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

FOR THE YEAR ENDED SEPTEMBER 30, 2000

U.S. Department of Labor
Office of Inspector General
Report Number: 22-01-003-04-431
Date Issued: DEC 15, 2000

Carmichael
Brasher Tuvell

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

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Assistant Inspector General for Audit

Carmichael
Brasher Tuvell
Certified Public Accountants & Company

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ACRONYMS

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

ACRONYMS

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

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

Bernard E. Anderson, Assistant Secretary
Employment Standards Administration, U.S. Department of Labor,
General Accounting Office, Office of Management and Budget and Other Specified User 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, 2000. This schedule is the responsibility of the U.S. Department of Labor's management. Our responsibility is to express an opinion on this schedule based on our audit.

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

In our opinion, the Schedule of Actuarial Liability, Net Intra-Governmental Accounts Receivable and Benefit Expense referred to above presents fairly, in all material respects, the actuarial liability, net intra-governmental accounts receivable and benefit expense of the Federal Employees' Compensation Act Special Benefit Fund as of and for the year ended September 30, 2000, in conformity with accounting principles generally accepted in the United States of America.

1647 Mount Vernon Road, Dunwoody Exchange, Atlanta, Georgia 30338

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

Carmichael, Brasher, Tuvell & Company

December 15, 2000

SECTION IB
U.S. DEPARTMENT OF LABOR
EMPLOYMENT STANDARDS ADMINISTRATION
FEDERAL EMPLOYEES' COMPENSATION ACT
SPECIAL BENEFIT FUND
SCHEDULE OF ACTUARIAL LIABILITY,
NET INTRA-GOVERNMENTAL ACCOUNTS RECEIVABLE
AND BENEFIT EXPENSE
AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2000

	(Dollars in Thousands)
Actuarial Liability	$ 21,787,650
Net Intra-governmental Accounts Receivable	$ 3,270,418
Benefit Expense	$ 5,787,687

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

NOTES TO THE SCHEDULE OF ACTUARIAL LIABILITY, NET INTRA-GOVERNMENTAL ACCOUNTS RECEIVABLE AND BENEFIT EXPENSE SEPTEMBER 30, 2000

1. SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Presentation

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

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

The actuarial liability for future workers' compensation benefits is an accrued estimate as of September 30, 2000. 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, 2000, but not paid as of September 30, 2000, including prior years, if applicable, plus the accrued receivable for benefit payments not yet billed for the period July 1, 2000 through September 30, 2000, less credits due from the public.

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

b. Basis of Accounting

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

The actuarial liability for future workers' compensation benefits is an accrued estimate as of September 30, 2000. Net intra-governmental accounts receivable is the total of the amounts billed to Federal agencies which had not yet been paid plus the accrued receivable for benefit payments not yet billed for the period July 1, 2000 through September 30, 2000, less credits due from the public. Benefit expense consists of payments made for the period from October 1, 1999 to September 30, 2000, plus the net change in the actuarial liability for the year.

Statement of Federal Financial Accounting Standards (SFFAS) Number 5, Section 138, *Accounting for Liabilities of the Federal Government*, requires that a contingent liability be recognized when three conditions are met. First, a past event or exchange transaction has occurred. Second, a future outflow or other sacrifice of resources is probable. Finally, the future outflow or sacrifice of resources is measurable. Prior to fiscal year 2000, claims which had been incurred but not reported (IBNR), were not included in the computation of the actuarial liability. This presentation was in accordance with Appendix B - Liability Recognition and Measurement Matrix of SFFAS 5. For fiscal year 2000 and forward, however, IBNR is included in the actuarial liability. The change to the inclusion of IBNR was based upon the judgment that the historical pattern of FECA claims is sufficiently stable to make a reasonable estimation of IBNR. The ability to measure IBNR satisfies the third SFFAS criterion. FASAB has concurred with including IBNR in the computation of 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.

Other changes to the model used to calculate the actuarial liability include:

1. Agency payment data beyond the past 11 years is backfilled to the injury year as extrapolated from the last 11 years of payment history. The backfilling of data is intended to establish more credible cumulative benefit data for older claims and stabilize the payment history of those agencies for whom insufficient data points existed to produce stable projections;

2. Agencies are grouped to develop the pattern to backfill data. An agency's estimated liability may be affected by the historical benefit payments of another agency within its grouping;

3. The estimated future liability is projected until the loss development factor calculates to zero as opposed to 37 years as was formerly used; and

4. The new model develops an estimate of total anticipated payments by injury year, subtracts the amount already paid, and allocates the balance to future years premised upon decay rates established by grouped historical payments. The prior year's models projected future payments by multiplying the agency's current year payments by the agency's decay rates.

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 were as follows:

6.275% in year 1,
6.300% in year 2, and thereafter.

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (cost of living allowance or COLA) and medical inflation factors (consumer price index-medical or CPI-Med) are applied to the calculation of projected future benefits. These factors are also used to adjust the historical payments to current year constant dollars. A discounting formula was previously used which recognized the timing of compensation payments as 13 payments per year. The liability is now determined assuming an annual payment at mid-year.

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

FY	COLA	CPI-Med	FY	COLA	CPI-Med
1989	4.52%	6.98%	1997	2.85%	3.11%
1990	4.32%	8.40%	1998	2.67%	2.76%
1991	5.05%	9.36%	1999	1.53%	3.51%
1992	5.06%	7.96%	2000	1.97%	3.69%
1993	2.82%	6.61%	2001	2.83%	4.24%
1994	2.74%	5.27%	2002	2.90%	4.10%
1995	2.56%	4.72%	2003	2.53%	4.16%
1996	2.60%	4.00%	2004+	2.60%	4.16%

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 March 1 COLA factor from which the blended rates are derived.

3. NET INTRA-GOVERNMENTAL ACCOUNTS RECEIVABLE

Net intra-governmental accounts receivable is the total of the amounts billed to Federal agencies which had not yet been paid as of September 30, 2000, plus the accrued receivable for benefit payments not yet billed for the period July 1, 2000 through September 30, 2000, less applicable credits. The Special Benefit Fund also receives an appropriation for the special cases where employing agencies are not charged for compensation or medical bill payments. Other agencies recognize the amount of the current chargeback billing as an expense, some agencies receive, as part of their annual appropriation, funding for FECA benefits.

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

4. BENEFIT EXPENSE

Benefit expense consists of benefit payments for compensation for lost wages, schedule awards, death benefits and medical benefits paid under FECA for the period October 1, 1999 through September 30, 2000, plus the net change in the actuarial liability for the year. The amount paid for compensation for lost wages, schedule awards, death benefits and medical benefits totaled $2,080,649,000. The net change in the actuarial liability for the year was $3,707,038,000. The total amount of benefit expense for the fiscal year was $5,787,687,000. The total amount of benefit expense includes amounts pertaining to the revision of the model, reflecting treatment as a change in accounting estimate.

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

Bernard E. Anderson, Assistant Secretary
Employment Standards Administration, U.S. Department of Labor,
General Accounting Office, Office of Management and Budget and Other Specified User Agencies:

We have performed the procedures described in the Agreed-Upon Procedures and Results, Section IIC, which were agreed to by the U.S. Department of Labor, General Accounting Office, Office of Management and Budget, the CFO Act agencies and other specified agencies listed in the Schedules of Actuarial Liability by Agency, Net Intra-Governmental Accounts Receivable by Agency and Benefit Expense by Agency, Section IIB-1, 2 and 3 (the specified users) of this special report, solely to assist you and such agencies with respect to the accompanying Schedules of Actuarial Liability by Agency, Net Intra-Governmental Accounts Receivable by Agency and Benefit Expense by Agency (Section IIB 1, 2 and 3, respectively) of the Federal Employees' Compensation Act Special Benefit Fund as of and for the year ended September 30, 2000.

The Schedules (Section IIB 1, 2 and 3) were provided by the Department of Labor. The Schedule of Actuarial Liability by Agency at September 30, 2000, 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, 2000 which had not yet been paid as of September 30, 2000 plus the accrued receivable for benefit payments not yet billed for the period July 1, 2000 through September 30, 2000. The Schedule of Benefit Expense by Agency is the benefit payments expended for the fiscal year ended September 30, 2000, plus the net change in the actuarial liability for the year.

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

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

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

The Schedules of Actuarial Liability by Agency, Net Intra-Governmental Accounts Receivable by Agency and Benefit Expense by Agency were prepared in accordance with accounting principles generally accepted in the United States of America.

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

These agreed-upon procedures do not constitute an audit of the Schedules of Actuarial Liability by Agency, Net Intra-Governmental Accounts Receivable by Agency and Benefit Expense by Agency or on any part thereof, the objective of which is the expression of an opinion or limited assurance 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 thereof. This report is intended solely for the information and use of the U.S. Department of Labor, General Accounting Office, Office of Management and Budget and those Federal agencies (listed in Section IIB) of this report and is not intended to be and should not be used by anyone other than these specified parties.

Carmichael, Brasher, Tuvell & Company

December 15, 2000

SECTION IIB-1
U.S. DEPARTMENT OF LABOR
EMPLOYMENT STANDARDS ADMINISTRATION
FEDERAL EMPLOYEES' COMPENSATION ACT
SPECIAL BENEFIT FUND
SCHEDULE OF ACTUARIAL LIABILITY BY AGENCY
AS OF SEPTEMBER 30, 2000

AGENCY	**Actuarial Liability** (Dollars in thousands)
Agency for International Development (AID)	$29,819
Environmental Protection Agency (EPA)	33,673
Federal Emergency Management Agency (FEMA)	21,996
General Services Administration (GSA)	178,996
National Aeronautics and Space Administration (NASA)	61,581
National Science Foundation (NSF)	1,767
Nuclear Regulatory Commission (NRC)	8,230
Office of Personnel Management (OPM)	12,736
United States Postal Service (USPS)	6,298,430
Small Business Administration (SBA)	30,746
Social Security Administration (SSA)	239,414
Tennessee Valley Authority	586,388
U. S. Department of Agriculture	768,532
U. S. Department of the Air Force	1,337,201
U. S. Department of the Army	1,731,678
U. S. Department of Commerce	155,647
U. S. Department of Defense - other	876,106
U. S. Department of Education	18,820
U. S. Department of Energy	84,485
U. S. Department of Health and Human Services	263,893
U. S. Department of Housing and Urban Development	74,653

SECTION IIB-1
U.S. DEPARTMENT OF LABOR
EMPLOYMENT STANDARDS ADMINISTRATION
FEDERAL EMPLOYEES' COMPENSATION ACT
SPECIAL BENEFIT FUND
SCHEDULE OF ACTUARIAL LIABILITY BY AGENCY
AS OF SEPTEMBER 30, 2000

AGENCY	**Actuarial Liability** (Dollars in thousands)
U. S. Department of the Interior	584,830
U. S. Department of Justice	$985,513
U. S. Department of Labor	221,280
U. S. Department of the Navy	2,665,434
U. S. Department of State	49,916
U. S. Department of Transportation	1,086,745
U. S. Department of the Treasury	915,638
U. S. Department of Veterans Affairs (VA)	1,585,031
Other agencies [1]	878,472
Total - all agencies (Memo Only)	$21,787,650

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

SECTION IIB-2
U.S. DEPARTMENT OF LABOR
EMPLOYMENT STANDARDS ADMINISTRATION
FEDERAL EMPLOYEES' COMPENSATION ACT
SPECIAL BENEFIT FUND
SCHEDULE OF NET INTRA-GOVERNMENTAL ACCOUNTS RECEIVABLE BY AGENCY
AS OF SEPTEMBER 30, 2000

AGENCY	**Amounts Billed Not Yet Paid**(1) (Dollars in thousands)	**Amounts Expended Not Yet Billed** (2) (Dollars in thousands)	**Credits Due from Public** (3) (Dollars in thousands)	**Net Intra-Governmental Accounts Receivable**(4) (Dollars in thousands)
Agency for International Development	$6,724	$918	($26)	$7,616
Environmental Protection Agency	6,435	1,008	(25)	7,418
Federal Emergency Management Agency	4,039	706	(17)	4,728
General Services Administration	32,274	4,853	(120)	37,007
National Aeronautics and Space Administration	12,606	1,836	(47)	14,395
National Science Foundation	301	35	(1)	335
Nuclear Regulatory Commission	1,290	236	(5)	1,521
Office of Personnel Management	1,989	306	(8)	2,287
United States Postal Service	58,272	200,294	(4,884)	253,682
Small Business Administration	4,442	783	(16)	5,209
Social Security Administration	38,299	5,484	(146)	43,637
Tennessee Valley Authority	64,102	16,145	(411)	79,836
U. S. Department of Agriculture	124,601	18,596	(475)	142,722
U. S. Department of the Air Force	251,483	38,149	(939)	288,693
U. S. Department of the Army	292,024	38,664	(978)	329,710
U. S. Department of Commerce	22,863	5,846	(97)	28,612
U. S. Department of Defense - other	157,220	22,645	(580)	179,285
U. S. Department of Education	3,903	502	(11)	4,394
U. S. Department of Energy	14,028	2,381	(61)	16,348

1 Amounts billed through June 30, 2000 (including prior years) but not yet paid as of September 30, 2000.
2 Amounts expended but not yet billed for the period July 1, 2000 through September 30, 2000.
3 Allocation of credits due from public through September 30, 2000.
4 Total Amount due to the fund for each agency as of September 30, 2000.

SECTION IIB-2
U.S. DEPARTMENT OF LABOR
EMPLOYMENT STANDARDS ADMINISTRATION
FEDERAL EMPLOYEES' COMPENSATION ACT
SPECIAL BENEFIT FUND
SCHEDULE OF NET INTRA-GOVERNMENTAL ACCOUNTS RECEIVABLE BY AGENCY
AS OF SEPTEMBER 30, 2000

AGENCY	**Amounts Billed Not Yet Paid** (1) (Dollars in thousands)	**Amounts Expended Not Yet Billed** (2) (Dollars in thousands)	**Credits Due from Public** (3) (Dollars in thousands)	**Net Intra-Governmental Accounts Receivable** (4) (Dollars in thousands)
U. S. Department of Health and Human Services	41,340	6,076	(152)	47,264
U. S. Department of Housing and Urban Development	$14,762	$2,045	($53)	$16,754
U. S. Department of the Interior	95,217	14,005	(357)	108,865
U. S. Department of Justice	159,639	26,286	(615)	185,310
U. S. Department of Labor	45,254	7,323	(197)	52,380
U. S. Department of the Navy	490,419	70,819	(1,771)	559,467
U. S. Department of State	12,736	2,134	(50)	14,820
U. S. Department of Transportation	193,759	28,794	(709)	221,844
U. S. Department of the Treasury	154,019	23,920	(579)	177,360
U. S. Department of Veterans Affairs	280,079	41,464	(1,050)	320,493
Other agencies	100,901	17,984	(459)	118,426
Total - all agencies (Memo Only)	$2,685,020	$600,237	($14,839)	$3,270,418

1 Amounts billed through June 30, 2000 (including prior years) but not yet paid as of September 30, 2000.
2 Amounts expended but not yet billed for the period July 1, 2000 through September 30, 2000.
3 Allocation of credits due from public through September 30, 2000.
4 Total Amount due to the fund for each agency as of September 30, 2000.

SECTION IIB-3
U.S. DEPARTMENT OF LABOR
EMPLOYMENT STANDARDS ADMINISTRATION
FEDERAL EMPLOYEES' COMPENSATION ACT
SPECIAL BENEFIT FUND
SCHEDULE OF BENEFIT EXPENSE BY AGENCY
AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2000

AGENCY	**Benefit Payments** (Dollars in thousands)	**Change in Actuarial Liability** (Dollars in thousands)	**Total Benefit Expense** (Dollars in thousands)
Agency for International Development	$3,289	($8,054)	($4,765)
Environmental Protection Agency	3,351	3,860	7,211
Federal Emergency Management Agency	2,461	10,207	12,668
General Services Administration	16,557	11,053	27,610
National Aeronautics and Space Administration	6,298	4,210	10,508
National Science Foundation	120	522	642
Nuclear Regulatory Commission	749	4,345	5,094
Office of Personnel Management	1,115	6,178	7,293
United States Postal Service	670,683	1,424,976	2,095,659
Small Business Administration	2,341	14,161	16,502
Social Security Administration	19,556	54,180	73,736
Tennessee Valley Authority	55,605	(22,697)	32,908
U. S. Department of Agriculture	64,700	186,416	251,116
U. S. Department of the Air Force	129,189	122,365	251,554
U. S. Department of the Army	165,737	216,558	382,295
U. S. Department of Commerce	15,172	46,583	61,755
U. S. Department of Defense - other	64,163	193,998	258,161
U. S. Department of Education	1,609	10,238	11,847
U. S. Department of Energy	8,178	18,040	26,218
U. S. Department of Health and Human Services	20,933	84,366	105,299
U. S. Department of Housing and Urban Development	7,025	12,769	19,794

SECTION IIB-3
U.S. DEPARTMENT OF LABOR
EMPLOYMENT STANDARDS ADMINISTRATION
FEDERAL EMPLOYEES' COMPENSATION ACT
SPECIAL BENEFIT FUND
SCHEDULE OF BENEFIT EXPENSE BY AGENCY
AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2000

AGENCY	**Benefit Payments** (Dollars in thousands)	**Change in Actuarial Liability** (Dollars in thousands)	**Total Benefit Expense** (Dollars in thousands)
U. S. Department of the Interior	48,452	131,040	179,492
U. S. Department of Justice	$85,783	$303,616	$389,399
U. S. Department of Labor	19,832	100,627	120,459
U. S. Department of the Navy	241,467	254,223	495,690
U. S. Department of State	6,848	(10,958)	(4,110)
U. S. Department of Transportation	97,621	(22,206)	75,415
U. S. Department of the Treasury	78,996	169,530	248,526
U. S. Department of Veterans Affairs	142,572	364,641	507,213
Other agencies (1)	100,247	22,251	122,498
Total - all agencies (Memo Only)	$2,080,649	$3,707,038	$5,787,687

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

SECTION IIC
AGREED-UPON PROCEDURES & RESULTS

SUMMARY

Our objective was to perform specified agreed-upon procedures to the Schedules of Actuarial Liability by Agency, Net Intra-Governmental Accounts Receivable by Agency and Benefit Expense by Agency as of and for the year ended September 30, 2000, as summarized below:

- Applied certain agreed-upon procedures as detailed in this section of the report to the estimated accrued actuarial liability of future FECA benefit payments as of September 30, 2000. A certified actuary was engaged to review the calculation of the actuarial liability.

- Applied certain agreed-upon procedures as specified in this section of the report to the net intra-governmental accounts receivable billings and balances for the period ending September 30, 2000.

- Applied certain agreed-upon procedures as outlined in this section of the report to the compensation and medical payments for the period October 1, 1999 to May 31, 2000 (sampling period), and for the period October 1, 1999 to September 30, 2000, and to DOL's cut-off process. Calculated the change in the actuarial liability from the prior year to the current year.

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

Each section of this agreed-upon procedures report is organized as follows:

1. Overview of results.
2. A detailed listing of the agreed-upon procedures performed for this engagement.
3. Results of agreed-upon procedures.

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

<u>Actuarial Liability</u> - During the year ended September 30, 2000, DOL engaged a national actuarial consulting firm to develop an actuarial model to replace the model used previously. The actuarial liability was determined for the year ending September 30, 2000, using a new model.

Consistent with prior years, the actuarial liability was evaluated by an independent actuary. The independent actuary did not participate in the design of the new model. Agreed-upon procedures were performed on the methodology, assumptions and information used in the model. The 2000 benefit payments predicted by the new model for 1999 were compared to actual payments made in 2000, and analytical procedures were performed which sought to relate the change in the liability amount by agency to the change in the aggregate liability.

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AGREED-UPON PROCEDURES & RESULTS

Procedures performed in prior years were supplemented because of the new model. Additional procedures included:

1. Testing that the history of the payment data imported into the new model agreed with the benefit payments in prior years;

2. Comparing the new model's actuarial liability by agency for fiscal year 2000 to what the new model indicated would have been the liability for fiscal year 1999 had the model been in place last year and seek explanations for the change.

Net Intra-Governmental Accounts Receivable - Confirmation letters regarding the accounts receivable as of September 30, 2000, were mailed and confirmed with the CFO Act and other selected agencies. Agreed-upon procedures were performed on FY 2000 accounts receivable as compared with FY 1999 accounts receivable with regards to new receivables, collections, write-offs, and chargebacks and explanations were requested for changes of over 5 percent.

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

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ACTUARIAL LIABILITY

Overview of Results

The actuarial model and the resulting actuarial liability were evaluated by an independent actuary. The independent actuary issued a report which stated the aggregate actuarial liability was reasonably stated in accordance with Actuarial Standards. We performed agreed-upon procedures on the calculation of the actuarial liability by employing agency. Our procedures included considerations of how the change in each agency's liability related to the change in the total estimate, its own history, its group, and to the benefit payments made during the current year. Furthermore, we compared the new model's 1999 prediction of the current year payments to the actual payments made on behalf of the agency.

In aggregate, the new model calculates a liability approximately 26 percent higher than the old model. We were unable to isolate the amount of change by the separate factors of the model; for instance, those as a result of groupings, backfilling, IBNR, or extension of duration.

Procedures and Results

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

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Agreed-Upon Procedures Performed	*Results of Procedures*
Confirmed with the American Academy of Actuaries and the Casualty Actuarial Society as to whether the actuary was accredited and in good standing with the associations. Obtained a statement of independence from the actuarial firm. Obtained two references from clients of the actuarial firm as to the actuary's work.	The actuarial specialist was accredited and in good standing with the American Academy of Actuaries and the Casualty Actuarial Society. The actuarial consulting firm certified that they were independent from DOL-FECA. The actuarial consulting firm provided references stating experience in the type of work required for this engagement.
Compared the economic assumptions used by the model for 1999 to the assumptions used during the current year.	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 increased from 5.6% for the prior year to 6.3% for the current year, for a rate change of approximately +.7%. Concurrently, the Bureau of Labor Statistics' (BLS) estimates of COLA increased from 2.5% for the prior year to 2.6% for the current year, and CPI-Med factors increased from 4.08% for the prior year to 4.16% for the current year. In combination, these rate changes resulted in an increase in the net effective rate (interest rate less inflation rate) of approximately .5%. The result of the changes in estimated prospective rates was to decrease the estimated actuarial liability by approximately 5.14% from what the liability would have been had 1999 rates been used for the year 2000 calculation.
Compared the interest and inflation rates used by the model to the source documents from which they were derived.	We determined that the interest rates used in the model were the same interest rates stated in OMB's publication. We determined that the inflation rates used in the model were derived from the BLS indices cited. The rates from the BLS indices were adjusted to accommodate the difference between the year end of the actuarial model and the year end of the cited rates. We recalculated the blended rates without exception.
Compared the actuarial liability by agency as reported in a Memorandum to the CFOs of Executive Departments of the unaudited estimated actuarial liability for future workers' compensation benefits to the liability calculated by the model and reported on the Projected Liability Reports.	The liability reported on the Memorandum issued to the CFOs of Executive Departments of the unaudited estimated actuarial liability for future workers' compensation benefits agreed with the liability calculated by the model and reported on the Projected Liability Reports.
Compared by agency and in aggregate, the 1998-2000 benefit payments downloaded to the model with the amount of benefit payments reflected in the Summary Chargeback Billing Report, to determine whether the benefit payment data used by the model was the same data upon which agreed-upon procedures for benefit payments were performed.	The amounts in aggregate agreed without exception. By agency, approximately $168,000 of 1998 DOT benefit payments had been downloaded as "Other Agencies". This amount represented approximately .17% of DOT's 1998 payments. No other exceptions were noted.

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AGREED-UPON PROCEDURES & RESULTS

Agreed-Upon Procedures Performed	*Results of Procedures*
Compare in aggregate the historical benefit payments downloaded to the model for 1989-1997 to the prior year reports reflecting such payments.	We tested that the historical data had been imported correctly to the new model as to year and amount. Our tests disclosed no exceptions.
Through consultation with the independent actuary, noted the impact of the backfilling methodology upon the agencies.	Backfilling extrapolates from recent payment years, payment patterns which theoretically occurred in periods prior to when payment data was kept. The importance in relation to this model is that benefits are paid on injury years as far back as 1952, a span which includes many years not included in FECA's databases. The independent actuary's report indicated that while the same data problem might have been addressed using different designs, that one would expect such to achieve much the same result. The actuary's report also indicated the methodologies had been applied correctly In the course of creating the backfilling, the designers of the model identified several agencies whose data appeared to be incomplete. These were agencies who more recently began to be tracked by FECA, or who had been split off from other agencies, impairing the usefulness of the older payment data. Payment data used for those agencies was limited to the most recent three or four years. These agencies would be affected more dramatically by backfilling. The agencies potentially effected are SSA, NSF, SBA, OPM, NRC, and AID. Because the backfilling factors were determined by grouping the agencies, one result of backfilling would be to pull an agency's experience towards the average of the group. For instance, the above cited agencies belonged to Group III, which had the highest liability to benefits paid ratio (LBP). Belonging to this group would indicate that their liability was pulled towards that average more dramatically than occurred with agencies whose data set was larger. Finally, agencies with a higher proportion of older claims would be affected more significantly; once again, being pulled towards the average experience of the group. Such agencies would be those whose work force had diminished or who had otherwise reduced the proportion of new claims to older claims. As more years of data are collected, the relative affect of the backfilling will diminish.

SECTION IIC
AGREED-UPON PROCEDURES & RESULTS

Agreed-Upon Procedures Performed	*Results of Procedures*
Determined the basis of the agency groupings and perform tests to establish the consistency of the grouping. Determined the impact of such inclusion in a grouping.	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. We traced the groupings to the study. We noted that the study had included data through 1991, and therefore, agencies newer to FECA had not been studied. These agencies were placed in Group III, whose average probability approximated the average of the aggregate population. These agencies are AID, FEMA, NSF, NRC, OPM, SBA, and SSA. As stated above, group experience is used to develop the backfilling factors. Also, group experience is factored into the loss development feature used to project the pattern of future payments. Experience of the group would calculate most significantly in smaller agencies.
Determined the impact of the inclusion of IBNR in the revised model, if possible.	We were unable to quantify the impact of IBNR since its inclusion is implicit to the methodology, rather than an add-on estimate to reported claims. In a general sense, the inclusion of IBNR increased the liability, but in an amount which could not be isolated from other factors.
Compared the new model's recalculation of the actuarial liability for 1999 to the new model's calculation of the actuarial liability for 2000. Sought to identify the factors which caused fluctuations of greater than 10%.	The aggregate liability as calculated by the revised model changed from 1999 to 2000 by approximately -4.2% with the five groups ranging from -2.1% to -4.8%. In aggregate, the change reflects an increase in medical payments, more than offset by an increase in the net discount rates as published by the OMB. No agencies fluctuated by more than 12%. The following agencies decreased between 10% and 12%: HHS, Education, NSF, SBA, & OPM. These agencies shared the following characteristics: in terms of size, they are smaller agencies; they increased relative to the old model disproportionately; the change from the revised model’s recalculation of the 1999 to the calculation of 2000 brought them closer to the average liability to benefits paid ratio (LBP). We also note that despite the decline, these agencies reflect an LBP in excess of the aggregate LBP (10.6). This indicator runs counter to the concern that the decline in the cited agencies resulted in a possible understatement of their liability.

Agreed-Upon Procedures Performed	*Results of Procedures*
Quantify the change in the 1999 estimate of the actuarial liability as calculated by the model used last year to the revised model's recalculation of 1999. Identify those agencies whose liability varied significantly from the change in the overall liability: e.g., increased more than 50% or declined by more than 10%. Describe characteristics of agencies who changed in that fashion.	The revised model calculated a 1999 liability 26% higher than the model used last year, representing a 22% increase in compensation, and a 57% increase in medical. The actuaries who designed the model indicated the increase in the liability was the result of a number of factors including the inclusion of IBNR, extending the duration of the model, and the backfilling technique. The actuaries indicated that the factors could not be separately quantified in a cost-effective fashion because each of the factors were intrinsic to the basic methodology and the separate amounts could not be calculated without each of the factors included. The following agencies increased by more than 50%: HHS (64%), Education (145%), NSF (61%), SBA (108%), OPM (120%), NRC (116.5%), FEMA (96%), and DOL (90%). The following agencies decreased by more than 10%: AID (-18%), State (-16%). These ten agencies are smaller agencies representing 3% of the total actuarial liability. In the prior years' models, the smaller agencies were more volatile than other agencies. The agencies with increases had lower than average (9.3) LBP ratios in the prior model. Both agencies which declined had higher than average LBP ratios in the prior model. Five of the agencies were among those whose population of benefit claims payment history used were limited to three years and could be most affected by backfilling: NSF, SBA, OPM, NRC, and AID. For the agencies who declined, the population was older, by the year of injury, than in other agencies. For the agencies who increased, the population was mixed by year of injury. The ratio of medical to compensation claims were also mixed.

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AGREED-UPON PROCEDURES & RESULTS

Agreed-Upon Procedures Performed	*Results of Procedures*
Compared the benefit payments predicted by the revised model for year 2000 to the actual benefit payments. Considered whether differences indicated the model was over or understating the liability.	Payments increased in constant dollars approximately 3.62 % during FY2000, comprised of a 12.5% increase in medical benefit payments and a .7% increase in compensation. The aggregate trend of the last four years is a 4% average annual increase in medical offset for the most part by a slight decline in compensation of -.1%. The number of medical cases upon which claims were paid increased by only 4% which indicates that approximately 75% of the increase in medical payments was price-based rather than volume-based. The increase in compensation was almost all volume-based. Actual payments were approximately 7.3% higher than predicted, fundamentally as a result of the increase in medical payments overall. The predicted payments would not include payments made on claims incurred and paid during fiscal year 2000. The projection would include IBNR. The following agencies' actual payments varied from the prediction by more than 20%: EPA (+34%), SSA (+23%), AID (+51%), DOD (+28%), FEMA (+29%), and State (41.2%). Concerns that the analytical procedures indicated that SSA and DOD's were understated were mitigated by their coverage ratios which were higher than average at 12.0 and 13.5, respectively. We question the usefulness of the analytical procedure for FEMA where the amount of the underestimate approximated the actual increase in FEMA's payments. Consideration of LBP did not mitigate the analytical procedure for EPA, AID, and State. These agencies' payments increased by approximately 13% during the year 2000, in amounts far less than the model underestimated the year 2000 payments.
Calculated the ratio of the agency liability to the benefit payments (LBP) by agency and compared this to the overall ratio and group ratio. Identified and sought explanation for those agencies for which the ratio varied by more than 15% from their group ratio, and lay outside the range of group averages.	The liability to benefits paid ratio for the aggregate liability was approximately 10.6%. By group, the range of the ratio was from 9.5 (Postal Service-Group IV) to 12.2 (Group III). The following agencies varied by more than 15% from their group's ratio and fell outside the range of group ratios: HHS (12.7-Group I), SBA (14.1- Group III) , FEMA (9.3-Group III), and State (7.6- Group IV). Payment trends and the actual to estimated payments did not mitigate indicators that HHS and SBA might be overstated, and FEMA and State might be understated. The actuary indicated that HHS and FEMA were within a reasonable range of values.

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Agreed-Upon Procedures Performed	*Results of Procedures*
Compared the actuarial liability for the Postal Service calculated by the model to the actuarial liability calculated by the Postal Service's independent model.	The actuarial liability computed for the Postal Service was 9.86% higher than the Postal Service's independent computation. Last year, the old model calculated to within -12.1% of the amount computed by the Postal Service. Historically, the model varied from the Postal Service's calculation by as much as 20%. The Postal Service is not grouped in the model with any other agency. Both models are premised upon historic extrapolation models, but vary in methodology.
Performed a limited survey of interest and inflation rates utilized by the Postal Service, OPM, and two other sources with governmental actuarial liabilities experience. Determined how the surveyed net effective rates compared to the interest rates used in the model.	Surveyed rates for compensation ranged from 2.38% to 4.00% and for medical ranged from 1.4% to 2.11%. The model's rates compute to net effective rates of approximately 3.65% for compensation and 2.14% for medical. The medical portion of the liability comprises approximately 17.4% of the total. A higher rate equates to the calculation of a lower liability.

NET INTRA-GOVERNMENTAL ACCOUNTS RECEIVABLE

Overview of Results

Agreed-upon procedures were applied to the net intra-governmental accounts receivable as of September 30, 2000, as compared with net intra-governmental accounts receivable as of September 30, 1999, with regards to new receivables, collections, write-offs, and chargebacks.

We compared the fiscal year 2000 net intra-governmental accounts receivable to the fiscal year 1999 net intra-governmental accounts receivable and investigated changes of over 5 percent. We also compared new receivables, collections and write-offs for fiscal year 2000 to fiscal year 1999; calculated the accounts receivable outstanding for each fiscal year; calculated the chargeback and fair share total for 2000; and confirmed the chargeback amounts billed for claimants' payments directly with the Federal agencies charged.

Procedures and Results

Agreed-Upon Procedures Performed	*Results of Procedures*
Compared prior year ending net intra-governmental accounts receivable balances to the current year net intra-governmental accounts receivable balance by Federal agency. Determined whether the increase or decrease was in proportion to the change in amounts billed.	The change in the net intra-governmental accounts receivable balances was in proportion to the increases in benefit payments billed to each Federal agency.
Compared the fiscal year 2000 account activity by Federal agency for write-offs and new accounts receivable to prior fiscal year activity. Determined whether the increase or decrease was in proportion to the change in amounts billed and collected.	The change in the write-offs and new accounts were in proportion with the amounts billed and collected.
Confirmed accounts receivable balances due as of September 30, 2000, for all Federal agencies.	Returned confirmations were reviewed for agreement to amounts recorded. Explanations for the differences were obtained. Department of Defense, specifically Department of Navy, Department of Army and Department of Defense (Other), were unable to confirm all of the balances due to DOL.

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<table>
<tr><td></td><td>Unreconciled differences for the Department of Defense totaled approximately $22 million of $1.068 billion (less than 2%) as follows:

<table>
<tr><th></th><th>DOL</th><th>DOD</th><th>Diff</th></tr>
<tr><td>Dept. of Army</td><td>$329,710</td><td>$329,735</td><td>$25</td></tr>
<tr><td>Dept. of Navy</td><td>559,467</td><td>559,461</td><td>(6)</td></tr>
<tr><td>Dept. of Defense</td><td>179,285</td><td>179,288</td><td>3</td></tr>
<tr><td></td><td>$1,068,462</td><td>$1,068,484</td><td>$22</td></tr>
</table>

As a result of these discrepancies, DOL and DOD have formed an interagency workgroup to reconcile and resolve these differences.</td></tr>
<tr><td>Compared the chargeback billing report for the period, July 1, 1999 through June 30, 2000, to the amounts billed to the Federal agencies.</td><td>The amounts billed to the Federal agencies for the period July 1, 1999 through June 30, 2000, agreed to the chargeback billing report.</td></tr>
<tr><td>Recalculated the allocation of credits due from the public.</td><td>No exceptions were noted.</td></tr>
<tr><td>Determined, for a non-statistical sample of 77 items, whether claimant accounts receivable overpayments were properly established and classified.</td><td>In 3 of 17 accounts receivable, the amounts were incorrectly reported in the DMS, resulting in a net overstatement of $31,999.</td></tr>
<tr><td>Determined, for a non-statistical sample of 77 items, whether, for cases in the preliminary status, the Letter CA-2201 or Letter CA-2202, as applicable, was properly issued to notify the claimants of the preliminary decision regarding the claimant's accounts receivable and to give the claimant an opportunity to provide additional evidence regarding the accounts receivable. Determined whether, for cases in the final status, a final decision was made as to the debt and whether the final decision was properly recorded and reported to the claimant.</td><td>In 2 of 77 accounts receivable in the final status, a final decision was not properly made, properly recorded or the claimant was properly notified of the final decision.</td></tr>
<tr><td>Determined, for a non-statistical sample of 77 items, whether the proper procedures were followed with regards to the establishment of a repayment plan, the assessment of interest, the compromise or waiving of portions of interest or principal as appropriate and the pursuit of accounts receivable which were in arrears.</td><td>In 1 of 77 accounts receivable, a debt was not appropriately offset against a lump sum payment of $56,540.

In 3 of 77 accounts receivable, a portion of the interest or principal on the debts were not properly written-off, adjusted or compromised, resulting in a net overstatement of approximately $241,414.</td></tr>
</table>

BENEFIT EXPENSE

Overview of Results

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, 2000, to the fiscal year ended September 30, 1999, and for the sampling period of October 1, 1999 to May 31, 2000, to the sampling period of October 1, 1998 to May 31, 1999. Changes in the actuarial liability from the prior year to the current year were calculated. Agreed-upon procedures were applied to DOL's cut-off process.

Procedures and Results

Agreed-Upon Procedures Performed	*Results of Procedures*
Compared the benefit payments recorded in the Automated Compensation Payment System (ACPS) and Benefit Payment System (BPS) databases to the Department of Labor's general ledger and the Department of Treasury's SF-224s as of September 30, 2000.	The benefit payments recorded in the ACPS and BPS databases varied from the Department of Treasury's SF-224 at May 31, 2000, by .96%. As of September 30, 2000, the ACPS and BPS databases varied from the Department of Treasury's SF-224 at September 30, 2000, by .07% ($1.5 million) and from the Department of Labor's general ledger by .16% ($3.2 million).
Obtained the Department of Labor's year-end cut-off procedures. Obtained the year-end adjustments made to the general ledger to prorate expenditures which overlapped fiscal years. Determined if these adjustments were recorded in the correct period.	The year-end adjustment made to the general ledger to prorate the expenditures which overlapped fiscal years agreed to the supporting documentation. The adjustments were recorded in the correct period.
Determined the average ACPS and BPS payments by strata for the May 31, 2000, and September 30, 2000, database and compared them to the average ACPS and BPS payments by strata for the May 31, 1999, and September 30, 1999, databases. Determined if there were any variances larger than 7%. Requested explanations from DOL for variances over 7%, if any.	The average ACPS benefit payments by strata at May 31, 2000, and September 30, 2000, was compared to the prior year. The average ACPS benefit payments by strata did not increase by more than 7% at May 31, 2000 or September 30, 2000. Average ACPS benefit payments by strata decreased by more than 7% at May 31, 2000 and/or September 30, 2000, for two strata: the *credits from overpayments (transactions less than $0)* strata and the strata of payments from *$150,000 - $1,000,000* strata. The decrease in credits from overpayments was due to the overall reduction of accounts receivable and the decrease in the lump sum payments over $150,000 was due to the prior year's reduction of the backlog in Hearing and Reviews resulting in fewer cases for review and payment in the current year.

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AGREED-UPON PROCEDURES & RESULTS

Agreed-Upon Procedures Performed	*Results of Procedures*
	The average BPS benefit payments by strata at May 31, 2000 and September 30, 2000, were compared to the prior year. The average BPS benefit payments by strata did not increase by more than 7% at May 31, 2000 or September 30, 2000. Average BPS benefit payments by strata decreased by more than 7% at May 31, 2000 and/or September 30, 2000, for one strata, the *credits from overpayments (transactions less than $0)* strata. The decrease in credits from overpayments resulted from the increased accuracy in medical bill payment processing.
Compared the total benefit payments for each of the last 5 fiscal years. Determined if there were any variances larger than 5% for each of the 5 fiscal years. Requested explanations from DOL for variances over 5%, if any.	As a result of our analysis of 5 years of benefit payment data, total benefit payments did not vary by more than 5% compared to the prior year's benefit payments.
Compared the summary chargeback billing list to the benefit payment database as of September 30, 2000.	The agency chargeback billing list varied from the benefit payment database for the fiscal year ending September 30, 2000, by 0.04%.
Compared, by agency and in total, compensation and medical bill payments for the fiscal year ending September 30, 2000, with payments made for the fiscal year ending September 30, 1999. Requested explanations from DOL for variances over 7%, if any.	Benefit payments for the fiscal year ending September 30, 2000, increased 4.48% overall. Benefit payments increased by more than 7%, for the Executive Office of the President, Labor, State, Smithsonian Institution, Central Intelligence Agency, Justice, Postal Service, Agriculture, Commerce, Corporation for National & Community Service, FEMA, Peace Corps and Social Security Administration. Benefit payments decreased by more than 7% for HUD. The increases were attributable to single large incidents involving numerous employees which lead to an increase in benefit payments and/or an increase in agency employment levels.
Compared the benefit payments made by each district office as of May 31, 2000, and September 30, 2000, to the prior year data. Determined if there were any variances larger than 5%. Requested explanations from DOL for variances over 5%, if any.	Benefit payments by district office for the period through May 31, 2000 and September 30, 2000, varied from the prior year by -12.00% to 32.37% for the 12 district offices. Benefit payments increased by more than 5% for Boston, New York, Chicago, San Francisco, Dallas, and Washington D.C. (District). Benefit payments decreased by more than 5% for Cleveland and Washington D.C. (National). The increases by district office were due, in part, to the overall increase in benefit payments. The decrease and some increases were due, in part, in the movement of cases among the district offices.

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AGREED-UPON PROCEDURES & RESULTS

Agreed-Upon Procedures Performed	*Results of Procedures*
Calculated a 12-month projected benefit payment based on the May 31, 2000 database (8 month). Compared the projected 12-month total benefit payments to the actual 12-month total benefit payments as of September 30, 2000.	The actual 12-month total benefit payments varied from the projected 12-month total benefit payments for the fiscal year ending September 30, 2000, by -1.52%.
Calculated the change in the actuarial liability reported on the current year and prior year's compilation report prepared by DOL.	No exceptions were noted.

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SECTION IIIA
INDEPENDENT SERVICE AUDITORS' REPORT

Bernard E. Anderson, Assistant Secretary
Employment Standards Administration, U.S. Department of Labor,
General Accounting Office, Office of Management and Budget, and Other Specified User Agencies:

We have examined the accompanying description of the policies and procedures of the Division of Federal Employees' Compensation applicable to general computer controls and the processing of transactions for users of the Federal Employees' Compensation Act Special Benefit Fund. Our examination included procedures to obtain reasonable assurance about whether (1) the accompanying description presents fairly, in all material respects, the aspects of DFEC policies and procedures that may be relevant to the internal controls of users of the FECA Special Benefit Fund; (2) the control structure policies and procedures included in the description were suitably designed to achieve the control objectives specified in the description, if those policies and procedures were complied with satisfactorily, and users of the FECA Special Benefit Fund applied the internal control policies and procedures contemplated in the design of DFEC's policies and procedures, as described in Section IIIB; and (3) such policies and procedures had been placed in operation as of May 31, 2000.

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

In our opinion, the accompanying description of the policies and procedures of DFEC presents fairly, in all material respects, the relevant aspects of DFEC's policies and procedures that had been placed in operation as of May 31, 2000. Also, in our opinion, the policies and procedures, as described, are suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described policies and procedures were complied with satisfactorily and users of the FECA Special Benefit Fund applied the internal control policies contemplated in the design of the DFEC's policies and procedures.
In addition to the procedures we considered necessary to render our opinion, as expressed in the previous paragraph, we applied tests to specified policies and procedures to obtain evidence about their effectiveness in

meeting the related control objectives during the period from October 1, 1999 through May 31, 2000. The specific policies and procedures and the nature, timing, extent, and results of the tests are summarized in Section IIIC. This information has been provided to the users of the FECA Special Benefit Fund and to their auditors to be taken in consideration, along with information about the internal controls at user organizations. In our opinion, the policies and procedures that were tested, as described in Section IIIB were operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that the specified control objectives were achieved during the period from October 1, 1999 through May 31, 2000. However, the scope of our engagement did not include tests to determine whether control objectives not listed in Section IIIC were achieved; accordingly, we express no opinion on the achievement of control objectives not included in Section IIIC.

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

The description of policies and procedures at DFEC is as of May 31, 2000, and information about tests of the operating effectiveness of specified policies and procedures covers the period October 1, 1999 through May 31, 2000. Any projection of such information to the future is subject to the risk that, because of change, the description may no longer portray the system in existence. The potential effectiveness of specified policies and procedures at DFEC is subject to inherent limitations and, accordingly, errors or irregularities may occur and not be detected. Furthermore, the projection of any conclusions based on our findings to future periods is subject to the risk that changes may alter the validity of such conclusions.

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

Carmichael, Brasher, Tuvell & Company December 15, 2000

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

OVERVIEW OF SERVICES PROVIDED

Overview

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

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

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

Actuarial Liability

Within ESA, the Division of Financial Management has been designated as the responsible agency to generate the annual FECA actuarial calculations. The Division of Planning, Policy and Standards (DPPS) has the direct responsibility for preparing the actuarial liability and the initial review of the detailed calculations. The DPPS also has the responsibility of investigating and revising the initial model's calculations as deemed appropriate. The FECA actuarial liability is prepared on an annual basis as of September 30, 2000.

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

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DIVISION OF FEDERAL EMPLOYEES' COMPENSATION'S POLICIES AND PROCEDURES

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

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

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

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

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

The new model includes extending the duration of the model until the estimated payments left to be paid expire.

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Chargeback System

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

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

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

The bills sent to agencies for the chargeback system contain identifying codes that indicate both the year being billed and the year in which the bill is to be paid. Each bill sent out in fiscal year 2000 and due in fiscal year 2000 would be coded as follows: 99-XXX-00. The 99 indicates the year the bill is generated, the XXX indicates the numerical sequence of the bill, and the 00 would indicate the year that the bill would be due and paid.

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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:

District	Location of District Office	States or Regions Covered by District Office
1	Boston	Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont
2	New York	New Jersey, New York, Puerto Rico, Virgin Islands
3	Philadelphia	Delaware, Pennsylvania, West Virginia
6	Jacksonville	Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, Tennessee
9	Cleveland	Indiana, Michigan, Ohio
10	Chicago	Illinois, Minnesota, Wisconsin
11	Kansas City	Iowa, Kansas, Missouri, Nebraska, all DOL employees
12	Denver	Colorado, Montana, North Dakota, South Dakota, Utah, Wyoming
13	San Francisco	Arizona, California, Guam, Hawaii, Nevada
14	Seattle	Alaska, Idaho, Oregon, Washington
16	Dallas	Arkansas, Louisiana, New Mexico, Oklahoma, Texas
25	Washington, D.C.	District of Columbia, Maryland, Virginia, and overseas/special claims
50	National Office Branch of Hearings and Review	

Subservicer

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

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DIVISION OF FEDERAL EMPLOYEES' COMPENSATION'S
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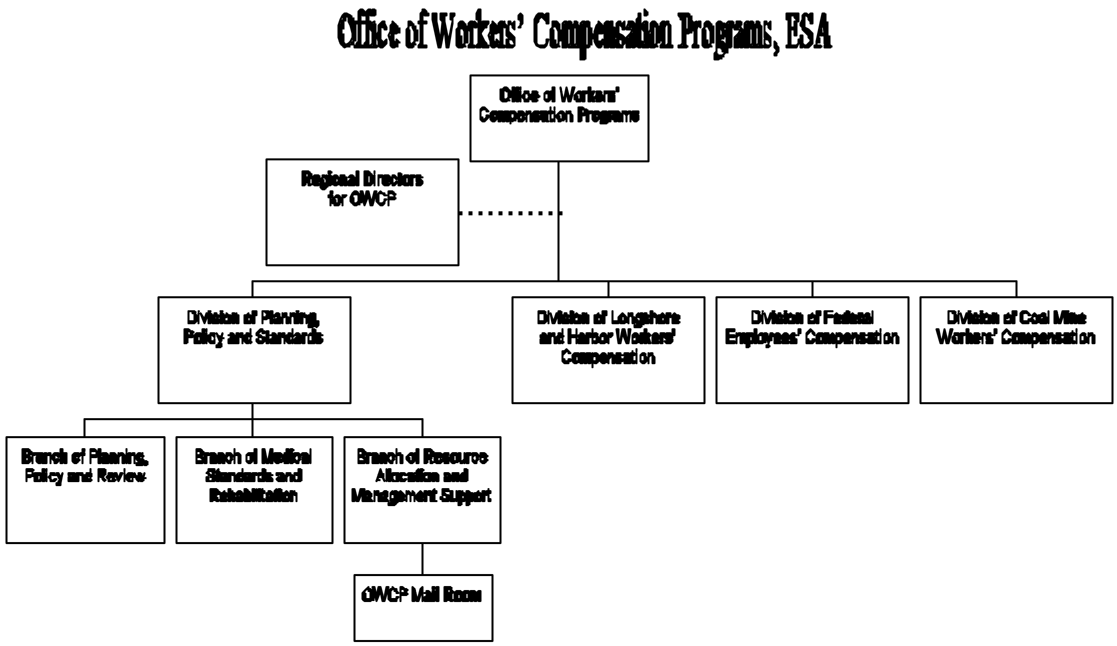
OVERVIEW OF CONTROL ENVIRONMENT

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

Organization and Management

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



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

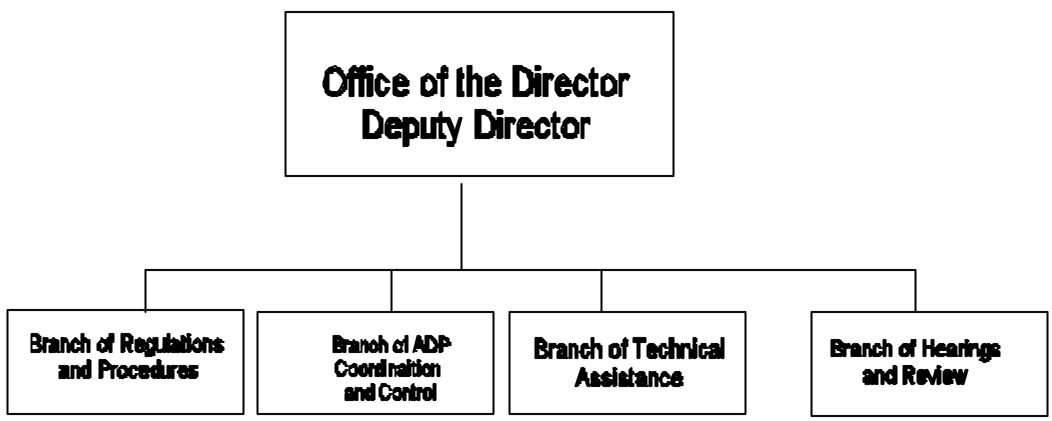
DFEC has four branches:

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.



SECTION IIIB
DIVISION OF FEDERAL EMPLOYEES' COMPENSATION'S
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Branch Operations

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

District Offices

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

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

The specific functions within the District offices are:

1. Claims Functions. In each district office are two or more Supervisory Claims Examiners, who are responsible for the operation of individual claims units, and a number of Senior Claims Examiners and Claims Examiners (CE), who have primary responsibility for handling claims, including authorization of compensation and eligibility for medical benefits. Individuals at each level of authority from DD to CE have been delegated specific responsibilities for issuing decisions on claims.

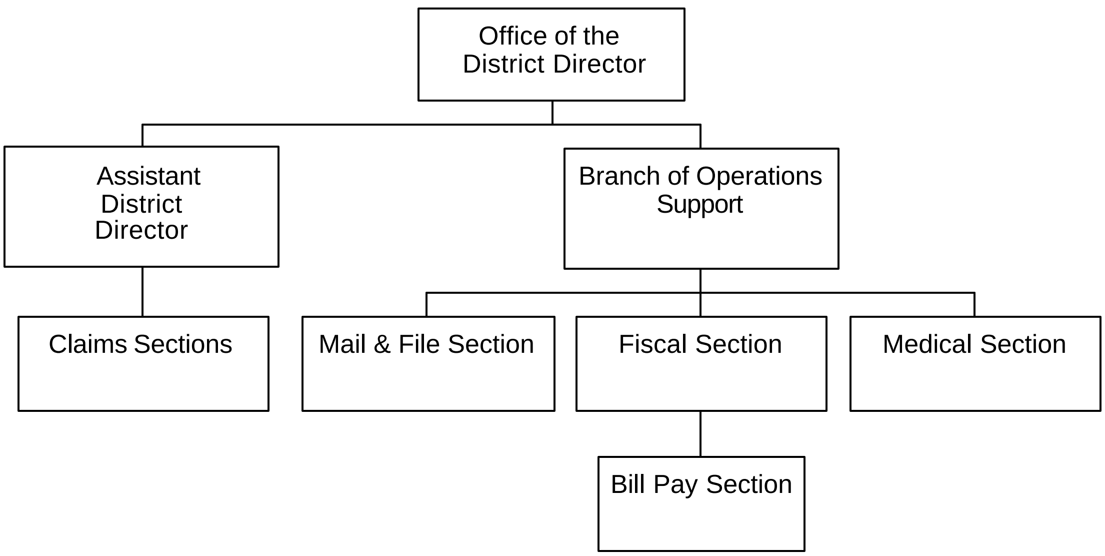
2. Fiscal Functions. Each District office usually has a Fiscal Officer and at least one Benefit Payment Clerk. Some District offices have a Bill Pay Supervisor as well. The unit is generally responsible for resolution of problems with medical bills, complex calculations of benefits and overpayments, 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.

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.

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

FECA District Office



OVERVIEW OF TRANSACTION PROCESSING

Identification and Registration of the Recipient of FECA Benefits

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

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

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

Benefit Payments

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

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

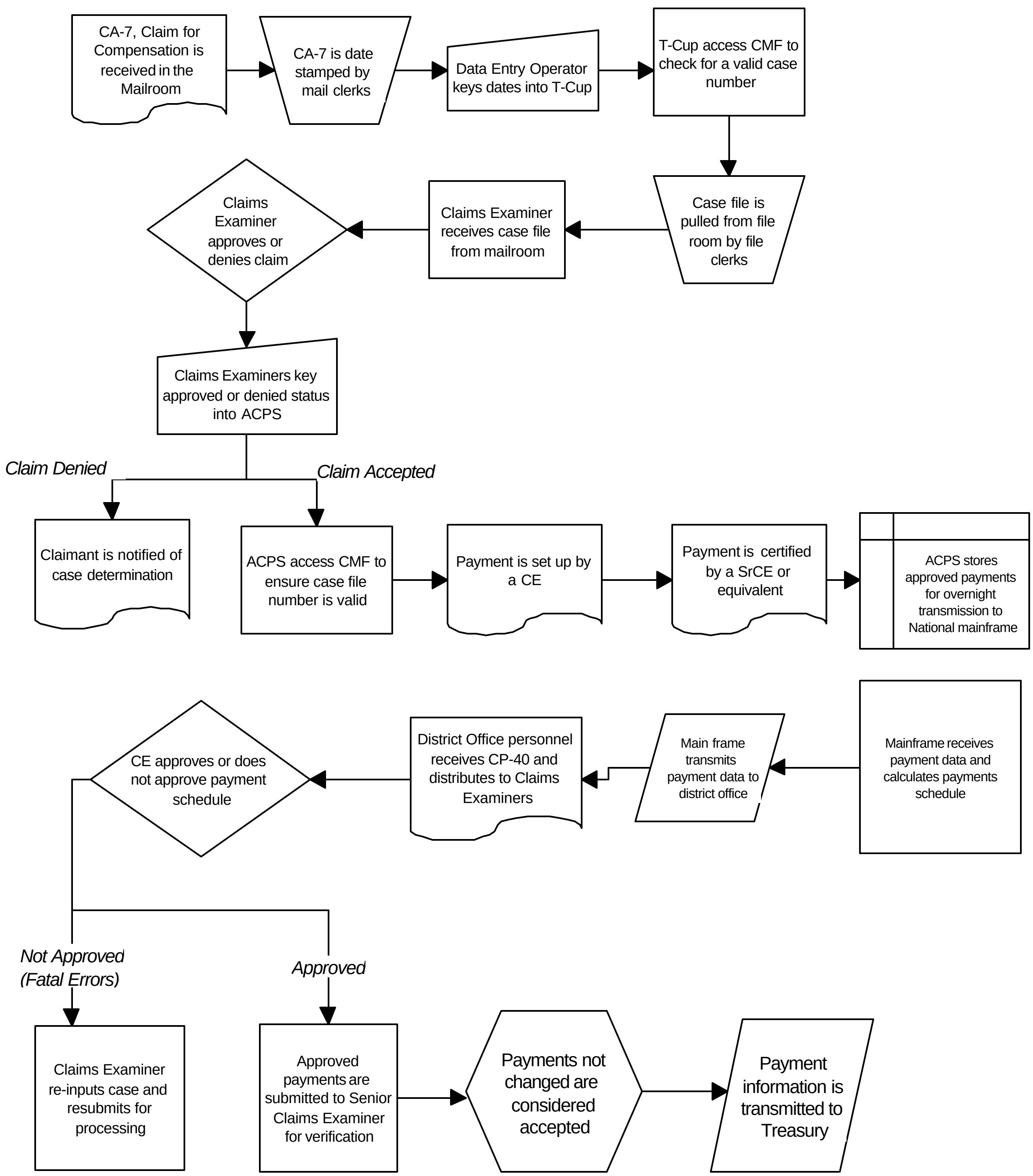
Approved payments are stored in a temporary file for the duration of the appropriate compensation payment cycle: Daily Roll (5 days), Death Benefits (28 days), or Disability (28 days). At the end of the cycle, the mainframe runs automated programs to format the data to Treasury specifications, to update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

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

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

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

Processing of Compensation Payments
Processing of Medical Payments



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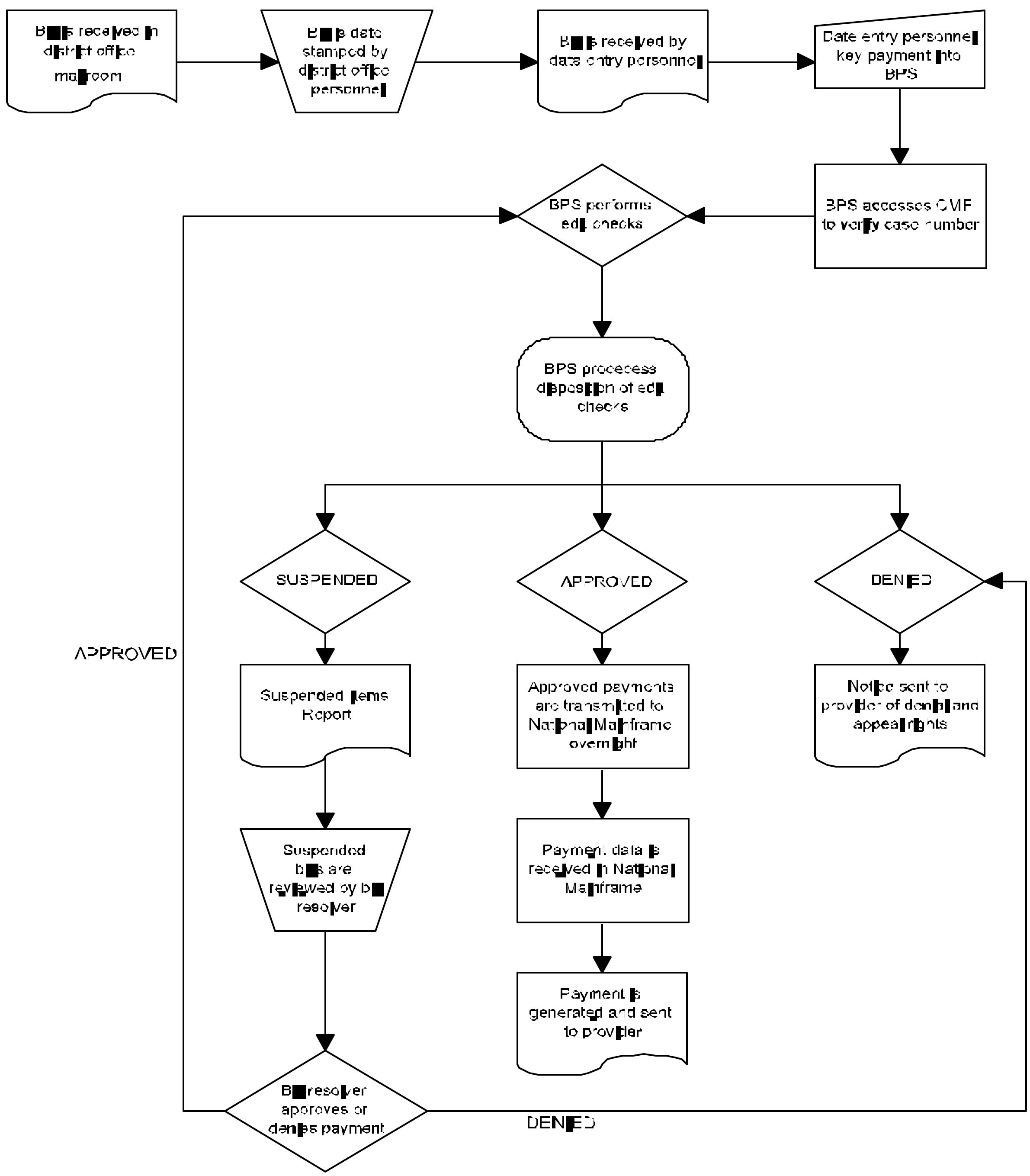

Computer-Generated Reports

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

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

Chargeback System

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

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

Third Party Settlements

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

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

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DIVISION OF FEDERAL EMPLOYEES' COMPENSATION'S POLICIES AND PROCEDURES

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

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

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

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

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

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

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

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

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

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

SECTION IIIB
DIVISION OF FEDERAL EMPLOYEES' COMPENSATION'S
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OVERVIEW OF COMPUTER INFORMATION SYSTEMS

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

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

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

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

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

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

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Organization and Administration

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

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

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

Operations

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

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

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

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Documentation

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

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

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

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

Anti-Virus Control

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

Subservicer

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

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

CONTROL OBJECTIVES AND RELATED POLICIES AND PROCEDURES

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

USER CONTROL CONSIDERATIONS

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

- 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 IIIC
INFORMATION PROVIDED BY THE SERVICE AUDITOR

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

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

TESTS OF CONTROL ENVIRONMENT ELEMENTS

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

- 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; observation of DFEC's activities and operations; and a limited review and evaluation of SunGard's, the subservicer, most recent SAS 70 report, issued for the period from October 1, 1998 to September 30, 1999. The results of these tests were considered in planning the nature, timing, and extent of our tests of the specified control policies and procedures related to the control objectives described within this report.

SAMPLING METHODOLOGY

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

We performed tests on a sample of compensation for lost wages, schedule awards, death benefits and medical benefit payments paid during the period October 1, 1999 to May 31, 2000, at 5 of 12 District offices. The sample design involved a two stage process.

SECTION IIIC
INFORMATION PROVIDED BY THE SERVICE AUDITOR

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 5 district offices comprised approximately $863 million of the $1.398 billion or 61.8 percent, of FECA payments during the 8 month period ended May 31, 2000.

The second stage of the sample design was the selection of sampling units. The sampling units were a single medical payment or total compensation payments to a case number. The universe of the sample districts was stratified into 15 strata for the compensation payments and into 11 strata for the medical payments. The sample size was determined for each of the 15 strata for compensation and 11 strata for the medical payments using the following parameters:

- The total number of items and dollar value of the strata universe
- The estimated variance within each strata
- A 95% confidence level (5% risk of incorrect acceptance)
- A variable sampling precision (2.5% to 7%) of the point estimate
- Materiality and tolerable error as defined for FECA benefit payments

Using statistical formulas, these parameters yielded a total sample of 482 items. Of the total sample, 217 were medical payments and 265 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:

District Office	Number of Statistical Items
New York	98
Jacksonville	98
Kansas City	94
San Francisco	103
Washington, D.C.	89
Total	482

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

Case Creation
Initial Eligibility
File Maintenance

Continuing Eligibility (Medical Evidence and 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 above. The number of sample items tested was determined based on the number of items to which the test of controls applied. The control tests would not be applicable to some sample items due to factors such as the age of the injury.

Additional testing was performed on items which were selected in a non-statistical method.

Initial Eligibility Cases

Audit queries were generated which determined all of the cases in which claimants were injured and began receiving compensation during the sampling period of October 1, 1999 to May 31, 2000. From a population of 1,262 initial eligibility cases in the 5 district offices tested, a random sample of 75 cases, 15 cases per district office, was selected. We reviewed the case files to ensure that the proper procedures had been followed in determining whether or not the claimants were eligible to receive benefit payments and whether benefit payments were paid at the correct amount.

Multiple Claim Payments

Audit queries were generated which compared certain elements of each compensation payment made during the period October 1, 1999 through May 31, 2000. The query compared case files in which the social security number was the same for multiple case files. This situation would normally occur when an employee has suffered more than one injury, as a separate case number is assigned for each injury. We analyzed the payments to ensure that a claimant was not receiving excessive or overlapping compensation. We removed from the population of 1,789 multiple claim payments, the cases tested in previous years which resulted in no errors, resulting in 132 multiple claim compensation payment items to be tested.

Gross Override

Audit queries were generated which determined all cases on which the amount of compensation to be paid was manually overridden from what the ACPS calculated the payment should be. We selected instances where the amount paid as a result of the override was more than the amount that the ACPS had calculated should be paid. We then randomly selected 29 cases from a population of 193 cases in the district offices in which test work was to be performed.

Third Party Settlements

Audit queries were generated which determined all claimants that had a third party status indicator in the CMF. We then randomly selected 100 cases from a population of 1,452 cases with third party indicators, active within the past year, in the district offices in which test work was to be performed.

Summary of Non-Statistical Sample Items

District Office	# of Multiple Claim Payments	# of Gross Override Cases	# of Third Party Cases	Total Sample
New York	35	0	20	55
Jacksonville	40	8	20	68
Kansas City	9	4	20	33
San Francisco	27	7	20	54
Washington, D.C.	21	10	20	51
Total	132	29	100	261

CONTROL OBJECTIVES, RELATED POLICIES AND PROCEDURES, AND TESTS OF OPERATING EFFECTIVENESS

This section presents the following information provided by the DFEC:

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

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

- A description of the testing performed by the service auditor to determine whether DFEC's control policies and procedures were operating with sufficient effectiveness to achieve stated control objectives.

- The results of the service auditors' tests of operating effectiveness.

SECTION IIIC
INFORMATION PROVIDED BY THE SERVICE AUDITOR
GENERAL COMPUTER CONTROLS

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

Description of Policies and Procedures

The computerized accounting system used by the Federal Employees' Compensation Act Special Benefit Fund maintains all of 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
< Medical Bill Processing System
< Case Management File
< Debt Management System
< Chargeback System

The Office of the Assistant Secretary for Administration and Management contracted with SunGard Computer Services, Inc. (SunGard), for computer mainframe time-sharing services. SunGard provides computer hardware and a communications network between the national office, the district offices, and the U.S. Treasury. SunGard runs the programs and software applications for FECS.

FECS provides authorized users with on-line access to the various subsystems for file maintenance and information purposes. Access to FECS through computer terminals located in both the national and 12 district offices permit 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 FECS.

In addition to storing information relevant to claims adjudication, benefit entitlement, and payment status, 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 and on behalf of program beneficiaries.

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

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

Organization and Administration

A System Administrator is responsible for overseeing all the data processing activity of FECS. DFEC employs approximately 17 individuals within the Branch of ADP Coordination and Control and has contracts with outside computer consulting firms, Computer Data System, Inc. (CDSI), and Viatech through which approximately 30 individuals work with DFEC. CDSI and Viatech are software development and maintenance contractors for DFEC.

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

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

Operations

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

SECTION IIIC
INFORMATION PROVIDED BY THE SERVICE AUDITOR
GENERAL COMPUTER CONTROLS

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

Documentation

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

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

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

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

Anti-Virus Control

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

Subservicer

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

Tests of Operating Effectiveness

Entity-wide Security

- Reviewed risk assessment policies, the most high-level risk assessment, and the objectivity of personnel who perform and review the assessment.

- Reviewed the security plan and determined whether the plan covers the topics prescribed by OMB Circular A-130.

- Reviewed any related documentation which indicated that the security plan has been reviewed, updated, and is current.

- Reviewed the entity's organization chart, other pertinent organization charts, and job descriptions.
- Reviewed the security plan to determine who owns computer-related resources and who is responsible for managing access to computer resources.

- Interviewed the security manager and security management staff to determine whether they are aware of security-related responsibilities and expected behaviors.

- 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.

- Interviewed data owners and system users to determine what training they have received and if they are aware of their security-related responsibilities.

- Interviewed the security manager, response team members, and system users to determine whether an incident response capability has been implemented.

- Reviewed documentation supporting incident handling activities.

- 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.

- Reviewed job descriptions for security management personnel and a selection of other personnel.

- Reviewed training program documentation, training records, and other related documentation.

- Reviewed reports resulting from recent assessments (including the most recent FMFIA report), written authorizations or accreditation statements, and documentation related to corrective actions.
- Identified and reviewed the last independent review or audit.

- Reviewed the status of prior year audit recommendations to determine if implemented corrective actions have been tested.

- Reviewed the SunGard SAS 70 report to determine whether adequate coverage was given to the control environment and to determine the impact if any control weaknesses on the FECS processing environment:
  - A security plan is documented, approved, and kept current;
  - A security management structure has been established;
  - Information security responsibilities are clearly assigned;
  - An incident response capability has been implemented;
  - Hiring, transfer, termination, and performance policies address security;
  - Employees have adequate training and expertise;

Access Controls

- Identified, reviewed, and compared policies and procedures regarding resource classifications and related criteria to risk assessments; interviewed resource owners; and discussed discrepancies in resource classifications with appropriate officials.

- Reviewed written policies and procedures regarding access authorization, authorization and justification for a selection of users with dial-up access, a selection of recent profile changes, and activity logs.

- Interviewed data owners to determine disposition and sharing of data and examined standard approval forms, documents authorizing file sharing, and file sharing agreements.

- Reviewed, observed, or performed the following, either at the DITMS Data Center or as part of the SunGard SAS 70 report, to determine whether physical safeguards have been established and are commensurate with the risks of physical damage or access:
  - a diagram and walk through of the physical layout of the computer, telecommunications, and cooling system facilities;
  - risk analysis;
  - lists of individuals authorized access to sensitive areas;
  - visitor entry policies, procedures, and logs;

- entries to and exits from facilities during and after normal business hours;
- utilities access paths;
- access path diagrams;
- procedures for the removal and return of storage media from and to the library;
- a selection of some returns and withdrawals from the log to verify physical existence;
- practices for safeguarding keys and other devices;
- written emergency procedures;
- documentation supporting prior fire drills;
- documentation on and logs of entry code changes;
- pertinent policies and procedures regarding passwords, tokens, or other devices used to identify and authenticate users, the password file, security software password parameters, users keying in passwords, a system-generated list of current passwords, security logs;
- interview with security administrators and system users regarding logical controls over data files and software programs;
- pertinent polices and procedures regarding logical controls over databases, interview with the database administrator, DBMS and DD security parameters, and security system parameters;
- pertinent policies and procedures regarding logical controls over telecommunications access, parameters set by communications software or teleprocessing monitors, interview with telecommunications management staff and users, and the opening screen seen by telecommunication system users;
- evaluation of cryptographic tools;
- written procedures regarding sanitation of equipment and media prior to disposal or reuse, interview with personnel responsible for clearing equipment and media, examination of documentation related to the clearing of data and software;
- security software settings to identify types of activity logged, pertinent policies and procedures regarding monitoring of actual or attempted access, security violation reports, and documentation showing reviews of questionable activities; and
- pertinent policies and procedures and interview with appropriate personnel regarding the investigation and appropriate action of suspicious activity.

Application Software Development and Change Control

- Reviewed the status of the System Development Life Cycle (SDLC) methodology and system documentation to determine whether the SDLC was implemented.

System Software

Reviewed the SunGard SAS 70 report to determine whether the following system software controls exist at SunGard:

- Access authorizations are appropriately limited***;***

- Inappropriate or unusual activity is investigated and appropriate actions taken;
- System software changes are authorized, tested, and approved before implementation; and
- Installation of system software is documented and reviewed.

Segregation of Duties

Reviewed the SunGard SAS 70 report to determine whether the following segregation of duties' controls exist at SunGard:

- Employees understand their duties and responsibilities;
- Physical and logical access controls have been established;
- Formal procedures guide personnel in performing their duties; and
- Active supervision and review are provided for all personnel.

Service Continuity

Reviewed the SunGard SAS 70 report to determine whether the following service continuity controls exist at SunGard:

- Data and program backup procedures have been implemented;
- Adequate environmental controls have been implemented;
- Effective hardware maintenance, problem management, and change management help prevent unexpected interruptions;
- An up-to-date contingency plan is documented;
- Backup procedures are periodically tested;
- Test results are analyzed and contingency plans are adjusted accordingly; and
- Arrangements have been made for alternate data processing and telecommunications facilities.

Results of Tests

Entity-wide Security

ESA, of which DFEC is a division, has not completed and approved a risk assessment that considers data sensitivity and integrity, the range of risks to the entity's systems and data, and resource classifications over its general support systems and major applications. Although risk assessments have been performed and documented for the general support systems and major applications, they are in the process of being reviewed and approved by the CIO. Classifications and criteria have been established and communicated to the resource owners for:

- General Support Systems
- The Major Application FECS

However, classification of resources were not based upon risk assessments for the FECS major application.

ESA, of which DFEC is a division, has not formally approved an entity-wide security plan for its general support systems and major applications. They are awaiting approval from the CIO on security plans that have been established and documented for ESA's general support systems. A major applications security plan is currently under development for the FECS. Although policies and procedures for certain security activities have been established, full implementation is not expected until funding is received for FY 2001.

ESA, of which DFEC is a division, has not formally established a security management structure with clearly assigned security responsibilities over ESA and its various programs. Organizational charts do not exist which clearly illustrate the individuals responsible for enforcing ESA's entity-wide security program and their levels of reporting responsibility within ESA and the Department of Labor. However, ESA recently finalized and approved the ESA general support systems security plan. ESA's major applications system security plans are in development.

ESA, of which DFEC is a division, has not effectively implemented security controls related to personnel policies and procedures. The following security-related personnel policies have not been adequately implemented:

- Background checks are not performed on prospective employees for critical/sensitive job functions;
- Periodic reinvestigations are not performed for employees in critical/sensitive job functions;
- Confidentiality or security agreements are not required for employees and contractors assigned to work with confidential information;
- Termination and transfer policies and procedures do not exist, including exit interview procedures, return policies for property, keys, identification cards, passes, etc., policies for escorting terminated employees out of the facility, and identifying the period during which nondisclosure requirements remain in effect;
- Skill needs are not accurately identified and included in job descriptions;
- A training program has not been developed; and
- Employee training and professional development are not documented and monitored.

Although policies and procedures have been established in the security plan for certain security activities, funding to fully implement these is not expected until FY 2001; thus, all security-related personnel policies and procedures have not been fully implemented.

The subservicer level report, SunGard's SAS 70, sufficiently specifies that the following entity-wide controls exist at SunGard:

- An information systems security manager has been appointed at an overall level and at appropriate subordinate levels.

Access Controls

Controls over the authorizing and periodic monitoring of users having logical access to ESA's FECS mainframe application require improvement. Policies and procedures do not exist for the authorization, modification, deletion/termination, periodic recertification of user access, and assignment of access via dial-in methods. The following weaknesses were identified:

- Standard access request forms for both standard and dial-in access are not used to circumvent users' logical access;

- Periodic reviews of user accounts on the system are not conducted;
- User IDs were not assigned to specific individuals; rather group IDs were established by job function and shared by several individuals, which included the sharing of passwords that do not expire. As a result, several employees had been assigned access to multiple IDs, and terminated employees by default have maintained their access;
- Individuals have the ability to dial-in to the mainframe who do not have proper justification;
- The supervisor of the mainframe operations group knows the user ID and password for each of the 29 accounts; and
- IDs were not assigned to any specific user (or group), were labeled "unused," and are considered inactive and inappropriate.

However, management is in the process of improving the controls over authorizing and monitoring logical access to the mainframe by developing a major applications systems security plan for FECS that will cover the entire security and operating environment that includes both the mainframe and client server platforms.

The following weaknesses were noted in ESA's security monitoring controls over the mainframe environment:
- ESA does not request or review access violation reports generated by SunGard; and
- ESA does not periodically monitor changes to user profiles maintained by SunGard.

However, management is currently improving the controls over authorizing and monitoring logical access to the mainframe by developing a major applications systems security plan for the FECS, which will cover the entire security and operating environment that includes both the mainframe and client server platforms.

Improvement is needed in controls over the authorizing and periodic security monitoring of users having logical access to ESA's UNIX environment. DITMS management is in the process of improving the controls over authorizing and monitoring logical access to the UNIX environment. Policies and procedures have been developed for use of access request forms for authorizing physical access and for handling defective and/or unused cards.

The subservicer level report, SunGard's SAS 70, sufficiently specifies that the following access controls exist at SunGard:
- Access authorizations are documented on standard forms and maintained on file, approved by senior managers, and securely transferred to security managers;
- 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 is notified immediately when system users are terminated or transferred;
- Facilities housing sensitive and critical resources have been identified, and all significant threats to the physical well-being of sensitive and critical resources have been identified and related risks determined;
- Keys or other access are needed to enter the computer room and tape/media library;
- All deposits and withdrawals of tapes and other storage media from the library are authorized and logged;
- Visitors are controlled;

- Passwords are unique, controlled by the assigned user, changed periodically, not displayed when entered, at least six alphanumeric characters in length, and prohibited from reuse for at least six generations;
- Attempts to log on with invalid passwords are limited to 3 attempts;
- Password files are encrypted;
- Audit trails are maintained; and
- Actual or attempted unauthorized, unusual, or sensitive access is monitored.

Application Software Development and Change Control

The System Development methodology and the Configuration Change Management procedures have not been formally documented and implemented for FECA. Also, documentation of the FECS technical programming and user operations is inadequate.

Library management software installed on the mainframe used to process the FECS application is not being used to manage or control the FECS source code.

The FECS program development staff has access to production and test environments, and mainframe programmers may move changes to the production environment.

The subservicer level report, SunGard's SAS 70, sufficiently specifies that access to the operating system production libraries at SunGard are restricted.

System Software

The subservicer level report, SunGard's SAS 70, sufficiently specifies that the following system software controls exist at SunGard:

- Policies and procedures for restricting access to systems software exist and are up-to-date;
- Documentation showing justification and management approval for access to system software is kept on file;
- Inappropriate or unusual activity is investigated;
- System software changes are authorized, tested, and approved before implementation;
- Installation of system software is scheduled to minimize the impact on data processing and advance notice is given to system users;
- 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; and
- System software is current and has current and complete documentation.

Segregation of Duties

SECTION IIIC
INFORMATION PROVIDED BY THE SERVICE AUDITOR
GENERAL COMPUTER CONTROLS

The subservicer level report, SunGard's SAS 70, sufficiently specifies that the following segregation of duties' controls exist at SunGard:

- Day-to-day operating procedures for the data center are adequately documented and prohibited actions are identified;
- Physical and logical access controls help restrict employees to authorized actions based upon organizational and individual job responsibilities;
- 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;
- Operator activities on the computer system are recorded; and
- System startup is monitored and performed by authorized personnel, and parameters set during the initial program load are in accordance with established procedures.

Service Continuity

A draft disaster recovery/business continuity plan for ESA does exist. A complete inventory listing of items such as computer hardware, software, and telecommunications needed for operations is not included in the disaster recovery/business continuity plan.

The subservicer level report, SunGard's SAS 70, sufficiently specifies that the following service continuity controls exist at SunGard:

- Backup files are created on a prescribed basis and rotated off-site often enough to avoid disruption if current files are lost or damaged;
- Problems and delays encountered, the reason, and the elapsed time for resolution are recorded and analyzed to identify recurring patterns or trends;
- Changes of hardware equipment and related software are scheduled to minimize the impact on operations and users;
- Advance notification on hardware changes is given to users so that service is not unexpectedly interrupted;
- The contingency plan is periodically reassessed and, if appropriate, revised to reflect changes in hardware, software, and personnel;
- The current contingency plan has been tested under conditions that simulate a disaster; and
- Test results were documented and a report was developed and provided to senior management.

SECTION IIIC
INFORMATION PROVIDED BY THE SERVICE AUDITOR
TRANSACTION PROCESSING CONTROLS

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

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

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

Description of Policies and Procedures:

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

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

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

Tests of Operating Effectiveness:

For a non-statistical sample of 75 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.

Results of Tests:

No exceptions were noted.

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

Description of Policies and Procedures:

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

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

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

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

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

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

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

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

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

Tests of Operating Effectiveness:

For a non-statistical sample of 75 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.

For a non-statistical sample of 75 initial eligibility transactions, we reviewed the case files to ensure that an employee was not paid for the first 3 days of disability unless one of the three valid exceptions applied.

Each time a technical medical issue arose regarding the initial eligibility of a claimant, we requested that the DMA at the respective District office assist us in understanding the medical situation. We considered the following to evaluate the professional qualifications of the DMA:

- Professional certification, license or other recognition of the competence of the DMA.
- Reputation and standing of the DMA in view of peers and others familiar with the DMA's capability of performance.
- Experience of the DMA in the type of work stated.
- Relationship of the DMA to the patient evaluated.

We obtained an understanding of the nature of the work performed by the DMA covering the objectives and scope of the work; appropriateness of using the DMA's work for the intended purpose; and the form and content of the DMA's answers that would enable us to report as required by the agreed-upon procedures.

At such time as the DMA's assistance could not be utilized due either to the DMA's prior involvement with the case or need to seek technical assistance in a medical specialty other than the specialty of the DMA, we utilized an independent medical physician to evaluate the medical reports contained in the case files. Medical rationale which had been requested from a DMA was contained in the cases we reviewed. The medical rationale was clear and concise and as such we did not consult directly with the DMAs at any district or any independent physicians during our testwork.

Results of Tests:

No exceptions were noted.

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

Description of Policies and Procedures:

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

Tests of Operating Effectiveness:

For a total of 309 cases, from a sample of 234 statistically selected transactions and 75 non-statistically selected 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.

For a total of 309 cases, from a sample of 234 statistically selected and 75 non-statistically selected cases, we reviewed documentation in the case files to ensure that the chargeback code was accurate in the CMF.

Results of Tests:

In 2 of 309 items sampled, the chargeback code was incorrect; the correct Federal agency was charged, however, the proper department within the two agencies were not. In 2 of 309 items sampled, the claimants dates of birth were incorrect in the CMF.

No other exceptions were noted.

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

Description of Policies and Procedures:

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

Tests of Operating Effectiveness:

For a total of 217 cases, from a sample of 142 statistically selected transactions and 75 non-statistically selected transactions, we reviewed medical evidence in case files to ensure that the current medical evidence supported the disability status for the compensation being received.

Results of Tests:

In 12 of 217 items sampled, current medical evidence was not located within the case file. The cases with exceptions involved claimants on the periodic rolls, usually older individuals, who had been receiving benefits for an extended period of time or critically injured individuals with little prognosis for future gainful employment. The verification of current disability based on current medical reports is required by DFEC policies and procedures. However, the absence of this documentation does not, in these cases, appear to have resulted in erroneous payments to claimants since information in the case file indicated the claimants appeared to have significant disabilities which would not have corrected within the time lapsed during the most recent medical report.

An additional judgmental sample of 75 items were selected from a population of 2,916 items, representing compensation payments of $54,149,540, for which compensation payments were made in the ACPS, the case status was "PR" or "PV", and for which no medical payments were made from the BPS for the corresponding case, in the past two fiscal years. For 29 of the 75 items or 39 percent sampled, current medical evidence was not located within the case file.

No other exceptions were noted.

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

Description of Policies and Procedures:

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

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

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

Tests of Operating Effectiveness:

A statistical sample of 203 claimants were tested for continuing eligibility controls, however, some specific tests did not apply to all claimants due to the length of time of the claimant's injury, the date of the claim for benefits, or the claimant's case status. Therefore, the number of tests indicated below is the number of items to which tests were actually applied.

For a statistical sample of 141 continuing eligibility claimants, we reviewed the case file to determine whether a CA-1032 had been requested.

For a statistical sample of 104 continuing eligibility claimants, we reviewed the case file to determine whether a CA-1036 and CA-936 had been released to the claimant.

For a statistical sample of 86 continuing eligibility claimants, we reviewed the case file to determine whether the Senior Claims Examiner (SCE) had requested claims information from SSA.

For a statistical sample of 6 continuing eligibility claimants, we reviewed the case file to determine whether the case was referred to appropriate official if the claimant refused to release earnings information.

Results of Tests:

Our procedures revealed the following specific results:

In 8 of 141 items sampled, CA-1032s had not been obtained from the claimants to verify earnings and dependent information within the last year. In 4 of 6 items sampled, a second request for a CA-1032 had been issued to claimants and not returned; however, DFEC did not proceed to suspend benefits. In 9 of 104 items sampled, a release for authorization to obtain earnings information from SSA was not sent to the claimants. In 1 of 86 items sampled, the request for the earnings information was not sent to SSA by the SCE to actually obtain the earnings information once the authorization had been received from the claimant. These cases involved older individuals who had been receiving benefits for an extended period of time. The verification of current eligibility based on earnings information is required by DFEC policies and procedures. However, the absence of this documentation does not, in these cases, appear to have resulted in erroneous payments to claimants since information in the case file indicates neither earning potential nor earnings on previous reports received from SSA. In 2 of 45 cases, information was reported by the claimants on either the CA-1032 or by SSA and the claimants compensations were not updated to reflect the information provided which resulted in a net overpayment to the claimants of $3,159.

No other exceptions were noted.

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

Description of Policies and Procedures:

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

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

Tests of Operating Effectiveness:

For a total of 340 cases, from a statistical sample of 265 cases and a non-statistical sample of 75 cases, we reviewed documentation in the case files to ensure that the components comprising compensation benefits were determined correctly.

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For a statistical sample of 49 transactions, we reviewed those transactions whereby a single payment was in excess of $50,000 to ensure the payment was authorized by a senior official at a GS-13 or higher.

For a non-statistical sample of 132 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.

For a non-statistical sample of 29 transactions, we reviewed the appropriateness of overriding the ACPS calculated compensation amount with a different gross compensation amount (gross override cases). A manual override is required in instances such as when a claimant's compensation must be paid to several individuals.

We reviewed the "compensation calculation program" data that was updated in the mainframe computer system from June 1, 1999 through May 31, 2000, to ensure that:

< The mainframe's "compensation calculation program" was correctly using the information entered into the ACPS by the CEs and accurately calculating compensation benefit payments to the claimants.

< The mainframe's "compensation calculation program" was correctly updated with the current CPI data and accurately calculated the CPI increase to the claimant's compensation benefit payments.

Results of Tests:

Our procedures revealed the following specific results:

In 17 of 340 items sampled, the claimants pay rates were calculated incorrectly and the claimants were underpaid a net amount of $12,361.

In 4 of 340 items sampled, the claimants compensation percentages were determined incorrectly and the claimants were underpaid a net amount of $18,898.

In 1 of 340 items sampled, the claimant was paid TTD when only entitled to an LWEC and the claimant was overpaid a net amount of $7,145.

In 2 of 340 items sampled, the days for which the claimants were to be compensated were determined incorrectly and the claimants were overpaid a net amount of $211.

In 1 of 340 items sampled, the claimant’s LWEC was not updated to reflect the current salary being earned and the claimant was overpaid a net amount of $1,814.

In 1 of 340 items sampled, a third party credit was not absorbed prior to payment of compensation to the claimant and the claimant was overpaid a net amount of $273,317.

In 3 of 340 items sampled, the claimant's compensation payments were not properly stopped or adjusted for payments made subsequent to the claimants deaths which were or were not recouped and the claimants or beneficiaries were overpaid a net amount of $20,816.

In 3 of 340 items sampled, the correct withholdings for HBI or OLI were not made from the claimants compensation payments and the claimants were overpaid $994.

In 1 of 49 items sampled which exceeded $50,000 in a single payment, authorization by a senior official at a GS-13 or higher was not obtained prior to payment.

We performed additional non-statistical test work due to the level or errors noted. Additional non-statistical test work included a review of multiple claim cases and gross override cases.

In 2 of 132 multiple claims cases tested, the claimants were paid unallowable overlapping compensation for a net overpayment amount of $1,650.

In 1 of 132 multiple claims cases tested, the claimant's compensation percentage was determined incorrectly and the claimant was overpaid a net amount of $540.

In 2 of 132 multiple claims cases tested, the incorrect effective pay rate dates were used and the claimants were underpaid a net amount of $3,708.

No other exceptions were noted.

Control Objective 7: ***Schedule Awards -*** Control policies and procedures provide reasonable assurance that claimants had reached maximum medical improvement prior to receipt of a schedule award, medical evidence was obtained, and medical evidence stated the percentage of impairment.

Description of Policies and Procedures:

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

Tests of Operating Effectiveness:

From the statistical sample of 265 compensation items, 41 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.

Results of Tests:

Our procedures revealed the following specific results:

In 1 of 41 items sampled, the amount paid to the claimant for the schedule award was incorrect for a net overpayment of $2,091. The error resulted from using a pay rate which exceeded the maximum pay rate allowed.

No other exceptions were noted.

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

Description of Policies and Procedures:

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

Tests of Operating Effectiveness:

From the statistical sample of 265 compensation items, 37 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.

Results of Tests:

In 6 of 37 items sampled, a current CA-12 had not been obtained from the beneficiaries to verify earnings and dependent information within the last year. These cases typically involve older individuals who have been receiving benefits for an extended period of time. The verification of current eligibility based on marital and dependent status is required by DFEC policies and procedures. However, the absence of this documentation does not, in these cases, appear to have resulted in erroneous payments to the beneficiaries since there is no information in the case file to indicate changes in status.

No exceptions were noted.

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

Description of Policies and Procedures:

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

< Section 200 provides an overview of the system, describes the flow of bills through the office, outlines authorities and responsibilities, describes sources of information to be used in bill adjudication, and outlines procedures for some functions which support the BPS.

< Section 201 describes keying instructions for the various BPS programs that are available to general users, such as CEs, fiscal personnel, keyers and contact representatives.

< Section 202 describes the different BPS jobs which must be run and how to run them. These activities are generally carried out by the Systems Manager or operator.

< Section 203 describes the coding schemes used by the BPS.

< Section 204 describes the general rules which underlie bill adjudication.

< Section 205 describes how suspended bills should be resolved.

< Section 206 describes how informal appeals of Explanation of Benefits denial letters and formal appeals of fee schedule determinations should be processed.

< Section 207 describes the various BPS reports available, their uses, and how to run them.

< Section 208 describes other activities related to the BPS which are not addressed elsewhere, such as tracers, audits, controls and supervisory/management review.

Tests of Operating Effectiveness:

For a statistical sample of 217 transactions, we reviewed medical bills paid to ensure that bills were correctly entered into the BPS; bills contained all information for proper adjudication; amounts were not paid in excess of district established limits without proper approval by authorized personnel; discounts were taken, if offered; and hospital bills were for services which were considered proper charges against the Special Benefit Fund.

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For a statistical sample of 150 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.

For a statistical sample of 2 transactions, we reviewed bills which were subject to the Prompt Payment Act to ensure the bills were paid within 30 days or interest was paid if the bill was paid within 45 days.

Each time a technical medical issue arose, we requested the DMA at the respective District office assist us in understanding the medical situation. We also evaluated the professional qualifications and gained an understanding the nature of the work performed by the DMA.

We reviewed the guidelines established by the Health Care Financing Administration and the American Medical Association and the medical fee schedule data that was updated in the mainframe computer system from June 1, 1999 through May 31, 2000, to ensure that:

- The mainframe's "medical fee schedule calculation program" was correctly updated with the current fee schedule data and accurately calculating the amounts due to medical providers.

Results of Tests:

Our procedures revealed the following specific results:

In 5 of 217 medical bills tested, procedure codes, procedure code modifiers and service zip codes listed on bills were either keyed incorrectly into the BPS or not keyed at all resulting on overpayments totaling $3,317. One additional medical bill contained keying errors which did not result in an incorrect payment.

In 2 of 217 medical bills tested, inpatient hospital bills were paid for more than was billed due to the use of the DRG payment system, resulting in a net overpayment of $15,639.

In 1 of 217 medical bills tested, convenience items relating to a hospital stay were incorrectly paid in the amount of $23.

In 1 of 2 medical bills tested, the bill was subject to the requirement of the Prompt Payment Act, the bill was not paid timely and interest was not paid as required under the Act.

In 1 of 148 cases tested, medical reports were not contained in the case file for the medical services which were performed. In 1 of 148 cases tested, the DMA did not approve surgery prior to payment.

Additional test work was performed to review potential duplicate payments as a result of the above errors. The potential duplicate payment test work indicated that if all items identified as potential duplicate payments were in fact duplicate payments, the errors resulting could reach approximately $500,000. No further test work was considered necessary.

No other exceptions were noted.

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

Description of Policies and Procedures:

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

< Sections (2) and (3) define authorities and responsibilities involved with third party cases.

< Section (4) describes the letters, forms and status codes used to process and track the progress of third party cases.

< Section (5) defines a minor injury.

< Section (7) provides instructions for third party case development by key personnel, such as CEs and DCE's.

< Section (8) provides instructions to close out third party cases that are not economical to pursue or that would not be successful with further efforts.

< Section (9) lists certain third party cases that are not to be closed by the DCE and should be sent to the appropriate SOL.

< Section (10) provides instructions for handling settlement cases where the injury is "minor" and the claimant is negotiating or has made a settlement without the benefit of an attorney.

< Section (11) provides instructions for the referral of third party cases to the SOL.

< Section (13) provides instructions for when a settlement has been made or is imminent in third party cases referred to the SOL.

Tests of Operating Effectiveness:

For a non-statistical sample of 100 transactions, we reviewed the documentation in the case files to ensure that:

- The Letter CA-1045 which requests information from the claimant regarding the action taken against a third party by the claimant, including the hiring of an attorney, was released to the claimant, when necessary, and the proper follow-up actions were conducted when the claimant did not reply within 30 days.

- Third party cases were referred to a DCE at the proper time.

- The appropriate forms were released to the attorneys of claimants involved in a third party case.

- The Form CA-1123 which summarizes the actions taken on a third party case including resolution, was used properly to close third party cases which are considered "minor."

- Third party cases were referred to the SOL, when required.

- The appropriate actions were taken to track, monitor and resolve third party cases through the SOL.

- When necessary, claimant's compensation and medical benefits were appropriately suspended or adjusted.

- When completed Form CA-162s (Statement of Recovery) from the SOL were received (or recovery statements from a claimant), the Summary of Disbursements, Form CA-164s, were properly prepared and forwarded to the fiscal section for completion.

- The fiscal section properly established account receivables and maintained accounting records when third party surpluses were created.

- Claimants were notified when the third party settlement was in excess of the prior compensation suspended via a Letter CA-1044 and claimants were notified when the third party settlement was not in excess of the prior compensation suspended via a Letter CA-1120.

Results of Tests:

In 18 of 100 third party cases, the case status codes were incorrectly reported in the CMF. For 10 cases, the case files had a status code which indicated a third party potential when the third party aspect of the case file had been closed. District offices would have less cases to track if the third party status code was correct. For six cases, the case files had a status code which indicated an incorrect status of a third party credit. District offices could erroneously make or deny payments to claimants if unabsorbed third party credits exist or are improperly indicated and the correct compensation payments are not made.

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In 3 of 100 third party cases, CA-1045s were not issued to the claimants or, if no response was received from the claimants to the first request, second request CA-1045s were not timely issued to the claimants.

In 8 of 100 third party cases, CA-1110s were not issued to the claimants or other follow-up actions were not performed to determine the status of the third party cases.

In 2 of 100 third party cases CA-161s were not released to the claimant’s attorney when disbursements were made.

In 3 of 100 third party cases, CA-1120s were not issued to the claimant, the claimant’s attorneys or the claimant’s employing agencies to convey the closure of the third party aspect of a case to the claimants or the claimant’s attorneys when no credit was created.

In 1 of 100 third party cases, a third party credit was reported by the claimant and a partial payment made to FECA; however, the remaining balance of $500 was not pursued or followed up on by the District office.

No other exceptions were noted.