

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

**APRIL 30, 2002 AND SEPTEMBER 30, 2002**

**U.S. Department of Labor  
Office of Inspector General  
Report Number: 22-03-001-04-431  
Date Issued: November 8, 2002**

**Carmichael  
Brasher Tuvell  
& Company**

**Certified Public Accountants**

---

These reports were prepared by Carmichael, Brasher, Tuvell & Company, Certified Public Accountants, under contract to the Inspector General, and, by acceptance, it becomes a report of the Office of Inspector General.

*Elisat P. Lewis*

Deputy Inspector General for Audit

**Table of Contents**

<b>Acronyms</b>		<b>i</b>
<b>I.</b>	<b>A. Independent Auditors' Report on the Schedule of Actuarial Liability, Net Intra-Governmental Accounts Receivable and Benefit Expense</b>	<b>1</b>
	<b>B. Schedule of Actuarial Liability, Net Intra-Governmental Accounts Receivable and Benefit Expense</b>	<b>2</b>
<b>II.</b>	<b>A. Independent Accountants' Report on Applying Agreed-Upon Procedures</b>	<b>7</b>
	<b>B. Schedules</b>	
	<b>1. Schedule of Actuarial Liability by Agency</b>	<b>9</b>
	<b>2. Schedule of Net Intra -Governmental Accounts Receivable by Agency</b>	<b>11</b>
	<b>3. Schedule of Benefit Expense by Agency</b>	<b>13</b>
	<b>C. Agreed-Upon Procedures and Results</b>	
	<b>Summary</b>	<b>15</b>
	<b>Actuarial Liability</b>	<b>16</b>
	<b>Net Intra-Governmental Accounts Receivable</b>	<b>21</b>
	<b>Benefit Expense</b>	<b>23</b>
<b>III.</b>	<b>A. Independent Service Auditors' Report</b>	<b>25</b>
	<b>B. Division of Federal Employees' Compensation's Policies and Procedures</b>	
	<b>Overview of Services Provided</b>	<b>27</b>
	<b>Overview of Control Environment</b>	<b>31</b>
	<b>Overview of Transaction Processing</b>	<b>35</b>
	<b>Overview of Computer Information Systems</b>	<b>41</b>
	<b>Control Objectives and Related Policies and Procedures</b>	<b>44</b>
	<b>User Control Considerations</b>	<b>44</b>
	<b>C. Information Provided by the Service Auditor</b>	
	<b>Tests of Control Environment Elements</b>	<b>45</b>
	<b>Sampling Methodology</b>	<b>46</b>
	<b>Control Objectives, Related Policies and Procedures,     and Tests of Described Policies and Procedures</b>	<b>50</b>
	<b>General Computer Controls</b>	<b>51</b>
	<b>Transaction Processing Controls</b>	<b>66</b>

## ACRONYMS

ACPS	Automated Compensation Payment System
ACS	Affiliated Computer Services, Inc.
ADP	Automatic Data Processing
AID	Agency for International Development
BPS	Bill Payment System
BLS	Bureau of Labor Statistics
CBS	Chargeback System
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
DITMS	Division of Information Technology Management and Services
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
DOLARS	Department of Labor Accounting and Related Systems
DPPS	Division of Planning, Policy and Standards
DRP	Disaster Recovery Plan
EDP	Electronic Data Processing
EPA	Environmental Protection Agency
ESA	Employment Standards Administration
FCS	Fund Control System
FECA	Federal Employees' Compensation Act
FEMA	Federal Emergency Management Agency
FISCAM	Federal Information System Controls Application Manual
FMFIA	Federal Managers' Financial Integrity Act
GSA	General Services Administration

## ACRONYMS

HBI	Health Benefit Insurance
HHS	U.S. Department of Health and Human Services
HUD	U.S. Department of Housing and Urban Development
IBNR	Incurred But Not Reported
IS	Information Systems
LBP	Liability Benefits Paid (ratio)
LWEC	Loss of Wage Earning Capacity
NASA	National Aeronautics and Space Administration
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 System
OPM	Office of Personnel Management
OWCP	Office of Workers' Compensation Programs
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
SunGard	SunGard eSourcing, Inc.
TTD	Temporary Total Disability
U.S.C.	United States Code
USPS	United States Postal Service
VA	U.S. Department of Veterans Affairs

[This page intentionally left blank.]

**SECTION IA  
INDEPENDENT AUDITORS' REPORT ON THE  
SCHEDULE OF ACTUARIAL LIABILITY,  
NET INTRA-GOVERNMENTAL ACCOUNTS RECEIVABLE  
AND BENEFIT EXPENSE**

**Victoria A. Lipnic, Assistant Secretary  
Employment Standards Administration, U.S. Department of Labor,  
General Accounting Office, Office of Management and Budget and Other Specified Agencies:**

We have audited the accompanying Schedule of Actuarial Liability, Net Intra-Governmental Accounts Receivable and Benefit Expense (the Schedule) of the Federal Employees' Compensation Act Special Benefit Fund as of and for the year ended September 30, 2002. This schedule is the responsibility of the U.S. Department of Labor's management. Our responsibility is to express an opinion on this schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the applicable provisions of OMB Bulletin 01-02, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule of Actuarial Liability, Net Intra-Governmental Accounts Receivable and Benefit Expense 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, Net Intra-Governmental Accounts Receivable and Benefit Expense. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Schedule of Actuarial Liability, Net Intra-Governmental Accounts Receivable and Benefit Expense referred to above presents fairly, in all material respects, the actuarial liability, net intra-governmental accounts receivable and benefit expense of the Federal Employees' Compensation Act Special Benefit Fund as of and for the year ended September 30, 2002, in conformity with accounting principles generally accepted in the United States of America.

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.

*Carmichael, Brasher, Tuvell & Company*

October 31, 2002

**SECTION IB**  
**U.S. DEPARTMENT OF LABOR**  
**EMPLOYMENT STANDARDS ADMINISTRATION**  
**FEDERAL EMPLOYEES' COMPENSATION ACT**  
**SPECIAL BENEFIT FUND**  
**SCHEDULE OF ACTUARIAL LIABILITY,**  
**NET INTRA-GOVERNMENTAL ACCOUNTS RECEIVABLE**  
**AND BENEFIT EXPENSE**  
**AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2002**

---

	(Dollars in <u>Thousands</u> )
Actuarial Liability	\$ <u>24,807,367</u>
Net Intra- governmental Accounts Receivable	\$ <u>3,544,179</u>
Benefit Expense	\$ <u>2,120,262</u>

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



**SECTION IC**  
**NOTES TO THE SCHEDULE OF ACTUARIAL LIABILITY,**  
**NET INTRA-GOVERNMENTAL ACCOUNTS RECEIVABLE**  
**AND BENEFIT EXPENSE**  
**AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2002**

---

1. SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Presentation

This schedule has been prepared to report the actuarial liability, net intra-governmental accounts receivable and benefit expense of the Federal Employees' Compensation Act (FECA) Special Benefit Fund, 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 (DOL), Employment Standards Administration (ESA) is charged with the responsibility of operating the Special Benefit Fund under the provisions of the Act. The schedule has been prepared from the accounting records of the Special Benefit Fund.

The actuarial liability, net intra-governmental accounts receivable and benefit expense of the Special Benefit Fund 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 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 CFO Act and other specified agencies to support and prepare their respective financial statements.

The actuarial liability for future workers' compensation benefits is an accrued estimate as of September 30, 2002. The net intra-governmental accounts receivable is the amount due from Federal agencies for benefit payments paid to employees of the employing agency. The net intra-governmental accounts receivable includes amounts which were billed to the employing agencies through June 30, 2002, but not paid as of September 30, 2002, including prior years, if applicable, plus the accrued receivable for benefit payments not yet billed for the period July 1, 2002 through September 30, 2002, less credits due from the public. Benefit expense consists of benefits paid and accrued for the period from October 1, 2001 to September 30, 2002, plus the net change in the actuarial liability for the year.

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, inflation and interest rate assumptions, and other economic factors are applied to the actuarial model that calculates the liability estimate.

**SECTION IC**  
**NOTES TO THE SCHEDULE OF ACTUARIAL LIABILITY,**  
**NET INTRA-GOVERNMENTAL ACCOUNTS RECEIVABLE**  
**AND BENEFIT EXPENSE**  
**AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2002**

---

b. Basis of Accounting

The accounting and reporting policies of the Federal Employees' Compensation Act Special Benefit Fund relating to the Schedule conforms to accounting principles generally accepted in the United States of America.

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

2. ACTUARIAL LIABILITY (FUTURE WORKERS' COMPENSATION BENEFITS)

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

The actuarial liability for future workers' compensation reported on the schedule includes the expected liability for death, disability, medical and miscellaneous costs for approved cases. 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 assumptions utilized for discounting was 5.2% in year 1 and thereafter.

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

**SECTION IC**  
**NOTES TO THE SCHEDULE OF ACTUARIAL LIABILITY,**  
**NET INTRA-GOVERNMENTAL ACCOUNTS RECEIVABLE**  
**AND BENEFIT EXPENSE**  
**AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2002**

---

The compensation COLA 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>
2003	1.80%	4.31%
2004	2.67%	4.01%
2005+	2.40%	4.01%

The medical inflation rates presented represent an average of published quarterly rates covering the benefit payment fiscal year. The compensation factors presented are the blended rates used by the model rather than the published March 1 FECA-COLA factor from which the blended rates are derived.

**3. NET INTRA-GOVERNMENTAL ACCOUNTS RECEIVABLE**

Net intra-governmental accounts receivable is the total of the amounts billed to Federal agencies through June 30, 2002 but had not been paid as of September 30, 2002, including prior year's amounts billed, if applicable, plus the accrued receivable for benefit payments not yet billed for the period July 1, 2002 through September 30, 2002, less applicable credits. The Special Benefit Fund also receives an appropriation for special cases where employing agencies and older cases are not charged for benefit payments.

Federal agencies either receive funding for FECA benefits as part of their annual appropriation or if the agency does not receive an appropriation specifically for FECA benefits, the amount of the current chargeback billing is recognized as an expense.

In addition, certain corporations and instrumentalities are assessed under the Federal Employees' Compensation Act for a fair share of the costs of administering disability claims filed by their employees. The fair share costs are included in the net intra-governmental accounts receivable.

**SECTION IC**  
**NOTES TO THE SCHEDULE OF ACTUARIAL LIABILITY,**  
**NET INTRA-GOVERNMENTAL ACCOUNTS RECEIVABLE**  
**AND BENEFIT EXPENSE**  
**AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2002**

---

4. BENEFIT EXPENSE

Benefits paid and accrued consists of benefit payments for compensation for lost wages, schedule awards, death benefits and medical benefits paid and accrued under FECA for the period October 1, 2001 through September 30, 2002, plus the net change in the actuarial liability for the year. The amount paid and accrued for compensation for lost wages, schedule awards, death benefits and medical benefits totaled \$2.291 billion. The net change in the actuarial liability for the year was a decrease of \$187 million. Benefit expense for the fiscal year was \$2.120 billion.

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

**Victoria A. Lipnic, Assistant Secretary  
Employment Standards Administration, U.S. Department of Labor,  
General Accounting Office, Office of Management and Budget and Other Specified 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 CFO Act agencies and other specified agencies listed in the Schedules of Actuarial Liability by Agency, Net Intra-Governmental Accounts Receivable by Agency and Benefit Expense by Agency, Section IIB-1, 2 and 3 (the parties specified) of this special report, solely to assist you and such agencies with respect to the accompanying Schedules of Actuarial Liability by Agency, Net Intra-Governmental Accounts Receivable by Agency and Benefit Expense by Agency (Section IIB-1, 2 and 3, respectively) of the Federal Employees' Compensation Act Special Benefit Fund as of and for the year ended September 30, 2002.

The Department of Labor is responsible for the Schedules (Section IIB-1, 2 and 3). The Schedule of Actuarial Liability by Agency at September 30, 2002, represents the present value of the estimated future benefits to be paid pursuant to the Federal Employees' Compensation Act. The Schedule of Net Intra-Governmental Accounts Receivable by Agency is the total of the amounts billed to Federal agencies through June 30, 2002 which had not yet been paid as of September 30, 2002 plus the accrued receivable for benefit payments not yet billed for the period July 1, 2002 through September 30, 2002. The Schedule of Benefit Expense by Agency is the benefits paid and accrued for the fiscal year ended September 30, 2002, plus the net change in the actuarial liability for the year.

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

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 sufficiency of the procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described in Section 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 of the Schedules of Actuarial Liability by Agency, Net Intra-Governmental Accounts Receivable by Agency and Benefit Expense by Agency, the objective of which is the expression of an opinion on the Schedules or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report 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. 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.

*Carmichael, Brasher, Sunell & Company*

October 31, 2002

**SECTION IIB-1**  
**U.S. DEPARTMENT OF LABOR**  
**EMPLOYMENT STANDARDS ADMINISTRATION**  
**FEDERAL EMPLOYEES' COMPENSATION ACT**  
**SPECIAL BENEFIT FUND**  
**SCHEDULE OF ACTUARIAL LIABILITY BY AGENCY**  
**AS OF SEPTEMBER 30, 2002**

<b>AGENCY</b>	<b>Actuarial Liability</b> (Dollars in thousands)
Agency for International Development (AID)	\$28,251
Environmental Protection Agency (EPA)	39,457
Federal Emergency Management Agency (FEMA)	28,661
General Services Administration (GSA)	191,324
National Aeronautics and Space Administration (NASA)	67,280
National Science Foundation (NSF)	1,637
Nuclear Regulatory Commission (NRC)	9,062
Office of Personnel Management (OPM)	13,285
United States Postal Service (USPS)	7,653,191
Small Business Administration (SBA)	31,487
Social Security Administration (SSA)	280,549
Tennessee Valley Authority	652,098
U. S. Department of Agriculture	861,620
U. S. Department of the Air Force	1,476,884
U. S. Department of the Army	1,929,082
U. S. Department of Commerce	190,687
U. S. Department of Defense – other	904,925
U. S. Department of Education	21,665
U. S. Department of Energy	92,442
U. S. Department of Health and Human Services	276,699
U. S. Department of Housing and Urban Development	80,994
U. S. Department of the Interior	658,501
U. S. Department of Justice	1,204,284

**SECTION IIB-1**  
**U.S. DEPARTMENT OF LABOR**  
**EMPLOYMENT STANDARDS ADMINISTRATION**  
**FEDERAL EMPLOYEES' COMPENSATION ACT**  
**SPECIAL BENEFIT FUND**  
**SCHEDULE OF ACTUARIAL LIABILITY BY AGENCY**  
**AS OF SEPTEMBER 30, 2002**

<b>AGENCY</b>	<b>Actuarial Liability</b> (Dollars in thousands)
U. S. Department of Labor	\$272,977
U. S. Department of the Navy	2,872,301
U. S. Department of State	56,259
U. S. Department of Transportation	1,151,854
U. S. Department of the Treasury	1,076,954
U. S. Department of Veterans Affairs (VA)	1,762,577
Other agencies <sup>1</sup>	920,380
Total - all agencies (Memo Only)	\$24,807,367

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



**SECTION IIB-2**  
**U.S. DEPARTMENT OF LABOR**  
**EMPLOYMENT STANDARDS ADMINISTRATION**  
**FEDERAL EMPLOYEES' COMPENSATION ACT**  
**SPECIAL BENEFIT FUND**  
**SCHEDULE OF NET INTRA-GOVERNMENTAL**  
**ACCOUNTS RECEIVABLE BY AGENCY**  
**AS OF SEPTEMBER 30, 2002**

<b>AGENCY</b>	<b>Amounts Billed Not Yet Paid(1)</b> (Dollars in thousands)	<b>Amounts Expended Not Yet Billed (2)</b> (Dollars in thousands)	<b>Credits Due from Public (3)</b> (Dollars in thousands)	<b>Net Intra-Governmental Accounts Receivable(4)</b> (Dollars in thousands)
Agency for International Development	\$5,585	\$860	\$(24)	\$6,421
Environmental Protection Agency	6,608	1,264	(30)	7,842
Federal Emergency Management Agency	5,117	803	(25)	5,895
General Services Administration	32,330	4,558	(145)	36,743
National Aeronautics and Space Administration	13,907	1,869	(61)	15,715
National Science Foundation	221	34	(1)	254
Nuclear Regulatory Commission	1,599	217	(7)	1,809
Office of Personnel Management	2,101	286	(10)	2,377
United States Postal Service	80,507	248,129	(7,187)	321,449
Small Business Administration	4,746	647	(21)	5,372
Social Security Administration	41,113	6,458	(195)	47,376
Tennessee Valley Authority	69,780	18,014	(570)	87,224
U. S. Department of Agriculture	136,222	21,460	(636)	157,046
U. S. Department of the Air Force	266,645	40,243	(1,213)	305,675
U. S. Department of the Army	299,611	42,943	(1,283)	341,271
U. S. Department of Commerce	35,304	4,777	(143)	39,938
U. S. Department of Defense - other	161,195	23,866	(727)	184,334
U. S. Department of Education	4,235	491	(15)	4,711
U. S. Department of Energy	15,243	2,530	(81)	17,692
U. S. Department of Health and Human Services	43,855	6,926	(202)	50,579

1 Amounts billed through June 30, 2002 (including prior years) but not yet paid as of September 30, 2002.

2 Amounts paid and accrued but not yet billed for the period July 1, 2002 through September 30, 2002.

3 Allocation of credits due from public through September 30, 2002.

4 Total amount due to the fund for each agency as of September 30, 2002.

**SECTION IIB-2**  
**U.S. DEPARTMENT OF LABOR**  
**EMPLOYMENT STANDARDS ADMINISTRATION**  
**FEDERAL EMPLOYEES' COMPENSATION ACT**  
**SPECIAL BENEFIT FUND**  
**SCHEDULE OF NET INTRA-GOVERNMENTAL**  
**ACCOUNTS RECEIVABLE BY AGENCY**  
**AS OF SEPTEMBER 30, 2002**

<b>AGENCY</b>	<b>Amounts Billed Not Yet Paid(1)</b> (Dollars in thousands)	<b>Amounts Expended Not Yet Billed (2)</b> (Dollars in thousands)	<b>Credits Due from Public (3)</b> (Dollars in thousands)	<b>Net Intra- Governmental Accounts Receivable(4)</b> (Dollars in thousands)
U. S. Department of Housing and Urban Development	\$15,154	\$2,328	\$(71)	\$17,411
U. S. Department of the Interior	102,865	17,080	(481)	119,464
U. S. Department of Justice	186,097	30,366	(875)	215,588
U. S. Department of Labor	47,686	8,679	(250)	56,115
U. S. Department of the Navy	495,132	73,285	(2,272)	566,145
U. S. Department of State	15,583	2,536	(67)	18,052
U. S. Department of Transportation	201,271	30,361	(931)	230,701
U. S. Department of the Treasury	171,364	27,504	(807)	198,061
U. S. Department of Veterans Affairs	296,499	46,951	(1,388)	342,062
Other agencies	122,135	19,318	(596)	140,857
Total - all agencies (Memo Only)	\$2,879,710	\$684,783	\$(20,314)	\$3,544,179

1 Amounts billed through June 30, 2002 (including prior years) but not yet paid as of September 30, 2002.  
2 Amounts paid and accrued but not yet billed for the period July 1, 2002 through September 30, 2002.  
3 Allocation of credits due from public through September 30, 2002.  
4 Total amount due to the fund for each agency as of September 30, 2002.

**SECTION IIB-3**  
**U.S. DEPARTMENT OF LABOR**  
**EMPLOYMENT STANDARDS ADMINISTRATION**  
**FEDERAL EMPLOYEES' COMPENSATION ACT**  
**SPECIAL BENEFIT FUND**  
**SCHEDULE OF BENEFIT EXPENSE BY AGENCY**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2002**

<b>AGENCY</b>	<b>Benefits Paid and Accrued</b> (Dollars in thousands)	<b>Change in Actuarial Liability</b> (Dollars in thousands)	<b>Total Benefit Expense</b> (Dollars in thousands)
Agency for International Development	\$2,608	\$(2,654)	\$(46)
Environmental Protection Agency	3,530	(176)	3,354
Federal Emergency Management Agency	2,804	3,420	6,224
General Services Administration	15,776	(7,529)	8,247
National Aeronautics and Space Administration	6,563	(2,392)	4,171
National Science Foundation	113	(169)	(56)
Nuclear Regulatory Commission	735	(1,787)	(1,052)
Office of Personnel Management	1,033	(467)	566
United States Postal Service	805,575	253,721	1,059,296
Small Business Administration	2,236	(768)	1,468
Social Security Administration	21,578	2,204	23,782
Tennessee Valley Authority	62,209	(5,432)	56,777
U. S. Department of Agriculture	71,309	(17,343)	53,966
U. S. Department of the Air Force	134,089	(53,009)	81,080
U. S. Department of the Army	177,858	(26,101)	151,757
U. S. Department of Commerce	15,588	(33,029)	(17,441)
U. S. Department of Defense - other	64,444	(49,191)	15,253
U. S. Department of Education	1,572	(1,058)	514
U. S. Department of Energy	8,563	(3,306)	5,257
U. S. Department of Health and Human Services	22,720	(16,656)	6,064
U. S. Department of Housing and Urban Development	8,004	(3,764)	4,240
U. S. Department of the Interior	54,930	(4,970)	49,960

**SECTION IIB-3**  
**U.S. DEPARTMENT OF LABOR**  
**EMPLOYMENT STANDARDS ADMINISTRATION**  
**FEDERAL EMPLOYEES' COMPENSATION ACT**  
**SPECIAL BENEFIT FUND**  
**SCHEDULE OF BENEFIT EXPENSE BY AGENCY**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2002**

<b>AGENCY</b>	<b>Benefit Payments (Dollars in thousands)</b>	<b>Change in Actuarial Liability (Dollars in thousands)</b>	<b>Total Benefit Expense (Dollars in thousands)</b>
U. S. Department of Justice	\$98,950	\$10,694	\$109,644
U. S. Department of Labor	21,942	22,699	44,641
U. S. Department of the Navy	248,166	(96,240)	151,926
U. S. Department of State	6,624	(386)	6,238
U. S. Department of Transportation	102,750	(51,133)	51,617
U. S. Department of the Treasury	89,084	848	89,932
U. S. Department of Veterans Affairs	154,411	(50,098)	104,313
Other agencies <sup>(1)</sup>	101,507	(52,937)	48,570
Total - all agencies (Memo Only)	\$2,307,271	\$(187,009)	\$2,120,262

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

## SECTION IIC AGREED-UPON PROCEDURES & RESULTS

---

### SUMMARY

Our objective was to perform specified agreed-upon procedures to the Schedules of Actuarial Liability by Agency, Net Intra-Governmental Accounts Receivable by Agency and Benefit Expense by Agency as of and for the year ended September 30, 2002, as summarized below:

- 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, 2002. A certified actuary was engaged to review the calculation of the actuarial liability.
- Applied certain agreed-upon procedures as specified in this section of the report to the net intra-governmental accounts receivable billings and balances for the period ending September 30, 2002.
- Applied certain agreed-upon procedures as outlined in this section of the report to the compensation and medical payments for the period October 1, 2001 to April 30, 2002 (sampling period), and for the period October 1, 2001 to September 30, 2002 (fiscal year), and to DOL's cut-off process. Calculated the change in the actuarial liability from the prior year to the current year.

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

Each section of this agreed-upon procedures report has a general overview of the section followed by detailed listing of the agreed-upon procedures performed and the results of the procedures for each section of this engagement.

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

Actuarial Liability - Consistent with prior years, the actuarial liability was evaluated by an independent actuary. Agreed-upon procedures were performed on the methodology, assumptions and information used in the model. The 2002 benefit payments predicted by the model for 2001 were compared to actual payments made in 2002, and analytical procedures were performed relating the change in the liability amount by agency to the change in the aggregate liability.

Net Intra-Governmental Accounts Receivable - Confirmation letters regarding the accounts receivable as of September 30, 2002, were mailed and confirmed with the CFO Act and other selected agencies. Agreed-upon procedures were performed on fiscal year 2002 accounts receivable as compared with fiscal year 2001 accounts receivable with regards to new receivables, collections, write-offs, and chargebacks.

Benefit Expense - Agreed-upon procedures were applied to the benefit payments made during the current fiscal year by district office, by strata, and by agency as compared to benefit payments of the prior fiscal year. Applied procedures to DOL's cut-off process to determine if adjustments were recorded in the appropriate period. Calculated the change in the actuarial liability from the prior year to the current year.

**SECTION IIC**  
**AGREED-UPON PROCEDURES & RESULTS**

---

**ACTUARIAL LIABILITY**

*General Overview*

The actuarial model and the resulting actuarial liability were evaluated by an independent actuary. The independent actuary issued a report that stated the aggregate actuarial liability was reasonably stated in accordance with Actuarial Standards. We performed agreed-upon procedures on the calculation of the actuarial liability 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, its group, and to the benefit payments made during the current year.

*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"> <li>• Whether or not the assumptions used by the model were appropriate for the purpose and method to which they were applied.</li> <li>• Whether or not the assumptions were reasonable representations for the underlying phenomena that they model.</li> <li>• 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.</li> <li>• Whether or not changes in the assumptions over the years affected trends.</li> <li>• Whether or not tests of calculations provided a reasonable basis regarding the integrity of the model as a whole.</li> <li>• Whether or not the overall results were reasonable.</li> </ul>	<p>The actuary's review of the model indicated that the assumptions were appropriate for the purpose and method applied.</p> <p>The actuary tested the calculations included in the model and found that they were performed consistent with the model's stated assumptions.</p> <p>The actuary's review of the model indicated that the methodologies were acceptable, were applied correctly and that calculations are performed in such a way as to generate results which are overall appropriate. Additional detailed checks of calculations and data flow revealed no errors in methodology had been used.</p> <p>The methodology and assumption applied to the calculations tested provides a reasonable basis in regard to the integrity of the model as a whole.</p> <p>The actuary indicated that the model calculated a liability and that the overall results were reasonable under the method and assumptions used.</p>
<p>Confirmed with the American Academy of Actuaries and the Casualty Actuarial Society as to whether the actuary was accredited and in good standing with the associations. Obtained a statement of independence from the actuarial firm. Obtained two references from clients of the actuarial firm as to the actuary's work.</p>	<p>The actuarial specialist was accredited and in good standing with the American Academy of Actuaries and the Casualty Actuarial Society. The actuarial consulting firm certified that they were independent from the DOL and the FECA Special Benefit Fund. The actuarial consulting firm provided references stating experience in the type of work required for this engagement. Contacted the references of the actuarial firm and confirmed they possessed the expertise and experience required for this engagement.</p>

**SECTION IIC**  
**AGREED-UPON PROCEDURES & RESULTS**

<i>Agreed-Upon Procedures Performed</i>	<i>Results of Procedures</i>
<p>Compared the economic assumptions used by the model for 2001 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 decreased from 5.21% for the prior year to 5.20% for the current year. Concurrently, the Bureau of Labor Statistics' (BLS) estimates of COLA decreased from a 10 year average of 2.64% for the prior year to a 10 year average of 2.37% for the current year, and CPI-Med factors decreased from a 10 year average of 4.13% for the prior year to a 10 year average of 4.04% for the current year. In combination, these rate changes resulted in an increase in the net effective rate (interest rate less inflation rate) of approximately .23% (from approximately 2.27% to 2.50%). The result of the changes in estimated prospective rates was to decrease the estimated actuarial liability by approximately 2.3% from what the liability would have been had 2001 rates been used for the year 2002 calculation.</p>
<p>Compared the interest and inflation rates used by the model to the source documents from which they were derived.</p>	<p>The interest rates used in the model were the same interest rates stated in OMB's publication. The inflation rates used in the model were derived from the BLS indices cited. The rates from the BLS indices were adjusted to accommodate the difference between the year end of the actuarial model and the year end of the cited rates. The blended rates were recalculated without exception.</p>
<p>Compared the actuarial liability by agency as reported in a Memorandum to the CFOs of Executive Departments of the unaudited estimated actuarial liability for future workers' compensation benefits to the liability calculated by the model and reported on the Projected Liability Reports.</p>	<p>The liability reported on the Memorandum issued to the CFOs of Executive Departments of the unaudited estimated actuarial liability for future workers' compensation benefits agreed with the liability calculated by the model and reported on the Projected Liability Reports.</p>
<p>Compared by agency and in aggregate, the 1998-2002 benefit payments downloaded to the model with the amount of benefit payments reflected in the Summary Chargeback Billing Report, to determine whether the benefit payment data used by the model was the same data upon which agreed-upon procedures for benefit payments were performed.</p>	<p>The amounts in aggregate agreed without exception. By agency, approximately \$168,000 of 1998 DOT benefit payments had been downloaded as "Other Agencies". This amount represented approximately .17% of DOT's 1998 payments. No other exceptions were noted.</p>

**SECTION IIC**  
**AGREED-UPON PROCEDURES & RESULTS**

<i>Agreed-Upon Procedures Performed</i>	<i>Results of Procedures</i>
<p>Determined the basis of the agency groupings and performed tests to establish the consistency of the grouping. Determined the impact of such inclusion in a grouping.</p>	<p>The groupings were consistent with the prior year. The grouping was determined premised on a claim duration probability study performed by a DOL economist. Both the designers of the model and the independent actuary agreed that the study provided a basis for such groupings. The groupings were traced to the study. The study included data through 1991, and therefore, agencies without claims under FECA prior to 1991 had not been studied. These agencies were placed in Group III, whose average probability approximated the average of the aggregate population. These agencies are AID, FEMA, NSF, NRC, OPM, SBA, and SSA.</p> <p>Group experience is used to develop the backfilling factors and is factored into the loss development feature used to project the pattern of future payments. Group experience has a more significant impact on the estimated liabilities for smaller agencies.</p>
<p>Calculated the change in the actuarial liability by agency and in aggregate. Identified and sought explanations for agencies whose liability changed by more than 10%.</p>	<p>The aggregate liability decreased approximately .73%. The following agencies' liabilities changed by more than 10%: Commerce (-14.8%), NRC (-16.5%), FEMA (13.6%).</p> <p>A predictive test of what the liability should have been based upon last year's liability adjusted for the change in benefit payments and economic factors predicted within 10% of the model's liability for the above agencies. The change in benefit payments in the current fiscal year contributed to a liability change in excess of 10%.</p>
<p>Calculated the ratio of the agency liability to the LBP ratio by agency and compared this to the overall ratio and group ratio. Identified and sought explanations for those agencies for which the ratio varied by more than 10 from their group ratio, and lay outside the range of group averages.</p>	<p>The Liabilities to Benefits Paid ratio (LBP) was 11.06. The LBP was above the average for both Commerce (12.19) and NRC (11.97) and below the average for FEMA (10.65). An LBP above the average would normally indicate the change in benefit payments had not caused the liability to be understated relative to the model overall and an LBP below the average would normally indicate the increase in benefit payments had not caused the liability to be overstated.</p> <p>By group, the range of the ratio was from 9.75 (Group V-Postal) to 12.81 (Group III). The following agencies varied by more than 10 from their group's ratio and fell outside the range of group ratios: Education (13.55- Group II), NSF (14.83-Group III), All Other Defense (14.16- Group III), State (8.95- Group IV), Labor (12.84- Group IV).</p> <p>A predictive test of what the liability should have been premised upon last year's liability adjusted for the change in benefit payments and economic factors predicted within 10 for all agencies except State. For State, the test resulted in a liability 17.61 lower than calculated by the model. Education, Labor &amp; NSF had medical LBPs which exceeded their group medical LBPs.</p>



**SECTION IIC**  
**AGREED-UPON PROCEDURES & RESULTS**

<i>Agreed-Upon Procedures Performed</i>	<i>Results of Procedures</i>
	<p>DOL identified an atypical lump-sum payment in an older injury year that they indicated could have skewed their results upward. The actuary concurred with DOL's explanation and recommended that the actuarial liability for DOL be adjusted downward by approximately \$23 million. DOL reviewed whether atypical payments contributed to the high LBP's in Education, Defense, and NSF. DOL did not identify atypical payments in these agencies.</p>
<p>Compared the benefit payments predicted by the model for year 2002 to the actual benefit payments. Identified the agencies where the model computed benefit payment that varied by more than 20% from actual benefit payments made during 2002. Calculate an average LBP for all agencies and determine which agencies were higher than the average.</p>	<p>Payments increased in constant dollars approximately .97% during the current fiscal year, which was comprised of a .82% increase in compensation and 1.37% increase in medical benefit payments. The aggregate trend of the last four years in constant dollars is .4% increase in compensation and 4.25% average annual increase in medical.</p> <p>Actual payments were approximately 14.0% lower than predicted. The following agencies' actual payments varied from the prediction by more than 20%: NRC (-28.5%), Commerce (-39.2%), Justice (28.9%), State (31.13%).</p> <p>The LBP ratios for NRC (11.97), Commerce (12.19), and Justice (12.59) were higher than average (11.06).</p> <p>During the design stage of the model, this table of projected benefit payments was requested to assist in the budgetary process as an addition to the liability calculation. DOL stated, and the actuary concurred, that the nature of the computed projected benefit payments were that of a derivative of the model rather than intrinsic to the liability calculation. Labor has initiated procedures to correct the problems identified with the table.</p>
<p>Compared an estimate of the liability by agency calculated from the agency's prior year balance, the change in their benefit payments, and the overall effect of change in economic factors to the liability computed by the actuarial model.</p>	<p>The calculated amounts were within 10% of amounts derived by DOL's model for all agencies except Department of State. Department of State's liability was estimated 17.61% lower than calculated by the model.</p>
<p>Performed a survey of interest and inflation rates utilized by the Postal Service, OPM, and two other sources with governmental actuarial liabilities experience. Determined how the surveyed net effective rates compared to the interest rates used in the model and explain the effect of a higher rate.</p>	<p>Surveyed rates for compensation ranged from 2.34% to 3.00% and for medical ranged from 1.28% to 1.4%. The model's rates compute to net effective rates of approximately 2.83% for compensation and 1.16% for medical. The medical portion of the liability comprises approximately 19.85% of the total. A higher rate equates to the calculation of a lower liability.</p>

**SECTION IIC**  
**AGREED-UPON PROCEDURES & RESULTS**

---

<i>Agreed-Upon Procedures Performed</i>	<i>Results of Procedures</i>
<p>Compared the actuarial liability for the Postal Service calculated by the model to the actuarial liability calculated by the Postal Service's independent model.</p>	<p>The actuarial liability calculated by DOL for the Postal Service was 14.2% higher than the calculation prepared by the Postal Service. The net effective discount rates used by the Postal Service were different than those used by DOL. Use of the same Postal Service net effective discount rates would have resulted in the difference of approximately 11.9%.</p> <p>DOL's calculation was 23.8% higher than Postal Service last year. FECA's estimate for the Postal Service increased 3.4%, while Postal Service's estimate increased 12.2%.</p>

**SECTION IIC**  
**AGREED-UPON PROCEDURES & RESULTS**

---

**NET INTRA-GOVERNMENTAL ACCOUNTS RECEIVABLE**

*General Overview*

Agreed-upon procedures were applied to the net intra-governmental accounts receivable as of September 30, 2002, as compared with net intra-governmental accounts receivable as of September 30, 2001, with regards to new receivables, collections, write-offs, and chargebacks.

We compared the fiscal year 2002 net intra-governmental accounts receivable to the fiscal year 2001 net intra-governmental accounts receivable and investigated changes of over 5 percent. We also compared new receivables, collections and write-offs for fiscal year 2002 to fiscal year 2001; calculated the accounts receivable outstanding for each fiscal year; calculated the chargeback and fair share total for 2002; and confirmed the chargeback amounts billed for benefit payments directly with the Federal agencies charged.

*Procedures and Results*

<i>Agreed-Upon Procedures Performed</i>	<i>Results of Procedures</i>
Compared prior year ending net intra-governmental accounts receivable balances to the current year net intra-governmental accounts receivable balance by Federal agency. Determined whether the increase or decrease was in proportion to the change in amounts billed and paid.	The change in the net intra-governmental accounts receivable balances was in proportion to the increases in benefit payments billed to and paid by each Federal agency.
Compared the fiscal year 2002 account activity by Federal agency for write-offs and new accounts receivable to prior fiscal year activity. Determined whether the increase or decrease was in proportion to the change in amounts billed and collected.	The change in the write-offs and new accounts receivable were in proportion with the amounts billed and collected.
Confirmed accounts receivable balances due as of September 30, 2002, for all CFO Act agencies, except DOL and other selected Federal agencies.	Confirmations were reviewed for agreement to amounts recorded. Explanations for the differences on the confirmations received were obtained from the agencies and/or DOL. A confirmation was not received from Interior. DOL's CFO office has an interagency workgroup which works to resolve any differences with the agencies.
Compared the chargeback billing report for the period, July 1, 2001 through June 30, 2002, to the amounts billed to the Federal agencies.	The amounts billed to the Federal agencies for the period July 1, 2001 through June 30, 2002, agreed to the chargeback billing report.
Recalculated the allocation of credits due from the public.	No exceptions were noted.
Determined, for a non-statistical sample of 25 accounts receivable items, whether claimant accounts receivable were properly established and classified.	In 1 of 25 accounts receivable, the accounts receivable account was incorrectly reported in the DMS, resulting in a net overstatement of \$3,467. No other exceptions were noted.

**SECTION IIC**  
**AGREED-UPON PROCEDURES & RESULTS**

<i>Agreed-Upon Procedures Performed</i>	<i>Results of Procedures</i>
<p>Determined, for a non-statistical sample of 100 items, whether, for the 25 cases in the preliminary status, the Letter CA-2201 or Letter CA-2202, as applicable, was properly issued to notify the claimants of the preliminary decision regarding the claimant's accounts receivable and to give the claimant an opportunity to provide additional evidence regarding the accounts receivable. Determined whether, for the 75 cases in final status, a final decision was made as to the debt and whether the final decision was properly recorded and reported to the claimant.</p>	<p>No exceptions were noted.</p>
<p>Determined, for a non-statistical sample of 75 accounts receivable items in final status, whether the proper procedures were followed with regards to the establishment of a repayment plan, the assessment of interest, the compromise or waiving of portions of interest or principal as appropriate and the pursuit of accounts receivable which were in arrears.</p>	<p>In 4 of 75 accounts receivable, a portion of the interest or principal on the debts were not properly written-off, adjusted or compromised. No other exceptions were noted.</p>

**SECTION IIC**  
**AGREED-UPON PROCEDURES & RESULTS**

---

**BENEFIT EXPENSE**

*General Overview*

Agreed-upon procedures were applied to compare compensation and medical benefit payments in total, by strata, by average payment and by agency for the fiscal year ended September 30, 2002, to the fiscal year ended September 30, 2001, and for the sampling period of October 1, 2001 to April 30, 2002, to the sampling period of October 1, 2000 to April 30, 2001. Changes in the actuarial liability from the prior year to the current year were calculated. Agreed-upon procedures were applied to DOL's cut-off process.

*Procedures and Results*

<i>Agreed-Upon Procedures Performed</i>	<i>Results of Procedures</i>
<p>Compared the benefit payments recorded in the Automated Compensation Payment System (ACPS) and Benefit Payment System (BPS) databases to the Department of Labor's general ledger and the Department of Treasury's SF-224s as of April 30, 2002 and September 30, 2002.</p>	<p>The benefit payments recorded in the ACPS and BPS databases varied from the Department of Treasury's SF-224 at April 30, 2002, by .004%. As of September 30, 2002, the ACPS and BPS databases varied from the Department of Treasury's SF-224 at September 30, 2002, by .07% (\$1.547 million) and from the Department of Labor's general ledger by 0.12% (\$272 thousand).</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 agreed to the supporting documentation. The adjustments were recorded in the correct period.</p>
<p>Determined the average ACPS and BPS payments by strata for the April 30, 2002 and September 30, 2002 database and compared them to the average ACPS and BPS payments by strata for the April 30, 2001 and September 30, 2001 databases. Determined if there were any variances larger than 7%. Requested explanations from DOL for variances over 7%, if any.</p>	<p>The average ACPS benefit payments per case by strata varied from (1.41)% to 13.30% with an average increase of 4.10% at April 30, 2002. The average ACPS benefit payments per case by strata varied from (5.64)% to 16.76% with an average decrease of .70% at September 30, 2002.</p> <p>The strata of ACPS payments per case which increased over 7% for the strata of payments under \$3,000 increased by 13.3% and 16.7% as of April 30 and September 30, respectively. DOL stated that a review of the cases in this strata would be necessary to determine the cause of this increase.</p> <p>The average BPS benefit payments by strata varied from (6.88)% to 3.80% with an average decrease of 1.52% at April 30, 2002. The average BPS benefit payments by strata varied from (10.11)% to 1.51% with an average decrease of .25% at September 30, 2002.</p> <p>The average BPS benefit payments by strata at April 30, 2002 decreased by more than 7% for the high dollar strata of payments over \$75,000. DOL explained that due to the limited number of bills over \$75,000, only a few bills would equate to this change.</p>

**SECTION IIC**  
**AGREED-UPON PROCEDURES & RESULTS**

<i>Agreed-Upon Procedures Performed</i>	<i>Results of Procedures</i>
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. Requested explanations from DOL for variances over 5%, if any.	The 2001 benefits increased by 5.92%. DOL stated that medical benefits increased substantially in 2001 over prior years resulting in higher overall benefit payments. No other variances over 5% were noted.
Compared the summary chargeback billing list to the benefit payment database as of September 30, 2002.	The agency chargeback billing list varied from the benefit payment database for the fiscal year ending September 30, 2002, by .06%.
Compared, by agency and in total, compensation and medical bill payments for the fiscal year ending September 30, 2002, with payments made for the fiscal year ending September 30, 2001. Requested explanations from DOL for variances over 7%, if any.	Benefit payments for the fiscal year ending September 30, 2002, increased 4.24% overall. Benefit payments increased or decreased by more than 7%, for the following agencies: Commerce           -27.5%    NASA           -8.1% AID                 -13.7%    SSA            7.6% Department of State -11.1%    Postal Service 9.0% Education         -10.7%    FEMA           11.0% NRC                -10.2% DOL is reviewing the payments trends in these agencies.
Compared the benefit payments made by each district office as of April 30, 2002 and September 30, 2002, to the prior year data. Determined if there were any variances larger than 5%. Requested explanations from DOL for variances over 5%, if any.	Benefit payments by district offices for the period through April 30, 2002 and September 30, 2002, varied from the prior year by -16.19% to 15.34% for the 12 district offices. Benefit payments increased or decreased by more than 5% for the following districts: Hearings and Review (16.19%) New York           6.24% Denver             6.82% San Francisco     6.96% Dallas             7.02% Chicago            15.34% DOL stated the decrease and increases were due to the movement of cases among the district offices and the change in the coding of ECAB cases.
Calculated a 12-month projected benefit payment based on the April 30, 2002 interim database. Compared the projected 12-month total benefit payments to the actual 12-month total benefit payments as of September 30, 2002.	The actual 12-month total benefit payments varied from the projected 12-month total benefit payments for the fiscal year ending September 30, 2002, by -.90%.
Compared the fee schedule used to pay medical providers with the fee schedule used by other agencies.	DOL prepared a study of the amounts paid for 12 different common procedure codes by 19 state agencies. The amounts which would be paid under DOL's fee schedule did not exceed the maximum and was in excess of the minimum paid by the 19 state agencies.
Calculated the change in the actuarial liability reported on the current year and prior year's compilation report prepared by DOL.	The change in the actuarial liability was calculated correctly by DOL.

**SECTION IIIA**  
**INDEPENDENT SERVICE AUDITORS' REPORT**

**Victoria A. Lipnic, Assistant Secretary**  
**Employment Standards Administration, U.S. Department of Labor:**

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 a user organization's internal control as it relates to an audit of financial statements; (2) the 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 April 30, 2002.

DFEC uses SunGard eSourcing, Inc. (SunGard), to process information and 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 did not extend to the controls of SunGard, the subservicer. 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 April 30, 2002. 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, 2001 through April 30, 2002. 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, when making assessments of control risk for user organization. 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, 2001 through April 30, 2002. However, the scope of our engagement did not include tests to determine whether control objectives not listed in Section IIIC were achieved; accordingly, we express no opinion on the achievement of control objectives not included in Section IIIC.

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 April 30, 2002, and information about tests of the described policies and procedures of specified policies and procedures covers the period October 1, 2001 through April 30, 2002. 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, irregularities or fraud 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, users of the FECA Special Benefit Fund (Federal agencies listed in Section IIB of this report), and the independent auditors of its users.

*Carmichael, Brasher, Jewell & Company*

October 31, 2002



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

---

**OVERVIEW OF SERVICES PROVIDED**

*Overview*

The Federal Employees' Compensation Act Special Benefit Fund was established by 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 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.

FECA 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 (COP) status. FECA 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. The 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, of each fiscal year.

The actuarial model was originally developed during 1991 as spreadsheets by a DOL Office of Inspector General (OIG) contractor (a certified actuary). The model utilized 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.

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

---

Since 1991, the number of agencies for whom the liability is calculated increased. These additional agencies are smaller in size than that of the agencies for whom the original model was developed. Historic extrapolation models are generally held to work best with larger populations. As a result, the calculations from year to year were more volatile than those for the original agencies, and preparing the estimates became increasingly cumbersome. Therefore, during FY 2000, DOL engaged actuaries to create a new model.

The new model shares its fundamental theory with the old model; future benefit payments are predicted based upon the pattern of historical payments. As before, 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 subdivided into incurred injury year cells to provide the extra dimension of the historic payment pattern. The chargeback tapes (historic basis) are maintained by the FECA Program, which supplies the historic data to DPPS annually. Both models included historical payments in constant dollars. Inflation and discount factors as derived from OMB economic forecasting packages in its calculations of future payments. Therefore, both models share a sensitivity to economic assumptions.

However, the new model varies from the previous model. For instance, claims incurred but not reported (IBNR) was excluded from the previous model in accordance with Appendix B - Liability Recognition and Measurement Matrix of SFFAS 5. The new model recognizes IBNR, which enhances its comparability to private sector insurance models. FASAB has concurred with its inclusion. Also, the previous model predicted future payments by multiplying the most recent year's payments by decay rates derived from historical payments. In contrast, the new model develops an estimate of total anticipated payments by injury year, subtracts cumulative payments to date, and allocates the remaining payments to future years premised upon loss development factors.

In order to establish cumulative payments to date, the new model utilizes a backfilling technique, a casualty model methodology. Because FECA makes payments on injuries incurred as far back as 1952, and the old model's data base of payments begins in 1989, backfilling was necessary to complete the matrices of cost by injury to payment year. The technique consists of extrapolating patterns from actual payments for the years included in the data base, and developing reverse decay rates to predict what the costs should have been in the years prior to the base of known payments.

In developing the backfilling factors, the model makes use of groupings of agencies. The groupings were established based upon a claim duration study performed by a DOL economist. Most agencies were placed in groups with a similar probability of a claim extending over a certain period of time. The agencies added since 1991, were included in the group whose probabilities approximated the average of all the agencies. The group is both affected by and affects the agencies within it. For instance, smaller agencies are more affected than larger agencies. Besides the development of the backfilling factors, the grouping affects the predicted loss development factors. The loss development factors are a weighted combination of agency, group, and all-agency factors. The new model includes extending the duration of the model until the estimated payments left to be paid expire.

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

---

***Chargeback System***

DFEC is required to furnish to each agency and instrumentality, before August 15th of each year, a statement or bill 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 2001 and due in fiscal year 2002 would be coded as follows: 01-XXX-02. The 01 indicates the year the bill is generated, the XXX indicates the numerical sequence of the bill, and the 02 would indicate the year that the bill would be due and paid.

***Operational Offices***

DFEC administers FECA through 12 district offices and a national headquarters located in Washington, D.C. The District offices and the areas covered by each District office 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

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

---

<u>District</u>	<u>Location of District Office</u>	<u>States or Regions Covered by District Office</u>
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 District offices and the U.S. Treasury, to maintain a tape library and disk drive backup and for other computer mainframe functions. SunGard's 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 policies and procedures are intended to achieve.

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

---

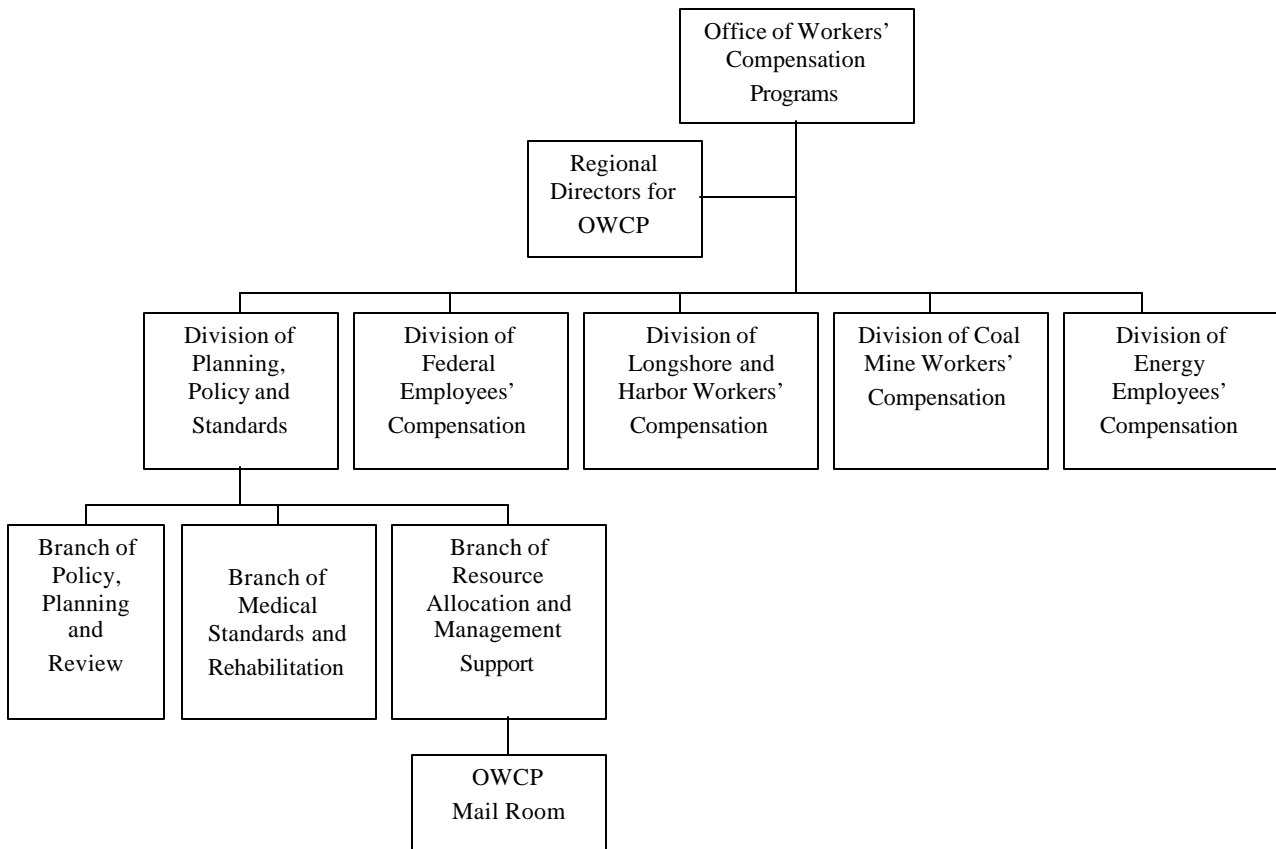
**OVERVIEW OF CONTROL ENVIRONMENT**

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 five divisions within OWCP.

**ESA, Office of Workers' Compensation Programs**



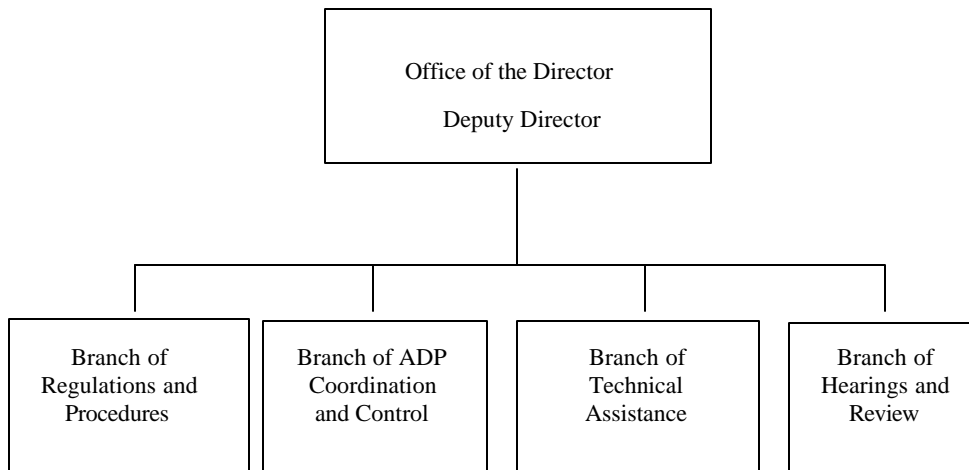
**SECTION IIIB**  
**DIVISION OF FEDERAL EMPLOYEES' COMPENSATION'S**  
**POLICIES AND PROCEDURES**

---

DFEC has four 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 District offices.
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 District offices 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. 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 District offices.

**Division of Federal Employees' Compensation (DFEC)**



**SECTION IIIB**  
**DIVISION OF FEDERAL EMPLOYEES' COMPENSATION'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 District offices.

***District Offices***

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

The District offices 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 District office 50.

The specific functions within the District offices are:

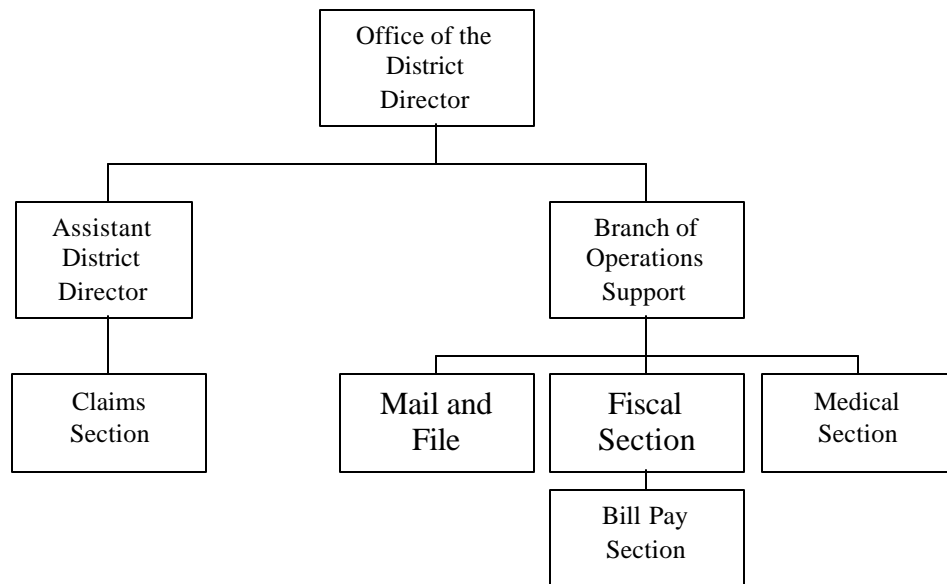
1. Claims Functions. In each district office are two or more Supervisory Claims Examiners, who are responsible for the operation of individual claims units, and a number of Senior Claims Examiners and Claims Examiners (CE), who have primary responsibility for handling claims, including authorization 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 District office usually has a Fiscal Operations Specialist and at least one Benefit Payment Clerk. Some District offices 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 District offices, fiscal personnel enter compensation payments into the electronic system.
3. Medical Functions. Each District office usually has at least one District Medical Adviser (DMA) who works under contract to review individual cases, and some District offices have a District Medical Director (DMD) as well. Each District office also has a Medical Management Assistant, who arranges referrals to second opinion and referee specialists. Each District office 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.

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

---

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 District office. OWCP also uses a centralized mailroom located in London, Kentucky for routine mail. Mail such as CA-1, CA-2, CA-7, CA-16, congressional inquiries and certain types of medical provider bills are processed by the district offices and not in the centralized mailroom.
  
5. Vocational Rehabilitation Functions. Each District office 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 return claimants to suitable work, preferably with little or no loss of earnings. The emphasis of the rehabilitation program is on early referral and evaluation of all injured workers who need services; case management standards to ensure that plans are efficient and of good quality; flexibility to provide the widest range of services from private and public rehabilitation agencies; preference for reemployment with the previous employer; and placement of workers in jobs where disability does not prevent them from competing with non-disabled employees.

**DFEC District Office Structure**





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

---

**OVERVIEW OF TRANSACTION PROCESSING**

***Identification and Registration of the Recipient of FECA Benefits***

Authorized recipients of FECA benefits are those individuals who meet all of 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 individuals who have filed claims with FECA. These records contain data elements that identify the claimant, the mailing and/or location address for the claimant, and additional injury information and case status information.

***Benefit Payments***

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. District office personnel input compensation payment data worksheets into the ACPS. The inputs onto the payment data worksheets are reviewed and if the information is correct, no further action is required and payments will be made during the next appropriate payment cycle.

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 District office Fund Control System. The specially formatted Treasury information is sent to Treasury via a secure modem over a dedicated line for payment processing.

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

---

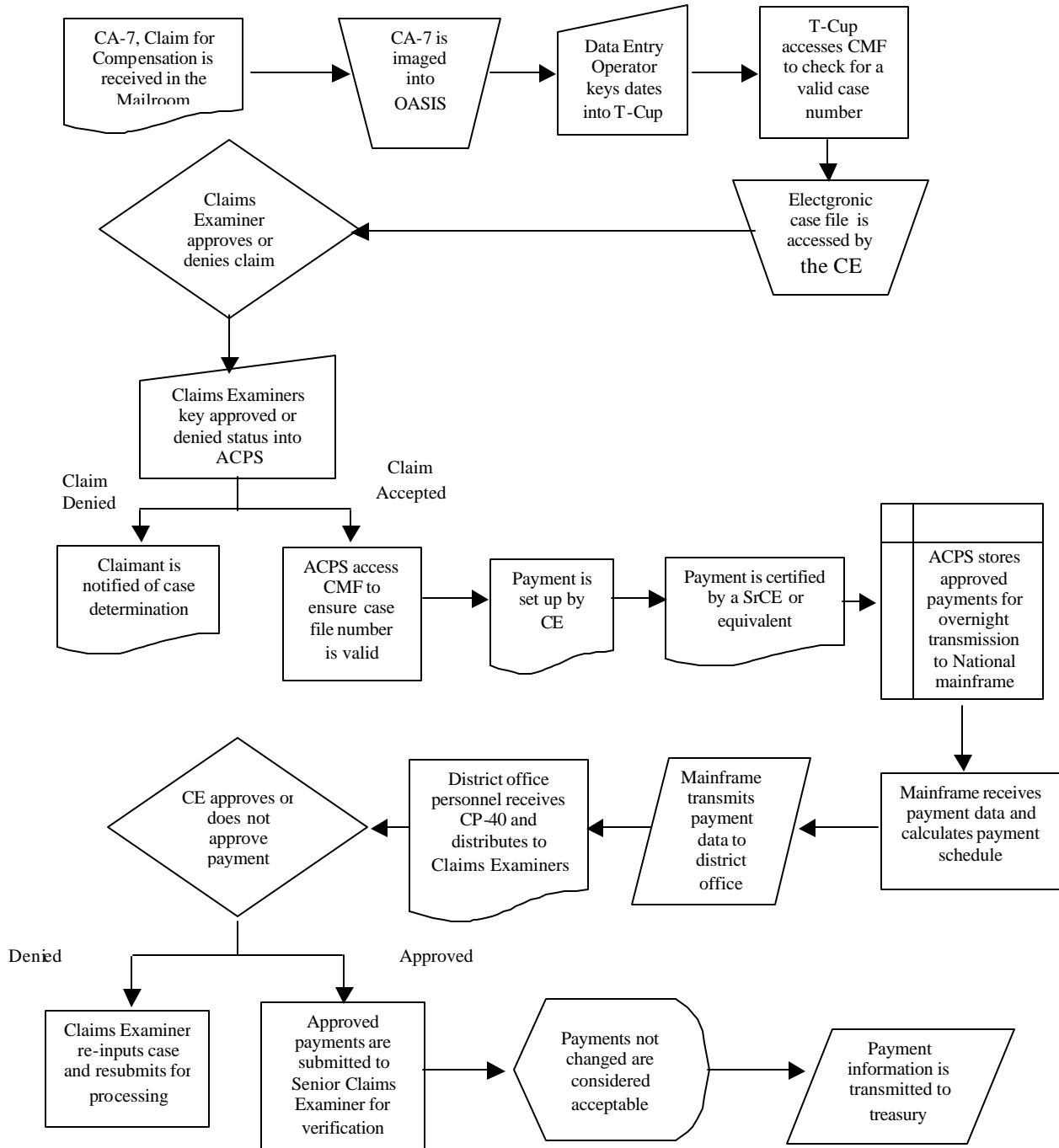
The primary function of the BPS is to process payments to medical service providers or reimbursements to claimants for medical expenses incurred for the work-related injury. The national office has the responsibility of compiling the BPS data on a nightly basis as it is transmitted from each District office. Medical bills containing charges for other than appliances, supplies, services or treatment provided and billed for by 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 District office 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 District office Fund Control System. The specially formatted Treasury information is sent to Treasury via secure modem over a dedicated line for payment processing.

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

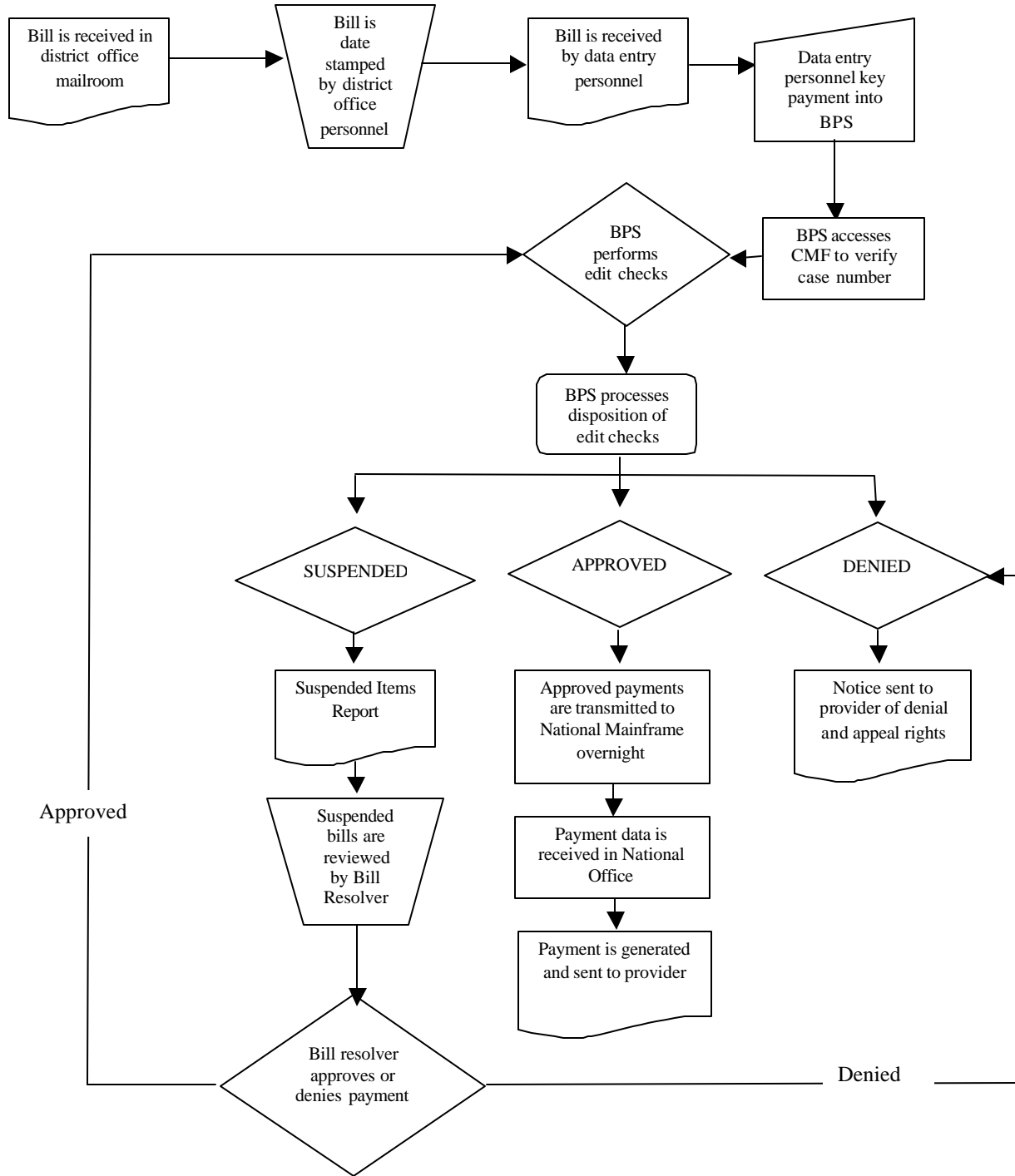
The following charts set forth an overview of transaction processing at DFEC:

***Processing of Compensation Payments***



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

*Processing of Medical Payments*



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

---

***Computer-Generated Reports***

BPS generates a summary report on a weekly basis. The report 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 District offices 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) generates financial data that is provided to DOL's core financial management system, 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 System (OPAC) 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'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 processed by the claims examiner in the smaller district offices or referred to a designated claims examiner (DCE) in the larger district offices.

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 of the third party refund is not received from the claimant, 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'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 Federal Employees' Compensation Systems (FECS) 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 FECS provides authorized users with on-line access to the various subsystems for file maintenance and information purposes. Access to the FECS through computer terminals located in both the national and 12 District offices 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 FECS.

In addition to storing information relevant to claims adjudication, benefit entitlement and payment status, the FECS 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 FECS 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 FECS at the national office; District Systems Managers are responsible for assigning passwords and other procedures required to permit access to the FECS at the District office level. Controls to restrict access to FECS 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'S**  
**POLICIES AND PROCEDURES**

---

***Organization and Administration***

A System Administrator is responsible for overseeing all the data processing activity of FECS. DFEC employs approximately seven individuals within the Branch of ADP Coordination and Control and has contracts with outside computer consulting firms, Affiliated Computer Services, Inc. (ACS), and Viatech through which approximately 30 individuals work with DFEC. ACS and Viatech provide software development and maintenance for DFEC.

At each District office, 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 the Division of Information Technology Management and Services (DITMS). DITMS 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 DITMS is to maintain computer networks, operating systems, and computer hardware systems for the DOL environment. DITMS installs all of the data processing applications and modifications developed by DFEC. In addition, DITMS is responsible for the management controls surrounding the host mainframe application of FECS, such as assignment and maintenance of system support personnel to the mainframe and access violations monitoring.

***Operations***

The Office of the Assistant Secretary for Administration and Management contracted with SunGard ESourcing, Inc. (SunGard), for computer mainframe time-sharing services. SunGard provides computer hardware and a communications network between the national office, the district offices 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 with authorized access into the mainframe or minicomputer system.

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.



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

---

***Documentation***

**Hardware** : DITMS maintains an extensive list of the hardware used in the FECS processing at all sites.

**Software** : DITMS maintains an extensive list of the third party software used in the FECS processing which includes operating system software, compilers and utilities. DFEC is responsible for the maintenance of FECS application software. All the hardware and software modifications are controlled by DOL. OWCP requests the modifications, DFEC designs and tests the modification, and DITMS 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 district offices. Additionally, this assistant supervises all staff programmers.

***Anti-Virus Control***

The FECS currently runs a variety of anti-virus or virus checking routines. Each file server runs an anti-virus module resident on the server. The local area networks (LANs) are "dustless" LANs. When disks are scanned (e.g., for the installation of new software), anti-virus software is used to scan disks to identify and remove viruses. Personal computers attached to LANs in OWCP District offices utilize hard drives in addition to the central file server. All of the personal computers utilize an anti-virus software and can be run in a scheduled or unscheduled ad hoc mode.

***Subservicer***

DFEC utilizes a subservicer, SunGard eSourcing, Inc. (Sungard), to provide computer hardware and a communications network between the national office, the District offices and the U.S. Treasury, to maintain a tape library and disk drive backup and for other computer mainframe functions.

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

---

**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.

**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:

- Employing agencies understand their responsibilities under FECA.
- Employing agencies provide injured employees with accurate and appropriate information regarding injuries covered under FECA, including the employees' rights and obligations and claim forms.
- 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.
- Employing agencies provide complete and accurate information regarding a claimant's rate of pay, hours worked, leave taken, and continuation of pay to DFEC.
- Employing agencies promptly controvert questionable claims.
- 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.
- 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.
- 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.
- 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:

- DFEC's organizational structure and the segregation of duties
- Management control methods
- 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, most recent SAS 70 report, issued for the period from October 1, 2000 to September 30, 2001. 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 III C**  
**INFORMATION PROVIDED BY THE SERVICE AUDITOR**

---

**SAMPLING METHODOLOGY**

To facilitate the testing of transaction processing controls, we developed a sampling plan as outlined below.

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, 2001 to April 30, 2002, at 5 of 12 District offices. The sample design involved a two stage process.

The first stage in our sample design was the selection of district offices. District offices were randomly selected by first forming two strata of the districts and then taking all the districts from the first strata, and selecting two districts from the second strata. This procedure resulted in the selection of five district offices. The 5 district offices comprised approximately \$758 million of the \$1.354 billion or 56 percent, of FECA payments during the seven month period ended April 30, 2002.

The second stage of the sample design was the selection of sampling units. The sampling units were a medical bill or the total compensation payments paid to a single case number. The universe of the sample districts was stratified into 13 strata for the compensation payments and into 12 strata for the medical payments. The sample size was determined for each of the 13 strata for compensation and 12 strata for the medical payments using the following parameters:

- The total number of items and dollar value of the strata universe
- The estimated variance within each strata
- A 95% confidence level (5% risk of incorrect acceptance)
- A variable sampling precision (2% to 7%) of the point estimate
- Materiality and tolerable error as defined for FECA benefit payments

Using statistical formulas, these parameters yielded a total sample of 399 items. Of the total sample, 214 were medical payments and 185 were compensation payments. The sample items were then randomly selected.

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

<u>District Office</u>	<u>Number of Statistical Items</u>
New York	79
Jacksonville	74
Chicago	72
San Francisco	103
Seattle	<u>71</u>
Total	<u>399</u>

**SECTION III C**  
**INFORMATION PROVIDED BY THE SERVICE AUDITOR**

---

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

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

The number of sample items for control tests was statistically selected based on the sampling plan detailed above. The number of sample items tested was determined based on the number of items to which the test of controls applied. The control tests would not be applicable to some sample items due to factors such as the age of the injury. Additional testing was performed on items which were selected in a non-statistical method.

***Initial Eligibility Cases***

Audit queries were generated which determined all of the cases in which claimants were injured and began receiving compensation during the sampling period of October 1, 2001 to April 30, 2002. From a population of 968 initial eligibility cases in the 5 district offices tested, 10 cases per district office, for a total sample of 50, was selected. We reviewed the case files to ensure that the proper procedures had been followed in determining whether or not the claimants were eligible to receive benefit payments and whether benefit payments were paid at the correct amount.

***Multiple Claim Payments***

Audit queries were generated which compared certain elements of each compensation payment made during the period October 1, 2001 through April 30, 2002. The query compared case files in which the social security number was the same for multiple case files. This situation would normally occur when an employee has suffered more than one injury, as a separate case number is assigned for each injury. We analyzed the payments to ensure that a claimant was not receiving excessive or overlapping compensation. We removed from the population of 1,090 multiple claim payments, the cases tested in previous years which resulted in no errors, and then selected a sample resulting in 50 multiple claim compensation payment items to be tested.

**SECTION III C**  
**INFORMATION PROVIDED BY THE SERVICE AUDITOR**

---

***Provider Type***

Audit queries were generated which determined medical bill payments made to chiropractors on claimant cases for which the accepted condition did not involve the back or neck to determine if the proper provider type was being used and payments were properly supported with specifically required medical evidence. We then randomly selected 125 cases from a population of 15,780, which met our query definition, in the district offices in which testwork was to be performed.

***Potential Duplicate Medical Payments***

Audit queries were generated which determined medical bill payments which appeared to have been made in duplicate and were over \$5,000. We tested all 128 medical bills in the district offices in which testwork was to be performed.

***Third Party***

Audit queries were generated which determined all claimants that had a third party status indicator in the CMF. We then randomly selected 50 cases from a population of 1,811 cases with third party indicators, active within the past year, in the district offices in which test work was to be performed.

***Current Medical Evidence***

Audit queries were generated which determined all claimants with a short term liability status, on which compensation was currently being paid, but for which no medical payments were made in the past two years, to determine which cases may not have current medical evidence. We then randomly selected 50 cases from a population of 3,190 cases which met our query definition, in the district offices in which testwork was to be performed.

**SECTION IIIC**  
**INFORMATION PROVIDED BY THE SERVICE AUDITOR**

---

***Summary of Sample Items***

The following sample items were selected for substantive testing of transactions:

Sample Type	New York	Jacksonville	Chicago	San Francisco	Seattle	Sub-total	Sub-total	Total
Lost Wages (S)	27	23	27	28	20	125	185	399
Death (S)	4	4	4	4	6	22		
Schedule Award (S)	7	8	7	7	9	38		
Medical Bills (S)	41	39	34	64	36	214		100
Initial Eligibility (N)	10	10	10	10	10	50		
Multiple Claim (N)	10	10	10	10	10	50		
Provider Type (N)	25	25	25	25	25	125		
Potential Duplicates(N)	5	41	42	31	9	128		

The following sample items were selected for testing of internal controls:

Sample Type	New York	Jacksonville	Chicago	San Francisco	Seattle	Sub-total	Sub-total	Total
Lost Wages (S)	27	23	27	28	20	125	185	310
Death (S)	4	4	4	4	6	22		
Schedule Award (S)	7	8	7	7	9	38		
Medical Bills (S)	23	25	25	26	26	125		
Initial Eligibility (N)	10	10	10	10	10	50		
Third Party (N)	10	10	10	10	10	50		
Current Medical (N)	10	10	10	10	10	50		

(S) – Statistically selected sample

(N) – Non-statistically selected sample

**SECTION III C**  
**INFORMATION PROVIDED BY THE SERVICE AUDITOR**

---

**CONTROL OBJECTIVES, RELATED POLICIES AND PROCEDURES, AND TESTS OF DESCRIBED POLICIES AND PROCEDURES**

This section presents the following information provided by the DFEC:

- The control objectives specified by management of DFEC.
- 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:

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



**SECTION III C**  
**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**

*Entity-wide Security*

ESA, of which DFEC is a division, periodically assesses risk through independent risk assessments that are performed and documented on a regular basis or whenever systems, facilities, or other conditions change. The risk assessments consider data sensitivity and integrity and range of risks to the entity's systems and data; and, final risk determinations and related management approvals are documented and maintained on file.

ESA, of which DFEC is a division, has a security program plan that: covers all major facilities and operations, has been approved by key affected parties, and covers the topics prescribed by OMB Circular A-130 (general support systems/major applications): Rules of the system/Application rules, Training/ Specialized training, Personnel controls/Personnel security, Incident response capability/ Continuity of support/Contingency planning, Technical security/Technical controls, System interconnection/Information sharing, public access controls, access controls, application software development and change controls, segregation of duties, systems software, and service continuity. The plan is reviewed periodically and adjusted to reflect current conditions and risks.

ESA's security program plan establishes a security management structure with adequate independence, authority, and expertise. An information systems security manager has been appointed at an overall level and at appropriate subordinate levels.

The security plan clearly identifies who owns computer-related resources and who is responsible for managing access to computer resources. Security responsibilities and expected behaviors are clearly defined for: (1) information resource owners and users (2) information resources management and data processing personnel (3) senior management (4) security administrators.

ESA has implemented an ongoing security awareness program that includes first-time training for all new employees, contractors, and users, and periodic refresher training thereafter. Security policies are distributed to all affected personnel, including system/application rules and expected behaviors.

ESA's incident response capability has the characteristics suggested by industry standards: use of virus detection software, an understanding of the constituency being served, an educated constituency that trusts the incident handling team, a means of prompt centralized reporting, response team members with the necessary knowledge, skills, and abilities, and links to other relevant groups.

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

---

For prospective employees, references are contacted and background checks performed. Periodic reinvestigations are performed at least once every 5 years, consistent with the sensitivity of the position per criteria from the Office of Personnel Management. Regularly scheduled vacations exceeding several days are required, and the individual's work is temporarily reassigned. Regular job or shift rotations are required. Termination and transfer procedures include: exit interview procedures; return of property, keys, identification cards, passes, etc.; notification to security management of terminations and prompt revocation of IDs and passwords; immediately escorting terminated employees out of the entity's facilities; and identifying the period during which non-disclosure requirements remain in effect.

Skill needs are accurately identified and included in job descriptions, and employees meet these requirements. A training program has been developed. Employee training and professional development are documented and monitored.

ESA's Information Systems security program is subjected to periodic reviews. Major applications undergo independent review or audit at least every 3 years. Major systems and applications are accredited by the managers whose missions they support.

Tests of Described Policies and Procedures:	Results of Tests
Reviewed risk assessment policies, the most recent high-level risk assessment, and the objectivity of personnel who performed and reviewed the assessment.	A FECA risk assessment was conducted covering all areas of ESA security. Eight general areas of vulnerability and five significant threats, along with five safeguards and compensating controls were identified. ESA-FECA has made partial progress resolving these areas of security.
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.	No exceptions were noted.
Interviewed the security management staff and security manager to determine whether the entity had a security plan and organization chart.	No exceptions were noted.
Reviewed documentation supporting or evaluating the security awareness program, memos, electronic mail files, or other policy distribution mechanisms, and personnel files to test whether security awareness statements are current.	No exceptions were noted.
Interviewed data owners and system users to determine what training newly hired employees had received and if they were aware of their security-related responsibilities.	Two of 14 newly hired FECA employees had no evidence that training had been completed. No other exceptions were noted.
Interviewed the security manager, response team members, and system users to determine whether an incident response capability has been implemented.	No exceptions were noted.

**SECTION IIIC**  
**INFORMATION PROVIDED BY THE SERVICE AUDITOR**  
**GENERAL COMPUTER CONTROLS**

---

Tests of Described Policies and Procedures:	Results of Tests
Reviewed documentation supporting incident handling activities.	ESA Management was unable to provide documentation evidencing the existence and operation to support if an incident response capability has been implemented.
Reviewed hiring policies, reinvestigation policies, policies on confidentiality or security agreements, vacation policies, job rotation policies, staff assignment records, and other pertinent policies and procedures.	No exceptions were noted.
For a selection of recent hires, inspect personnel records and determine whether references have been contacted and background checks performed. For a selection of sensitive positions, inspect personnel records and determine whether background reinvestigations have been performed.	No exceptions were noted.
For a selection of users, determine whether confidentiality or security agreements are on file. Inspect personnel records to identify individuals who have not had vacation or sick leave in the past year. Determine who performed vacationing employee's work during vacation. For a selection of terminated or transferred employees examine documentation showing compliance with policies. Compare a system generated list of users to a list of active user employees.	No exceptions were noted.
Reviewed job descriptions for security management personnel and a selection of other personnel. For a selection of employees, compare personnel records on education and experience with job descriptions. Reviewed training program documentation, training records, and other related documentation for selected personnel.	ESA management was unable to provide documentation evidencing the existence and operation of controls to support position descriptions for four non-security related FECA employees.
Reviewed reports resulting from recent assessments (including the most recent FMFIA report), written authorizations or accreditation statements, and documentation related to corrective actions.	No exceptions were noted.
Reviewed the status of prior year audit recommendations to determine if corrective actions have been implemented.	ESA has implemented corrective action plans.

***Access Controls***

Classifications and criteria have been established and communicated to resource owners. Resources are classified based on risk assessments; classifications are documented and approved by an appropriate senior official and are periodically reviewed.

**SECTION IIIC**  
**INFORMATION PROVIDED BY THE SERVICE AUDITOR**  
**GENERAL COMPUTER CONTROLS**

---

Access authorizations are documented on standard forms and maintained on file, approved by senior managers, and securely transferred to security managers. Owners periodically review access authorization listings and determine whether they remain appropriate. The number of users who can dial into the system from remote locations is limited and justification for such access is documented and approved by owners.

Security managers review access authorizations and discuss any questionable authorizations with resource owners. All changes to security profiles by security managers are automatically logged and periodically reviewed by management independent of the security function. Unusual activity is investigated. Security is notified immediately when system users are terminated or transferred.

Emergency and temporary access authorizations are documented on standard forms and maintained on file, approved by appropriate managers, securely communicated to the security function; and automatically terminated after a predetermined period.

Standard forms are used to document approval for archiving, deleting, or sharing data files. Prior to sharing data or programs with other entities, agreements are documented regarding how those files are to be protected. Facilities housing sensitive and critical resources have been identified. All significant threats to the physical well-being of sensitive and critical resources have been identified and related risks determined. Access is limited to those individuals who routinely need access through the use of guards, identification badges, or entry devices, such as key cards. Management regularly reviews the list of persons with physical access to sensitive facilities. Keys or other access are needed to enter the computer room and tape/media library. All deposits and withdrawals of tapes and other storage media from the library are authorized and logged. Unissued keys or other entry devices are secured. Emergency exit and re-entry procedures ensure that only authorized personnel are allowed to reenter after fire drills, etc.

Visitors to sensitive areas, such as the main computer room and tape/media library, are formally signed in and escorted. Entry codes are changed periodically. Visitors, contractors, and maintenance personnel are authenticated through the use of preplanned appointments and identification checks. Passwords are unique for specific individuals, not groups; controlled by the assigned user and not subject to disclosure; changed periodically--every 30 to 90 days; not displayed when entered; at least 6 alphanumeric characters in length; and prohibited from reuse for at least 6 generations. Use of names or words is prohibited. Vendor-supplied passwords are replaced immediately. Generic user IDs and passwords are not used. Attempts to log on with invalid passwords are limited to 3 attempts.

Personnel files are automatically matched with actual system users to remove terminated or transferred employees from the system. Password files are encrypted. For other devices, such as tokens or key cards, users maintain possession of their individual tokens, cards, etc. and understand that they must not loan or share these with others and must report lost items immediately.

**SECTION IIIC**  
**INFORMATION PROVIDED BY THE SERVICE AUDITOR**  
**GENERAL COMPUTER CONTROLS**

---

An analysis of the logical access paths is performed whenever system changes are made. Security software is used to restrict access. Access to security software is restricted to security administrators only. Computer terminals are automatically logged off after a period of inactivity. Inactive users' accounts are monitored and removed when not needed. Security administration personnel set parameters of security software to provide access as authorized and restrict access that has not been authorized. This includes access to data files, load libraries, batch operational procedures, source code libraries, security files, and operating system files. Naming conventions are used for resources.

Database management systems (DBMS) and data dictionary controls have been implemented that restrict access to data files at the logical data view, field, or field-value level; control access to the data dictionary using security profiles and passwords; maintain audit trails that allow monitoring of changes to the data dictionary; and provide inquiry and update capabilities from application program functions, interfacing DBMS or data dictionary facilities. Use of DBMS utilities is limited. Access and changes to DBMS software are controlled. Access to security profiles in the data dictionary and security tables in the DBMS is limited.

Communication software has been implemented to verify terminal identifications in order to restrict access through specific terminals; verify IDs and passwords for access to specific applications; control access through connections between systems and terminals; restrict an application's use of network facilities; protect sensitive data during transmission; automatically disconnect at the end of a session; maintain network activity logs; restrict access to tables that define network options, resources, and operator profiles; allow only authorized users to shut down network components; monitor dial-in access by monitoring the source of calls or by disconnecting and then dialing back at preauthorized phone numbers; restrict in-house access to telecommunications software; control changes to telecommunications software; ensure that data are not accessed or modified by an unauthorized user during transmission or while in temporary storage; and restrict and monitor access to telecommunications hardware or facilities.

In addition to logical controls: the opening screen viewed by a user provides a warning and states that the system is for authorized use only and that activity will be monitored, dial-in phone numbers are not published and are periodically changed, cryptographic tools have been implemented to protect the integrity and confidentiality of sensitive and critical data and software programs. Procedures have been implemented to clear sensitive data and software from discarded and transferred equipment and media. All activity involving access to and modifications of sensitive or critical files is logged.

Security violations and activities, including failed logon attempts, other failed access attempts, and sensitive activity, are reported to management and investigated. Security managers investigate security violations and report results to appropriate supervisory and management personnel. Appropriate disciplinary actions are taken. Violations are summarized and reported to senior management. Access control policies and techniques are modified when violations and related risk assessments indicate that such changes are appropriate.

**SECTION IIIC**  
**INFORMATION PROVIDED BY THE SERVICE AUDITOR**  
**GENERAL COMPUTER CONTROLS**

---

Tests of Described Policies and Procedures	Results of Tests
Reviewed policies and procedures and resource classification documentation and compared to risk assessments. Discussed any discrepancies with appropriate officials. Interviewed resource owners.	No exceptions were noted.
Reviewed pertinent written policies and procedures. For a selection of users, (both application user and IS personnel), review access authorization documentation. Interview owners and review supporting documentation. Determine whether inappropriate access is removed in a timely manner. For a selection of users with dial-up access, review authorization and justification. Interview security managers and review documentation provided to them. Review a selection of recent profile changes and activity logs. Obtain a list of recently terminated employees from Personnel, and for a selection, determine whether system access was properly terminated.	The system is not configured to log profile changes. No other exceptions were noted.
Compared a selection of both expired and active temporary and emergency authorizations (obtained from the authorizing parties) with a system-generated list of authorized users. Determine the appropriateness of access documentation.	No exceptions were noted.
Examined standard approval forms and documents authorizing file sharing and file sharing agreements. Interviewed data owners.	No exceptions were noted.
Reviewed a diagram of the physical layout of the computer telecommunications and cooling system facilities. Walk through facilities.	No exceptions were noted.
Review access path diagram.	No exceptions were noted.
Observed entries to and exits from the facilities, including sensitive areas during and after normal business hours, utilities access paths, practices for safeguarding keys and other devices, appointment and verification procedures for visitors, a fire drill, users keying in passwords, terminals in use. Observe a fire drill. Review written emergency procedures.	No exceptions were noted.
Interviewed management, employees, guards at facility entry, users and security managers and database administrator.	No exceptions were noted.
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.	No exceptions were noted.
Review visitor entry logs. Observe entries to and exits from sensitive areas during and after normal business hours. Interview guards at facility entry. Review documentation on and logs of entry code changes. Observe appointment and verification procedures for visitors.	No exceptions were noted.
Interview users. Review security software parameters. Attempted to log on without a valid password; made repeated attempts to guess passwords. Attempted to log on using common vendor supplied passwords. Searched password file using audit software. Assessed procedures for generating and communicating passwords to users. Review security logs. Interview security.	No exceptions were noted.
Interview security administrators and system users. Review security software parameters. Observe terminal in use. Determine whether naming conventions are used.	ESA's network does not have an idle time network log out feature activated. No other exceptions were noted.

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

---

Tests of Described Policies and Procedures	Results of Tests
Reviewed pertinent policies and procedures. Reviewed parameters set by telecommunications software or teleprocessing monitors. Tested telecommunications controls by attempting to access various files through communications networks. Identified all dial-up lines through automatic dialer software routines and compare with known dial-up access. Interviewed telecommunications management staff and users. View the opening screen by telecommunication system users. Run entity's telephone directory to verify that numbers are not listed.	No exceptions were noted.
Reviewed written procedures. Interviewed personnel responsible for clearing equipment and media. For a selection of recently discarded or transferred items, examined documentation related to clearing of data and software.	No exceptions were noted.
Reviewed security software settings to identify types of activity logged, security violation reports and documentation showing reviews of questionable activities. Tested a selection of security violations to verify that follow-up investigations were performed and to determine what actions were taken against the perpetrator. Evaluate cryptographic tools.	Security violations have not been documented. ESA has a Computer Security Incident Response and Reporting Manual, but was unable to provide documentation evidencing the controls.
Interviewed senior management and personnel responsible for summarizing violations and reviewed supporting documentation.	Security violations have not been documented. ESA has a Computer Security Incident Response and Reporting Manual, but was unable to provide documentation evidencing the controls.

***Application Software Development and Change Control***

System Development Life Cycle (SDLC) methodology has been developed that provides a structured approach consistent with generally accepted concepts and practices, including active user involvement throughout the process, is sufficiently documented to provide guidance to staff with varying levels of skill and experience, provides a means of controlling changes in requirements that occur over the system's life, and includes documentation requirements. Program staff and staff involved in developing and testing software have been trained and are familiar with the use of the organization's SDLC methodology.

Software change request forms are used to document requests and related approvals. Change requests must be approved by both system users and data processing staff. Clear policies restricting the use of personal and public domain software have been developed and are enforced. DFEC uses virus identification software.

Test plan standards have been developed for all levels of testing that define responsibilities for each party (e.g., users, system analysts, programmers, auditors, quality assurance, library control). Detailed system specifications are prepared by the programmer and reviewed by a programming supervisor. Software changes are documented so that they can be traced from authorization to the final approved code and they facilitate "trace-back" of code to design specifications and functional requirements by system testers. Test plans are documented and approved that define responsibilities for each party

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

---

involved (e.g., users, systems analysts, programmers, auditors, quality assurance, library control). Unit, integration, and system testing are performed and approved in accordance with the test plan and applying a sufficient range of valid and invalid conditions.

A comprehensive set of test transactions and data has been developed that represents the various activities and conditions that will be encountered in processing. Live data is not used in testing program changes, except to build test data files. Test results are reviewed and documented. Program changes are moved into production only upon documented approval from users and system development management.

Documentation is updated for software, hardware, operating personnel, and system users when a new or modified system is implemented. Data center management and/or the security administrators periodically review production program changes to determine whether access controls and change controls have been followed.

Emergency changes are documented and approved by the operations supervisor, formally reported to computer operations management for follow-up, and approved after the fact by programming supervisors and user management.

Standardized procedures are used to distribute new software for implementation. Implementation orders, including effective date, are provided to all locations where they are maintained on file. Library management software is used to produce audit trails of program changes, maintain program version numbers, record and report program changes, maintain creation/date information for production modules, maintain copies of previous version, and control concurrent updates.

Tests of Described Policies and Procedures	Results of Tests
<p>Reviewed the SAS #70 Report from SunGard eSourcing, Inc., the subservicer, to determine whether the following application software development and change controls existed at SunGard:</p> <ul style="list-style-type: none"> <li>• Inquired as to the procedures management has implemented to control tape management.</li> <li>• Observed the tapes in the computer room and tape storage area noting the unique identification of tapes with labels and bar codes.</li> <li>• Observed the I/O Manager mounting an incorrect tape on the system noting the tape management system issued an error message indicating an incorrect tape mount. Observed the Manager mount a correct tape and the system begin to process the tape.</li> <li>• Inspected the daily scratch tape listing and noted the report contained the volser number, dataset name, creation date, and expiry time and date of tapes that would be scratched.</li> <li>• Observed the transfer of tapes off-site noting a third-party courier service is used to transport tapes to the off-site tape storage facility.</li> <li>• Observed the contents of a box prepared to ship off-site noting the box contained magnetic tapes as well as distribution, inventory, and transaction sheets.</li> </ul>	<p>No exceptions were noted.</p>



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

---

Tests of Described Policies and Procedures	Results of Tests
<ul style="list-style-type: none"> <li>• Inspected the transaction sheets noting proper sign-off by SunGard staff and the off-site data storage vendor.</li> <li>• Inquired of the I/O Manager as to procedures for the tape librarian to compare the tapes returned from the off-site facility to the inventory list from the tape management system and investigate differences.</li> <li>• Observed the Foreign Tape Utilities on-line noting that all changes to the system are logged by the audit trail.</li> <li>• Inspected a sample of tape mail requests noting proper documentation and authorization for the delivery and release of tapes, including requesting company, destination, request status and data set name.</li> <li>• Toured the Receiving Area and inspected the Receiving log noting that all packages received are signed-off by SunGard personnel.</li> <li>• Inquired as to the operation of these procedures throughout the test period.</li> </ul>	

***System Software***

Policies and procedures for restricting access to systems software are kept up-to-date. Access to system software is restricted to a limited number of personnel, corresponding to job responsibilities. Application programmers and computer operators are specifically prohibited from accessing system software. Documentation showing justification and management approval for access to system software is kept on file. The access capabilities of system programmers are periodically reviewed for propriety to see that access permissions correspond with job duties.

Policies and procedures for using and monitoring use of system software utilities are kept up-to-date. Responsibilities for using sensitive system utilities have been clearly defined and are understood by systems programmers. Responsibilities for monitoring use are defined and understood by technical management. The use of sensitive system utilities is logged using access control software reports or job accounting data (e.g., IBM's System Management Facility).

The use of privileged system software and utilities is reviewed by technical management. Inappropriate or unusual activity in using utilities is investigated. System programmers' activities are monitored and reviewed. Management reviews are performed to determine that control techniques for monitoring use of sensitive system software are functioning as intended and that the control techniques in place are maintaining risks within acceptable levels (e.g., periodic risk assessments).

Policies and procedures are kept up-to-date for identifying, selecting, installing, and modifying system software. Procedures include an analysis of costs and benefits and consideration of the impact on processing reliability and security. Procedures exist for identifying and documenting system software problems. This should include using a log to record the problem, the name of the individual assigned to analyze the problem, and how the problem was resolved.

**SECTION IIIC**  
**INFORMATION PROVIDED BY THE SERVICE AUDITOR**  
**GENERAL COMPUTER CONTROLS**

---

New system software versions or products and modifications to existing system software receive proper authorization and are supported by a change request. New system software versions or products and modifications to existing system software are tested and the test results are approved before implementation.

Procedures include: a written standard that guides the testing, which is conducted in a test rather than production environment; specification of the optional security-related features to be turned on, when appropriate; review of test results by technically qualified staff who document their opinion on whether the system software is ready for production use; and review of test results and documented opinions by data center management prior to granting approval to move the system software into production use.

Procedures exist for controlling emergency changes. Procedures include: authorizing and documenting emergency changes as they occur; reporting the changes for management review; and review by an independent IS supervisor of the change.

Installation of system software is scheduled to minimize the impact on data processing and advance notice is given to system users. Migration of tested and approved system software to production use is performed by an independent library control group. Outdated versions of system software are removed from production libraries. Installation of all system software is logged to establish an audit trail and reviewed by data center management. Vendor-supplied system software is still supported by the vendor. All system software is current and has current and complete documentation.

Tests of Described Policies and Procedures	Results of Tests
<p>Reviewed the SAS #70 Report from SunGard eSourcing, Inc., the subservicer, to determine whether the following system software controls exist at SunGard:</p> <ul style="list-style-type: none"> <li>• Inquired as to the procedures management has implemented to control changes or updates to systems software.</li> <li>• Inspected the SunGard Software Maintenance Policy and Procedure document.</li> <li>• Inspected SunGard’s Production Software Listing noting the system software listed reflects current versions of software that are supported by the vendor.</li> <li>• Inspected the SunGard Software Maintenance and Upgrade Schedule noting that the procedures documented in this plan were the procedures documented in Peregrine Service Center for the change requests selected.</li> <li>• Identified a select number of system software change requests noting that the change requests were entered in Peregrine Service Center and detailed information supporting the change request was documented in Peregrine Service Center.</li> <li>• Observed on-line that the change requests selected were prioritized based upon criticality and were closed within one day of requested implementation.</li> <li>• Inspected a sample of problems reported by clients and software change requests noting the change history was documented in detail in the</li> </ul>	<p>No exceptions were noted.</p>

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

---

Tests of Described Policies and Procedures	Results of Tests
<p>Peregrine Service Center database, including the requesting client, affected system, target date, staff who made the change, change status, and description of the problem and action. Also noted the following:</p> <ul style="list-style-type: none"> <li>(a) They were assigned priority levels, such as critical, limited, and impacting and resolved in a timely manner.</li> <li>(b) Requests are received by Customer Service and approved by the appropriate department manager.</li> <li>(c) All changes are adequately tested and moved to a development library before being migrated to production.</li> </ul> <ul style="list-style-type: none"> <li>• Noted that the above problems were responded to within 24 hours, followed up within 48 hours and eventually resolved.</li> <li>• Observed an inspected Peregrine Service Center on-line noting that the Quality Assurance procedures were documented and existed for all change requests selected.</li> <li>• Inspected the Change Report which is used to communicate to Operations personnel the testing and back-out procedures for system software changes. For a sample of changes, inspected documented testing and back-out procedures and sign-off by Operations personnel indicating the jobs were run.</li> <li>• Inquired about daily meeting when any open requests are prioritized.</li> <li>• Inspected the checklist used during software testing prior to migration into production noting that the checklist is used to document software testing and complies with the Software Maintenance Plan.</li> <li>• Inquired as to the operation of these procedures throughout the test period.</li> </ul>	

***Segregation of Duties***

Policies and procedures for segregating duties exist and are up-to-date. Distinct systems support functions are performed by different individuals, including the following: IS management, system design, application programming, systems programming, quality assurance/testing, library management/change management, computer operations, production control and scheduling, data control, data security, data administration, and network administration.

No individual has complete control over incompatible transaction processing functions. Specifically, the following combination of functions are not performed by a single individual: data entry and verification of data, data entry and its reconciliation to output, input of transactions for incompatible processing functions (e.g., input of vendor invoices and purchasing and receiving information), and data entry and supervisory authorization functions (e.g., authorizing a rejected transaction to continue processing that exceeds some limit requiring a supervisor's review and approval).

Data processing personnel are not users of information systems. They and security managers do not initiate, input, or correct transactions. Day-to-day operating procedures for the data center are adequately documented and prohibited actions are identified. Regularly scheduled vacations and periodic job/shift rotations are required

**SECTION IIIC**  
**INFORMATION PROVIDED BY THE SERVICE AUDITOR**  
**GENERAL COMPUTER CONTROLS**

---

Documented job descriptions accurately reflect assigned duties and responsibilities and segregation of duty principles. Documented job descriptions include definitions of the technical knowledge, skills, and abilities required for successful performance in the relevant position and can be used for hiring, promoting, and performance evaluation purposes.

All employees fully understand their duties and responsibilities and carry out those responsibilities in accordance to their job descriptions. Senior management is responsible for providing adequate resources and training to ensure that segregation of duty principles are understood and established, enforced, and institutionalized within the organization. Responsibilities for restricting access by job positions in key operating and programming activities are clearly defined, understood, and followed.

Staff's performance is monitored on a periodic basis and controlled to ensure that objectives laid out in job descriptions are carried out. Management reviews are performed to determine that control techniques for segregating incompatible duties are functioning as intended and that the control techniques in place are maintaining risks within acceptable levels (e.g., periodic risk assessments).

Detailed, written instructions exist and are followed for the performance of work. Operator instruction manuals provide guidance on system operation. Application run manuals provide instruction on operating specific applications. Operators are prevented from overriding file label or equipment error messages.

Personnel are provided adequate supervision and review, including each shift for computer operations. All operator activities on the computer system are recorded on an automated history log. Supervisors routinely review the history log and investigate any abnormalities. System startup is monitored and performed by authorized personnel. Parameters set during the initial program load (IPL) are in accordance with established procedures.

Tests of Described Policies and Procedures	Results of Tests
<p>Reviewed the SAS #70 Report from SunGard eSourcing, Inc., the subservicer, to determine whether the following segregation of duties controls exist at SunGard:</p> <ul style="list-style-type: none"> <li>• Inquired as to the procedures management has implemented to control physical access to the data center.</li> <li>• Inspected the physical access card listing noting the different levels of access to the SunGard facility.</li> <li>• For a sample of employees, inquired of the Director of Computer Operations as to the appropriateness of their access levels per their assigned responsibilities.</li> <li>• Observed the logging of card key activities in the Command Center noting</li> </ul>	<p>No exceptions were noted.</p>

**SECTION IIIC**  
**INFORMATION PROVIDED BY THE SERVICE AUDITOR**  
**GENERAL COMPUTER CONTROLS**

---

Tests of Described Policies and Procedures	Results of Tests
<p>the log recorded the card key number, doors accessed, and unsuccessful attempts.</p> <ul style="list-style-type: none"> <li>• Observed the external access card readers at the main entrance and the loading dock noting the doors are locked at all times, doors are monitored from the Command Center through the use of video cameras, all access card usage is logged in the Command Center and access into the building requires access cards.</li> <li>• Observed that persons without valid access cards must ring a doorbell or call Operations (after hours) to gain access to the facility.</li> <li>• Observed the access card readers located inside the data center for the network control room, Command center, tape library, and electrical room, noting all doors required access cards to gain entrance and all access card usage is logged in the Command Center.</li> <li>• Inspected the listing of employees terminated during the period and determined that terminated employees are removed from the Security System for physical access.</li> <li>• Observed the monitors in the Command Center noting one dedicated monitor for each door and a central monitor which records access based on motion detected.</li> <li>• Observed the central monitor connected to a video cassette recorder recording all activity displayed on the central monitor.</li> <li>• Observed the log at the main entrance noting all visitors are required to sign in and out of the building.</li> <li>• Inquired as to the operation of these procedures throughout the test period.</li> </ul>	

***Service Continuity***

ESA has drafted a disaster recovery/business continuity plan which lists critical operations and data and that prioritizes data and operations, reflects current conditions and identifies and documents resources supporting critical operations such as computer hardware, computer software, computer supplies, system documentation, telecommunications, office facilities and supplies, and human resources. The draft disaster recovery/business continuity plan is expected to be finalized in January 2003.

Within ESA's draft disaster recovery/business continuity plan, emergency processing priorities have been documented. Backup files are created on a prescribed basis and rotated off-site often enough to avoid disruption if current files are lost or damaged. System and application documentation is maintained at the off-site storage location. The backup storage site is geographically removed from the

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

---

primary site, and protected by environmental controls and physical access controls.

Fire suppression and prevention devices have been installed and are working, e.g., smoke detectors, fire extinguishers, and sprinkler systems. Controls have been implemented to mitigate other disasters, such as floods, earthquakes, etc. Redundancy exists in the air cooling system. An uninterruptible power supply or backup generator has been provided so that power will be adequate for orderly shut down. Environmental controls are periodically tested. Eating, drinking, and other behavior that may damage computer equipment is prohibited.

All data center employees have received training and understand their emergency roles and responsibilities. Data center staff receives periodic training in emergency fire, water, and alarm incident procedures. Emergency response procedures are documented and periodically tested.

Policies and procedures exist and are up-to-date. Routine periodic hardware preventive maintenance is scheduled and performed in accordance with vendor specifications and in a manner that minimizes the impact on operations. Regular and unscheduled maintenance performed is documented. Flexibility exists in the data processing operations to accommodate regular and a reasonable amount of unscheduled maintenance. Spare or backup hardware is used to provide a high level of system availability for critical and sensitive applications. Goals are established by senior management on the availability of data processing and on-line services. Records are maintained on the actual performance in meeting service schedules.

Problems and delays encountered, the reason, and the elapsed time for resolution are recorded and analyzed to identify recurring patterns or trends. Senior management periodically reviews and compares the service performance achieved with the goals and surveys user departments to see if their needs are being met. Changes of hardware equipment and related software are scheduled to minimize the impact on operations and users, thus allowing for adequate testing. Advance notification on hardware changes is given to users so that service is not unexpectedly interrupted.

A contingency plan has been drafted that reflects current conditions, will be approved by key affected groups including senior management, data center management, and program managers, clearly assigns responsibilities for recovery, includes detailed instructions for restoring operations (both operating system and critical applications), identifies the alternate processing facility and the backup storage facility, includes procedures to follow when the data/service center is unable to receive or transmit data, identifies critical data files, is detailed enough to be understood by all agency managers, includes computer and telecommunications hardware compatible with the agencies needs, and has been distributed to all appropriate personnel.

The plan provides for backup personnel so that it can be implemented independent of specific individuals. User departments have developed adequate manual/peripheral processing procedures for use until operations are restored.

Contracts or interagency agreements have been established for a backup data center and other needed

**SECTION IIIC**  
**INFORMATION PROVIDED BY THE SERVICE AUDITOR**  
**GENERAL COMPUTER CONTROLS**

---

facilities that: are in a state of readiness commensurate with the risks of interrupted operations, have sufficient processing capacity, and are likely to be available for use. Alternate telecommunication services have been arranged. Arrangements are planned for travel and lodging of necessary personnel, if needed.

Tests of Described Policies and Procedures	Results of Tests
<p>Reviewed the SAS #70 Report from SunGard eSourcing, Inc., the subservicer, to determine whether the following service continuity controls exist at SunGard:</p> <ul style="list-style-type: none"> <li>• Inquired as to the procedures management has implemented to monitor environmental controls.</li> <li>• Toured the main building and the generator building and observed the following mechanisms installed at SunGard: <ul style="list-style-type: none"> <li>• Air-condition units;</li> <li>• Sprinkler system;</li> <li>• Smoke detectors;</li> <li>• Water detection units under the raised floor;</li> <li>• Sub-floor fire suppression system;</li> <li>• Uninterrupted Power Supply (3 units);</li> <li>• Battery Banks;</li> <li>• 2.5 megawatt diesel generators (2 units);</li> <li>• Halon (Manual release/abort button) &amp; FM 200; and</li> <li>• Emergency Power Off switches (EPO's).</li> </ul> </li> <li>• Inspected the most recent reports for the above systems noting all inspections were performed by the vendors at scheduled frequency.</li> <li>• Observed the environmental monitoring board (Zone Annunciator Panel or Tracetek alarm panel) in the Command Center which identifies troubled areas and problems (water or fire) when alarms are signaled.</li> <li>• Observed the environmental board (Zone Annunciator Panel or Tracetek alarm panel) located by the loading dock door which divides the building into zones for fire departments to locate problem areas in emergency.</li> <li>• Observed the various monitors in the Command Center used for monitoring the facilities.</li> <li>• Inquired as to the operation of these procedures throughout the test period.</li> </ul>	<p>No exceptions were noted.</p>

**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                                 | Accuracy of Compensation Payments |
| Initial Eligibility                           | Schedule Awards                   |
| File Maintenance                              | Death Benefits                    |
| Continuing Eligibility - Medical Evidence     | Medical Bill Payment Processing   |
| Continuing Eligibility - Earnings Information | 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 case number is assigned and notated on the CA-1 or CA-2. The claim documents are then imaged. 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 the information in the CMF.

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. A negative confirmation process is used.

Tests of Described Policies and Procedures:	Results of Tests:
For a non-statistical sample of 50 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 process resulted in the proper setup of the case files (to include agency chargeback codes) and related computer systems with current and accurate information.	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**

---

4) Performance of Duty - The FECA Procedure Manual 2-804 contains the requirements for the performance of duty criterion. The performance of duty criterion 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 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.

<b>Tests of Described Policies and Procedures:</b>	<b>Results of Tests:</b>
For a non-statistical sample of 50 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.	In 1 of 50 initial eligibility transactions, one case file indicated that the claimant was not in the performance of their duties when the injury occurred. No other exceptions were noted.

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

---

Tests of Described Policies and Procedures:	Results of Tests:
For a non-statistical sample of 50 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.	No exceptions were noted.

**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, 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 address, social security number and chargeback code is the information in the CMF at the time the record is created. If any of the information changes, both the ACPS and the CMF must be updated with the new information.

Tests of Described Policies and Procedures:	Results of Tests:
From a total of 235 cases, for a sample of 185 statistically selected internal control compensation transactions and 50 non-statistically selected initial eligibility 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.	In 3 of 185 internal control compensation transactions, the claimant's address was not updated in the CMF. No exceptions were noted in the non-statistical sample. No other exceptions were noted.
From a total of 235 cases, for a sample of 185 statistically selected internal control compensation transactions and 50 non-statistically selected initial eligibility cases, we reviewed documentation in the case files to ensure that the chargeback code was accurate in the CMF.	No exceptions were noted.

**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 2 or 3 years.

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

---

<b>Tests of Described Policies and Procedures:</b>	<b>Results of Tests:</b>
<p>For a total of 175 cases, from a sample of 125* statistically selected internal control compensation for lost wage cases and 50 non-statistically selected current medical cases, 165 cases (115 statistical and 50 non-statistical) required updating of medical evidence within the past year. We reviewed medical evidence in the case files to ensure that the current medical evidence supported the disability status for the compensation being received.</p>	<p>In 7 of 115 statistically selected lost wage cases no current medical evidence was contained in the claimant's case file. An additional non-statistical sample of 50 current medical cases, as defined on page 48, was selected. For 22 of 50 non-statistical current medical cases, medical evidence was not located within the case file. These cases were typically older injury cases and the lack of medical evidence appeared procedural rather than reflective of improper payments. In 5 of the 7 statistical cases, the claimants were over 70 years old and had been injured at least 23 years. Of the 7 cases, 5 had sustained traumatic injuries to the leg or back, 1 had a mental/emotional condition, and one claimant, 43 years old, had carpal tunnel syndrome, and medical evidence had not been requested in over eight years, which was one year after injury. 18 of the 22 non-statistical cases were for claimants between the ages of 50 and 79 who had all been injured over 10 years. Of the 22 cases, 12 sustained traumatic injuries to the leg or back, 4 had mental/emotional conditions, 2 had contusions and 4 had other injuries. OWCP stated updated medical evidence would be requested from these participants. No other exceptions were noted.</p>

\* A statistical sample of 125 claimants were tested for continuing eligibility controls, however, some specific tests did not apply to all claimants due to the length of time of the claimant's injury, the date of the claim for benefits, or the claimant's case status. Therefore, the number of tests indicated is the number of items to which tests were actually applied.

**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.

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

---

The FECA Procedure Manual 2-812(9) and (10) contain the requirements for obtaining a claimant's earnings report from the SSA. Claimants must provide OWCP with authorization to obtain earnings information from SSA. OWCP sends the claimants a CA-935, Cover Letter and a CA-936, Request for Earnings Information request form. 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.

<b>Tests of Described Policies and Procedures:</b>	<b>Results of Tests:</b>
From a statistical sample of 163 compensation claimants (125* lost wage cases and 38 schedule award cases), 100 cases required current eligibility verification due to the age of the case. We reviewed the case file to determine whether a CA-1032 had been requested within the past year to verify earnings and dependent information.	In 5 of 100 items sampled, CA-1032s had not been obtained from the claimants to verify earnings and dependent information within the last year. No other exceptions were noted.
From a statistical sample of 125* lost wage claimants, 80 cases required current earnings information due to the age of the case. We reviewed the case file to determine whether a CA-1036 and CA-936 had been released to the claimant to obtain earnings information from SSA in the past three years.	In 5 of 80 items sampled, a release for authorization to obtain earnings information from SSA was not sent to the claimants. No other exceptions were noted.
From a statistical sample of 125* lost wage claimants, 30 cases had CA-1036s returned from the claimant that should have been sent to SSA for current earnings information. We reviewed the case file to determine whether the Senior Claims Examiner had requested earnings information from SSA.	In 1 of 30 items sampled, the Senior Claims Examiner did not send a request for earnings information to SSA. No other exceptions were noted.
From a statistical sample of 163 compensation claimants (125* lost wage cases and 38 schedule award cases), in one case file the claimant failed or refused to return the second request CA-1032 or CA-1036. We reviewed the case file to determine whether the case was referred to appropriate official if the claimant refused to release earnings information.	For the 1 item sampled, the case was not referred to the appropriate official once the claimant did not authorize the release of earnings information. No other exceptions were noted.
From a statistical sample of 163 compensation claimants (125* lost wage cases and 38 schedule award cases), 28 cases had CA-1032s or CA-1036s returned with information requiring information be updated in the claimant's case file. We reviewed the case file to determine whether the case was update with the information reported on the CA-1032 or CA-1036.	In 1 of the 28 items samples, the case file was not updated with the information on the CA-1032 or CA-1036 submitted by the claimant. No other exceptions were noted.

\*A statistical sample of 125 claimants were tested for continuing eligibility controls and 38 claimants were tested for schedule awards, however, some specific tests did not apply to all claimants due to the length of time of the claimant's injury, the date of the claim for benefits, or the claimant's case status. Therefore, the number of tests indicated is the number of items to which tests were actually applied.

**SECTION III C**  
**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 Described Policies and Procedures:	Results of Tests:										
For a total of 285 cases, from a statistical sample of 185* substantive compensation cases and non-statistical samples totaling 100 cases (50 initial eligibility cases and 50 multiple claim cases), we reviewed documentation in the case files to ensure that the components comprising compensation benefits were determined correctly.	<p>In 5 of 185 statistically selected sample items, claimants were overpaid a net of \$57,319. In 1 of 100 non-statistically selected sample items, a claimant was overpaid \$360. Claimants were overpaid a net of \$57,679.</p> <p>The net overpayment resulted from the use of incorrect:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">1 Compensation Percentage</td> <td style="text-align: right;">\$ 29,837</td> </tr> <tr> <td>5 Payrates</td> <td style="text-align: right;">26,495</td> </tr> <tr> <td>1 Compensation Period</td> <td style="text-align: right;">1,327</td> </tr> <tr> <td>1 CPI adjustment on manual payment</td> <td style="text-align: right;"><u>20</u></td> </tr> <tr> <td><b>Net Overpayment</b></td> <td style="text-align: right;"><b><u>\$ 57,679</u></b></td> </tr> </table>	1 Compensation Percentage	\$ 29,837	5 Payrates	26,495	1 Compensation Period	1,327	1 CPI adjustment on manual payment	<u>20</u>	<b>Net Overpayment</b>	<b><u>\$ 57,679</u></b>
1 Compensation Percentage	\$ 29,837										
5 Payrates	26,495										
1 Compensation Period	1,327										
1 CPI adjustment on manual payment	<u>20</u>										
<b>Net Overpayment</b>	<b><u>\$ 57,679</u></b>										
For a statistical sample of 185* substantive compensation cases and 50 non-statistical cases, 35 cases had transactions whereby a single payment was in excess of \$50,000. We reviewed the transactions over \$50,000 to ensure the payment was authorized by a senior official at a GS-13 or higher.	No exceptions were noted.										
For a non-statistical sample of 50 multiple claim cases, we reviewed the appropriateness of the receipt of compensation for more than one injury for the same period of time (multiple claims cases). This concurrent payment of benefits is allowable up to certain amounts and in certain instances.	No exceptions were noted.										

\* A statistical sample of 185 cases and 100 non-statistical cases were tested for accuracy and proper processing of the compensation payments. Some specific tests did not apply to all claimants due to the test applying only to payments over \$50,000. Therefore, the number of tests indicated is the number of items to which tests were actually applied.

**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. DMAs calculate the percentage of impairment for the schedule award.

Tests of Described Policies and Procedures:	Results of Tests:
From the statistical sample of 185 compensation items, 38 items were for schedule awards, 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.	No exceptions were noted.

**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.

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

---

Tests of Described Policies and Procedures:	Results of Tests:
From the statistical sample of 185 compensation items, 22 items were for death benefits, 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.	In 3 of 22 items sampled, a current CA-12 or CA-1615 had not been obtained from the beneficiaries to verify earnings and dependent information within the last year. No other exceptions were noted.

**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.



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

Tests of Described Policies and Procedures:	Results of Tests:																				
<p>For a total of 467 medical bill payments, from a statistical sample of 214 substantive medical bill payments and non-statistical samples of 253 medical bill payments (125 provider type and 128 potential duplicate payments), we reviewed the medical bill payments 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 Special Benefit Fund.</p>	<p>In 7 of 214 statistically selected medical bills tested, medical providers were overpaid a net of \$6,785. In 37 of 253 non-statistically selected sample items, medical providers were overpaid a net of \$208,292. Medical providers were overpaid a net of \$215,077.</p> <p>The net overpayment resulted from:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">15 Incorrect Bypass codes</td> <td style="text-align: right;">\$144,822</td> </tr> <tr> <td>6 Incorrect keying of Procedure Codes</td> <td style="text-align: right;">29,136</td> </tr> <tr> <td>7 Incorrect keying of Dates of Service</td> <td style="text-align: right;">24,072</td> </tr> <tr> <td>5 Bills paid in successive weeks</td> <td style="text-align: right;">13,252</td> </tr> <tr> <td>1 Detail of hospital bill did not agree to bill paid</td> <td style="text-align: right;">2,001</td> </tr> <tr> <td>1 Incorrect keying of amount</td> <td style="text-align: right;">1,000</td> </tr> <tr> <td>5 Incorrect provider types</td> <td style="text-align: right;">731</td> </tr> <tr> <td>1 Convenience item paid</td> <td style="text-align: right;">36</td> </tr> <tr> <td>3 Incorrect service zip code</td> <td style="text-align: right;"><u>27</u></td> </tr> <tr> <td><b>Net Overpayment</b></td> <td style="text-align: right;"><b><u>\$215,077</u></b></td> </tr> </table>	15 Incorrect Bypass codes	\$144,822	6 Incorrect keying of Procedure Codes	29,136	7 Incorrect keying of Dates of Service	24,072	5 Bills paid in successive weeks	13,252	1 Detail of hospital bill did not agree to bill paid	2,001	1 Incorrect keying of amount	1,000	5 Incorrect provider types	731	1 Convenience item paid	36	3 Incorrect service zip code	<u>27</u>	<b>Net Overpayment</b>	<b><u>\$215,077</u></b>
15 Incorrect Bypass codes	\$144,822																				
6 Incorrect keying of Procedure Codes	29,136																				
7 Incorrect keying of Dates of Service	24,072																				
5 Bills paid in successive weeks	13,252																				
1 Detail of hospital bill did not agree to bill paid	2,001																				
1 Incorrect keying of amount	1,000																				
5 Incorrect provider types	731																				
1 Convenience item paid	36																				
3 Incorrect service zip code	<u>27</u>																				
<b>Net Overpayment</b>	<b><u>\$215,077</u></b>																				
<p>For a statistical sample of 125 internal control medical bill transactions, we reviewed case files to ensure that a medical report was submitted for the services provided, surgery or equipment was approved prior to payment of a medical bill, when required, and that the medical services rendered related to the accepted condition.</p>	<p>In 6 of 125 medical bill transactions, the medical report for the services provided was not contained in the case file. No other exceptions were noted.</p>																				
<p>For a statistical sample of 125 internal control medical bill transactions, 22 transactions were subject to the Prompt Payment Act. We reviewed bills which were subject to the Prompt Payment Act to ensure the bills were paid within 45 days or interest was paid if the bill was paid after 45 days.</p>	<p>No exceptions were noted.</p>																				
<p>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, 2001 through April 30, 2002, 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.</p>	<p>No exceptions were noted.</p>																				

**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.

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

---

<b>Tests of Described Policies and Procedures:</b>	<b>Results of Tests:</b>
From a non-statistical sample of 50* third party cases, 29 cases required case originating correspondence during the current year. We reviewed these cases to determine whether the Letter CA-1045, which requests information from the claimant regarding the action taken against a 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.	In 1 of 29 third party cases, the CA-1045 was not issued to the claimant. No other exceptions were noted.
From a non-statistical sample of 50* third party cases, 26 cases required correspondence with the claimant's attorneys during the prior year. We determined whether the appropriate forms were released to the attorneys of claimants involved in third party cases.	In 1 of 26 cases, the appropriate correspondence was not released to the claimant's attorney. No other exceptions were noted.
From a non-statistical sample of 50* third party cases, 28 cases required refer to the SOL due to the nature of the third party aspect of the case. We determined whether the third party cases were referred to the SOL, when required and the appropriate actions were taken to track, monitor and resolve third party cases through the SOL.	In 5 of 28 third party cases, CA-160s was not issued to the solicitor's office. No other exceptions were noted.
From a non-statistical sample of 50* third party cases, 11 cases required were established in the accounts receivable system in the prior year. We determined whether the fiscal section properly established account receivables and maintained accounting records when third party surpluses were created.	No exceptions were noted.
From a non-statistical sample of 50* third party cases, 11 cases required actions pertaining to third party credits or settlements. We determined whether claimants were notified when the third party settlement was not in excess of the prior compensation suspended via a Letter CA-1120.	In 1 of 11 third party cases, the claimant was not issued a CA-1120.

\*A non-statistical sample of 50 third party cases was tested for third party processing. Some specific tests did not apply to all claimants as only the actions to be taken on the case during the year were tested. Therefore, the number of tests indicated is the number of items to which tests were actually applied.