

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

FOR THE YEAR ENDED SEPTEMBER 30, 1998

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

Assistant Inspector General for Audit

**U.S. Department of Labor
Office of Inspector General
Report Number: 12-99-004-04-431
Date Issued:**

**Carmichael
Brasher Tuvell
& Savage**
C e r t i f i e d P u b l i c A c c o u n t a n t s

[This page intentionally left blank.]

Table of Contents

Acronyms	i
I. A. Independent Auditors' Report on the Schedule of Actuarial Liability and Benefit Payments	1
B. Schedule of Actuarial Liability and Benefit Payments	3
II. A. Independent Accountants' Report on Applying Agreed-Upon Procedures	9
B. Schedule of Actuarial Liability and Benefit Payments by Agency	11
C. Agreed-Upon Procedures and Results	
Summary	13
Actuarial Liability	14
Benefit Payments	22
III. A. Independent Service Auditors' Report	25
B. Division of Federal Employees' Compensation	
Organization's Policies and Procedures	
Overview of Services Provided	27
Overview of Control Environment	31
Overview of Transaction Processing	34
Overview of Computer Information Systems	40
Control Objectives and Related Policies and Procedures	42
User Control Considerations	43
C. Information Provided by the Service Auditor	
Tests of Control Environment Elements	44
Sampling Methodology	45
Control Objectives, Related Policies and Procedures,	
and Tests of Operating Effectiveness	48
General Computer Controls	49
Transaction Processing Controls	59

[This page intentionally left blank.]

ACRONYMS

ACPS	Automated Compensation Payment System
ADP	Automatic Data Processing
ASP	Automated Support Package
BPS	Bill Payment System
BLS	Bureau of Labor Statistics
CBS	Chargeback System
CDSI	Computer Data System, Inc.
CE	Claims Examiner
CFO	Chief Financial Officer
CFR	Code of Federal Regulations
CMF	Case Management File System
COLA	Cost of Living Allowance
COP	Continuation of Pay
CPI	Consumer Price Index
CPI-U	Consumer Price Index for all Urban Consumers
CPI-Med	Consumer Price Index for Medical
DASM	Division of Automated Systems Management
DCE	Designated Claims Examiner
DD	District Director
DFEC	Division of Federal Employees' Compensation
DMA	District Medical Advisor
DMD	District Medical Director
DO	District Office
DOL	United States Department of Labor
DOLAR\$	Department of Labor Accounting and Related Systems
DPSS	Division of Planning, Policy and Standards
DRP	Disaster Recovery Plan
EDP	Electronic Data Processing
EPA	Environmental Protection Agency
ESA	Employment Standards Administration

ACRONYMS

FCS	Fund Control System
FECA	Federal Employees' Compensation Act
FEMA	Federal Emergency Management Agency
FMFIA	Federal Managers' Financial Integrity Act
HBI	Health Benefit Insurance
IBNR	Incurred But Not Reported
IS	Information Systems
LAN	Local Area Network
LWEC	Loss of Wage Earning Capacity
NRC	Nuclear Regulatory Commission
NSF	National Science Foundation
OIG	Office of Inspector General
OLI	Optional Life Insurance
OMAP	Office of Management and Planning
OMB	Office of Management and Budget
OPAC	On-line Payment and Collection
OPM	Office of Personnel Management
OWCP	Office of Workers' Compensation Programs
PC	Personal Computer
RS	Rehabilitation Specialist
SAS 70	Statement on Auditing Standards, Number 70
SBA	Small Business Administration
SCE	Senior Claims Examiner
SDLC	System Development Life Cycle
SFFAS	Statement of Federal Financial Accounting Standards
SOL	Solicitor of Labor
SSA	Social Security Administration
TTD	Temporary Total Disability
U.S.C.	United States Code
USPS	United States Postal Service
VA	U.S. Department of Veterans Affairs
Y2K	Year 2000

**SECTION IA
INDEPENDENT AUDITORS' REPORT ON THE
SCHEDULE OF ACTUARIAL LIABILITY AND BENEFIT PAYMENTS**

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

We have audited the accompanying Schedule of Actuarial Liability and Benefit Payments (the Schedule) of the Federal Employees' Compensation Act Special Benefit Fund as of and for the year ended September 30, 1998. This schedule is the responsibility of the Department of Labor's management. Our responsibility is to express an opinion on this schedule based on our audit.

Note 1 to the Schedule describes the accounting policies used by the Fund to prepare the Schedule, which is a comprehensive basis of accounting other than generally accepted accounting principles.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the applicable provisions of OMB Bulletin 98-08, *Audits of Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule of Actuarial Liability and Benefit Payments is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule of Actuarial Liability and Benefit Payments. 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 and Benefit Payments referred to above presents fairly, in all material respects, the actuarial liability and benefit payments of the Federal Employees' Compensation Act Special Benefit Fund as of and for the year ended September 30, 1998, in conformity with the accounting policies described in Note 1.

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

Carmichael, Brasher, Tuvell + Savage

Carmichael, Brasher, Tuvell & Savage
December 11, 1998

[This page intentionally left blank.]

SECTION IB
U.S. DEPARTMENT OF LABOR
EMPLOYMENT STANDARDS ADMINISTRATION
FEDERAL EMPLOYEES' COMPENSATION ACT
SPECIAL BENEFIT FUND
SCHEDULE OF ACTUARIAL LIABILITY AND BENEFIT PAYMENTS
AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 1998

	(Dollars in <u>Thousands</u>)
Actuarial Liability	\$17,488,851
Benefit Payments	\$1,940,195

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

[This page intentionally left blank.]

**NOTES TO THE SCHEDULE OF ACTUARIAL LIABILITY
AND BENEFIT PAYMENTS
SEPTEMBER 30, 1998**

1. SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Presentation

This schedule has been prepared to report the actuarial liability and benefit payments of the Federal Employees' Compensation Act Special Benefit Fund, as required by the CFO Act of 1990. 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, Employment Standards Administration 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 and benefit payments of the Special Benefit Fund have been considered specified accounts for the purpose of this special report and have been reported thereon. ESA is responsible for providing annual data to the 24 CFO Act and other specified agencies. FECA's annual data is defined as the actuarial liability of the Special Benefit Fund. This annual data is necessary for the 24 CFO Act and other specified agencies to support and prepare their respective financial statements.

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

b. Basis of Accounting

Benefit payment expenditures consist of payments made for the period from October 1, 1997 to September 30, 1998; the actuarial liability for future workers' compensation benefits is an accrued estimate as of September 30, 1998.

**NOTES TO THE SCHEDULE OF ACTUARIAL LIABILITY
AND BENEFIT PAYMENTS
SEPTEMBER 30, 1998**

Statement of Federal Financial Accounting Standards (SFFAS) Number 5, Section 138, *Accounting for Liabilities of the Federal Government*, requires that a contingent liability be recognized when three conditions are met. First, a past event or exchange transaction has occurred. Second, a future outflow or other sacrifice of resources is probable. Finally, the future outflow or sacrifice of resources is measurable. For the purpose of calculating the actuarial liability, the Financial Accounting Standards Advisory Board stipulates that this occurs once a program participant is determined eligible for compensation when a claim is approved. By definition, incurred but not reported claims (IBNR), do not qualify for inclusion in the FECA model (as reflected in Appendix B - Liability Recognition and Measurement Matrix of SFFAS 5). In contrast, estimates of actuarial liabilities prepared in accordance with generally accepted accounting principles recognize IBNR when they can be reasonably estimated. Therefore, the model represents the estimated present value of future payments based upon approved claims, excluding IBNR.

2. ACTUARIAL LIABILITY (FUTURE WORKERS' COMPENSATION BENEFITS)

The Federal Employees' Compensation Special Benefit Fund (Federal Employees Workers' Compensation Fund), established under the authority of the Federal Employees' Compensation Act, provides 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 does not include amounts owed to DFEC by other Federal agencies for prior benefit payments made and charged back to the employing agency.

The actuarial liability for future workers' compensation reported on the schedule includes the expected liability for death, disability, medical and miscellaneous costs for approved cases. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the Office of Management and Budget's (OMB) economic assumptions for 10-year Treasury notes and bonds. The interest rate assumption utilized for discounting in 1998 was 5.60% in year 1, and thereafter.

**NOTES TO THE SCHEDULE OF ACTUARIAL LIABILITY
AND BENEFIT PAYMENTS
SEPTEMBER 30, 1998**

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 COLAs) 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 methodology's historical payments to current year constant dollars. The methodology also includes a discounting formula to recognize the timing of compensation payments as 13 payments per year instead of 1 lump sum per year. The projected number of years of benefit payments is 37 years.

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

<u>FY</u>	<u>COLA</u>	<u>CPI-Med</u>	<u>FY</u>	<u>COLA</u>	<u>CPI-Med</u>
1989	4.47%	6.98%	1996	2.63%	4.00%
1990	4.43%	8.40%	1997	2.77%	3.11%
1991	5.03%	9.36%	1998	2.70%	2.77%
1992	5.00%	7.96%	1999	1.50%	3.56%
1993	2.83%	6.61%	2000	1.70%	3.81%
1994	2.77%	5.27%	2001	2.17%	3.93%
1995	2.57%	4.72%	2002+	2.30%	3.93%

The presentation of the inflation rates used to convert historical payments to constant dollars has been changed to reflect certain modifications. The medical inflation rates presented reflect changes as a result of utilizing monthly rate changes rather than an annualized amount. The compensation factors presented are the blended rates used by the model rather than the published March 1 COLA factor from which the blended rates are derived. Furthermore, for disability payment years prior to 1996, the inflation factors were amended to use the same consumer price index (CPI) measurement basis as that utilized for prospective payments.

3. BENEFIT PAYMENT EXPENDITURES

Benefit payments consist of compensation for lost wages, schedule awards, death benefits and medical benefits paid under FECA for the period October 1, 1997 through September 30, 1998. The amount paid for compensation for lost wages, schedule awards, death benefits and medical benefits totaled \$1,940,195,000.

**NOTES TO THE SCHEDULE OF ACTUARIAL LIABILITY
AND BENEFIT PAYMENTS
SEPTEMBER 30, 1998**

4. SUBSEQUENT EVENTS

On November 25, 1998, final regulations were published which modify the FECA program effective January 4, 1999. The regulations contain a major revision of the medical fee schedule to include pharmacy and inpatient hospital bills. Other significant new provisions address suspension of benefits during incarceration and termination of benefits for conviction of fraud against the program; changes to the continuation of pay provisions; paying for an attendant as a medical expense; and other non-financial matters. These new regulations did not result in an adjustment to the Schedule on page 3.

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

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

We have performed the procedures described in the Agreed-Upon Procedures and Results, Section IIC, which were agreed to by the U.S. Department of Labor, General Accounting Office, Office of Management and Budget, the 24 CFO Act agencies and other specified agencies listed in the Schedule of Actuarial Liability and Benefit Payments by Agency (the Schedule), Section IIB (the specified users) of this special report, solely to assist you and such agencies with respect to the accompanying Schedule of Actuarial Liability and Benefit Payments by Agency (Section IIB) of the Federal Employees' Compensation Act Special Benefit Fund as of and for the year ended September 30, 1998.

The Schedule (Section IIB) was provided by the Department of Labor. The schedule of actuarial liability at September 30, 1998, represents the present value of the estimated future benefits to be paid pursuant to the Federal Employees' Compensation Act. The schedule of benefit payments expended during the fiscal year ended September 30, 1998, reflects expenditures made for injuries which occurred prior to September 30, 1998, which were approved for payment.

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

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

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

The basis of accounting used in the preparation of the Schedule of Actuarial Liability and Benefit Payments by Agency is a comprehensive basis of accounting other than generally accepted accounting principles as described on page 5.

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

We were not engaged to, and did not perform an audit, the objective of which would be the expression of an opinion on the specified elements of the Schedule of Actuarial Liability and Benefit Payments by Agency. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes thereof. This report is intended solely for the information and use of the U.S. Department of Labor, General Accounting Office, Office of Management and Budget and those Federal agencies listed in Section IIB of this report and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Carmichael, Brasher, Tuvell + Savage

Carmichael, Brasher, Tuvell & Savage
December 11, 1998

SECTION IIB
U.S. DEPARTMENT OF LABOR
EMPLOYMENT STANDARDS ADMINISTRATION
FEDERAL EMPLOYEES' COMPENSATION ACT
SPECIAL BENEFIT FUND
SCHEDULE OF ACTUARIAL LIABILITY AND BENEFIT PAYMENTS BY AGENCY
AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 1998

AGENCY	Actuarial Liability (Dollars in thousands)	Benefit Payments (Dollars in thousands)
Agency for International Development	\$35,005	\$3,092
Environmental Protection Agency (EPA)	\$18,974	\$2,698
Federal Emergency Management Agency (FEMA)	\$6,418	\$1,504
General Services Administration	\$161,704	\$15,099
National Aeronautical and Space Administration (NASA)	\$51,455	\$6,991
National Science Foundation (NSF)	\$726	\$110
Nuclear Regulatory Commission (NRC)	\$4,795	\$643
Office of Personnel Management (OPM)	\$4,718	\$946
United States Postal Service (USPS)	\$4,621,367	\$579,664
Small Business Administration (SBA)	\$15,372	\$2,258
Social Security Administration (SSA)	\$188,374	\$17,319
Tennessee Valley Authority	\$627,733	\$56,698
U. S. Department of Agriculture	\$587,834	\$60,978
U.S. Department of the Air Force	\$1,199,504	\$124,824
U.S. Department of the Army	\$1,442,824	\$162,041
U. S. Department of Commerce	\$110,373	\$10,910
U. S. Department of Defense - other	\$638,300	\$63,191
U. S. Department of Education	\$5,533	\$1,452
U. S. Department of Energy	\$56,245	\$8,760

SECTION IIB
U.S. DEPARTMENT OF LABOR
EMPLOYMENT STANDARDS ADMINISTRATION
FEDERAL EMPLOYEES' COMPENSATION ACT
SPECIAL BENEFIT FUND
SCHEDULE OF ACTUARIAL LIABILITY AND BENEFIT PAYMENTS BY AGENCY
AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 1998

AGENCY	Actuarial Liability (Dollars in thousands)	Benefit Payments (Dollars in thousands)
U. S. Department of Health and Human Services	\$180,571	\$20,975
U. S. Department of Housing and Urban Development	\$56,869	\$8,067
U. S. Department of the Interior	\$428,526	\$46,473
U. S. Department of Justice	\$608,799	\$70,477
U. S. Department of Labor	\$114,220	\$20,846
U.S. Department of the Navy	\$2,390,148	\$244,370
U. S. Department of State	\$46,881	\$5,034
U. S. Department of Transportation	\$1,061,978	\$96,010
U. S. Department of the Treasury	\$717,026	\$73,593
U. S. Department of Veterans Affairs (VA)	\$1,310,572	\$140,228
Other agencies ¹	\$796,007	\$94,944
Total - all agencies (Memo Only)	\$17,488,851	\$1,940,195

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

SECTION IIC
AGREED-UPON PROCEDURES & RESULTS

SUMMARY

Our objective was to perform specified agreed-upon procedures to the Schedule of Actuarial Liability and Benefit Payments by Agency as of and for the year ended September 30, 1998, as summarized below:

- C Applied certain agreed-upon procedures as detailed in this section of the report to the estimated accrued actuarial liability of future FECA benefit payments as of September 30, 1998. A certified actuary was engaged to review the calculation of the actuarial liability and determine the reasonableness of the overall liability.

- C Applied certain analytical procedures as outlined in this section of the report to the compensation and medical payments and the actuarial liabilities on the Schedule of Actuarial Liability and Benefit Payments by Agency for the period October 1, 1997 to May 31, 1998 (sampling period), and for the period October 1, 1997 to September 30, 1998.

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

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

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

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

Actuarial Liability - The actuarial model and the resulting actuarial liability was evaluated by an independent actuary who concluded that the model's calculation of the total actuarial liability was reasonable. Analytical procedures were performed on the methodology, assumptions and information used in the model; ad hoc adjustments made to amounts calculated by the model; the liability predicted in the model in 1997 compared to actual payments made in 1998; and the change in the liability from 1997 to 1998.

Analytical Review of Benefit Payments - Our analytical review of benefit payments made during the current fiscal year by district office, by strata, and by agency was compared to benefit payments of the prior fiscal year.

SECTION IIC
AGREED-UPON PROCEDURES & RESULTS

ACTUARIAL LIABILITY

Overview of Results

The actuarial model and the resulting actuarial liability was evaluated by an independent actuary who concluded that the model's calculation of the total actuarial liability was reasonable.

In addition to the work performed by the actuary, we made inquiries and performed analytical procedures regarding the calculation of the actuarial model by employing agency. Our procedures included considerations of how the change in each agency's liability related to the change in the total estimate, its own history, and to the benefit payments made during the current year. Furthermore, we compared the model's prior year prediction of the current year payments to the actual payments made on behalf of the agency. From our analysis, we were able to predict the current year liability on 23 of 29 agencies within 10 percent of the model-calculated liability, representing 99.5 percent of the total actuarial liability. Additional explanations were sought for the remaining agencies which were generally those with smaller balances.

Procedures and Results

<i>Agreed-Upon Procedures Performed</i>	<i>Results of Procedures</i>
<p>Engaged a certified actuary to review the calculations of the actuarial liability as to:</p> <ul style="list-style-type: none"> C Whether or not the assumptions used by the formula were appropriate for the purpose and method to which they were applied C Whether or not the assumptions were reasonable representations for the underlying phenomena which they model C Whether or not such assumptions were being applied correctly and if other calculations within the model were being performed in a manner as to generate appropriate results C Whether or not changes in the assumptions over the years better qualified the trends C Whether or not tests of calculations provided a reasonable basis regarding the integrity of the model as a whole C Whether or not the overall results were reasonable. 	<p>The actuary's review of, and our understanding of, the methodology used in the model did not disclose any significant concerns.</p> <p>The actuary concluded that the model calculated a liability that was generally reasonable under the method and assumptions used. The actuary tested the calculations included in the model and found that they were performed in a fashion consistent with the model's stated assumptions. The actuary did recommend that DPPS consider using a tabular method which would enhance the equity of the liability among the agencies.</p>

SECTION IIC
AGREED-UPON PROCEDURES & RESULTS

<i>Agreed-Upon Procedures Performed</i>	<i>Results of Procedures</i>
<p>Evaluated the professional qualifications of the actuary in regards to:</p> <ul style="list-style-type: none"> C Professional certification, license or other recognition of the competence of the actuary. C Reputation and standing of the actuary in view of peers and others familiar with the actuary's capability of performance. C Relationship of the actuary to the Department of Labor C Experience of the actuary in the type of work stated. 	<p>Our review of the actuarial specialist revealed that the company was a qualified, licensed actuary in good standing with the American Academy of Actuaries and the Society of Actuaries.</p> <p>The actuarial consulting firm certified that they were independent from DOL-FECA.</p> <p>The actuarial consulting firm provided references stating experience in the type of work required for this engagement.</p>
<p>Compared the methodology and assumptions used by the model in prior years to the assumptions used during the current year.</p>	<p>The model utilizes estimates of prospective inflation and interest rates to project and then discount future benefit payments. As published by OMB, prospective interest rates of 10-year Treasury bills increased approximately .2%. Also, the Bureau of Labor Statistics (BLS) estimates of COLA and CPI-Med factors decreased by approximately .2%. In combination, this resulted in an increase in the net effective rate (interest rate less inflation rate) of approximately .4%. The result of the changes in estimated prospective rates was to decrease the estimated actuarial liability by approximately 4.8%.</p> <p>The model utilizes indexes of prior year inflation rates to convert prior year payments to current dollars for the purpose of establishing retention rates, the rates at which claims are expected to decline over the life of the injury. We noted that the rates used for disability payments prior to 1996 had been modified. In 1997, the rates were derived from historical governmental pay raises as mandated by Congress. This year, 1998, consistent with years 1996 and prior, the index utilized was the COLA, derived from the Consumer Price Index for All Urban Workers (CPI-U), as established by BLS.</p>

SECTION IIC
AGREED-UPON PROCEDURES & RESULTS

<i>Agreed-Upon Procedures Performed</i>	<i>Results of Procedures</i>
	<p>The actuary concurred with the modification, agreeing the CPI-U was a better indicator than pay raises. The modification decreased retention rates on average .645% per year, resulting in an approximate 5.04% decline in the estimated liability.</p>
<p>Compared the interest and inflation rates used by the model to the source documents from which they were derived.</p>	<p>We determined that the interest rates used in the model were the same interest rates stated in the OMB publication.</p> <p>We determined that the inflation rates used in the model were derived from the BLS indices cited. The rates from the BLS indices had been adjusted to accommodate the difference between the year end of the actuarial model and the year end of the cited rates. The actuary recalculated the rates without exception.</p>
<p>Compared by agency and in aggregate, the amount of payments input in the model as reflected in the FECA chargeback liabilities report with the amount of benefit payments per the summary chargeback billing listing to assess whether the payment data used in the liability calculation was the same as the data upon which our testing of benefit payments was performed.</p>	<p>We compared the amount of 1998 benefit payments per the FECA chargeback liabilities report to the summary chargeback billing listing. The aggregate payments per the FECA chargeback liabilities report were 5.26% less than the 1998 payments per the chargeback report. DOL stated that the difference was due to the retroactive allocation to the years beginning with the injury date through the current year of payments and those payments in excess of \$5,000 which were lump sum payments. We determined that the lump sum payments were allocated back to the years beginning with the injury year.</p> <p>We also compared the retention rates which are used to reflect the pattern of prior year payments in the current year's model to the retention rates in the prior year's model. The retention rates decreased from the prior year due mainly to the change in the inflation factors described in Note 2 on page 7.</p>

SECTION IIC
AGREED-UPON PROCEDURES & RESULTS

<i>Agreed-Upon Procedures Performed</i>	<i>Results of Procedures</i>
<p>Determined the ad hoc adjustments made by OWCP and determined those agencies to which ad hoc adjustments were made to change the liability by more than 10%.</p>	<p>The aggregate liability was reduced approximately .1% through the ad hoc adjustments. Twelve agencies were adjusted. The following agencies were adjusted less than 10% of the FECA liability by agency and no further procedures were performed: DOL, SBA, NRC, EPA, Army, Education and Commerce. The following agencies were adjusted by more than 10% through ad hoc adjustments: SSA, NSF, State, OPM and VA.</p> <p>Ad hoc adjustments are required when payment history is not sufficient. Review of the data points on the following agencies indicated that the payment history was insufficient to produce retention rates which coincided with patterns of benefit payments found in the model overall: SSA, NSF and OPM.</p> <p>DOL removed certain higher data points considered outside the normal distribution of benefit payments for State and VA. Data points for the years following the outliers, which were low, and in the past, functioned to smooth the prior year's upward trends, were not removed. This skewed the population of retention rates. As such, the ad hoc adjustment was required to cause the State and VA to perform in a fashion consistent with the model overall. State varied approximately +13.05% and VA varied approximately -1.41%, after ad hoc adjustments, from the amount we calculated.</p>

SECTION IIC
AGREED-UPON PROCEDURES & RESULTS

<i>Agreed-Upon Procedures Performed</i>	<i>Results of Procedures</i>
<p>Compared the actuarial liability by agency as reported in the October 15, 1998 Memorandum to the CFOs of Executive Departments of the unaudited estimated actuarial liability for future workers' compensation benefits to the model calculated Projected Liability Reports.</p>	<p>The liability reported on the October 15, 1998 Memorandum of the unaudited estimated actuarial liability for future workers' compensation benefits varied in 12 agencies from the model calculated Projected Liability Reports. The amounts differed because the Memorandum amounts were calculated manually and not by the model to enable a timely issued Memorandum. Payment assumptions varied slightly from the manual method to the model's method.</p> <p>The difference between the amounts calculated manually and those calculated by the model was less than .4%. The Memorandum amounts agreed overall to the amounts generated by the model except for the following.</p> <p>The amount calculated by the model for the non-chargeable liability was not reported on the Memorandum. DOL indicated that the population of non-chargeable payments was too sparse by agency to develop reliable retention rates, and therefore, a reliable liability. As such, the non-chargeable liability estimate was computed manually. Last year's non-chargeable liability was computed by the model. The manual calculation of the actuarial liability for non-chargeable utilized the same assumptions as the model and a methodology consistent with the prior year's model. The Post Office independently computes its actuarial liability. The Post Office identifies older claims, which are similar to non-chargeable claims population, and varies their method of computing the actuarial liability on these claims due to the sparse nature of older claims.</p>

SECTION IIC
AGREED-UPON PROCEDURES & RESULTS

<i>Agreed-Upon Procedures Performed</i>	<i>Results of Procedures</i>
<p>Compared 1998 payments by agency and in aggregate with the amounts predicted by the model in 1997 and identified the agencies with variances in excess of 10%.</p>	<p>In aggregate, the 1997 model predicted the 1998 benefit payments within 2.3%. Medical payments were predicted within 8.21% and compensation payments were predicted within .53%.</p> <p>Five agencies had variances in excess of 10% of the predicted amounts: NSF (+13.19%), OPM (-15.59%), SSA (-12.82%), SBA (+21.44%), and Education (+15.94%).</p> <p>The prior year's actual payments in NSF and OPM varied from the prior year's estimate by -4.13% and +7.77%, respectively. Noting that the signs of the variations reversed in the current year, the current year's variation alone would not indicate the liability was over- or understated.</p> <p>The current year's actual payments for SSA were less than the payments predicted by the model in each of the 2 prior years. The SSA actuarial liability has been lowered to compensate for the possible overstatement in prior years. The prediction of payments for next year was 6.45% less than the average payments for SSA for each of the last 3 years.</p> <p>For SBA and Education, the current year's actual payments were more than the payments predicted by the model in each of the 2 prior years. SBA's and Education's predictions of payments for next year were less than the average payments for each agency for each of the last 3 years. Both agencies' payments are trending downward, but at a shallower rate than is being predicted.</p>

SECTION IIC
AGREED-UPON PROCEDURES & RESULTS

<i>Agreed-Upon Procedures Performed</i>	<i>Results of Procedures</i>
<p>Calculated an expected liability by agency. The calculation utilized benefit payment data and the assumptions used in the model. Explanations were sought from DOL for all agencies in which the calculated expected liability was not predicted by the model within 10%.</p>	<p>We were able to predict 23 of 29 agencies representing 99.49% of the overall liability within 10% of the model-calculated liability. The following agencies were not predicted within 10%: EPA (+13.86%), FEMA (+25.38%), Education (+25.57%), State (+12.63%), NRC (-45.52%), and OPM (-14.01%).</p> <p>EPA and FEMA were adjusted through ad hoc adjustments in the prior year. Ad hoc adjustments were not made in the current year. EPA, FEMA and Education had higher than estimated compensation payments. The disproportionate increase in the liability is due in part to all three agencies having higher than estimated compensation payments. As compensation payments comprise a larger percentage of total benefit payments, the liability would normally be adjusted by a larger degree and the liability should have predicted higher than we calculated.</p> <p>State experienced an overall increase of payments of 3.7%, a decrease in compensation of 10.26% and no new compensation claims in the current year. These factors do not indicate an increase in the liability. The model did predict lower compensation payments in 1999 which indicates the model has given consideration to the 4-year downward trend in payments while still increasing the overall liability.</p> <p>The liability decreased for NRC and OPM. OPM's compensation payments decreased 16.53%, and no new compensation claims were filed in the current year. NRC's mix of payments also indicated that the liability should decrease. The short payment history may have influenced retention rates too strongly, decreasing the liability excessively.</p>

SECTION IIC
AGREED-UPON PROCEDURES & RESULTS

<i>Agreed-Upon Procedures Performed</i>	<i>Results of Procedures</i>
<p>Compared the actuarial liability calculated by the model to the actuarial liability calculated by the Postal Service's independent model.</p>	<p>The independent computation of the actuarial liability for the Postal Service as computed by the Postal Service's model was 13.45% more than the amount computed by the model. Last year, the Postal Service's model was 7.9% more than the amount computed by the model. Historically, the model varied from the Postal Service's calculation by as much as 20%. The change from last year is a result of increasing the model's net discount rates, while the Postal Service model's rates stayed constant.</p>
<p>Performed a survey of interest and inflation rates utilized by the Postal Service, OPM, and three private industry actuarial consultants experienced with governmental liabilities. Determined how the surveyed interest rates compared to the interest rates used in the model.</p>	<p>Surveyed rates for compensation ranged from 2.5% to 3.43% and for medical ranged from 0% to 2.0%. The model uses the net effective rates of approximately 3.3% for compensation and 1.67% for medical. The rates used by the model are within the range of surveyed rates but higher than the median of the surveyed rates. A higher rate equates to the calculation of a lower liability.</p>

SECTION IIC
AGREED-UPON PROCEDURES & RESULTS

BENEFIT PAYMENTS

Overview of Results

Analytical procedures were applied to compensation and medical benefit payments in total, by strata, by average payment and by agency for the fiscal year ended September 30, 1998, to the fiscal year ended September 30, 1997, and for the sampling period of October 1, 1997 to May 31, 1998, to the sampling period of October 1, 1996 to May 31, 1997. DOL's cut-off procedures were also reviewed. We noted no significant exceptions from the results of applying the agreed-upon procedures.

Procedures and Results

<i>Agreed-Upon Procedures Performed</i>	<i>Results of Procedures</i>
<p>Compared the benefit payment databases to the Department of Labor's general ledger and the Department of Treasury's SF-224s as of September 30, 1998.</p>	<p>The benefit payment databases varied from the Department of Labor's general ledger and Department of Treasury's SF-224 at May 31, 1998, by 1.06%, primarily due to credits not posted to them in payment databases prior to May 31, 1998. As of September 30, 1998 the variance was less than .3%.</p>
<p>Obtained the Department of Labor's year-end cut-off procedures. Obtained the year-end adjustments made to the general ledger to prorate expenditures which overlapped fiscal years. Determined if these adjustments were recorded in the correct period.</p>	<p>The year-end adjustment made to the general ledger to prorate the expenditures which overlapped fiscal years reconciled with the supporting documentation. The review of cut-off procedures indicated the adjustment was recorded in the correct period.</p>
<p>Determined the average payments by strata for the May 31, 1998, and September 30, 1998, database and compared them to the average payments strata for the May 31, 1997, and September 30, 1997, database. Compared the number of payments for the periods to see if the strata increased over the prior year. Determined if there were any variances larger than 7%. Obtained explanations from DOL for variances over 7%, if any.</p>	<p>The average payments by strata at May 31, 1998, and September 30, 1998, was compared to the prior year. Three strata varied from the prior year by more than 7%. The average payment per strata was less in the lower strata and higher in the upper strata indicating a fewer number of smaller payments, and a larger number of larger payments were made. DOL stated that payments to medical providers were consolidated when possible and benefit payments increased overall.</p>

SECTION IIC
AGREED-UPON PROCEDURES & RESULTS

<i>Agreed-Upon Procedures Performed</i>	<i>Results of Procedures</i>
<p>Compared the total benefit payments for each of the last 5 fiscal years. Determined if there were any variances larger than 5% for each of the 5 fiscal years. Obtained explanations from DOL for variances over 5%, if any.</p>	<p>As a result of our analysis of 5 years of benefit payment data, total benefit payments did not vary by more than 5% compared to the prior year's benefit payments.</p>
<p>Compared the summary chargeback billing list to the benefit payment database as of September 30, 1998.</p>	<p>The agency chargeback billing list varied from the benefit payment database as of September 30, 1998 (fiscal year ending date) less than .15%.</p>
<p>Compared, by agency and in total, compensation and medical bill payments for the fiscal year ending September 30, 1998, with payments made for the fiscal year ending September 30, 1997. Obtained explanations from DOL for variances over 5%, if any.</p>	<p>The following six agencies' benefit payments increased by more than 5%: Air Force (5.9%), HUD (8.6%), Justice (10.3%), Labor (9.9%), State (6.8%) and Transportation (6.0%). Benefit payments overall increased 3.1%. DOL stated that the increases were due to single incidents which occurred and involved several employees from the same agency.</p>
<p>Compared the benefit payments made by each district office as of May 31, 1998, and September 30, 1998, to the prior year data. Determined if there were any variances larger than 5%.</p>	<p>The benefit payments by district as of May 31, 1998, and September 30, 1998, varied from the prior year from -10.44% to +75%. DOL policy changed effective November 25, 1997 for cases transferred to Employees' Compensation Appeals Board. Payments made while cases were at the Employees' Compensation Appeals Board continued to originate from the DO the case was being processed and not changed to DO 50 while the case file was temporarily located there as in the past. Consequently, transactions in DO 50 decreased 75% while transactions increased from 2.5% to 14.48% in the all other DOs, except Chicago. The payments for the Chicago DO decreased 10.44% due to a population shift of certain claims to the Kansas City DO which increased 14.06%.</p>

[This page intentionally left blank.]

SECTION IIIA
INDEPENDENT SERVICE AUDITORS' REPORT

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

We have examined the accompanying description of the policies and procedures of the Division of Federal Employees' Compensation applicable to general computer controls and the processing of transactions for users of the Federal Employees' Compensation Act Special Benefit Fund. Our examination included procedures to obtain reasonable assurance about whether (1) the accompanying description presents fairly, in all material respects, the aspects of DFEC policies and procedures that may be relevant to the internal controls of users of the FECA Special Benefit Fund; (2) the control policies and procedures included in the description were suitably designed to achieve the control objectives specified in the description, if those policies and procedures were complied with satisfactorily, and users of the FECA Special Benefit Fund applied the internal control policies and procedures contemplated in the design of DFEC's policies and procedures, as described in Section IIIB; and (3) such policies and procedures had been placed in operation as of May 31, 1998.

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

In our opinion, the accompanying description of the policies and procedures of DFEC presents fairly, in all material respects, the relevant aspects of DFEC's policies and procedures that had been placed in operation as of May 31, 1998. Also, in our opinion, the policies and procedures, as described, are suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described policies and procedures were complied with satisfactorily and users of the FECA Special Benefit Fund applied the internal control policies contemplated in the design of the DFEC's policies and procedures.

In addition to the procedures we considered necessary to render our opinion, as expressed in the previous paragraph, we applied tests to specified policies and procedures to obtain evidence about their effectiveness in meeting the related control objectives during the period from October 1, 1997 through May 31, 1998. The specific policies and procedures and the nature, timing, extent, and results of the tests are summarized in Section IIIC. This information has been provided to the users of the FECA Special Benefit Fund and to their auditors to be taken in consideration, along with information about the internal controls at user organizations. In our opinion, the policies and procedures that were tested, as described in Section IIIB were operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that the specified control objectives were achieved during the period from October 1, 1997 through May 31, 1998.

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

The description of policies and procedures at DFEC is as of May 31, 1998, and information about tests of the operating effectiveness of specified policies and procedures covers the period October 1, 1997 through May 31, 1998. Any projection of such information to the future is subject to the risk that, because of change, the description may no longer portray the system in existence. The potential effectiveness of specified policies and procedures at DFEC is subject to inherent limitations and, accordingly, errors or irregularities may occur and not be detected. Furthermore, the projection of any conclusions based on our findings to future periods is subject to the risk that changes may alter the validity of such conclusions.

This report is intended solely for the information and use of the U.S. Department of Labor, General Accounting Office, Office of Management and Budget, users of the FECA Special Benefit Fund (Federal agencies listed in Section IIB of this report), and the independent auditors of its users. However, this report is a matter of public record and its distribution is not limited.

Carmichael, Brasher, Tuvell + Savage

Carmichael, Brasher, Tuvell & Savage
December 11, 1998

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

OVERVIEW OF SERVICES PROVIDED

Overview

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

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

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

Actuarial Liability

Within ESA, the Division of Financial Management has been designated as the responsible agency to generate the annual FECA actuarial calculations. The Division of Planning, Policy and Standards (DPPS) has the direct responsibility for preparing the actuarial liability and the initial review of the detailed calculations. DPPS also has the responsibility of investigating and revising the initial model's calculations as deemed appropriate. The FECA actuarial liability is prepared on an annual basis as of September 30, 1998.

The actuarial model was originally developed during 1991 as spreadsheets by a DOL Office of Inspector General (OIG) contractor (a certified actuary). In the summer of 1993, it was converted into a mainframe application in SAS procedures by senior research staff at the DPPS of the Office of Workers' Compensation Programs. Finally, in the summer of 1996, an OWCP computer contractor (a senior EDP programmer) under the guidance of a senior research staff at the DPPS introduced several SAS "macro" subroutines into the model to replace several hard SAS coding tasks to make the model more flexible.

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

SFFAS, Number 5, Section 138, *Accounting for Liabilities of the Federal Government*, requires that a contingent liability be recognized when three conditions are met. First, a past event or exchange transaction has occurred. Second, a future outflow or other sacrifice of resources is probable. Finally, the future outflow or sacrifice of resources is measurable. For the purpose of calculating the actuarial liability, the Financial Accounting Standards Advisory Board stipulates that this occurs once a program participant is determined eligible for compensation, that is, a claim is approved. By definition, IBNR claims do not qualify for inclusion in the FECA model (as reflected in Appendix B - Liability Recognition and Measurement Matrix of SFFAS 5). Therefore, the model represents the estimated present value of future payments based upon approved claims.

The model utilizes the basic theory that future benefit payment patterns will reflect historic payment patterns. Under this approach, a projection can be made into future years based on historical payments. This selected approach is commonly referred to as the "paid loss extrapolation method." This method was chosen for its simplicity, availability of payment data, cost savings and reliability.

This model has the following negative aspects:

- < Past performance is no guarantee of future performance.
- < The historic extrapolation model works best with large populations. Because the model is tracking benefit payments by agency, small agencies may demonstrate volatility from year-to-year.
- < The model does not consider demographic characteristics of beneficiaries, such as the age of the beneficiary or the nature of the injury.
- < The model is sensitive to its actuarial assumptions, for instance, the amount reported from year-to-year may vary as a result of interest rate changes, or changes in estimates of cost of living indexes.

In order to run the model, the DPPS imports the current year's actual FECA payments by each chargeback agency (FECA Chargeback System tapes). This payment data per agency is sub-divided into incurred injury year cells to provide the extra dimension of the historic payment pattern. Additionally, any lump-sum settlements are spread back to the appropriate incurred year.

The dimensional separation for each historic year by agency serves as the basis on which each agency's actuarial liability is calculated. The chargeback tapes (historic basis) are maintained by the FECA Program, which supplies the historic data to DPPS annually.

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

The most significant assumption which is manually added to the model is the interest rate by which the future payment streams are to be discounted. The DPPS obtains the discount rates from the OMB semiannual economic assumptions. The DPPS has historically utilized the 10-year U. S. Treasury Note as the appropriate interest rate for each of the future year projections in the model. This rate was chosen over short-term rates since this long-term rate is less volatile.

Other significant assumptions include a cost of living adjustment and a medical inflation index. These indexes are used to both restate historical payments as constant dollars, and to adjust estimated future payments for inflation as predicted. As is the case with the interest rate, the inflation indices are derived from published OMB economic forecasting packages.

Once the model has been prepared at year end, DPPS reviews each agency's calculations in comparison to the entire model liability trend. Individual agency calculations are reviewed in detail to determine whether the trend increase/decrease seems unusual in relation to the other agencies. If deemed appropriate, the factors for a specific agency are revised up or down if the payment patterns indicate that the model calculation is inappropriate. This manual revision of agency factors typically occurs with smaller agencies since the calculations of the FECA liability is sensitive to fluctuations in benefit payments.

Chargeback System

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

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

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

The bills sent to agencies for the chargeback system contain identifying codes that indicate both the year being billed and the year in which the bill is to be paid. Each bill sent out in fiscal year 1998 and due in fiscal year 1999 would be coded as follows: 98-XXX-99. The 98 indicates the year the bill is generated, the XXX indicates the numerical sequence of the bill, and the 99 would indicate the year that the bill would be due and paid.

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

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

Operational Offices

DFEC administers FECA through 12 district offices (DO) and a national headquarters located in Washington, D.C. The DOs and the areas covered by each DO are:

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

Subservicer

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

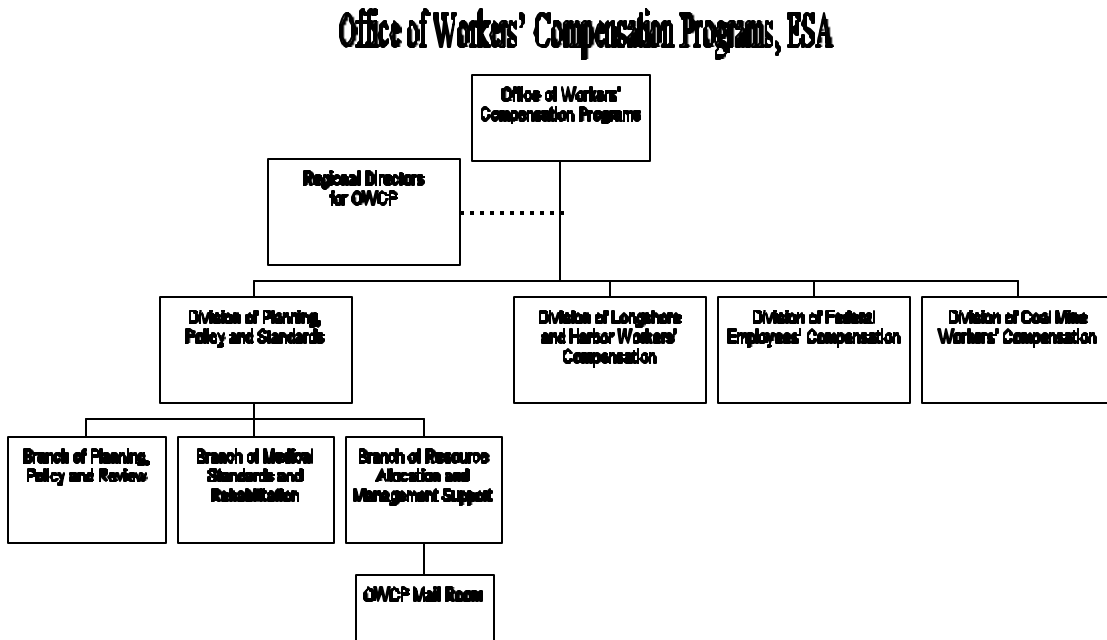
SECTION IIIB
DIVISION OF FEDERAL EMPLOYEES' COMPENSATION
ORGANIZATION'S POLICIES AND PROCEDURES

OVERVIEW OF CONTROL ENVIRONMENT

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

Organization and Management

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

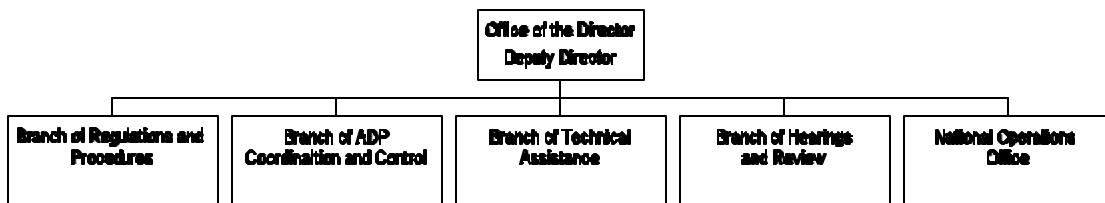


SECTION IIIB
DIVISION OF FEDERAL EMPLOYEES' COMPENSATION
ORGANIZATION'S POLICIES AND PROCEDURES

DFEC has five branches:

1. Branch of Regulations and Procedures - This branch assists in developing claims and benefit payment policies, regulations and procedures; prepares and maintains the program's manuals; plans and conducts studies of claims and benefit payment functions; and participates in training activities and accountability reviews of DOs.
2. Branch of Automatic Data Processing (ADP) Coordination and Control - This branch provides ADP support services for the FECA program. It coordinates the overall ADP work of DFEC and provides policy direction for ADP systems activities.
3. Branch of Technical Assistance - This branch develops materials for use by DOs and other Federal agencies to educate Federal employees in reporting injuries and claiming compensation under the FECA. They also hold workshops for compensation personnel in various Federal agencies and for groups of employee representatives.
4. The Branch of Hearings and Review - This branch is responsible for conducting hearings and reviews of the written record in FECA cases. Hearing Representatives issue decisions which sustain, reverse, modify, or remand cases to the OWCP DOs.
5. National Operations Office - This branch is responsible for all claims and payment actions on cases filed in Washington, D.C., Virginia, and Maryland. This office also handles certain special category employees such as Peace Corps Volunteers, Federal Grand and Petit jurors, and all overseas cases.

OWCP,
Division of Federal Employees' Compensation



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

Branch Operations

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

District Offices

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

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

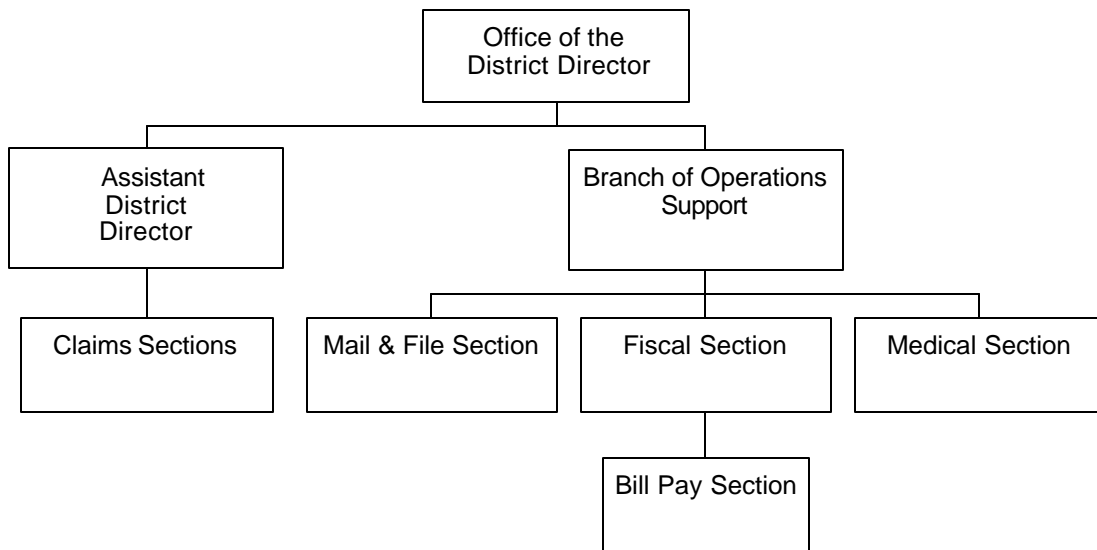
The specific functions within the DOs are:

1. Claims Functions. In each district office are two or more Supervisory Claims Examiners, who are responsible for the operation of individual claims units, and a number of Senior Claims Examiners and Claims Examiners (CE), who have primary responsibility for handling claims, including authorization of compensation and eligibility for medical benefits. Individuals at each level of authority from DD to CE have been delegated specific responsibilities for issuing decisions on claims.
2. Fiscal Functions. Each DO has a Fiscal Officer and at least one Benefit Payment Clerk. Some DOs have a Bill Pay Supervisor as well. The unit is generally responsible for resolution of problems with medical bills, complex calculations of benefits and overpayments, adjustments to compensation and bill pay histories, changes in health benefits and life insurance coverage, and financial management records. In some DOs, fiscal personnel enter compensation payments into the electronic system.
3. Medical Functions. Each DO has at least one District Medical Adviser (DMA) who works under contract to review individual cases, and some DOs have a District Medical Director (DMD) as well. Each DO also has a Medical Management Assistant, who arranges referrals to second opinion and referee specialists. Each DO also has a Staff Nurse, who is responsible for coordinating a number of field nurses who monitor claimant's medical progress and assist their efforts to return to work.
4. Mail and File Functions. Personnel in this area open, sort, and place mail; set up case files, retire case records according to established schedules; and transfer case files in and out of the DO.

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

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

FECA District Office



OVERVIEW OF TRANSACTION PROCESSING

Identification and Registration of the Recipient of FECA Benefits

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

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

The CMF maintains an automated file with identification on all recipients paid through FECA. These records contain data elements that identify the claimant, the mailing and/or location address for the claimant, and additional information used to calculate the payment amounts and the reasons for payments.

Benefit Payments

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

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

The primary function of ACPS is to process the payment of weekly, monthly, and supplemental benefits to claimants. The ACPS interfaces with the CMF to ensure that approved claims are supported by a valid case number. DO personnel input compensation payment data worksheets into the ACPS. The inputs onto the payment data worksheets are accumulated in batches in the ACPS and transmitted by the DO to the national office every night. The mainframe computer, maintained by Sungard, runs automated calculations to compute the payment schedule and transmits the schedule back to the DOs the next morning. The DOs review the payments schedules and if the information is correct, the mainframe is notified to close the batch and code the information for transmission to Treasury for payments.

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

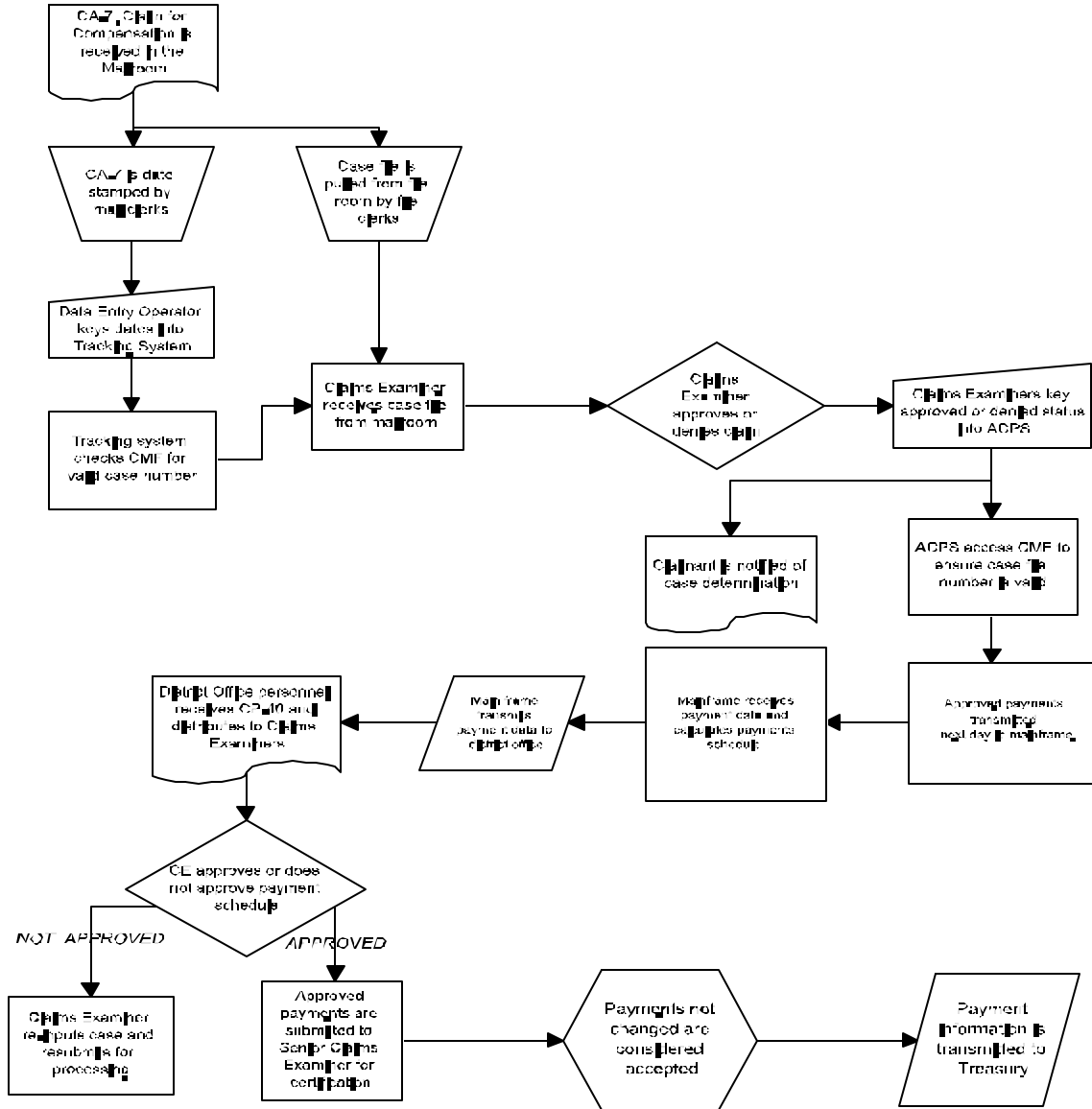
The primary function of the BPS is to process payments to medical service providers or reimbursements to claimants for medical expenses incurred for the work-related injury. The national office has the responsibility of compiling the BPS data on a nightly basis as it is transmitted from each DO. Medical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

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

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

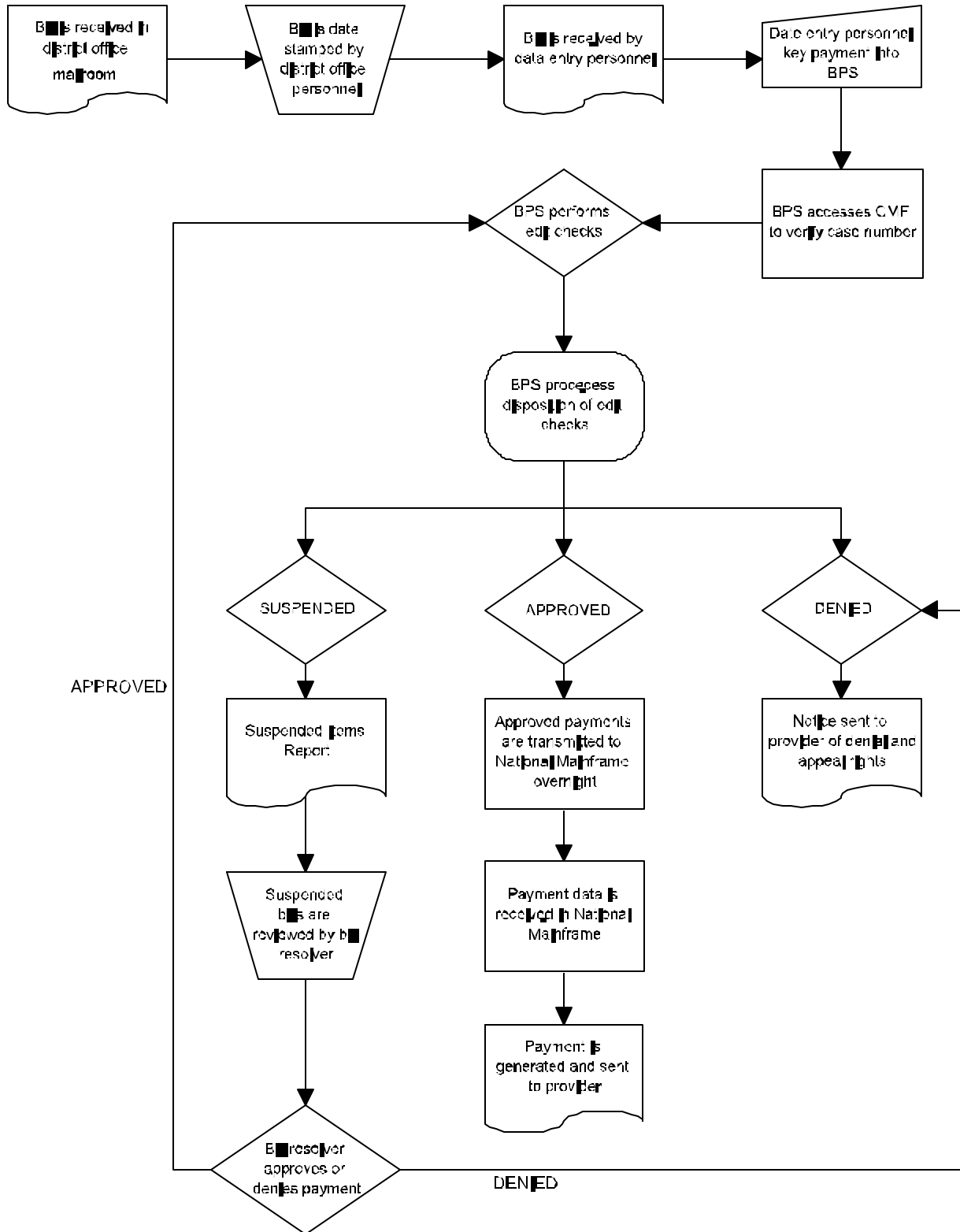
SECTION IIIB
DIVISION OF FEDERAL EMPLOYEES' COMPENSATION
ORGANIZATION'S POLICIES AND PROCEDURES

Processing of Compensation Payments



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

Processing of Medical Payments



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

Computer-Generated Reports

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

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

Chargeback System

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

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

Third Party Settlements

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

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

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

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

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

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

- < The case is not minor and advice is received that the claimant is negotiating a settlement.
- < Advice is received that the claimant has retained an attorney to handle the third party action, regardless of the amount of disbursements.
- < The case is not minor and the claimant refuses to pursue the third party claim or does not reply to the CA-1045.
- < The third party case involves a death claim, a permanent disability, Job Corps, Peace Corps, VISTA, an injury occurring outside the United States or Canada, a common carrier as the potential defendant, malpractice, product liability or an injury to more than one employee.

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

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

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

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

OVERVIEW OF COMPUTER INFORMATION SYSTEMS

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

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

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

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

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

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

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

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

Organization and Administration

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

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

DFEC is responsible for the maintenance of software. All the hardware and software modifications are controlled by DOL. OWCP requests the modifications, DFEC designs and tests the modifications, and DASM installs the modifications.

Operations

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

The Office of Information Systems within the Office of the Chief Financial Officer contracted with Sungard Computer Services, Inc. (Sungard) for computer mainframe time-sharing services. Sungard provides computer hardware and a communications network between the national office, the DOs and the U. S. Treasury. In addition, Sungard maintains a tape library and disk drive backup. The Sungard database includes all medical and disability compensation payment information since 1978.

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

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

Documentation

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

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

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

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

Anti-Virus Control

The ASP currently runs a variety of anti-virus or virus checking routines. Each file server runs Intel Lan Protect 1.52 as a Network Loadable Module resident on the server. The local area networks (LANs) are "diskless" LANs. When disks are scanned (e.g., for the installation of new software), McAfee Virus Scan 2.1.5 is used to scan disks to identify and remove viruses. PCs attached to LANs in OWCP DOs utilize hard drives in addition to the central file server. All of the PCs utilize DOS 6.0, which contains the Microsoft Anti-Virus utility and can be run in a scheduled or unscheduled ad hoc mode.

CONTROL OBJECTIVES AND RELATED POLICIES AND PROCEDURES

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

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

USER CONTROL CONSIDERATIONS

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

- C Employing agencies understand their responsibilities under FECA.
- C Employing agencies provide injured employees with accurate and appropriate information regarding injuries covered under FECA, including the employees' rights and obligations and claim forms.
- C Employing agencies timely and accurately report all work-related injuries and deaths to DFEC via the injury and death reporting forms such as the CA-1, CA-2, and CA-5, once completed by injured employee or claimant in the case of death. Supervisors should encourage persons witnessing injuries to record and report what was witnessed to DFEC.
- C Employing agencies provide complete and accurate information regarding a claimant's rate of pay, hours worked, leave taken, and continuation of pay to DFEC.
- C Employing agencies promptly controvert questionable claims.
- C Employing agencies monitor the medical status of injured employees to be aware of what work the injured employee is capable of to enable the employing agency to provide additional information on the requirements of a position, or modified position, when applicable.
- C Employing agencies assist DFEC in returning employees to work by establishing or identifying positions, either modified or light-duty, to return the injured employee to work as early as possible. The Employing agency also needs to inform DFEC directly of the positions available.
- C Employing agencies review the chargeback coding notification (postcard) sent by DFEC when an injury report is received to ensure the individual will be charged to the proper agency and department.
- C Employing agencies review quarterly chargeback billings to ensure that each injured employee charged to their department and agency are employees or former employees of the agency, and that the amounts charged for compensation costs appear reasonable in light of the injured employee's compensation and the date of injury.

SECTION IIIC
INFORMATION PROVIDED BY THE SERVICE AUDITOR

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

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

TESTS OF CONTROL ENVIRONMENT ELEMENTS

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

- C DFEC's organizational structure and the segregation of duties
- C Management control methods
- C Management policies and procedures

Such tests included inquiry of appropriate management, supervisory, and staff personnel; inspection of DFEC's documents and records; observation of DFEC's activities and operations; and a limited review and evaluation of Sungard's, the subservicer, SAS 70 report. The results of these tests were considered in planning the nature, timing, and extent of our tests of the specified control policies and procedures related to the control objectives described within this report.

SECTION IIIC
INFORMATION PROVIDED BY THE SERVICE AUDITOR

SAMPLING METHODOLOGY

We performed tests on a sample of compensation for lost wages, schedule awards, death benefits and medical benefit payments paid during the period October 1, 1997 to May 31, 1998, at 5 of 12 DOs. The sample design involved a two stage process.

The first stage in our sample design was the selection of DOs. District offices were randomly selected by first forming two stratum of the districts and then taking all the districts from the first stratum, and selecting two districts from the second stratum. This procedure resulted in the selection of five DOs. The 5 DOs comprised approximately \$872 million of the \$1,373 billion or 63.5%, of FECA payments during the 8 month period ended May 31, 1998.

The second stage of the sample design was the selection of sampling units. The sampling units were a single medical payments or total payments to a case number. The universe of the sample districts was stratified into 11 stratum for the compensation payments and into 9 stratum for the medical payments. The last strata in this stratification contained the cases who filed initial claims forms during the current fiscal year. The sample size was determined for each of the 11 strata for compensation and 9 strata for the medical payments using the following parameters:

- C The total number of items and dollar value of the strata universe
- C The estimated variance within each strata
- C A 95% confidence level (5% risk of incorrect acceptance)
- C A variable sampling precision (5% to 20%) of the point estimate
- C Materiality and tolerable error as defined for FECA benefit payments

Using statistical formulas, these parameters yielded a total substantive sample of 646 items. Of the total sample, 314 were medical payments and 332 were compensation payments. The sample items were randomly selected using a random number generator.

SECTION IIIC
INFORMATION PROVIDED BY THE SERVICE AUDITOR

Our detailed substantive testing was performed at the following DOs with the following number of items tested:

<u>District Office</u>	<u>Number of</u> <u>Statistical Items</u>
New York	97
Jacksonville	147
San Francisco	149
Seattle	113
Washington, D.C.	<u>140</u>
Total	<u>646</u>

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

- Case Creation
- Initial Eligibility
- File Maintenance
- Continuing Eligibility (Medical Evidence and Earnings Information)
- Payment Processing
- Schedule Awards
- Death Benefits
- Medical Bill Payment Processing
- Third Party Settlements

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

Multiple Claim Payments

Audit queries were generated which compared certain elements of each compensation payment made during the period October 1, 1997 through May 31, 1998. The query compared social security numbers for which more than one case file existed. This situation occurs when an employee has suffered more than one injury. We analyzed the payments to ensure that a claimant was not receiving excessive compensation. We removed from the population the items tested in previous years which resulted in no errors, resulting in 47 multiple claim compensation payment items to be tested.

Gross Override

A report was prepared which listed all cases on which the amount of compensation to be paid was manually overridden from what the ACPS calculated the payment should be. We selected instances where the amount paid as a result of the override was more than the amount that the ACPS had calculated should be paid. We then randomly selected 50 cases from the DOs in which test work was to be performed.

SECTION IIIC
INFORMATION PROVIDED BY THE SERVICE AUDITOR

Third Party Settlements

A report was prepared which detailed all claimants that had a third party status indicator in the CMF. We then randomly selected cases from the DOs in which test work was to be performed.

<u>District Office</u>	# of Multiple <u>Claim Payments</u>	# of Gross <u>Override Cases</u>	# of Third Party <u>Cases</u>	# of Third Party <u>Sample</u>	Total
New York	7	4	6	6	17
Jacksonville	7	11	15	15	33
San Francisco	7	10	8	8	25
Seattle	18	13	11	11	42
Washington, D.C.	<u>8</u>	<u>12</u>	<u>15</u>	<u>15</u>	<u>35</u>
Total	<u>47</u>	<u>50</u>	<u>55</u>	<u>55</u>	<u>152</u>

SECTION III C
INFORMATION PROVIDED BY THE SERVICE AUDITOR

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

This section presents the following information provided by the DFEC:

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

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

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

SECTION IIIC
INFORMATION PROVIDED BY THE SERVICE AUDITOR
GENERAL COMPUTER CONTROLS

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

Description of Policies and Procedures

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

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

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

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

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

- < A security briefing is given for each person having access to the system.
- < Access and an access profile for authorized users as established through a security software package (Access Control Facility).
- < Computer Information Control System establishes terminal access to the host computer.

SECTION IIIC
INFORMATION PROVIDED BY THE SERVICE AUDITOR
GENERAL COMPUTER CONTROLS

- < Log on attempts are restricted to three attempts.
- < An audit trail report of unauthorized attempts to access the system is available.
- < Terminals are secured in locked rooms at the end of the work day.
- < Written procedures exist for both physical hardware and software security.

Organization and Administration

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

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

The function of DASM is to maintain computer networks, operating systems, and computer hardware systems. DASM installs all of the data processing applications and modifications developed by DFEC.

Operations

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

The Office of Information Systems within the Office of the Chief Financial Officer contracted with Sungard Computer Services, Inc. (Sungard) for computer mainframe time-sharing services. Sungard provides computer hardware and a communications network between the national office, the DOs and the U. S. Treasury. In addition, Sungard maintains a tape library and disk drive backup. Sungard does not run any programs or software applications for FECA. The Sungard database includes all medical and disability compensation payment information since 1978.

SECTION III C
INFORMATION PROVIDED BY THE SERVICE AUDITOR
GENERAL COMPUTER CONTROLS

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

Documentation

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

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

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

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

Anti-Virus Control

The ASP currently runs a variety of anti-virus or virus checking routines. Each file server runs Intel Lan Protect 1.52 as a Network Loadable Module resident on the server. The local area networks (LANs) are "diskless" LANs. When disks are scanned (e.g., for the installation of new software), McAfee Virus Scan 2.1.5 is used to scan disks to identify and remove viruses. PCs attached to LANs in OWCP DOs utilize hard drives in addition to the central file server. All of the PCs utilize DOS 6.0 which contains the Microsoft Anti-Virus utility and can be run in a scheduled or unscheduled ad hoc mode.

Tests of Operating Effectiveness

Entity-Wide Security

- C We reviewed risk assessment policies, the most recent high-level risk assessment, and the objectivity of personnel who performed and reviewed the assessment.

SECTION III C
INFORMATION PROVIDED BY THE SERVICE AUDITOR
GENERAL COMPUTER CONTROLS

- C We reviewed the security plan and determined whether the plan covered the topics prescribed by OMB Circular A-130 and reviewed any related documentation which indicated that the security plan had been reviewed and updated, and was current.
- C We reviewed the security plan; the entity's organization chart; job descriptions; documentation supporting or evaluating the awareness program; memos, and electronic mail files, or other policy distribution mechanisms; to test whether security awareness statements were current. We interviewed security management staff and data owners and system users to determine if they were aware of their security-related responsibilities.
- C We discussed hiring policies; policies on confidentiality agreements; vacation policies; job rotation policies; and job descriptions for security management personnel, in a limited review with DFEC management.
- C We reviewed the reports resulting from recent assessments, accreditation statements, recent Federal Managers' Financial Integrity Act (FMFIA) reports, and documentation related to corrective actions and the status of prior year audit recommendations and determined if implemented corrective actions had been tested.

Access Controls

- C We reviewed policies and procedures and resource classification documentation and compared to risk assessments. We discussed any discrepancies with appropriate officials and interviewed resource owners.
- C We reviewed pertinent written policies and procedures for security profile changes.
- C We examined standard approval forms and documents authorizing file sharing and file sharing agreements utilized by DASM.
- C We reviewed the SAS 70 report of Sungard, the subservicer, and reviewed the following at DASM:
 - C a physical layout of the computer and telecommunications facilities
 - C risk analysis
 - C lists of individuals authorized access to sensitive areas
 - C visitor entry logs
 - C documentation on and logs of entry code changes
 - C procedures for the removal and return of storage media from and to the library
 - C written emergency procedures
 - C a system-generated list of current passwords
 - C security software password parameters

SECTION III C
INFORMATION PROVIDED BY THE SERVICE AUDITOR
GENERAL COMPUTER CONTROLS

- C a list of IDs and passwords
 - C dump of password files (e.g., hexadecimal printout)
 - C access path diagram
 - C a system generated list of inactive log on IDs and determined why access for these users had not been terminated
 - C documentation supporting prior fire drills
 - C security system parameters
 - C observed entries to and exits from facilities, including sensitive areas during and after normal business hours
 - C utilities access paths
 - C practices for safeguarding keys and other devices
 - C appointment and verification procedures for visitors
 - C a fire drill
 - C users keying in passwords
 - C terminals in use
 - C selected from the log some returns and withdrawals, verified the physical existence of the tape or other media, and determined whether proper authorization was obtained for the movement
 - C attempted to log on without a valid password
 - C made repeated attempts to guess passwords
 - C attempted to log on using common vendor supplied passwords
 - C searched password file using audit software
 - C assessed procedures for generating and communicating passwords to users
 - C evaluated biometric or other technically sophisticated authentication techniques
 - C determined library names for sensitive or critical files and libraries, and obtained security reports of related access rules
 - C determined who had access to critical files and libraries and whether the access matched the level and type of access authorized
 - C performed penetration testing by attempting to access and browse computer resources including critical data files, production load libraries, batch operational procedures (e.g., JCL libraries), source code libraries, security software, and the operating system
 - C determined whether naming conventions were used
 - C reviewed security software settings to identify types of activity logged, security violation reports and documentation showing reviews of questionable activities
 - C tested a selection of security violations to verify that follow-up investigations were performed and to determine what actions were taken against the perpetrator
- C We interviewed senior management employees, guards at facility entry, users, security managers, database administrator, and other personnel responsible for summarizing violations and reviewed any supporting documentation.

SECTION IIIC
INFORMATION PROVIDED BY THE SERVICE AUDITOR
GENERAL COMPUTER CONTROLS

Application Software Development and Change Control

- C We reviewed System Development Life Cycle (SDLC) methodology and system documentation to verify that SDLC methodology was followed, reviewed training records and interviewed staff.
- C We identified recent software modifications and determined whether change request forms were used. We examined a selection of software change request forms for approvals and interviewed software development staff.
- C We reviewed test plan standards. For the software change requests selected:
 - reviewed specifications
 - traced changes from code to design specifications
 - reviewed test plans
 - compared test documentation with related test plans
 - analyzed test failures to determine if they indicated ineffective software testing
 - reviewed test transactions and data
 - reviewed test results
- C We reviewed documentation of management or security administrator reviews and verified user acceptance.
- C We determined whether operational systems experienced a high number of abends (abnormal endings) and, if so, whether they indicated inadequate testing prior to implementation.
- C We reviewed pertinent emergency changes in policies and procedures.
- C We reviewed the SAS 70 report of Sungard, the subservicer, and reviewed the following at DASM:
 - C interviewed personnel responsible for library control
 - C examined a selection of programs maintained in the library and assessed compliance with prescribed procedures
 - C determined how many prior versions of software modules were maintained
 - C examined libraries in use
 - C verified that source code existed for a selection of production load modules by (1) comparing compile dates, (2) recompiling the source modules, and (3) comparing the resulting module size to production load module size
 - C tested access to program libraries by examining security system parameters
 - C for critical software production programs, determined whether access control software rules were clearly defined

SECTION III C
INFORMATION PROVIDED BY THE SERVICE AUDITOR
GENERAL COMPUTER CONTROLS

- C We reviewed pertinent policies and procedures for program changes. For a selection of program changes, we examined related documentation to verify that procedures for authorizing movement among libraries were followed, and before and after images were compared.

SECTION III C
INFORMATION PROVIDED BY THE SERVICE AUDITOR
GENERAL COMPUTER CONTROLS

Segregation of Duties

- C We reviewed an agency Information Systems (IS) organization chart which showed functions and assigned personnel, and relevant alternate or backup assignments. We determined whether the chart was current and each function was staffed by different individuals; whether the job descriptions were maintained for certain positions including user security administrators; whether the position descriptions, based on the effective dates of the position descriptions, were current; and whether the data center operating procedures were adequately documented.

- C We interviewed selected management and IS personnel to determine that assignments did not result in a single person being responsible for combinations of functions and that the proper segregation of duties was maintained.

- C We observed activities of personnel to determine the nature and extent of the compliance with the intended segregation of duties.

- C We reviewed at DASM the following:
 - C interviewed supervisors and personnel
 - C observed processing activities
 - C reviewed manuals and history log reports for signatures indicating supervisory review;
 - C determined who was authorized to IPL the system, what steps were followed, and what controls were in place to monitor console activity during the process
 - C whether operators overrode the IPL parameters.

System Software

- C We reviewed the SAS 70 report of Sungard, the subservicer, for the following controls:
 - C Authorization, testing, approval, implementation and documentation of changes to existing system software and implementation of new system software

 - C Limitation of access to programs and data to properly authorized individuals

- C We reviewed the security at the application level and browsed the menus and attempted to access the restricted menus and other data.

SECTION IIIC
INFORMATION PROVIDED BY THE SERVICE AUDITOR
GENERAL COMPUTER CONTROLS

Service Continuity

- C We reviewed the SAS 70 report of Sungard, the subservicer, for the following controls:
 - C The tape management procedures properly track the issuance and return of files to and from the physical library and off-site storage, prevent unauthorized removal of files and identify files uniquely.
 - C Operations could be continued in the event systems became unavailable.
- C We reviewed the status of the national office Sequent minicomputer back-ups and the Disaster Recovery Plan. Review the DFEC draft Year 2000 (Y2K) continuation plan, dated August 14, 1998, in support of continuing service and the Y2K DOL initiatives.

Results of Tests

Entity-Wide Security

DFEC has developed a risk assessment methodology within its "Contingency Plan-DFEC," that addresses periodically assessing risk. However, DFEC has not developed a comprehensive risk assessment including a prioritized listing of critical data sets or established a data sensibility classification system. DFEC has not performed and documented independent risk assessments on a regular basis.

DFEC has not developed and implemented an entity-wide Security Program Plan and Security Management Structure. Division of Automated Systems Management (DASM) has developed a security program (currently in draft) for which DFEC will build upon and tailor a security plan.

It was noted that DFEC does have an informal security management structure; however, DFEC has not implemented a formal, centralized incident reporting and response program and team to appropriately handle security violations.

DFEC relies heavily on the DOL's Office of Management, Administration and Planning. DFEC does not have a formal system for providing security training and is not automatically and consistently informed of termination and transfer of employees and contractors.

DOL Information Systems (IS) management has periodically assessed the appropriateness and compliance of the IS security policies and program, and ensured that corrective actions were implemented, within the scope of the FMFIA.

SECTION III C
INFORMATION PROVIDED BY THE SERVICE AUDITOR
GENERAL COMPUTER CONTROLS

Access Controls

DFEC does not consistently utilize formal access request forms.

The subservicer level report describing and testing controls at Sungard provides reasonable assurance that access to programs, data, computer equipment, and storage media documentation is limited to properly authorized individuals.

Application Software Development and Change Control

The subservicer level report describing and testing controls at Sungard provides reasonable assurance that changes to existing system software and implementation of new system software are authorized, tested, approved, properly implemented and documented.

DFEC does not have SDLC methodology in place and change request forms are not being used to document requests and related approvals. However, DFEC does have a new "Union-Management Partnership" initiative to redesign and improve the FECA computer operations.

Library management software on the mainframe is not being utilized to control application source code on the Sungard mainframe.

Although testing controls are in place, they have not consistently involved the documentation of test plan standards, collection of system specifications, implementation of appropriate test environment, test data and transaction tracking, test results and analysis, and acceptance testing.

A consistent review and approval of change to the FECA Sequent server application modules does not occur prior to the code being moved into production.

DFEC does not have an independent review of program change logs or documentation by Management, Quality Assurance, or Security Administration to ensure that appropriate controls exist around changes to mainframe programs.

Segregation of Duties

The controls over the segregation of duties should be strengthened in regard to the monitoring and assessment of incompatible duties but no incompatible duties were identified.

SECTION IIIC
INFORMATION PROVIDED BY THE SERVICE AUDITOR
GENERAL COMPUTER CONTROLS

System Software

The subservicer level report describing and testing computer controls at Sungard provides reasonable assurance that changes to existing system software and implementation of new software are authorized, tested, approved, properly implemented and documented; and that access to programs and data is limited to properly authorized individuals.

Predefined access levels restrict users with lower level IDs on the FECA system.

Service Continuity

The subservicer level report describing and testing computer controls at Sungard provides reasonable assurance that tape management procedures properly track the issuance and return of files to and from the physical library and off-site storage, prevent unauthorized removal of files, and identify files uniquely.

The DRP to recover mainframe, minicomputer, LAN, microcomputers and telecommunications in the event of an extended outage to IS processing resources remains in draft and an alternate recovery "hot" site to recover operations has not been identified.

The DRP for the DOs does not include critical requirements that address physical and environmental disaster, including continued power shortage and area facilities. The DRP does not include the procurement and set up of the hardware needed to rebuild the Sequent system.

Backups of the Sequent server are not periodically rotated to a vendor-approved off-site storage location. The backups are currently stored off-site at the homes of the employees who are responsible for maintaining the Sequent service environment.

A complete inventory of information technology supporting the FECA operations, including computer hardware, software, supplies, telecommunications, facilities and support staff for back-up and disaster recovery has not been completed.

DFEC's Y2K continuation plan and documentation appears adequate.

SECTION III C
INFORMATION PROVIDED BY THE SERVICE AUDITOR
TRANSACTION PROCESSING CONTROLS

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

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

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

Description of Policies and Procedures:

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

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

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

Tests of Operating Effectiveness:

For a statistical sample of 66 case creation items, we compared case originating forms, such as Forms CA-1, CA-2 and CA-5, to the information contained in the CMF and ACPS to ensure that the case origination

SECTION III C
INFORMATION PROVIDED BY THE SERVICE AUDITOR
TRANSACTION PROCESSING CONTROLS

process resulted in the proper setup of the case files (to include agency chargeback codes) and related computer systems with current and accurate information.

Results of Tests:

No exceptions were noted.

SECTION III C
INFORMATION PROVIDED BY THE SERVICE AUDITOR
TRANSACTION PROCESSING CONTROLS

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

Description of Policies and Procedures:

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

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

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

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

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

SECTION III C
INFORMATION PROVIDED BY THE SERVICE AUDITOR
TRANSACTION PROCESSING CONTROLS

SECTION III C
INFORMATION PROVIDED BY THE SERVICE AUDITOR
TRANSACTION PROCESSING CONTROLS

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

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

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

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

Tests of Operating Effectiveness:

For a statistical sample of 68 initial eligibility transactions, we reviewed the case file to determine whether the notice of injury was filed timely, whether the claimant was a civil employee, whether sufficient evidence was provided to prove the injury occurred as reported, whether sufficient evidence was provided to prove the employee was in performance of their duties at the time of injury, whether sufficient evidence was provided to prove the injury was causally related to employment factors, and whether the CE accepted the condition and indicated approval of the accepted condition in the case file.

For a statistical sample of 68 initial eligibility transactions, we reviewed the case files to ensure that an employee was not paid for the first 3 days of disability unless one of the three valid exceptions applied.

SECTION IIIC
INFORMATION PROVIDED BY THE SERVICE AUDITOR
TRANSACTION PROCESSING CONTROLS

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

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

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

At such time as the DMA's assistance could not be utilized due either to the DMA's prior involvement with the case or need to seek technical assistance in a medical specialty other than the specialty of the DMA, we utilized an independent medical physician to evaluate the medical reports contained in the case files.

Results of Tests:

No exceptions were noted.

SECTION III C
INFORMATION PROVIDED BY THE SERVICE AUDITOR
TRANSACTION PROCESSING CONTROLS

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

Description of Policies and Procedures:

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

The FECA Procedure Manual 5-308(5) contains the requirement for updating the ACPS when errors are discovered in the originally reported social security number and chargeback code. When a report of injury is first received, a record is created in the CMF. When a request is made for compensation for lost wages, a schedule award or for death benefits, a complete case record is then created in the ACPS. The information transferred to the ACPS for the social security number and chargeback code is information in the CMF at the time the record is created. If any of this information is determined to be incorrect in ACPS, the ACPS record must be deleted and input again with the new information.

Tests of Operating Effectiveness:

For a sample of 121 statistically selected transactions, we reviewed documentation in the case files to ensure that the social security number, date of birth and the address were accurate in the ACPS and CMF.

For a sample of 121 statistically selected transactions, we reviewed documentation in the case files to ensure that the chargeback code was accurate in the CMF.

Results of Tests:

In 4 of 121 items sampled, the address information in the ACPS or CMF was not correct. In 2 of 121 items sampled, the claimant's date of birth was incorrect in the CMF. Based on our review of each of these cases, these errors appeared to be procedural in nature and did not impact the issuance or validity of payments to claimants.

No other exceptions were noted.

SECTION III C
INFORMATION PROVIDED BY THE SERVICE AUDITOR
TRANSACTION PROCESSING CONTROLS

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

Description of Policies and Procedures:

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

Tests of Operating Effectiveness:

For a statistical sample of 88 continuing eligibility transactions, we reviewed medical evidence in case files to ensure that the current medical evidence supported the disability status for the compensation being received.

Each time a technical medical issue arose, we requested the DMA at the respective DO assist us in understanding the medical situation.

Results of Tests:

In 9 of 88 items sampled, current medical evidence was not located within the case file. Based on our review of each of these cases, these errors appear to be procedural in nature and did not impact the eligibility of the claimants. These cases involved older individuals who had been receiving benefits for an extended period of time. The verification of current eligibility based on medical evidence is required under the FECA regulations. However, the absence of this documentation does not, in these cases, appear to have resulted in erroneous payments to claimants no longer medically disabled and not eligible for benefits.

No other exceptions were noted.

SECTION IIIC
INFORMATION PROVIDED BY THE SERVICE AUDITOR
TRANSACTION PROCESSING CONTROLS

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

Description of Policies and Procedures:

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

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

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

Tests of Operating Effectiveness:

For a statistical sample of 78 continuing eligibility claimants, we reviewed the case file to determine whether a CA-1032 had been requested.

For a statistical sample of 56 continuing eligibility claimants, we reviewed the case file to determine whether a CA-1036 and CA-936 had been released to the claimant.

For a statistical sample of 35 continuing eligibility claimants, we reviewed the case file to determine whether the Senior Claims Examiner (SCE) had requested claims information from SSA.

For a statistical sample of 2 continuing eligibility claimants, we reviewed the case file to determine whether the case was referred to appropriate office if the claimant refused to release earnings information.

SECTION III C
INFORMATION PROVIDED BY THE SERVICE AUDITOR
TRANSACTION PROCESSING CONTROLS

Results of Tests:

Our procedures revealed the following specific results:

In 3 of 78 items sampled, a CA-1032 had not been obtained from the claimant to verify earnings and dependent information within the last year. In 17 of 56 items sampled, a release for authorization to obtain earnings information from SSA was not sent to the claimants. In 7 of 35 items sampled, the request for the earnings information was not sent to SSA to actually obtain the earnings information once the authorization had been received. These cases involved older individuals who had been receiving benefits for an extended period of time. The verification of current eligibility based on earnings information is required by DFEC policies and procedures. However, the absence of this documentation does not, in these cases, appear to have resulted in erroneous payments to claimants since information in the case file indicates neither earning potential or earnings on previous reports received from SSA.

Regulations passed on November 25, 1998, effective January 4, 1999, include a provision whereby earnings information can be obtained from a variety of means including, but not limited to computer matches with OPM and State agencies such as workers' compensation. Wage information obtained from computer matches with state workers' compensation agencies should be more current than wage information from SSA and would not depend upon claimant authorization.

No other exceptions were noted.

SECTION IIIC
INFORMATION PROVIDED BY THE SERVICE AUDITOR
TRANSACTION PROCESSING CONTROLS

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

Description of Policies and Procedures:

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

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

Tests of Operating Effectiveness:

For a statistical sample of 332 transactions, we reviewed documentation in the case files to ensure that the components comprising compensation benefits were determined correctly.

For a statistical sample of 25 transactions, we reviewed those transactions whereby a single payment was in excess of \$50,000 to ensure the payment was authorized by a senior official at a GS-13 or higher.

For a statistical sample of 332 transactions, we reviewed documentation in the case files to determine if an adjustment to compensation should have been made for a Loss of Wage Earning Capacity (LWEC) and determined whether the CE computed the LWEC correctly.

For a non-statistical sample of 47 cases, we reviewed the appropriateness of the receipt of compensation for more than one injury for the same period of time (multiple claims cases).

For a non-statistical sample of 50 transactions, we reviewed the appropriateness of overriding the ACPS calculated compensation amount with a different gross compensation amount (gross override cases).

We reviewed the "compensation calculation program" data that was updated in the mainframe computer system from June 1, 1997 thru May 31, 1998, to ensure that:

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

SECTION III C
INFORMATION PROVIDED BY THE SERVICE AUDITOR
TRANSACTION PROCESSING CONTROLS

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

Results of Tests:

Our procedures revealed the following specific results:

In 8 of 332 items sampled, the claimant's pay rate was calculated incorrectly and the claimants were overpaid a net amount of \$403.

In 1 of 332 items sampled, the claimant was paid based on an LWEC but should have received Temporary Total Disability (TTD) and the claimant was underpaid \$5,052.

In 1 of 332 items sampled, the claimant was paid based on TTD when the claimant should have received an LWEC, and due to the claimant being paid a lump sum payment, the claimant was overpaid \$77,401.

In 2 of 332 items sampled, the claimants' pay rate was calculated correctly but incorrectly entered into the ACPS for payment and the claimants were overpaid a net amount of \$1,173.

In 2 of 332 items sampled, the claimants' compensation percentage was determined incorrectly and the claimants were overpaid a net amount of \$2,550.

In 1 of 332 items sampled, the effective date of the application of CPI increases was not determined properly and due to the payment being a lump sum payment, the claimant was underpaid \$79,292.

In 3 of 332 items sampled, the claimants received overlapping or dual compensation and the claimants were overpaid a net amount of \$118,352.

In 3 of 332 items sampled, the numbers of days in which the claimants were entitled to compensation were computed incorrectly and the claimants were underpaid a net amount of \$3,636.

In 1 of 332 items sampled, the claimant was paid and OPM was reimbursed for the same period of disability. The claimant was receiving OPM benefits when the claimant became eligible for FECA benefits. The claimant made a retroactive election of FECA benefits over OPM benefits. OPM was then reimbursed for the period of elected FECA benefits. However, the time period was computed incorrectly, resulting in an overpayment to the claimant of \$1,949.

In 1 of 332 items sampled, a refund was sent to DFEC by a child support enforcement agency based on a prior payment made to the agency by DFEC. The refund of \$16,850 was recorded in the ACPS twice.

SECTION III C
INFORMATION PROVIDED BY THE SERVICE AUDITOR
TRANSACTION PROCESSING CONTROLS

In 7 of 332 items sampled, transactions were indicated as canceled by the ACPS system. However, the payments were not canceled with Treasury, Treasury disbursed the payments and then the ACPS records were altered to indicate the payments were canceled. An individual other than the intended claimant received the disbursements. As canceled transactions are not included in the FECA chargeback amounts, employing agencies were not charged for these transactions.

In 1 of 25 items sampled which exceeded \$50,000 in a single payment, authorization by a senior official at a GS-13 or higher was not obtained prior to payment.

We performed additional non-statistical test work to ensure that errors of this nature would not be material. Additional non-statistical test work included a review of multiple claim cases and gross override cases.

We tested 47 cases in which claimants received compensation concurrently for more than one injury (multiple claim cases). This concurrent payment of benefits is allowable up to certain amounts and in certain instances. Our procedures on multiple claim cases revealed the following specific results:

In 1 of 47 items tested, the claimant's pay rate was calculated correctly but incorrectly entered into the ACPS for payment and the claimant was overpaid \$1,775.

We tested 50 cases in which the compensation amounts due to claimants as calculated by the ACPS was manually overridden. A manual override is required in instances such as when a claimant's compensation must be paid to several individuals.

No other exceptions were noted.

SECTION III C
INFORMATION PROVIDED BY THE SERVICE AUDITOR
TRANSACTION PROCESSING CONTROLS

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

Description of Policies and Procedures:

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

Tests of Operating Effectiveness:

For a statistical sample of 51 schedule award items, we reviewed documentation in the case files to ensure that claimants receiving compensation for schedule awards had medical evidence in the case files that supported their impairment or disability.

Each time a technical medical issue arose, we inquired the DMA at the respective DO to assist us in understanding the medical situation which included evaluating the professional qualifications and understanding the nature of the work to be performed by the DMA.

Results of Tests:

Our procedures revealed the following specific results:

In 2 of 51 items sampled, the correct percentage of impairment was not used and the claimants were overpaid a net amount of \$42,845.

Schedule awards must be calculated distinctively to each case. The errors resulted from the misapplication of the schedule of weeks for loss of use when multiple limbs were injured. The schedule awards were doubled when the percentage of impairment had been calculated as the total due for loss of use of both limbs.

No other exceptions were noted.

SECTION III C
INFORMATION PROVIDED BY THE SERVICE AUDITOR
TRANSACTION PROCESSING CONTROLS

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

Description of Policies and Procedures:

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

Tests of Operating Effectiveness:

For a statistical sample of 20 death benefit items, we reviewed documentation in the case files to ensure that the beneficiaries receiving compensation for death benefits had documentation in the case files that established their right as the beneficiaries.

Results of Tests:

No exceptions were noted.

SECTION III C
INFORMATION PROVIDED BY THE SERVICE AUDITOR
TRANSACTION PROCESSING CONTROLS

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

Description of Policies and Procedures:

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

- < Section 200 provides an overview of the system, describes the flow of bills through the office, outlines authorities and responsibilities, describes sources of information to be used in bill adjudication, and outlines procedures for some functions which support the BPS.
- < Section 201 describes keying instructions for the various BPS programs that are available to general users, such as CEs, fiscal personnel, keyers and contact representatives.
- < Section 202 describes the different BPS jobs which must be run and how to run them. These activities are generally carried out by the Systems Manager or operator.
- < Section 203 describes the coding schemes used by the BPS.
- < Section 204 describes the general rules which underlie bill adjudication.
- < Section 205 describes how suspended bills should be resolved.
- < Section 206 describes how informal appeals of Explanation of Benefits denial letters and formal appeals of fee schedule determinations should be processed.
- < Section 207 describes the various BPS reports available, their uses, and how to run them.
- < Section 208 describes other activities related to the BPS which are not addressed elsewhere, such as tracers, audits, controls and supervisory/management review.

Tests of Operating Effectiveness:

For a statistical sample of 314 transactions, we reviewed medical bills paid to ensure that bills were correctly entered into the BPS; bills contained all information for proper adjudication; amounts were not paid in excess of district established limits without proper approval by authorized personnel; discounts were taken, if offered; and hospital bills were for services which were considered proper charges against the Compensation Fund.

SECTION III C
INFORMATION PROVIDED BY THE SERVICE AUDITOR
TRANSACTION PROCESSING CONTROLS

SECTION III C
INFORMATION PROVIDED BY THE SERVICE AUDITOR
TRANSACTION PROCESSING CONTROLS

For a statistical sample of 314 transactions, we reviewed case files to ensure that surgery or equipment was approved prior to payment of a medical bill and that the medical services rendered related to the accepted condition.

For a statistical sample of 314 transactions, we reviewed bills which were subject to the Prompt Payment Act to ensure the bills were paid within 30 days or interest was paid if the bill was paid within 45 days.

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

We reviewed the guidelines established by the Health Care Financing Administration and the American Medical Association and the medical fee schedule data that was updated in the mainframe computer system from June 1, 1997 through May 31, 1998 to ensure that:

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

Results of Tests:

Our procedures revealed the following specific results:

In 2 of 314 medical bills tested, potential duplicate payments were approved for payment via bypass codes when the amounts had been previously paid. This improper use of a bypass code resulted in one bill for \$157,210 being paid in duplicate for which the provider returned the overpayment after the end of our sampling period and one bill was paid in duplicate for which the provider returned the funds prior to the May 31, 1998.

In 2 of 314 medical bills tested, the amount of the charge was input incorrectly resulting in overpayments totaling \$4,927.

In 12 of 314 medical bills tested, procedure codes, procedure code modifiers, discounts, unallowable items and service zip codes listed on bills were either keyed incorrectly into the BPS or not keyed at all resulting on overpayments totaling \$700. Eleven additional medical bills contained keying errors which did not result in overpayments.

In 1 of 314 medical bills tested, the services rendered were in excess of 2 years prior to the date of payment which is unallowable in accordance with 20 CFR §10.413, resulting in an overpayment of \$33,882.

SECTION III C
INFORMATION PROVIDED BY THE SERVICE AUDITOR
TRANSACTION PROCESSING CONTROLS

In 1 of 314 medical bills tested, bills submitted for the same service with differing information were both paid resulting in a duplicate payment of \$573.

In 1 of 314 medical bills tested, duplicate bills submitted by a medical provider were input in a way which failed edit checks resulting in an overpayment of \$1,139.

Additional test work was performed to review potential duplicate payments as a result of the above errors. The potential duplicate payment test work indicated that if all items identified as potential duplicate payments were in fact duplicate payments, the errors resulting would not be material. No further test work was considered necessary.

No other exceptions were noted.

SECTION III C
INFORMATION PROVIDED BY THE SERVICE AUDITOR
TRANSACTION PROCESSING CONTROLS

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

Description of Policies and Procedures:

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

- < Sections (2) and (3) define authorities and responsibilities involved with third party cases.
- < Section (4) describes the letters, forms and status codes used to process and track the progress of third party cases.
- < Section (5) defines a minor injury.
- < Section (7) provides instructions for third party case development by key personnel, such as CEs and DCE's.
- < Section (8) provides instructions to close out third party cases that are not economical to pursue or that would not be successful with further efforts.
- < Section (9) lists certain third party cases that are not to be closed by the DCE and should be sent to the appropriate SOL.
- < Section (10) provides instructions for handling settlement cases where the injury is "minor" and the claimant is negotiating or has made a settlement without the benefit of an attorney.
- < Section (11) provides instructions for the referral of third party cases to the SOL.
- < Section (13) provides instructions for when a settlement has been made or is imminent in third party cases referred to the SOL.

Tests of Operating Effectiveness:

For a non-statistical sample of 55 transactions, we reviewed the documentation in the case files to ensure that:

- C The appropriate status codes used to track the progress of third party cases were entered or changed in the case management files.

SECTION III C
INFORMATION PROVIDED BY THE SERVICE AUDITOR
TRANSACTION PROCESSING CONTROLS

- < The Letter CA-1045 which requests information from the claimant regarding the action taken against third party by the claimant, including the hiring of an attorney, was released to the claimant, when necessary, and the proper follow-up actions were conducted when the claimant did not reply within 30 days.
- < Third party cases were referred to a DCE at the proper time.
- < The appropriate forms were released to the attorneys of claimants involved in a third party case.
- < The Form CA-1123 which summarizes the actions taken on a third party case including resolution, was used properly to close third party cases which are considered "minor."
- < Third party cases were referred to the SOL, when required.
- < The appropriate actions were taken to track, monitor and resolve third party cases through the SOL.
- < When necessary, claimant's compensation and medical benefits were appropriately suspended or adjusted.
- < When completed Form CA-162s (Statement of Recoverys) from the SOL were received (or recovery statements from a claimant), the Summary of Disbursements, Form CA-164s, were properly prepared and forwarded to the fiscal section for completion.
- < The fiscal section properly established account receivables and maintained accounting records.
- < Claimants were notified when the third party settlement was excess of the prior compensation suspended via a Letter CA-1044 and claimants were notified when the third party settlement was not in excess of the prior compensation suspended via a Letter CA-1120.

Results of Tests:

In 9 of 55 third party cases, the case status codes were incorrectly reported in the CMF. The cases we reviewed indicated the case file had a third party potential when the third party aspect of the case file had been closed. DOs would have less cases to track if the third party status code was correct.

SECTION III C
INFORMATION PROVIDED BY THE SERVICE AUDITOR
TRANSACTION PROCESSING CONTROLS

In 6 of 40 third party cases, CA-1045s were not issued to the claimants or, if no response was received from the claimants to the first request, second request CA-1045s were not timely issued to the claimants. Four of the six errors were the result of vehicle accidents, one error was due to a fall in an office building and the remaining error was an occupational disease claim due to a chemical exposure. All of the errors occurred within the prior year. Due to the nature and timing of these injuries, third party settlements do not appear to have been jeopardized. Also, all of the errors occurred within two district offices, both offices have taken actions to improve the accuracy of processing third party settlements.

No other exceptions were noted.