the liability to benefits paid ratio (LBP) for NSF and SBA were 16.3 and 13.3, both above the average ratio for the model which was 11.6. AID was lower than average with an LBP at 10.3, but not outside the representative range of values. The comparison of the actual benefit payments to model-projected payments indicated that the model projected within 5% for both AID and SBA. NSF's actual benefit payments were lower than projected.</p>

SECTION IIC
AGREED-UPON PROCEDURES & RESULTS

<i>Agreed-Upon Procedures Performed</i>	<i>Results of Procedures</i>
<p>Compared the benefit payments predicted by the model for year 2001 to the actual benefit payments. Identified the agencies where the model computed benefit payments that varied by more than 20% from actual benefit payments made during the 2001 year.</p>	<p>Despite a 5.16% increase in actual benefit payments, last year's model projected benefit payments 10% higher than actually occurred during 2001. The increase in payments during FY2001, consisted of a 9.88% increase in medical benefit payments and a 3.4% increase in compensation benefit payments. In constant dollars, the payments increased 1.89%, mostly as a result of increases in medical payments. The aggregate trend of the last four years in constant dollars is 1.21% annually, consisting principally of increases in medical payments.</p> <p>Approximately 73% of the agencies had projected benefit payments that varied by less than 15%, with these agencies having a range from .33% to 38.26%. The following three agencies' actual payments varied from the projected benefit payments by more than 20%: State (+38.26%), NSF (-26.4%), and Justice (-20.63%).</p> <p>State's benefit payment increase over the last four years in constant dollars was approximately 7.6%. The model projected payments of \$5million for 2001, actual payments were \$7million for 2001 and the average annual constant dollar payments over the last four years were \$6million.</p> <p>NSF's benefit payments increased during the previous two years but decreased under 1997 payment levels during 2001 with a 31.18% decrease in constant dollars. Without the decrease, the difference between the projected benefit payments and the actual benefit payments would have been less than 20%. The model projected payments of \$150,360 for the 2001 year, slightly less than the 2000 payments. Actual payments were \$110,670 for the year ended June 30, 2001. Average annual constant dollar payments over the last four years were approximately \$133,000.</p> <p>Justice's benefit payment pattern increase over the last four years in constant dollars was 6.5%. The model projected payments of \$115million for 2001. Actual payments were \$91million for the year ended June 30, 2001, which is commensurate with increases in prior years. Average annual constant dollar payments over the last four years were \$80million. The LBP ratio for Justice, while higher than the average, is not outside the range of LBP ratios.</p>

SECTION IIC
AGREED-UPON PROCEDURES & RESULTS

<i>Agreed-Upon Procedures Performed</i>	<i>Results of Procedures</i>
<p>Calculated the ratio of the agency liability to the benefit payments (LBP) by agency and compared this to the overall ratio and group ratio. Identified and sought explanation for those agencies for which the ratio varied by more than 10% from their group ratio, and lay outside the range of group averages.</p>	<p>The liability to benefits paid ratio of the aggregate liability was approximately 11.6%. By group, the range of the ratio was from 10.3% (Postal Service) to 13.5% (Group III). The following agencies varied by more than 10% from their group's ratio and fell outside the range of group ratios: HHS (13.7%-Group I), NSF (16.3%-Group III) , State (8.0%-Group IV), and NASA (9.6%-Group IV).</p> <p>Actual benefit payments for HHS were less than the projected payments by 17.39% in a year when benefit payments were consistent with trends. However, a predictive test of the future liability that considered the change in the agency's benefit payments as factor in estimating the future liability of HHS was within 2% of the model's calculation, indicating consistency with prior year estimate and the aggregate model behavior pertaining to the change in economic assumptions.</p> <p>NSF's downward trend in 2001 benefit payments was not representative of NSF's payment history. NSF's ratio falls within an acceptable range if the average constant dollar payments over the last four years is substituted as the denominator. A predictive test of the future liability that considered the change in the agency's benefit payments as a factor in estimating the future liability, resulted in a liability 19.15% lower than the model's calculation.</p> <p>Actual benefit payments were higher than predicted by 38.26% and 13.59% for State and NASA, respectively. Also, a predictive test of the future liability based on the change in the agency's benefit payments resulted in liabilities higher by 10.57% and 12.58% than the model calculated liabilities.</p>
<p>Compared the actuarial liability for the Postal Service calculated by the model to the actuarial liability calculated by the Postal Service's independent model.</p>	<p>The actuarial liability computed for the Postal Service was 23.81% higher than the Postal Service's independent computation. Last year, FECA's model was 9.86% higher than the Postal Service's model. The increase in the difference is primarily due to the decrease in the interest rate used by FECA. Using last year's economic assumptions, the FECA model would have calculated a Postal Service liability 11.18% higher than the Postal Service' independent computation. The Postal Service has not varied their economic assumptions from last year. Using the net effective interest rate used by the Postal Service in FECA's model results in FECA's liability being 7.31% higher than the Postal Service calculation.</p> <p>The Postal Service is not grouped in the model with any other agency. Both models are premised upon historic extrapolation models, but vary in methodology.</p>

SECTION IIC
AGREED-UPON PROCEDURES & RESULTS

<i>Agreed-Upon Procedures Performed</i>	<i>Results of Procedures</i>
Performed a limited survey of interest and inflation rates utilized by the Postal Service, OPM, and two other sources with governmental actuarial liabilities experience. Determined how the surveyed net effective rates compared to the interest rates used in the model.	Surveyed rates for compensation ranged from 3.375% to 1.84% and for medical ranged from 1.66% to 1.05%. The model's rates compute to net effective rates of approximately 2.61% for compensation and 1.07% for medical. The medical portion of the liability comprises approximately 19% of the total, up from 17.5% last year.

SECTION IIC
AGREED-UPON PROCEDURES & RESULTS

NET INTRA-GOVERNMENTAL ACCOUNTS RECEIVABLE

General Overview

Agreed-upon procedures were applied to the net intra-governmental accounts receivable as of September 30, 2001, as compared with net intra-governmental accounts receivable as of September 30, 2000, with regards to new receivables, collections, write-offs, and chargebacks.

We compared the fiscal year 2001 net intra-governmental accounts receivable to the fiscal year 2000 net intra-governmental accounts receivable and investigated changes of over 5 percent. We also compared new receivables, collections and write-offs for fiscal year 2001 to fiscal year 2000; calculated the accounts receivable outstanding for each fiscal year; calculated the chargeback and fair share total for 2001; and confirmed the chargeback amounts billed for claimants' payments directly with the Federal agencies charged.

Procedures and Results

<i>Agreed-Upon Procedures Performed</i>	<i>Results of Procedures</i>
Compared prior year ending net intra-governmental accounts receivable balances to the current year net intra-governmental accounts receivable balance by Federal agency. Determined whether the increase or decrease was in proportion to the change in amounts billed.	The change in the net intra-governmental accounts receivable balances was in proportion to the increases in benefit payments billed to each Federal agency.
Compared the fiscal year 2001 account activity by Federal agency for write-offs and new accounts receivable to prior fiscal year activity. Determined whether the increase or decrease was in proportion to the change in amounts billed and collected.	The change in the write-offs and new accounts were in proportion with the amounts billed and collected.
Confirmed accounts receivable balances due as of September 30, 2001, for all Federal agencies.	Returned confirmations were reviewed for agreement to amounts recorded. Explanations for the differences were obtained. DOL's CFO office has an interagency workgroup which works to resolve any differences with other agencies.
Compared the chargeback billing report for the period, July 1, 2000 through June 30, 2001, to the amounts billed to the Federal agencies.	The amounts billed to the Federal agencies for the period July 1, 2000 through June 30, 2001, agreed to the chargeback billing report.
Recalculated the allocation of credits due from the public.	No exceptions were noted.
Determined, for a non-statistical sample of 100 items, whether claimant accounts receivable overpayments were properly established and classified.	No exceptions were noted.

SECTION IIC
AGREED-UPON PROCEDURES & RESULTS

<p>Determined, for a non-statistical sample of 26 items, whether, for cases in the preliminary status, the Letter CA-2201 or Letter CA-2202, as applicable, was properly issued to notify the claimants of the preliminary decision regarding the claimant's accounts receivable and to give the claimant an opportunity to provide additional evidence regarding the accounts receivable. Determined whether, for cases in the final status, a final decision was made as to the debt and whether the final decision was properly recorded and reported to the claimant.</p>	<p>No exceptions were noted.</p>
<p>Determined, for a non-statistical sample of 100 items, whether the proper procedures were followed with regards to the establishment of a repayment plan, the assessment of interest, the compromise or waiving of portions of interest or principal as appropriate and the pursuit of accounts receivable which were in arrears.</p>	<p>In 1 of 100 accounts receivable items sampled, an adjustment was not properly posted to DMS resulting in an overstatement of \$4,197.</p> <p>In 1 of 100 accounts receivable items sampled, a portion of the interest was improperly accrued resulting in a net overstatement of approximately \$828. In 2 of 100 accounts receivable, the interest being accrued was larger than the payments being made.</p>

SECTION IIC
AGREED-UPON PROCEDURES & RESULTS

BENEFIT EXPENSE

General Overview

Agreed-upon procedures were applied to compensation and medical benefit payments in total, by strata, by average payment and by agency for the fiscal year ended September 30, 2001, to the fiscal year ended September 30, 2000, and for the interim period of October 1, 2000 to May 31, 2001, to the interim period of October 1, 1999 to May 31, 2000. Changes in the actuarial liability from the prior year to the current year were calculated. Agreed-upon procedures were applied to DOL's cut-off process.

Procedures and Results

<i>Agreed-Upon Procedures Performed</i>	<i>Results of Procedures</i>																														
Compared the benefit payments recorded in the Automated Compensation Payment System (ACPS) and Benefit Payment System (BPS) databases to the Department of Labor's general ledger and the Department of Treasury's SF-224s as of May 31, 2001 and September 30, 2001.	The benefit payments recorded in the ACPS and BPS databases varied from the Department of Treasury's SF-224 at May 31, 2001, by .02%. As of September 30, 2001, the ACPS and BPS databases varied from the Department of Treasury's SF-224 at September 30, 2001, by .02% (\$.450 million) and from the Department of Labor's general ledger by .59% (\$12.8 million).																														
Obtained the Department of Labor's year-end cut-off procedures. Obtained the year-end adjustments made to the general ledger to prorate expenditures which overlapped fiscal years. Determined if these adjustments were recorded in the correct period.	The year-end adjustment made to the general ledger to prorate the expenditures which overlapped fiscal years agreed to the supporting documentation. The adjustments were recorded in the correct period.																														
Determined the average ACPS and BPS payments by strata for the May 31, 2001, and September 30, 2001, database and compared them to the average ACPS and BPS payments by strata for the May 31, 2000, and September 30, 2000, databases. Determined if there were any variances larger than 7%. Requested explanations from DOL for variance per strata over 7%, if any.	<p style="text-align: center;">Strata with more than 7% variances:</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 15%;"></th> <th style="width: 40%; text-align: left;"><u>ACPS</u></th> <th style="width: 45%; text-align: right;"><u>Increase/(Decrease)</u></th> </tr> </thead> <tbody> <tr> <td>5/31/01</td> <td>Credits</td> <td style="text-align: right;">-18.3%</td> </tr> <tr> <td></td> <td>Payments >\$150,000</td> <td style="text-align: right;">10.09%</td> </tr> <tr> <td>9/30/01</td> <td>Credits</td> <td style="text-align: right;">-12.1%</td> </tr> <tr> <td></td> <td>Payments <\$3,000</td> <td style="text-align: right;">-14.73%</td> </tr> <tr> <td></td> <td>Payments >\$150,000</td> <td style="text-align: right;">11.48%</td> </tr> <tr> <td></td> <td><u>BPS</u></td> <td style="text-align: right;"><u>Increase/(Decrease)</u></td> </tr> <tr> <td>5/31/01</td> <td>Credits</td> <td style="text-align: right;">10.32%</td> </tr> <tr> <td></td> <td>Payments >\$150,000</td> <td style="text-align: right;">17.22%</td> </tr> <tr> <td>9/30/01</td> <td>Payments >\$150,000</td> <td style="text-align: right;">16.45%</td> </tr> </tbody> </table> <p>The decrease in ACPS credits was due to the reduction of accounts receivable collections, the decrease in payments under \$3,000 is due to the overall increase in compensation payments due to application of the CPI and the increase of payments over \$150,000 was due to the volume of cases adjudicated by the Hearings and Review Board. The increase in BPS credits was due to the more timely monthly posting of credits in the current year and the increase in BPS payments over \$150,000 was due to the overall increase in the cost of medical benefit payments.</p>		<u>ACPS</u>	<u>Increase/(Decrease)</u>	5/31/01	Credits	-18.3%		Payments >\$150,000	10.09%	9/30/01	Credits	-12.1%		Payments <\$3,000	-14.73%		Payments >\$150,000	11.48%		<u>BPS</u>	<u>Increase/(Decrease)</u>	5/31/01	Credits	10.32%		Payments >\$150,000	17.22%	9/30/01	Payments >\$150,000	16.45%
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SECTION IIC
AGREED-UPON PROCEDURES & RESULTS

<i>Agreed-Upon Procedures Performed</i>	<i>Results of Procedures</i>				
<p>Compared the total benefit payments for each of the last 5 fiscal years. Determined if there were any variances larger than 5% for each of the 5 fiscal years. Requested explanations from DOL for variances over 5%, if any.</p>	<p>Benefit payments increased 6% in 2001.</p> <p>Medical benefit payments increased substantially over prior years resulting in higher overall benefit payments.</p>				
<p>Compared the summary chargeback billing list to the benefit payment databases as of September 30, 2001.</p>	<p>The agency chargeback billing list varied from the benefit payment databases for the fiscal year ending September 30, 2001, by .06%.</p>				
<p>Compared, by agency and in total, compensation and medical bill payments for the fiscal year ending September 30, 2001, with payments made for the fiscal year ending September 30, 2000. Requested explanations from DOL for variances in excess of 7% of the overall increase, if any.</p>	<p>Benefit payments for the fiscal year ending September 30, 2001, increased 6% overall from the prior year. Benefit payments changed by more than 7% of the overall increase, for the following agencies:</p> <table style="margin-left: 40px;"> <tr> <td>Department of Commerce</td> <td style="text-align: right;">35%</td> </tr> <tr> <td>NASA</td> <td style="text-align: right;">16%</td> </tr> </table> <p>The increase at Department of Commerce was due to the increase in claimants as a result of the decennial census and the increase at NASA was due largely to a large sum payment made as the result of a Hearings and Review Board decision on a death case dating back to 1984.</p>	Department of Commerce	35%	NASA	16%
Department of Commerce	35%				
NASA	16%				
<p>Compared the benefit payments made by each district office as of May 31, 2001, and September 30, 2001, to the prior year data. Determined if there were any variances larger than 5%. Requested explanations from DOL for variances over 5%, if any.</p>	<p>Benefit payments by district office for the period through May 31, 2001 and September 30, 2001, varied from the prior year by 6.41% to 5.92% for the 12 district offices. Benefit payments increased by more than 5% of the average change for the Chicago (18%, 17%) and National Office (80%, 70%) at May 31, 2001 and September 30, 2001, respectively.</p> <p>The increase in cases at the Chicago office was due to the movement of cases from other district offices. The increase in cases at the National Office was the result of a change in the coding of ECAB cases from the district office to Hearings and Review in the National Office.</p>				
<p>Calculated a 12-month projected benefit payment based on the May 31, 2001 database (8 month). Compared the projected 12-month total benefit payments to the actual 12-month total benefit payments as of September 30, 2001.</p>	<p>The actual 12-month total benefit payments varied from the projected 12-month total benefit payments for the fiscal year ending September 30, 2001, by -1.99%.</p>				
<p>Calculated the change in the actuarial liability reported on the current year and prior year's compilation report prepared by DOL.</p>	<p>No exceptions were noted.</p>				

**Carmichael
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**SECTION IIIA
INDEPENDENT SERVICE AUDITORS' REPORT**

**D. Cameron Findlay, Deputy Secretary of Labor
Employment Standards Administration, U.S. Department of Labor,
General Accounting Office, Office of Management and Budget, and Other Specified Agencies:**

We have examined the accompanying description of the policies and procedures of the Division of Federal Employees' Compensation applicable to general computer controls and the processing of transactions for users of the Federal Employees' Compensation Act Special Benefit Fund. Our examination included procedures to obtain reasonable assurance about whether (1) the accompanying description presents fairly, in all material respects, the aspects of DFEC policies and procedures that may be relevant to the internal controls of users of the FECA Special Benefit Fund; (2) the control structure policies and procedures included in the description were suitably designed to achieve the control objectives specified in the description, if those policies and procedures were complied with satisfactorily, and users of the FECA Special Benefit Fund applied the internal control policies and procedures contemplated in the design of DFEC's policies and procedures, as described in Section IIIB; and (3) such policies and procedures had been placed in operation as of April 30, 2001.

DFEC uses SunGard Computer Services, Inc. (SunGard), to process information and to perform various functions related to the data processing services of the FECA Special Benefit Fund. The accompanying description includes only those policies and procedures and related control objectives at DFEC, and does not include policies and procedures and related control objectives at SunGard, a subservicer. The control objectives were specified by the management of DFEC and did not extend to the controls at SunGard. Our examination did not extend to the controls of SunGard, the subservicer. Our examination was performed in accordance with standards established by the American Institute of Certified Public Accountants, *Government Auditing Standards*, issued by the Comptroller General of the United States, and included those procedures we considered necessary in the circumstances to obtain a reasonable basis for rendering our opinion.

In our opinion, the accompanying description of the policies and procedures of DFEC presents fairly, in all material respects, the relevant aspects of DFEC's policies and procedures that had been placed in operation as of April 30, 2001. Also, in our opinion, the policies and procedures, as described, are suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described policies and procedures were complied with satisfactorily and users of the FECA Special Benefit Fund applied the internal control policies contemplated in the design of the DFEC's policies and procedures.

In addition to the procedures we considered necessary to render our opinion, as expressed in the previous paragraph, we applied tests to specified policies and procedures to obtain evidence about their effectiveness in meeting the related control objectives during the period from October 1, 2000 through April 30, 2001. The specific policies and procedures and the nature, timing, extent, and results of the tests are summarized in Section IIIC. This information has been provided to the users of the FECA Special Benefit Fund and to their auditors to be taken in consideration, along with information about the internal controls at user organizations. In our opinion, the policies and procedures that were tested, as described in Section IIIB were operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that the specified control objectives were achieved during the period from October 1, 2000 through April 30, 2001. However, the scope of our engagement did not include tests to determine whether control objectives not listed in Section IIIC were achieved; accordingly, we express no opinion on the achievement of control objectives not included in Section IIIC.

The relative effectiveness and significance of specific policies and procedures at DFEC and their effect on assessment of control risk at user organizations are dependent on their interaction with the policies and procedures, and other factors present at individual user organizations. We have performed no procedures to evaluate the effectiveness of policies and procedures at individual user organizations.

The description of policies and procedures at DFEC is as of April 30, 2001, and information about tests of the Described Policies and Procedures of specified policies and procedures covers the period October 1, 2000 through April 30, 2001. Any projection of such information to the future is subject to the risk that, because of change, the description may no longer portray the system in existence. The potential effectiveness of specified policies and procedures at DFEC is subject to inherent limitations and, accordingly, errors or irregularities may occur and not be detected. Furthermore, the projection of any conclusions based on our findings to future periods is subject to the risk that changes may alter the validity of such conclusions.

This report is intended solely for the information and use of the U.S. Department of Labor, General Accounting Office, Office of Management and Budget, users of the FECA Special Benefit Fund (Federal agencies listed in Section IIB of this report), and the independent auditors of its users.

Carmichael, Beasley, Jewell & Company

November 26, 2001

SECTION IIIB
DIVISION OF FEDERAL EMPLOYEES' COMPENSATION'S
POLICIES AND PROCEDURES

OVERVIEW OF SERVICES PROVIDED

Overview

The Federal Employees' Compensation Act Special Benefit Fund was established by FECA to provide income and medical cost protection worldwide for job-related injuries, diseases, or deaths of civilian employees of the Federal Government and certain other designated groups. The DOL-ESA is charged with the responsibility of operation and accounting control of the Special Benefit Fund under the provisions of FECA. Within ESA, the Office of Workers' Compensation Program, DFEC administers the FECA program.

In 1908, Congress passed legislation providing workers' compensation to Federal workers whose jobs were considered hazardous. Due to the limited scope of this legislation, FECA was passed in 1916, extending workers' compensation benefits to most civilian Federal workers. FECA provided benefits for personal injuries or death occurring in the performance of duty.

FECA provides wage replacement (compensation) benefits and payment for medical services to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and the beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Not all benefits are paid by the program since the first 45 days from the date of the traumatic injury are usually covered by putting injured workers in a continuation of pay (COP) status. FECA also provides rehabilitation for injured employees to facilitate their return to work.

Actuarial Liability

Within ESA, the Division of Financial Management has been designated as the responsible agency to generate the annual FECA actuarial calculations. The Division of Planning, Policy and Standards (DPPS) has the direct responsibility for preparing the actuarial liability and the initial review of the detailed calculations. The DPPS also has the responsibility of investigating and revising the initial model's calculations as deemed appropriate. The FECA actuarial liability is prepared on an annual basis as of September 30, of each fiscal year.

The actuarial model was originally developed during 1991 as spreadsheets by a DOL Office of Inspector General (OIG) contractor (a certified actuary). The model utilized the basic theory that future benefit payment patterns will reflect historic payment patterns. Under this approach, a projection can be made into future years based on historical payments. This selected approach is commonly referred to as the "paid loss extrapolation method." This method was chosen for its simplicity, availability of payment data, cost savings and reliability.

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Since 1991, the number of agencies for whom the liability is calculated increased. These additional agencies are smaller in size than that of the agencies for whom the original model was developed. Historic extrapolation models are generally held to work best with larger populations. As a result, the calculations from year to year were more volatile than those for the original agencies, and preparing the estimates became increasingly cumbersome. Therefore, during FY 2000, DOL engaged actuaries to create a new model.

The new model shares its fundamental theory with the old model; future benefit payments are predicted based upon the pattern of historical payments. As before, in order to run the model, the DPPS imports the current year's actual FECA payments by each chargeback agency (FECA Chargeback System tapes). This payment data per agency is subdivided into incurred injury year cells to provide the extra dimension of the historic payment pattern. The chargeback tapes (historic basis) are maintained by the FECA Program, which supplies the historic data to DPPS annually. Both models included historical payments in constant dollars, inflation and discount factors as derived from OMB economic forecasting packages in its calculations of future payments. Therefore, both models share a sensitivity to economic assumptions.

However, the new model varies from the previous model. For instance, claims incurred but not reported (IBNR) was excluded from the previous model in accordance with Appendix B - Liability Recognition and Measurement Matrix of SFFAS 5. The new model recognizes IBNR, which enhances its comparability to private sector insurance model. FASAB has concurred with its inclusion. Also, the previous model predicted future payments by multiplying the most recent year's payments by decay rates derived from historical payments. In contrast, the new model develops an estimate of total anticipated payments by injury year, subtracts cumulative payments to date, and allocates the remaining payments to future years premised upon loss development factors.

In order to establish cumulative payments to date, the new model utilizes a backfilling technique, a casualty model methodology. Because FECA makes payments on injuries incurred as far back as 1952, and the old model's data base of payments begins in 1989, backfilling was necessary to complete the matrices of cost by injury to payment year. The technique consists of extrapolating patterns from actual payments for the years included in the data base, and developing reverse decay rates to predict what the costs should have been in the years prior to the base of known payments.

In developing the backfilling factors, the model makes use of groupings of agencies. The groupings were established based upon a claim duration study performed by a DOL economist. Most agencies were placed in groups with a similar probability of a claim extending over a certain period of time. The agencies added since 1991, were included in the group whose probabilities approximated the average of all the agencies. The group is both affected by and affects the agencies within it. For instance, smaller agencies are more affected than larger agencies. Besides the development of the backfilling factors, the grouping affects the predicted loss development factors. The loss development factors are a weighted combination of agency, group, and all-agency factors. The new model includes extending the duration of the model until the estimated payments left to be paid expire.

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Chargeback System

DFEC is required to furnish to each agency and instrumentality, before August 15th of each year, a statement or bill showing the total cost of benefits and other payments made during the period July 1 through June 30. DFEC established the chargeback system to furnish these statements.

The chargeback system creates bills which are sent to each employing agency for benefits that have been paid on the agency's behalf. The bills are for a fiscal year inclusive of benefits paid from July 1 through June 30. Each agency is required to include in its annual budget estimates for the fiscal year beginning in the next calendar year, a request for an appropriation for the amount of these benefits. These agencies are then required to deposit in the Treasury, the amount appropriated for these benefits to the credit of the Fund within 30 days after the appropriation is available.

If an agency is not dependent on an annual appropriation, then the funds are required to be remitted during the first 15 days of October following the issuance of the bill.

The bills sent to agencies for the chargeback system contain identifying codes that indicate both the year being billed and the year in which the bill is to be paid. Each bill sent out in fiscal year 2001 and due in fiscal year 2002 would be coded as follows: 01-XXX-02. The 01 indicates the year the bill is generated, the XXX indicates the numerical sequence of the bill, and the 02 would indicate the year that the bill would be due and paid.

Operational Offices

DFEC administers FECA through 12 district offices and a national headquarters located in Washington, D.C. The District offices and the areas covered by each District office are:

<u>District</u>	<u>Location of District Office</u>	<u>States or Regions Covered by District Office</u>
1	Boston	Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont
2	New York	New Jersey, New York, Puerto Rico, Virgin Islands
3	Philadelphia	Delaware, Pennsylvania, West Virginia
6	Jacksonville	Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, Tennessee
9	Cleveland	Indiana, Michigan, Ohio
10	Chicago	Illinois, Minnesota, Wisconsin
11	Kansas City	Iowa, Kansas, Missouri, Nebraska, all DOL employees
12	Denver	Colorado, Montana, North Dakota, South Dakota, Utah, Wyoming
13	San Francisco	Arizona, California, Guam, Hawaii, Nevada
14	Seattle	Alaska, Idaho, Oregon, Washington

SECTION IIIB
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16	Dallas	Arkansas, Louisiana, New Mexico, Oklahoma, Texas
25	Washington, D.C.	District of Columbia, Maryland, Virginia, and overseas/special claims
50	National Office	Branch of Hearings and Review

Subservicer

DFEC utilizes a subservicer, SunGard, to provide computer hardware and a communications network between the national office, the District offices and the U.S. Treasury, to maintain a tape library and disk drive backup and for other computer mainframe functions. SunGard's control policies and procedures and related control objectives were omitted from the description of Control Objectives and Tests of Policies and Procedures contained in this report. Control Objectives and Tests of Policies and Procedures included in this report include only the objectives that DFEC's control policies and procedures are intended to achieve.

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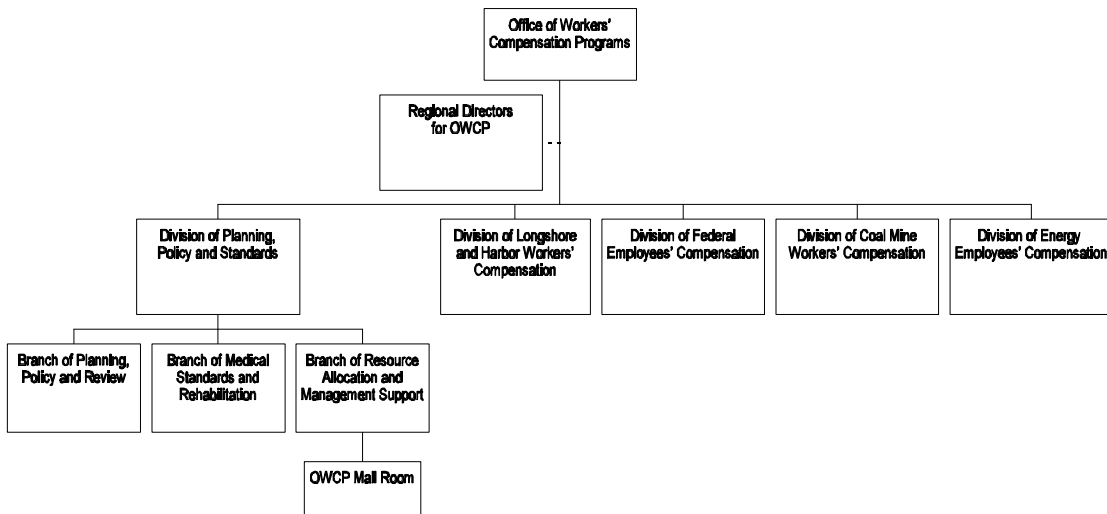
OVERVIEW OF CONTROL ENVIRONMENT

An organization's control environment reflects the overall attitude, awareness and actions of management and others concerning the importance of controls and the emphasis given to control in the organization's policies and procedures, methods, and organizational structure. The following is a description of the key policies and procedures that are generally considered to be part of the control environment.

Organization and Management

OWCP is one of four agencies within ESA. DFEC is one of five divisions within OWCP.

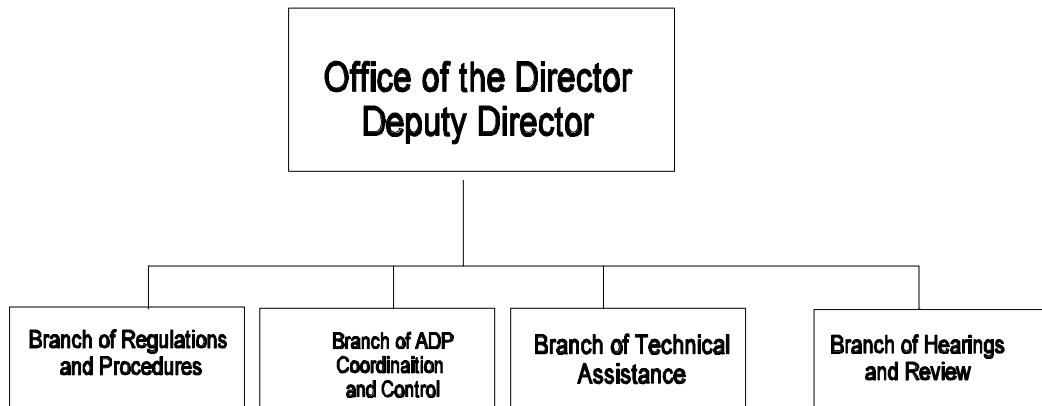
Office of Workers' Compensation Programs, ESA



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DFEC has four branches:

1. Branch of Regulations and Procedures - This branch assists in developing claims and benefit payment policies, regulations and procedures; prepares and maintains the program's manuals; plans and conducts studies of claims and benefit payment functions; and participates in training activities and accountability reviews of District offices.
2. Branch of Automatic Data Processing (ADP) Coordination and Control - This branch provides ADP support services for the FECA program. It coordinates the overall ADP work of DFEC and provides policy direction for ADP systems activities.
3. Branch of Technical Assistance - This branch develops materials for use by District offices and other Federal agencies to educate Federal employees in reporting injuries and claiming compensation under the FECA. They also hold workshops for compensation personnel in various Federal agencies and for groups of employee representatives.
4. Branch of Hearings and Review - This branch is responsible for conducting hearings and reviews of the written record in FECA cases. Hearing Representatives issue decisions which sustain, reverse, modify, or remand cases to the OWCP District offices.



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Branch Operations

A Branch chief reports directly to the Deputy Director. The Director and Deputy Director coordinate the operations of the 12 District offices.

District Offices

A District Director (DD) oversees the daily operations at each of the 12 District offices. The DD in each office oversees the claims section and a Fiscal Officer who oversees the Fiscal Section.

The District offices serve the persons residing within their district. When an individual moves from one district to another, the individual's case file and responsibility for monitoring the case is transferred to the district office where the individual has moved, unless the case is for a claimant specified as a special employee. Cases specified as special employee cases are always processed at District office 50.

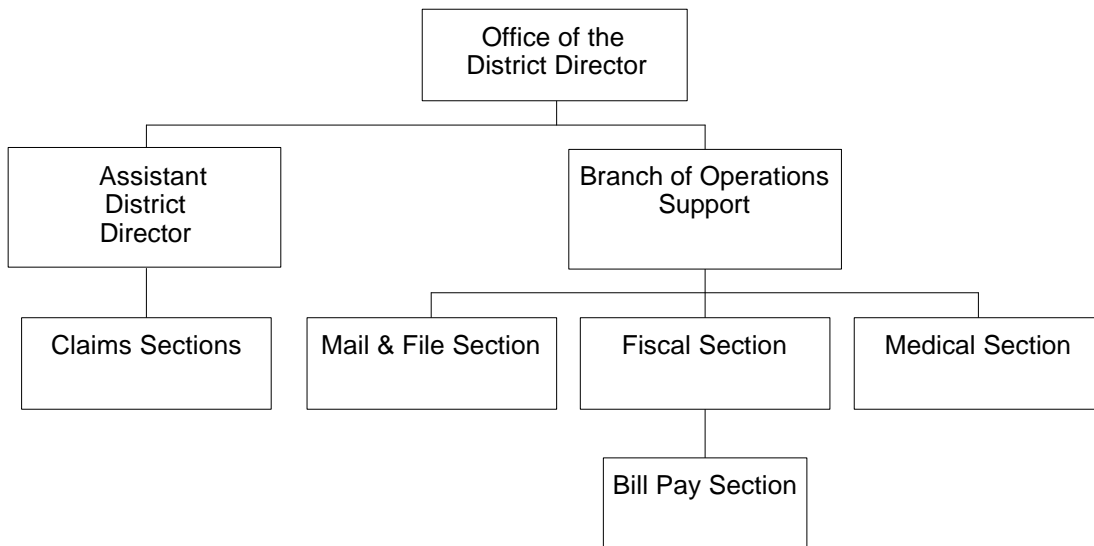
The specific functions within the District offices are:

1. Claims Functions. In each district office are two or more Supervisory Claims Examiners, who are responsible for the operation of individual claims units, and a number of Senior Claims Examiners and Claims Examiners (CE), who have primary responsibility for handling claims, including authorization of compensation and eligibility for medical benefits. Individuals at each level of authority from DD to CE have been delegated specific responsibilities for issuing decisions on claims.
2. Fiscal Functions. Each District office usually has a Fiscal Operations Specialist and at least one Benefit Payment Clerk. Some District offices have a Bill Pay Supervisor as well. The unit is generally responsible for resolution of problems with medical bills, complex calculations of benefits and overpayments, adjustments to compensation and bill pay histories, changes in health benefits and life insurance coverage, and financial management records. In some District offices, fiscal personnel enter compensation payments into the electronic system.
3. Medical Functions. Each District office usually has at least one District Medical Adviser (DMA) who works under contract to review individual cases, and some District offices have a District Medical Director (DMD) as well. Each District office also has a Medical Management Assistant, who arranges referrals to second opinion and referee specialists. Each District office also has a Staff Nurse, who is responsible for coordinating a number of field nurses who monitor claimants' medical progress and assist their efforts to return to work.
4. Mail and File Functions. Personnel in this area open, sort, and place mail; set up case files, retire case records according to established schedules; and transfer case files in and out of the District office.

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5. Vocational Rehabilitation Functions. Each District office has at least one Rehabilitation Specialist (RS) and usually a Rehabilitation Clerk. The RS manages a number of Rehabilitation Counselors, who work under contract with OWCP to help claimants obtain employment.

FECA District Office



OVERVIEW OF TRANSACTION PROCESSING

Identification and Registration of the Recipient of FECA Benefits

Authorized recipients of FECA benefits are those individuals who meet all of five eligibility criteria. Injured workers submit claim information to the district office which serves the geographical location in which the claimant resides. Claims are processed by the district office using the Case Management File System (CMF).

The CMF uses a standard identification number of nine characters to identify each case file. This number is called the case number. All recipients of FECA benefits must have a unique case number recorded in the CMF, some individuals could have multiple case numbers if the individual has sustained more than one injury.

The CMF maintains an automated file with identification on all individuals who have filed claims with FECA. These records contain data elements that identify the claimant, the mailing and/or location address for the claimant, and additional injury information and case status information.

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Benefit Payments

FECA claimants may be entitled to compensation for injury and lost wages, schedule awards, death benefits and payment of medical expenses related to the work-related injury. The payments for lost wages, schedule awards and death benefits are processed through the Automated Compensation Payment System (ACPS), while the payments for injury-related medical expenses are processed through the Bill Payment System (BPS). Each of these systems support the Department of Labor's general ledger system via an automated interface.

The primary function of ACPS is to process the payment of weekly, monthly, and supplemental benefits to claimants. The ACPS interfaces with the CMF to ensure that approved claims are supported by a valid case number. District office personnel input compensation payment data worksheets into the ACPS. The inputs onto the payment data worksheets are accumulated in batches in the ACPS and transmitted by the District office to the national office every night. The mainframe computer, maintained by SunGard, runs automated calculations to compute the payment schedule and transmits the schedule back to the District offices the next morning. The District offices review the payment schedules and if the information is correct, no further action is required and payments will be made during the next appropriate payment cycle.

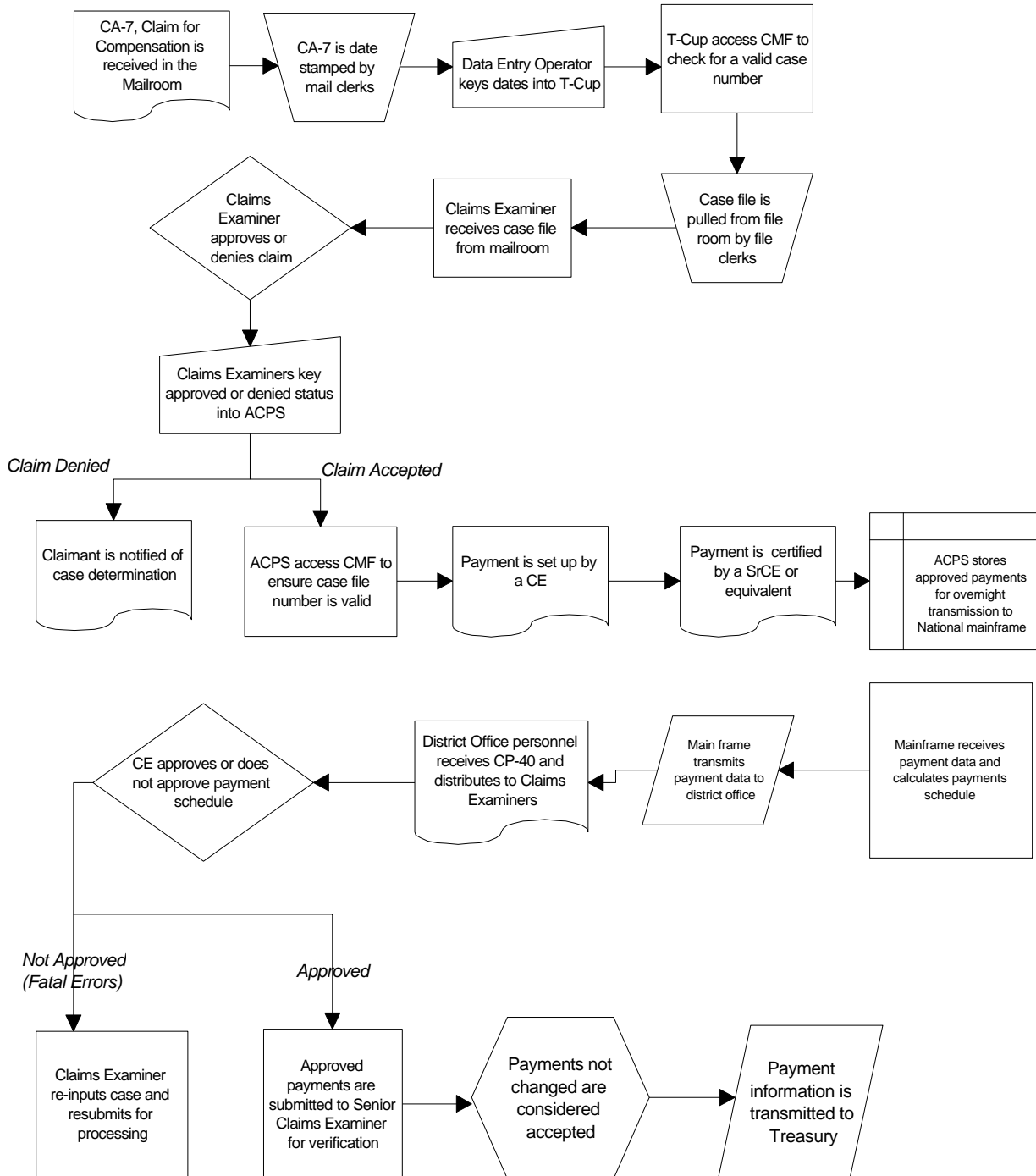
Approved payments are stored in a temporary file for the duration of the appropriate compensation payment cycle: Daily Roll (5 days), Death Benefits (28 days), or Disability (28 days). At the end of the cycle, the mainframe runs automated programs to format the data to Treasury specifications, to update the compensation payment history files for use in the chargeback system, and to send summarized information to the District office Fund Control System. The specially formatted Treasury information is sent to Treasury via a secure modem over a dedicated line for payment processing.

The primary function of the BPS is to process payments to medical service providers or reimbursements to claimants for medical expenses incurred for the work-related injury. The national office has the responsibility of compiling the BPS data on a nightly basis as it is transmitted from each District office. Medical bills containing charges for other than appliances, supplies, services or treatment provided and billed for by nursing homes are subject to a medical fee schedule. The mainframe will run a zip code check and a comparison check of the amount to be paid to fee schedules in each geographical area. If the amount is in excess of the geographical fee schedule, the system will limit the payment to the maximum amount in the fee range. A bill in which certain fields are the same is identified by the system as a potential duplicate payment, excluded from payment and sent to a bill resolver at the District office to determine if a duplicate payment exists.

Approved payments are stored in a temporary file for the duration of the bill payment cycle of 5 days. At the end of the cycle, the mainframe runs programs that format the data to Treasury specifications, updates the bill payment history files for use in the chargeback system, and sends summarized information to the District office Fund Control System. The specially formatted Treasury information is sent to Treasury via secure modem over a dedicated line for payment processing. The following charts set forth an overview of transaction processing at DFEC:

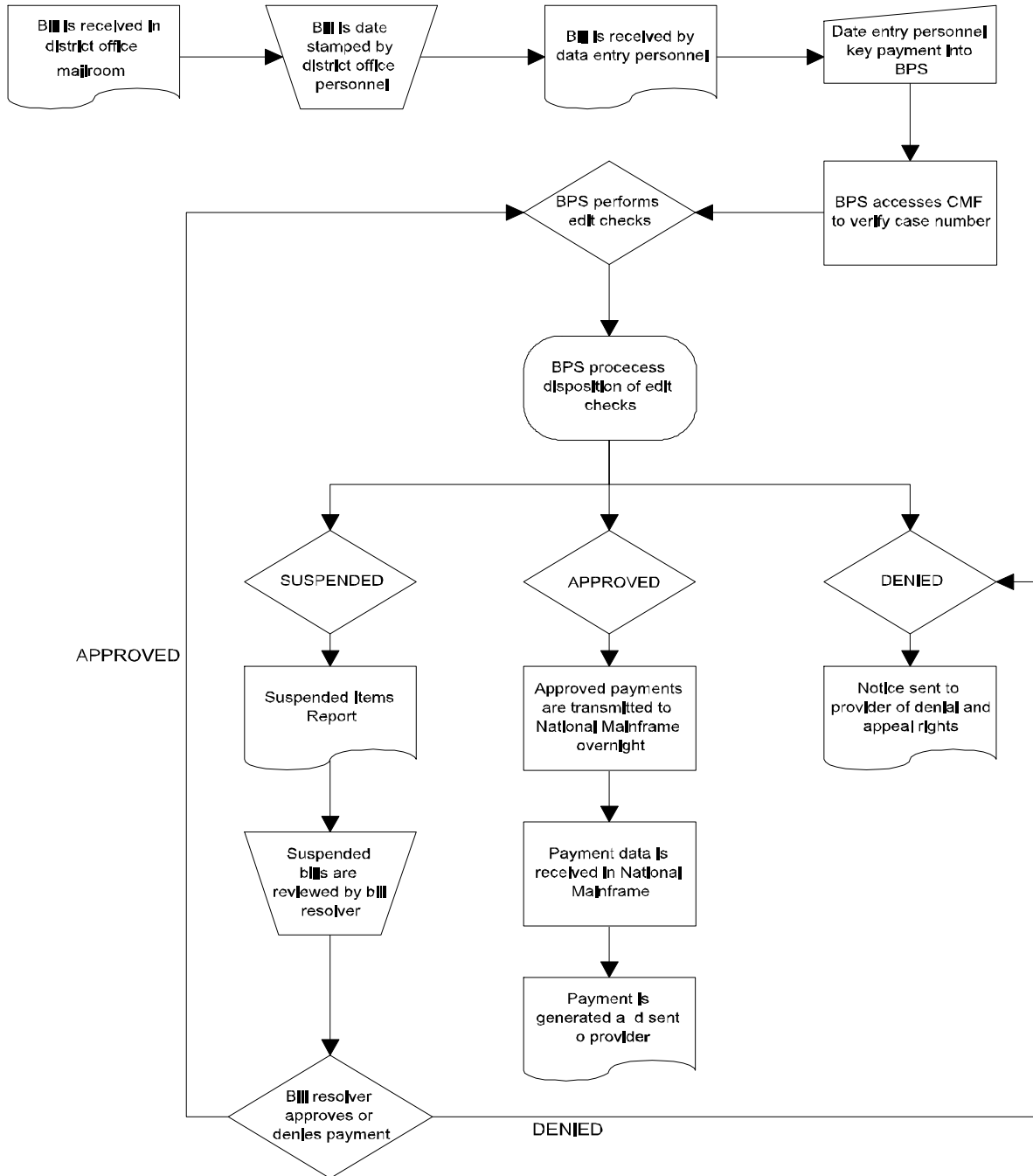
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Processing of Compensation Payments



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Processing of Medical Payments



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Computer-Generated Reports

BPS generates a summary report, generated on a weekly basis, that is a history of bill payments for the week. This report can be utilized for investigative purposes as well as for confirming whether a particular bill has been paid.

The ACPS generates a summary report on a daily basis which is a history of compensation payments. This report can be utilized for investigative purposes as well as for confirming whether a particular claim has been paid. The mainframe transmits updated ACPS History Files to the District offices where they are available for query purposes for 6 months. The mainframe retains the history files for query purposes for 2 years before they are archived.

Chargeback System

The ACPS and BPS system history files are combined on a quarterly and annual basis to create the FECA Chargeback Report. The FECA Chargeback System (CBS) is a subsidiary of DOLAR\$. CBS provides methods for tracking accounts receivable - intra-governmental activity while maintaining all financial data centrally in DOLAR\$. The June 30 year end FECA Chargeback Report is used to annually bill Federal agencies for payments made on their behalf for the period July 1 to June 30. The Office of Management and Planning (OMAP) provides quarterly benefit summaries to Federal agencies based on the FECA CBS.

The On-line Payment and Collection System (OPAC) is utilized to facilitate the electronic billing between Federal agencies through Treasury. OPAC's main responsibility is to process the SF-1081s. SF-1081 (Voucher and Schedule of Withdrawals and Credits) is a form which authorizes the transfer of expenses or income from one Federal agency's appropriation to another for services rendered. The receivables are tracked in an internally maintained subsidiary ledger maintained by OMAP.

Third Party Settlements

An injury or death for which compensation is payable to a FECA claimant that is caused under circumstances creating a legal liability on a person or persons other than the United States (a third party) to pay damages will result in the case being classified as a third party case. Status codes are used to track the progress of third party cases in the Case Management File System. OWCP usually requires the claimant to pursue legal action; however, the United States can pursue action on its own by requiring the beneficiary to assign rights of action to the United States.

A letter (CA-1045) is sent to a claimant by the claims examiner when initial injury reports indicate a potential third party. The CA-1045 requests information about the injury, the third party and the actions taken by the claimant in regards to pursuing a claim against the third party, including the hiring of an attorney.

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When the CE receives a reply to the CA-1045 (or does not receive a reply 30 days after the second request is sent to the claimant) or obtains the name and address of the attorney representing the claimant, the case is usually referred to a designated claims examiner (DCE).

A case may be closed as "minor" and not pursued if the claimant has an injury where the total medical bills, compensation and time lost from work do not exceed or are expected not to exceed \$1,000. Additionally, a case may only be closed as "minor" if the claimant has not responded to the CA-1045, or has responded but is not personally asserting a third party claim and has not retained an attorney.

The DCE refers the case to the appropriate DOL, Solicitor (SOL) in the following instances:

- < The case is not minor and advice is received that the claimant is negotiating a settlement.

- < Advice is received that the claimant has retained an attorney to handle the third party action, regardless of the amount of disbursements.

- < The case is not minor and the claimant refuses to pursue the third party claim or does not reply to the CA-1045.

- < The third party case involves a death claim, a permanent disability, Job Corps, Peace Corps, VISTA, an injury occurring outside the United States or Canada, a common carrier as the potential defendant, malpractice, product liability or an injury to more than one employee.

Once referred to SOL, the DCE performs certain actions to ensure that the case is properly tracked while at SOL. For instance, after the initial referral, an updated disbursement statement is furnished to the SOL within 5 working days of receipt of the request. It is essential that initiation of, termination of, or changes in periodic roll payments be reported to the SOL immediately. Additionally, the DCE requests a status report from the SOL at 6-month intervals.

When a settlement is reached in a third party case, the DCE prepares a Form CA-164 which is a summary of all disbursements made to the claimant for compensation payments and to medical providers on the claimants behalf, and forwards it to the fiscal section. If an amount owed from the claimant is received by OWCP, the amount is credited against the ACPS and BPS, as appropriate. By recording the amount in the ACPS and BPS, the proper employing agency is credited with the amounts recovered from third party settlements.

If the full amount of the third party refund is not received from the claimant, an accounts receivable balance is set up for the amount still due. If the amount recovered exceeds the amount already paid by OWCP to the claimant for compensation and medical benefits, then the excess amount is recorded and tracked in the case file to prohibit any additional benefits from being paid to the claimant until the amount of eligible benefits to the claimant exceeds the excess amount.

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OVERVIEW OF COMPUTER INFORMATION SYSTEMS

The computerized accounting system used by the Federal Employee's Compensation Special Benefit Fund maintains all of the data for each of the claimants applying for FECA benefits. The Federal Employees' Compensation Systems (FECS) is the electronic data processing system for FECA benefits. This computer system is comprised of the following five subsystems:

- < Automated Compensation Payment System
- < Medical Bill Processing System
- < Case Management File
- < Debt Management System
- < Chargeback System

The FECS provides authorized users with on-line access to the various subsystems for file maintenance and information purposes. Access to the FECS through computer terminals located in both the national and 12 District offices permits authorized users to perform a variety of functions, such as query, add, and update claims data, track claims and overpayments, calculate retroactive benefit payments and enroll approved claimants for benefits on the FECS.

In addition to storing information relevant to claims adjudication, benefit entitlement and payment status, the FECS generates reports primarily used by management in administering the FECA Program. The system also processes payments for covered medical expenses and monthly and supplemental benefit payments to or on behalf of program beneficiaries.

Access to the FECS is limited to only certain employees, and their degree of access is based upon the user's function within the program. The FECA EDP security officer within the Branch of ADP Coordination and Control is responsible for assigning passwords and other procedures required to permit access to the FECS at the national office; District Systems Managers are responsible for assigning passwords and other procedures required to permit access to the FECS at the District office level. Controls to restrict access to FECS to authorized personnel include the following (national and district office level):

- < A security briefing is given for each person having access to the system.
- < Access and an access profile for authorized users are established through a security software package (Access Control Facility).
- < Computer Information Control System establishes terminal access to the host computer.
- < Log on attempts are restricted to three attempts.
- < An audit trail report of unauthorized attempts to access the system is available.
- < Terminals are secured in locked rooms at the end of the work day.
- < Written procedures exist for both physical hardware and software security.

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Organization and Administration

A System Administrator is responsible for overseeing all the data processing activity of FECS. DFEC employs approximately 7 individuals within the Branch of ADP Coordination and Control and has contracts with outside computer consulting firms, Computer Data System, Inc. (CDSI), and Viatech through which approximately 30 individuals work with DFEC. CDSI and Viatech provide software development and maintenance for DFEC.

At each District office, a System Manager is responsible for overseeing all the data processing activity performed at the district level (including user access). The System Managers are under the supervision of the Division of Information Technology Management and Services (DITMS). DITMS includes both Federal Government employees and outside contractors. The System Managers have access to system data for report generation and submission purposes. The System Managers can only extract information from the database and cannot change any of the source codes (i.e., programs).

The function of DITMS is to maintain computer networks, operating systems, and computer hardware systems for the DOL environment. DITMS installs all of the data processing applications and modifications developed by DFEC. In addition, DITMS is responsible for the management controls surrounding the host mainframe application of FECS, such as assignment and maintenance of system support personnel to the mainframe and access violations monitoring.

Operations

The Office of the Assistant Secretary for Administration and Management contracted with SunGard Computer Services, Inc. (SunGard), for computer mainframe time-sharing services. SunGard provides computer hardware and a communications network between the national office, the district offices and the U. S. Treasury. In addition, SunGard maintains a tape library and disk drive backup. The SunGard database includes all medical and disability compensation payment information since 1978.

There are four levels of hardware, software, communications, supplies and facility resources for DFEC: SunGard mainframe, national office Sequent minicomputers, district office Sequent minicomputers and the user and programmer development terminal personal computers with authorized access into the mainframe or minicomputer system.

There are formal operator and user manuals for some components of the system. There are extensive input edit checks in the software. Errors are automatically rejected by the system and queued for review by the appropriate individuals. Reports that track the errors, including aging information, are routinely produced.

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Documentation

Hardware: DITMS maintains an extensive list of the hardware used in the FECS processing at all sites.

Software: DITMS maintains an extensive list of the third party software used in the FECS processing which includes operating system software, compilers and utilities. DFEC is responsible for the maintenance of FECS application software. All the hardware and software modifications are controlled by DOL. OWCP requests the modifications, DFEC designs and tests the modification, and DITMS installs the modifications.

Acceptance testing is performed by DOL using an environment that closely copies the development environment. The procedures used for the acceptance testing varies according to subsystem. No formal documentation of the acceptance testing is maintained. However, DFEC maintains a history of all prior source code versions which provides evidence of all modifications of the source code.

The System Administrator has an assistant responsible for computer design development, programming and analysis. Another assistant of the System Administrator is responsible for evaluating the testing of all new and modified source codes (programming) and the distribution to the district offices. Additionally, this assistant supervises all staff programmers.

Anti-Virus Control

The FECS currently runs a variety of anti-virus or virus checking routines. Each file server runs an anti-virus module resident on the server. The local area networks (LANs) are "dustless" LANs. When disks are scanned (e.g., for the installation of new software), anti-virus software is used to scan disks to identify and remove viruses. Personal computers are attached to LANs in OWCP District offices utilize hard drives in addition to the central file server. All of the personal computers utilize an anti-virus software and can be run in a scheduled or unscheduled ad hoc mode.

Subservicer

DFEC utilizes a subservicer, SunGard, to provide computer hardware and a communications network between the national office, the District offices and the U.S. Treasury, to maintain a tape library and disk drive backup and for other computer mainframe functions.

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CONTROL OBJECTIVES AND RELATED POLICIES AND PROCEDURES

DFEC's control objectives and related policies and procedures are included in Section IIIC of this report, "Information Provided by the Service Auditor," to eliminate the redundancy that would result from listing them here. Although the control objectives and related policies and procedures are included in Section IIIC, they are, nevertheless, an integral part of DFEC's description of policies and procedures.

USER CONTROL CONSIDERATIONS

DFEC's processing of transactions and the control policies and procedures over the processing of transactions were designed with the assumption that certain internal control policies and procedures should be in operation at user organizations to complement the control policies and procedures at DFEC. User auditors should determine whether user organizations have established internal control policies and procedures to ensure that:

- C Employing agencies understand their responsibilities under FECA.
- C Employing agencies provide injured employees with accurate and appropriate information regarding injuries covered under FECA, including the employees' rights and obligations and claim forms.
- C Employing agencies timely and accurately report all work-related injuries and deaths to DFEC via the injury and death reporting forms such as the CA-1, CA-2, and CA-5, once completed by injured employee or claimant in the case of death. Supervisors should encourage persons witnessing injuries to record and report what was witnessed to DFEC.
- C Employing agencies provide complete and accurate information regarding a claimant's rate of pay, hours worked, leave taken, and continuation of pay to DFEC.
- C Employing agencies promptly controvert questionable claims.
- C Employing agencies monitor the medical status of injured employees to be aware of what work the injured employee is capable of to enable the employing agency to provide additional information on the requirements of a position, or modified position, when applicable.
- C Employing agencies assist DFEC in returning employees to work by establishing or identifying positions, either modified or light-duty, to return the injured employee to work as early as possible. The Employing agency also needs to inform DFEC directly of the positions available.
- C Employing agencies review the chargeback coding notification (postcard) sent by DFEC when an injury report is received to ensure the individual will be charged to the proper agency and department.

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- C Employing agencies review quarterly chargeback billings to ensure that each injured employee charged to their department and agency are employees or former employees of the agency, and that the amounts charged for compensation costs appear reasonable in light of the injured employee's compensation and the date of injury.

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This report is intended to provide users of the FECA Special Benefit Fund with information about the control policies and procedures at the DFEC that may affect the processing of user organizations' transactions, general computer controls and also to provide users with information about the policies and procedures that were tested. This report, when combined with an understanding and assessment of the internal control policies and procedures at user organizations, is intended to assist user auditors in (1) planning the audit of the user organizations' financial statements and (2) assessing control risk for assertions in user organizations' financial statements that may be affected by policies and procedures at DFEC.

Our testing of DFEC's internal control policies and procedures was restricted to the control objectives and the related policies and procedures listed in this section of the report and was not extended to procedures described in Section IIIB but not included in this section or to procedures that may be in effect at user organizations. It is each user auditor's responsibility to evaluate this information in relation to the internal control policies and procedures in place at each user organization. If certain complementary controls are not in place at user organizations, DFEC's internal control policies and procedures may not compensate for such weaknesses.

TESTS OF CONTROL ENVIRONMENT ELEMENTS

The control environment represents the collective effect of various elements in establishing, enhancing or mitigating the effectiveness of specific policies and procedures. In addition to tests of the policies and procedures listed in this section of this report, our procedures also included tests of and consideration of the relevant elements of the DFEC's control environment including:

- C DFEC's organizational structure and the segregation of duties
- C Management control methods
- C Management policies and procedures

Such tests included inquiry of appropriate management, supervisory, and staff personnel; inspection of DFEC's documents and records; observation of DFEC's activities and operations; and a limited review and evaluation of SunGard's, the subservicer, most recent SAS 70 report, issued for the period from October 1, 1999 to September 30, 2000. The results of these tests were considered in planning the nature, timing, and extent of our tests of the specified control policies and procedures related to the control objectives described within this report.

SAMPLING METHODOLOGY

To facilitate the testing of transaction processing controls, we developed a sampling plan as outlined below.

We performed tests on a sample of compensation for lost wages, schedule awards, death benefits and medical benefit payments paid during the period October 1, 2000 to April 30, 2001, at 5 of 12 District offices. The sample design involved a two stage process.

The first stage in our sample design was the selection of district offices. District offices were randomly selected by first forming two strata of the districts and then taking all the districts from the first strata, and selecting two districts from the second strata. This procedure resulted in the selection of five district

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offices. The 5 district offices comprised approximately \$800 million of the \$1.301 billion or 61.5 percent, of FECA payments during the seven month period ended April 30, 2001.

The second stage of the sample design was the selection of sampling units. The sampling units were a single medical payment or total compensation payments to a case number. The universe of the sample districts was stratified into 13 strata for the compensation payments and into 12 strata for the medical payments. The sample size was determined for each of the 13 strata for compensation and 12 strata for the medical payments using the following parameters:

- C The total number of items and dollar value of the strata universe
- C The estimated variance within each strata
- C A 95% confidence level (5% risk of incorrect acceptance)
- C A variable sampling precision (2.8% to 4.6%) of the point estimate
- C Materiality and tolerable error as defined for FECA benefit payments

Using statistical formulas, these parameters yielded a total sample of 359 items. Of the total sample, 182 were medical payments and 177 were compensation payments. The sample items were then randomly selected.

Our detailed substantive testing was performed at the following district offices with the following number of items tested:

<u>District Office</u>	<u>Number of Statistical Items</u>
Philadelphia	71
Jacksonville	78
Denver	56
San Francisco	80
Dallas	<u>74</u>
Total	<u>359</u>

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Our testing at the district offices consisted of control tests in the following categories:

Case Creation	Payment Processing
Initial Eligibility	Schedule Awards
File Maintenance	Death Benefits
Continuing Eligibility-Medical Evidence	Medical Bill Payment Processing
Continuing Eligibility-Earnings Information	Third Party Settlements

The number of sample items for control tests was statistically selected based on the sampling plan detailed above. The number of sample items tested was determined based on the number of items to which the test of controls applied. The control tests would not be applicable to some sample items due to factors such as the age of the injury. Additional testing was performed on items which were selected in a non-statistical method.

Initial Eligibility Cases

Audit queries were generated which determined all of the cases in which claimants were injured and began receiving compensation during the sampling period of October 1, 2000 to April 30, 2001. From a population of 874 initial eligibility cases in the 5 district offices tested, a random sample of 50 cases, 10 cases per district office, was selected. We reviewed the case files to ensure that the proper procedures had been followed in determining whether or not the claimants were eligible to receive benefit payments and whether benefit payments were paid at the correct amount.

Multiple Claim Payments

Audit queries were generated which compared certain elements of each compensation payment made during the period October 1, 2000 through April 30, 2001. The query compared case files in which the social security number was the same for multiple case files. This situation would normally occur when an employee has suffered more than one injury, as a separate case number is assigned for each injury. We analyzed the payments to ensure that a claimant was not receiving excessive or overlapping compensation. We removed from the population of 1,008 multiple claim payments, the cases tested in previous years which resulted in no errors, resulting in a population of 976 multiple claim compensation payment items to be tested. We tested 75 claimants, 25 from each of the 5 district offices for whom compensation payments for an overlapping period of time were made on more than one case.

Gross Override

Audit queries were generated which determined all cases on which the amount of compensation to be paid was manually overridden from what the ACPS calculated the payment should be. We selected instances where the amount paid as a result of the override was more than the amount that the ACPS had calculated should be paid. We tested all 19 cases which were identified for the five district offices in which testwork was to be performed.

Third Party Settlements

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Audit queries were generated which determined all claimants that had a third party status indicator in the CMF. We then randomly selected 35 cases from a population of 2,356 cases with third party indicators, active within the past year, in the district offices in which test work was to be performed.

Current Medical

Audit queries were generated which determined all cases with a short term liability status, on which compensation was currently being paid, but for which no medical payment were made in the past two years, to determine which cases may not have current medical evidence. We then randomly selected 50 cases from a population of 251 cases which met our query definition, in the district offices in which test work was to be performed.

Provider Type

Audit queries were generated which determined medical bill payments made to chiropractors on claimant cases for which the accepted condition did not involve the back or neck to determine if the proper providers type was being used and payments were properly supported with specifically required medical evidence. We then randomly selected 50 cases from a population of 2,936 payments which met our query definition, in the district offices in which test work was to be performed.

Duplicate Payments

Audit queries were generated which determined medical bill payments which appeared to have been made in duplicate and were over \$5,000. We tested all 10 medical bill payments which were identified for the five district offices in which testwork was to be performed.

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Summary of Sample Items

The following sample items were selected for substantive testing of transactions:

Sample Type	Philadelphi a	Jacksonville	Denver	San Francisco	Dallas	Sub- Total	Sub- Total	Total
Lost Wages (S)	33	34	21	24	25	137	177	359
Death (S)	3	3	3	3	3	15		
Schedule Award (S)	3	1	2	8	11	25		
Medical Bills(S)	34	40	28	45	35	182		
Initial Eligibility (N)	10	10	10	10	10	50	144	144
Multiple Claim(N)	15	15	15	15	15	75		
Gross Override(N)	0	5	4	6	4	19		
Provider Type (N)	10	10	10	10	10	50		
Potential Duplicates(N)	0	6	0	1	3	10		

The following sample items were selected for testing of internal controls:

Sample Type	Philadelphia	Jacksonville	Denver	San Francisco	Dallas	Sub- Total	Sub- Total	Total
Lost Wages (S)	15	17	21	14	15	82	112	194
Death (S)	3	3	3	3	3	15		
Schedule Award (S)	3	1	2	4	5	15		
Medical Bills(S)	23	16	11	18	14	82		
Initial Eligibility (N)	10	10	10	10	10	50		
Third Party (N)	7	7	7	7	7	35		
Current Medical (N)	10	10	10	10	10	50		

(S) - Statistically selected sample
(N) - Non-statistically selected sample

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CONTROL OBJECTIVES, RELATED POLICIES AND PROCEDURES, AND TESTS OF DESCRIBED POLICIES AND PROCEDURES

This section presents the following information provided by the DFEC:

- C The control objectives specified by management of DFEC.
- C The policies and procedures established and specified by DFEC to achieve the specified control objectives.

Also included in this section is the following information provided by the service auditor:

- C A description of the tests performed on the described policies and proecdures by the service auditor to determine whether DFEC's control policies and procedures were operating with sufficient effectiveness to achieve stated control objectives.
- C The results of the service auditors' tests of the described policies and procedures.

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GENERAL COMPUTER CONTROLS

Control Objective: *General Computer Controls* - Control policies and procedures provide reasonable assurance that DFEC has generally established computer controls over entity-wide security, access controls, application software development and change controls, segregation of duties, systems software, and service continuity.

Description of Policies and Procedures

Entity-wide security

ESA, of which DFEC is a division, periodically assesses risk through independent risk assessments which are performed and documented on a regular basis or whenever systems, facilities, or other conditions change. The risk assessments consider data sensitivity and integrity and range of risks to the entity's systems and data; and, final risk determinations and related management approvals are documented and maintained on file.

ESA, of which DFEC is a division, has drafted a security program plan that: covers all major facilities and operations, has been approved by key affected parties, and covers the topics prescribed by OMB Circular A-130 (general support systems/major applications): Rules of the system/Application rules, Training/Specialized training, Personnel controls/Personnel security, Incident response capability/ Continuity of support/Contingency planning, Technical security/Technical controls, System interconnection/Information sharing, Public access controls, access controls, application software development and change controls, segregation of duties, systems software, and service continuity. The plan is reviewed periodically and adjusted to reflect current conditions and risks.

ESA's security program plan establishes a security management structure with adequate independence, authority, and expertise. An information systems security manager has been appointed at an overall level and at appropriate subordinate levels.

The security plan clearly identifies who owns computer-related resources and who is responsible for managing access to computer resources. Security responsibilities and expected behaviors are clearly defined for: (1) information resource owners and users (2) information resources management and data processing personnel (3) senior management (4) security administrators.

ESA has implemented an ongoing security awareness program that includes first-time training for all new employees, contractors, and users, and periodic refresher training thereafter. Security policies are distributed to all affected personnel, including system/application rules and expected behaviors.

ESA's incident response capability has the characteristics suggested by industry standards: use of virus detection software, an understanding of the constituency being served, an educated constituency that trusts the incident handling team, a means of prompt centralized reporting, response team members with the necessary knowledge, skills, and abilities, and links to other relevant groups.

For prospective employees, references are contacted and background checks performed. Periodic reinvestigations are performed at least once every 5 years, consistent with the sensitivity of the position per criteria from the Office of Personnel Management. Regularly scheduled vacations exceeding several days

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GENERAL COMPUTER CONTROLS

are required, and the individual's work is temporarily reassigned. Regular job or shift rotations are required. Termination and transfer procedures include: exit interview procedures; return of property, keys, identification cards, passes, etc.; notification to security management of terminations and prompt revocation of IDs and passwords; immediately escorting terminated employees out of the entity's facilities; and identifying the period during which non-disclosure requirements remain in effect.

Skill needs are accurately identified and included in job descriptions, and employees meet these requirements. A training program has been developed. Employee training and professional development are documented and monitored.

ESA's Information Systems security program is subjected to periodic reviews. Major applications undergo independent review or audit at least every 3 years. Major systems and applications are accredited by the managers' whose missions they support.

Tests of Described Policies and Procedures:	Results of Tests
Reviewed risk assessment policies, the most recent high-level risk assessment, and the objectivity of personnel who performed and reviewed the assessment.	No exceptions were noted.
Reviewed the security plan and determined whether the plan covered the topics prescribed by OMB Circular A-130 and reviewed any related documentation which indicated that the security plan had been reviewed and updated, and was current.	The business continuity and incident response section referencing capabilities are not fully implemented. A risk based approach to the security plan is not implemented. No other exceptions were noted.
Reviewed the entity's organization chart; job descriptions; documentation supporting or evaluating the awareness program; memos, electronic mail files, or other policy distribution mechanisms. Interviewed security management staff. Interviewed security manager, response team members and system users. Review documentation supporting incident handling activities. Determine qualifications of response team members.	No exceptions were noted.
Review hiring policies. For a selection of recent hires, inspected personnel files and determine whether references have been contacted and background investigations have been performed. Review reinvestigation policies. For a selection of sensitive positions, inspect personnel files and determine whether background reinvestigations have been performed. Review policies on confidentiality or security agreements. For a selection of such users, determine whether confidentiality or security agreements are on file. Review vacation policies. Inspect personnel records to identify individuals who have not taken vacation or sick leave. Determine who performed vacationing employee's work during vacation.	No exceptions were noted.
Reviewed job descriptions for security management personnel, and for a selection of other personnel; training program documentation; training records and related documentation showing whether such records were monitored and whether employees were receiving the appropriate training.	Security-related personnel policies do not require confidentiality or security agreements. No other exceptions were noted.

Description of Policies and Procedures

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GENERAL COMPUTER CONTROLS

Access Controls

Classifications and criteria have been established and communicated to resource owners. Resources are classified based on risk assessments; classifications are documented and approved by an appropriate senior official and are periodically reviewed.

Access authorizations are documented on standard forms and maintained on file, approved by senior managers, and securely transferred to security managers. Owners periodically review access authorization listings and determine whether they remain appropriate. The number of users who can dial into the system from remote locations is limited and justification for such access is documented and approved by owners.

Security managers review access authorizations and discuss any questionable authorizations with resource owners. All changes to security profiles by security managers are automatically logged and periodically reviewed by management independent of the security function. Unusual activity is investigated. Security is notified immediately when system users are terminated or transferred.

Emergency and temporary access authorizations are documented on standard forms and maintained on file, approved by appropriate managers, securely communicated to the security function; and automatically terminated after a predetermined period.

Standard forms are used to document approval for archiving, deleting, or sharing data files. Prior to sharing data or programs with other entities, agreements are documented regarding how those files are to be protected. Facilities housing sensitive and critical resources have been identified. All significant threats to the physical well-being of sensitive and critical resources have been identified and related risks determined. Access is limited to those individuals who routinely need access through the use of guards, identification badges, or entry devices, such as key cards. Management regularly reviews the list of persons with physical access to sensitive facilities. Keys or other access are needed to enter the computer room and tape/media library. All deposits and withdrawals of tapes and other storage media from the library are authorized and logged. Unissued keys or other entry devices are secured. Emergency exit and re-entry procedures ensure that only authorized personnel are allowed to reenter after fire drills, etc.

Visitors to sensitive areas, such as the main computer room and tape/media library, are formally signed in and escorted. Entry codes are changed periodically. Visitors, contractors, and maintenance personnel are authenticated through the use of preplanned appointments and identification checks. Passwords are unique for specific individuals, not groups; controlled by the assigned user and not subject to disclosure; changed periodically--every 30 to 90 days; not displayed when entered; at least 6 alphanumeric characters in length; and prohibited from reuse for at least 6 generations. Use of names or words is prohibited. Vendor-supplied passwords are replaced immediately. Generic user IDs and passwords are not used. Attempts to log on with invalid passwords are limited to 3-4 attempts.

Personnel files are automatically matched with actual system users to remove terminated or transferred employees from the system. Password files are encrypted. For other devices, such as tokens or key cards, users maintain possession of their individual tokens, cards, etc. and understand that they must not loan or share these with others and must report lost items immediately.

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GENERAL COMPUTER CONTROLS

An analysis of the logical access paths is performed whenever system changes are made. Security software is used to restrict access. Access to security software is restricted to security administrators only. Computer terminals are automatically logged off after a period of inactivity. Inactive users' accounts are monitored and removed when not needed. Security administration personnel set parameters of security software to provide access as authorized and restrict access that has not been authorized. This includes access to data files, load libraries, batch operational procedures, source code libraries, security files, and operating system files. Naming conventions are used for resources.

Database management systems (DBMS) and data dictionary controls have been implemented that restrict access to data files at the logical data view, field, or field-value level; control access to the data dictionary using security profiles and passwords; maintain audit trails that allow monitoring of changes to the data dictionary; and provide inquiry and update capabilities from application program functions, interfacing DBMS or data dictionary facilities. Use of DBMS utilities is limited. Access and changes to DBMS software are controlled. Access to security profiles in the data dictionary and security tables in the DBMS is limited.

Communication software has been implemented to verify terminal identifications in order to restrict access through specific terminals; verify IDs and passwords for access to specific applications; control access through connections between systems and terminals; restrict an application's use of network facilities; protect sensitive data during transmission; automatically disconnect at the end of a session; maintain network activity logs; restrict access to tables that define network options, resources, and operator profiles; allow only authorized users to shut down network components; monitor dial-in access by monitoring the source of calls or by disconnecting and then dialing back at preauthorized phone numbers; restrict in-house access to telecommunications software; control changes to telecommunications software; ensure that data are not accessed or modified by an unauthorized user during transmission or while in temporary storage; and restrict and monitor access to telecommunications hardware or facilities.

In addition to logical controls: the opening screen viewed by a user provides a warning and states that the system is for authorized use only and that activity will be monitored, dial-in phone numbers are not published and are periodically changed, cryptographic tools have been implemented to protect the integrity and confidentiality of sensitive and critical data and software programs. Procedures have been implemented to clear sensitive data and software from discarded and transferred equipment and media. All activity involving access to and modifications of sensitive or critical files is logged.

Security violations and activities, including failed logon attempts, other failed access attempts, and sensitive activity, are reported to management and investigated. Security managers investigate security violations and report results to appropriate supervisory and management personnel. Appropriate disciplinary actions are taken. Violations are summarized and reported to senior management. Access control policies and techniques are modified when violations and related risk assessments indicate that such changes are appropriate.

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Tests of Described Policies and Procedures	Results of Tests
Reviewed policies and procedures and resource classification documentation and compared to risk assessments. Discussed any discrepancies with appropriate officials. Interviewed resource owners.	No exceptions were noted.
Reviewed pertinent written policies and procedures. For a selection of users, (both application user and IS personnel), review access authorization documentation. Interview owners and review supporting documentation. Determine whether inappropriate access is removed in a timely manner. For a selection of users with dial-up access, review authorization and justification. Interview security managers and review documentation provided to them. Review a selection of recent profile changes and activity logs. Obtain a list of recently terminated employees from Personnel, and for a selection, determine whether system access was properly terminated.	No exceptions were noted.
Compared a selection of both expired and active temporary and emergency authorizations (obtained from the authorizing parties) with a system-generated list of authorized users.	No exceptions were noted.
Examined standard approval forms and documents authorizing file sharing and file sharing agreements. Interviewed data owners.	No exceptions were noted.
Reviewed a diagram of the physical layout of the computer and telecommunications facilities, risk analysis, lists of individuals authorized access to sensitive areas, visitor entry logs, documentation on and logs of entry code changes, procedures for the removal and return of storage media from and to the library, written emergency procedures, a system-generated list of current passwords, security software password parameters, a list of IDs and passwords, dump of password files (e.g., hexadecimal printout), a system generated list of inactive log on IDs, and determined why access for these users had not been terminated, documentation supporting prior fire drills, DBMS and Data dictionary security parameters and security system parameters. Walk through facilities.	No exceptions were noted.
Review access path diagram.	No exceptions were noted.
Observed entries to and exits from facilities, including sensitive areas during and after normal business hours, utilities access paths, practices for safeguarding keys and other devices, appointment and verification procedures for visitors, a fire drill, users keying in passwords, terminals in use.	No exceptions were noted.
Interviewed management, employees, guards at facility entry, users and security managers and database administrator	No exceptions were noted.
Selected from the log some returns and withdrawals, verified the physical existence of the tape or other media, and determined whether proper authorization was obtained for the movement.	No exceptions were noted.
Attempted to log on without a valid password; made repeated attempts to guess passwords. Attempted to log on using common vendor supplied passwords. Searched password file using audit software. Assessed procedures for generating and communicating passwords to users. Evaluated biometric or other technically sophisticated authentication techniques.	No exceptions were noted.

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Tests of Described Policies and Procedures	Results of Tests
Performed penetration testing by attempting to access and browsed computer resources.	No relevant exceptions were noted.
Reviewed pertinent policies and procedures. Reviewed parameters set by telecommunications software or teleprocessing monitors. Tested telecommunications controls by attempting to access various files through communications networks. Identified all dial-up lines through automatic dialer software routines and compare with known dial-up access. Interviewed telecommunications management staff and users.	No exceptions were noted.
Reviewed written procedures. Interviewed personnel responsible for clearing equipment and media. For a selection of recently discarded or transferred items, examined documentation related to clearing of data and software.	No exceptions were noted.
Reviewed security software settings to identify types of activity logged, security violation reports and documentation showing reviews of questionable activities.	No exceptions were noted.
Tested a selection of security violations to verify that follow-up investigations were performed and to determine what actions were taken against the perpetrator.	No exceptions were noted.
Interviewed senior management and personnel responsible for summarizing violations and reviewed any supporting documentation.	No exceptions were noted.

Description of Policies and Procedures

Application Software Development and Change Controls

System Development Life Cycle (SDLC) methodology has been developed that provides a structured approach consistent with generally accepted concepts and practices, including active user involvement throughout the process, is sufficiently documented to provide guidance to staff with varying levels of skill and experience, provides a means of controlling changes in requirements that occur over the system's life, and includes documentation requirements. Program staff and staff involved in developing and testing software have been trained and are familiar with the use of the organization's SDLC methodology.

Software change request forms are used to document requests and related approvals. Change requests must be approved by both system users and data processing staff. Clear policies restricting the use of personal and public domain software have been developed and are enforced. DFEC uses virus identification software.

Test plan standards have been developed for all levels of testing that define responsibilities for each party (e.g., users, system analysts, programmers, auditors, quality assurance, library control). Detailed system specifications are prepared by the programmer and reviewed by a programming supervisor. Software changes are documented so that they can be traced from authorization to the final approved code and they facilitate "trace-back" of code to design specifications and functional requirements by system testers. Test plans are documented and approved that define responsibilities for each party involved (e.g., users, systems analysts, programmers, auditors, quality assurance, library control). Unit, integration, and system testing are performed and approved in accordance with the test plan and applying a sufficient range of valid and

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invalid conditions. A comprehensive set of test transactions and data has been developed that represents the various activities and conditions that will be encountered in processing. Live data is not used in testing program changes, except to build test data files. Test results are reviewed and documented. Program changes are moved into production only upon documented approval from users and system development management.

Documentation is updated for software, hardware, operating personnel, and system users when a new or modified system is implemented. Data center management and/or the security administrators periodically review production program changes to determine whether access controls and change controls have been followed.

Emergency changes are documented and approved by the operations supervisor, formally reported to computer operations management for follow-up, and approved after the fact by programming supervisors and user management.

Standardized procedures are used to distribute new software for implementation. Implementation orders, including effective date, are provided to all locations where they are maintained on file.

Library management software is used to produce audit trails of program changes, maintain program version numbers, record and report program changes, maintain creation/date information for production modules, maintain copies of previous version, and control concurrent updates.

Tests of Described Policies and Procedures	Results of Tests
Reviewed SDLC methodology, system documentation to verify that SDLC methodology was followed and training records. Interviewed staff.	No exceptions were noted.
Identified recent software modifications and determined whether change request forms were used. Examined a selection of software change request forms for approvals. Interviewed software development staff.	No exceptions were noted.
Interviewed users and data processing staff to determine if personnel software is restricted.	No exceptions were noted.
Examined procedures for distributing new software. Examine implementation orders for a sample of changes.	No exceptions were noted.
Reviewed test plan standards.	No exceptions were noted.

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Tests of Described Policies and Procedures	Results of Tests
<p>For the software change requests selected:</p> <ul style="list-style-type: none"> •reviewed specifications; •traced changes from code to design specifications; •reviewed test plans; •compared test documentation with related test plans; •analyzed test failures to determine if they indicated ineffective software testing; •reviewed test transactions and data; •reviewed test results; •reviewed documentation of management or security administrator reviews; •verified user acceptance. <p>Determined whether operational systems experienced a high number of abends.</p>	<p>No exceptions were noted.</p>
<p>Reviewed pertinent policies and procedures. Interviewed personnel responsible for library control. Examined a selection of programs maintained in the library and assessed compliance with prescribed procedures. Determined how many prior versions of software modules were maintained.</p>	<p>No exceptions were noted.</p>
<p>Examined libraries in use. Verified that source code existed for a selection of production load modules by (1) comparing compile dates, (2) recompiling the source modules, and (3) comparing the resulting module size to production load module size.</p>	<p>The library management software is not being used to manage or control the FECA source code.</p>
<p>For critical software production programs, determined whether access control software rules were clearly defined. Tested access to program libraries by examining security system parameters.</p>	<p>The library management software is not being used to manage or control the FECA source code.</p>
<p>Reviewed pertinent policies and procedures. For a selection of program changes, examined related documentation to verify that: procedures for authorizing movement among libraries were followed and before and after images were compared.</p>	<p>The library management software is not being used to manage or control the FECA source code.</p>

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Description of Policies and Procedures

Segregation of Duties

Policies and procedures for segregating duties exist and are up-to-date. Distinct systems support functions are performed by different individuals, including the following: IS management, system design, application programming, systems programming, quality assurance/testing, library management/change management, computer operations, production control and scheduling, data control, data security, data administration, and network administration.

No individual has complete control over incompatible transaction processing functions. Specifically, the following combination of functions are not performed by a single individual: data entry and verification of data, data entry and its reconciliation to output, input of transactions for incompatible processing functions (e.g., input of vendor invoices and purchasing and receiving information), and data entry and supervisory authorization functions (e.g., authorizing a rejected transaction to continue processing that exceeds some limit requiring a supervisor's review and approval).

Data processing personnel are not users of information systems. They and security managers do not initiate, input, or correct transactions. Day-to-day operating procedures for the data center are adequately documented and prohibited actions are identified. Regularly scheduled vacations and periodic job/shift rotations are required

Documented job descriptions accurately reflect assigned duties and responsibilities and segregation of duty principles. Documented job descriptions include definitions of the technical knowledge, skills, and abilities required for successful performance in the relevant position and can be used for hiring, promoting, and performance evaluation purposes.

All employees fully understand their duties and responsibilities and carry out those responsibilities in accordance to their job descriptions. Senior management is responsible for providing adequate resources and training to ensure that segregation of duty principles are understood and established, enforced, and institutionalized within the organization. Responsibilities for restricting access by job positions in key operating and programming activities are clearly defined, understood, and followed.

Staff's performance is monitored on a periodic basis and controlled to ensure that objectives laid out in job descriptions are carried out. Management reviews are performed to determine that control techniques for segregating incompatible duties are functioning as intended and that the control techniques in place are maintaining risks within acceptable levels (e.g., periodic risk assessments).

Detailed, written instructions exist and are followed for the performance of work. Operator instruction manuals provide guidance on system operation. Application run manuals provide instruction on operating specific applications. Operators are prevented from overriding file label or equipment error messages.

Personnel are provided adequate supervision and review, including each shift for computer operations. All operator activities on the computer system are recorded on an automated history log. Supervisors routinely review the history log and investigate any abnormalities. System startup is monitored and performed by

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authorized personnel. Parameters set during the initial program load (IPL) are in accordance with established procedures.

Tests of Described Policies and Procedures	Results of Tests
Reviewed an agency organization chart showing IS functions and assigned personnel and relevant alternate or backup assignments and determined whether the chart was current and each function was staffed by different individuals, job descriptions for several positions in organizational units and for user security administrators, the effective dates of the position descriptions and determined whether they were current, the adequacy of documented operating procedures for the data center.	No exceptions were noted.
Interviewed selected management and IS personnel to determine that assignments did not result in a single person being responsible for combinations of functions and that the proper segregation of duties was maintained.	No exceptions were noted.
Observed activities of personnel to determine the nature and extent of the compliance with the intended segregation of duties.	No exceptions were noted.
Interview personnel filing positions for the selected job descriptions (see above). Determine from interviewed personnel whether senior management has provided adequate resources and training to establish, enforce and institutionalize within the organization.	No exceptions were noted.
Interviewed management and subordinate personnel. Selected documents or actions requiring supervisory review and approval for evidence of such performance (e.g., approval of input of transactions, software changes, etc.) Determined what reviews were conducted to assess the adequacy of duty segregation. Obtained and reviewed results of such reviews.	No exceptions were noted.
Interviewed supervisors and personnel. Observed processing activities. Reviewed manuals and history log reports for signatures indicating supervisory review. Determined who was authorized to IPL the system, what steps were followed, and what controls were in place to monitor console activity during the process and whether operators overrode the IPL parameters.	No exceptions were noted.

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Description of Policies and Procedures

Systems Software

Policies and procedures for restricting access to systems software are kept up-to-date. Access to system software is restricted to a limited number of personnel, corresponding to job responsibilities. Application programmers and computer operators are specifically prohibited from accessing system software. Documentation showing justification and management approval for access to system software is kept on file. The access capabilities of system programmers are periodically reviewed for propriety to see that access permissions correspond with job duties.

Policies and procedures for using and monitoring use of system software utilities is kept up-to-date. Responsibilities for using sensitive system utilities have been clearly defined and are understood by systems programmers. Responsibilities for monitoring use are defined and understood by technical management. The use of sensitive system utilities is logged using access control software reports or job accounting data (e.g., IBM's System Management Facility).

The use of privileged system software and utilities is reviewed by technical management. Inappropriate or unusual activity in using utilities is investigated. System programmers' activities are monitored and reviewed. Management reviews are performed to determine that control techniques for monitoring use of sensitive system software are functioning as intended and that the control techniques in place are maintaining risks within acceptable levels (e.g., periodic risk assessments).

Policies and procedures are kept up-to-date for identifying, selecting, installing, and modifying system software. Procedures include an analysis of costs and benefits and consideration of the impact on processing reliability and security. Procedures exist for identifying and documenting system software problems. This should include using a log to record the problem, the name of the individual assigned to analyze the problem, and how the problem was resolved.

New system software versions or products and modifications to existing system software receive proper authorization and are supported by a change request. New system software versions or products and modifications to existing system software are tested and the test results are approved before implementation. Procedures include: a written standard that guides the testing, which is conducted in a test rather than production environment; specification of the optional security-related features to be turned on, when appropriate; review of test results by technically qualified staff who document their opinion on whether the system software is ready for production use; and review of test results and documented opinions by data center management prior to granting approval to move the system software into production use.

Procedures exist for controlling emergency changes. Procedures include: authorizing and documenting emergency changes as they occur; reporting the changes for management review; and review by an independent IS supervisor of the change.

Installation of system software is scheduled to minimize the impact on data processing and advance notice is given to system users. Migration of tested and approved system software to production use is performed

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by an independent library control group. Outdated versions of system software are removed from production libraries. Installation of all system software is logged to establish an audit trail and reviewed by data center management. Vendor-supplied system software is still supported by the vendor. All system software is current and has current and complete documentation.

Tests of Described Policies and Procedures	Results of Tests
Reviewed pertinent policies and procedures and interviewed management and systems personnel regarding access restrictions. Observed personnel access system software. Attempted to access system software. Determined the last time the access capabilities of systems programmers were reviewed.	No exceptions were noted.
Selected some systems programmers and determined whether management approved documentation supports their access to system software. Selected some application programmers and determined whether they were not authorized access.	No exceptions were noted.
Reviewed pertinent policies and procedures, logs, and documentation supporting the supervising and monitoring of systems programmers' activities.	No exceptions were noted.
Determined whether logging occurs; what information was logged; using security software reports, determined who could access the logging files.	No exceptions were noted.
Interviewed management and systems personnel regarding their responsibilities, technical management regarding their reviews of privileged system software and utilities usage, systems programmer supervisors to determine their activities related to supervising and monitoring their staff.	No exceptions were noted.

Description of Policies and Procedures

Service Continuity

ESA has drafted a disaster recovery/business continuity plan which lists critical operations and data and that prioritizes data and operations, reflects current conditions and identifies and documents resources supporting critical operations such as computer hardware, computer software, computer supplies, system documentation, telecommunications, office facilities and supplies, and human resources. The draft disaster recovery/business continuity plan is expected to be finalized in January 2003.

Within ESA's draft disaster recovery/business continuity plan, emergency processing priorities have been documented. Backup files are created on a prescribed basis and rotated off-site often enough to avoid disruption if current files are lost or damaged. System and application documentation is maintained at the off-site storage location. The backup storage site is geographically removed from the primary site, and protected by environmental controls and physical access controls.

Fire suppression and prevention devices have been installed and are working, e.g., smoke detectors, fire extinguishers, and sprinkler systems. Controls have been implemented to mitigate other disasters, such as floods, earthquakes, etc. Redundancy exists in the air cooling system. An uninterruptible power supply or backup generator has been provided so that power will be adequate for orderly shut down.

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Environmental controls are periodically tested. Eating, drinking, and other behavior that may damage computer equipment is prohibited.

All data center employees have received training and understand their emergency roles and responsibilities. Data center staff receive periodic training in emergency fire, water, and alarm incident procedures. Emergency response procedures are documented and periodically tested.

Policies and procedures exist and are up-to-date. Routine periodic hardware preventive maintenance is scheduled and performed in accordance with vendor specifications and in a manner that minimizes the impact on operations. Regular and unscheduled maintenance performed is documented. Flexibility exists in the data processing operations to accommodate regular and a reasonable amount of unscheduled maintenance. Spare or backup hardware is used to provide a high level of system availability for critical and sensitive applications. Goals are established by senior management on the availability of data processing and on-line services. Records are maintained on the actual performance in meeting service schedules.

Problems and delays encountered, the reason, and the elapsed time for resolution are recorded and analyzed to identify recurring patterns or trends. Senior management periodically reviews and compares the service performance achieved with the goals and surveys user departments to see if their needs are being met. Changes of hardware equipment and related software are scheduled to minimize the impact on operations and users, thus allowing for adequate testing. Advance notification on hardware changes is given to users so that service is not unexpectedly interrupted.

A contingency plan has been drafted that reflects current conditions, will be approved by key affected groups including senior management, data center management, and program managers, clearly assigns responsibilities for recovery, includes detailed instructions for restoring operations (both operating system and critical applications), identifies the alternate processing facility and the backup storage facility, includes procedures to follow when the data/service center is unable to receive or transmit data, identifies critical data files, is detailed enough to be understood by all agency managers, includes computer and telecommunications hardware compatible with the agencies needs, and has been distributed to all appropriate personnel.

The plan provides for backup personnel so that it can be implemented independent of specific individuals. User departments have developed adequate manual/peripheral processing procedures for use until operations are restored.

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Contracts or interagency agreements have been established for a backup data center and other needed facilities that: are in a state of readiness commensurate with the risks of interrupted operations, have sufficient processing capacity, and are likely to be available for use. Alternate telecommunication services have been arranged. Arrangements are planned for travel and lodging of necessary personnel, if needed.

Tests of Described Policies and Procedures	Results of Tests
Reviewed related policies. Interviewed program, data processing, and security administration officials. Determined their input and their assessment of the reasonableness of priorities established.	A draft disaster recovery/ business continuity plan for ESA does exist and is scheduled for completion in January 2003.
Reviewed written policies and procedures for backing up files, test policies, documentation supporting recent tests of environmental controls, policies and procedures regarding employee behavior, training records, training course documentation, emergency response procedures, and maintenance documentation.	No exceptions were noted.
Compared inventory records with the files maintained off-site, and determined the age of these files. For a selection of critical files, located and examined the backup files. Determined whether backup files were created and rotated off-site as prescribed, and were sent before prior versions were returned.	No exceptions were noted.
Examined the back-up storage site and the entity's facilities. Interviewed data center staff and management, site managers, senior management, data processing management, and user management. Observed employee behavior and that operations staff were aware of the locations of fire alarms, fire extinguishers, regular and auxiliary electrical power switches, breathing apparatus, and other devices that they may be expected to be used in an emergency. Determined whether the activation of heat and smoke detectors will notify the fire department.	No exceptions were noted.
Reviewed the contingency plan and compare its provisions with the most recent risk assessment and with a current description of automated operations. Observed copies of the contingency plan held off-site. Interviewed senior management, data center management, and program managers.	A draft disaster recovery/ business continuity plan for ESA does exist but a complete inventory listing of items for operations is not included in the disaster recovery/business continuity plan.
Reviewed policies on testing, test results, final test reports and documentation supporting contingency plan adjustments. Observed a disaster recovery test. Interviewed senior managers to determine if they were aware of the test results.	A draft disaster recovery/ business continuity plan for ESA does exist but a complete inventory listing of items for operations is not included in the disaster recovery/business continuity plan.

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Transaction processing controls for compensation and medical benefit payments were tested in the following areas:

- Case Creation
- Initial Eligibility
- File Maintenance
- Continuing Eligibility (Medical evidence and earnings information)
- Accuracy of Compensation Payments
- Schedule Awards
- Death Benefits
- Medical Bill Payment Processing
- Third Party Settlements
- Accounts Receivable

Control Objective 1: *Case Creation* - Control policies and procedures provide reasonable assurance that case files were initially set up properly and information related to the claimant was input into the computer systems correctly.

Description of Policies and Procedures:

The FECA Procedure Manual 2-401(3) and (4) contains the requirements for proper set up of the case file and input into the appropriate computer systems.

The manual assigns the duties of keeping the case management file data accurate and up-to-date to the CE. The case management file is set up by a Case Create Clerk and from this set up, a Form CA-800 is generated. Form CA-800 is a case summary sheet. Accurate data in the CMF is essential to ensure that the information used to set up the ACPS is correct. Once the ACPS is set up for each claimant, all vital data must be updated in both the CMF and ACPS. This data includes such items as the claimant's name, address, date of birth, social security number and chargeback code. The CE verifies the accuracy of the information entered by the Case Create Clerk by comparing Form CA-1, CA-2 or CA-5 completed by the claimant to Form CA-800 that was generated by the system.

The employing agency is charged with the responsibility of providing the chargeback code on the CA-1, CA-2, or CA-5. If the employing agency does not designate a chargeback code, the case creation clerk determines which chargeback code should be applied. Once the case file is created, a postcard is sent to the employing agency to confirm the chargeback code. A negative confirmation process is used.

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Tests of Described Policies and Procedures:	Results of Tests:
For a non-statistical sample of 50 initial eligibility items, we compared case originating forms, such as Forms CA-1, CA-2 and CA-5, to the information contained in the CMF and ACPS to ensure that the case origination process resulted in the proper setup of the case files (to include agency chargeback codes) and related computer systems with current and accurate information.	No exceptions were noted.

Control Objective 2: *Initial Eligibility* - Control policies and procedures provide reasonable assurance that each participant met the requirements of 1) time; 2) civil employee; 3) fact of injury; 4) performance of duty; and 5) causal relationship prior to acceptance as an eligible participant.

Description of Policies and Procedures:

An injured worker must satisfy five basic criteria to be eligible for compensation benefits. These criteria are: 1) time; 2) civil employee; 3) fact of injury; 4) performance of duty; and 5) causal relationship.

1) Time - The FECA Procedure Manual 2-801(3) contains the requirements for the filing of notice of injury or occupational disease. A timely notice of injury must be filed for a claimant to be eligible for compensation payments. The time period filing requirements are specified in 5 U.S.C. 8119. For injuries on or after September 30, 1974, written notice of injury must be filed within 30 days after the occurrence of the injury. For injuries occurring between December 7, 1940 and September 6, 1974, written notice of the injury should be given within 48 hours. The FECA Procedure Manual 2-801(3) also contains the requirements for filing a compensation claim. A timely compensation claim must be filed for a claimant to be eligible for compensation payments. The time period filing requirements are specified in 5 U.S.C. 8122. For injuries on or after September 30, 1974, compensation claims must be filed within 3 years after the occurrence of the injury. For injuries occurring between December 7, 1940 and September 6, 1974, compensation claims must be filed within 1 year. A few exceptions to these requirements are allowed.

2) Civil Employee - The FECA Procedure Manual 2-802(2) and (4) contain the requirements for determining whether an individual meets the second of the five requirements for benefits, being a civil employee. The definition of a civil employee is in 5 U.S.C. 8101(1). Basically, status as a civil employee is met when: a) the service performed for the reporting office by the individual was of a character usually performed by an employee as distinguished from an independent contractor; and b) that a contract of employment was entered into prior to the injury.

3) Fact of Injury - The FECA Procedure Manual 2-803(3)(a) contains the requirements for the "fact of injury." The fact of injury consists of two components which must be considered in conjunction with each other. First is whether the employee actually experienced the accident, event or other employment factor which is alleged to have occurred; and, second is whether such accident, untoward event or employment factor caused a personal injury.

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The FECA Procedure Manual 2-803(5) contains the requirements for the evidence necessary to establish the occurrence of an unwitnessed accident. In establishing the fact of injury for an unwitnessed accident, OWCP should consider the surrounding circumstances. The CE must be able to visualize the accident and relate the effects of the accident to the injuries sustained by the injured worker, especially where the claimant delayed seeking medical evidence.

4) Performance of Duty - The FECA Procedure Manual 2-804 contains the requirements for the performance of duty criterion. The performance of duty criterion is considered after the questions of "time," "civil employee," and "fact of injury" have been established. Even though an employee may have been at a fixed place of employment at the time of injury, the injury may not have occurred in the performance of duty. The employee is generally not covered for travel to and from work. There are five exceptions to this rule. Statutory exclusions exist under which claims for compensation should be denied due to the willful misconduct of the employee. These claims are denied even though the injured worker has met the fact of injury and performance of duty requirements.

5) Causal Relationship - The FECA Procedure Manual 2-805(2) contains the requirements for obtaining medical evidence necessary to establish a causal relationship between the injury and employment factors. An injury or disease may be related to employment factors in any of four ways: a) Direct Causation; b) Aggravation; c) Acceleration; or d) Precipitation.

The FECA Procedure Manual 2-807(17)(d)(2) contains the requirements for the 3-day waiting period which is required by 5 U.S.C. 8117. An employee is not entitled to compensation for the first 3 days of temporary disability, except when: a) the disability exceeds 14 days; b) the disability is followed by permanent disability; or c) claimant is undergoing medical services or vocational rehabilitation during the 3-day period.

The CEs are required to evaluate the injury reports and supporting medical evidence submitted by claimants. The injury reports and medical evidence must support that the claimant has met the burden of proof with regards to the five criteria to establish initial eligibility. If the claimant has not submitted documentation which fully supports the eligibility of the claimant, it is the claims examiner's responsibility to request such further information as the CE deems necessary. Once a CE concludes that a claimant is either eligible or not eligible for benefits under the FECA program, the CE notates the decision on the Form CA-800 in the case file and updates the eligibility code in the CMF system. Claimants are notified of the CE's decision with regards to eligibility. If the claimant disagrees with the CE's decision concerning eligibility, the claimant may request a hearing for resolution.

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Tests of Described Policies and Procedures:	Results of Tests:
For a non-statistical sample of 50 initial eligibility transactions, we reviewed the case file to determine whether the notice of injury was filed timely, whether the claimant was a civil employee, whether sufficient evidence was provided to prove the injury occurred as reported, whether sufficient evidence was provided to prove the employee was in performance of their duties at the time of injury, whether sufficient evidence was provided to prove the injury was causally related to employment factors, and whether the CE accepted the condition and indicated approval of the accepted condition in the case file.	No exceptions were noted.

Control Objective 3: *File Maintenance* - Control policies and procedures provide reasonable assurance that claimant's address and social security number were correct in the ACPS and the chargeback code was correct in the CMF.

Description of Policies and Procedures:

The FECA Procedure Manual 5-308(5) contains the requirements for updating the ACPS when corrections are necessary to the claimant's address, social security number and chargeback code. When a report of injury is first received, a record is created in the CMF. When a request is made for compensation for lost wages, a schedule award or for death benefits, a complete case record is then created in the ACPS. The information transferred to the ACPS for the address, social security number and chargeback code is the information in the CMF at the time the record is created. If any of the information changes, both the ACPS and the CMF must be updated with the new information.

Tests of Described Policies and Procedures:	Results of Tests:
For a total of 162 cases, from a sample of 112 statistically selected internal control compensation transactions and 50 non-statistically selected initial eligibility transactions, we reviewed documentation in the case files to ensure that the social security number, date of birth and the address were accurate in the ACPS and CMF.	In 2 of 50 non-statistical items sampled, the claimant's social security numbers were incorrect in the CMF. No exceptions were noted in the statistical sample. No other exceptions were noted.
For a total of 162 cases, from a sample of 112 statistically selected internal control compensation transactions and 50 non-statistically selected initial eligibility cases, we reviewed documentation in the case files to ensure that the chargeback code was accurate in the CMF.	No exceptions were noted.

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Control Objective 4: *Continuing Eligibility (Medical Evidence)* - Control policies and procedures provide reasonable assurance that claimants submitted medical evidence to support continuing eligibility for compensation and medical benefits.

Description of Policies and Procedures:

The FECA Procedure Manual 2-812(6) contains the requirements for the periodic review of medical evidence to verify continuing disability. The frequency of the medical review required depends on the type of compensation the claimant is receiving. Some claimants are required to submit medical evidence annually and others every 2 or 3 years.

Tests of Described Policies and Procedures:	Results of Tests:
For a total of 132 cases, from a sample of 82 statistically selected compensation transactions and 50 non-statistically selected current medical transactions, we reviewed medical evidence in case files to ensure that the current medical evidence supported the disability status for the compensation being received.	In 2 of the 82 statistically selected items and in 13 of 50 non-statistically selected items sampled, current medical evidence was not located within the case file.

Control Objective 5: *Continuing Eligibility (Earnings Information)* - Control policies and procedures provide reasonable assurance that claimants submitted earnings information and authorization to obtain earnings information from Social Security to support continuing eligibility for compensation and medical benefits.

Description of Policies and Procedures:

OWCP mails each claimant a Form CA-1032 each year. The Form CA-1032 asks the claimants to verify the status of their dependents and report any and all earnings by the claimants. The information reported by the claimant on Form CA-1032 is to be reviewed by a CE and the compensation rate or amount adjusted accordingly.

The FECA Procedure Manual 2-812(6) contains the requirements for the frequency with which claimants must complete Form CA-1032. The FECA Procedure Manual 2-812(10) contains the requirements for changing the ACPS system when benefit changes are indicated by the claimant on the Form CA-1032. The ACPS system must be changed to reflect the information provided by the claimant to ensure that benefits are being paid at the proper compensation rate and amount.

The FECA Procedure Manual 2-812(9) and (10) contain the requirements for obtaining a claimant's earnings report from the SSA. Earnings are requested from the SSA on Form CA-1036 to determine whether an adjustment is needed to a claimant's compensation rates. A claimant's compensation rate can be adjusted based on the information supplied by the SSA in response to Form CA-1036. The ACPS system must be changed to reflect the information updated by the SSA to ensure that benefits are being paid at the proper compensation rate.

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A statistical sample of 97 claimants, from 82 lost wages claimants and 15 schedule award claimants, were tested for continuing eligibility controls, however, some specific tests did not apply to all claimants due to the length of time of the claimant's injury, the date of the claim for benefits, or the claimant's case status. Therefore, the number of tests indicated below is the number of items to which tests were actually applied.

Tests of Described Policies and Procedures:	Results of Tests:
From a statistical sample of 97 compensation claimants, (82 lost wage cases and 15 schedule award cases), 84 cases required current eligibility verification due to the age of the case. We reviewed the case file to determine whether a CA-1032 had been requested within the past year to verify earnings and dependent information.	In 2 of 84 items sampled, CA-1032s had not been obtained from the claimants to verify earnings and dependent information within the last year. No other exceptions were noted.
From a statistical sample of 82 lost wage claimants, 66 cases required current earnings information due to the age of the case. We reviewed the case file to determine whether a CA-1036 and CA-936 had been released to the claimant to obtain earnings information from SSA in the past three years.	In 2 of 66 items sampled, a release for authorization to obtain earnings information from SSA was not sent to the claimants. No other exceptions were noted.
For a statistical sample of 82 continuing eligibility claimants, we reviewed the case file to determine whether the Senior Claims Examiner (SCE) had requested claims information from SSA, if required.	No exceptions were noted.
From a statistical sample of 97 compensation claimants, (82 lost wage cases and 15 schedule award cases), we reviewed the case file to determine whether the case was referred to appropriate official if the claimant refused to return the CA-1032 or release earnings information.	No exceptions were noted.

Control Objective 6: Accuracy of Compensation Payments - Control policies and procedures provide reasonable assurance that components of compensation payments including the correct compensation percentage, pay rate, number of hours paid, verification of leave without pay status, absence of dual compensation, proper deduction of Health Benefit Insurance (HBI) and Optional Life Insurance (OLI), and proper reimbursement of burial bills.

Description of Policies and Procedures:

The FECA Procedure Manual 2-900 contains the requirements for the computation of compensation where the injury occurred after September 12, 1960. The Branch of Claims Services is responsible for the computation of compensation payments. The CE is responsible for determining the several factors used in computing compensation.

The FECA Procedure Manual 2-901 contains the requirements to periodically adjust compensation payments to reflect the increase in the cost of living. CPI adjustments are automatically calculated by the ACPS.

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Tests of Described Policies and Procedures:	Results of Tests:														
<p>For a total of 321 cases, from a statistical sample of 177 compensation cases and non-statistical samples totaling 144 cases (50 initial eligibility cases, 75 multiple claim cases and 19 gross override cases), we reviewed documentation in the case files to ensure that the components comprising compensation benefits were determined correctly.</p>	<p>In 16 of 177 statistically selected sample items, claimants were overpaid a net of \$117,398 (of which 3 items totaling a net overpayment of \$121,476 were in the high dollar strata which was tested at 100%). In 26 of 144 non-statistically selected sample items, claimants were overpaid a net overpayment of \$11,675. Claimants were overpaid a net of \$129,073.</p> <p>The net overpayment resulted from the use of incorrect:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">18 Payrates</td> <td style="text-align: right;">\$66,873</td> </tr> <tr> <td>8 Compensation periods</td> <td style="text-align: right;">14,909</td> </tr> <tr> <td>5 Compensation percentages</td> <td style="text-align: right;">1,193</td> </tr> <tr> <td>9 HBI/OLI withholdings</td> <td style="text-align: right;">681</td> </tr> <tr> <td>1 Effective payrate date</td> <td style="text-align: right;">(211)</td> </tr> <tr> <td>1 Benefits paid after remarriage</td> <td style="text-align: right;"><u>45,628</u></td> </tr> <tr> <td style="padding-left: 20px;">Net Overpayment</td> <td style="text-align: right;"><u><u>\$129,073</u></u></td> </tr> </table>	18 Payrates	\$66,873	8 Compensation periods	14,909	5 Compensation percentages	1,193	9 HBI/OLI withholdings	681	1 Effective payrate date	(211)	1 Benefits paid after remarriage	<u>45,628</u>	Net Overpayment	<u><u>\$129,073</u></u>
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<p>For a total of 162 cases, from a statistical sample of 112 compensation cases and 50 initial eligibility cases, we reviewed those transactions whereby a single payment was in excess of \$50,000 to ensure the payment was authorized by a senior official at a GS-13 or higher.</p>	<p>No exceptions were noted.</p>														
<p>For a non-statistical sample of 75 multiple claim cases, we reviewed the appropriateness of the receipt of compensation for more than one injury for the same period of time (multiple claims cases). This concurrent payment of benefits is allowable up to certain amounts and in certain instances.</p>	<p>In 3 of 75 multiple claims cases tested, the claimants were paid unallowable overlapping compensation for a net overpayment amount of \$13,651. No other exceptions were noted.</p>														
<p>For a statistical sample of 25 schedule award transactions and a non-statistical sample of 19 gross override transactions, we reviewed the appropriateness of overriding the ACPS calculated compensation amount with a different gross compensation amount (gross override cases). A manual override is required in instances such as when a claimant's compensation must be paid to several individuals.</p>	<p>In 1 of 25 schedule award cases tested, a manual calculation of an award did not correctly apply the CPI increase resulting in an underpayment of \$22,881. In 2 of 19 gross override cases tested, the CPI was applied late and the claimants were underpaid a net amount of \$403. No other exceptions were noted.</p>														

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<p>We reviewed the "compensation calculation program" data that was updated in the mainframe computer system from June 1, 2000 through April 30, 2001, to ensure that:</p> <p>< The mainframe's "compensation calculation program" was correctly using the information entered into the ACPS by the CEs and accurately calculating compensation benefit payments to the claimants.</p> <p>< The mainframe's "compensation calculation program" was correctly updated with the current CPI data and accurately calculated the CPI increase to the claimant's compensation benefit payments.</p>	<p>No exceptions were noted.</p>
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Control Objective 7: *Schedule Awards* - Control policies and procedures provide reasonable assurance that claimants had reached maximum medical improvement prior to receipt of a schedule award, medical evidence was obtained, and medical evidence stated the percentage of impairment.

Description of Policies and Procedures:

The FECA Procedure Manual 2-808(6) contains the requirements for supporting a schedule award. The file must contain competent medical evidence which: 1) shows that the impairment has reached a permanent and fixed state and indicates the date on which this occurred; 2) describes the impairment in sufficient detail for the CE to visualize the character and degree of disability; and 3) gives a percentage evaluation of the impairment. DMAs calculate the percentage of impairment for the schedule award.

Tests of Described Policies and Procedures:	Results of Tests:
<p>From the statistical sample of 177 compensation items, 25 items were for schedule awards, we reviewed documentation in the case files to ensure that claimants receiving compensation for schedule awards had medical evidence in the case files that supported their impairment or disability.</p>	<p>No exceptions were noted.</p>

Control Objective 8: *Death Benefits* - Control policies and procedures provide reasonable assurance that proper notification of death was made; if the DMA requested an autopsy, if needed; if a death certificate was obtained; if burial bills were obtained; and if dependent information for death benefits was verified.

Description of Policies and Procedures:

The FECA Procedure Manual 2-700(5) contains the requirements for proper and supporting documentation for the establishment of death claims and rights of the beneficiary. Some of the documents that claimants must submit are: 1) death certificates; 2) names and addresses of next of kin; 3) marriage certificates (civil certificates); 4) birth certificates for each child; 5) divorce, dissolution, or death certificates for prior marriages; and 6) itemized burial bills, receipted, if paid.

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Tests of Described Policies and Procedures:	Results of Tests:
From the statistical sample of 177 compensation items, 15 items were for death benefits, we reviewed documentation in the case files to ensure that the beneficiaries receiving compensation for death benefits had documentation in the case files that established their right as the beneficiaries.	In 1 of 15 items sampled, a current CA-12 had not been obtained from the beneficiaries to verify earnings and dependent information within the last year.

Control Objective 9: *Medical Bill Payment Processing* - Control policies and procedures provide reasonable assurance that medical bill payments were properly authorized, approved, input, and reviewed, as required.

Description of Policies and Procedures:

The FECA Procedure Manual Part 5 provides detailed instructions for use of the BPS:

- < Section 200 provides an overview of the system, describes the flow of bills through the office, outlines authorities and responsibilities, describes sources of information to be used in bill adjudication, and outlines procedures for some functions which support the BPS.
- < Section 201 describes keying instructions for the various BPS programs that are available to general users, such as CEs, fiscal personnel, keyers and contact representatives.
- < Section 202 describes the different BPS jobs which must be run and how to run them. These activities are generally carried out by the Systems Manager or operator.
- < Section 203 describes the coding schemes used by the BPS.
- < Section 204 describes the general rules which underlie bill adjudication.
- < Section 205 describes how suspended bills should be resolved.
- < Section 206 describes how informal appeals of Explanation of Benefits denial letters and formal appeals of fee schedule determinations should be processed.
- < Section 207 describes the various BPS reports available, their uses, and how to run them.
- < Section 208 describes other activities related to the BPS which are not addressed elsewhere, such as tracers, audits, controls and supervisory/management review.

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Tests of Described Policies and Procedures:	Results of Tests:																				
<p>For a total of 242 medical bill payments, from a statistical sample of 182 medical bill payments and non statistical samples of 60 medical bill payments, (50 provider type and 10 potential duplicate payments), we reviewed medical bills paid to ensure that bills were correctly entered into the BPS; bills contained all information for proper adjudication; amounts were not paid in excess of district established limits without proper approval by authorized personnel; discounts were taken, if offered; and hospital bills were for services which were considered proper charges against the Special Benefit Fund.</p>	<p>In 7 of 182 statistically selected medical bills tested, medical providers were overpaid a net of \$181,576 (of which 3 payments totaling \$181,411 were in the high dollar strata which was tested at 100%). In 7 of 60 non-statistically selected sample items, medical providers were overpaid a net of \$55,230. Medical providers were overpaid a net of \$236,807.</p> <p>The net overpayment resulted from the use of incorrect:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding-left: 20px;">1 fee schedule maximum exceeded \$</td> <td style="text-align: right; padding-right: 20px;">19</td> </tr> <tr> <td style="padding-left: 20px;">1 Convenience item paid</td> <td style="text-align: right; padding-right: 20px;">213</td> </tr> <tr> <td style="padding-left: 20px;">5 keying errors</td> <td></td> </tr> <tr> <td style="padding-left: 20px;">16,311 4 Bypass codes used incorrectly</td> <td></td> </tr> <tr> <td style="padding-left: 20px;">186,454</td> <td></td> </tr> <tr> <td style="padding-left: 20px;">1 Medical paid when case was not yet accepted</td> <td></td> </tr> <tr> <td style="padding-left: 20px;">33,465</td> <td></td> </tr> <tr> <td style="padding-left: 20px;">1 Bills keyed same day not edited</td> <td style="text-align: right; padding-right: 20px;">300</td> </tr> <tr> <td style="padding-left: 20px;">1 Chiropractor paid when not for specified injury</td> <td style="text-align: right; padding-right: 20px;">45</td> </tr> <tr> <td style="padding-left: 20px;">Net Overpayment</td> <td style="text-align: right; padding-right: 20px;"><u>\$236,807</u></td> </tr> </table>	1 fee schedule maximum exceeded \$	19	1 Convenience item paid	213	5 keying errors		16,311 4 Bypass codes used incorrectly		186,454		1 Medical paid when case was not yet accepted		33,465		1 Bills keyed same day not edited	300	1 Chiropractor paid when not for specified injury	45	Net Overpayment	<u>\$236,807</u>
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<p>For a statistical sample of 82 internal control medical bill transactions, we reviewed case files to ensure that a medical report was submitted for the services provided, surgery or equipment was approved prior to payment of a medical bill, when required, and that the medical services rendered related to the accepted condition.</p>	<p>No exceptions were noted.</p>																				
<p>For a statistical sample of 82 medical bill transactions, we reviewed bills which were subject to the Prompt Payment Act to ensure the bills were paid within 30 days or interest was paid if the bill was paid within 45 days.</p>	<p>No exceptions were noted.</p>																				
<p>We reviewed the guidelines established by the Health Care Financing Administration and the American Medical Association and the medical fee schedule data that was updated in the mainframe computer system from June 1, 2000 through April 30, 2001, to ensure that the mainframe's "medical fee schedule calculation program" was correctly updated with the current fee schedule data and accurately calculating the amounts due to medical providers.</p>	<p>No exceptions were noted.</p>																				

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Control Objective 10: *Third Party Settlements* - Control policies and procedures provide reasonable assurance that third party settlements are identified, tracked, and collected.

Description of Policies and Procedures:

The FECA Procedure Manual 2-1100 outlines the procedures for processing third party cases:

- < Sections (2) and (3) define authorities and responsibilities involved with third party cases.
- < Section (4) describes the letters, forms and status codes used to process and track the progress of third party cases.
- < Section (5) defines a minor injury.
- < Section (7) provides instructions for third party case development by key personnel, such as CEs and DCE's.
- < Section (8) provides instructions to close out third party cases that are not economical to pursue or that would not be successful with further efforts.
- < Section (9) lists certain third party cases that are not to be closed by the DCE and should be sent to the appropriate SOL.
- < Section (10) provides instructions for handling settlement cases where the injury is "minor" and the claimant is negotiating or has made a settlement without the benefit of an attorney.
- < Section (11) provides instructions for the referral of third party cases to the SOL.
- < Section (13) provides instructions for when a settlement has been made or is imminent in third party cases referred to the SOL.

Tests of Described Policies and Procedures:	Results of Tests:
<p>From the non-statistical sample of 35 items third party cases and 50 initial eligibility cases, we determined whether the third party indicator contained in the NCMF was accurate.</p>	<p>In 6 of 85 third party cases, the case status codes were incorrectly reported in the CMF. For 3 cases, the case files had status codes which indicated a third party potential when the third party aspect of the case file had been closed or was not present. For 3 cases, the case files had incorrect active status codes. District offices could erroneously make or deny payments to claimants if unabsorbed third party credits exist or are improperly indicated and the correct compensation payments are not made. No other exceptions were noted.</p>

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Tests of Described Policies and Procedures:	Results of Tests:
From the non-statistical sample of 35 items third party cases, we determined whether the Letter CA-1045, which requests information from the claimant regarding the action taken against a third party by the claimant, including the hiring of an attorney, was released to the claimant, when necessary, and the proper follow-up actions were conducted when the claimant did not reply within 30 days.	In 1 of 35 third party cases, CA-1045s were not issued to the claimants or, if no response was received from the claimants to the first request, second request CA-1045s were not timely issued to the claimants. No other exceptions were noted.
From the non-statistical sample of 35 items third party cases, we determined whether third party cases were properly referred to a DCE.	No exceptions were noted.
From the non-statistical sample of 35 items third party cases, we determined whether the appropriate forms were released to the attorneys of claimants involved in a third party case.	No exceptions were noted.
From the non-statistical sample of 35 items third party cases, we determined whether the third party cases were referred to the SOL, when required and the appropriate actions were taken to track, monitor and resolve third party cases through the SOL.	In 1 of 35 third party cases, CA-160s was not issued to the solicitor's office. For 1 of the 35 third party cases, the case file indicated that the case had been referred to the solicitor but it had not been referred to the SOL. No other exceptions were noted.
From the non-statistical sample of 35 items third party cases, we determined whether when completed Form CA-162s (Statement of Recovery) from the SOL were received (or recovery statements from a claimant), the Summary of Disbursements, Form CA-164s, were properly prepared and forwarded to the fiscal section for completion.	No exceptions were noted.
From the non-statistical sample of 35 items third party cases, we determined whether the fiscal section properly established account receivables and maintained accounting records when third party surpluses were created.	No exceptions were noted.
From the non-statistical sample of 35 items third party cases, we determined whether claimants were notified when the third party settlement was in excess of the prior compensation suspended via a Letter CA-1044 and claimants were notified when the third party settlement was not in excess of the prior compensation suspended via a Letter CA-1120.	No exceptions were noted.