U.S. Department of Labor

Office of Inspector General—Office of Audit

EMPLOYMENT STANDARDS ADMINISTRATION

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

September 30, 2007

This report was prepared by KPMG LLP, under contract to the U.S. Department of Labor, Office of Inspector General, and by acceptance, it becomes a report of the Office of Inspector General.

Elliot P. Lewis

U.S. Department of Labor
Assistant Inspector General for Audit

Date Issued: October 25, 2007
Report Number: 22-08-001-04-431

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U.S. Department of Labor

Office of Inspector General
Washington, DC 20210

Assistant Inspector General for Audit's Memorandum

MEMORANDUM FOR: FEDERAL AGENCIES WITH RESPONSIBILITIES FOR THE FEDERAL EMPLOYEES' COMPENSATION ACT PROGRAM

Elliot P. Lewis

FROM: ELLIOT P. LEWIS
Assistant Inspector General for Audit

SUBJECT: Special Report Relating to the Federal Employees' Compensation Act Special Benefit Fund – FY 2007
Report No. 22-08-001-04-431

Attached is the special report on the Federal Employees' Compensation Act (FECA) Special Benefit Fund (the Fund) that was prepared to assist in the audit of your agency's annual financial statements. The U.S. Department of Labor, Employment Standards Administration, Office of Workers' Compensation Programs (OWCP), administers the Fund and the DOL Office of Inspector General is responsible for auditing the Fund.

The Office of Inspector General contracted with the independent certified public accounting firm of KPMG LLP (KPMG) to prepare the report on the Fund as of and for the year ended September 30, 2007. This special report consists of two reports. The first report is an *opinion* on the Schedule of Actuarial Liability, Net Intra-Governmental Accounts Receivable, and Benefit Expense of the Fund as of and for the year ended September 30, 2007. KPMG issued an unqualified opinion on this report. In connection with this audit, KPMG performed certain tests of controls and compliance with laws and regulations related to the Fund. Their testing disclosed no instances of deficiencies in internal controls over financial reporting that they consider to be material weaknesses. Their tests of compliance disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The second report is an agreed-upon procedures (AUP) report on the Schedules of Actuarial Liability, Net Intra-Governmental Accounts Receivable, and Benefit Expense of the Fund by agency as of and for the year ended September 30, 2007. This report includes a description of the procedures performed and the results of those procedures.

The sufficiency of the procedures referred to in the AUP is solely the responsibility of the parties specified in this report. Consequently, neither the Office of Inspector General nor KPMG makes any representations regarding the sufficiency of the procedures. Because the AUP performed did not constitute an audit, the auditor did not express an opinion on any elements, accounts, or items as they pertained to the AUP report. Further, neither the Office of Inspector General nor KPMG has any obligation to perform any procedures beyond those listed in the attached report.

KPMG is responsible for the attached report dated October 23, 2007, and the conclusions expressed in the report. We reviewed KPMG's report and related documentation and inquired of their representatives. Our review, as differentiated from an audit in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express opinions on: the actuarial liability, net intra-governmental accounts receivable, and benefit expense of the Fund in total as of and for the year ended September 30, 2007; or the AUP report on the schedules of actuarial liability, net intra-governmental accounts receivable and benefit expense of the Fund by agency as of and for the year ended September 30, 2007. Our review disclosed no instances where KPMG did not comply, in all material respects, with generally accepted government auditing standards.

If you have any questions or comments, please send your questions or comments via regular mail, facsimile, or e-mail to:

Michael T. McFadden
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U.S. Department of Labor
Office of Inspector General
200 Constitution Ave., N.W., Room S-5512
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KPMG LLP
2001 M Street, NW
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SECTION 1A

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

Victoria A. Lipnic, Assistant Secretary
Employment Standards Administration, U.S. Department of Labor,
Government Accountability Office, Office of Management and Budget,
and Agencies Specified in Section 2B of this Report:

We have audited the accompanying Schedule of Actuarial Liability and Net Intra-Governmental Accounts Receivable as of September 30, 2007, and Benefit Expense for the year ended September 30, 2007 of the U.S. Department of Labor's (DOL) Federal Employees' Compensation Act Special Benefit Fund (the Schedule). The objective of our audit was to express an opinion on the fair presentation of the U.S. Department of Labor's (DOL) Federal Employees' Compensation Act Special Benefit Fund (the Schedule). In connection with our fiscal year 2007 audit, we also considered DOL's internal control over financial reporting related to the Schedule and tested DOL's compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on the Schedule.

SUMMARY

As stated in our opinion on the Schedule, we concluded that the DOL's Schedule as of and for the year ended September 30, 2007, is presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses as defined in the Internal Control over Financial Reporting section of this report. However, we noted no matters involving the internal control and its operation that we considered to be material weaknesses as defined in this report.

The results of our tests of compliance with certain provisions of laws and regulations disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards.*

The following sections discuss our opinion on the DOL's Schedule, our consideration of DOL's internal control over financial reporting; our tests of the DOL's compliance with certain provisions of applicable laws and regulations; and management's and our responsibilities.

OPINION ON THE SCHEDULE

We have audited the accompanying Schedule of Actuarial Liability and Net Intra-Governmental Accounts Receivable as of September 30, 2007, and Benefit Expense for the year ended September 30, 2007 of the U.S. Department of Labor's Federal Employees' Compensation Act Special Benefit Fund.

In our opinion, the Schedule referred to above presents fairly, in all material respects, the actuarial liability and net intra-governmental accounts receivable as of September 30, 2007, and benefit expense for the year ended September 30, 2007, in conformity with U.S. generally accepted accounting principles.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Our consideration of the internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the DOL's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Schedule that is more than inconsequential will not be prevented or detected by the DOL's internal control over financial reporting. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the DOL's internal control.

In our fiscal year 2007 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

COMPLIANCE AND OTHER MATTERS

The results of our tests of compliance described in the Responsibilities section of this report disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards*.

RESPONSIBILITIES

Management's Responsibilities*.*

Management is responsible for the Schedule, including:

- Preparing the Schedule in conformity with U.S. generally accepted accounting principles;
- Establishing and maintaining effective internal control; and
- Complying with laws and regulations applicable to the Schedule.

In fulfilling this responsibility, management is required to make estimates and judgments to assess the expected benefits and related costs of internal control policies.

Auditors' Responsibilities*.* Our responsibility is to express an opinion on the Schedule based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the DOL's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall Schedule presentation.

We believe that our audit provides a reasonable basis for our opinion.

In planning and performing our audit, we considered the DOL's internal control over financial reporting by obtaining an understanding of the DOL's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Schedule. We limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards*. The objective of our audit was not to express an opinion on the effectiveness of the DOL's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the DOL's internal control over financial reporting.

As part of obtaining reasonable assurance about whether the Schedule is free of material misstatement, we performed tests of the DOL's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of the Schedule amounts. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws and regulations applicable to the DOL Schedule. However, providing an opinion on compliance with laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

This report is intended solely for the information and use of the U.S. Department of Labor, the U.S. Government Accountability Office, Office of Management and Budget (OMB), the U.S. Congress and those Federal agencies with responsibility for the FECA program and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

October 23, 2007

SECTION 1B

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

Schedule of Actuarial Liability and Net Intra-Governmental Accounts Receivable as of September 30, 2007 and Benefit Expense For the Year Ended September 30, 2007

(dollars in thousands)

Actuarial Liability	$ 26,306,062
Net Intra-Governmental Accounts Receivable	$ 3,758,013
Benefit Expense	$ 3,004,287

See accompanying notes to schedule.

SECTION 1C

Notes to the Schedule of Actuarial Liability and Net Intra-Governmental Accounts Receivable as of September 30, 2007 and Benefit Expense For the Year Ended September 30, 2007

1. Significant Accounting Policies

a. Basis of Presentation

The Schedule of Actuarial Liability and Net Intra-Governmental Accounts Receivable as of September 30, 2007, and Benefit Expense for the year ended September 30, 2007 of the U.S. Department of Labor's Federal Employees' Compensation Act Special Benefit Fund (the Schedule) has been prepared to report the actuarial liability, net intra-governmental accounts receivable and benefit expense of the U.S. Department of Labor (DOL) Federal Employees' Compensation Act (FECA) Special Benefit Fund (the Special Benefit Fund). The Special Benefit Fund was established by the Federal Employees' Compensation Act to provide for the financial needs resulting from compensation and medical benefits authorized under the Act. The DOL, Employment Standards Administration (ESA) is charged with the responsibility of operating the Special Benefit Fund under the provisions of the Act. The schedule has been prepared from the accounting records of the Special Benefit Fund.

The actuarial liability, net intra-governmental accounts receivable and benefit expense of the Special Benefit Fund are considered specified accounts for the purpose of this Schedule. ESA is responsible for providing this information to the CFO Act agencies and other specified agencies to support and prepare their respective financial statements.

The actuarial liability is an accrued estimate of future workers' compensation benefits as of September 30, 2007. Historical benefits paid, inflation and interest rate assumptions, and other economic factors are applied to the actuarial model that calculates the liability estimate. The net intra-governmental accounts receivable is the amount due from Federal agencies for benefit payments paid to or on behalf of employees of the employing agency as of September 30, 2007. The net intra-governmental accounts receivable includes amounts which were billed to the employing agencies through June 30, 2007, but not paid as of September 30, 2007, including prior years, if applicable, plus the accrued receivable for benefit payments not yet billed for the period of July 1, 2007 through September 30, 2007, less credits due from the public. Benefit expense consists of benefits paid and accrued for the period from October 1, 2006 to September 30, 2007, plus the net change in the actuarial liability for the fiscal year.

(continued)

SECTION 1C

Notes to the Schedule of Actuarial Liability and Net Intra-Governmental Accounts Receivable as of September 30, 2007 and Benefit Expense For the Year Ended September 30, 2007

Benefit payments are intended to provide income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease and beneficiaries of employees whose death is attributable to job-related injury or occupational disease.

b. Basis of Accounting

The Schedule has been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles.

An estimate of claims that have been incurred but not reported are included in the actuarial liability. Therefore, the actuarial liability represents the estimated present value of future compensation and medical payments based upon approved claims, plus a component for incurred but not reported claims.

2. Actuarial Liability (Future Workers' Compensation Benefits)

The Special Benefit Fund was established under the authority of the Federal Employees' Compensation Act to provide income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. The fund is reimbursed by other Federal agencies for the FECA benefit payments made on behalf of their workers.

The actuarial liability for future workers' compensation reported on the Schedule includes the expected liability for death, disability, medical and miscellaneous costs for approved cases as well as an estimate for those cases incurred but not reported. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. The actuarial model uses a Paid Loss Development Method by agency, by defined agency groups, and in total using inflation rate assumptions on both past and future indemnity and medical benefits to adjust past data and project forward.

(continued)

SECTION 1C

Notes to the Schedule of Actuarial Liability and Net Intra-Governmental Accounts Receivable as of September 30, 2007 and Benefit Expense For the Year Ended September 30, 2007

Consistent with past practice and as allowed under U.S. generally accepted accounting principles, these projected annual benefit payments have been discounted to present value using the Office of Management and Budget's (OMB) economic assumptions for 10-year Treasury notes and bonds. The interest rate assumptions utilized for discounting was 4.93% in year 1 and 5.08% in subsequent years.

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

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

FY	COLA	CPI-Med
2008	2.63%	3.74%
2009	2.90%	4.04%
2010	2.47%	4.00%
2011	2.37%	3.94%
2012	2.30%	3.94%

The medical inflation rates presented represent an average of published quarterly rates covering the benefit payment fiscal year. The compensation factors presented are the blended rates used by the model rather than the published July 11, 2007 FECA-COLA factor from which the blended rates are derived.

3. <u>Net Intra-Governmental Accounts Receivable</u>

Net intra-governmental accounts receivable is the total of the amounts billed to Federal agencies through June 30, 2007 that had not been paid as of September 30, 2007, including prior year's amounts billed, if applicable, plus an

(continued)

SECTION 1C

Notes to the Schedule of Actuarial Liability and Net Intra-Governmental Accounts Receivable as of September 30, 2007 and Benefit Expense For the Year Ended September 30, 2007

accrued receivable for benefit payments not yet billed for the period July 1, 2007 through September 30, 2007, less applicable credits due from the public. The FECA Special Benefit Fund also receives an appropriation for special cases and older cases where employing agencies are not charged for benefit payments.

Each Federal agency is required by the Federal Employees' Compensation Act to include in their annual budget estimate a request for an appropriation in the amount equal to the agency cost. Agencies not receiving an appropriation are required to pay agency costs from funds directly under their control. In addition, certain corporations and instrumentalities are assessed under the Federal Employees' Compensation Act for a fair share of the costs of administering disability claims filed by their employees. The fair share costs are included in the calculation to determine the net intra-governmental accounts receivable.

4. Benefit Expense

Benefit expense for the year ended September 30, 2007 was comprised of the following (dollars in thousands):

Benefits paid for compensation	$ 1,790,371
Benefits paid for medical benefits	753,157
Change in accrued benefits	6,202
Change in actuarial liability	454,557
Total benefit expense	$ 3,004,287

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SECTION 2A

Independent Accountants' Report on Applying Agreed-Upon Procedures

Victoria A. Lipnic, Assistant Secretary
Employment Standards Administration, U.S. Department of Labor,
Government Accountability Office, Office of Management and Budget,
and Agencies Specified in Section 2B of this Report:

We have performed the procedures described in Section 2C, Agreed-Upon Procedures and Results, which were agreed to by the U.S. Department of Labor, U.S. Government Accountability Office, Office of Management and Budget, and the Agencies Specified in Section 2B of this Report, solely to assist you and such agencies with respect to the accompanying Schedules of Actuarial Liability by Agency and Net Intra-Governmental Accounts Receivable by Agency as of September 30, 2007, and Benefit Expense by Agency for the year ended September 30, 2007, of the U.S. Department of Labor Federal Employees' Compensation Act Special Benefit Fund (the Schedules). The U.S. Department of Labor is responsible for the Schedules (Section 2B).

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

The sufficiency of the procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described in Section 2C either for the purpose for which this report has been requested or for any other purpose. Our agreed-upon procedures and results are presented in Section 2C of this report.

We were not engaged to, and did not perform an audit of the Schedules of Actuarial Liability by Agency, Net Intra-Governmental Accounts Receivable by Agency and Benefit Expense by Agency, the objective of which is the expression of an opinion on the Schedules or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

KPMG

This report is intended solely for the information and use of the U.S. Department of Labor, the U.S. Government Accountability Office, Office of Management and Budget and those federal agencies with responsibility for the FECA program, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

October 23, 2007

SECTION 2B

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

Schedule of Actuarial Liability by Agency
As of September 30, 2007

(dollars in thousands)

AGENCY	Actuarial Liability
Agency for International Development	$23,528
Environmental Protection Agency	39,786
General Services Administration	164,883
National Aeronautics and Space Administration	64,060
National Science Foundation	1,182
Nuclear Regulatory Commission	6,833
Office of Personnel Management	21,020
U.S. Postal Service	8,923,407
Small Business Administration	26,321
Social Security Administration	271,981
Tennessee Valley Authority	538,096
U. S. Department of Agriculture	775,281
U. S. Department of the Air Force	1,381,158
U. S. Department of the Army	1,977,872
U. S. Department of Commerce	164,415
U. S. Department of Defense – other	777,041
U. S. Department of Education	16,186
U. S. Department of Energy	105,231
U. S. Department of Health and Human Services	275,776
U. S. Department of Homeland Security	1,683,569
U. S. Department of Housing and Urban Development	81,779

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SECTION 2B

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

Schedule of Actuarial Liability by Agency
As of September 30, 2007

(dollars in thousands)

AGENCY	Actuarial Liability
U. S. Department of the Interior	$659,333
U. S. Department of Justice	1,046,480
U. S. Department of Labor	237,919
U. S. Department of the Navy	2,694,074
U. S. Department of State	68,078
U. S. Department of Transportation	949,465
U. S. Department of the Treasury	573,038
U. S. Department of Veterans Affairs	1,826,564
Other agencies [1]	931,706
Total - all agencies	$26,306,062

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

SECTION 2B

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

Schedule of Net Intra-Governmental Accounts Receivable by Agency As of September 30, 2007

(dollars in thousands)

AGENCY	**Amounts Billed Not Yet Paid** (1)	**Amounts Expended Not Yet Billed** (2)	**Credits Due from Public** (3)	**Net Intra-Governmental Accounts Receivable** (4)
Agency for International Development	$7,483	$1,019	$(39)	$8,463
Environmental Protection Agency	7,869	1,282	(49)	9102
General Services Administration	29,549	4,626	(177)	33,998
National Aeronautics and Space Administration	13,527	2,106	(80)	15,553
National Science Foundation	255	38	(1)	292
Nuclear Regulatory Commission	1,445	223	(9)	1,659
Office of Personnel Management	3,495	548	(21)	4,022
United States Postal Service	(10,158)	282,914	(10,794)	261,962
Small Business Administration	4,988	759	(29)	5,718
Social Security Administration	47,781	7,368	(281)	54,868
Tennessee Valley Authority	66,050	16,816	(642)	82,224
U. S. Department of Agriculture	140,784	21,663	(827)	161,620
U. S. Department of the Air Force	256,722	39,889	(1,522)	295,089
U. S. Department of the Army	283,532	43,230	(1,649)	325,113
U. S. Department of Commerce	24,830	3,615	(138)	28,307
U. S. Department of Defense – other	177,851	30,740	(1,173)	207,418
U. S. Department of Education	7,644	1,627	(62)	9,209
U. S. Department of Energy	17,498	3,176	(121)	20,553

(continued)

1 Amount billed through June 30, 2007 (including prior years) but not yet paid as of September 30, 2007.

2 Amounts paid and accrued but not yet billed for the period July 1, 2007 through September 30, 2007.

3 Allocation of credits due from the public through September 30, 2007.

4 Total amount due to the fund for each agency as of September 30, 2007.

SECTION 2B

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

Schedule of Net Intra-Governmental Accounts Receivable by Agency As of September 30, 2007

(dollars in thousands)

AGENCY	**Amounts Billed Not Yet Paid** (1)	**Amounts Expended Not Yet Billed** (2)	**Credits Due from Public** (3)	**Net Intra-Governmental Accounts Receivable** (4)
U. S. Department of Health and Human Services	$49,202	$7,524	$(287)	$56,439
U. S. Department of Homeland Security	314,803	48,532	(1,852)	361,483
U. S. Department of Housing and Urban Development	15,940	2,523	(96)	18,367
U. S. Department of the Interior	118,936	18,421	(703)	136,654
U. S. Department of Justice	186,533	29,624	(1,130)	215,027
U. S. Department of Labor	47,263	7,868	(300)	54,831
U. S. Department of the Navy	488,081	74,709	(2,850)	559,940
U. S. Department of State	15,488	2,235	(86)	17,637
U. S. Department of Transportation	186,409	28,657	(1,093)	213,973
U. S. Department of the Treasury	103,903	16,088	(614)	119,377
U. S. Department of Veterans Affairs	328,749	50,846	(1,940)	377,655
Other agencies	86,448	15,608	(596)	101,460
Total - all agencies	$3,022,900	$764,274	$(29,161)	$3,758,013

1 Amount billed through June 30, 2007 (including prior years) but not yet paid as of September 30, 2007.

2 Amounts paid and accrued but not yet billed for the period July 1, 2007 through September 30, 2007.

3 Allocation of credits due from public through September 30, 2007.

4 Total amount due to the fund for each agency as of September 30, 2007.

SECTION 2B

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

Schedule of Benefit Expense by Agency
As of September 30, 2007

(dollars in thousands)

AGENCY	Benefits Paid and Change in Accrued Benefits	Change in Actuarial Liability	Total Benefit Expense
Agency for International Development	$3,244	$90	$3,334
Environmental Protection Agency	4,223	378	4,601
General Services Administration	15,134	(168)	14,966
National Aeronautics and Space Administration	6,666	3,843	10,509
National Science Foundation	126	(105)	21
Nuclear Regulatory Commission	726	(601)	125
Office of Personnel Management	1,714	572	2,286
United States Postal Service	939,210	260,693	1,199,903
Small Business Administration	2,283	(724)	1,559
Social Security Administration	24,610	(2,782)	21,828
Tennessee Valley Authority	55,289	(15,226)	40,063
U. S. Department of Agriculture	71,988	(32,371)	39,617
U. S. Department of the Air Force	130,929	11,253	142,182
U. S. Department of the Army	179,542	4,003	183,545
U. S. Department of Commerce	15,592	(5,749)	9,843
U. S. Department of Defense - other	62,112	(36,491)	25,621
U. S. Department of Education	1,447	(766)	681
U. S. Department of Energy	10,036	8,845	18,881
U. S. Department of Health and Human Services	24,513	2,402	26,915

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SECTION 2B

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

Schedule of Benefit Expense by Agency
As of September 30, 2007

(dollars in thousands)

AGENCY	Benefits Paid and Change in Accrued Benefits	Change in Actuarial Liability	Total Benefit Expense
U.S. Department of Homeland Security	$159,490	$164,240	$323,730
U. S. Department of Housing and Urban Development	8,233	1,906	10,139
U. S. Department of the Interior	60,027	(19,590)	40,437
U. S. Department of Justice	95,561	54,920	150,481
U. S. Department of Labor	19,458	(4,606)	14,852
U. S. Department of the Navy	244,274	(4,609)	239,665
U. S. Department of State	6,896	5,409	12,305
U. S. Department of Transportation	93,993	(3,504)	90,489
U. S. Department of the Treasury	52,845	(27,699)	25,146
U. S. Department of Veterans Affairs	168,065	14,617	182,682
Other agencies [(1)]	91,504	76,377	167,881
Total - all agencies	$2,549,730	$454,557	$3,004,287

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

SECTION 2C

Agreed-Upon Procedures & Results

ACTUARIAL LIABILITY

Procedures and Results

Agreed-Upon Procedures Performed	Results of Procedures
1) Calculated the actuarial liability, by agency, as of September 30, 2007, using KPMG's Loss Development actuarial model[1].	The actuarial liability as of September 30, 2007 calculated using KPMG's Loss Development actuarial model is approximately $25.8 billion.
2) Recalculated the actuarial liability, by agency, as of September 30, 2007, using DOL's Loss Development actuarial model[2].	The recalculated actuarial liability as of September 30, 2007 using DOL's Loss Development actuarial model is approximately $26.3 billion.

[1] KPMG's model uses actual data to evaluate trends and project future payments. KPMG's model also supplements its methodology with the number of workers related to each agency in injury years 2001 through 2007.

[2] The DOL, model uses a Paid Loss Development Method by agency, by defined agency groups, and in total using inflation rate assumptions on both past and future indemnity and medical benefits to adjust past data and project forward.

SECTION 2C

Agreed-Upon Procedures and Results

ACTUARIAL LIABILITY

Procedures and Results

Agreed-Upon Procedures Performed	Results of Procedures
3) Compared the interest rate and inflation (COLA, CPI-Med) assumptions used by the DOL Loss Development model as of September 30, 2007 to the interest rate and inflation (COLA, CPI-Med) assumptions used by KPMG's Loss Development model as of September 30, 2007.	The interest rate and inflation rate assumptions used by the Loss Development actuarial models by DOL and KPMG are as follows: DOL / KPMG Interest rate Year 1: 4.93% / 3.50%[3] Year 2: 5.08% / 3.50% Inflation rates COLA Year 1: 2.63% / N/A[4] COLA Year 2: 2.90% / N/A COLA Year 3: 2.47% / N/A COLA Year 4: 2.37% / N/A COLA Year 5 forward: 2.30% / N/A CPI-Med Year 1: 3.74% / N/A CPI-Med Year 2: 4.04% / N/A CPI Med Year 3: 4.00% / N/A CPI Med Year 4: 3.94% / N/A CPI Med Year 5 forward: 3.94% / N/A
4) Compared DOL's actuarial liability as of September 30, 2007 using DOL's Loss Development actuarial model to KPMG's calculation of the actuarial liability as of September 30, 2007 using DOL's Loss Development actuarial model.	No exceptions were found as a result of applying this procedure.

[3] KPMG's model used a lower interest rate because selected loss development patterns are used to project future payments by year for each injury year and such loss patterns include a provision for inflation escalation and because the payments projected were discounted to June 30, 2007.

[4] KPMG's model did not use an inflation rate because it does not adjust data to the current level and therefore inflation wais included in the loss development patterns selected.

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ACTUARIAL LIABILITY

Procedures and Results

Agreed-Upon Procedures Performed	Results of Procedures
5) Compared DOL's results for the fiscal year end actuarial liability using DOL's Loss Development actuarial model to our results for the fiscal year end actuarial liability using KPMG's Loss Development actuarial model.	The actuarial liability as of September 30, 2007 calculated using DOL's Loss Development actuarial model is approximately $511 million (2%) greater than the actuarial liability using KPMG's Loss Development actuarial model.
6) Compared the average interest and average inflation rate (COLA and CPI-Med) assumptions used by the DOL Loss Development actuarial model as of September 30, 2006 to the average interest and average inflation rate (COLA and CPI-Med) assumptions used by the DOL Loss Development actuarial model as of September 30, 2007.	The average interest rate used in the DOL Loss Development Actuarial model decreased from 5.30% to 5.06% from September 30, 2006 to September 30, 2007. The average COLA rate used in the DOL Loss Development Actuarial model decreased from 2.60% to 2.42% from September 30, 2006 to September 30, 2007. The average CPI-med rate used in the DOL Loss Development Actuarial model decreased from 4.06% to 3.94% from September 30, 2006 to September 30, 2007.

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ACTUARIAL LIABILITY

Procedures and Results

Agreed-Upon Procedures Performed	Results of Procedures
7) Calculated the percentage change in the actuarial liability by agency and in the aggregate from September 30, 2006 to September 30, 2007, based on the DOL Loss Development actuarial model, identified agencies whose actuarial liability changed by more than 10% during 2007, and for such agencies, calculated the percentage change in benefit payments for the year ended September 30, 2006 to September 30, 2007.	The actuarial liability increased in the aggregate from approximately $25.9 billion as of September 30, 2006 to approximately $26.3 billion (1.5%) as of September 30, 2007. The following agency had a change in actuarial liability from September 30, 2006 to September 30, 2007 of greater than 10%: Department of Homeland Security (10.8%) The benefit payments for the Department of Homeland Security increased 1.15%.
8) Compared the interest rate (used for discounting the future liability to the present value) and inflation rates (COLA and CPI-Med) used by the DOL Loss Development actuarial model as of September 30, 2007 to the Fiscal Year 2008 Mid-Session Review prepared by OMB from which they are derived.	No exceptions were found as a result of applying this procedure.

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ACTUARIAL LIABILITY

Procedures and Results

Agreed-Upon Procedures Performed	Results of Procedures
9) Compared the actuarial liability by agency, as reported in a Memorandum to the CFOs of Executive Departments issued by DOL's Chief Financial Officer dated September 29, 2007, for the current fiscal year end, to the liability calculated by the DOL Loss Development model and reported on the Projected Liability Reports as of September 30, 2007.	No exceptions were found as a result of applying this procedure.
10) Compared both the fiscal year 2007 benefit payments by agency and the aggregate 2002-2007 benefit payments used by the DOL Loss Development actuarial model with the amount of benefit payments reported in the Summary Chargeback Billing Report which reflects benefits paid on behalf of each agency.	No exceptions were found as a result of applying this procedure.
11) Compared the agency groupings used in the DOL Loss Development actuarial model as of September 30, 2007 with the agency groupings used in the DOL Loss Development actuarial model as of September 30, 2006 and determined if there were any changes.	No exceptions were found as a result of applying this procedure.

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ACTUARIAL LIABILITY

Procedures and Results

Agreed-Upon Procedures Performed	Results of Procedures
12) Compared the benefit payments predicted by the 2006 DOL Loss Development actuarial model for 2007 to the actual benefit payments for 2007 from the DOL Summary Chargeback Billing Report and identified agencies where the DOL Loss Development actuarial model computed benefit payments varied by more than 20 percent and $2 million from actual benefit payments made during 2007 from the Summary Chargeback Billing Report.	For one agency, the U.S. Department of Labor (DOL), the actual benefit payments for 2007 from the DOL Summary Chargeback Billing Report varied by more than 20% and $2 million from the benefit payments predicted for 2007 by the 2006 DOL Loss Development actuarial model. The actual benefit payments for 2007 from the DOL Summary Chargeback Billing Report for DOL of $19.6 million were $5.4 million and 21.5% less than the $25 million of benefit payments predicted for 2007 by the 2006 DOL Loss Development actuarial model.

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ACTUARIAL LIABILITY

Procedures and Results

Agreed-Upon Procedures Performed	Results of Procedures
13) Compared the net effective rates (interest minus inflation rates) for compensation and medical utilized in the Loss Development actuarial model as of September 30, 2007 by the USPS, OPM, SSA, Energy Employees' Occupation Illness Compensation Program, and the Black Lung Disability Trust Fund to the net effective rates (interest minus inflation rates) for compensation and medical utilized by the DOL Loss Development actuarial model as of September 30, 2007.	The net effective rate (interest rate minus inflation rate[5]) for compensation of 2.45% used by the DOL Loss Development actuarial model as of September 30, 2007 was less than the net effective rates for compensation utilized in the Loss Development actuarial model as of September 30, 2007 by USPS (3.60%), OPM (2.75%), SSA (2.93%), and more than the net effective rates for compensation utilized in the Loss Development actuarial model as of September 30, 2007 by the Black Lung Disability Trust Fund (1.52%). The Energy Employees' Occupational Illness Compensation Program did not use the net effective rates (interest minus inflation rate) for compensation. The net effective rate (interest rate – inflation rate[6]) for medical of 1.13% used by the DOL Loss Development actuarial model as of September 30, 2007 was less than the net effective rates for medical utilized in the Loss Development actuarial model as of September 30, 2007 by the Black Lung Disability Trust Fund (1.57%), and more than the USPS (0.4%) and the Energy Employees Occupational Illness Compensation Program (-0.92%). The net effective rates (interest minus inflation rates) for medical used by OPM and SSA were not available.

[5] COLA
[6] CPI-Med

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Agreed-Upon Procedures & Results

NET INTRA-GOVERNMENTAL ACCOUNTS RECEIVABLE

Procedures and Results

<table>
<tr><th>Agreed-Upon Procedures Performed</th><th>Results of Procedures</th></tr>
<tr><td>14) Confirmed accounts receivable balances due as of June 30, 2007 from the Liability for Current Federal Employees' Compensation Act Benefits prepared by the DOL-OCFO and posted on the DOL website[7] for all CFO Act agencies (except DOL) and the U.S. Postal Service and compared confirmed account receivable balances as of June 30, 2007 to the amounts posted on the DOL website[8].</td><td>Confirmations were received from all agencies that were sent a confirmation request. The confirmed accounts receivable balances as of June 30, 2007 agreed with the account receivable balances as of June 30, 2007 posted on the DOL website[9] except for the following four agencies:

<table>
<tr><th>Agency</th><th>Website Amount</th><th>Confirmed Amount</th><th>Difference</th></tr>
<tr><td>USDA</td><td>140,783,703</td><td>140,389,156</td><td>394,547</td></tr>
<tr><td>AID</td><td>7,484,241</td><td>7,475,383</td><td>8,858</td></tr>
<tr><td>OPM</td><td>3,493,053</td><td>3,496,850</td><td>(3,797)</td></tr>
<tr><td>EDU</td><td>3,079,943</td><td>3,187,555</td><td>(107,612)</td></tr>
</table>
</td></tr>
</table>

7 http://www.dol.gov/ocfo/media/reports/FECA_liability_07_3q.pdf
8 http://www.dol.gov/ocfo/media/reports/FECA_liability_07_3q.pdf
9 http://www.dol.gov/ocfo/media/reports/FECA_liability_07_3q.pdf

SECTION 2C

Agreed-Upon Procedures & Results

NET INTRA-GOVERNMENTAL ACCOUNTS RECEIVABLE

Procedures and Results

Agreed-Upon Procedures Performed	Results of Procedures
15) Compared the net intra-governmental accounts receivable balances reported by the OCFO on the *Liability for Current Federal Employees' Compensation Act Benefits* report as of September 30, 2006 to the net intra-governmental accounts receivable balances by Federal agency reported by the OCFO on the *Liability for Current Federal Employees' Compensation Act Benefits* as of September 30, 2007.	The variance from comparing the net intra-governmental accounts receivable balances reported by the OCFO on the *Liability for Current Federal Employees' Compensation Act Benefits* report as of September 30, 2006 to the net intra-governmental accounts receivable balances by Federal agency reported by the OCFO on the *Liability for Current Federal Employees' Compensation Act Benefits* as of September 30, 2007 are identified in Exhibit A.
Recalculated the September 30, 2007 net intra-governmental accounts Receivable balances for each agency by subtracting the cash collections (reported by the OCFO on the SF-224s) and adding the FY 2007 bills (sent to Federal agencies) to the September 30, 2006 ending balance and compared the recalculated balance to the balance reported by the OCFO in the *Liability for Current Federal Employees' Compensation Act Benefits* as of September 30, 2007.	The recalculated net intra-governmental accounts receivable balances agreed to the balances reported by the OCFO in the *Liability for Current Federal Employee's Compensation Act Benefits* as of September 30, 2007 for each agency except the following agencies:

Agency	Recalculated Amount	OCFO Amount	Difference
DOC	10,742,440	6,944,224	3,798,216
USPS	(28,194,881)	(10,157,489)	(18,037,392)
TREAS	102,993,131	103,002,836	(9,705)
OPM	3,493,053	3,494,952	(1,899)
AID	7,484,241	7,482,685	1,556
EDU	614,083	4,421,439	(3,807,356)
DOD	136,746,008	136,853,832	(107,824)

SECTION 2C

Agreed-Upon Procedures & Results

NET INTRA-GOVERNMENTAL ACCOUNTS RECEIVABLE

Procedures and Results

Agreed-Upon Procedures Performed	Results of Procedures
16) Compared the *Summary Chargeback Billing Report* for the period July 1, 2006 through June 30, 2007, to the bills sent to Federal entities dated July 31, 2007.	Variances between the *Summary Chargeback Billing Report* for the period July 1, 2006 through June 30, 2007 and the bills sent to Federal agencies were noted for the following agencies: • DOI $ (28,649) • USDA $ (39,839)
17) Compared the Allocation of Accrued Benefits as of September 30, 2007 recorded on the OCFO *Liability for Current Federal Employees' Compensation Act Benefits* report as of September 30, 2007 to the accrual calculation worksheet prepared by DOL.	No exceptions were found as a result of applying this procedure.
18) Compared the FY 2007 4th quarter accounts receivable estimate prepared by the OCFO and reported on the 4th Quarter *FECA Liability Report* to the FY 2007 4th quarter benefit payments reported on the *Summary Chargeback Billing Report*.	The FY 2007 4th quarter accounts receivable estimate prepared by the OCFO varied from the actual payments reported on the *Summary Chargeback Billing Report* by $29.6 million.

SECTION 2C

Agreed-Upon Procedures & Results

NET INTRA-GOVERNMENTAL ACCOUNTS RECEIVABLE

Procedures and Results

	Net Intra-Governmental Accounts Receivable September 30		
Agency	2007	2006	Change
Agency for International Development	$8,463	$8,500	$(37)
Environmental Protection Agency	9,102	8,493	609
General Services Administration	33,998	33,786	212
National Aeronautics and Space Administration	15,553	15,056	497
National Science Foundation	292	291	1
Nuclear Regulatory Commission	1,659	1,836	(177)
Office of Personnel Management	4,022	4,543	(521)
U.S. Postal Service	261,962	238,542	23,420
Small Business Administration	5,718	5,643	75
Social Security Administration	54,868	53,891	977
Tennessee Valley Authority	82,224	83,488	(1,264)
U.S. Department of Agriculture	161,620	159,790	1,830
U.S. Department of the Air Force	295,089	290,415	4,674
U.S. Department of the Army	325,113	324,053	1,060
U.S. Department of Commerce	28,307	32,116	(3,809)

(continued)

EXHIBIT A
Results of Procedure 15

SECTION 2C

Agreed-Upon Procedures & Results

NET INTRA-GOVERNMENTAL ACCOUNTS RECEIVABLE

Procedures and Results

	Net Intra-Governmental Accounts Receivable September 30		
Agency	2007	2006	Change
U.S. Department of Defense - other	$207,418	$185,086	$22,332
U.S. Department of Education	9,209	4,251	4,958
U.S. Department of Energy	20,553	20,008	545
U.S. Department of Health and Human Services	56,439	56,202	237
U.S. Department of Homeland Security	361,483	341,586	19,897
U.S. Department of Housing and Urban Development	18,367	17,709	658
U.S. Department of Interior	136,654	133,937	2,717
U.S. Department of Justice	215,027	201,005	14,022
U.S. Department of Labor	54,831	54,196	635
U.S. Department of Navy	559,940	557,343	2,597
U.S. Department of State	17,637	17,883	(246)
U.S. Department of Transportation	213,973	215,145	(1,172)
U.S. Department of the Treasury	119,377	117,893	1,484
U.S. Department of Veterans Affairs	377,655	369,264	8,391

SECTION 2C

Agreed-Upon Procedures & Results

BENEFIT EXPENSE

Procedures and Results

Agreed-Upon Procedures Performed	Results of Procedures
19) Compared benefit payments recorded in the Integrated Federal Employees Compensation System (iFECS) and Central Bill Pay (CBP) databases to the U.S. Department of the Treasury's SF-224s as of March 31, 2007 and September 30, 2007.	No exceptions were found as a result of applying this procedure.
20) Compared the benefit payments reported in the *Summary Chargeback Billing Reports* for the fiscal year ended September 30, 2007 to the total benefit payments in the iFECS and CBP databases for the fiscal year ended September 30, 2007.	The benefit payments reported in the *Summary Chargeback Billing Reports* for the fiscal year ended September 30, 2007 were $11.9 million less than the total benefit payments in the iFECS and CBP databases for the fiscal year ended September 30, 2007. Management's most recent reconciliation between the *Summary Chargeback Billing Reports* and the total benefit payments in the iFECS and CBP databases performed for the chargeback year ending June 30, 2007 and quarter ending September 30, 2007 resulted in unidentified differences of less than $0.7 million, in the aggregate.
21) Compared compensation and medical bill payments by agency for the fiscal year ending September 30, 2007 from the *Summary Chargeback Billing Report* prepared by DOL, to the compensation and medical bill payments by agency made for the fiscal year ended	The following agencies had increases (decreases) over 10% in compensation and medical bill payments for the year ended September 30, 2007 compared to the year ended September 30, 2006: • DOL (11%) • SBA (11%)

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Agreed-Upon Procedures & Results

BENEFIT EXPENSE

Procedures and Results

Agreed-Upon Procedures Performed	Results of Procedures
September 30, 2006 from the *Summary Chargeback Billing Report* prepared by DOL, and identified any variances over 10 percent.	• OPM (12%) • EDU (21%) • AID (27%) • NRC (11%) Variances for the remaining agencies were less than 10 percent.
22) For a selection of 110 compensation payments, performed tests for existence and accuracy by comparing benefit data from the applicable Forms CA-1 *Federal Notice of Traumatic Injury and Claim for Continuation of Pay/Compensation*, CA-2 *Notice of Occupational Disease and Claim for Compensation*, CA-7 *Claim for Compensation*, and CA-1032 *Request for Information on Earnings, Dual Benefits, Dependents and Third Party Settlements* to the payment amounts in iFECS.	For one of the 110 sample items, the compensation amount of the payment was not calculated using the data on the applicable form CA-1032, resulting in an overpayment of $280. The compensation payment was calculated using a rate of ¾ of the claimants compensation rate, instead of the 2/3 of the claimants compensation rate that should have been used because the claimant had no spouse or dependents reported on the CA-1032.
23) For a selection of 153 medical payments, performed tests for existence and accuracy by comparing the medical bill to the payment amount in CBP.	No exceptions were found as a result of applying the procedure.

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Agreed-Upon Procedures & Results

BENEFIT EXPENSE

Procedures and Results

Agreed-Upon Procedures Performed	Results of Procedures
24) Calculated the change in the actuarial liability reported on the September 30, 2007 and September 30, 2006 compilation reports prepared by DOL.	The actuarial liability increased by $455 million from September 30, 2006 to September 30, 2007.
25) Calculated a 12-month projected benefit payment by multiplying the six month benefit payments from the March 31, 2007, iFECS and CBP databases by two and compared the projected 12-month total benefit payments to the actual 12-month total benefit payments as of September 30, 2007 calculated from the *Summary Chargeback Billing Reports*.	The calculated projected benefit payments based on the March 31, 2007 iFECS and CBP databases were $157 million (6.58%) less than the actual 12 month benefit payments. There was an additional payment cycle in FY 2007 of $108 million. The remaining difference is $49 million (2.06%).
26) Compared the Fiscal Year 2007 4th quarter benefit expense estimate calculated by the OCFO on the *Liability for Current Federal Employees Compensation Act Benefits* report to the actual benefits recorded in iFECS and CBP.	The Fiscal Year 2007 4th quarter benefit expense estimate calculated by the OCFO on the liability for Current Federal Employees Compensation Act Benefits report varied from the actual benefit expenses recorded in iFECS and CBP by approximately $38.2 million.

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Appendix

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ACRONYMS and ABBREVIATIONS

AID	U.S. Agency for International Development
AUP	Agreed Upon Procedures
CBP	Central Bill Processing System
CFO	Chief Financial Officers' Act
COLA	Cost of Living Allowance
CPI-Med	Consumer Price Index for Medical
DOC	U.S. Department of Commerce
DOD	U.S. Department of Defense
DOI	U.S. Department of Interior
DOL	U.S. Department of Labor
EDU	Department of Education
ESA	Employment Standards Administration
FECA	Federal Employees' Compensation Act
iFECS	Integrated Federal Employees' Compensation System
NRC	Nuclear Regulatory Commission
OCFO	Office of the Chief Financial Officer
OMB	Office of Management and Budget
OPM	Office of Personnel Management
SBA	Small Business Administration
SSA	Social Security Administration
TREAS	U.S. Department of Treasury
USDA	Department of Agriculture
USPS	U.S. Postal Service