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**OFFICE OF INSPECTOR GENERAL**

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**U.S. Department of Labor  
Office of Performance and Financial Accountability Audits**

**Audit of the  
Federal Employees'  
Compensation Act  
Performance Measures System**

**Report Number: 22-02-006-04-431  
Date Issued: March 29, 2002**

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**ACRONYMS**

DFEC	Division of Federal Employees Compensation
DOL	Department of Labor
ESA	Employment Standards Administration
FECA	Federal Employees' Compensation Act
GAO	General Accounting Office
GPRA	Government Performance Results Act
LPD	Lost Production Days
OMB	Office of Management and Budget
OWCP	Office of Workers' Compensation Programs
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards

## EXECUTIVE SUMMARY

The Office of Inspector General completed an audit of the Federal Employees' Compensation Act (FECA) program's six performance measures (as listed on page 4) for Fiscal Years 2000 and 1999. Our audit objectives were to determine whether (1) DFEC's stated mission relates to its authorizing legislation and reported performance measures reflect achievement of legislative intent; (2) all FYs 2000 and 1999 performance goals were measurable and management controls existed over data reporting, appropriateness, description, and definition; and (3) the full cost of accomplishing these performance goals was developed.

The FECA program is administered by the Division of Federal Employees Compensation (DFEC). We found that the FECA program mission relates to its legislative authority and that its six FYs 2000 and 1999 performance goals provided accountability because goals were measurable and outcome oriented. In addition, DFEC has been very active in coordinating the FECA program and activities with other Federal agencies with crosscutting issues to achieve performance goals. However, management controls over data reporting, appropriateness, description, and definition could be improved. Specifically, goal 4 was not fully appropriate because DFEC excluded employing agencies as a customer, goal 3 needs to include a definition for Lost Production Days, and management controls related to goals 1, 3, 5, and 6 would be improved if written procedures were developed to document and describe data collection and reporting procedures. Also, a system to identify the full cost of accomplishing these performance goals, a step necessary to comply with Statement of Federal Financial Accounting Standards (SFFAS) No. 4 requirements, has not been developed.

We commend DFEC for its efforts to develop and implement a strategic and annual performance plan that reflects its mission with outcome based goals. In our opinion, to improve its goals and management controls, DFEC should

- , establish a performance goal for customer satisfaction that includes employing agencies;
- , expand the description for performance goal number 3 (Lost Production Days) to define "lost production days;"
- , define in writing how to calculate the quality index score for performance goal number 6 as part of the Accountability Review;

- , develop written procedures to explain how (and what sources are used) to extract the data and make the calculations to report on performance measures 1, 3, and 5; and
- , establish a time line for developing and placing in operation a system that links performance measures, costs and the budget.

ESA generally concurred with the findings and recommendations in this report. Their actions planned and taken have resulted in three recommendations being closed and one recommendation being resolved. One recommendation is unresolved pending receipt of a corrective action plan and timeline for completion.

## **BACKGROUND**

The DFEC in the Employment Standards Administration (ESA), Office of Workers= Compensation Programs (OWCP), administers the FECA program. This program provides Federal employees who sustain work-related injury or disease with adequate and timely benefits for medical care and wage loss replacement, as well as assistance in returning to work where necessary.

The Government Performance and Results Act (GPRA) of 1993 requires agencies to prepare a 5-year strategic plan and an annual performance plan. The first annual performance plan for the Department and its agencies was completed in FY 1999 and the Department=s first annual performance report was issued on March 31, 2000. During the past 2 years, the OIG has reviewed and evaluated the Department of Labor (DOL) agencies= Fiscal Years (FYs) 2000 and 1999 strategic and annual performance plans. Initially, we evaluated the performance goals to determine if they were outcome oriented. We believe the next step in improving the GPRA process is to further assess agencies= performance measures and the systems that process program performance information.

DFEC had six performance goals for FYs 2000 and 1999. Three of the goals were included in the Department=s Annual Performance Plan. As presented on page 4, they are numbered 1-6 for easy reference later in the report.

**DFEC Goals Included in DOL=s FYs 2000 and 1999 Annual Performance Plans**

	Fiscal Year 2000 Performance Goals	Fiscal Year 1999 Performance Goals
<b>1.</b>	Produce \$66 million in cumulative first year savings (FY 1999-2000) Periodic Roll Management.	Produce \$5.7 million savings in the Federal Employees Compensation Act Program by expanding the Periodic Roll Management project that reviews the continued eligibility of long-term claims.
<b>2.</b>	In the FECA program, save an additional \$5 million over FY 1999 compared to amounts charged through full-year implementation of fee schedules for inpatient hospital and pharmacy services; and save \$1.5 million compared to amounts charged for physician services through the Correct Coding Initiative.	In the Federal Employees Compensation Act Program, save 5% versus amounts billed for pharmacy and inpatient hospital services and 3% versus amounts billed for physician and other professional medical services through review of bills prior to payment to identify over-utilization of services or improper use of coding medical providers.
<b>3.</b>	Return Federal employees to work following an injury as early as appropriate, indicated by a 9% reduction from the baseline in the average number of production days lost due to disability for cases in the Quality Case management (QCM) program only. Establish baseline for all cases.	Return Federal employees to work following an injury as early as appropriate, as indicated by a 6% reduction from the baseline in production days lost due to disability for cases in the Quality Case Management (QCM) program.

**Additional Goals Included in ESA/DFEC=s FYs 2000 and 1999 Annual Performance Plans**

<b>4.</b>	Improve customer satisfaction with FECA services by 6 percentage points (over FY 1997 base) as measured by an index of customer survey scores and other measures. Establish new baseline.	Increase customer satisfaction with the OWCP Federal Employees=Compensation Act (FECA) Program by 4% over the baseline.
<b>5.</b>	Increase employing agency timeliness in submitting notices of injury to 53% within 14 days.	Increase the timeliness of notice of injury submission by employing Federal agencies under the FECA by 10%.
<b>6.</b>	Improve the quality of claims actions as measured by average accountability review Quality Index scores to 76.5.	Improve the quality of FECA claims adjudication by 2%.

**OBJECTIVES, SCOPE AND METHODOLOGY**

Our audit objectives were to determine whether (1) DFEC's stated mission relates to its authorizing legislation and reported performance measures reflect achievement of legislative intent; (2) all FYs 2000 and 1999 performance goals were measurable and management controls existed over data reporting, appropriateness, description, and definition and (3) the full cost of accomplishing these performance goals was developed.

To perform this audit, we reviewed and analyzed: (1) performance reports; (2) FECA program legislation; (3) strategic and performance plans; (4) budgets, mission and function statements; and (5) organizational and staffing plans. Since DFEC administers the FECA program, we also interviewed DFEC staff at Headquarters, Department of Labor (DOL) in Washington, DC, and the New York City District Office. In addition, OWCP staff who assist DFEC personnel were also interviewed. The fieldwork was performed from March 2000 through August 2000. In May 2001 and September 2001, we completed follow-up reviews with DFEC staff and reviewed the latest DOL Annual Performance Plan for FY 2002. These follow-up reviews disclosed that none of the information reported had changed.

Our work was performed in accordance with the Government Auditing Standards issued by the Comptroller General of the United States.



## **AUDIT RESULTS**

### **Mission and Reported Performance Measures Related to Authorizing Legislation**

DFEC implements FECA which provides benefits to Federal employees who sustain work related injury or disease. DFEC's mission states that it provides Federal employees who sustain work-related injury or disease with adequate and timely benefits, medical care, wage loss replacement, as well as assistance in returning to work where necessary and provisions for appealing a claim. In our opinion, DFEC's stated mission and goals relate directly to its legislative authority.

### **Performance Goal Accountability**

In our opinion, FYs 2000 and 1999 performance goals provided accountability<sup>1</sup> because goals were measurable and outcome oriented. However, management controls could be improved. Specifically, goal 4 was not fully appropriate because DFEC excluded employing agencies as a customer, goal 3 needs to include a definition for Lost Production Days, and management controls related to goals 1, 3, 5, and 6 would be improved if written procedures were developed to document and describe data collection and reporting procedures.

*Appropriateness.* Performance goal number 4 for DFEC, *“increase customer satisfaction with FECA services . . . as measured by index of customer survey scores . . .”* only targets the employees (claimants) who file claims. The other segment of DFEC's customer base, the employing agency, is excluded from this performance goal.

*Definition.* Performance goal number 3, *“Return federal employees to work following an injury as early as appropriate . . . based on Lost Production Days (LPD)”* is not clear. This goal is based on a measure of the average number of days lost due to work-related injury or disease. There is no complete written explanation as to what lost production days (LPD) means. Expanding the description for this goal, perhaps in the annual performance plan, would clarify what is meant by the goal, especially for Congress and the public.

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<sup>1</sup> We previously evaluated ESA's strategic plan and FYs 2000 and 1999 performance plans, and provided a report to the ESA Assistant Secretary on how the strategic and performance plans could be improved (Report No. 17-99-001-04-001). We also analyzed ESA's goals that were in the Department's annual performance plan for FYs 2000 and 1999 to determine whether the goals were outcomes or outputs. In October 1999, we issued a letter to the Deputy Secretary and the ESA Assistant Secretary indicating that all three DFEC goals in the departmental annual performance plan were adequate (i.e., outcomes that reflect program results and are measurable)

Management Controls. Management controls are the policies and procedures used by agencies to reasonably ensure that reliable and timely information is obtained, maintained, reported and used for decision-making. The GAO Standards for Internal Controls in the Federal Government state that management controls and all transactions and significant events need to be clearly documented. Also, the documentation should appear in management directives, administrative policies, or operating manuals.

The OWCP Division of Policy, Planning and Standards is responsible for the performance system, which processes and reports GPRA performance results for DFEC. We found that management controls concerning written policies and procedures related to significant processes used for reporting DFEC performance measures were incomplete or nonexistent. For example:

- , The Accountability Review Process is used to report on performance goal number 6 on page 3 (*Improve the quality of FECA claims adjudication by 2%*). This goal relates to the quality of claims action as measured by the average accountability review quality index score. A team of specialists in various aspects of claims processing led by a special examiner from the National Office computes the quality index without the benefit of written procedures on how the index is calculated. The policies and procedures for performing accountability reviews are contained in the OWCP Procedure Manual, Chapter 4-300, which was revised in 1994. However, the manual contains no procedures for calculating the quality index score. Therefore, there is no assurance that the computation of the quality index score is consistently applied.
  
- , One employee from OWCP is responsible for a process of collecting, compiling and reporting on three of DFEC's performance goals. For performance goal numbers 1, 3 and 5, the employee uses a personal computer (PC) to obtain data extracted from various DFEC's subsystems, depending on the performance measure being reported. This access allows the employee to download certain performance data, which are input to an electronic spreadsheet application to arrive at dollars and percentages. For the other three performance goals, performance data are provided to this employee from other component offices in DFEC. The employee places the data into a spreadsheet for reporting purposes. There are no written procedures for this process and only one employee has adequate knowledge and experience to perform the steps to complete the tasks necessary for this process.

**Recommendations:** The Assistant Secretary for Employment Standards should require DFEC to develop written procedures to:

1. Establish a new performance goal for customer satisfaction that covers the employing agencies, or include employing agencies in the current customer satisfaction goal (performance goal 4).
2. Expand the description for performance goal number 3 (Lost Production Days) to define lost production days.
3. Define in writing how to calculate the quality index score for performance goal number 6 as part of the Accountability Review process.
4. Develop written procedures to explain how (and what sources are used) to extract the data and make the calculations to report on performance measures 1, 3, and 5.

**ESA Response:**

1. ESA has reoriented the customer satisfaction strategic goal to the position of a sustained strategy supporting achievement of DFEC objectives .
2. This definition of Lost Production Days will be incorporated into the Comments section of the Annual Performance Plan.
3. The quality Index Measure has been revised. The Accountability Review Manual and Team Leader Handbook have also been revised to include a description of the calculation of the index score.
4. Narrative descriptions of the procedures for all three measures are under development.

**OIG's Conclusion:**

1. The latest unified performance goals for ESA contains a strategy concerning customer satisfaction that includes claimants and employing agencies. Therefore, this recommendation is **closed**.

2. The description for the Lost Production Days has been included in the FY 2003 DOL Annual Plan. This recommendation is **closed**.
3. The Quality Index Measure was revised and the Procedures Manual and Team Leader Handbook now describe how to calculate the Quality Index Score. This recommendation is **closed**.
4. This recommendation is considered **resolved and open**. Once management has developed narrative descriptions for all three measures, OIG will perform a follow up review to determine whether the recommendation can be closed.

### **Cost of Accomplishing Performance Goals**

DFEC does not have a system to capture the full cost of accomplishing performance goals, a step necessary to comply with SFFAS No. 4 requirements. Specifically, ESA and DFEC do not have an integrated system in place that links the costs to the performance goals in the annual performance plan. In June 2000, OMB Bulletin 00-04 requested agencies to provide a status on their efforts to link the budget with performance goals. For FY 2002, agencies are to submit an integrated Annual Performance Plan with goals associated with budget authority and outlays. The DOL has met this requirement in its FY 2002 Annual Performance Plan. However, at this time, costs cannot be matched to individual performance goals. The ESA budget office plans to have in place, through its ADP System Redesign Project, an integrated system which will improve the linkage to the DOLAR\$ system and develop a cost accounting capability that will link the budget and performance goals with associated costs. However, ESA has not established a time line for placing this system into operation.

The Federal Accounting Standards Advisory Board, which recommends accounting principles and standards for financial reporting, has issued SFFAS No. 4 (Managerial Cost Accounting Concepts and Standards for the Federal Government) and Statement of Federal Financial Accounting Concepts (SFFAC) No. 2 that address the preparation of financial statements on performance. SFFAS No. 4 requires agencies to accumulate and report the full costs of accomplishing its performance measures. SFFAC No. 2 provides for the preparation of a Statement of Program Performance Measures, a cost-based performance statement. For these reasons, we believe all DOL agencies should address the issue of linking program resources with program goals.

**Recommendation 5:** The Assistant Secretary for Employment Standards should require DFEC to establish a time line for developing and placing in operation a system that links performance measures, associated costs and the budget.



**ESA Response:**

DFEC is in compliance with DOL's current level of reporting costs and performance activity and intends to work in concert with the ESA and the Department to develop performance cost accounting systems.

**OIG's Conclusion:**

Current financial management initiatives in the Federal Government make it imperative that agencies and programs develop cost accounting systems that link costs with performance and the budget. Therefore, this recommendation is **unresolved**. To resolve, management should provide to OIG a corrective action plan with planned milestones including timelines for implementation.

APPENDIX  
ESA's Response to the  
Draft Audit Report

March 26, 2002

APPENDIX

MEMORANDUM FOR ELLIOT P. LEWIS

Acting Deputy Inspector General  
for Audit

(Signed)

FROM: DIXON M. WILSON  
Acting Assistant Secretary

SUBJECT: Audit of the Federal Employees' Compensation Act  
(FECA) Performance Measures Systems  
Draft Audit Report No. 22-02-006-04-431

This is in response to your February 26, 2002 audit report on the Federal Employees' Compensation Act Performance Measures System. The Office of Inspector General (OIG) reviewed the six strategic-level performance goals of the Division of Federal Employees' Compensation (DFEC) for FYs 1999 and 2000. The audit objectives were to assess whether:

(1) DFEC's stated mission relates to its authorizing legislation and reported performance measures reflect achievement of legislative intent; (2) all FYs 2000 and 1999 performance goals were measurable and management controls existed over data reporting, appropriateness, description, and definition; and (3) the full cost of accomplishing these performance goals was developed.

The OIG found that the DFEC mission relates to its legislative authority and that its performance goals provided accountability because the goals were measurable and outcome oriented. It acknowledged that DFEC has been very active in coordinating program activities with other Federal agencies to achieve strategic objectives. The OIG found that management controls could be improved and that DFEC does not have a system to capture the cost of accomplishing performance goals.

For reference, the six performance categories included in the audit were:

1. Produce Periodic Roll Management Savings
2. Increase Medical Cost Savings
3. Reduce Lost Production Days
4. Improve Customer Satisfaction with DFEC services
5. Increase Employing Agency timeliness in filing Notices of Injury
6. Improve the quality of claims actions



2

ESA's response to the audit recommendations is attached. If you have any questions regarding this response, please contact Rose Broadwater at 693-0285 or Mark Bedont at 693-0815.

Attachment

Employment Standards Administration  
Office of Workers' Compensation Programs  
Response to the Audit of the Federal Employees' Compensation Act  
Performance Measures System  
Draft Audit Report No. 22-02-006-04-431

Recommendations

The Assistant Secretary for Employment Standards should require DFEC to develop written procedures to:

1. Establish a new performance goal for customer satisfaction that covers the employing agencies, or include employing agencies in the current customer satisfaction goal (performance goal 4);

Response: In FY 2001, FECA launched multiple broad-based strategies to improve customer services, gauge customer needs, and measure customer satisfaction. These strategies included a multi-faceted Communications Redesign initiative involving upgrade of telecommunications hardware and the establishment of a central call center; a call-back survey of claimant callers to our district offices; and focus groups held with Federal agency representatives. Two focus groups with Federal employers were conducted in FY 2001.

Recommendations originating out of customer service surveys and focus groups continue to shape development of program operational goals. However, when the structure of the Department of Labor's Performance Plan changed for FY 2002, the OWCP customer satisfaction strategic goal was reoriented in the strategic plan to the position of a major sustained strategy supporting achievement of the DFEC objectives.

2. Expand the description for performance goal 3 (Lost Production Days) to define "lost production days;"

Response: The LPD goal reviewed for this audit was a measure limited to average lost days for DFEC's Quality Case Management cases. QCM cases are those in which injured workers have filed for FECA wage loss benefits following completion of an initial 45-day Continuation-of-Pay (COP) period, while the federal employer continues to pay salary to the injured worker. The goal has since been revised in connection with the Federal Employees Safety and Health Initiative (formerly Federal Worker 2000) to add measurement of time loss in the COP period to measurement of time loss in all FECA cases.

"LPD" is a measure of the average number of calendar days of paid compensation due to workplace injury and expressed as a rate per every 100 employees for each employing agency and for the Government as a whole. A "lost production day" is equivalent to either 8 hours of salary compensation paid to the injured employee during their 45-day continuation-of-pay period

following the injury, or to one workday for which FECA wage loss compensation is received by the injured worker.

2

The calculation of LPD for each reporting period combines an aggregation of compensation time adjusted to calendar days of: (1) total continuation-of-pay hours for every worker receiving COP salary and 2) periods of time for which every beneficiary received compensation payments during their first year of eligibility to receive FECA wage loss benefits.

This definition of “lost production days” will be incorporated into the Comments section of the Annual Performance Plan.

3. Define in writing how to calculate the quality index score for performance goal number 6 as part of the Accountability Review process;

Response: The Quality Index measure has been revised to include an expanded set of elements. The Accountability Review Procedure Manual and Team Leader Handbook have also been revised, accordingly, and include a description of the calculation of the index score. These changes are effective beginning in FY 2002.

Also, as a result of the restructuring of the Department of Labor Performance Plan, OWCP removed the Quality Index goal from the DOL strategic level. The Quality Index measure remains a major goal in the DFEC annual operational plan.

4. Develop written procedures to explain how (and what sources are used) to extract the data and make the calculations to report on performance measures 1,3, and 5; and

Response: Performance measures 1 and 3 have been revised subsequent to the audit. Narrative descriptions of the procedures for all three measures are under development.

5. Establish a time line for developing and placing in operation a system that links performance measures, associated costs and the budget.

Response: DFEC is in compliance with the Department of Labor’s current level of reporting costs and performance activity. The Department is continuing to examine the issue of budget and performance integration as instructed by the Office of Management and Budget. It is OWCP’s intent to work in concert with the Employment Standards Administration and the Department to develop performance cost accounting systems.

U.S. Department of Labor

Assistant Secretary for  
Employment Standards  
Washington, D.C. 20210



MAR 26 2002

MEMORANDUM FOR ELLIOT P. LEWIS

Acting Deputy Inspector General  
for Audit

Handwritten signature of Dixon M. Wilson in black ink.

FROM:

DIXON M. WILSON  
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6. Improve the quality of claims actions

*Working to Improve the Lives of America's Workers*

2

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Response: The Quality Index measure has been revised to include an expanded set of elements. The Accountability Review Procedure Manual and Team Leader Handbook have also been revised, accordingly, and include a description of the calculation of the index score. These changes are effective beginning in FY 2002.

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5. Establish a time line for developing and placing in operation a system that links performance measures, associated costs and the budget.

Response: DFEC is in compliance with the Department of Labor's current level of reporting costs and performance activity. The Department is continuing to examine the issue of budget and performance integration as instructed by the Office of Management and Budget. It is OWCP's intent to work in concert with the Employment Standards Administration and the Department to develop performance cost accounting systems.