U.S. Department of Labor

Office of Inspector General—Office of Audit

EMPLOYMENT STANDARDS ADMINISTRATION

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

September 30, 2006

Date Issued: October 24, 2006
Report Number: 22-07-002-04-431

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U.S. Department of Labor

Office of Inspector General
Washington, DC 20210

Assistant Inspector General for Audit's Memorandum

October 24, 2006

MEMORANDUM FOR: FEDERAL AGENCIES WITH RESPONSIBILITIES FOR THE FECA PROGRAM

Elliot P. Lewis

FROM: ELLIOT P. LEWIS
Assistant Inspector General for Audit

SUBJECT: Report Relating to the Federal Employees' Compensation Act Special Benefit Fund – FY 2006
Report No. 22-07-002-04-431

Attached is the 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, 2006. This report consists of two separate reports. The first report is an *opinion* on the total actuarial liability, net intra-governmental accounts receivable, and total benefit expense of the Fund as of and for the year ended September 30, 2006. The auditor issued an unqualified opinion on this report. The second report is an *agreed-upon procedures* (AUP) report on the schedules of actuarial liability, net intra-governmental accounts receivable, and benefit expense by agency as of and for the year ended September 30, 2006. This report includes a description of the procedures performed and the results of those procedures.

KPMG issued a third and separate report on internal controls and compliance relating to the FECA Special Benefit Fund dated October 13, 2006. This report contains sensitive information and is being distributed separately.

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 13, 2006, and the conclusions expressed in the report. We reviewed KPMG's report and related documentation and inquired of its 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 total actuarial liability, net intra-governmental accounts receivable, and total benefit expense of the Fund as of and for the year ended September 30, 2006; or the AUP report on the schedules of actuarial liability, net intra-governmental accounts receivable, and benefit expense by agency as of and for the year ended September 30, 2006. However, our review disclosed no instances where KPMG did not comply, in all material respects, with generally accepted government auditing standards.

If you have any comments or suggestions on the contents or sufficiency of this report or the procedures performed that you would like considered for future audits, please send your comments via regular mail, facsimile, or e-mail to:

Michael T. McFadden
Director, Office of Accountability Audits
U.S. Department of Labor
Office of Inspector General
200 Constitution Ave., N.W., Room N-5620
Washington, D.C. 20210

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Attachment

KPMG LLP
2001 M Street, NW
Washington, DC 20036

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 Federal Agencies with Responsibility for the FECA Program:

We have audited the accompanying Schedule of Actuarial Liability and Net Intra-Governmental Accounts Receivable as of September 30, 2006 and Benefit Expense for the year ended September 30, 2006 of the U.S. Department of Labor's Federal Employees' Compensation Act Special Benefit Fund (the Schedule). This schedule is the responsibility of the U.S. Department of Labor's management. Our responsibility is to express an opinion on this schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Schedule of Actuarial Liability, Net Intra-Governmental Accounts Receivable and Benefit Expense referred to above presents fairly, in all material respects, the actuarial liability and net intra-governmental accounts receivable as of September 30, 2006 and benefit expense for the year ended September 30, 2006 of the U.S. Department of Labor's Federal Employees' Compensation Act Special Benefit Fund in conformity with U.S. generally accepted accounting principles.

KPMG

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2006, on our consideration of DOL's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

This report is intended solely for the information and use of the U.S. Department of Labor, 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 13, 2006

SECTION 1B

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

Schedule of Actuarial Liability and Net Intra-Governmental Accounts Receivable as of September 30, 2006 and Benefit Expense For the Year Ended September 30, 2006

(dollars in thousands)

Actuarial Liability	$ 25,851,505
Net Intra-Governmental Accounts Receivable	$ 3,702,485
Benefit Expense	$ 2,331,735

See accompanying notes to schedule.

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SECTION 1C

Notes to the Schedule of Actuarial Liability and Net Intra-Governmental Accounts Receivable as of September 30, 2006 and Benefit Expense For the Year Ended September 30, 2006

1. Significant Accounting Policies

a. Basis of Presentation

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

The actuarial liability, net intra-governmental accounts receivable and benefit expense of the Special Benefit Fund 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, 2006. 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 and other beneficiaries of the employing agency as of September 30, 2006. The net intra-governmental accounts receivable includes amounts which were billed to the employing agencies through June 30, 2006, but not paid as of September 30, 2006, including prior years, if applicable, plus the accrued receivable for benefit payments not yet billed for the period of July 1, 2006 through September 30, 2006, less credits due from the public. Benefit expense consists of benefits paid and accrued for the period from October 1, 2005 to September 30, 2006, plus the net change in the actuarial liability for the year.

SECTION 1C

Notes to the Schedule of Actuarial Liability and Net Intra-Governmental Accounts Receivable as of September 30, 2006 and Benefit Expense For the Year Ended September 30, 2006

Benefit payments are intended to provide income and medical cost protection to covered Federal civilian employees and certain designated groups injured on the job, employees and certain designated groups who have incurred a work-related occupational disease, and their survivors in the event of death that is attributable to job-related injury or occupational disease.

b. Basis of Accounting

The accounting and reporting policies of the Federal Employees' Compensation Act Special Benefit Fund relating to the Schedule of Actuarial Liability and Net Intra-Governmental Accounts Receivable as of September 30, 2006 and Benefit Expense For the Year Ended September 30, 2006 (the Schedule) are reported on the accrual basis of accounting and conform to U.S. generally accepted accounting principles.

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

2. <u>Actuarial Liability (Future Workers' Compensation Benefits)</u>

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 their survivors in the event death is attributable to a job-related injury or occupational disease. The fund is reimbursed by other Federal agencies for the FECA benefit payments made on behalf of their workers.

The actuarial liability for future workers' compensation reported on the schedule includes the expected liability for death, disability, medical and miscellaneous costs for approved cases. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. 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.

SECTION 1C

Notes to the Schedule of Actuarial Liability and Net Intra-Governmental Accounts Receivable as of September 30, 2006 and Benefit Expense For the Year Ended September 30, 2006

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 5.17% in year 1 and 5.31% 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
2007	3.50%	4.00%
2008	3.13%	4.01%
2009	2.40%	4.01%
2010	2.40%	4.03%
2011	2.43%	4.09%

The medical inflation rates presented represent an average of published quarterly rates covering the benefit payment fiscal year. The compensation factors presented are the blended rates used by the model rather than the published June 7, 2006 FECA-COLA factor from which the blended rates are derived.

3. Net Intra-Governmental Accounts Receivable

Net intra-governmental accounts receivable is the total of the amounts billed to Federal agencies through June 30, 2006 but had not been paid as of September 30, 2006, including prior year's amounts billed, if applicable, plus an accrued receivable for benefit payments not yet billed for the period July 1, 2006 through September 30, 2006, less applicable credits. The FECA Special Benefit Fund also receives an appropriation for special cases and older cases where employing agencies are not charged for benefit payments.

SECTION 1C

Notes to the Schedule of Actuarial Liability and Net Intra-Governmental Accounts Receivable as of September 30, 2006 and Benefit Expense For the Year Ended September 30, 2006

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, 2006 was comprised of the following (dollars in thousands):

Benefits paid for compensation	$ 1,814,705
Benefits paid for medical benefits	694,588
Change in accrued benefits	(21,370)
Change in actuarial liability	(156,188)
Total benefit expense	$ 2,331,735

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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 Federal Agencies with Responsibility for the FECA Program:

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, Government Accountability Office, Office of Management and Budget, and Federal agencies with responsibility for the FECA program, 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, 2006, and Benefit Expense by Agency for the year ended September 30, 2006, 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.

This report is intended solely for the information and use of the U.S. Department of Labor, 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 13, 2006

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, 2006

(dollars in thousands)

AGENCY	Actuarial Liability
Agency for International Development	$ 23,438
Environmental Protection Agency	39,408
General Services Administration	165,051
National Aeronautics and Space Administration	60,217
National Science Foundation	1,287
Nuclear Regulatory Commission	7,434
Office of Personnel Management	20,448
United States Postal Service	8,662,714
Small Business Administration	27,045
Social Security Administration	274,763
Tennessee Valley Authority	553,322
U. S. Department of Agriculture	807,652
U. S. Department of the Air Force	1,369,905
U. S. Department of the Army	1,973,869
U. S. Department of Commerce	170,164
U. S. Department of Defense – other	813,532
U. S. Department of Education	16,952
U. S. Department of Energy	96,386
U. S. Department of Health and Human Services	273,374
U. S. Department of Homeland Security	1,519,329
U. S. Department of Housing and Urban Development	79,873

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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, 2006

(dollars in thousands)

AGENCY	Actuarial Liability
U. S. Department of the Interior	$ 678,923
U. S. Department of Justice	991,560
U. S. Department of Labor	242,525
U. S. Department of the Navy	2,698,683
U. S. Department of State	62,669
U. S. Department of Transportation	952,969
U. S. Department of the Treasury	600,737
U. S. Department of Veterans Affairs	1,811,947
Other agencies [1]	855,329
Total - all agencies	$ 25,851,505

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, 2006

(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	$ 7,517	1,025	(42)	8,500
Environmental Protection Agency	7,322	1,208	(37)	8,493
General Services Administration	29,172	4,759	(145)	33,786
National Aeronautics and Space Administration	12,817	2,306	(67)	15,056
National Science Foundation	250	42	(1)	291
Nuclear Regulatory Commission	1,609	234	(7)	1,836
Office of Personnel Management	3,888	672	(17)	4,543
United States Postal Service	(27,360)	274,798	(8,896)	238,542
Small Business Administration	4,753	912	(22)	5,643
Social Security Administration	46,610	7,521	(240)	53,891
Tennessee Valley Authority	66,387	17,654	(553)	83,488
U. S. Department of Agriculture	138,826	21,670	(706)	159,790
U. S. Department of the Air Force	251,179	40,511	(1,275)	290,415
U. S. Department of the Army	281,156	44,332	(1,435)	324,053
U. S. Department of Commerce	27,499	4,768	(151)	32,116
U. S. Department of Defense – other	160,999	24,917	(830)	185,086
U. S. Department of Education	3,763	505	(17)	4,251
U. S. Department of Energy	16,881	3,231	(104)	20,008

(continued)

1 Amount billed through June 30, 2006 (including prior years) but not yet paid as of September 30, 2006.

2 Amounts paid and accrued but not yet billed for the period July 1, 2006 through September 30, 2006.

3 Allocation of credits due from the public through September 30, 2006

4 Total amount due to the fund for each agency as of September 30, 2006.

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, 2006

(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	$ 48,593	7,857	(248)	56,202
U. S. Department of Homeland Security	295,076	48,087	(1,577)	341,586
U. S. Department of Housing and Urban Development	15,203	2,583	(77)	17,709
U. S. Department of the Interior	115,884	18,646	(593)	133,937
U. S. Department of Justice	173,456	28,478	(929)	201,005
U. S. Department of Labor	46,890	7,584	(278)	54,196
U. S. Department of the Navy	482,109	77,693	(2,459)	557,343
U. S. Department of State	15,628	2,337	(82)	17,883
U. S. Department of Transportation	185,713	30,366	(934)	215,145
U. S. Department of the Treasury	102,022	16,389	(518)	117,893
U. S. Department of Veterans Affairs	319,378	51,537	(1,651)	369,264
Other agencies	128,887	22,346	(699)	150,534
Total - all agencies	$ 2,962,107	764,968	(24,590)	3,702,485

1 Amount billed through June 30, 2006 (including prior years) but not yet paid as of September 30, 2006.

2 Amounts paid and accrued but not yet billed for the period July 1, 2006 through September 30, 2006.

3 Allocation of credits due from public through September 30, 2006

4 Total amount due to the fund for each agency as of September 30, 2006.

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, 2006

(dollars in thousands)

AGENCY	Benefits Paid and Accrued	Change in Actuarial Liability	Total Benefit Expense
Agency for International Development	$ 4,434	(288)	4,146
Environmental Protection Agency	4,003	28	4,031
General Services Administration	15,432	(5,062)	10,370
National Aeronautics and Space Administration	7,377	(2,213)	5,164
National Science Foundation	139	(95)	44
Nuclear Regulatory Commission	815	(983)	(168)
Office of Personnel Management	1,958	(5,205)	(3,247)
United States Postal Service	924,482	(1,249)	923,233
Small Business Administration	2,570	(1,922)	648
Social Security Administration	24,791	(9,826)	14,965
Tennessee Valley Authority	58,296	(27,184)	31,112
U. S. Department of Agriculture	73,699	(26,763)	46,936
U. S. Department of the Air Force	133,271	(29,409)	103,862
U. S. Department of the Army	189,028	23,696	212,724
U. S. Department of Commerce	15,762	(3,251)	12,511
U. S. Department of Defense - other	67,063	(30,475)	36,588
U. S. Department of Education	1,821	(1,130)	691
U. S. Department of Energy	10,622	(2,093)	8,529
U. S. Department of Health and Human Services	26,109	3,020	29,129
U.S. Department of Homeland Security	163,729	46,034	209,763

(continued)

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, 2006

(dollars in thousands)

AGENCY	Benefits Paid and Accrued	Change in Actuarial Liability	Total Benefit Expense
U. S. Department of Housing and Urban Development	$ 8,199	(1,740)	6,459
U. S. Department of the Interior	61,850	(10,383)	51,467
U. S. Department of Justice	94,040	65,224	159,264
U. S. Department of Labor	21,919	8,874	30,793
U. S. Department of the Navy	258,582	(26,688)	231,894
U. S. Department of State	7,617	2,381	9,998
U. S. Department of Transportation	99,687	(54,941)	44,746
U. S. Department of the Treasury	54,843	(43,883)	10,960
U. S. Department of Veterans Affairs	172,121	35,488	207,609
Other agencies (1)	(16,336)	(56,150)	(72,486)
Total - all agencies	$ 2,487,923	(156,188)	2,331,735

1 Non-billable, other agencies for which ESA has not individually calculated an actuarial liability, and change in accrued benefits.

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, 2006, using KPMG's Loss Development actuarial model[1].	The actuarial liability as of September 30, 2006 calculated using KPMG's Loss Development actuarial model is approximately $25.6 billion.
2) Recalculated the actuarial liability, by agency, as of September 30, 2006, using DOL's Loss Development actuarial model[2].	The recalculated actuarial liability as of September 30, 2006 using DOL's Loss Development actuarial model is approximately $25.9 billion.
3) Compared the interest rate and inflation (COLA, CPI-Med) assumptions used by the DOL Loss Development model as of September 30, 2006 to the interest rate and inflation (COLA, CPI-Med) assumptions used by KPMG's Loss Development model as of September 30, 2006.	The interest rate and inflation rate assumptions used by the Loss Development actuarial model's by DOL and KPMG are as follows:

	DOL	KPMG
Interest rate		
Year 1	5.17%	3.50%[3]
Year 2	5.31%	3.50%
Inflation rates		
COLA Year 1	3.50%	N/A[4]
COLA Year 2	3.13%	N/A
COLA Year 3	2.40%	N/A
COLA Year 4	2.40%	N/A
COLA Year 5 forward	2.43%	N/A
CPI-Med Year 1	4.00%	N/A
CPI-Med Year 2	4.01%	N/A
CPI Med Year 3	4.01%	N/A
CPI Med Year 4	4.03%	N/A
CPI Med Year 5 forward	4.09%	N/A

[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 2000 through 2006.
[2] The DOL model uses a 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.
[3] KPMG's model uses 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 are discounted to June 30, 2006.
[4] KPMG's model does not use an inflation rate because it does not adjust data to the current level and therefore inflation is included in the loss development patterns selected.

SECTION 2C

Agreed-Upon Procedures & Results

ACTUARIAL LIABILITY

Procedures and Results

Agreed-Upon Procedures Performed	Results of Procedures
4) Compared DOL's actuarial liability as of September 30, 2006 using DOL's Loss Development actuarial model to our calculation of the actuarial liability as of September 30, 2006 using DOL's Loss Development actuarial model.	No exceptions were found as a result of applying this procedure.
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, 2006 calculated using DOL's Loss Development actuarial model is approximately $271 million (1.1%) 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, 2005 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, 2006.	The average interest rate used in the DOL Loss Development Actuarial model increased from 4.97% to 5.30% from September 30, 2005 to September 30, 2006. The average COLA rate used in the DOL Loss Development Actuarial model increased from 2.55% to 2.60% from September 30, 2005 to September 30, 2006. The average CPI-med rate used in the DOL Loss Development Actuarial model increased from 4.02% to 4.06% from September 30, 2005 to September 30, 2006.

SECTION 2C

Agreed-Upon Procedures & Results

ACTUARIAL LIABILITY

Procedures and Results

7) Calculated the change in the actuarial liability by agency and in the aggregate from September 30, 2005 to September 30, 2006, based on the DOL Loss Development actuarial model and determined if there were agencies whose actuarial liability changed by more than 10% during 2006. For such agencies, calculate the percentage change in benefit payments for the year ended September 30, 2005 to September 30, 2006.	The following agencies had changes in actuarial liability from September 30, 2005 to September 30, 2006 of greater than 10%: OPM (-20%), NRC (-12%). The benefit payments for OPM and NRC changed from the year ended September 30, 2005 to the year ended September 30, 2006 by the following: OPM (-18%) and NRC (-20%).
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, 2006 to the Fiscal Year 2007 Mid-Session Review prepared by OMB from which they are derived.	No exceptions were found as a result of applying this procedure.
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, 2006, 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, 2006.	No exceptions were found as a result of applying this procedure.

SECTION 2C

Agreed-Upon Procedures & Results

ACTUARIAL LIABILITY

Procedures and Results

10) Compared both the program year 2006 benefit payments by agency and the aggregate 2002-2006 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, 2006 with the agency groupings used in the DOL Loss Development actuarial model as of September 30, 2005 and determined if there were any changes.	The agency groupings used in the DOL Loss Development actuarial model as of September 30, 2006 agreed to the agency groupings used in the DOL Loss Development actuarial model as of September 30, 2005 without exception.
12) Compared the benefit payments predicted by the 2005 DOL Loss Development actuarial model for 2006 to the actual benefit payments for 2006 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 2006 from the Summary Chargeback Billing Report.	For one agency, the U.S. Department of State (DOS), the actual benefit payments for 2006 from the DOL Summary Chargeback Billing Report varied by more than 20% and $2 million from the benefit payments predicted for 2006 by the 2005 DOL Loss Development actuarial model. The actual benefit payments for 2006 from the DOL Summary Chargeback Billing Report for DOS of $7.7 million were $2.3 million and 42% greater than the $5.4 million of benefit payments predicted for 2006 by the 2005 DOL Loss Development actuarial model.

SECTION 2C

Agreed-Upon Procedures & Results

ACTUARIAL LIABILITY

Procedures and Results

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, 2006 by the Postal Service, OPM, Social Security Administration, 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, 2006.	The net effective rate (interest rate minus inflation rate[5]) for compensation of 2.7% used by the DOL Loss Development actuarial model as of September 30, 2006 was less than the net effective rates for compensation utilized in the Loss Development actuarial model as of September 30, 2006 by Postal Service (3.30%), OPM (2.75%), Social Security Administration (3.00%), and the Black Lung Disability Trust Fund (4.51%). The Energy Employees' Occupational Illness Compensation Program does not use an inflation rate for compensation. The net effective rate (interest rate – inflation rate[6]) for medical of 1.24% used by the DOL Loss Development actuarial model as of September 30, 2006 varied from the net effective rates for medical utilized in the Loss Development actuarial model as of September 30, 2006 by Postal Service (-0.8%) the Energy Employees Occupational Illness Compensation Program (-1.69%) and the Black Lung Disability Trust Fund (1.5%). The net effective rates for medical used by OPM and SSA were not available.

[5] COLA
[6] CPI-Med

SECTION 2C

Agreed-Upon Procedures & Results

NET INTRA-GOVERNMENTAL ACCOUNTS RECEIVABLE

Procedures and Results

Agreed-Upon Procedures Performed	Results of Procedures
14) Confirmed accounts receivable balances due as of September 30, 2006 from the *Liability for Current Federal Employees' Compensation Act Benefits* prepared by the DOL-OCFO and posted on the DOL website[7] October 4, 2006, for all CFO Act agencies (except DOL) and the U.S. Postal Service, and compared confirmed account receivable balances as of September 30, 2006 to the amounts posted on the DOL website October 4, 2006.	Confirmations were received from all 28 agencies that were sent a confirmation request. The confirmed account receivable balances as of September 30, 2006 agreed with the account receivable balances as of September 30, 2006 posted on the DOL website October 4, 2006 except for the following 3 agencies:

Agency	Website Amount	Confirmed Amount	Difference
HHS	$ 48,593,189	48,540,946	52,243
DOS	14,644,347	14,653,205	(8,858)
TRS	102,258,210	102,318,914	(60,704)

[7] http://www.dol.gov/ocfo/media/reports/FECA_liability_06_4q.pdf

SECTION 2C

Agreed-Upon Procedures & Results

NET INTRA-GOVERNMENTAL ACCOUNTS RECEIVABLE

Procedures and Results

Agreed-Upon Procedures Performed	Results of Procedures
15) Compared 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, 2005 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, 2006. Recalculated the September 30, 2006 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 2006 bills (sent to Federal agencies) to the September 30, 2005 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, 2006.	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, 2005 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, 2006 are identified in Exhibit A. The recalculated Net Intra-governmental Accounts Receivable balances agreed to the balances reported by the OCFO as of September 30, 2006 for each agency except the following agency: <table><tr><th>Agency</th><th>Recalculated Amount</th><th>OCFO Amount</th><th>Difference</th></tr><tr><td>DOD</td><td>$160,998,539</td><td>161,104,826</td><td>106,287</td></tr></table>
16) Compared the *Summary Chargeback Billing Report* for the period, July 1, 2005, through June 30, 2006, to the bills sent to Federal entities dated August 15, 2006.	Variances between the Summary Chargeback Billing Report for the period July 1, 2005 through June 30, 2006 and the bills sent to Federal agencies were noted for the following agencies: • DOD $ 74,508 • OPM $ 76,407

SECTION 2C

Agreed-Upon Procedures & Results

NET INTRA-GOVERNMENTAL ACCOUNTS RECEIVABLE

Procedures and Results

17) Compared the Allocation of Accrued Benefits as of September 30, 2006 recorded on the OCFO *Liability for Current Federal Employees' Compensation Act Benefits* report as of September 30, 2006 to the accrual calculation worksheet prepared by DOL.	No exceptions were found as a result of applying this procedure.
18) Compared the FY 2006 4th quarter accounts receivable estimate prepared by the OCFO and reported on the 4th Quarter *FECA Liability Report* to the FY 2006 4th quarter benefit payments reported on the *Summary Chargeback Billing Report*.	The FY 2006 4th quarter accounts receivable estimate prepared by the OCFO varied from the actual payments reported on the Summary Chargeback Billing Report by $95,940,440. As a result of this variance, the OCFO subsequently posted the actual amounts resulting in an adjustment of $95,940,440 to the estimate.

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	2006	2005	Change
Agency for International Development	8,500	7,429	1,071
Environmental Protection Agency	8,493	8,484	9
General Services Administration	33,786	34,357	(571)
National Aeronautics and Space Administration	15,056	15,211	(155)
National Science Foundation	291	282	9
Nuclear Regulatory Commission	1,836	1,883	(47)
Office of Personnel Management	4,543	4,081	462
U.S. Postal Service	238,542	229,651	8,891
Small Business Administration	5,643	5,283	360
Social Security Administration	53,891	53,267	624
Tennessee Valley Authority	83,488	84,048	(560)
U.S. Department of Agriculture	159,790	158,464	1,326
U.S. Department of the Air Force	290,415	291,104	(689)
U.S. Department of the Army	324,053	321,565	2,488
U.S. Department of Commerce	32,116	30,656	1,460
U.S. Department of Defense - other	185,086	181,608	3,478

EXHIBIT A
Results of Procedure 15

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NET INTRA-GOVERNMENTAL ACCOUNTS RECEIVABLE

Procedures and Results

Agency	Net Intra-Governmental Accounts Receivable September 30 2006	2005	Change
U.S. Department of Education	4,251	3,849	402
U.S. Department of Energy	20,008	18,482	1,526
U.S. Department of Health and Human Services	56,202	53,709	2,493
U.S. Department of Homeland Security	341,586	357,700	(16,114)
U.S. Department of Housing and Urban Development	17,709	17,441	268
U.S. Department of Interior	133,937	131,141	2,796
U.S. Department of Justice	201,005	179,626	21,379
U.S. Department of Labor	54,196	52,098	2,098
U.S. Department of Navy	557,343	554,281	3,062
U.S. Department of State	17,883	16,813	1,070
U.S. Department of Transportation	215,145	213,349	1,796
U.S. Department of the Treasury	117,893	116,473	1,420
U.S. Department of Veterans Affairs	369,264	357,244	12,020

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 SF-224s submitted to the U.S. Department of the Treasury as of March 31, 2006, and September 30, 2006.	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, 2006 to the total benefit payments in the iFECS and CBP databases for the fiscal year ended September 30, 2006.	The benefit payments reported in the *Summary Chargeback Billing Reports* for the fiscal year ended September 30, 2006 were $17.4 million less than the total benefit payments in the iFECS and CBP databases for the fiscal year ended September 30, 2006.
21) Compared compensation and medical bill payments by agency for the fiscal year ending September 30, 2006 from the *Summary Chargeback Billing Report* prepared by DOL, to the compensation and medical bill payments by agency made for the fiscal year ended September 30, 2005 from the *Summary Chargeback Billing Report* prepared by DOL, and identified any variances over 10 percent.	The following agencies had increases (decreases) over 10% in compensation and medical bill payments for the year ended September 30, 2006 compared to the year ended September 30, 2005: • NSF 16% • SBA 15% • OPM -16% • USAID 42% • DOJ 17% • NASA 20% • DOE 13% • EPA 11% • DoED 32% • DHS 16% Variances for the remaining agencies were less than 10 percent.

SECTION 2C

Agreed-Upon Procedures & Results

BENEFIT EXPENSE

Procedures and Results

Agreed-Upon Procedures Performed	Results of Procedures
22) For a selection of 102 compensation payments, performed tests for existence and accuracy by comparing payment 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 102 sample items, the amount of the payment was not calculated using the data on the applicable form CA-1032, resulting in an overpayment of $318. The payment was calculated using a rate of 3/4 of the claimant's compensation rate, instead of 2/3 of the claimant's 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 108 medical payments, performed tests for existence and accuracy by comparing amount from the medical bill to the payment amount in CBP.	No exceptions were found as a result of applying the procedure.
24) Calculated the change in the actuarial liability reported on the September 30, 2006 and September 30, 2005 compilation reports prepared by DOL.	The actuarial liability decreased by $156 million from September 30, 2005 to September 30, 2006.
25) Calculated a 12-month projected benefit payment by multiplying the six month benefit payments from the March 31, 2006, 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, 2006 calculated from the *Summary Chargeback Billing Reports*.	The calculated projected benefit payments based on the March 31, 2006 iFECS and CBP databases were $10 million (0.38%) greater than the actual 12 month benefit payments.

SECTION 2C

Agreed-Upon Procedures & Results

BENEFIT EXPENSE

Procedures and Results

Agreed-Upon Procedures Performed	Results of Procedures
26) Compared the Fiscal Year 2006 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 2006 4th quarter benefit expense estimate calculated by the OCFO varied from the actual benefit expenses recorded in iFECS and CBP by approximately $131 million. ESA and the OCFO subsequently adjusted the Fiscal Year 2006 4th quarter benefit expense estimates by approximately $96 million, resulting in a remaining difference of $35 million.

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Appendix

ACRONYMS and ABBREVIATIONS

AUP	Agreed Upon Procedures
CBP	Central Bill Processing System
CFO	Chief Financial Officers
COLA	Cost of Living Allowance
CPI-Med	Consumer Price Index for Medical
DHS	U.S. Department of Homeland Security
DOD	U.S. Department of Defense
DOE	U.S. Department of Energy
DoED	U.S. Department of Education
DOJ	U.S. Department of Justice
DOL	U.S. Department of Labor
DOS	U.S. Department of State
ESA	Employment Standards Administration
FECA	Federal Employees' Compensation Act
FY	Fiscal Year
HHS	U.S. Department of Health and Human Services
IBNR	Incurred But Not Reported
iFECS	Integrated Federal Employees' Compensation System
NASA	National Aeronautics and Space Administration
NRC	Nuclear Regulatory Commission
NSF	National Science Foundation
OCFO	Office of the Chief Financial Officer
OMB	Office of Management and Budget
OPM	Office of Personnel Management
OWCP	Office of Workers' Compensation Programs
SBA	Small Business Administration
SSA	Social Security Administration
TRS	U.S. Department of Treasury
USAID	U.S. Agency for International Development