Samuel T. Mok
Chief Financial Officer

Chief Financial Officer's Letter

In the past, Federal financial management has been much like the helpful bystander in the story of the lost hot air balloonist. Descending from a cloud bank, the balloonist sees a bystander on the ground and asks, "I am lost; can you tell me where I am?" The bystander replies, "You're in a hot air balloon approximately 100 feet off the ground." The balloonist shouts back, "You must be a government accountant." The astonished bystander says, "Why yes, how did you know?" The balloonist replies, "Everything you told me is technically correct, but it's of no use to me." We can also say that the bystander is like the proverbial frog at the bottom of a well—capable of providing in-depth information, but of such narrow scope that it becomes irrelevant. Information must be useful as well as accurate and timely to make a difference. That is our goal at the Department of Labor (DOL).

The Chief Financial Officers Act of 1990 envisions a broad oversight role for financial management in government activities and programs. Despite these statutory provisions, the financial management community often finds itself like the unarmed "London bobby" whose most potent weapon is their presence and the respect they are given. But even unarmed, accountants and financial managers can and do make a difference. Remember, it was the accountants who put Al Capone in jail. Effective accounting does make a difference.

DOL has a firmly established reputation for the integrity and reliability of our financial information. The receipt of the Association of Government Accountant's Certificate of Excellence in Accountability Reporting and a seventh consecutive unqualified opinion on our consolidated financial statements confirms these qualities. The Department maintained its "yellow" status score and "green" progress score in financial management. Before us lies the challenge to provide timely, accurate, and useful information to enable program managers and policy officials to better manage the resources entrusted to our stewardship. We must provide the American people with the best results we can achieve.

We, in the financial management community, must move beyond work processes rooted in 20th century practices which are heavily weighted toward transaction processing and provide limited decision support. We must learn to take advantage of advances such as single-point data entry and web-based technologies. These tools will allow us to redeploy our limited resources to broader and deeper decision support activities. We must continue to expand and enhance our managerial cost accounting capabilities so that integrated financial and performance information becomes a routine tool for making critical day-to-day and long-term decisions. Such integration makes information useful. It will lead to more informed operational decisions and secure the best performance from the Department's many important programs.

The President has placed a high priority on ensuring that Federal government resources are well managed and wisely used. In support of the President's Management Agenda (PMA), in FY 2004 we will begin work to identify and reduce erroneous payments through an aggressive program that proactively improves internal controls and eliminates any systemic causes of improper payments. Already, we have begun to develop methodologies to identify the occurrence and to correct the causes of erroneous payments in the Department's Unemployment Insurance Program.

Financial management systems are a critical component of any effort to reduce erroneous payments and improve fiscal responsibility in general. DOL's financial management systems comply with the Federal Financial Management Improvement Act (FFMIA), and for the third consecutive year the Secretary has reported that our systems of accounting and internal controls comply with the Federal Managers' Financial Integrity Act (FMFIA). We are moving beyond rote compliance with these statutes in efforts to demonstrate the Department's commitment to effective stewardship of public funds. In the spirit of the Sarbanes-Oxley Act of 2002, we put in place a quarterly process for agency heads as well as an expanded list of key financial and program managers to attest to the existence and effectiveness of internal controls throughout their organization. This monitoring provides us a critical tool to proactively identify and correct developing deficiencies before they pose a greater challenge.

Finally, this past year, DOL's Office of the Chief Financial Officer co-led the government-wide financial management line of business initiative which focuses on developing a government-wide core financial system architecture, including standard data structures and business processes. Internally, we will replace our own core accounting system to take advantage of state-of-the-art technology and best-practice business processes. This will lead the Department's financial management practices from transaction processing to value-added financial analysis and real-time decision support in the near future.

The changes we seek can be seen as two pyramids. The old pyramid has a thick foundation of resources dedicated to transaction processing, a slightly less thick, but still sizeable, layer of reporting activities, and a small capstone of decision-support. In the new pyramid, technology and smarter business practices greatly lessen the need to expend resources on transaction processing and reporting. These freed resources will move upward in the pyramid to form a large decision support layer capped by significant new decision rendering capabilities.

President Bush and Secretary Chao are Harvard MBAs with a deep appreciation for effective financial management and sound fiscal integrity. Under their leadership, we will continue to make DOL a 21st Century organization where timely, accurate, and useful financial and performance information improve decisions and deliver results. This is a legacy that will benefit the Department and American taxpayers for years to come.

Samuel T. Mok
Chief Financial Officer

Management of DOL's Financial Resources

This section of the report highlights DOL's key financial outcomes, and includes the required elements for Accountability Reporting. FY 2003 was a very successful year for the Department in terms of financial management. DOL successfully maintained its rating of yellow on the President's Management Agenda scorecard for financial management, and continues its green progress score (see box below). The audit on DOL's consolidated financial statements produced a seventh consecutive unqualified opinion. And the Department achieved each of its target financial management goals for the second consecutive year (see goals FM-1, FM-2).

Financial Management Scorecard (as of 9/30/03)

Current Status

- Unqualified and timely audit opinion on annual financial statements; no material internal control weaknesses.
- Need to integrate financial and performance management systems to support day-to-day operations.
- FFMIA and FASAB compliance

Progress in Implementing the PMA

To Implement a New Core Accounting System:

- Published a pre-solicitation package (request for information) and assessed system integrator responses.
- Issued a competitive, performance-based request for proposals.

To Integrate Financial/Performance Management:

- Began to define significant outputs of major programs and link them to costs at the program level.

To Reduce UI Erroneous Payments:

- Soliciting comments from States on a common definition of UI overpayments; options for a new performance measure on UI payments accuracy.
- Finalized new UI payments accuracy performance measure
- Reached agreement with SSA on data exchange between SSA and State UI agencies.

Comment

- DOL made significant progress toward its Q4 FY 2003 goals, which were aggressive.
- DOL remains on track to get to green by July 1, 2004, by demonstrating day-to-day use of integrated financial/performance information by managers.

Financial Statement Audit Findings Under the Chief Financial Officers Act (CFOA)

The following table provides a statistical summary of open audit findings as required under the Chief Financial Officers Act.

The Chief Financial Officers Act prescribed the compilation and audit of annual financial statements. In addition to expressing an opinion in the audit on the fair presentation of the principal financial statements, the Department's OIG has other reporting responsibilities under Standards issued by the American Institute of Certified Public Accountants and OMB Bulletin 01-02, *Audit Requirements for Federal Financial Statements*, including the identification of:

Reportable Conditions: Significant deficiencies in the design or operation of internal controls that could adversely affect the Department's ability to record, process, summarize, and report financial data.

Material Weaknesses: Reportable conditions that could result in misstatements in amounts that would significantly affect the financial statements. The FY 2003 DOL audit revealed no material weaknesses.

Compliance Issues: Instances of noncompliance with laws and regulations.

Audit Area	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	Total Open
Crosscutting Issues						
Accounting for Grants	3	-	-	-	-	3
Property and Equipment	1	-	4	-	5	10
Managerial Cost Accounting	-	-	-	1	-	1
Program Specific Issues						
Unemployment Trust Fund	-	-	1	-	-	1
FECA Program	-	-	-	-	1	1
Total Open Recommendations	4	0	5	1	6	16

Management Reporting Under the Inspector General Act Amendments

The Inspector General Act Amendments of 1988 require explanations for all audit reports with recommendations open for more than one year. DOL management and audit communities agree that some of these audit resolutions will require several years to complete the corrective action. As of September 30, 2003, 66 audit reports have been open for over one year. The total value of open audits of $81.1 million covers 360 separate recommendations.

The table below demonstrates that most of the reportable audits and recommendations that are over one year old are not under the direct control of and cannot be closed by the Department. Auditees have certain rights to appeal audit decisions made by the Office of the Inspector General (OIG), including appeals to an Administrative Law Judge or a Federal Circuit Court of Appeals. Audits are not considered closed simply because the claim is being appealed and sent forward for further action. DOL agencies and the OIG jointly manage and update an audit tracking system where the current status of each open audit is maintained. Final closure of the audit is determined only by final decisions of the reviewing officials. Many of these decisions take years before being rendered and the audit closed.

The most significant of the non-monetary open audit findings are discussed in this report. A listing of all open audits is available upon request from the Department's Office of the Chief Financial Officer.

2002 Audit Summary as of 9/30/2003 ($ in thousands)	
Affected accounts in 66 audits with 360 recommendations over one year old	$81,053
Less:	
Value of 26 open recommendations under administrative law or Federal Court Appeal	$18,250
Funds put to better use	$12,794
Amounts referred or in process of referral to the Department of Treasury	$2,873
Balance of 66 open audits	$47,136

DOL Financial Systems and Operations

Modernization of the Department's Core Accounting System

The Office of the Chief Financial Officer, in conjunction with Department of Labor agencies, is currently in the process of replacing the Department's core accounting system, DOLAR$. While DOLAR$ has enabled the Department of Labor to achieve unqualified audit opinions and provide accurate financial information over the past twelve years, recent advances in technology and E-Government initiatives have limited its effectiveness in achieving the President's Management Agenda. In support of the President's effort to improve Federal financial management, the Office of the Chief Financial Officer has begun a multi-year endeavor to acquire and implement a new core accounting system. Using innovative technology, this project will work toward the goal of achieving a 21st Century Workforce by seeking to streamline business processes, provide real-time reporting on program performance, and create an open, flexible financial management architecture that will allow for integration with other emerging financial and E-Government initiatives. This effort is currently in the acquisition and evaluation phase and awaits Congressional approval in the 2004 appropriations.

To gain assurance that financial data produced by EDP systems are reliable, the OIG reviewed DOL's core accounting (DOLAR$) system, as well as a selection of DOL agency financial systems. The Office of the Chief Information Officer, the OCFO, and the major agencies are addressing each of these findings from this review in a department wide effort to update system security plans and close audit findings. For more information, see the Independent Auditors' Report.

Financial Management Line of Business Initiative (FMLOB)

This past April, the Administration established an E-Government Strategy to improve the way the Federal government makes and monitors investments in information technology. This effort centers on identifying, analyzing, and taking advantage of opportunities to integrate and consolidate activities along business lines that cross agency boundaries.

The FMLOB initiative is an interagency effort designed to standardize data structures and business practices for core accounting systems across nine partner agencies in the early stages of financial systems implementation. Core financial processes include cost management, financial reporting, general ledger management, payment management, and accounts receivable management. Assessment of business practice commonalities will expose opportunities to mitigate system redundancy, reduce acquisition costs, and promote seamless data exchange between Federal agencies. A common "to be" architecture is to be established by the end of FY 04, and implemented in FY 05.

E-payroll

This eGov initiative involves consolidation of Federal payroll operations to three providers. Cost savings will result from standardizing policies affecting the payroll process and the elimination of duplicative IT investments across the government. DOL will migrate to the National Finance Center (NFC) run by the Department of Agriculture. The Department is working with other Federal agency partners to develop a functional and technical requirements analysis for the migration.

Erroneous Payment Reduction

Erroneous payment reduction has become a major financial management issue for the Federal government in FY 2003. At Labor reduction of erroneous payments in the Unemployment Insurance (UI) program is a component of the DOL President's Management Agenda for financial management. The Department has initiated several projects and new processes to address the issue of reducing erroneous payments in UI and other programs. In FY 2003 the CFO was designated as the Erroneous Payment Reduction Coordinator for the Department, giving that office the authority and responsibility to coordinate the Department's efforts and reporting in this area of financial management.

FY 2003 efforts in the erroneous payments reduction area included a financial integrity conference held in April for the State UI administrators, meetings with the Social Security Administration regarding data sharing to combat fraud and identity theft, and increased emphasis on error detection and analysis. The Office of the Chief Financial Officer plans to perform an annual review of all Agency programs and activities susceptible to erroneous payments. Risk assessments, internal control reviews, and detailed data analysis techniques will assist in the detection of payment errors. The OCFO will work with Program Agencies to develop a plan of action to reduce improper payments, perform ongoing monitoring techniques and conduct recovery audit activities. A summary of the results of improper payment reduction efforts and levels is presented below.

Unemployment Insurance (UI)

The Employment and Training Administration (ETA) uses the Benefits Accuracy Measurement (BAM) program, a diagnostic tool designed to determine the accuracy of paid and denied claims, to estimate the amount of erroneous payments for three major Unemployment Insurance programs: State (UI), Unemployment Compensation for Federal Employee (UCFE), and Unemployment Compensation for Ex-service members (UCX). State Workforce Agency BAM offices select weekly random samples of UI payments and denied claims. BAM investigators audit these paid and denied claims to determine if the claimant was properly paid or denied eligibility. Each case is thoroughly reviewed for compliance with States' UI laws, regulations, policies, and operating procedures. ETA has been working with outside Agencies such as the Social Security Administration to identify data-sharing tools to help reduce payments to ineligible recipients.

Actual, Projected, and Targeted Improper Payments

Item	FY 2002	FY 2003 Projected	FY 2004 Target	FY 2005 Target	FY 2006 Target
Number of Payments (in thousands)[1]	161,743	167,164	159,236	145,281	140,011
Overpaid: % in universe[2]	15.40%	16.60%	15.80%	15.80%	15.80%
Overpaid: Number in universe[2]	24,908	27,749	25,159	22,954	22,122
Overpaid: % established[3]	0.78%	0.79%	1.00%	1.10%	1.20%
Overpaid: Number established[3]	1,262	1,321	1,592	1,598	1,680
Underpaid: % in universe[4]	6.40%	6.30%	6.60%	6.90%	7.20%
Underpaid: Number in universe[4]	10,352	10,531	10,510	10,024	10,081
Monetary Denials: Number in Universe[5]	153	1,142	NA	NA	NA
Monetary Denials: % in error[5]	9.4%	12.0%	NA	NA	NA
Separation Denials: Number in Universe[5]	130	2,059	NA	NA	NA
Separation Denials: % in error[5]	5.7%	7.9%	NA	NA	NA
Continuing Eligibility Denials: Number in Universe[5]	244	2,089	NA	NA	NA
Continuing Eligibility Denials: % in error[5]	9.2%	11.5%	NA	NA	NA
Dollars Paid (in Millions, except percents)[1]	$40,148	$42,374	$41,429	$38,958	$39,020
Overpaid: % in universe, Annual Report Rate[1]	8.53%	9.35%	8.80%	8.60%	8.40%
Overpaid: Dollars in universe[1]	$3,424	$3,962	$3,646	$3,350	$3,278
Overpaid: % established[3]	2.32%	2.66%	3.03%	3.11%	3.19%
Overpaid: Dollars established[3]	$930	$1,129	$1,257	$1,212	$1,244
Dollars established as % of Detectable, Recoverable Overpayments[6]	59.0%	56.1%	59%	59.5%	60%
Underpaid: % in universe[4]	0.66%	0.62%	0.66%	0.70%	0.75%
Underpaid: Dollars in universe[4]	$266	$262.7	$273	$273	$293

Estimated overpayment rate is preliminary, based on Benefit Accuracy Measurement (BAM) data.

[1] FY 2002, actual; FY 2004 – FY 2006, projections based on Administration Mid-Session economic assumptions.

[2] Source: Estimated from Benefit Accuracy Measurement (BAM) samples. Numbers and dollars calculated by applying BAM ratios to universe counts. FY 2002, actual; FY 2003 uses percentages from 10/1/2002-9/30/2003 applied to universes of weeks paid or dollars paid for UI, UCFE, UCX from ETA 5159 report data. FY 2004-2006: $ overpayment rate assumed to return toward 8% of payments based on integrity efforts, % of cases to remain constant as proportion of partial errors rises. Dollars are in millions. BAM sample size for FY 2002 exceeded 23,700; figures for FY 2003 through 9/30/03 were based on sample of 24,490.

[3] FY 2002 and FY 2003, actual; source: State Benefit Payment Control (BPC) activity reported on ETA 227 report. FY 2004-2006: forecast on the basis of Administration economic assumptions, using a regression model explaining $ established as % of benefits paid.

[4] Source: Estimated from Benefit Accuracy Measurement (BAM) samples. These represent estimates and the rates of incidence and numbers of payments that were smaller than state law and policy would indicate. Numbers and dollars calculated by applying BAM ratios to universe counts. FY 2002, actual; FY 2003 uses

percentages from 10/1/2002- 9/30/2003 applied to universes of weeks paid or dollars paid for UI, UCFE, UCX from ETA 5159 report data. FY 2004-2006: $ underpayment rate assumed to begin returning to 1999-2000 rate of about 0.9% of weeks paid and 0.9% of dollars paid. Dollars are in millions. BAM sample size for FY 2002 exceeded 23,700; figures for FY 2003 through 9/30/03 were based on sample of 24,490.

[5] Source: Denied Claim Accuracy Measurement (DCA) Program. For FY 2002, data on number of monetary denials are from ETA 218 report, and for separation and non-separation denials are from ETA 207 report. Sample sizes for the estimates ranged from 6,917 for monetary denials to 7,034 for separation denials. Error rates are adjusted to remove cases corrected by agency during DCA measurement process or corrected through redeterminations or appeals processes. For FY 2003, data are frin BAM Denied Claims Accuracy (DCA), preliminary, pending completion of allocated FY 2003 samples. No targets or projections are made for FY 2004-2006 period because of limited experience with the denials program.

[6] Starting with FY 2003, the Department has used this ratio as the indicator for the Detection of UI Overpayments goal in the GPRA Strategic and Annual Performance plans. The numerator is dollars established for recovery reported on the ETA 227 report (excluding penalty assessments.) The denominator is the dollars of recoverable overpayments (estimated from BAM) states are most likely to detect using current BPC procedures, called the Operational Overpayment amount. The denominator is measured for the year ending six months before the numerator. The lag allows for the normal time lapse between the time an overpayment occurs and when it is detected and established. The FY 2003 target for this indicator is 59%. FY 2003 amount is ratio for year ending 9/30/03. FY 2004-2006 targets are from the Strategic Plan, and are based on projections of the Operational Overpayment rate using a regression model incorporating Administration economic assumptions, projections of the BAM universe, and the projections of $ established explained in footnote 3.

Status of Action Plans for Conducting Risk Assessments or Developing Estimate of Erroneous Payments

1. In August 2001, all states began the Denied Claims Accuracy (DCA) program. DCA uses the BAM methodology to assess the accuracy of decisions denying UI eligibility. Separate samples measure the accuracy of denials at the monetary, separation, and weekly eligibility determination levels, enabling the Department to judge the extent of underpayments by including those due to total denials (from DCA) to its estimate of payments that are smaller than proper (from BAM).

In FY 2002, after consultation with the UI system, the Department began using an operational overpayment definition to estimate the overpayments that states could potentially identify and establish for recovery through usual overpayment detection tools such as wage-benefit and new hires crossmatches. This definition excludes from the standard BAM overpayment definition all non-recoverable overpayments and also recoverable overpayments that state operations are unlikely to detect: those due to work search violations, monetary determination errors, failure to register with the Job Service, and certain miscellaneous errors.

2. **Baseline data.** The first denials data were published for CY 2002; operational overpayment rates are available for all BAM periods.

3. **Impediments.** The program is able to estimate the fraction of claims denied in error, but not the dollar amount of underpayments. Dollars underpaid cannot be estimated without making numerous assumptions about weekly benefit amounts and the number of weeks that would have been claimed and received by the claimants affected by different types of

erroneous denials. Until there is consensus about these assumptions, the Department will not project the dollar impact of erroneous denials. For FY 2003, operational overpayment amounts for five states have been less than the reported overpaid dollars established, indicating that BAM is underestimating overpayment amounts, generally those due to claimants who have excess earnings during the week sampled for BAM review, e.g., because they have continued to claim UI benefits despite having returned to work.

Status of Action Plans for Preventing/Reducing Erroneous Payments

1. **Status.** In response to the President's Management Agenda, the Department prepared an action plan to reduce UI overpayments. Pursuant to that work plan, during the last year the following activities were completed:

- *An operational definition of UI overpayments was developed and used as part of a new GPRA measure for Detection of Overpayments.*

- *Promote the use of the State Directories of New Hires and SSA data exchange.*

    - **Social Security database.** In June 2002, ETA announced an agreement with the Social Security Administration to give states real-time access to the Social Security database. This will give states the ability to verify claimants' identity and will help prevent many, if not most, overpayments due to fraudulent or mistaken use of SSNs. The Department is working with States on establishing electronic communications with SSA and on implementation plans. The Department's 2003 budget request included $10 million to fund use of the SSA data exchange and implement greater use of new hires data; 34 states received funds to implement the SSA data exchange.

    - **Directory of New Hires.** In addition to encouraging states to use a portion of Reed Act distributions to enhance their overpayment detection systems using State New Hire Directories, 26 states received FY 2003 budget funds for New Hire implementation grants. The Department obtained language in the TANF reauthorization bill to give states access to the National Directory of New Hires, and is also seeking other legislative vehicles for obtaining such access for states.

    - **Studies and Analyses.** The Department conducted a series of internal benefit-cost studies in addition to others based on BAM data that showed the extent and causes of errors, and where these errors are concentrated by state. The studies were posted to the ETA/OWS Web site (see http://ows.doleta.gov/unemploy/integrity.asp) and also distributed to all states via Unemployment Insurance Program Letter 23-03 as guidance for reducing the incidence of overpayments or increasing detection and recovery. An additional study, of the type and amount of overpayments excluded from the Operational Overpayment definition, was completed during the summer at the request of the Department's Office of Inspector General.

- *Best Practices.*
    - In April, the Department jointly hosted a national UI integrity conference with the National Association of State Workforce Agencies. The conference was a forum for disseminating successful practices for preventing, detecting and recovering UI overpayments.
    - **Continuous Improvement Plans.** During the summer OWS regional staff were negotiating plans to improve state integrity through the annual State Quality Service Plan process.

2. **Results of Initiatives.** It is too early to measure effects of these initiatives, and many states were impeded from extensive integrity efforts because of the continuing recession and need to operate the Temporary Extended Unemployment Compensation program. However, it is expected that more extensive use of the New Hire crossmatch will both prevent overpayments (by detecting return-to-work violations sooner, and stopping many of them before the claimant exhausts benefits) and increase recoveries by quicker detection of smaller overpayment amounts.

3. **Impediments to Erroneous Payment Reduction.** The principal impediment to reducing erroneous payments is the cost of detecting eligibility issues. BAM has classified about three quarters of errors as undetectable through states' current payment administration processes. Analyses conducted to date suggest that the costs of detecting most eligibility issues through more intensive contact with claimants or employers outweigh the value of overpayments recovered.

4. **New Proposed Initiatives.** The Department's FY 2004 budget requests $500,000 for a study to identify successful practices that are likely to prevent overpayments by cost-effectively detecting eligibility issues that now result in benefit overpayments.

Workforce Investment Act (WIA)

For the Workforce Investment Act program, ETA provides actual payments paid in error using audits conducted under the Single Audit Act and or initiated by the Office of Inspector General.Actual erroneous payments made under the ETA's national programs for FY2003 is summarized below:

Program	Amount	# of Cases
JTPA	$2,332,119	11
WIA	$23,360	1
Job Corps	$698,752	3
Migrants and Seasonal Farmworkers	$0	0
Native Americans	$0	0
Older Americans	$0	0
School-To-Work	$11,844	1

Erroneous payment information represents the number and amount of debts ETA established during the fiscal year resulting from final determinations issued by the ETA for audit and incident reports of questioned costs claimed under grants authorized under JTPA and as reported to the U.S. Department of Treasury on SF-220-9, Report on Receivables Due from the Public.

The ETA does not estimate erroneous payment information for its grant programs, and instead, defers to (1) audits issued under the Single Audit Act or conducted by the DOL, OIG and (2) incident and monitoring reports where ETA staff take action in response to issues that arise in a particular grant or contract during the course of a given fiscal year.

Status of Action Plans for Conducting Risk Assessments or Developing Estimate of Erroneous Payments

ETA relies primarily on external audits of its grant programs to identify erroneous payments, and believes it has an adequate system of internal control to prevent or detect many of the types of erroneous payments, including inadvertent errors, payments for services not rendered, and payments resulting from outright fraud.

The Secretary of DOL and ETA management need to evaluate whether its reliance on audits issued under the Single Audit Act or conducted by the DOL, OIG meets the intent of 29 USC 2935, Section 185, Reports; Recordkeeping; Investigations Of Use Of Funds, that requires the Secretary of DOL to evaluate compliance with the provisions of the WIA by conducting investigations, in several states and in each fiscal year, of the use of funds received by recipients under the WIA.

Status of Action Plans for Preventing/Reducing Erroneous Payments

As mentioned above, ETA is required to evaluate compliance with the provisions of the WIA by conducting investigations, in several states and in each fiscal year, of the use of funds received by recipients under the WIA. In doing so, ETA management will need to evaluate whether its reliance on external post-audit activities meets the intent of the requirement, and if not, develop a course of action to implement the requirement.

Federal Employees' Compensation Act (FECA)

The Employment Standards Administration (ESA) estimates erroneous payments in its FECA program for both Compensation Benefits and Medical benefits using routine annual and periodic case reviews. ESA continues to implement new initiatives, such as Quality Case Management and Corrective Coding of medical bills, to assist in identifying, preventing and collecting erroneous payments.

Program-wide Estimates

Program: Compensation Benefit Payments (in $000)

	FY 2002		FY 2003		FY 2004	FY 2005	FY 2006
	Dollars	Rate	Dollars	Rate	Rate	Rate	Rate
Total Payments	1,640,145	100%	1,676,501	100%	100%	100%	100%
Underpayments	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Overpayments	9,289	0.57%	8,617	0.51%	0.57%	0.56%	0.55%
Total Erroneous Payments	9,289	0.57%	8,617	0.51%	0.57%	0.56%	0.55%

Notes:

1. All periods are Fiscal Year.
2. Confidence level is medium to high.
3. Estimates reflect 100% of overpayments recorded as accounts receivable in the FECA Debt Management System. Overpayments are identified through routine annual and Periodic Roll Management case review; voluntary notifications of entitlement-related changes from beneficiaries; and an audit of direct payments conducted by district office Fiscal Operations Specialists. Out-year estimates are based on actual trends and estimates of future gains from strengthened audits and accountability reviews, and ADP system improvements.

Program: Medical Benefit Payments (in $000)

	FY 2002		FY 2003		FY 2004	FY 2005	FY 2006
	Dollars	Rate	Dollars	Rate	Rate	Rate	Rate
Total Payments	667,797	100%	661,485	100%	100%	100%	100%
Underpayments	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Overpayments	875 est.	N/A	438	0.07%	0.3%	0.30%	0.25%
Total Erroneous Payments	875 est.	N/A	438	0.07%	0.3%	0.30%	0.25%

Notes:

1. All periods are Fiscal Year
2. Confidence level is medium to high.
3. FY 2002 estimate is based upon a 3-quarter, 100% sample of potential duplicate medical payments of over $249 value. Out-year estimates are based on this review, as well as an assumption that some additional erroneous payments exist that have yet to be fully measured by the FECA program. Improvement in the rate will result from more refined sampling and expanded reviews of potential medical payment errors.

Status of Action Plans for Risk Assessments or Develop Estimate of Erroneous Payments

1. **Activities completed to date.** In FY 1999, the percentage of medical payments found to be inappropriate by the OIG audit was less than 1/10th of one percent. The total amount of FECA benefits recorded in the FECA accounting system as overpayments, for fraudulent and non-fraudulent reasons, was less than 3/4 of one percent of total compensation payments made. Further, fewer than 100 individuals are annually prosecuted for FECA fraud, out of a universe of more than 250,000 claimants receiving benefits and hundreds of thousands of medical providers billing for services.

FECA district office Fiscal Operations Specialists began to conduct a quarterly 100% sample audit of potential duplicate medical payments (over $500 in value). For FY 2003, the FOS review identified approximately 391 duplicate payments totaling $438,000. This finding calculates to an error rate of 0.07% of the total dollars paid in the over-$249 category.

Erroneous medical payments are also identified through a monthly audit by FECA Medical Coding Specialists. The objectives of this review are to identify data keying and other processing errors, as well as identifying incorrect payment amounts or payments for unwarranted services.

To supplement the FOS and Medical Coding Specialist audits, FECA is also evaluating other erroneous payment detection methods.

2. **Milestone dates:**

New system baseline for reducing erroneous payments.	FY 2004
Refined medical bill sampling methodologies	FY 2004
Modified accountability review procedures	FY 2004

3. **Impediments:** None

Status of Action Plan for Preventing/Reducing Erroneous Payments

1. **Status:** The FECA Program is continuing an already effective program to prevent, identify, and collect erroneous payments, including:

- Fiscal Operations Specialists in each of FECA's twelve district offices are identifying and auditing potential duplicate medical and direct compensation payments and guarding against any potential compensation or medical fraud, including internal fraud.
- Review of long-term disability cases for continuing entitlement to benefits under Periodic Roll Management (Note: OWCP devotes more than 120 FTE to this function each year, and tabulates individual case savings resulting from benefit adjustments or terminations. Since 1992, the savings have exceeded $500 million;
- The Quality Case Management (QCM) initiative, which ensures that new dis ability cases are carefully reviewed, including by rehabilitation nurses, to ensure appropriate care, early return to work, and avoidance of inappropriate payments.
- The Corrective Coding Initiative automated review of medical bills (implemented in response to OIG findings);
- Medical Coding Specialist sampling of medical bills to identify data keying/initial processing errors.
- Automated system relational edits to bills, in addition to Correct Coding and fee schedule edits, to deny or suspend bills for services which are not related to the diagnosis accepted in the case;
- Continue limited utilization review of high-cost and high-incidence medical services to ensure that proper treatment regimens are followed for those medical services.
- FECA continues to receive notification of the death of FECA beneficiaries from the Social Security Administration so that compensation benefit payments can be stopped.

While some inappropriate payments do go undetected, we continue to refine existing controls wherever necessary and plan new systems designs so as to minimize vulnerability. For example, the recently initiated "OASIS" project, which entails electronic imaging and handling of FECA case files, greatly enhances program controls over incoming mail. Likewise, the FECA initiative to receive some new claims and medical bills electronically has been carefully designed to maintain and enhance existing controls.

2. **Results :** FECA district office Fiscal Operations Specialists conduct a quarterly 100% sample audit of potential duplicate medical payments over $249 in value. For FY 2003, the FOS review identified approximately 391 duplicate payments totaling $438,000, or 0.07% of total medical payments. Recovery actions were initiated by the FOS's.

3. **Initiatives yet to be fully implemented:** Refine data gathering and reporting by Fiscal Operations Specialists

4. **Impediments:** None

5. **New proposed initiatives:** During FY 2004, FECA will develop a baseline error rate to compare with the rates identified by the more sophisticated bill editing capabilities of the new central bill processing system scheduled to begin operation in October 2003. FECA will also revise its internal review processes using more refined sampling methodologies and focused reporting. The reduction in erroneous payments from these actions will be a by-product of the new system and existing activities with no specific associated costs.

Central Bill Processing System:	
FY 2003	Gather and analyze medical bill data
Aug. 2004	Establish FY 2003 baseline for existing data
Mar. 2004	Establish parameters for data collection from the central bill system
FY 2004	Collect and report data from new system against baseline.

District Office Changes:	
FY 2003	Review by FOS's of potential duplicate medical payments over $249
FY 2004	Modification of procedures to better estimate erroneous payment rates for medical bills, better identify compensation benefit underpayments, and report compensation overpayments.

Debt Management

The Debt Collection Improvement Act of 1996 (DCIA) established the Department of the Treasury as the central agency for collection of Federal debts over 180 days delinquent, and DOL cross services all delinquent debts in accordance with this statute. Once these debts are referred, the Department of the Treasury has several collection tools at its disposal, including issuing demand letters, conducting telephone follow-up, referring debts for administrative offset, performing administrative wage garnishment, and referring debts to private collection agencies.

Since DOL does not operate loan or other commercial programs, debt management accounts for a relatively small part of our financial management activity. The majority of debts managed by DOL relate to the assessment of fines and penalties in our enforcement programs. During FY 2003, the Department referred 92 percent of all eligible delinquent debt to Treasury for collection.

Department Wide Delinquent Debt Data (in thousands)			
	FY 2001	FY 2002	FY 2003
Delinquent Debt (1-180 days)	$21,261	$19,898	$20,361
Delinquent Debt (181 + days)	$72,410	$67,847	$97,026
Total Collections	$127,296	$127,581	$132,732
New Receivables	$153,221	$155,845	$165,843
Eligible to be Referred	$77,302	$72,108	$88,023
Debts Referred to Treasury During FY 2001	$70,917	$67,572	$80,955

Electronic Fund Transfer (EFT)

DOL made over 65 percent of its salary, awards, travel and miscellaneous payments electronically in FY 2003. This represents a 26 percent increase over the FY 2002 total.

The Department continues to lag behind government averages due to the low EFT participation and the heavy volume in ESA's medical and benefits programs. These ESA programs account for over 71 percent of DOL's total payment volume.

DOL EFT Payments					
	FY99	FY00	FY01	FY02	FY03
Administrative Vendors	58%	64%	69%	74%	96%
Travel & Miscellaneous	98%	99%	99%	99%	99%
Salary & Awards	97%	97%	96%	98%	99%
ESA Programs	32%	27%	26%	28%	53%
Total	46%	41%	38%	39%	65%

Source: DOL DOLAR$ and Payroll System EFT reports.

Prompt Payment Act

The Prompt Payment Act requires Executive agencies to pay commercial obligations within discreet time periods and to pay interest penalties when those time constraints are not met. In FY 2003, of approximately $1.2 billion in gross payments, $521,879 (approximately .043 percent) was paid in interest fees and penalties.