

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

**APRIL 30, 2003 AND SEPTEMBER 30, 2003**

**U.S. Department of Labor  
Office of Inspector General  
Report Number: 22-04-001-04-431  
Date Issued: October 17, 2003**

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## Acronyms

ACPS	Automated Compensation Payment System
ADP	Automatic Data Processing
BPS	Bill Payment System
BLS	Bureau of Labor Statistics
CBS	Chargeback System
CE	Claims Examiner
CFO	Chief Financial Officer
CFR	Code of Federal Regulations
CMF	Case Management File System
CNS	Corporation for National and Community Service
COLA	Cost of Living Adjustment
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	Database Management Systems
DCE	Designated Claims Examiner
DD	District Director
DFEC	Division of Federal Employees' Compensation
DHS	U.S. Department of Homeland Security
DIRM	Directorate of Information Resource Management
DITMS	Division of Information Technology Management and Services
DMA	District Medical Advisor
DMD	District Medical Director
DMS	Debt Management System
DO	District Office
DOJ	U.S. Department of Justice
DOL	U.S. Department of Labor
DOLAR\$	Department of Labor Accounting and Related Systems
DOT	U.S. Department of Transportation
DPSS	Division of Planning, Policy and Standards
DRP	Disaster Recovery Plan
EDP	Electronic Data Processing
EOP	Executive Office of the President
EPA	Environmental Protection Agency
ESA	Employment Standards Administration
FECA	Federal Employees' Compensation Act
FECS	Federal Employees' Compensation Systems
FEMA	Federal Emergency Management Agency
FISCAM	Federal Information System Controls Audit 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
IPAC	Intra-Governmental Payment and Collection
IPL	Initial Program Load
IS	Information Systems
LBP	Liability to 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 Administration, and Planning
OMB	Office of Management and Budget
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 eSourcing, Inc.
TTD	Temporary Total Disability
U.S.C.	United States Code
USAID	U.S. Agency for International Development
USPS	United States Postal Service
VA	U.S. Department of Veterans Affairs

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**SECTION 1A**

**Independent Auditors' Report on the  
Schedule of Actuarial Liability, Net Intra-Governmental  
Accounts Receivable and Benefit Expenses**

Victoria A. Lipnic, Assistant Secretary  
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, 2003. 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, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2003, 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 2B of this report and is not intended to be and should not be used by anyone other than these specified parties.

*M.D. Oppenheim & Company, P.C.*

October 8, 2003



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**SECTION 1B**  
**U.S. Department of Labor**  
**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, 2003**

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	(Dollars in <u>Thousands</u> )
Actuarial Liability	\$ <u>27,054,053</u>
Net Intra-Governmental Accounts Receivable	\$ <u>3,577,376</u>
Benefit Expense	\$ <u>4,583,324</u>

See independent auditors' report and accompanying notes to this financial schedule.



## SECTION 1C

### Notes to the Schedule of Actuarial Liability, Net Intra-Governmental Accounts Receivable and Benefit Expense

As of and For the year ended September 30, 2003

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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. 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. ESA'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, 2003. 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, 2003, but not paid as of September 30, 2003, including prior years, if applicable, plus the accrued receivable for benefit payments not yet billed for the period July 1, 2003 through September 30, 2003, less credits due from the public. Benefit expense consists of benefits paid and accrued for the period from October 1, 2002 to September 30, 2003, plus the net change in the actuarial liability for the year.

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 that calculates the liability estimate.

## SECTION 1C

### Notes to the Schedule of Actuarial Liability, Net Intra-Governmental Accounts Receivable and Benefit Expense

As of and For the year ended September 30, 2003

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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 of America.

Statement of Federal Financial Accounting Standards (SFFAS) Number 5, Section 38, *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 that have 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.

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 was 3.84% in year 1 and 4.35% thereafter.

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (cost of living adjustment 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 liability is determined assuming an annual payment at mid-year.

## SECTION 1C

### Notes to the Schedule of Actuarial Liability, Net Intra-Governmental Accounts Receivable and Benefit Expense

As of and For the year ended September 30, 2003

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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>
2004	2.30%	3.21%
2005	2.00%	3.54%
2006	1.83%	3.64%
2007	1.97%	3.80%
2008	2.17%	3.92%

The medical inflation rates presented represent an average of published quarterly rates covering the benefit payment fiscal year. The compensation factors presented are the blended rates used by the model rather than the published June 4, 2003, 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 through June 30, 2003, but had not been paid as of September 30, 2003, including prior year's amounts billed, if applicable, plus the accrued receivable for benefit payments not yet billed for the period July 1, 2003, through September 30, 2003, less applicable credits. The Special Benefit Fund also receives an appropriation for special cases where employing agencies and older cases are not charged for benefit payments.

Each Federal agency is required by the Federal Employees' Compensation Act to include in their annual budget estimate a request for an appropriation in the amount equal to the agency cost. Agencies not receiving an appropriation are required to pay agency costs from funds directly under their control.

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, 2002 through September 30, 2003, 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 \$2.336 billion. The net change in the actuarial liability for the year was an increase of \$2.247 billion. Benefit expense for the fiscal year was \$4.583 billion.

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**SECTION 2A**

**Independent Accountants' Report  
On Applying Agreed-upon Procedures**

Victoria A. Lipnic, Assistant Secretary  
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 Section 2C, Agreed-Upon Procedures and Results, 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 2B) 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 2B) of the Federal Employees' Compensation Act Special Benefit Fund as of and for the year ended September 30, 2003.

The Department of Labor is responsible for the Schedules (Section 2B). The Schedule of Actuarial Liability by Agency at September 30, 2003, 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, 2003 which had not yet been paid as of September 30, 2003 plus the accrued receivable for benefit payments not yet billed for the period July 1, 2003 through September 30, 2003. The Schedule of Benefit Expense by Agency is the benefits paid and accrued for the fiscal year ended September 30, 2003, 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 2C.

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 2C 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 2C 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 2B of this report and is not intended to be and should not be used by anyone other than these specified parties.

*M.D. Oppenheim & Company, P.C.*

October 8, 2003

**SECTION 2B**

**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, 2003**

<b>AGENCY</b>	<b>Actuarial Liability</b> (Dollars in thousands)
Agency for International Development	\$ 27,400
Environmental Protection Agency	44,096
Federal Emergency Management Agency	0
General Services Administration	195,552
National Aeronautics and Space Administration	69,446
National Science Foundation	1,649
Nuclear Regulatory Commission	9,073
Office of Personnel Management	14,397
United States Postal Service	8,729,029
Small Business Administration	31,822
Social Security Administration	305,289
Tennessee Valley Authority	664,669
U. S. Department of Agriculture	939,818
U. S. Department of the Air Force	1,558,355
U. S. Department of the Army	2,081,971
U. S. Department of Commerce	200,056
U. S. Department of Defense – other	955,952
U. S. Department of Education	22,265
U. S. Department of Energy	102,553
U. S. Department of Health and Human Services	296,315
U. S. Department of Homeland Security	1,103,401
U. S. Department of Housing and Urban Development	84,240
U. S. Department of the Interior	711,565

**SECTION 2B**

**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, 2003**

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<b>AGENCY</b>	<b>Actuarial Liability</b> (Dollars in thousands)
U. S. Department of Justice	839,748
U. S. Department of Labor	280,398
U. S. Department of the Navy	2,999,824
U. S. Department of State	61,628
U. S. Department of Transportation	1,114,602
U. S. Department of the Treasury	782,903
U. S. Department of Veterans Affairs (VA)	1,887,701
Other agencies <sup>1</sup>	938,336
Total - all agencies (Memo Only)	\$ 27,054,053

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



## SECTION 2B

### 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, 2003

<b>AGENCY</b>	<b>Amounts Billed Not Yet Paid (1)</b> (Dollars in thousands)	<b>Amounts Expended Not Yet Billed (2)</b> (Dollars in thousands)	<b>Credits Due from Public (3)</b> (Dollars in thousands)	<b>Net Intra- Governmental Accounts Receivable (4)</b> (Dollars in thousands)
Agency for International Development	\$ 5,576	\$ 865	\$ (24)	\$ 6,417
Environmental Protection Agency	7,050	1,020	(30)	8,040
General Services Administration	31,618	4,410	(127)	35,901
National Aeronautics and Space Administration	13,348	2,030	(54)	15,324
National Science Foundation	227	38	(1)	264
Nuclear Regulatory Commission	1,469	183	(6)	1,646
Office of Personnel Management	2,197	535	(9)	2,723
United States Postal Service	73,771	242,799	(6,823)	309,747
Small Business Administration	5,052	676	(20)	5,708
Social Security Administration	43,786	6,878	(181)	50,483
Tennessee Valley Authority	72,450	17,424	(488)	89,386
U. S. Department of Agriculture	141,798	20,073	(582)	161,289
U. S. Department of the Air Force	268,048	37,795	(1,092)	304,751
U. S. Department of the Army	323,578	47,611	(1,323)	369,866
U. S. Department of Commerce	38,757	3,960	(127)	42,590
U. S. Department of Defense - other	161,869	22,873	(665)	184,077
U. S. Department of Education	4,001	402	(12)	4,391
U. S. Department of Energy	13,718	2,006	(55)	15,669
U. S. Department of Health and Human Services	45,061	6,468	(183)	51,346
U. S. Department of Homeland Security	158,891	28,887	(676)	187,102

1 Amounts billed through June 30, 2003 (including prior years) but not yet paid as of September 30, 2003.

2 Amounts paid and accrued but not yet billed for the period July 1, 2003 through September 30, 2003.

3 Allocation of credits due from the public through September 30, 2003.

4 Total amount due to the fund for each agency as of September 30, 2003.

**SECTION 2B**

**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, 2003**

<b>AGENCY</b>	<b>Amounts Billed Not Yet Paid (1) (Dollars in thousands)</b>	<b>Amounts Expended Not Yet Billed (2) (Dollars in thousands)</b>	<b>Credits Due from Public (3) (Dollars in thousands)</b>	<b>Net Intra-Governmental Accounts Receivable (4) (Dollars in thousands)</b>
U. S. Department of Housing and Urban Development	15,264	2,178	(61)	17,381
U. S. Department of the Interior	109,239	16,197	(456)	124,980
U. S. Department of Justice	125,028	20,141	(533)	144,636
U. S. Department of Labor	49,923	7,710	(231)	57,402
U. S. Department of the Navy	493,712	70,372	(1,978)	562,106
U. S. Department of State	15,952	2,163	(68)	18,047
U. S. Department of Transportation	188,576	27,137	(763)	214,950
U. S. Department of the Treasury	119,803	15,711	(485)	135,029
U. S. Department of Veterans Affairs	307,962	45,223	(1,268)	351,917
Other agencies	90,246	14,358	(396)	104,208
<b>Total - all agencies (Memo Only)</b>	<b>\$ 2,927,970</b>	<b>\$ 668,123</b>	<b>\$ (18,717)</b>	<b>\$ 3,577,376</b>

1 Amounts billed through June 30, 2003 (including prior years) but not yet paid as of September 30, 2003.

2 Amounts paid and accrued but not yet billed for the period July 1, 2003 through September 30, 2003.

3 Allocation of credits due from the public through September 30, 2003.

4 Total amount due to the fund for each agency as of September 30, 2003.

**SECTION 2B**

**U.S. Department of Labor  
Employment Standards Administration  
Federal Employees' Compensation Act Special Benefit Fund**

**Schedule of Benefit Expense by Agency  
For the year ended September 30, 2003**

<b>AGENCY</b>	<b>Benefits Paid and Accrued (Dollars in thousands)</b>	<b>Change in Actuarial Liability (Dollars in thousands)</b>	<b>Total Benefit Expense (Dollars in thousands)</b>
Agency for International Development	\$ 2,962	\$ (851)	\$ 2,111
Environmental Protection Agency	3,501	4,639	8,140
Federal Emergency Management Agency	(645)	(28,661)	(29,306)
General Services Administration	15,562	4,228	19,790
National Aeronautics and Space Administration	6,826	2,166	8,992
National Science Foundation	120	12	132
Nuclear Regulatory Commission	679	11	690
Office of Personnel Management	1,381	1,112	2,493
United States Postal Service	835,493	1,075,838	1,911,331
Small Business Administration	2,494	335	2,829
Social Security Administration	22,766	24,740	47,506
Tennessee Valley Authority	59,884	12,571	72,455
U. S. Department of Agriculture	70,560	78,198	148,758
U. S. Department of the Air Force	132,496	81,471	213,967
U. S. Department of the Army	178,960	152,889	331,849
U. S. Department of Commerce	14,931	9,369	24,300
U. S. Department of Defense - other	64,401	51,027	115,428
U. S. Department of Education	1,373	600	1,973
U. S. Department of Energy	8,844	10,111	18,955
U. S. Department of Health and Human Services	22,134	19,616	41,750
U.S. Department of Homeland Security	107,700	1,103,401	1,211,101

**SECTION 2B**

**U.S. Department of Labor  
Employment Standards Administration  
Federal Employees' Compensation Act Special Benefit Fund**

**Schedule of Benefit Expense by Agency  
For the year ended September 30, 2003**

<b>AGENCY</b>	<b>Benefit Payments (Dollars in thousands)</b>	<b>Change in Actuarial Liability (Dollars in thousands)</b>	<b>Total Benefit Expense (Dollars in thousands)</b>
U. S. Department of Housing and Urban Development	7,352	3,246	10,598
U. S. Department of the Interior	55,398	53,064	108,462
U. S. Department of Justice	57,443	(364,536)	(307,093)
U. S. Department of Labor	21,465	7,421	28,886
U. S. Department of the Navy	242,003	127,523	369,526
U. S. Department of State	6,685	5,369	12,054
U. S. Department of Transportation	91,597	(37,252)	54,345
U. S. Department of the Treasury	49,836	(294,051)	(244,215)
U. S. Department of Veterans Affairs	154,801	125,124	279,925
Other agencies <sup>(1)</sup>	97,636	17,956	115,592
Total - all agencies (Memo Only)	\$ 2,336,638	\$ 2,246,686	\$ 4,583,324

<sup>1</sup> Non-billable and other agencies for which ESA did not individually calculate an actuarial liability.

## SECTION 2C

### Agreed-upon Procedures & Results

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#### *Summary*

Our objective was to perform specified agreed-upon procedures on 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, 2003. These procedures were performed in accordance with attestation standards established by the American Institute of Certified Public Accountants and *Government Auditing Standards*, issued by the Comptroller General of the United States.

We applied the following agreed-upon procedures as summarized below:

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 2003 benefit payments predicted by the model for 2002 were compared to actual payments made in 2003, and analytical procedures were performed relating the change in the liability amount by agency to the change in the aggregate liability.

Net Intra-Governmental Accounts Receivable - Confirmation letters regarding the accounts receivable due as of September 30, 2003, were mailed and confirmed with the CFO Act and other selected Federal agencies. Agreed-upon procedures were performed on FY 2003 accounts receivable and compared with FY 2002 accounts receivable regarding new receivables; collections, write-offs, and chargebacks, and explanations were requested for changes over 5 percent, if any.

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 year-end cut-off process. We calculated the change in the actuarial liability from the prior year to the current year.

**SECTION 2C**

**Agreed-upon Procedures & Results**

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**ACTUARIAL LIABILITY**

*Overview*

An independent actuary evaluated the actuarial model and the resulting actuarial liability. The independent actuary issued a report stating 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 relate 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*

<b>Agreed-Upon Procedures Performed</b>	<b>Results of Procedures</b>
<p>Engaged a certified actuary to review the calculations of the actuarial liability as to:</p> <ul style="list-style-type: none"> <li>• Whether or not the assumptions used by the model were appropriate for the purpose and method to which they were applied.</li> <li>• Whether or not such assumptions were applied correctly and if other calculations within the model were performed in a manner as to generate appropriate results.</li> <li>• Whether or not tests of calculations provided a reasonable basis regarding the integrity of the model as a whole.</li> <li>• Whether or not the overall results were reasonable.</li> </ul>	<p>The actuary's review of the model indicated that the assumptions were appropriate for the purpose and method applied. The actuary tested the calculations included in the model and reported that they were performed consistent with the model's stated assumptions.</p> <p>The actuary's review of the model indicated that the assumptions were applied correctly and that calculations were performed in such a way as to generate results which are appropriate overall. Additional detailed checks of calculations and data flow revealed no error in methodology had been used.</p> <p>The methodology and assumptions applied to the calculations tested provides a reasonable basis in regard to the integrity of the model as a whole.</p> <p>The actuary indicated that the model calculation of the liability and the overall results were reasonable under the method and assumptions used.</p>
<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 and 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 and the FECA Special Benefit Fund. The actuarial consulting firm provided references stating experience in the type of work required for this engagement. The references were contacted, and they confirmed the actuary possessed the expertise and experience required for this engagement.</p>

**SECTION 2C**

**Agreed-upon Procedures & Results**

<b>Agreed-Upon Procedures Performed</b>	<b>Results of Procedures</b>
<p>Compared and evaluated the economic assumptions used by the model for 2002 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 5.2% for the prior year to an average of 4.29% for the current year. The Bureau of Labor Statistics (BLS) estimates of COLA decreased from a 10-year average of 2.37% for the prior year to a 10-year average of 2.11% for the current year, and CPI-Med factors decreased from a 10-year average of 4.04% for the prior year to a 10-year average of 3.75% for the current year. In combination, these rate changes resulted in a decrease in the net effective rate (interest rate less inflation rate) of approximately 27% (from 2.50% to 1.83%). The result of the changes in estimated prospective rates was to increase the estimated actuarial liability by approximately 7% from what the liability would have been had 2002 rates been used for the year 2003 calculation.</p>
<p>Compared the interest rate (used for discounting the future liability to the present value) and inflation rates used by the model to the source documents from which they were derived.</p>	<p>The interest rates used in the model were the same interest rates stated in OMB's publication. The inflation rates used in the model were derived from the BLS indices cited. No exceptions were noted.</p>
<p>Compared the actuarial liability by agency of the unaudited estimated actuarial liability for future workers' compensation benefits, as reported in a Memorandum to the CFOs of Executive Departments issued by DOL's Chief Financial Officer, to the liability calculated by the model and reported on the Projected Liability Reports.</p>	<p>The liability reported in 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 1998-2003 benefit payments used by the model with the amount of benefit payments reflected in the Summary Chargeback Billing Report. Determined whether the benefit payment data used by the model are the same data on which agreed-upon procedures for benefit payments were performed.</p>	<p>The amounts by agency and in the aggregate agreed without exception. The benefit payment data used by the model were the same data used to perform agreed-upon procedures for benefit payments.</p>

## SECTION 2C

### Agreed-upon Procedures & Results

Agreed-Upon Procedures Performed	Results of Procedures
<p>Determined the basis of the agency groupings and performed tests to compare the consistency of the grouping with the prior year. Determined the impact of such inclusion in a grouping.</p>	<p>The agency groupings were consistent with the prior year. 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 were traced to the study. The study included data through 1991, and therefore, agencies without claims under FECA prior to 1991 had not been studied. These agencies were placed in Group III, whose average probability approximated the average of the aggregate population. These agencies are USAID, NSF, NRC, OPM, SBA and SSA. In 2003 Homeland Security was added to Group II premised on the understanding that more than half the total chargeback was transferred from Group II agencies (DOT and Treasury).</p> <p>Agency groupings are used to group agencies with similar historical benefit payment patterns. The liability estimate is calculated by grouping to minimize potential distortion in the calculation due to variable historical payment patterns among the agencies.</p>
<p>Calculated the change in the actuarial liability by agency and in the aggregate. Determined, based on a predictive test, if variances were consistent with the Liability to Benefits Paid (LBP) ratio applied to each agency's prior year liability adjusted for their change in benefit payments and economic assumptions. Identified the reason for or requested explanations for agencies whose change in liability was not consistent with predictive test results.</p>	<p>The aggregate liability increased approximately 9.2%. The following agencies' liabilities changed by more than 10%.</p> <ul style="list-style-type: none"> <li>• EPA +11.76%</li> <li>• Treasury -27.30%</li> <li>• Homeland Security +100.00%</li> <li>• Smithsonian +12.67%</li> <li>• DOJ -30.27%</li> <li>• Energy +10.94%</li> <li>• Postal Service +14.06%</li> <li>• FEMA -100.00%</li> </ul> <p>DOJ and Treasury both transferred substantial subagencies to Homeland Security. FEMA was transferred entirely to Homeland Security. For EPA, Smithsonian, Energy, and Postal Service, the model calculation was consistently within 10% of the predictive test results indicating changes in these liabilities are reasonable. No further explanations deemed necessary.</p>
<p>Reviewed the Department of Homeland Security (DHS) liability estimate and performed tests to determine its reasonableness. Determined the impact of the liability transfer on contributing agencies.</p>	<p>There were four agencies with prior activity whose related historical benefit payments were imputed to Homeland Security as the basis on which the new liability was calculated. DOT transferred Coast Guard, Coast Guard Auxiliary, and the Transportation Security Administration. DOJ transferred the Immigration and Naturalization Service. Treasury transferred Secret Service, Customs, and Federal Law Enforcement Training Center (FLETC). FEMA was transferred in its entirety.</p>



## SECTION 2C

### Agreed-upon Procedures & Results

Agreed-Upon Procedures Performed	Results of Procedures
	<p>For the purpose of calculating the new DHS liability, and under the supervision of an actuary, DOL added the historical benefit payments of the subagencies identified to DHS and calculated a new liability. Conversely, the historical benefit payments included now under DHS were excluded from the calculation of the legacy agencies.</p> <p>We calculated the percentage of the transferred subagency payments for 1998-2002 to overall agency benefit payments for those years and compared it to the constant dollar change in the calculation of the legacy estimated liability as follows:</p> <ul style="list-style-type: none"> <li>• DOT (Payments: 7.4%, Decline: 5.0%)</li> <li>• DOJ (Payments: 35.3%, Decline 31.8%)</li> <li>• Treasury (Payments: 31.0%, Decline 28.8%)</li> </ul> <p>For DOJ, DOT, Treasury and DHS, the actual chargeback transferred per the model was traced to the Summary Chargeback Billing Report for 1998-2003 without exception.</p> <p>The actuary's review of the model indicated that the liability estimate related to DHS was reasonable.</p>
<p>Calculated the ratio of the agency liability to the benefit payments (LBP) by agency and compared this to the agency group ratio. Identified and requested explanations for those agencies for which the ratio varied by more than 10 percent from their group ratio and lay outside the range of group averages based on predictive test results.</p>	<p>The Liabilities to Benefits Paid ratio (LBP) was 11.5. By group, the range of the ratio was from 10.3 (Group V-Postal Service) to 13.1 (Group III).</p> <p>The following agencies varied by more than 10% from their group's ratio and fell outside the range of group ratios: Education (15.3 - Group II), USAID (9.2 - Group III), All Other Defense (14.6 - Group III), State (8.7 - Group IV).</p> <p>For these four agencies the model calculated within 10% of a predictive test based upon each agency's prior year liability adjusted for their change in benefit payments and economic assumptions for all but USAID. The model calculation for USAID was lower than the prediction by approximately 21.8%.</p> <p>We noted that USAID's medical payments increased by 67% in actual dollars during 2003. The model is designed to gradually reflect such fluctuations as part of an overall history of benefit payments. The LBP ratio as calculated does not consider the overall history.</p>
<p>Compared the benefit payments predicted by the model for year 2003 to the actual benefit payments. Identified the agencies where the model computed benefit payments that varied by more than 20 percent and \$2 million from actual benefit payments made during 2003.</p>	<p>Payments increased in constant dollars approximately 2.14% during the current fiscal year, which was comprised of a 2.15% increase in compensation and 2.13% increase in medical benefit payments.</p> <p>Actual payments were approximately 11.3% lower than predicted. The following agencies' actual payments varied from the prediction by more than 20% and \$2 million: DOJ (-52.22%), State (+47.2%), Treasury (-40.9%).</p>

## SECTION 2C

### Agreed-upon Procedures & Results

Agreed-Upon Procedures Performed	Results of Procedures
	<p>In constant dollars, State's benefit payments increased over the prior year by 13.4%. Treasury and DOJ are legacy agencies for Homeland Security who transferred subagencies whose histories are expected to reflect higher physical risk than the balance of the subagencies in Treasury and DOJ. Such history would have skewed the projection upward for each agency.</p>
<p>Compared an estimate of the liability by agency calculated from the agency's prior year balance, the change in their benefit payments, and the overall effect of change in economic factors to the liability computed by the actuarial model.</p>	<p>The calculated amounts were within 10% of amounts derived by DOL's model for all agencies except USAID (-21.8%), SBA (-11.5%), and Homeland Security (+13.6%).</p> <p>We noted that the increase in benefit payments for the components of Homeland Security was chiefly comprised of new claims by subagency, Transportation Security Administration. New claims are heavily weighted in the model. As previously cited, Treasury, as a legacy agency for Homeland Security transferred subagencies (Secret Service, Customs, and FLETC) whose history is expected to reflect higher physical risk than the balance of the subagencies in Treasury. Transferring out this history of benefit payments may have resulted in a lower than predicted calculation for the legacy agencies.</p> <p>SBA's LBP is 12.8% higher than the average (11.5%). This would counter the indication that their liability may be understated.</p> <p>DOL's actuary reviewed the USAID calculation and indicated the model liability calculation was appropriate.</p>
<p>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 and explained the effect of rate difference.</p>	<p>Surveyed rates from non-FECA sources for compensation ranged from 2.38% to 3.00% and for medical ranged from -3.57% to 1.40%. The rates used by the FECA model compute to net effective rates of approximately 2.19% for compensation and .55% for medical. The use of lower rates by FECA results in the calculation of a higher liability which is more conservative.</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 calculated by DOL for the Postal Service was 19.5% higher than the calculation prepared by the Postal Service. The net effective discount rates used by the Postal Service were different than those used by DOL.</p>

## SECTION 2C

### Agreed-upon Procedures & Results

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#### NET INTRA-GOVERNMENTAL ACCOUNTS RECEIVABLE

##### *Overview*

Agreed-upon procedures were applied to the net intra-governmental accounts receivable as of September 30, 2003, as compared with net intra-governmental accounts receivable as of September 30, 2002, with regards to new receivables, collections, write-offs, and chargebacks.

We compared the fiscal year 2003 net intra-governmental accounts receivable to the fiscal year 2002 net intra-governmental accounts receivable and investigated changes of over 5 percent. We compared new receivables, collections and write-offs for fiscal year 2003 to fiscal year 2002; calculated the accounts receivable outstanding for each fiscal year; calculated the chargeback and fair share total for 2003; and confirmed the chargeback amounts billed for claimants' payments directly with the Federal agencies charged.

##### *Procedures and Results*

<b>Agreed-Upon Procedures Performed</b>	<b>Results of Procedures</b>
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 and paid.	The change in the net intra-governmental accounts receivable balances was in proportion to the increases in benefit payments billed to and paid by each Federal agency.
Confirmed accounts receivable balances due as of September 30, 2003, for all CFO Act agencies (except DOL) and other selected Federal agencies.	Confirmations were reviewed for agreement to amounts recorded. Explanations for the differences on the confirmations received were obtained from the agencies and/or DOL. A confirmation was not received from Howard University Hospital. DOL's CFO office has an interagency workgroup which works to resolve any differences with the agencies.
Compared the chargeback billing report, for the period July 1, 2002 through June 30, 2003, to the amounts billed to the Federal agencies.	The amounts billed to the Federal agencies for the period July 1, 2002 through June 30, 2003, 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 at least 25 items, whether claimant accounts receivable overpayments were properly established and classified.	No exceptions were noted.

## SECTION 2C

### Agreed-upon Procedures & Results

#### BENEFIT EXPENSE

##### *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, 2003, to the fiscal year ended September 30, 2002, and for the sampling period of October 1, 2002 to April 30, 2003, to the sampling period of October 1, 2001 to April 30, 2002. Changes in the actuarial liability from the prior year to the current year were calculated. Agreed-upon procedures were applied to DOL's year-end cut-off process.

##### *Procedures and Results*

Agreed-Upon Procedures Performed	Results of Procedures
<p>Compared the benefit payments recorded in the Automated Compensation Payment System (ACPS) and Bill Payment System (BPS) databases to the Department of Labor's general ledger and the Department of Treasury's SF-224s as of April 30, 2003, and September 30, 2003.</p>	<p>The benefit payments recorded in the Automated Compensation Payment System (ACPS) and the Bill Payment System (BPS) databases varied from the SF-224s by 0.26% and varied from the general ledger by 0.27% as of April 30, 2003.</p> <p>As of September 30, 2003, the ACPS and BPS databases varied from the SF-224s by 1.76% (\$41.05 million) and varied from the general ledger by 1.59% (\$36.80 million).</p>
<p>Agreed-upon procedures were applied to DOL cut-off procedures.</p>	<p>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.</p>
<p>Compared the average ACPS and BPS payments by strata for the April 30, 2003, and September 30, 2003, databases to the average ACPS and BPS payments by strata for the April 30, 2002 and September 30, 2002 databases. Determined if there were any variances over 7 percent.</p>	<p>The average ACPS benefit payments by strata varied from -9.51% to 0.98% with an average increase of 2.33% from April 30, 2003 to April 30, 2002. The strata that had a variance greater than 7% was the strata of payments greater than \$150,000, which decreased by 9.51%.</p> <p>DOL stated that average ACPS benefit payments per case in the stratum over \$150,000 are attributable to a small number of cases, less than 50. The decrease from 2002 to 2003 in the average payments per case in this stratum is largely attributable to the specific circumstances of each case rather than trends.</p> <p>The average ACPS benefit payments by strata varied from -6.26% to 2.40% with an average increase of 6.16% from September 30, 2003 to September 30, 2002. No strata had variances greater than 7%.</p> <p>The average BPS benefit payments by strata varied from -17.33% to 14.02% with an average decrease of 0.81% from April 30, 2003 to April 30, 2002. The strata that had a variance greater than 7% included strata \$750 to \$1,250 which increased 8.74% and strata for payments greater than \$75,000 which decreased 17.33%.</p>

## SECTION 2C

### Agreed-upon Procedures & Results

Agreed-Upon Procedures Performed	Results of Procedures
	<p>DOL stated that average BPS benefit payments in the stratum \$750 to \$1,250 are subject to medical cost inflation. OWCP compares FECA medical average costs to nationwide health care cost trends as measured by the Milliman Health Cost Index. This index measures the change in non-Medicare health care costs per capita for the overall national population. The annual trend of this index for the audit period exceeded 9%.</p> <p>DOL stated that average BPS benefit payments in the stratum of payments greater than \$75,000 are attributable to a small number of payments primarily for hospital stays and long-term care or other accommodations for disabilities. The decrease from 2002 to 2003 in the average payments in this stratum is largely attributable to the reductions in such care provided in 2002 arising from the September 11, 2001 terrorist attacks. Because of the small number of bills in this stratum, only a few could cause a significant fluctuation.</p> <p>The average BPS benefit payments by strata varied from -14.5% to 19.1% with an average increase of 2.58% from September 30, 2003 to September 30, 2002. The strata that had a variance greater than 7% was the strata of payments greater than \$75,000, which decreased by 14.5%.</p> <p>DOL stated that average BPS benefit payments in the stratum of payments greater than \$75,000 are attributable to a small number of payments primarily for hospital stays and long-term care or other accommodations for disabilities. The decrease from 2002 to 2003 in the average payments in this stratum is largely attributable to the reductions in such care provided in 2002 arising from the September 11, 2001 terrorist attacks. Because of the small number of bills in this stratum, only a few could cause a significant fluctuation.</p>

## SECTION 2C

### Agreed-upon Procedures & Results

Agreed-Upon Procedures Performed	Results of Procedures																								
<p>Performed a trend analysis on the total benefit payments for the last 5 fiscal years. We requested explanations from DOL for variances over 5 percent, if any.</p>	<p>The 2003 benefits increased by 5.7% over 2002.</p> <p>DOL stated that the 2003 total benefit increase over 2002 is attributable to the base pay raise excluding locality pay of 3.1%, the 2.4%COLA increase, and medical inflation.</p> <p>In addition, the 2001 benefits increased by 5.92% over 2000. DOL stated that medical benefits increased substantially in 2001 over prior years resulting in higher overall benefit payments. No other variances over 5% were noted for any of the other 5 years.</p>																								
<p>Compared the summary chargeback-billing list to the total benefit payments as of September 30, 2003.</p>	<p>The agency chargeback billing list varied from the benefit payment databases for the fiscal year ending September 30, 2003 by 1.02%.</p>																								
<p>Compared by agency, and in total, benefit payments for the fiscal year ending September 30, 2003, with total benefit payments made for the fiscal year ending September 30, 2002. We requested explanations from DOL for any variances over 7 percent.</p>	<p>Benefit payments for the fiscal year ending September 30, 2003 increased 1.5% overall from September 30, 2002. Benefit payments increased or decreased by more than 7% for the following agencies:</p> <table style="width: 100%; border-collapse: collapse;"> <tbody> <tr> <td style="width: 25%;">EOP</td> <td style="width: 25%;">9.98%</td> <td style="width: 25%;">USAID</td> <td style="width: 25%;">13.57%</td> </tr> <tr> <td>Smithsonian</td> <td>15.63%</td> <td>DOJ</td> <td>-41.95%</td> </tr> <tr> <td>NRC</td> <td>-7.65%</td> <td>Treasury</td> <td>-44.06%</td> </tr> <tr> <td>CNS</td> <td>-21.16%</td> <td>DOT</td> <td>-10.85%</td> </tr> <tr> <td>SBA</td> <td>11.52%</td> <td>Education</td> <td>-12.65%</td> </tr> <tr> <td>OPM</td> <td>33.59%</td> <td>FEMA</td> <td>-123.01%</td> </tr> </tbody> </table> <p>DOL stated that the reductions in benefits for the Department of Treasury, DOJ, DOT and FEMA are largely due to the transfer of components to the DHS.</p> <p>DOL also stated that the EOP, Smithsonian, CNS, SBA, OPM, NRC, USAID, and Education are very small agencies. Resolution of a small number of cases or very small changes in injury rates or payments for catastrophic injuries can cause significant fluctuations in payments. Increases in the remaining agencies are primarily due to inflation. The annualized trend for medical cost increases for the period exceeded 9%, the base pay raise excluding locality pay was 3.1%, and the COLA was 2.4%.</p>	EOP	9.98%	USAID	13.57%	Smithsonian	15.63%	DOJ	-41.95%	NRC	-7.65%	Treasury	-44.06%	CNS	-21.16%	DOT	-10.85%	SBA	11.52%	Education	-12.65%	OPM	33.59%	FEMA	-123.01%
EOP	9.98%	USAID	13.57%																						
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CNS	-21.16%	DOT	-10.85%																						
SBA	11.52%	Education	-12.65%																						
OPM	33.59%	FEMA	-123.01%																						
<p>Compared the benefit payments made by each District office as of April 30, 2003, and September 30, 2003, to the prior year data. Determined if there were any variances larger than 5 percent. We requested explanations from DOL for any variances over 5 percent.</p>	<p>As of April 30, 2003, benefit payments increased or decreased from April 30, 2002, by more than 5% for the following districts:</p> <table style="width: 100%; border-collapse: collapse;"> <tbody> <tr> <td style="width: 25%;">New York</td> <td style="width: 25%;">9.04%</td> <td style="width: 25%;">Dallas</td> <td style="width: 25%;">6.99%</td> </tr> <tr> <td>Cleveland</td> <td>6.08%</td> <td>Washington</td> <td>7.43%</td> </tr> <tr> <td>Kansas City</td> <td>8.90%</td> <td>National Office</td> <td>-6.65%</td> </tr> <tr> <td>Denver</td> <td>5.19%</td> <td></td> <td></td> </tr> </tbody> </table>	New York	9.04%	Dallas	6.99%	Cleveland	6.08%	Washington	7.43%	Kansas City	8.90%	National Office	-6.65%	Denver	5.19%										
New York	9.04%	Dallas	6.99%																						
Cleveland	6.08%	Washington	7.43%																						
Kansas City	8.90%	National Office	-6.65%																						
Denver	5.19%																								

## SECTION 2C

### Agreed-upon Procedures & Results

Agreed-Upon Procedures Performed	Results of Procedures																				
	<p>As of September 30, 2003, benefit payments increased or decreased from September 30, 2002, by more than 5% for the following districts:</p> <table style="width: 100%; border: none;"> <tr> <td style="width: 33%;">New York</td> <td style="width: 33%;">11.63%</td> <td style="width: 33%;">Denver</td> <td style="width: 33%;">5.55%</td> </tr> <tr> <td>Philadelphia</td> <td>5.06%</td> <td>Seattle</td> <td>5.93%</td> </tr> <tr> <td>Jacksonville</td> <td>5.32%</td> <td>Dallas</td> <td>7.57%</td> </tr> <tr> <td>Cleveland</td> <td>7.55%</td> <td>Washington</td> <td>10.12%</td> </tr> <tr> <td>Kansas City</td> <td>8.17%</td> <td></td> <td></td> </tr> </table> <p>DOL stated that the primary reason for increases in benefit payments by District offices is inflation. The annualized trend for medical cost increases for the period exceeded 9%, the base pay raise excluding locality pay was 3.1% and COLA was 2.4%. New York and Washington benefit payments were also increased by anthrax claims. In addition, fluctuations are caused by the transfer of cases between District offices.</p>	New York	11.63%	Denver	5.55%	Philadelphia	5.06%	Seattle	5.93%	Jacksonville	5.32%	Dallas	7.57%	Cleveland	7.55%	Washington	10.12%	Kansas City	8.17%		
New York	11.63%	Denver	5.55%																		
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Cleveland	7.55%	Washington	10.12%																		
Kansas City	8.17%																				
Calculated a 12-month projected benefit payment based on the April 30, 2003 database (7 months). Compared the projected 12-month total benefit payments to the actual 12-month total benefit payments as of September 30, 2003.	The actual 12-month total benefit payments varied from the projected 12-month total benefit payments for the fiscal year ending September 30, 2003, by -2.05%.																				
Inquired of DOL of any comparisons prepared between the fee schedule used to pay medical providers with the fee schedule used by other agencies.	DOL prepared a study of the amounts paid for 12 different common procedure codes by 19 state agencies for calendar year 2002. The amounts which would be paid under DOL's fee schedule were in between the minimum and maximum of the 19 state agencies. DOL did not prepare a new study in 2003.																				
Calculated the change in the actuarial liability reported on the current year and prior year's compilation report prepared by DOL.	The change in the actuarial liability was calculated correctly by DOL.																				

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SECTION 3A

**Independent Service Auditors' Report**

Victoria A. Lipnic, Assistant Secretary  
Employment Standards Administration, U.S. Department of Labor:

We have examined the accompanying description of the controls of the Division of Federal Employees' Compensation (DFEC) 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 controls that may be relevant to a user organization's internal control as it relates to an audit of financial statements; (2) the controls included in the description were suitably designed to achieve the control objectives specified in the description, if those controls were complied with satisfactorily and users of the FECA Special Benefit Fund applied the controls contemplated in the design of DFEC's controls, as described in Section 3B; and (3) such controls had been placed in operation as of April 30, 2003.

DFEC uses SunGard eSourcing, 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 controls and related control objectives at DFEC, and does not include controls and related control objectives at SunGard, a subservicer. Our examination did not extend to the controls of SunGard, the subservicer. The control objectives (Section 3C) were specified by the management of DFEC. 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 aforementioned controls presents fairly, in all material respects, the relevant aspects of DFEC's controls that had been placed in operation as of April 30, 2003. Also, in our opinion, the controls, as described, are suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described controls were complied with satisfactorily and users of the FECA Special Benefit Fund applied the internal controls contemplated in the design of the DFEC's controls.

In addition to the procedures we considered necessary to render our opinion as expressed in the previous paragraph, we applied tests to specified controls to obtain evidence about their effectiveness in meeting the related control objectives during the period from October 1, 2002 through April 30, 2003. The specific controls and the nature, timing, extent, and results of the tests are summarized in Section 3C. 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 control at user organizations, when making assessments of control risk for user organizations.

DFEC states in its description of controls that it has controls in place that require the review of medical evidence annually or every two or three years depending on the type of compensation paid. Our tests of operating effectiveness noted that a significant number of case files contained no current medical evidence as required by DFEC's policy (Page 66). This resulted in the nonachievement of the control objective "Controls provide reasonable assurance that claimants submitted medical evidence to support continuing eligibility for compensation and medical benefits."

In our opinion, except for the matter described in the preceding paragraph, the controls that were tested, as described in Section 3C, 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, 2002 through April 30, 2003. However, the scope of our engagement did not include tests to determine whether control objectives not listed in Section 3C were achieved; accordingly, we express no opinion on the achievement of control objectives not included in Section 3C.

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

The description of controls at DFEC is as of April 30, 2003, and information about tests of operating effectiveness of specified controls covers the period October 1, 2002 through April 30, 2003. Any projection of such information to the future is subject to the risk that, because of change, the description may no longer portray the controls in existence. The potential effectiveness of specified controls at DFEC is subject to inherent limitations and, accordingly, errors or fraud 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 (1) changes made to the system or controls, (2) changes in processing requirements, or (3) changes required because of the passage of time may alter the validity of such conclusions.

This report is intended solely for the information and use of the U.S. Department of Labor, users of the FECA Special Benefit Fund (Federal agencies listed in Section 2B of this report), and the independent auditors of its users.

*M.D. Oppenheim & Company, P.C.*

October 8, 2003

## SECTION 3B

### Division of Federal Employees' Compensation's Description of Controls

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#### 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 Programs, Division of Federal Employees' Compensation (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 injury are usually covered by the injured workers being paid by their respective agencies in a continuation of pay (COP) status. FECA also provides rehabilitation for injured employees to facilitate their return to work.

##### *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

**SECTION 3B**

**Division of Federal Employees' Compensation's  
Description of Controls**

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<u>District</u>	<u>Location of District Office</u>	<u>States or Regions Covered by District Office</u>
13	San Francisco	Arizona, California, Guam, Hawaii, Nevada
14	Seattle	Alaska, Idaho, Oregon, Washington
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 controls and related control objectives were omitted from the description of control objectives, tests of controls and operating effectiveness contained in this report. Control objectives, tests of controls and operating effectiveness included in this report include only the objectives that DFEC's controls are intended to achieve.

**SECTION 3B**

**Division of Federal Employees' Compensation's  
Description of Controls**

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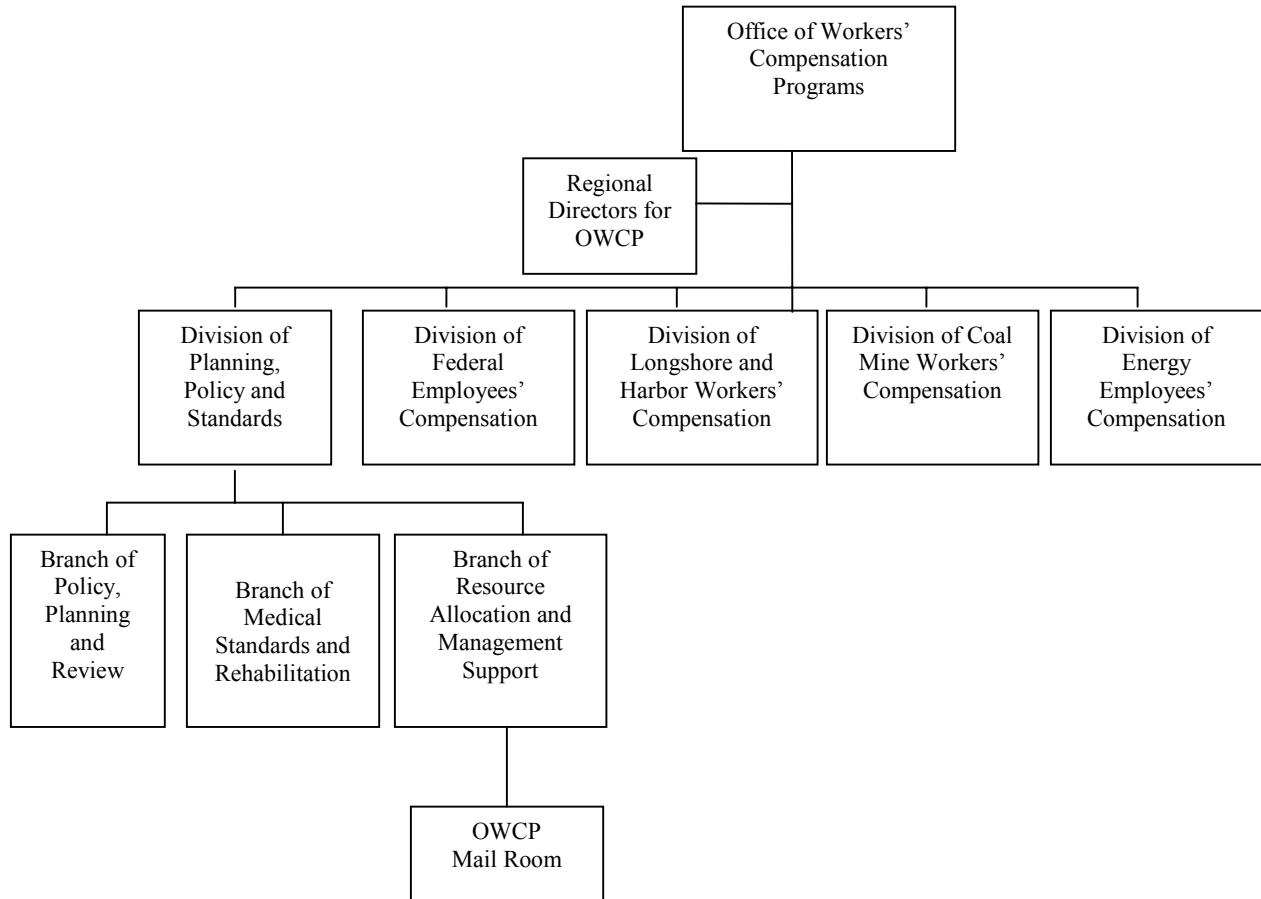
**OVERVIEW OF THE CONTROL ENVIRONMENT**

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 controls that are generally considered to be part of the control environment.

***Organization and Management***

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

**ESA, Office of Workers' Compensation Programs**



**SECTION 3B**

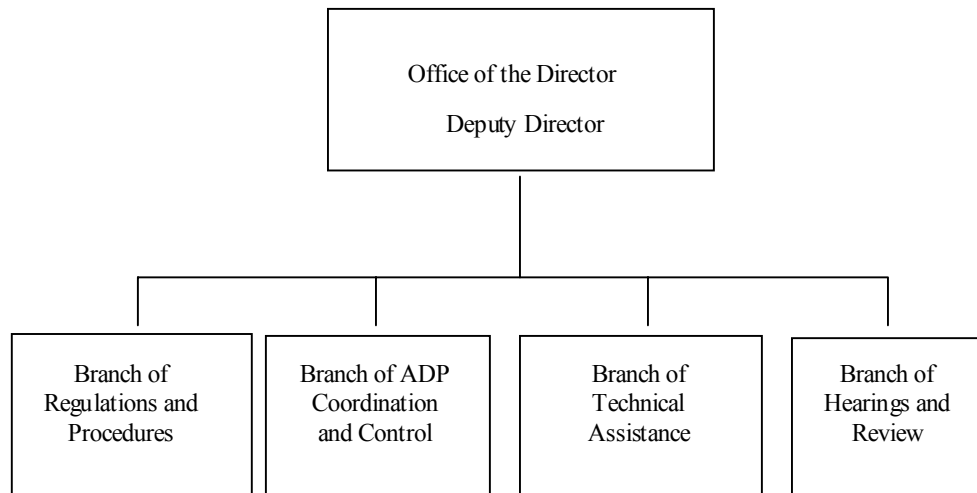
**Division of Federal Employees' Compensation's  
Description of Controls**

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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.

**Division of Federal Employees' Compensation (DFEC)**



## SECTION 3B

### Division of Federal Employees' Compensation's Description of Controls

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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 is primarily assisted by an Assistant Director (in the larger District offices) that oversees the Claims Section and a Fiscal Officer that oversees the Fiscal Section.

The District offices serve the persons residing within their districts. 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 National office).

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 claimant's medical progress and assist their efforts to return to work.

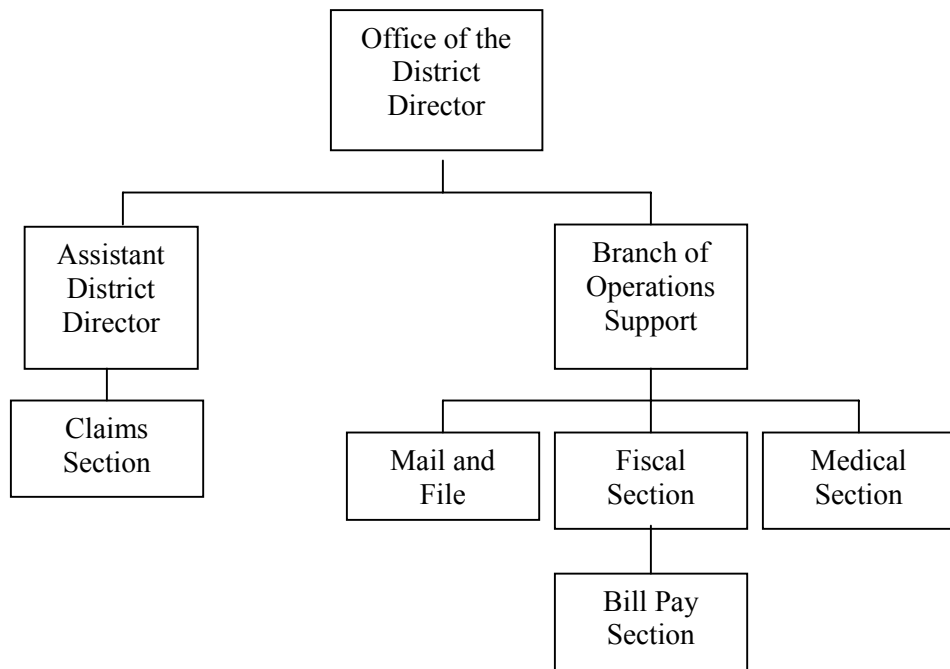
## SECTION 3B

### Division of Federal Employees' Compensation's Description of Controls

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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. OWCP also uses a centralized mailroom located in London, Kentucky, for routine mail. Mail such as Forms CA-1, CA-2, CA-7, CA-16, congressional inquiries and certain types of medical provider bills are processed by the District offices and not in the centralized mailroom.
  
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 return claimants to suitable work, preferably with little or no loss of earnings. The emphasis of the rehabilitation program is on early referral and evaluation of all injured workers who need services; case management standards to ensure that plans are efficient and of good quality; flexibility to provide the widest range of services from private and public rehabilitation agencies; preference for reemployment with the previous employer; and placement of workers in jobs where disability does not prevent them from competing with non-disabled employees.

#### DFEC District Office Structure<sup>1</sup>



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<sup>1</sup> The organizational structure regarding the Vocational Rehabilitation functions varies among the District offices.



## SECTION 3B

### Division of Federal Employees' Compensation's Description of Controls

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#### OVERVIEW OF TRANSACTION PROCESSING

##### *Identification and Registration of the Recipient of FECA Benefits*

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

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 and case status information.

##### *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 or illness. The payments for lost wages, schedule awards and death benefits are processed through the Automated Compensation Payment System (ACPS), while the payments for medical expenses are processed through the Bill Payment System (BPS). Each of these systems support the Department of Labor's general ledger system.

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 reviewed for accuracy by a Senior Claims Examiner. 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 compensation payment data are formatted and sent to Treasury via a secure modem over a dedicated line for payment processing.

## **SECTION 3B**

### **Division of Federal Employees' Compensation's Description of Controls**

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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 or illness. 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. Bills which fail certain edit codes are identified by the system, excluded from payment and sent to a Bill Resolver at the District office for further review.

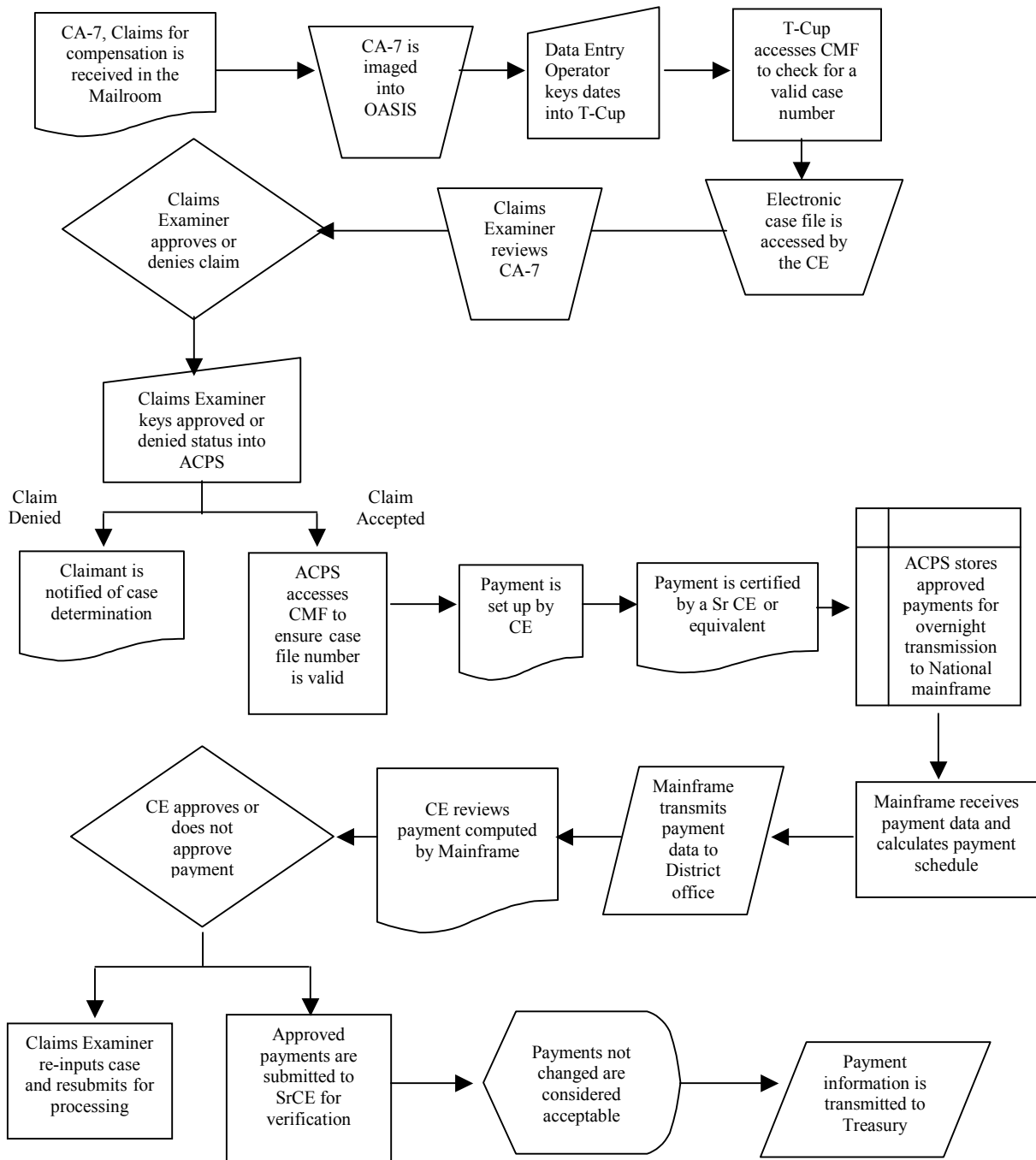
Approved payments are stored in a temporary file for the duration of the bill payment cycle of 5 days. At the end of the cycle, the mainframe runs programs that formats the data to Treasury's specifications, updates the bill payment history files for use in the Chargeback System, and sends summarized information to the District office Fund Control System. The formatted bill payment data is then sent to Treasury via a secure modem over a dedicated line for payment processing.

## SECTION 3B

### Division of Federal Employees' Compensation's Description of Controls

The following charts set forth an overview of transaction processing at DFEC:

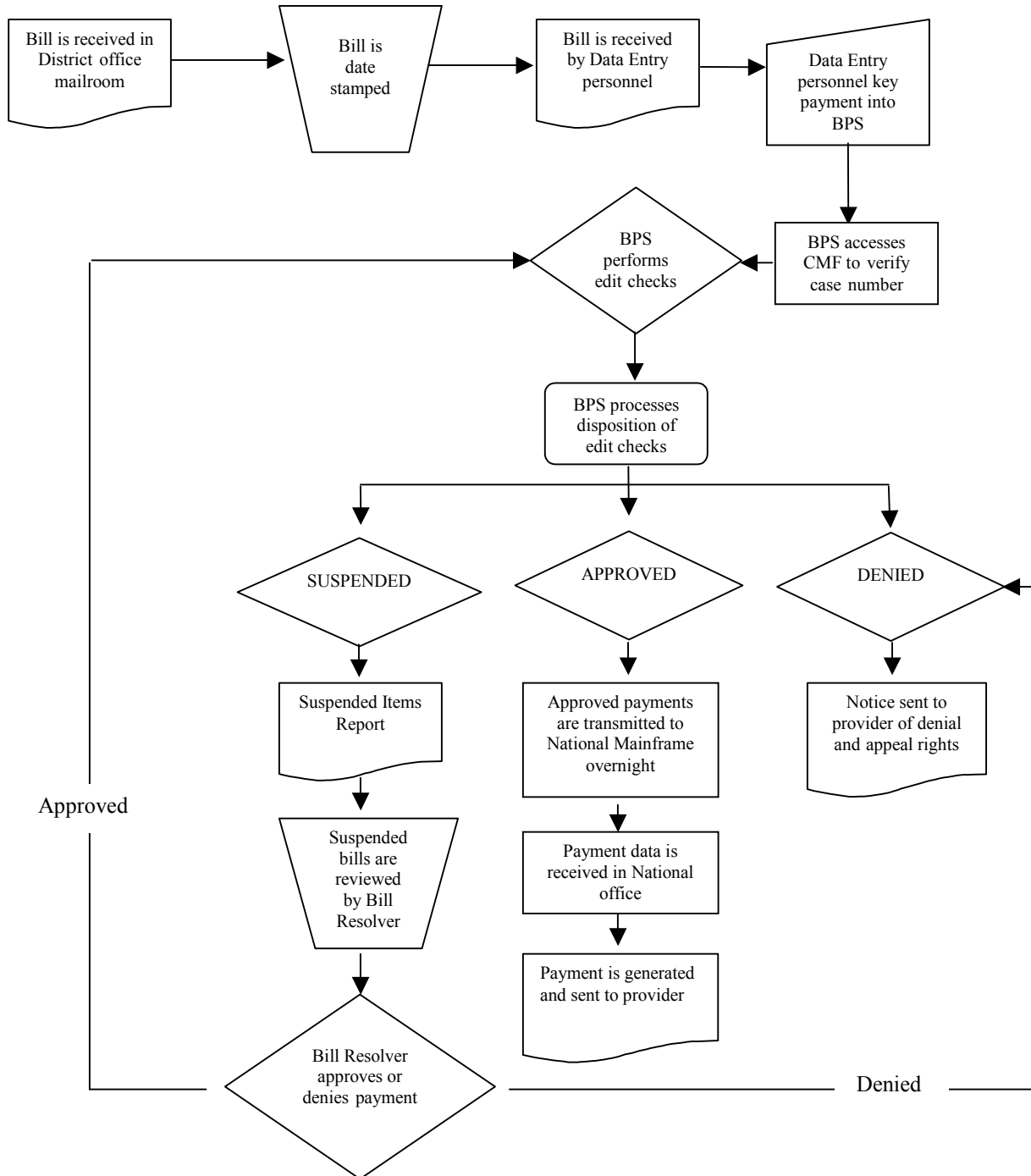
#### *Processing of Compensation Payments*



## SECTION 3B

### Division of Federal Employees' Compensation's Description of Controls

#### *Processing of Medical Payments*



## SECTION 3B

### Division of Federal Employees' Compensation's Description of Controls

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#### *Computer-Generated Reports*

BPS generates a summary report on a weekly basis. The report 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 history files are combined on a quarterly and annual basis into the Chargeback System (CBS). CBS is used to generate financial data that is interfaced into DOL's core financial management system, DOLAR\$. CBS also provides a method for tracking intra-governmental accounts receivable activity and for billing Federal agencies.

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 for the program year which is from July 1 through June 30. CBS creates the bills which are sent to each employing agency for benefits that have been paid on the agency's behalf.

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 to reimburse the Special Benefit Fund the amount appropriated for these benefits within 30 days after the appropriation is available. If an agency is not dependent on an annual appropriation, then the funds are to be remitted during the first 15 days of October following the issuance of the bill.

The bills sent to agencies contain identifying codes for both the fiscal year being billed and the fiscal year in which the bill is to be paid. Each bill sent out in fiscal year 2002 and due in fiscal year 2003 would be coded as follows: 02-XXX-03. The 02 indicates the year the bill is generated, the XXX indicates the numerical sequence of the bill, and the 03 indicates the year that the bill is due and payable.

The Intra-Governmental Payment and Collection (IPAC) system is utilized to facilitate the electronic billing between Federal agencies through Treasury. Agencies can use IPAC to complete payments by choosing the IPAC payment option in Treasury's GOALS II system and entering the required payment information to complete the transaction and transfer funds.

## SECTION 3B

### Division of Federal Employees' Compensation's Description of Controls

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#### *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 CMF. OWCP generally requires the claimant to pursue legal action; however, the United States government 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 CE when initial injury reports indicate a potential third party liability. 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.

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 processed by the CE (in the smaller District offices) or referred to a Designated Claims Examiner (DCE) (in the larger District offices).

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 not expected 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, Office of the 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; and,
- the 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. Termination or changes in periodic roll payments must be reported to the SOL immediately. Additionally, the DCE requests a status report from the SOL at 6-month intervals.

## **SECTION 3B**

### **Division of Federal Employees' Compensation's Description of Controls**

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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 a full reimbursement from the third party refund is not received by OWCP from the claimant, an accounts receivable balance is set up for the amount still due. If the amount recovered by the claimant exceeds the amount already paid by OWCP to the claimant for compensation and medical benefits, then the excess amount recovered by the claimant 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.

## SECTION 3B

### Division of Federal Employees' Compensation's Description of Controls

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#### OVERVIEW OF COMPUTER INFORMATION SYSTEMS

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

- Automated Compensation Payment System (ACPS)
- Medical Bill Payment System (BPS)
- Case Management File (CMF)
- Debt Management System (DMS)
- Chargeback System (CBS)

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 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 users' functions within the program. The FECA ADP 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 System 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 the FECS to authorized personnel, at both the National and District office level include the following:

- 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; and
- Written procedures exist for both physical hardware and software security.



## SECTION 3B

### Division of Federal Employees' Compensation's Description of Controls

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#### *Organization and Administration*

A System Administrator within DFEC's Branch of ADP Coordination and Control is responsible for overseeing all data processing activities at the National office level. DFEC has contracts with outside computer consulting firms who provide software development and maintenance and network and computer hardware maintenance for DFEC.

At each District office, a System Manager is responsible to the District Director and Regional Director for overseeing all the data processing activity performed at the District office level (including user access). The Systems 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, not change any of the source codes (i.e., programs).

The function of the DITMS is to maintain computer networks, operating systems and computer hardware systems. The DITMS installs all of the data processing applications and modifications developed by DFEC. In addition, DITMS employs and supervises all District office system managers and subordinate staff.

#### *Operations*

DOL's Directorate of Information Resource Management (DIRM) contracted with SunGard eSourcing, 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.

FECS encompasses four levels of hardware, software, communications, supplies and facility resources: 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.

Formal operator and user manuals are available for some components of the system. The software contains extensive input edit checks. 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.

#### *Documentation*

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

## SECTION 3B

### Division of Federal Employees' Compensation's Description of Controls

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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. OWCP requests hardware and software modifications, DFEC designs and tests the modifications, and DITMS installs the modifications.

Acceptance testing is performed 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 two assistants. One is responsible for computer design development, programming and analysis, and the other is responsible for evaluating the testing of all new and modified source codes (programming) including the distribution to the District offices and the supervision of 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. Anti-virus software is used to scan disks to identify and remove viruses. All of the personal computers utilize anti-virus software that can be run in a scheduled or unscheduled ad hoc mode.

## SECTION 3B

### Division of Federal Employees' Compensation's Description of Controls

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#### CONTROL OBJECTIVES AND RELATED CONTROLS

DFEC's control objectives and related controls are included in Section 3C 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 controls are included in Section 3C, they are, nevertheless, an integral part of DFEC's description of controls.

#### USER CONTROL CONSIDERATIONS

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

- Employing agencies understand their responsibilities under FECA.
- Employing agencies provide injured employees with accurate and appropriate information regarding injuries covered under FECA, including the employees' rights and obligations and claim forms.
- 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.
- Employing agencies provide complete and accurate information regarding a claimant's rate of pay, hours worked, leave taken, and continuation of pay to DFEC.
- Employing agencies promptly controvert questionable claims.
- 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.
- 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.
- 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.
- 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.

## SECTION 3C

### Information Provided by the Service Auditor

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#### OVERVIEW OF INFORMATION PROVIDED

This report is intended to provide users of the FECA Special Benefit Fund with information about the controls at the DFEC that may affect the processing of user organizations' transactions, general computer controls and also to provide users with information about the operating effectiveness of the controls that were tested. This report, when combined with an understanding and assessment of the internal controls 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 controls at DFEC.

Our testing of DFEC's internal controls was restricted to the control objectives and the related controls listed in this section of the report and was not extended to procedures described in Section 3B 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 controls in place at each user organization. If certain complementary controls are not in place at user organizations, DFEC's internal controls 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 controls. In addition to tests of operating effectiveness of the controls 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:

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

Such tests included inquiry of appropriate management, supervisory, and staff personnel; inspection of DFEC's documents and records, and observation of DFEC's activities and operations. The results of these tests were considered in planning the nature, timing, and extent of our tests of the specified controls related to the control objectives described within this report.

#### TESTS OF GENERAL COMPUTER CONTROLS

The Department of Labor, Office of Inspector General, adopted an Information Technology Rotation Strategy which targets specific DOL financial and financial-related systems for reviews to be performed during each audit cycle. The intent of the Audit Rotation Strategy is to ensure that all critical applications are given a complete FISCAM audit over an approximately 5-year period. Based on the review of prior year results, not every general control will be tested yearly. The strategy is reviewed and updated annually to ensure risk considerations are addressed. In FY 2003 audit procedures related to general computer controls were performed in the areas of Entity-wide Security Program Planning and Management, Access Controls, and Service Continuity on the Federal Employees' Compensation System in accordance with the FISCAM.

## SECTION 3C

### Information Provided by the Service Auditor

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#### 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, 2002, to April 30, 2003, 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 offices. The five District offices comprised approximately \$796 million of the \$1.398 billion or 57 percent, of FECA payments during the seven month period ended April 30, 2003.

The second stage of the sample design was the selection of sampling units. The sampling units were a medical bill or the total compensation payments paid to a single case number for the sampling period. 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:

- Total number of items and dollar value of the strata universe;
- Estimated variance within each strata;
- 95% confidence level (5% risk of incorrect acceptance);
- Variable sampling precision (2% to 7%) of the point estimate; and

Using statistical formulas, these parameters yielded a total sample of 416 items. Of the total sample, 238 were medical payments and 178 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	78
Jacksonville	89
Denver	72
San Francisco	98
Washington	<u>79</u>
Total	<u>416</u>

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

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

The number of sample items for control tests was statistically selected based on the sampling plan detailed previously. 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 that were selected in a non-statistical method as follows:

#### *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, 2002, to April 30, 2003. From a population of 19,855 initial eligibility cases in the 5 District offices tested, 10 cases per District office, for a total sample of 50, were 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, 2002, through April 30, 2003. 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 selected a sample of 50 multiple claim compensation payment items to be tested and analyzed the payments to ensure that a claimant was not receiving excessive or overlapping compensation.

#### *Third Party*

Audit queries were generated which determined all claimants that had a third party status indicator in the CMF. We then randomly selected 50 cases from a population of 263 cases with third party indicators, active within the sampling period, in the District offices in which test work was to be performed.

## SECTION 3C

### Information Provided by the Service Auditor

#### *Current Medical Evidence*

Audit queries were generated which determined all claimants with a short-term disability status, on which compensation was currently being paid, but for which no medical payments were made in the past 2 years, to determine which cases may not have current medical evidence. We then randomly selected 50 cases from a population of 10,572 cases which met our query definition, in the District offices in which testwork was to be performed.

#### *Summary of Sample Items*

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

Sample Type	Philadelphia	Jacksonville	Denver	San Francisco	D.C.	Sub-total	Sub-total	Total
Lost Wages (S)	30	31	22	29	19	131	178	416
Death (S)	1	1	0	5	9	16		
Schedule Award (S)	1	8	6	8	8	31		
Medical Bills (S)	46	49	44	56	43	238		
Initial Eligibility (N)	10	10	10	10	10	50	100	100
Multiple Claim (N)	10	10	10	10	10	50		
Potential Duplicates(N)	-	10	10	10	20			50

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

Sample Type	Philadelphia	Jacksonville	Denver	San Francisco	D.C.	Sub-total	Sub-total	Total
Lost Wages (S)	22	23	20	19	15	99	146	265
Death (S)	1	1	0	5	9	16		
Schedule Award (S)	1	8	6	8	8	31		
Medical Bills (S)	23	24	24	24	24	119		
Initial Eligibility (N)	10	10	10	10	10			50
Third Party (N)	6	10	10	10	14			50
Current Medical (N)	10	10	10	10	10			50

(S) – Statistically selected sample

(N) – Non-statistically selected sample

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### **Information Provided by the Service Auditor**

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#### **CONTROL OBJECTIVES, RELATED CONTROLS, AND TESTS OF CONTROLS**

This section presents the following information provided by the DFEC:

- The control objectives specified by management of DFEC.
- The controls 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:

- A description of the tests performed in regard to the described controls by the service auditor to determine whether DFEC's controls were operating with sufficient effectiveness to achieve stated control objectives.
- The results of the service auditors' tests of the described controls.



## SECTION 3C

### Information Provided by the Service Auditor General Computer Controls

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

#### **Description of Controls**

##### *Entity-wide Security Program Planning and Management*

ESA, of which DFEC is a division, periodically assesses risk through independent risk assessments that 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 has 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 interconnectivity/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; and (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 which are: 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.

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Regularly scheduled vacations exceeding several days are encouraged, and the individual's work is temporarily reassigned. 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 subject to periodic reviews. Major systems and applications are accredited by the managers whose missions they support.

Tests of Described Controls	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.	No exceptions were noted.
Interviewed the security management staff and Security Manager to determine whether the entity had a security plan and organization chart.	No exceptions were noted.
Reviewed documentation supporting or evaluating the security awareness program, memos, electronic mail files, or other policy distribution mechanisms, and personnel files to test whether security awareness statements are current.	No exceptions were noted.
Interviewed data owners and system users to determine what training newly hired employees had received and if they were aware of their security-related responsibilities.	All 19 newly hired FECA employees had no evidence that initial security training had been completed. No other exceptions were noted.
Interviewed the Security Manager, response team members, and system users to determine whether an incident response capability has been implemented.	No exceptions were noted.
Reviewed documentation supporting incident handling activities.	No exceptions were noted.
Reviewed hiring policies, reinvestigation policies, policies on confidentiality or security agreements, vacation policies, job rotation policies, staff assignment records, and other pertinent policies and procedures.	DOL Human Resources has not established policies or procedures for ESA to follow concerning background checks or reinvestigations. No other exceptions were noted.
For a selection of recent hires, inspect personnel records and determine whether references have been contacted and background checks performed. For a selection of sensitive positions, inspect personnel records and determine whether background reinvestigations have been performed.	DOL Human Resources has not established policies or procedures for ESA to follow concerning background checks or reinvestigations. No other exceptions were noted.

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Tests of Described Controls	Results of Tests
Determined whether confidentiality or security agreements are on file for a selection of users. For a selection of terminated or transferred employees examine documentation showing compliance with policies. Compared a system generated list of users to a list of active user employees.	DOL Human Resources has no policies or procedures for FECA to follow concerning confidentiality agreements for DOL employees. No other exceptions were noted.
Reviewed job descriptions for security management personnel and a selection of other personnel. For a selection of employees, compared personnel records on education and experience with job descriptions. Reviewed training program documentation, training records, and other related documentation for selected personnel.	No exceptions were noted.
Reviewed reports resulting from recent assessments (including the most recent FMFIA report), written authorizations or accreditation statements, and documentation related to corrective actions. Determined when last independent review occurred.	An independent review of the FECS controls has not been conducted by OWCP. No other exceptions were noted.
Reviewed the status of prior year audit recommendations to determine if corrective actions have been implemented.	ESA has implemented corrective action plans.

#### *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

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### Information Provided by the Service Auditor General Computer Controls

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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; not displayed when entered; at least six alphanumeric characters in length; and prohibited from reuse for at least six 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 three 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.

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 pre-authorized 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.

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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 controls are modified when violations and related risk assessments indicate that such changes are appropriate.

Tests of Described Controls	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), reviewed access authorization documentation. Interviewed owners and reviewed supporting documentation. Determined whether inappropriate access was removed in a timely manner. For a selection of users with dial-up access, reviewed authorization and justification. Interviewed security managers and reviewed documentation provided to them. Reviewed a selection of recent profile changes and activity logs. Obtained a list of recently terminated employees from Personnel, and for a selection, determined whether system access was properly terminated.	Network Access Request Forms were not on file for 17 of 19 newly hired FECA users. No other 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. Determined the appropriateness of access documentation.	No exceptions were noted.
Examined standard approval forms and documents authorizing file sharing and file sharing agreements. Interviewed data owners.	Standard Data Sharing Forms were not provided. No other exceptions were noted.
Reviewed a diagram of the physical layout of the computer telecommunications and cooling system facilities. Walked through facilities.	No exceptions were noted.
Reviewed access path diagram.	No exceptions were noted.
Observed entries to and exits from the facilities, including sensitive areas during and after normal business hours, utilities access paths, practices for safeguarding keys and other devices and a fire drill. Inspected a log sheet. Reviewed written emergency procedures	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.

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Tests of Described Controls	Results of Tests
Reviewed visitor entry logs. Observed entries to and exits from sensitive areas during and after normal business hours. Interviewed guards at facility entry. Reviewed documentation on and logs of entry code changes. Observed appointment and verification procedures for visitors.	No exceptions were noted.
Reviewed security software parameters. Observed an attempt to log on without a valid password; make repeated attempts to guess passwords. Reviewed a system generated list of current passwords. Assessed procedures for generating and communicating passwords to users. Viewed Dump of password files. Reviewed computer room access policy and procedures to evaluate sophisticated authentication techniques.	No exceptions were noted.
Observed terminals in use. Reviewed a system generated list of inactive logon IDs. Determined who had access to security files and whether naming conventions are used. Interviewed database administrators. Reviewed database security parameters.	ESA's network does not have an idle time network log out feature activated. No other exceptions were noted.
Reviewed pertinent policies and procedures. Viewed the opening screen by telecommunication system users. Reviewed documentation showing changes to dial-in numbers. Run entity's telephone directory to verify that numbers are not listed	No exceptions were noted.
Evaluated Cryptographic tools.	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.
Reviewed how access control policies and procedures are changed. 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.

#### ***Application Software Development and Change Control***

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.

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### Information Provided by the Service Auditor General Computer Controls

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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 the "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 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.

<b>Tests of Described Controls</b>	<b>Results of Tests</b>
Reviewed prior year FISCAM audit work papers to determine nature, timing and extent of the testing performed related to application software development and change control and results of testing.	No exceptions were noted.
Reevaluated plan for rotation testing of controls to determine any limitations or modifications applicable for FY2003. Interviewed senior management to update understanding of controls in the current fiscal year.	No control changes noted. Rotation plan is reasonable.

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#### *System 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 are 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 opinions 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 by an independent library control group. Outdated versions of system software are



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### Information Provided by the Service Auditor General Computer Controls

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 Controls	Results of Tests
Reviewed prior year FISCAM audit work papers to determine nature, timing and extent of the testing performed related to systems software and results of testing.	No exceptions were noted.
Reevaluated plan for rotation testing of controls to determine any limitations or modifications applicable for FY2003. Interviewed senior management to update understanding of controls in the current fiscal year.	No control changes noted. Rotation plan is reasonable.

#### *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 USAID 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).

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### Information Provided by the Service Auditor General Computer Controls

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

Tests of Described Controls	Results of Tests
Reviewed prior year FISCAM audit work papers to determine nature, timing and extent of the testing performed related to segregation of duties and results of testing.	No exceptions were noted.
Reevaluated plan for rotation testing of controls to determine any limitations or modifications applicable for FY2003. Interviewed senior management to update understanding of controls in the current fiscal year.	No control changes noted. Rotation plan is reasonable.

#### *Service Continuity*

ESA has drafted a disaster recovery 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.

Within ESA's draft disaster recovery, 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. 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 receives periodic training in emergency fire, water, and alarm incident procedures. Emergency response procedures are documented and periodically tested.

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### **Information Provided by the Service Auditor General Computer Controls**

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Controls 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 of 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.

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.

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**Information Provided by the Service Auditor  
General Computer Controls**

<b>Tests of Described Controls</b>	<b>Results of Tests</b>
Reviewed policies. Interviewed program, data processing, and security administration officials. Determined their input and their assignment of the reasonableness of priorities established.	The disaster recovery plan does not include completed processing priorities. No other exceptions were noted.
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.	ESA reported that it does not store maintenance documentation at its off-site location. No other 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 to determine that the site is geographically removed from the primary site and protected by environmental controls and physical access controls.	No exceptions were noted.
Reviewed the contingency plan and compared its provisions with the most recent risk assessment and with a current description of automated operations. Interviewed senior management, data center management, and program managers.	The disaster recovery plan has not been completed or tested. A business continuity plan has not been developed.

## SECTION 3C

### Information Provided by the Service Auditor Transaction Processing Controls

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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 Continuing Eligibility - Earnings Information	Accuracy of Compensation Payments Schedule Awards Death Benefits Medical Bill Payment Processing Third Party Settlements
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**Control Objective 1: Case Creation** - Controls provide reasonable assurance that case files were set up properly initially and information related to the claimant was input into the computer systems correctly.

**Description of Controls:**

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 case number is assigned and notated on the CA-1 or CA-2. The claim documents are then imaged. 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 the information in the CMF.

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 Create 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.

<b>Tests of Described Controls:</b>	<b>Results of Tests:</b>
For a non-statistical sample of 50 case creation 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.	One of the 50 items tested did not have the correct third party indicator. No other exceptions were noted.

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**Control Objective 2: *Initial Eligibility*** - Controls 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 Controls:**

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.

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.

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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 CE'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 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.

<b>Tests of Described Controls:</b>	<b>Results of Tests:</b>
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.

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**Control Objective 3: *File Maintenance*** - Controls 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 Controls:**

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 Controls:	Results of Tests:
For a total of 196 cases, from a sample of 146 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 1 of 196 of the cases, the claimant's date of death was not updated in the ACPS. No exceptions were noted in the non-statistical sample. No other exceptions were noted.
From a total of 238 cases, for a sample of 178 statistically selected compensation transactions and 60 non-statistically selected cases, we reviewed documentation in the case files to ensure that the chargeback code was accurate in the CMF.	No exceptions were noted.

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

**Description of Controls:**

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.

FECA Procedure Manual 2-812(8) provides the procedures for obtaining and reviewing medical reports. If a medical report is not received within the specified time (30-60 days is considered reasonable), or the report does not contain the requested information, the CE should direct the claimant to undergo examination by the attending physician or a second opinion specialist as appropriate. OWCP should make an appointment for the examination. The notification to the claimant should include warning that under 5 U.S.C. 8123(d) benefits may be suspended for failure to report for examination.



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Where injury-related disability has ceased, the CE is to notify the claimant of proposed termination of benefits. OWCP has the burden of proof to justify the termination of benefits by positive and specific evidence that injury-related disability has ceased. The inadequacy or absence of a report in support of continuing benefits is not sufficient to support termination, and benefits should not be suspended for that reason.

<b>Tests of Described Controls:</b>	<b>Results of Tests:</b>
For 149 cases, from a sample of 99* statistically selected internal control compensation for lost wage cases and 50 non-statistically selected current medical cases, 146 cases (96 statistical and 50 non-statistical) required updating of medical evidence within the past year. We reviewed medical evidence in the case files to ensure that the current medical evidence supported the disability status for the compensation being received.	In 15 of 96 statistically selected lost wage cases no current medical evidence was contained in the claimant's case file. An additional non-statistical sample of 50 current medical cases was selected. For 12 of 50 non-statistical current medical cases, medical evidence was not located within the case file. This represents an 18% aggregate error rate in the operating effectiveness of the primary control to ensure achievement of this control objective. No other exceptions were noted.

\* A statistical sample of 99 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 is the number of items to which tests were actually applied.

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

#### **Description of Controls:**

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.

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The FECA Procedure Manual 2-812(9), contains the requirements for obtaining a claimant's earnings report from the SSA. OWCP cannot obtain earnings information from SSA without the claimant's authorization. Obtaining earnings information is a secondary control, as the claimant is not required to authorize the release of this information as a condition for receiving benefits. In addition, the request to SSA is only made in selected cases. OWCP sends the claimants a CA-935, Cover Letter and a SSA-581, *Authorization to Obtain Earnings Data from the Social Security Administration* request form. Earnings may be 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.

<b>Tests of Described Controls:</b>	<b>Results of Tests:</b>
From a statistical sample of 130 compensation claimants (99* lost wage cases and 31 schedule award cases), 87 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 5 of 87 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 99* lost wage claimants, 74 cases required current earnings information due to the age of the case. We reviewed the case file to determine whether a CA-935 and SSA-581 had been released to the claimant to obtain earnings information from SSA in the past year.	In 21 of 74 items sampled, a release for authorization to obtain earnings information from SSA was not in the case file. In 17 of these 21 cases, the required forms were not sent to the claimant, three were sent to the claimant but never returned, and one was returned unsigned. No other exceptions were noted.
From a statistical sample of 99* lost wage claimants, 14 cases had SSA-581s returned from the claimant that should have been sent to SSA for current earnings information. We reviewed the case file to determine whether the Senior Claims Examiner had requested earnings information from SSA.	No exceptions were noted.

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<b>Tests of Described Controls:</b>	<b>Results of Tests:</b>
<p>From a statistical sample of 130 compensation claimants (99* lost wage cases and 31 schedule award cases), 25 cases had CA-1032s or CA-1036s returned with information requiring information be updated in the claimant's case file. We reviewed the case file to determine whether the case was updated with the information reported on the CA-1032 or CA-1036.</p>	<p>No exceptions were noted.</p>

\*A statistical sample of 99 claimants were tested for continuing eligibility controls and 31 claimants were tested for schedule awards, 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 is the number of items to which tests were actually applied.

**Control Objective 6: Accuracy of Compensation Payments** - Controls 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, and proper reimbursement of burial bills.

**Description of Controls:**

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.

<b>Tests of Described Controls:</b>	<b>Results of Tests:</b>						
<p>For a total of 278 cases, from a statistical sample of 178 substantive compensation cases and non-statistical samples totaling 100 cases (50 initial eligibility cases and 50 multiple claim cases), we reviewed documentation in the case files to ensure that the components comprising compensation benefits were determined correctly.</p>	<p>In 6 of 178 statistically selected sample items, claimants were underpaid a net of \$10,423. In 3 of 100 non-statistically selected sample items, claimants were underpaid \$600. Claimants were underpaid a net of \$11,023.</p> <p>The net underpayment resulted from the use of incorrect:</p> <table border="0"> <tr> <td>Payrates (8 cases)</td> <td align="right">\$ (15,844)</td> </tr> <tr> <td>CPI adjustment on manual payment (1 case)</td> <td align="right"><u>4,821</u></td> </tr> <tr> <td>Net Underpayment</td> <td align="right"><u><u>\$ (11,023)</u></u></td> </tr> </table>	Payrates (8 cases)	\$ (15,844)	CPI adjustment on manual payment (1 case)	<u>4,821</u>	Net Underpayment	<u><u>\$ (11,023)</u></u>
Payrates (8 cases)	\$ (15,844)						
CPI adjustment on manual payment (1 case)	<u>4,821</u>						
Net Underpayment	<u><u>\$ (11,023)</u></u>						
<p>Of a statistical sample of 178* substantive compensation cases and 50 non-statistical cases, 30 cases had transactions whereby a single payment was in excess of \$50,000. We reviewed the transactions over \$50,000 to ensure the payment was authorized by a senior official at a GS-13 or higher.</p>	<p>In 2 of 30 statistically selected sample items, the payments were not authorized by a senior official at a GS-13 or higher. No other exceptions were noted.</p>						

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<b>Tests of Described Controls:</b>	<b>Results of Tests:</b>
For a non-statistical sample of 50 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.	No exceptions were noted.

\* A statistical sample of 178 cases and 50 non-statistical cases were tested for accuracy and proper processing of the compensation payments. Some specific tests did not apply to all claimants due to the test applying only to payments over \$50,000. Therefore, the number of tests indicated is the number of items to which tests were actually applied.

**Control Objective 7: *Schedule Awards*** - Controls 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 Controls:**

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 maximum medical improvement 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.

<b>Tests of Described Controls:</b>	<b>Results of Tests:</b>
From the statistical sample of 178 compensation items, 31 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.	No exceptions were noted.

**Control Objective 8: *Death Benefits*** - Controls 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. For continuing eligibility of death benefits, controls provide reasonable assurance that claimant is still eligible to receive death benefits.

**Description of Controls:**

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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FECA PM 2-700-17 contains the requirements for periodic review of death benefits. Form CA-12 Claim for Continuation of Compensation, is sent annually to all recipients of death benefits. If the form has not been returned within 60 days of release, the CE should send a follow-up request for completion. Upon receipt of the form, the CE should check for change of address, marital status, and financial dependency status. The CE should take the necessary actions as outlined in this section.

For children, grandchildren, and siblings receiving death benefits, Form CA-1615 should be released to the guardian three months before the child reaches the age of 18 to determine continuing entitlement to compensation on the basis that the child is a student or is incapable of self-support.

Tests of Described Controls:	Results of Tests:
From the statistical sample of 178 compensation items, 16 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 and their eligibility for continuing compensation.	In 4 of 16 items sampled, a current CA-12 or CA-1615 had not been obtained from the beneficiaries to verify marital status and dependent information within the last year. Two of the 4 errors were due to changes of address by the claimants. No other exceptions were noted.

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

#### **Description of Controls:**

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.

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<b>Tests of Described Controls:</b>	<b>Results of Tests:</b>												
<p>For a statistical sample of 238 substantive medical bill payments, we reviewed the medical bill payments to ensure that the payments were: correctly entered into the BPS; contained all information for proper adjudication; were not paid in excess of district established limits without proper approval by authorized personnel; discounts were taken, if offered; and, were for services considered proper charges against the Special Benefit Fund.</p>	<p>In 5 of 238 statistically selected medical bills tested, medical providers were overpaid \$61,653.</p> <p>The overpayment resulted from:</p> <table border="0"> <tr> <td>1 Incorrect keying of Dates of Service</td> <td align="right">\$30,087</td> </tr> <tr> <td>1 Incorrect keying of Provider Type</td> <td align="right">17,521</td> </tr> <tr> <td>1 Discount offered, not taken</td> <td align="right">10,336</td> </tr> <tr> <td>1 Incorrect keying of Procedure Code</td> <td align="right">3,563</td> </tr> <tr> <td>1 Fee Schedule Exceeded</td> <td align="right"><u>146</u></td> </tr> <tr> <td><b>Overpayment</b></td> <td align="right"><b><u>\$61,653</u></b></td> </tr> </table>	1 Incorrect keying of Dates of Service	\$30,087	1 Incorrect keying of Provider Type	17,521	1 Discount offered, not taken	10,336	1 Incorrect keying of Procedure Code	3,563	1 Fee Schedule Exceeded	<u>146</u>	<b>Overpayment</b>	<b><u>\$61,653</u></b>
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<p>For a statistical sample of 118 internal control medical bill transactions, we reviewed the payments to ensure that payments were not paid in excess of district established limits without proper approval by authorized personnel.</p>	<p>Thirteen of the 118 internal control transactions required additional authorization because they were over the district established threshold. Two of these 13 transactions did not have the proper authorization.</p>												
<p>For a statistical sample of 118 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 118 internal control medical bill transactions, 44 transactions were subject to the Prompt Payment Act. We reviewed bills that were subject to the Prompt Payment Act to ensure the bills were paid within 45 days or interest was paid if the bill was paid after 45 days.</p>	<p>No exceptions were noted.</p>												

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

**Description of Controls:**

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.

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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 Office of the Solicitor.

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.

<b>Tests of Described Controls:</b>	<b>Results of Tests:</b>
From a non-statistical sample of 50* third party cases, 15 cases required case originating correspondence during the current year. We reviewed these cases to determine 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 that the proper follow-up actions were conducted when the claimant did not reply within 30 days.	In all 15 cases, a CA – 1045 was sent to the claimant. In 9 of the 15 cases, no response was received to the CA-1045 within 30 days. In 2 of the 9 cases, neither a second request nor a letter to the EA for assistance was completed. No other exceptions were noted.
From a non-statistical sample of 50* third party cases, 2 cases required correspondence with the claimant's attorneys during the prior year. We determined whether the appropriate forms were released to the attorneys of claimants involved in third party cases.	No exceptions were noted.
From a non-statistical sample of 50* third party cases, 2 cases required referral to the SOL due to the nature of the third party aspect of the case. 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.	No exceptions were noted.

\*A non-statistical sample of 50 third party cases was tested for third party processing. Some specific tests did not apply to all claimants as only the actions to be taken on the case during the year were tested. Therefore, the number of tests indicated is the number of items to which tests were actually applied.