TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

A More Strategic Approach Could Enhance the Workers' Compensation Program Return-to-Work Efforts

March 12, 2008

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TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

March 12, 2008

MEMORANDUM FOR CHIEF HUMAN CAPITAL OFFICER

FROM: *(for)* Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – A More Strategic Approach Could Enhance the Workers' Compensation Program Return-to-Work Efforts (Audit # 200630IE013)

This report presents the results of our review of the Internal Revenue Service's (IRS) processing of workers' compensation claims filed by employees. The overall objective of this review was to evaluate the effectiveness of the Workers' Compensation Program administration in the IRS, with an emphasis on the progress made since 2003. The review was initiated at the request of the President's Council on Integrity and Efficiency.

Impact on the Taxpayer

IRS cash outlays for workers' compensation claims continue to increase, driven by such factors as cost-of-living increases and higher costs for medical equipment, medications, and treatment. These outlays represent financial obligations to care for injured employees and can be considered a cost of business. However, if costs are not properly managed and increase significantly, obligations could ultimately affect the amount of money the IRS has available to spend on enhancing the delivery of service to the taxpaying public.

Synopsis

Overall, the IRS has made notable progress in managing its Workers' Compensation Program. Since 2003, the IRS has fully or partially implemented our prior recommendations[1] for enhancing case management techniques, increasing the accuracy of performance measures, and

[1] *Improvements Are Needed in the Process and Information Used to Manage Workers' Compensation Claims* (Reference Number 2003-10-213, dated September 2003).

holding IRS managers more accountable for reducing costs associated with workers' compensation claims. While program management has improved, we believe additional steps need to be taken in the Workers' Compensation Center (WCC) and throughout the IRS to further strengthen the Program.

In the WCC, control processes need to be established to ensure the IRS is not overpaying workers' compensation benefits. In 1996, the President's Council on Integrity and Efficiency issued a consolidated report on the Federal Employees' Compensation Act (FECA)[2] that summarized the results of 13 audits conducted by participating Offices of Inspectors General. The audits found substantial overpayments and millions of dollars in projected questionable payments because agencies were not adequately reviewing their FECA chargeback cost reports. During our review of IRS records and its 2006 chargeback report, we identified issues similar to those surfaced by the President's Council on Integrity and Efficiency in 1996. Specifically, we questioned more than $1 million in charges that included benefits paid subsequent to Social Security Administration records indicating claimants[3] had died. In one instance, the compensation payments continued for almost 2 years after the claimant's death.

Agencywide, the IRS needs to ensure that required procedures are followed when claims are initiated and to implement a more strategically oriented approach for returning employees to work following an injury. Our review of case files associated with 40 claims found problems in 31 of the claim cases reviewed. For example, injury investigations were not thoroughly conducted, and some questionable claims were not challenged while others were improperly challenged.

Increasing from $1.4 billion in 1990 to nearly $2.4 billion in 2005, the cost of workers' compensation has caused concern throughout the Federal Government. We analyzed practices, (1) advocated and implemented by agencies we identified and, (2) recommended to us by officials from the Department of Labor Office of Workers' Compensation Programs (OWCP) as particularly effective at controlling costs, and found three common strategies in their return-to-work practices.[4]

First, return-to-work programs were established with policies, procedures, and processes that stressed taking an organizational approach to finding productive activities for injured employees by collaborating cross-functionally both inside and outside the agency. Second, proactive steps were taken to establish an environment in which injured employees are expected to return to work. Besides creating a pool of available light-duty and modified jobs,[5] these steps included

[2] Ch. 458, 39 Stat. 742 (1916) (codified as amended in scattered sections of 1 U.S.C., 5 U.S.C., and 18 U.S.C.).
[3] A person who files a claim for a benefit, such as a claim for workers' compensation.
[4] The specific agencies included the Department of Defense, the United States Postal Service, the Transportation Security Administration, and the State of Ohio.
[5] Work in which the physical aspects of a job are adapted, altered, or removed to allow employees to perform the essential job functions of a position.

taking advantage of telecommuting opportunities and establishing early rehabilitation and intervention activities using contract nurses. Third, goals and performance measures were developed and used to measure the effectiveness of return-to-work efforts.

In contrast, the IRS' return-to-work efforts are more reactive, less strategically oriented, and heavily reliant on its first-line managers -who can have broad spans of control and many other administrative demands on their time -to provide jobs commensurate with an employee's skills and medical limitations. Moreover, specific policies and procedures have yet to be implemented to coordinate and collaborate across functional lines to assist in transitioning more injured employees back to the workplace. Considering that one injured employee can easily cost an agency more than $1 million if he or she does not return to work, even relatively small successes in returning individuals to work can significantly reduce outlays for workers' compensation benefits.

Recommendations

To ensure that the IRS is not overpaying workers' compensation benefits, the Chief Human Capital Officer should develop and implement control processes for reviewing the accuracy of costs in chargeback reports, obtain evidence to ensure that benefits are paid only to current or former IRS employees, and seek reimbursement for the compensation paid subsequent to claimants' deaths and on denied claims. The Chief Human Capital Officer should also coordinate with the Deputy Commissioner for Operations Support to implement a control to provide assurances that required procedures are completed in the claim process and establish a more strategic approach to enhance return-to-work efforts.

Response

The Chief Human Capital Officer agreed with our recommendations and outlined the actions the IRS has taken or would take. These actions include implementing control processes for reviewing the accuracy of the costs in chargeback reports, seeking reimbursement from the OWCP for benefits paid subsequent to claimants' deaths, enhancing the mandatory annual safety briefing, and developing an instructional training compact disc for employees. The IRS will also develop a policy with a goal of addressing cross-functional placement for injured workers and enhance the efforts made by first-line managers and case management specialists with return-to-work procedures. Management's complete response to the draft report is included as Appendix V.

Office of Audit Comment

We acknowledge the actions described above will provide assurance that workers' compensation benefits are paid to eligible IRS employees and their beneficiaries for claims made since the centralization of the WCC. However, the IRS did not specifically agree or disagree to obtain evidence, such as the originally filed claim documents, to ensure that all workers' compensation benefits are paid only to eligible IRS employees and their beneficiaries. We believe that, without obtaining such evidence, the IRS will remain at risk of overpaying workers' compensation benefits for claims arising before the WCC centralization.

Copies of this report are also being sent to the IRS managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Margaret E. Begg, Acting Assistant Inspector General for Audit (Small Business and Corporate Programs), at (202) 622-8510.

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Abbreviations

FECA	Federal Employees' Compensation Act
IRS	Internal Revenue Service
OWCP	Office of Workers' Compensation Programs
SHARE	Safety, Health, and Return-to-Employment
SHIMS	Safety and Health Information Management System
WCC	Workers' Compensation Center

Background

The Department of Labor Office of Workers' Compensation Programs (OWCP) is responsible for administering the Federal Employees' Compensation Act (FECA).[1] Enacted in 1916, with substantial modifications over the years, the FECA is designed to provide nontaxable payments to cover the lost wages, medical care, and survivors' benefits of Federal Government employees who are injured on the job. The FECA is a major benefit program that affects the budgets of all Federal Government agencies, and its rising costs are a concern throughout the Government. The total Federal Government FECA benefit costs increased from $1.4 billion in 1990 to nearly $2.4 billion in 2005.

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The OWCP, which administers the Workers' Compensation Program from 12 district offices located throughout the country, is responsible for claim adjudication and payment of benefits. However, the OWCP bills Federal Government agencies for the amount of benefits paid on behalf of the agencies' injured employees.[2] These "chargeback billings" cover the 12-month expense period of July 1 to June 30 each year, and agencies pay the expenses from their appropriations or operating revenues.

Besides reimbursing the OWCP, Federal Government agencies have other responsibilities to ensure that their employees are properly covered under the FECA. These other responsibilities include ensuring that personnel understand the FECA, informing injured employees of their rights and obligations, initiating the claim process with the OWCP, authorizing medical care, and coordinating with the OWCP in monitoring the medical status of injured employees to help determine if and when they can resume working.

Organizationally, the Internal Revenue Service (IRS) Workers' Compensation Program is located and managed from its Workers' Compensation Center (WCC) in Richmond, Virginia. The WCC serves as the IRS' liaison with the OWCP and is responsible for controlling and reviewing employee claims, coordinating with the OWCP in monitoring the status of injured employees to help determine when they can return to work, and verifying the accuracy of chargeback billings.

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[1] Ch. 458, 39 Stat. 742 (1916) (codified as amended in scattered sections of 1 U.S.C., 5 U.S.C., and 18 U.S.C.).
[2] Agency bills can include the costs of compensation, rehabilitation, medical services, and/or death payments paid to injured employees and their survivors.

The WCC uses the Department of the Treasury Safety and Health Information Management System (SHIMS) to process and control workers' compensation claims. The SHIMS was implemented on October 1, 2001, and was designed to replace the paper accident claim reporting process with an electronic system that would allow claims to be submitted to the WCC and OWCP quickly. In addition, the SHIMS is designed to enable the IRS to track its lost production days and costs.

This review was performed at the IRS WCC in Richmond, Virginia, during the period June 2006 through July 2007. We conducted the review in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

Results of Review

The Internal Revenue Service Has Made Notable Progress in Managing Its Workers' Compensation Program

The IRS has improved the process and information used to manage its workers' compensation claims. Since 2003, the IRS has fully or partially implemented all eight of our prior recommendations for enhancing case management techniques, increasing the accuracy of performance measures, and holding IRS managers more accountable for reducing costs associated with workers' compensation claims.

To improve the case management of long-term disability cases, the IRS implemented our recommendation to establish guidelines for reviewing older cases. In September 2003, the WCC issued detailed instructions for its personnel on what and when steps should be taken in managing claims in process for more than 1 year. The instructions included steps that should be taken and documented in case files when assessing a claimant's[3] ability to return to work. The instructions were subsequently incorporated into the WCC procedural guidelines that supplement and expand on the instructions in the Internal Revenue Manual.

To increase the accuracy of performance measures, the IRS implemented our two recommendations for increasing the reliability of its cost avoidance accomplishments. In October 2003, the WCC revised how it calculated the accomplishments by properly accounting for injured employees who returned to work and ensuring that the amounts claimed were the result of specific actions taken by the WCC. Although we did not verify the accuracy of the accomplishments claimed since our last review, we did find they are lower and the methodology for calculating them is generally in line with those used by the other agencies we benchmarked.

To enhance case management techniques, the IRS implemented our four recommendations related to using the SHIMS more effectively for managing key aspects of the claim process. For example, we reported in 2003 that the WCC was not consistently populating data fields in the SHIMS with information that would assist in monitoring the status and timeliness of key actions in the claims process. Instead, the WCC relied on more cumbersome and error-prone manual processes for monitoring. As summarized in Figure 1, we found a marked improvement in the amount of information input to the data fields since 2003. According to WCC officials, the additional information is enhancing their ability to use the SHIMS as a major analytical tool for evaluating and controlling claim case activities.

[3] A claimant is a person who files a claim for a benefit, such as a claim for workers' compensation.

Figure 1: Comparison of Past and Current Use of Specific Fields in the SHIMS

FIELDS IN THE SHIMS	PAST USE[4]	CURRENT USE[5]
Assessment Code: Documents the specialist's initial assessment of the claim.	**Rarely used**: Found 22 (2%) uses out of 1,044 for cases tested.	**Extensively used**: Found 2,827 (94%) uses out of 3,014 for cases tested.
Management Code: Gives the current status of the case.	**Rarely used**: Found 16 (2%) uses out of 1,044 for cases tested.	**Extensively used**: Found 2,843 (94%) uses out of 3,014 for cases tested.
Case File Number: References to the paper file stored in the WCC facility.	**Usually recorded**: Found 2,951 (95%) uses out of 3,109 for cases tested.	**Almost always recorded**: Found 2,991 (99%) uses out of 3,014 for cases tested.

Source: Improvements Are Needed in the Process and Information Used to Manage Workers' Compensation Claims (Reference Number 2003-10-213, dated September 2003) and a December 4, 2006, data extract from the SHIMS.

To begin holding managers more accountable for reducing costs associated with claims, the IRS partially implemented our recommendation to establish procedures for assigning workers' compensation costs to its various business units. For example, the WCC implemented a process that provides IRS executives a quarterly report outlining the workers' compensation costs associated with injured employees in their respective business units. While the report may be increasing organizational awareness of the costs associated with injured employees, it does little to hold the executives or managers in the various business units accountable for reducing them.

Besides acting on our recommendations, the IRS is making progress in carrying out its responsibilities under the Governmentwide Safety, Health, and Return-to-Employment (SHARE) initiative. The SHARE initiative was introduced in 2004 as a response to escalating workers' compensation costs. Under the SHARE initiative, which is primarily aimed at newly filed claims, Federal Government agencies are directed to (1) reduce claim rates, (2) increase the timeliness of processing claims, (3) reduce the amount of time lost from work, and (4) reduce the number of lost days.

While data are not available on the precise impact the initiative is having on reducing costs, statistics from the Department of Labor, which are reproduced in Figure 2, show the IRS has steadily improved in key areas under the SHARE initiative. Improvement in claims processing time is particularly important because it is the initial step in a case management process designed to reduce workers' compensation costs by getting workers healthy and back to work as quickly as possible. In Fiscal Year 2007, the Department of the Treasury, with significant contribution by the IRS, was recognized by the Department of Labor for its performance in decreasing the

[4] As documented in our prior report *Improvements Are Needed in the Process and Information Used to Manage Workers' Compensation Claims* (Reference Number 2003-10-213, dated September 2003).
[5] We determined use for claims with costs in Chargeback Year 2006 based on data in the SHIMS as of December 2006.

number of injuries and illnesses by more than any other Federal Government agency since the Presidential SHARE initiative began in 2004.

Figure 2: SHARE Initiative Statistics for the IRS (Fiscal Year 2003 Through March 2007)

	Fiscal Year 2003[6]	Fiscal Year 2004	Fiscal Year 2005	Fiscal Year 2006	Fiscal Year 2007[7]
Number of employees	104,945	102,112	103,805	98,547	92,902
Total cases	1,864	1,583	1,400	1,204	635
Total case rates	1.78	1.55	1.35	1.22	.68
Total lost time cases	1,269	1,137	942	781	437
Total lost time case rate	1.21	1.11	.91	.79	.47
Lost work days	36	41	34	34	25
Percentage of timely filed claims	73%	79%	82%	83%	87%

Source: Department of Labor OWCP statistics.

We also learned that in February 2005, the WCC independently initiated a quality review process to evaluate adherence to selected procedures. The process involves reviewing a random sample of claim cases and, according to WCC officials, has significantly improved claim management practices. In the beginning, the quality review scores were below expectations. However, the quality scores have increased and are currently around 90 percent or more.

While the IRS has made notable progress in improving its Workers' Compensation Program, we believe additional steps need to be taken within the WCC and throughout the IRS to further strengthen the Program. Specifically, the WCC needs to develop control processes that ensure that the IRS is not overpaying workers' compensation benefits. Agencywide, the IRS needs to ensure that required procedures are followed when claims are initiated and to implement a more strategically oriented approach for returning employees to work following an injury.

Control Processes Need to Be Developed and Implemented to Ensure the Internal Revenue Service Is Not Overpaying Workers' Compensation Benefits

The Government Accountability Office *Standards for Internal Control in the Federal Government* provides an overall framework for control processes that, in short, require establishing policies, procedures, techniques, and mechanisms to ensure that actions are taken to minimize risks. During the course of our review, WCC management readily acknowledged they had not developed or implemented control processes for thoroughly reviewing the accuracy of

[6] Fiscal Year 2003 is the baseline year for the SHARE initiative measures.
[7] Figures reported for Fiscal Year 2007 are only through March 2007.

the costs in the OWCP chargeback reports. The WCC instead heavily relies upon the OWCP to ensure that the millions of dollars in benefits it pays on behalf of the IRS are accurate. However, evidence from three sources clearly shows that, by not thoroughly reviewing the chargeback reports, the IRS incurs considerable risk that it may be paying more for workers' compensation benefits than is necessary.

First, the OWCP recognizes that there can be errors in its chargeback billing process and has long recommended that agency officials routinely review their chargeback reports to identify and correct erroneous payments for compensation and medical benefits. Additionally, the OWCP recommends that, when officials suspect erroneous payments have been made, they should check current personnel and payroll records, as well as the service record file, and/or send an inquiry to the Federal Records Center. Second, in 1996, the President's Council on Integrity and Efficiency issued a consolidated report on the FECA that summarized the results of 13 audits conducted by participating Offices of Inspectors General. The report demonstrated that substantial overpayments and millions of dollars in projected questionable payments were identified because agencies were not adequately reviewing their FECA chargeback reports. Third, issues similar to those surfaced by the President's Council on Integrity and Efficiency in 1996 were identified during our review of IRS records and its 2006 chargeback report. Specifically, we questioned whether the IRS should have been charged for:

- Compensation payments and survivor benefits totaling approximately $1.3 million that were paid to 7 claimants and 27 beneficiaries (34 cases). In 22 of the 34 cases, we found no case files or any other documentation to support that the recipients were and continue to be eligible for the benefits. While files were maintained for the other 12 cases, we found key documents to verify prior IRS employment and monitor continued eligibility for workers' compensations benefits were missing. The information missing from the files included dates and description of employment with the IRS, dates and description of claimant's injuries, and contact information for those receiving the benefits. Moreover, we found only 4 of the 34 original claimants' identification numbers listed in current or historical IRS payroll records.
- Compensation payments of more than $75,000 that continued to be paid subsequent to 3 claimants' deaths. In one instance, the compensation payments continued for almost 2 years after Social Security Administration records indicated the claimant had died. In addition, another claimant's death payments were not adjusted to reflect the correct rate payable to a surviving spouse.
- Medical expenses of approximately $12,700 that were paid for 3 employees after their claims had been denied by the OWCP.

As noted above, the majority of the questionable charges are attributable to missing or insufficient documentation. According to WCC officials and our observations, this problem largely stemmed from claims that originated before the IRS centralized its Workers'

Compensation Program under the WCC in 1994. Prior to establishment of the WCC, claims were handled by IRS personnel located in geographically dispersed offices that may have operated more informally and with less documentation because each office was responsible for managing significantly fewer cases. However, we believe that, even with significantly fewer cases to manage, the level of informality in operations that existed when the Workers' Compensation Program was decentralized would still expose the IRS to risks that include overpaying workers' compensation benefits.

Recommendations

To ensure that the IRS is not overpaying workers' compensation benefits, the Chief Human Capital Officer should:

Recommendation 1: Develop and implement control processes for reviewing the accuracy of costs in OWCP chargeback reports.

> ***Management's Response:*** The Chief Human Capital Officer agreed with this recommendation. Control processes will be implemented to assure that, (1) any compensation or medical payments made after a claim has been made inactive are identified and, (2) actions are taken to validate or report any questionable charge, using routine exception reports generated from the SHIMS and the OWCP databases.

Recommendation 2: Obtain evidence, such as the originally filed claim documents, to ensure that all workers' compensation benefits are paid only to eligible current or former IRS employees and their beneficiaries.

> ***Management's Response:*** The Chief Human Capital Officer agreed with this recommendation and stated that corrective actions have been completed. Since the centralization of the WCC in 1994, each new claim received is verified to be from an IRS employee through the use of existing personnel databases, and this documentation is placed in case files.

> ***Office of Audit Comment:*** We acknowledge the actions described above provide assurance that workers' compensation benefits are paid to eligible IRS employees and their beneficiaries for claims made since the centralization of the WCC. However, the IRS did not specifically agree or disagree to obtain evidence, such as the originally filed claim documents, to ensure that all workers' compensation benefits are paid only to eligible IRS employees and their beneficiaries. We believe that, without obtaining such evidence, the IRS will remain at risk of overpaying workers' compensation benefits for claims arising before the WCC centralization.

Recommendation 3: Seek reimbursement from the OWCP for the compensation paid (1) subsequent to claimants' deaths and, (2) to claimants whose claims were denied.

> ***Management's Response:*** The Chief Human Capital Officer agreed with this recommendation and stated that corrective actions have been completed. The IRS followed up with the OWCP regarding the three cases for which compensation benefits were paid after the claimant had died and determined that, in two instances, the OWCP had begun the recovery process for the overpayments by contacting the bank into which the funds had been directly deposited. In the other instance, the IRS determined a spouse was appropriately receiving survivor benefits. With regard to the medical payments, the IRS did not find any inappropriate payments made subsequent to the denial of the medical claims but noted that occasionally payments are made after a claim denial for bills with dates of services predating the date on which the claim was denied.

Additional Steps Should Be Taken to Ensure Required Procedures Are Followed When Initiating Claims

One of the objectives of the OWCP is to protect the interests of Federal Government employees by encouraging the timely and accurate submission of claims for consideration. First-line supervisors both within and outside the IRS are responsible for ensuring that this Government-wide objective is achieved by initiating injury investigations immediately, authorizing medical treatment promptly, informing injured employees of their rights and responsibilities, and submitting properly completed claim forms to the OWCP within 10 days of receipt from the injured employees.

To assist managers throughout the IRS in meeting their responsibilities, the WCC has focused considerable efforts on developing and introducing products, such as a computer-based training package and a standardized managerial checklist, intended to familiarize managers with and provide details on the various procedures that should be completed to ensure that claims are submitted properly and on time. Beyond these WCC efforts, the IRS should take additional steps to better ensure that managers follow required procedures. We reviewed a judgmental sample of case files associated with 40 claims and found 31 claim cases with 1 or more of the following problems:

1. *Injury investigations were not thoroughly conducted (20 cases).*
   Thorough and well-documented injury investigations are essential for substantiating or raising doubts about the validity of claims. Although this generally involves obtaining third-party witness statements and providing a detailed description of the time, place, and cause of the injury, we found these elements were often missing from case files.

2. *Injured employees were not advised of their rights and responsibilities (24 cases).*
   By law, supervisors are required to promptly authorize an initial medical examination for an injured employee and ensure that he or she is aware of his or her rights and

responsibilities. These requirements are further emphasized in both the Internal Revenue Manual and the national agreement between the IRS and the National Treasury Employees Union. Except for a few instances, we saw little evidence in the case files that injured employees were both promptly authorized for medical treatment and fully advised of their rights and responsibilities.

3. *Medical status reports were not used to request information from doctors (19 cases).* Determining the extent of an employee's injury and ability to return to work is central for assessing the validity of a claim and for making reasonable accommodations in accordance with work restrictions found medically necessary. Despite the important role the medical status reports have in the claim process, we found they were not routinely issued when an injury was reported.

4. *Questionable claims were not challenged or were improperly challenged (13 cases).* Federal Government workers' compensation regulations allow the IRS, as well as other agencies, to challenge a questionable claim and are an agency's only opportunity to notify the OWCP of its disagreement with the claim. Because agencies have no appeal rights and are at risk of paying for illegitimate claims that are not challenged, supervisors must be knowledgeable of how and when to challenge claims.

As shown in our case reviews, many of the problems stemmed from the lack of documentation indicating that required procedures were followed. Although we did not use statistically valid sampling techniques in selecting the claim cases for review, we believe our results indicate this is a nationwide concern. The claims came from a variety of IRS operational areas and were filed over several years from different offices across the country.

During our review, we used several items listed on a standardized managerial checklist introduced by the WCC in Fiscal Year 2002 to guide our evaluation of how well selected procedures were followed. Managers can access the checklist online to get specific, step-by-step instructions for each of the workers' compensation procedures. While the checklist also provides important references to answer procedural and process questions, we saw little evidence in the cases we reviewed that it was used by managers.

As we have previously reported,[8] the IRS has successfully designed and implemented mandatory checklists in other program areas as a control to hold personnel accountable for ensuring that required procedures and processes are completed. We believe that, if the WCC managerial checklist is similarly mandated, it would provide a cost-effective control for resolving many of the problems identified in our case reviews. Like other successfully mandated checklists in the IRS, it would need to solicit signatures and dates from managers and employees certifying that the actions were completed, and be included as a permanent part of claim case files.

[8] *The Strategy to Reemphasize Penalties in Corporate Examinations Could Be Enhanced* (Reference Number 2005-30-123, dated August 2005).

Additionally, the use of the checklist would need to be evaluated and the results of the evaluations shared agencywide, so that needed corrective actions, if any, could be identified and addressed. We believe this could be accomplished by taking relatively simple steps requiring minimal amounts of time and resources. As discussed earlier, the WCC already has in place a quality review process that could be modified to include evaluating the use of the checklist. Moreover, the IRS currently requires managers and employees to participate in an annual briefing session on workplace safety and health issues. The annual briefing includes references for reporting workplace injuries to the WCC and could be enhanced by sharing review results on the use of the checklist and emphasizing the importance of following required procedures when initiating claims.

Recommendation

Recommendation 4: The Chief Human Capital Officer should coordinate with the Deputy Commissioner for Operations Support to implement a control to provide greater assurances that required procedures are completed in the claim process by managers and employees throughout the IRS.

> ***Management's Response:*** The Chief Human Capital Officer agreed with this recommendation. The IRS will enhance the mandatory annual safety briefing and will develop an instructional training compact disc for employees that will complement the one available for managers.

A More Strategic Approach for Returning Employees to Work Following an Injury Needs to Be Explored

Returning employees to work after an injury or occupational illness continues to present management challenges for the IRS as well as other agencies. These challenges have, in part, been attributed to the FECA itself. As the Government Accountability Office and others have reported, the FECA provides injured employees with very generous benefits that critics believe create an incentive for workers to continue receiving FECA benefits even though they may be able to return to work. These benefits can include tax-free payments of up to 75 percent of earnings that provide some employees with more net income while receiving workers' compensation than when working. Moreover, there is no mandatory retirement age for employees collecting FECA benefits. Consequently, those who, in effect, "retire on the FECA" will generally receive greater amounts than career employees who retire normally.

Critics also point to the role the OWCP has in the process. By law, the OWCP is an advocate for injured employees because it alone determines the validity of claims and when injured employees are healthy enough to return to work, even though it has little, if any, financial obligation if a claimant's case is mismanaged. Because legislative actions to remove these obstacles have been proposed but have not been acted on, agencies must establish effective return-to-work practices for controlling workers' compensation costs, considering that 1 injured employee can easily cost an agency more than $1 million if he or she never returns to work.

We analyzed practices (1) advocated and implemented by agencies we identified and (2) recommended to us by the OWCP as particularly effective at controlling costs and found three common strategies in their return-to-work practices.[9] First, return-to-work programs were established with policies, procedures, and other processes that stressed taking an organizational approach to finding productive activities for injured employees by collaborating cross-functionally both within and outside the agency. In the Department of Defense, working relationships were established with executives and managers in other agencies to identify, evaluate, and deliver transitional work[10] for the injured. The transitional work helped reduce costs by gradually returning injured workers to the workplace in less physically or mentally demanding positions than their regular jobs. During Fiscal Years 2005 through 2007, 491 recovering Department of Defense employees were reemployed, creating a projected lifetime cost reduction of approximately $422 million.

Second, proactive steps were taken to establish an environment in which injured employees are expected to return to work. Besides creating a pool of available light-duty and modified jobs,[11] these steps included taking advantage of telecommuting opportunities and establishing early rehabilitation and intervention activities using contract nurses. For example, the Transportation Security Administration adopted a private industry nurse intervention program, which resulted in a 33 percent reduction of absenteeism per injury.

Third, goals and performance measures, other than those required by the SHARE initiative, were developed and used to measure the effectiveness of return-to-work efforts. As we have previously reported, performance measures are critical for understanding what a program is accomplishing and whether goals are being achieved. In short, they focus on results and are a central aspect of the Government Performance and Results Act of 1993.[12]

In contrast, the IRS' return-to-work efforts are more reactive, less strategically oriented, and heavily reliant on its first-line managers -who can have broad spans of control and multiple other administrative demands on their time -to provide jobs commensurate with an employee's skills and medical limitations. Moreover, specific policies and procedures have yet to be implemented to coordinate and collaborate across functional lines to assist in transitioning more injured

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[9] The specific agencies included the Department of Defense, the United States Postal Service, the Transportation Security Administration, and the State of Ohio.
[10] Transitional work uses real job duties for a specified, limited time to help injured employees progress to their original jobs, with the Department of Defense's requirement that the transitional positions be integrated into the base or installation workforce within a year.
[11] Work in which the physical aspects of a job are adapted, altered, or removed to allow employees to perform the essential job functions of a position.
[12] Pub. L. No. 103-62, 107 Stat. 285 (codified as amended in scattered sections of 5 U.S.C., 31 U.S.C., and 39 U.S.C.).

employees back to the workplace. The heavy reliance on first-line managers and the absence of polices and procedures for working across organizational lines in the IRS diminishes return-to-work efforts and can have a detrimental effect on both the IRS and injured employees, as shown in the following excerpt from a 2006 letter from the OWCP to the WCC:

> *This is to confirm the conversation with a manager in which he declined the opportunity to offer the above named employee modified employment. He was advised that all costs associated with rehabilitation effort as well as continued wage loss compensation at the total disability rate and medical costs will be billed back to your agency.*
>
> *The injured employees' potential entitlement for wage loss compensation is approximately $1.3 million of your future appropriation, not counting the thousands spent on vocational rehabilitation. That is over a million dollars on just one case.*
>
> *You are losing a trained and valuable employee, who will have to accept that a career with your agency is over. We will be challenged with retraining and attempting to secure employment for this employee in a difficult labor market.*
>
> *The Department of* [the] *Treasury has expressed its concern about the rising costs associated with workers' compensation. Commitments have been made by your national office to make every effort to provide partially disabled employees with modified work. It is unfortunate that you are unable to comply in this case. Hopefully this case is an exception.*

Small successes in returning employees to work can significantly reduce workers' compensation program costs

IRS cash outlays for workers' compensation claims continue to increase, driven by such factors as cost-of-living increases and higher costs for medical equipment, medications, and treatment. These outlays represent financial obligations to care for injured employees and can be considered a cost of business. However, if the costs are not properly managed and they increase significantly, obligations could ultimately affect the amount of money the IRS has available to spend on enhancing the delivery of service to the taxpaying public.

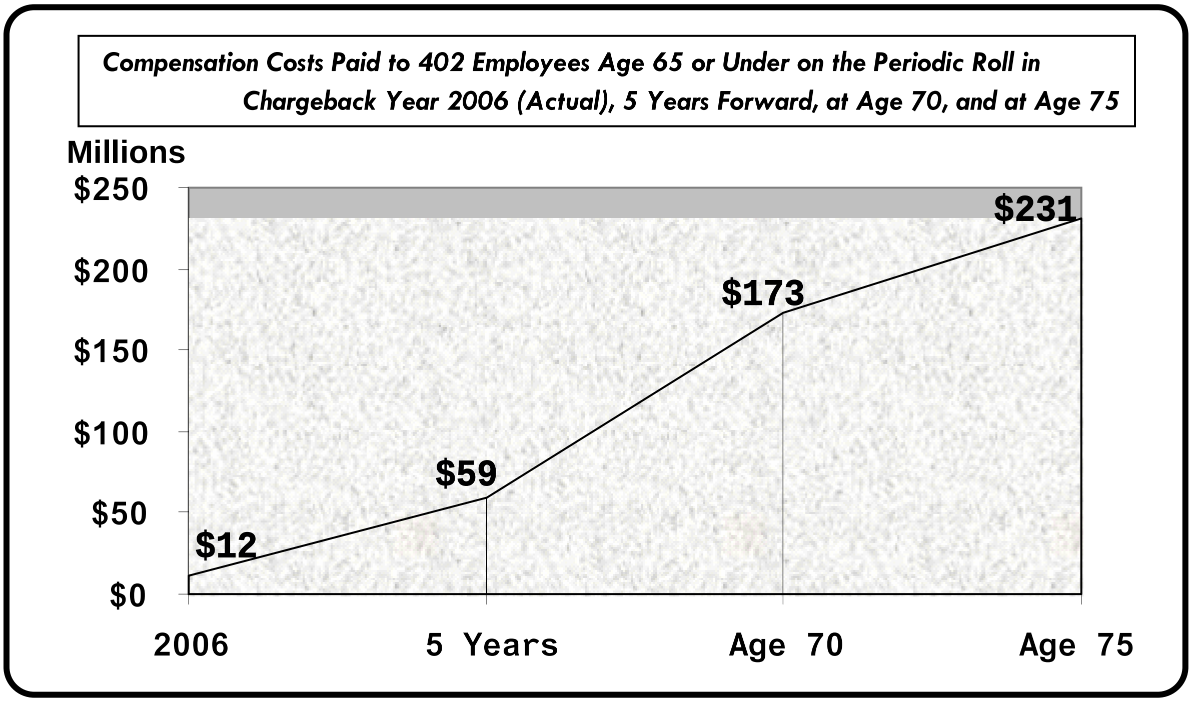
In 2006, the IRS was charged almost $12 million for the compensation paid to 402 employees, age 65 or under, on the periodic roll.[13] If these employees remain on the periodic roll and do not return to work, the IRS will incur approximately $59 million[14] in charges over the next 5 years, with the costs continuing to escalate in subsequent years. As illustrated in Figure 3, we estimate

[13] We determined that the 402 individuals filed 404 workers' compensation claims. We determined their age as of June 30, 2006. Employees on the periodic roll have disabilities or injuries that have lasted or are expected to last for prolonged periods (more than 1 year).

[14] We calculated $59 million by multiplying the compensation costs paid in Chargeback Year 2006 on 404 claims filed by 402 employees age 65 or under on the periodic roll by five.

the IRS will pay approximately $173 million[15] in compensation for the 402 injured employees by the time they reach age 70 and about $231 million[16] in compensation by age 75.

Figure 3: Chargeback Costs Continually Increase Over Time



Source: IRS chargeback costs for 2006, with our estimated future costs.[17]

Many workers' compensation program managers and others in the field, such as those who provide worker rehabilitation services, believe the longer an individual remains away from work the more challenging it will be for him or her to return to work. Despite the challenges, effective return-to-work strategies, such as those discussed in this report, may provide the IRS with opportunities to return more individuals to productive activity in the workplace, while at the same time reducing its workers' compensation costs. According to cost avoidance formulas for periodic roll cases used in some Federal Workers' Compensation Programs,[18] we estimate that,

[15] We calculated $173 million by multiplying the number of years until an employee reaches age 70 for the 404 claims by the compensation paid on each claim in Chargeback Year 2006.
[16] We calculated $231 million by multiplying the number of years until an employee reaches age 75 for the 404 claims by the compensation paid on each claim in Chargeback Year 2006.
[17] Actual and estimated future costs are rounded. The estimated future costs do not take into account inflation.
[18] For example, the United States Postal Service calculates cost avoidance by multiplying an individual's annual compensation while on the periodic roll by the difference in years when removed from workers' compensation from a life expectancy of age 70. The Department of Defense has a variation of this formula, using a life expectancy of age 75, and adds an inflation factor to the calculation.

even if the IRS finds productive activity for only 10 percent of the 402 employees not over age 65 who currently are on the Department of Labor's periodic roll, its lifetime benefit outlays would be reduced by more than $23 million.[19]

Recommendation

Recommendation 5: The Chief Human Capital Officer should coordinate with the Deputy Commissioner for Operations Support to develop and establish a more strategic approach to enhance return-to-work efforts that includes specific policies and procedures for working across functional areas to transition injured employees into productive activities in the workplace.

> ***Management's Response:*** The Chief Human Capital Officer agreed with this recommendation, stating that the support and commitment by top leadership is essential. The WCC will develop a proposed policy with a goal of addressing cross-functional placement for injured workers and enhance the efforts made by first-line managers and case management specialists with return-to-work procedures.

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[19] We multiplied the future compensation costs of $231 million that we estimate the IRS will pay when the 402 employees reach age 75 by 10 percent.

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to evaluate the effectiveness of the Workers' Compensation Program administration in the IRS, with an emphasis on the progress made since 2003. During the review, we relied on databases provided by the IRS. Although we did not audit to determine the accuracy and reliability of the information in any of the databases, we checked the reasonableness of our results against source documents. Our checks are described below and did not identify any material errors in the information used from the databases. To accomplish our objective, we:

I. Reviewed a significant amount of source material to gain an understanding of workers' compensation claims and benefits. These sources included the FECA;[1] publications and guidance issued by the Department of Labor OWCP; published research and reports on workers' compensation; and the IRS Internal Revenue Manual, guidance documents, and training materials.

II. Evaluated the progress made in implementing the agreed-upon recommendations from the Treasury Inspector General for Tax Administration's 2003 report.[2]

III. Identified key fields on the SHIMS[3] that the IRS uses to monitor its WCC activities and compared the information to source documents to ensure the data we used from the system were reasonable and complete.

IV. Reviewed a judgmental sample of 40 of the 20,782 workers' compensation claims listed on the SHIMS through December 4, 2006, to determine whether required procedures were followed. We used judgmental sampling techniques to conserve time and resources. We validated the computer data by reconciling the supporting documentation for the 40 workers' compensation claims to data on the SHIMS.

V. Used the Government Accountability Office *Standards for Internal Control in the Federal Government* to assess the policies, mechanisms, procedures, and techniques (management controls) the IRS established for its Workers' Compensation Program.

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[1] Ch. 458, 39 Stat. 742 (1916) (codified as amended in scattered sections of 1 U.S.C., 5 U.S.C., and 18 U.S.C.).
[2] *Improvements Are Needed in the Process and Information Used to Manage Workers' Compensation Claims* (Reference Number 2003-10-213, dated September 2003).
[3] The IRS uses the Department of the Treasury SHIMS to process and control workers' compensation claims. The SHIMS was implemented on October 1, 2001, and was designed to replace the paper accident claim reporting process with an electronic system that would allow claims to be submitted to the WCC and OWCP quickly. In addition, the SHIMS is designed to enable the IRS to track its lost production days and costs.

VI. Evaluated the successes the IRS had achieved in implementing the SHARE initiative.[4]

VII. Reviewed the July 1, 2005, to June 30, 2006, Chargeback Report to verify the validity and accuracy of the costs charged to the IRS by the OWCP for compensation and medical expenses.

VIII. Compared and contrasted IRS return-to-work practices to those used by the Department of Defense, the United States Postal Service, the Transportation Security Administration, and the State of Ohio.

[4] The SHARE initiative was introduced in 2004 as a response to escalating workers' compensation costs. Under the SHARE initiative, which is primarily aimed at newly filed claims, Federal Government agencies are directed to (1) reduce claim rates, (2) increase the timeliness of processing claims, (3) reduce the amount of time lost from work, and (4) reduce the number of lost days.

Appendix II

Major Contributors to This Report

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Robert Jenness, Acting Audit Manager
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Earl Charles Burney, Senior Auditor
William Tran, Senior Auditor
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Appendix III

Report Distribution List

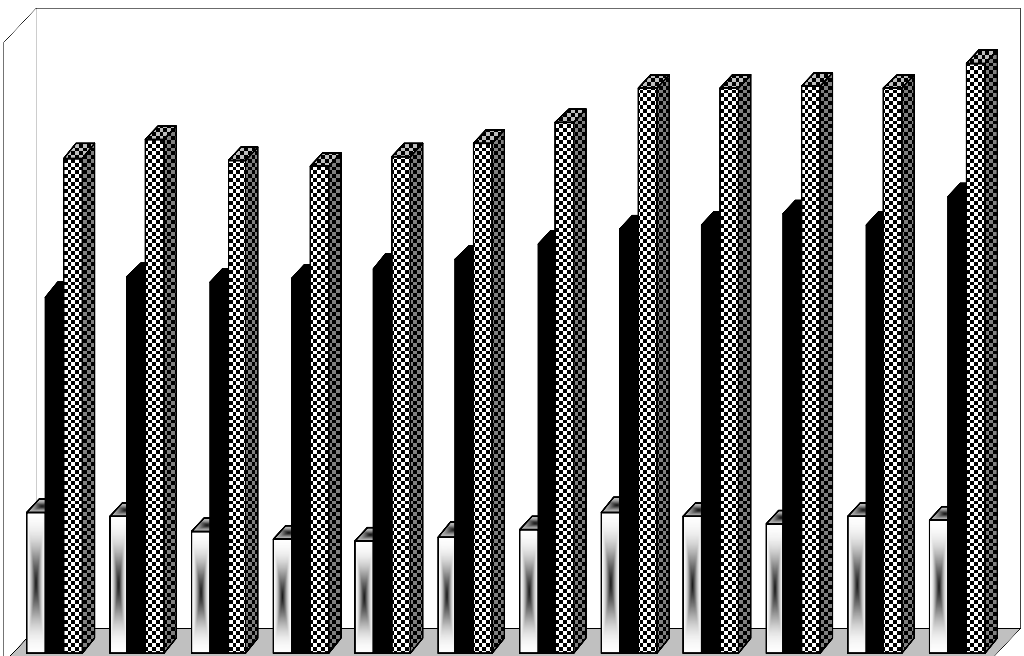
Acting Commissioner C
Office of the Commissioner – Attn: Acting Chief of Staff C
Deputy Commissioner for Operations Support OS
Deputy Chief Human Capital Officer OS:HC
Director, Workforce Progression and Management OS:HC:WPM
Deputy Director, Workforce Progression and Management OS:HC:WPM
Associate Director, Centralized Activities OS:HC:WPM:CA
Chief, Workers' Compensation Center OS:HC:WPM:CA:W
Chief Counsel CC
National Taxpayer Advocate TA
Director, Office of Legislative Affairs CL:LA
Acting Director, Office of Program Evaluation and Risk Analysis RAS:O
Office of Internal Control OS:CFO:CPIC:IC
Audit Liaison: Chief Human Capital Officer OS:HC

Appendix IV

Workers' Compensation Costs

For Chargeback Years 1994 through 2006, the IRS workers' compensation costs totaled more than $462 million. As shown in Figure 1, the yearly workers' compensation costs rose from less than $36 million in 1994 to more than $42 million in 2006.

Figure 1: IRS Workers' Compensation Chargeback Costs for Chargeback Years 1994 – 2006



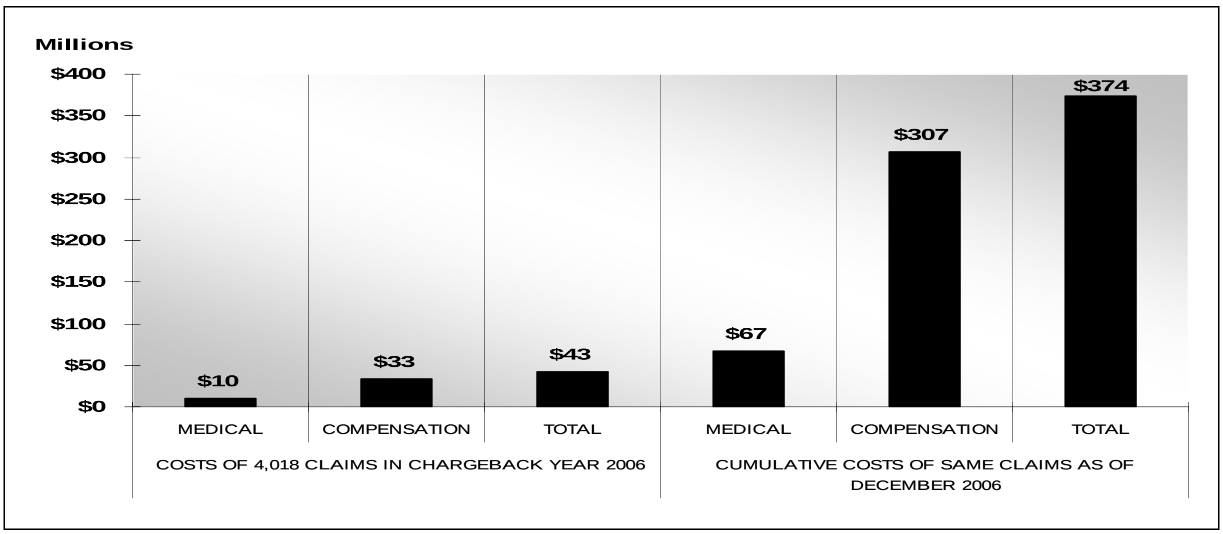
	1994	1995	1996	1997	1999	2000	2001	2002	2003	2004	2005	2006
Medical	$10.1	$9.9	$8.8	$8.2	$8.1	$8.4	$8.9	$10.2	$9.9	$9.3	$9.9	$9.6
Compensation	$25.8	$27.3	$26.9	$27.1	$27.9	$28.5	$29.6	$30.7	$31.0	$31.8	$31.0	$33.1
Total	$35.9	$37.2	$35.7	$35.3	$36.0	$36.9	$38.5	$40.9	$40.9	$41.1	$40.9	$42.7

Source: 1994 – 2006[1] chargeback costs provided by the IRS WCC.[2]

[1] Costs for Chargeback Year 1998 were not available.
[2] Total represents the sum of medical and compensation costs.

Figure 2 graphically illustrates the importance of implementing effective return-to-work strategies and practices. The IRS paid cumulative benefits of about $374 million for the 3,807 individuals[3] it had on the workers' compensation rolls through early December 2006. Medical expenses comprised almost one-fourth of the total costs in Chargeback Year 2006, with compensation benefits accounting for the remainder. However, the cumulative compensation payments comprise an even larger percentage of the total costs, making up about 82 percent of the $374 million the IRS has paid.

Figure 2: Medical, Compensation, and Total[4] Costs for 4,018 IRS Workers' Compensation Claims in Chargeback Year 2006, and the Cumulative Costs for the Same Claims As of December 2006



Source: July 1, 2005, to June 30, 2006, IRS Chargeback Report and SHIMS data, as of December 4, 2006.

[3] The 4,018 workers' compensation claims on the 2006 Chargeback Report were attributable to 3,807 employees. The 2006 Chargeback Report had 4,022 workers' compensation claims. However, SHIMS data were available for only 4,018 (over 99 percent) of the 4,022 claims.
[4] Total represents the sum of medical and compensation costs.

Appendix V

Management's Response to the Draft Report

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

HUMAN CAPITAL OFFICE

RECEIVED
FEB 4 2008

February 1, 2008

MEMORANDUM FOR MICHAEL R. PHILLIPS
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Robert Buggs, IRS Human Capital Officer

SUBJECT: Draft Report – A More Strategic Approach Could Enhance the Workers' Compensation Program Return-to-Work Efforts (Audit # 200630IE013)

We have reviewed the above subject report and appreciate your recognition of our program in managing our Workers' Compensation program since the last audit in 2003. As you noted, your findings largely stem from cases where the majority predated the establishment of the Workers' Compensation Center (WCC) and had been made inactive as a result of no further financial outlays.

We agree with the findings and will continue to strengthen areas notified in your review. Attached are our responses and corrective actions that address each recommendation.

If you have any questions, please call me at (202) 622-7676 or Debra Bangle, Chief, Workers' Compensation Center at (804) 916-3700.

Attachment

Attachment

RECOMMENDATION 1: Develop and implement control processes for reviewing the accuracy of the costs in OWCP's chargeback reports.

CORRECTIVE ACTION(S): We agree with this recommendation. Control processes will be implemented to assure that any compensation or medical payments made after a claim has been made inactive are identified and action taken to validate or report any questionable charge. This will be accomplished by routine exception reports generated from the Safety and Health Information Management System (SHIMS) and the Office of Workers' Compensation Programs (OWCP) databases. Individual verification of line items on the chargeback report is not possible since IRS is not in possession of source documents. SHIMS use the chargeback report as our source for validation. The cost data in SHIMS derives from the same data source used for generating the chargeback report, (i.e. OWCP's data base). Any comparison of SHIMS data against OWCP data or vice versa would constitute nothing more than a comparison of databases not a verification of the charges.

IMPLEMENTATION DATE: September 30, 2008

RESPONSIBLE OFFICIAL: Chief, Workers' Compensation Center

CORRECTIVE ACTION MONITORING PLAN: We will monitor completion of the exception report development through monthly status reports from WCC Program Analyst.

RECOMMENDATION 2: Obtain evidence, such as the originally filed claim documents, to ensure that all workers' compensation benefits are paid only to eligible current or former IRS employees and their beneficiaries.

CORRECTIVE ACTION(S): The corrective actions for this recommendation have been completed. Since the centralization of WCC (1994), each new claim received is verified to be from an IRS employee through the use of existing personnel databases, and this documentation is placed in case files. In addition, when batch uploads are received from OWCP on a biweekly basis, SHIMS provides a safeguard to alert WCC of any claim that was not processed through this office. These procedures have been in place since 2001, which allows us to investigate any questionable new claim entry. When questionable claims are identified, our Lead Specialists resolve the matter with OWCP by requesting a copy of the claim and establishing a case file for IRS employees, or requesting OWCP to change the chargeback code to the appropriate agency. Since the inception of this safeguard, numerous claims have been identified and resolved.

COMPLETED: Our system is in place as described above to ensure we only pay benefits to eligible IRS employees and their beneficiaries.

RECOMMENDATION 3: Seek reimbursement from the OWCP for the compensation paid subsequent to claimants' deaths and for those whose claims were denied.

CORRECTIVE ACTION(S): The corrective actions for this recommendation have been completed. Please note that in reviewing the cases identified, we found no inappropriate payments subsequent to the denial of claims. Occasionally payments are made after a claim denial for bills with dates of services predating the date the claim was denied. In one case, OWCP reversed a denial and paid benefits appropriately. The Agency Query System's (AQS) case status screen is misleading because it does not show a reversal date. There were three cases identified where compensation benefits were paid after the claimant died. In two of these cases, OWCP had already begun the process to attempt recovery for the overpayments by contacting the bank where the funds were direct deposited. In the other case, a spouse was appropriately receiving survivor benefits. To the extent possible, we have implemented TIGTA's recommendation to utilize the Social Security Death Index website.

PROPOSED DATE FOR FOLLOW-UP: Proposed date for follow up with OWCP is June 30, 2008.

RESPONSIBLE OFFICIAL: Chief, Workers' Compensation Center

CORRECTIVE ACTION MONITORING PLAN: We will monitor this corrective action through monthly updates from the Senior HR Specialist.

RECOMMENDATION 4: The Chief, Human Capital Officer, should coordinate with the Deputy Commissioner for Operations Support to implement a control to provide greater assurances that required procedures are completed in the claim process by managers and employees IRS-wide.

CORRECTIVE ACTION(S): We agree with TIGTA's recommendation that enhancing the mandatory annual safety briefing would reach managers and employees which would serve to educate all employees on their rights, responsibilities, and benefits annually. Further, as an instructional tool WCC is in the process of developing a training CD for employees that will compliment the one already available for managers.

We appreciate TIGTA's recommendation to require management to hold managers and employees accountable for their roles and responsibilities in the workers' compensation process; however a checklist approach is a snap shot of involvement at a particular point in time. Requiring managers and employees to submit a checklist is an additional burden not only to the manager but to WCC and would not enhance the quality of managerial oversight in claims which is one of the most important aspects of successful claims management. It would be extremely difficult, if not impossible, to enforce. The CC developed a managerial checklist to provide information and to assist managers when claims are filed. The intent of this checklist was to provide the manager with a helpful resource tool and not to be used as an evaluative tool. The checklist is currently being revised. A commitment to overall continual monitoring and supervision of the employee is what is necessary for successful claim management particularly from a claimant standpoint since the claimant can choose to comply with OWCP's regulations or to suffer the loss of benefits.

IMPLEMENTATION DATE: Proposed completion is January 31, 2009.

RESPONSIBLE OFFICIAL: Chief, Workers' Compensation Center

CORRECTIVE ACTION MONITORING PLAN: We will monitor this corrective action until the safety briefing is enhanced and the WCC revised checklist is posted to the ERC website.

RECOMMENDATION 5: The Chief, Human Capital Officer, should coordinate with the Deputy Commissioner for Operations Support to develop and establish a more strategic approach to enhance return-to-work efforts that include specific policies and procedures for working across functional areas to transition injured employees into productive activities in the workplace.

CORRECTIVE ACTION(S): We agree with this recommendation and with TIGTA that the support and commitment by top leadership is essential. It is imperative that top level management make a firm commitment to support return to work efforts and communicate its support for the return to work process. WCC is currently developing a proposed policy to further enhance the efforts made by first line managers and case management specialists with return to work procedures. WCC's internal procedural manual provides guidance to our case management specialists in directing and supporting return to work efforts. The use of these procedures has resulted in only 249 out of 36,672 cases remaining on OWCP's long-term disability periodic rolls since WCC was centralized in 1994. This does not include periodic roll cases that were filed before the centralization of the WCC operation. Our goal is to emphasize in the policy many of these procedures and address cross-functional placement when the need arises.

IMPLEMENTATION DATE: Proposed completion of draft policy is April 30, 2009.

RESPONSBILE OFFICIAL: Chief, Workers' Compensation Center

CORRECTIVE ACTION MONITORING PLAN: We will monitor this corrective action through status updates from assigned staff.