U.S. Department of Labor

Office of Inspector General—Office of Audit

EMPLOYMENT STANDARDS ADMINISTRATION

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

September 30, 2005

This report was prepared by M.D. Oppenheim & Company, P.C., under contract to the U.S. Department of Labor, Office of Inspector General, and by acceptance, it becomes a report of the Office of Inspector General.

Elliot P. Lewis

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

Date Issued: October 21, 2005
Final Report Number: 22-06-006-04-431

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U.S. Department of Labor

Office of Inspector General
Washington, DC 20210

Assistant Inspector General for Audit's Memorandum

MEMORANDUM FOR: FEDERAL AGENCIES WITH RESPONSIBILITIES FOR THE FECA PROGRAM

Elliot P. Lewis

FROM: ELLIOT P. LEWIS
Assistant Inspector General for Audit

SUBJECT: Special Report Relating to the Federal Employees' Compensation Act Special Benefit Fund – FY 2005
Report No. 22-06-006-04-431

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

The Office of Inspector General contracted with the independent certified public accounting firm of M.D. Oppenheim & Company, P.C. to prepare the special report on the Fund as of and for the year ended September 30, 2005. This special report consists of two separate reports. The first report is an *opinion* on the total actuarial liability, net intra-governmental accounts receivable, and total benefit expense of the Fund as of and for the year ended September 30, 2005. The auditor issued an unqualified opinion on this report. The second report is an agreed-upon procedures (AUP) report on the schedules of actuarial liability, net intra-governmental accounts receivable and benefit expense by agency as of and for the year ended September 30, 2005. This report includes a description of the procedures performed and the results of those procedures.

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

M.D. Oppenheim & Company is responsible for the attached special report dated October 7, 2005, and the conclusions expressed in the report. We reviewed M.D. Oppenheim & Company's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on: the total actuarial liability, net intra-governmental accounts receivable, and total benefit expense of the Fund as of and for the year ended September 30, 2005; or the AUP report on the schedules of actuarial liability, net intra-governmental accounts receivable and benefit expense by agency as of and for the year ended September 30, 2005. However, our review disclosed no instances where M.D. Oppenheim & Company, P.C. did not comply, in all material respects, with generally accepted government auditing standards.

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

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SECTION 1A

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

Victoria A. Lipnic, Assistant Secretary
Employment Standards Administration, U.S. Department of Labor,
Government Accountability Office, Office of Management and Budget,
and 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, 2005. This schedule is the responsibility of the U.S. Department of Labor's management. Our responsibility is to express an opinion on this schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule 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, 2005, 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, Government Accountability Office, Office of Management and Budget and those Federal agencies listed in Section 2B of this report and is not intended to be and should not be used by anyone other than these specified parties.

M.D. Oppenheim & Company, P.C.

October 7, 2005

SECTION 1B

U.S. Department of Labor
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, 2005

	(Dollars in Thousands)
Actuarial Liability	$ 26,007,693
Net Intra-Governmental Accounts Receivable	$ 3,648,135
Benefit Expense	$ 2,811,329

See independent auditors' report and accompanying notes to this financial schedule.

SECTION 1C

Notes to the Schedule of Actuarial Liability, Net Intra-Governmental Accounts Receivable and Benefit Expense As of and For the Year Ended September 30, 2005

1. Significant Accounting Policies

   a. Basis of Presentation

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

The actuarial liability, net intra-governmental accounts receivable and benefit expense of the Special Benefit Fund 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. ESA's annual data is defined as the actuarial liability of the Special Benefit Fund. This annual data is necessary for the 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, 2005. 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, 2005, but not paid as of September 30, 2005, including prior years, if applicable, plus the accrued receivable for benefit payments not yet billed for the period of July 1, 2005 through September 30, 2005, less credits due from the public. Benefit expense consists of benefits paid and accrued for the period from October 1, 2004 to September 30, 2005, 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.

SECTION 1C

Notes to the Schedule of Actuarial Liability, Net Intra-Governmental Accounts Receivable and Benefit Expense As of and For the Year Ended September 30, 2005

The actuarial liability is computed from the history of benefits paid. The benefits paid, inflation and interest rate assumptions, and other economic factors are applied to the actuarial model that calculates the liability estimate.

b. Basis of Accounting

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

Statement of Federal Financial Accounting Standards (SFFAS) Number 5, Section 38, *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.

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

2. 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

SECTION 1C

Notes to the Schedule of Actuarial Liability, Net Intra-Governmental Accounts Receivable and Benefit Expense As of and For the Year Ended September 30, 2005

(OMB) economic assumptions for 10-year Treasury notes and bonds. The interest rate assumptions utilized for discounting was 4.53% in year 1 and 5.02% in subsequent years.

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

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

FY	COLA	CPI-Med
2006	3.33%	4.09%
2007	2.93%	4.01%
2008	2.40%	4.01%
2009	2.40%	4.01%
2010	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 June 15, 2005 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, 2005 but had not been paid as of September 30, 2005, including prior year's amounts billed, if applicable, plus an estimated accrued receivable for benefit payments not yet billed for the period July 1, 2005 through September 30, 2005, less applicable credits. The Special Benefit Fund also receives an appropriation for special cases and older cases where employing agencies are not charged for benefit payments.

Each Federal agency is required by the Federal Employees' Compensation Act to include in their annual budget estimate a request for an appropriation in the amount equal to the agency cost. Agencies not receiving an appropriation are required to pay agency costs from funds directly under their control.

SECTION 1C

Notes to the Schedule of Actuarial Liability, Net Intra-Governmental Accounts Receivable and Benefit Expense As of and For the Year Ended September 30, 2005

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.

4. Benefit Expense

Benefit expense for the year ended September 30, 2005 was comprised of the following (dollars in thousands):

Benefits paid for compensation	$ 1,692,469
Benefits paid for medical benefits	681,038
Change in accrued benefits	854
Change in actuarial liability	436,968
Total benefit expense	$ 2,811,329

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SECTION 2A

Independent Accountants' Report on Applying Agreed-Upon Procedures

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

We have performed the procedures described in Section 2C, Agreed-Upon Procedures and Results, which were agreed to by the U.S. Department of Labor, Government Accountability Office, Office of Management and Budget, 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 2B) 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 2B) of the Federal Employees' Compensation Act Special Benefit Fund as of and for the year ended September 30, 2005.

The Department of Labor is responsible for the Schedules (Section 2B). The Schedule of Actuarial Liability by Agency at September 30, 2005, 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, 2005 which had not yet been paid as of September 30, 2005 plus the estimated accrued receivable for benefit payments not yet billed for the period July 1, 2005 through September 30, 2005, less applicable credits. The Schedule of Benefit Expense by Agency is the benefits paid and accrued for the fiscal year ended September 30, 2005, 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 2C.

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 2C either for the purpose for which this report has been requested or for any other purpose. Our agreed-upon procedures and results are presented in Section 2C of this report.

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

This report 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, Government Accountability Office, Office of Management and Budget and those Federal agencies listed in Section 2B of this report and is not intended to be and should not be used by anyone other than these specified parties.

M.D. Oppenheim & Company, P.C.

October 7, 2005

SECTION 2B

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

Schedule of Actuarial Liability by Agency
As of September 30, 2005

AGENCY	Actuarial Liability (Dollars in thousands)
Agency for International Development	$ 23,726
Environmental Protection Agency	39,380
General Services Administration	170,113
National Aeronautics and Space Administration	62,430
National Science Foundation	1,382
Nuclear Regulatory Commission	8,417
Office of Personnel Management	25,653
United States Postal Service	8,663,963
Small Business Administration	28,967
Social Security Administration	284,589
Tennessee Valley Authority	580,506
U. S. Department of Agriculture	834,415
U. S. Department of the Air Force	1,399,314
U. S. Department of the Army	1,950,173
U. S. Department of Commerce	173,415
U. S. Department of Defense – other	844,007
U. S. Department of Education	18,082
U. S. Department of Energy	98,479
U. S. Department of Health and Human Services	270,354
U. S. Department of Homeland Security	1,473,295
U. S. Department of Housing and Urban Development	81,613
U. S. Department of the Interior	689,306

SECTION 2B

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

Schedule of Actuarial Liability by Agency
As of September 30, 2005

AGENCY	**Actuarial Liability** (Dollars in thousands)
U. S. Department of Justice	$ 926,336
U. S. Department of Labor	233,651
U. S. Department of the Navy	2,725,371
U. S. Department of State	60,288
U. S. Department of Transportation	1,007,910
U. S. Department of the Treasury	644,620
U. S. Department of Veterans Affairs	1,776,459
Other agencies [1]	911,479
Total - all agencies (Memo Only)	$ 26,007,693

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

SECTION 2B

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

Schedule of Net Intra-Governmental
Accounts Receivable by Agency
As of September 30, 2005

AGENCY	Amounts Billed Not Yet Paid (1) (Dollars in thousands)	Amounts Expended Not Yet Billed (2) (Dollars in thousands)	Credits Due from Public (3) (Dollars in thousands)	Net Intra-Governmental Accounts Receivable (4) (Dollars in thousands)
Agency for International Development	$ 6,420	$ 1,063	$ (54)	$ 7,429
Environmental Protection Agency	7,395	1,148	(59)	8,484
General Services Administration	29,942	4,653	(238)	34,357
National Aeronautics and Space Administration	13,363	1,948	(100)	15,211
National Science Foundation	246	38	(2)	282
Nuclear Regulatory Commission	1,615	282	(14)	1,883
Office of Personnel Management	3,427	689	(35)	4,081
United States Postal Service	(22,418)	265,630	(13,561)	229,651
Small Business Administration	4,605	715	(37)	5,283
Social Security Administration	46,408	7,228	(369)	53,267
Tennessee Valley Authority	67,294	17,655	(901)	84,048
U. S. Department of Agriculture	137,868	21,703	(1,107)	158,464
U. S. Department of the Air Force	253,745	39,369	(2,010)	291,104
U. S. Department of the Army	279,982	43,820	(2,237)	321,565
U. S. Department of Commerce	26,307	4,582	(233)	30,656
U. S. Department of Defense – other	158,045	24,831	(1,268)	181,608
U. S. Department of Education	3,437	435	(23)	3,849
U. S. Department of Energy	15,675	2,958	(151)	18,482
U. S. Department of Health and Human Services	46,528	7,568	(387)	53,709

1 Amount billed through June 30, 2005 (including prior years) but not yet paid as of September 30, 2005.

2 Amounts paid and accrued but not yet billed for the period July 1, 2005 through September 30, 2005.

3 Allocation of credits due from the public through September 30, 2005

4 Total amount due to the fund for each agency as of September 30, 2005.

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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, 2005

AGENCY	**Amounts Billed Not Yet Paid** (1) (Dollars in thousands)	**Amounts Expended Not Yet Billed** (2) (Dollars in thousands)	**Credits Due from Public** (3) (Dollars in thousands)	**Net Intra-Governmental Accounts Receivable** (4) (Dollars in thousands)
U. S. Department of Homeland Security	316,193	43,740	(2,233)	357,700
U. S. Department of Housing and Urban Development	15,193	2,370	(122)	17,441
U. S. Department of the Interior	114,043	18,018	(920)	131,141
U. S. Department of Justice	155,066	25,881	(1,321)	179,626
U. S. Department of Labor	44,538	7,966	(406)	52,098
U. S. Department of the Navy	482,935	75,184	(3,838)	554,281
U. S. Department of State	14,584	2,349	(120)	16,813
U. S. Department of Transportation	185,540	29,305	(1,496)	213,349
U. S. Department of the Treasury	101,276	16,015	(818)	116,473
U. S. Department of Veterans Affairs	310,388	49,376	(2,520)	357,244
Other agencies	127,700	21,978	(1,122)	148,556
Total - all agencies (Memo Only)	$ 2,947,340	$ 738,497	$ (37,702)	$ 3,648,135

1 Amount billed through June 30, 2005 (including prior years) but not yet paid as of September 30, 2005.

2 Amounts paid and accrued but not yet billed for the period July 1, 2005 through September 30, 2005.

3 Allocation of credits due from public through September 30, 2005

4 Total amount due to the fund for each agency as of September 30, 2005.

SECTION 2B

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

Schedule of Benefit Expense by Agency
As of September 30, 2005

AGENCY	**Benefits Paid and Accrued** (Dollars in thousands)	**Change in Actuarial Liability** (Dollars in thousands)	**Total Benefit Expense** (Dollars in thousands)
Agency for International Development	$ 3,127	$ (797)	$ 2,330
Environmental Protection Agency	3,623	(901)	2,722
General Services Administration	14,713	(6,238)	8,475
National Aeronautics and Space Administration	6,147	(6,446)	(299)
National Science Foundation	120	(83)	37
Nuclear Regulatory Commission	834	303	1,137
Office of Personnel Management	2,342	2,403	4,745
United States Postal Service	840,581	284,131	1,124,712
Small Business Administration	2,225	531	2,756
Social Security Administration	23,322	(3,569)	19,753
Tennessee Valley Authority	55,501	(13,955)	41,546
U. S. Department of Agriculture	68,578	(1,926)	66,652
U. S. Department of the Air Force	124,381	(19,518)	104,863
U. S. Department of the Army	176,020	12,355	188,375
U. S. Department of Commerce	14,348	(5,771)	8,577
U. S. Department of Defense - other	64,121	(3,966)	60,155
U. S. Department of Education	1,385	(1,800)	(415)
U. S. Department of Energy	9,383	3,295	12,678
U. S. Department of Health and Human Services	23,977	3,965	27,942
U.S. Department of Homeland Security	141,062	75,134	216,196

SECTION 2B

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

Schedule of Benefit Expense by Agency
As of September 30, 2005

AGENCY	**Benefits Paid and Accrued** (Dollars in thousands)	**Change in Actuarial Liability** (Dollars in thousands)	**Total Benefit Expense** (Dollars in thousands)
U. S. Department of Housing and Urban Development	7,597	2,991	10,588
U. S. Department of the Interior	58,105	24,450	82,555
U. S. Department of Justice	80,316	97,000	177,316
U. S. Department of Labor	20,397	(2,909)	17,488
U. S. Department of the Navy	236,754	(18,670)	218,084
U. S. Department of State	7,190	304	7,494
U. S. Department of Transportation	92,410	(12,590)	79,820
U. S. Department of the Treasury	49,937	(33,652)	16,285
U. S. Department of Veterans Affairs	158,833	23,564	182,397
Other agencies (1)	87,032	39,333	126,365
Total - all agencies (Memo Only)	$ 2,374,361	$ 436,968	$ 2,811,329

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

SECTION 2C

Agreed-Upon Procedures & Results

Summary

Our objective was to perform specified agreed-upon procedures on 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, 2005. These procedures were performed in accordance with attestation standards established by the American Institute of Certified Public Accountants and *Government Auditing Standards,* issued by the Comptroller General of the United States.

We applied the following agreed-upon procedures as summarized below:

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 2005 benefit payments predicted by the model for 2004 were compared to actual payments made in 2005, 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 – Accounts receivable balances as of September 30, 2005, were confirmed with the CFO Act agencies and other selected Federal agencies. Agreed-upon procedures were performed on FY 2005 accounts receivable and compared with FY 2004 accounts receivable regarding new receivables and collections. We reviewed the 4th quarter estimation methodology for reasonableness and compared the estimate to the actual.

Benefit Expense - Agreed-upon procedures were applied to the benefit payments made during the current fiscal year by District office and by agency as compared to benefit payments of the prior fiscal year. Agreed-upon procedures were applied to DOL's 4th quarter estimation methodology. We calculated the change in the actuarial liability from the prior year to the current year.

SECTION 2C

Agreed-Upon Procedures & Results

ACTUARIAL LIABILITY

Overview

An independent actuary evaluated the actuarial model and the resulting actuarial liability. The independent actuary issued a report stating 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

Agreed-Upon Procedures Performed	Results of Procedures
Engaged a certified actuary to review the calculations of the actuarial liability as to:	
• Whether or not the assumptions used by the model were appropriate for the purpose and method to which they were applied.	The actuary's review of the model indicated that the assumptions were appropriate for the purpose and method applied. The actuary tested the calculations included in the model and reported that they were performed consistent with the model's stated assumptions.
• Whether or not such assumptions were applied correctly and if other calculations within the model were performed in a manner as to generate appropriate results.	The actuary's review of the model indicated that the assumptions were applied correctly and that calculations were performed in such a way as to generate results which are appropriate overall. Additional detailed checks of calculations and data flow revealed no errors in the methodology used.
• Whether or not tests of calculations provided a reasonable basis regarding the integrity of the model as a whole.	The methodology and assumptions applied to the calculations tested provide a reasonable basis in regard to the integrity of the model as a whole.
• Whether or not the overall results were reasonable.	The actuary indicated that the model calculation of the liability and the overall results were reasonable under the method and assumptions used.

SECTION 2C

Agreed-Upon Procedures & Results

Agreed-Upon Procedures Performed	Results of Procedures
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 and two references from clients of the actuarial firm as to the actuary's work.	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. The actuarial consulting firm provided references stating experience in the type of work required for this engagement. The references were contacted, and they confirmed the actuary possessed the expertise and experience required for this engagement.
Compared and evaluated the economic assumptions used by the model for 2004 to the assumptions used during the current year.	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 5.2% for the prior year to an average of 4.97% for the current year. The Bureau of Labor Statistics' (BLS) estimates of COLA increased from a 10-year average of 2.40% for the prior year to a 10-year average of 2.53% for the current year, and CPI-Med factors increased by .01% to a 10-year average of 4.03%. In combination, these rate changes resulted in a decrease in the net effective rate (interest rate less inflation rate) of approximately 14% (from 2.47% to 2.12%). The result of the changes in estimated prospective rates was to increase the estimated actuarial liability by approximately 3.7% from what the liability would have been had 2004 rates been used for the year 2005 calculation.
Compared the interest (used for discounting the future liability to the present value) and inflation rates used by the model to the source documents from which they were derived.	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 indices cited. No exceptions were noted.

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Agreed-Upon Procedures & Results

Agreed-Upon Procedures Performed	Results of Procedures
Compared the estimated actuarial liability by agency, as reported in a Memorandum to the CFOs of Executive Departments issued by DOL's Chief Financial Officer, to the liability calculated by the model and reported on the Projected Liability Reports.	The liability reported in 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.
Compared both the current year benefit payments by agency and the aggregate 2001-2005 benefit payments used by the model with the amount of benefit payments reflected in the Summary Chargeback Billing Report. Determined whether the benefit payment data used by the model was the same data on which agreed-upon procedures for benefit payments were performed.	There were three errors resulting in less than .003% impact on the liabilities of any agencies affected. The 2001-2005 benefits input into the model agreed to the previous years' Chargeback Billing Reports without exception.
Determined whether the implementation of the new compensation payment system, iFECS, in FY 2005 or the FY 2004 implementation of the medical bill payment system, CBP, resulted in any adjustments to the actuarial liability calculation in the current year. Requested an explanation for any adjustments made and determined if reasonable.	The $15 million adjustment made to the liability calculation in 2004 (related to the implementation of CBP) was not carried forward as an increase in 2005 and was not reversed in the current year. DOL concluded no further adjustment was necessary in 2005. The actuarial review performed determined the methodology and assumptions were reasonable. In FY 2005 a delay in processing compensation payments was identified due to the implementation of iFECS. The impact on the actuarial liability was calculated to be approximately .2%. No adjustment to the liability was deemed necessary by DOL.

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Agreed-Upon Procedures & Results

Agreed-Upon Procedures Performed	Results of Procedures
Determined the basis of the agency groupings and performed tests to compare the consistency of the grouping with the prior year. Determined the impact on applicable agencies of such inclusion in a grouping.	The groupings were consistent with the prior year. The liabilities are allocated to five agency groups based on identifiable risk characteristics that can be expected to produce similar loss development patterns and similar loss cost per exposure unit. The agency group liability is then allocated to each agency in accordance with that agency's specific characteristics: open claims, claim development history, etc. The impact on the agencies is to produce more stable and accurate predictions.
Calculated the change in the actuarial liability by agency and in the aggregate. Compared the variances of agency actuarial liabilities that changed by more than 10 percent with the results of a Liability to Benefits Paid (LBP) ratio predictive test (which applies the LBP ratio to each agency's prior year liability adjusted for their change in benefit payments and economic assumptions). For agencies whose change in actuarial liability was not within 10 percent of predictive test results, identified the reason or requested an explanation.	The aggregate liability increased approximately 1.6%. Agency liabilities that changed by more than 10% include OPM (96.17%) and DOJ (11.70%). Both agencies had an increase in benefits paid in 2005 (OPM 75% and DOJ 8%). Predictive tests for OPM and DOJ were lower than the model calculation by -5.9% and -3.6%, respectively, which is within 10% of the actual liabilities. Therefore, no additional explanation was necessary.

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Agreed-Upon Procedures Performed	Results of Procedures
Calculated the ratio of the liability to the benefit payments (LBP) by agency and compared this to the agency group ratio. Identified and requested explanations for those agencies for which the ratio varied by more than 10 percent from their group ratio and laid outside the range of group averages based on predictive test results.	The Liabilities to Benefits Paid ratio (LBP) was 11.0. By group, the ratio ranged from 10.2 (Group V-USPS) to 12.3 (Group III). The following agencies varied by more than 10% from their group's ratio and fell outside the group range: USAID (7.6-Group III), State (8.7-Group IV), NASA (9.3-Group IV) and OPM (16.9-Group III). The model calculated within 10% of a predictive test based upon each agency's prior year liability adjusted for their change in benefit payments and economic assumptions for all but USAID. The model calculation for USAID was lower than the prediction by approximately 19.2%. We noted that USAID's benefit payments increased by 9.9% in actual dollars during 2005. The model would gradually reflect such changes if maintained, whereas the prediction would immediately calculate in increase.
Compared the benefit payments predicted by the model for 2005 to the actual benefit payments. Identified the agencies where the model computed benefit payments that varied by more than 20 percent and $2 million from actual benefit payments made during 2005.	Actual payments were approximately 16.7% lower than predicted by the model. The following agencies' actual payments varied from the prediction by more than 20% and $2 million: Treasury -22.1% ($14.3 million), DHS -36.9% ($80.8 million), DOL -20.9% ($5.0 million), and USPS -21.8% ($234.3 million). For all four agencies the model calculated within 10% of predictive test results performed by the auditor based upon each agency's prior year liability adjusted for their change in benefit payments and economic assumptions.

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Agreed-Upon Procedures Performed	Results of Procedures
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 the change in economic factors) to the liability computed by the actuarial model.	The calculated amounts were within 10% of amounts derived by DOL's model for all agencies except NRC (16%) and USAID (-19.2%).
Performed a limited survey of interest and inflation rates utilized by the USPS, 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 explained the effect of the rate difference.	Surveyed rates for compensation ranged from +1.73% to +3.50% and for medical ranged from -2.98% to +1.43%. The model's rates compute to net effective rates of approximately 2.4% for compensation and 1.0% for medical. The model's rates fell within the range of surveyed rates.
Compared the actuarial liability for the USPS calculated by the model to the actuarial liability calculated by the USPS's independent model.	We obtained and reviewed the USPS calculation. The USPS calculated liability was 17% lower than DOL's calculation. We adjusted the DOL calculation of the USPS liability to match the USPS economic assumptions. The USPS calculation of $7.2 billion was 7% or $600 million lower than our adjusted calculation of $7.8 billion. Therefore, the difference in assumptions accounts for approximately $900 million[1] (60%) of the $1.5 billion difference. Based on our other procedures, the economic assumptions used by DOL appear reasonable. We also noted that Postal's LBP ratio was low compared to most of the agencies in the model indicating that their liability was not high in relation to the other agencies. Our predictive test was within 5%.

[1] Original difference of $1.5 billion less the adjusted difference of $600 million equals a change in the difference of $900 million.

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NET INTRA-GOVERNMENTAL ACCOUNTS RECEIVABLE

Overview

Confirmation letters regarding the accounts receivable due as of September 30, 2005, were mailed and confirmed with the CFO Act agencies and other selected Federal agencies. Agreed-upon procedures were performed on FY 2005 accounts receivable and compared with FY 2004 accounts receivable concerning new receivables and collections. We reviewed the 4th quarter estimation methodology for reasonableness and compared the estimate to the actual.

Procedures and Results

Agreed-Upon Procedures Performed	Results of Procedures
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 collected.	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 Summary Chargeback Billing Report for the period July 1, 2004 through June 30, 2005, to the amounts billed to the Federal agencies.	The amounts billed to the Federal agencies for the period July 1, 2004 through June 30, 2005, agreed to the chargeback billing report.
Confirmed accounts receivable balances due as of September 30, 2005, for all CFO Act agencies except DOL and other selected Federal agencies.	Confirmations were reviewed and explanations for any differences were obtained from the agencies and/or DOL. A confirmation was not received from the Nuclear Regulatory Commission. The DOL accountant responsible for reconciling intra-governmental activity works monthly with other Federal agencies to research and correct any differences.
Recalculated the allocation of credits due from the public.	No exceptions were noted.

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Agreed-Upon Procedures & Results

Agreed-Upon Procedures Performed	Results of Procedures
For a non-statistical sample of at least 50 claimant receivables, determined whether claimant accounts receivable were properly established and classified.	Of the 50 claimant accounts receivable tested, we noted 12 instances in which the establishment, recording, or processing of the receivable or related recoveries (cash receipts and benefit recoupments) was not done in accordance with established policy and/or related accounting standards.
Reviewed the 4th quarter estimation methodology for reasonableness and compared the estimate to actual.	The difference between the estimate and the actual was $977 thousand or -0.77%.

SECTION 2C

Agreed-Upon Procedures & Results

BENEFIT EXPENSE

Overview

Agreed-upon procedures were applied to compensation and medical benefit payments in total and by agency for the fiscal year ended September 30, 2005, the chargeback period ended June 30, 2005, and the sampling period of October 1, 2004 to April 30, 2005. Changes in the actuarial liability from the prior year to the current year were calculated. Agreed-upon procedures were applied to DOL's current year 4th quarter estimation methodology.

Procedures and Results

Agreed-Upon Procedures Performed	Results of Procedures
Compared the benefit payments recorded in the Integrated Federal Employees' Compensation System (iFECS) and Central Bill Processing (CBP) databases to the Department of Treasury's SF-224s as of April 30, 2005 and September 30, 2005.	The benefit payments recorded in iFECS and the CBP databases varied from the SF-224s by $3 million (.2%) as of April 30, 2005. As of September 30, 2005, the iFECS and CBP databases varied from the SF-224s by $42 million (1.7%).
Performed a trend analysis on the total benefit payments for the last 5 chargeback years ended June 30. We requested explanations from DOL for variances over 10 percent.	The 2005 benefits decreased by 0.24% over 2004. No variances over 10% were noted.
Compared the Summary Chargeback Billing Report to the total benefit payments in the iFECS and CBP databases for the fiscal year ended September 30, 2005.	Comparison of the Summary Chargeback Billing Report to the total benefit payments in the iFECS and CBP databases for the fiscal year ended September 30, 2005 resulted in a 3.7% or $86 million variance.

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Agreed-Upon Procedures & Results

Agreed-Upon Procedures Performed	Results of Procedures
Compared by agency, benefit payments for the nine months ending June 30, 2005, with total benefit payments made for the nine months ending June 30, 2004. We requested explanations from DOL for any variances over 10 percent.	Benefit payments for the nine months ending June 30, 2005 decreased by 3.1% overall from June 30, 2004. Benefit payments increased or decreased by more than 10% for the following agencies: OPM 141.55% NASA -15.42% NRC 22.95% DOL stated that NRC is a very small agency, so the increase could be one or two hospitalizations or surgeries. During FY 2005, a small activity, which included about 164 cases, was transferred from the Department of Defense (AODF) to the Office of Personnel Management (OPM). NASA is a small agency with an aggressive workers' compensation initiative that includes safety, timely filing and return to work. They have significantly reduced the number of lost production days due to on-the-job injury.
Compared by agency, benefit payments for the fiscal year ending September 30, 2005 with benefit payments made for the fiscal year ending September 30, 2004, and verified that explanations obtained as of June 30 were consistent with September 30 results.	Benefit payments for the fiscal year ending September 30, 2005 decreased by 1.96% overall from September 30, 2004. Benefit payments increased or decreased by more than 10% for the following agencies: OPM 117.74 % NASA -12.45% The explanations obtained as of June 30, which are shown in the preceding results section, were consistent with the September 30 results.

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Agreed-Upon Procedures & Results

Agreed-Upon Procedures Performed	Results of Procedures
Compared the benefit payments made by each District office for the nine months ended June 30 2005 to the prior year data. We requested explanations from DOL for variances over 10 percent.	For the nine months ended June 30, 2005, benefit payments increased or decreased over the nine months ended June 30, 2004 by more than 10% for the following districts: • DO 03 Philadelphia 18.35% • DO 10 Chicago -10.86% • DO 25 Washington -22.55% • DO 50 National Office -14.72 % DOL stated that cases were transferred from Washington to Philadelphia and Cleveland district offices. Chicago has a high cost catastrophic case. During the October 1 to June 30, 2004 period, two large medical payments were made on the case that totaled over $3 million. The National Office stopped providing routine maintenance for cases awaiting hearing, and returned the jurisdiction of issues unrelated to the hearing to the District offices. Therefore, payments previously processed in the National Office are now processed in the District offices.
Compared by District office, benefit payments for the fiscal year ending September 30, 2005 with benefit payments made for the fiscal year ending September 30, 2004, and verified that explanations obtained as of June 30 were consistent with September results.	As of September 30, 2005, benefit payments increased or decreased from September 30, 2004 by more than 10% for the following districts: •DO 03 Philadelphia 19.6% •DO 25 Washington DC -17.3% The benefit payments decreased overall by .3% from September 30, 2004 to September 30, 2005. The explanations obtained as of June 30, which are shown in the preceding results section, were consistent with the September results.

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Agreed-Upon Procedures Performed	Results of Procedures
Calculated a 12-month projected benefit payment based on the April 30, 2005 iFECS and CBP databases (7 months). Compared the projected 12-month total benefit payments to the actual 12-month total benefit payments for the year ended September 30, 2005.	The actual 12-month total benefit payments were 7.45% less than the 12-month projection for the fiscal year ending September 30, 2005.
Compared the FY 2005 4th quarter benefit payment estimate to the actual benefits paid for the 4th quarter per the iFECS and CBP databases.	Compared 4th quarter benefit payment estimate to the actual 4th quarter benefit payments per the databases resulting in a $32 million variance (5.5%).
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 for the fiscal year ended September 30, 2005.
Obtained and reviewed the most recent Independent Service Auditors' Report on the ACS Central Bill Processing System.	An Independent Service Auditors' report on the ACS Central Bill Processing System for the period ending April 30, 2005 was obtained and reviewed. These results have been incorporated into the Independent Service Auditors' Report on the Integrated Federal Employees' Compensation System and Central Bill Process, dated September 15, 2005, and issued to DOL and Federal agencies with responsibilities under the FECA program.

Appendix

ACRONYMS and ABBRVIATIONS

ACS	Affiliated Computer Services
AODF	All Other Defense
AUP	Agreed Upon Procedures
CBP	Central Bill Processing System
CFO	Chief Financial Officers' Act
COLA	Cost of Living Allowance
CPI-Med	Consumer Price Index for Medical
DHS	U.S. Department of Homeland Security
DOJ	U.S. Department of Justice
DOL	U.S. Department of Labor
ESA	Employment Standards Administration
FECA	Federal Employees' Compensation Act
IBNR	Incurred But Not Reported
iFECS	Integrated Federal Employees' Compensation System
LBP	Liability to Benefits Paid
NASA	National Aeronautics and Space Administration
NRC	Nuclear Regulatory Commission
NSF	National Science Foundation
OMB	Office of Management and Budget
OPM	Office of Personnel Management
OWCP	Office of Workers' Compensation Programs
SBA	Small Business Administration
SFFAS	Statement of Federal Financial Accounting Standards
SSA	Social Security Administration
USAID	U.S. Agency for International Development
USPS	U.S. Postal Service