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Hearing Title:
"FECA Reform and Oversight:
Prioritizing Workers, Protecting Taxpayer Dollars"

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Good morning, Chairman Mackenzie, Ranking Member Omar, and distinguished Members of the Subcommittee. Thank you for the opportunity to testify on the work of the U.S. Department of Labor (Department or DOL) Office of Inspector General (OIG) in the Federal Employees' Compensation Act (FECA) program.

Today, I will highlight the important work the OIG has done over the years to combat fraud, waste, and abuse in the FECA program, including our recent efforts involving its pharmaceutical program. I will also discuss the OIG's recommendations to the Department and Congress to improve program integrity, efficiency, and fraud prevention. The views expressed in my testimony are based upon the independent and objective work of the OIG and are not intended to reflect the Department's position.

Overview of the FECA Program

In 1916, Congress protected workers under the Federal Employees' Compensation Act. Today, the FECA program provides workers' compensation coverage to approximately 3 million federal employees around the world for employment-related injuries and occupational diseases. This includes all civilian employees of the United States in the executive, legislative, and judicial branches, as well as some additional groups such as state and local law enforcement officers acting in a federal capacity and Peace Corps volunteers.

Covered employees—such as FBI and border patrol agents, safety inspectors, firefighters, nurses and doctors, and mail carriers—who sustain job-related injuries or illnesses are entitled to receive several benefits through FECA. For example:

- A veterans' nurse who is injured while moving a patient may be eligible for medical care and partial wage replacement while recovering from the injury.
- A federal firefighter with a chronic illness—such as COPD from prolonged smoke exposure—may receive vocational rehabilitation and retraining for a more suitable job.
- The spouse and dependents of a border patrol agent who is killed in the line of duty may be eligible for survivor benefits.

These benefits ensure federal employees receive necessary support and compensation after job-related injuries or illnesses.

FECA provides payments for lost wages, permanent impairments, and survivor benefits. It also covers medical services, prescriptions, and equipment necessary to treat qualifying conditions. Employing agencies must reimburse the costs of workers' compensation benefits paid to their employees, as well as administrative costs, under FECA. Each year, federal agencies—including the United States Postal Service (USPS)—are billed through a chargeback process. In Fiscal Year (FY) 2024, the FECA program provided approximately $2.9 billion in compensation and $851 million in medical benefits to more than 178,000 claimants for work-related injuries or illnesses.

DOL's Office of Workers' Compensation Programs (OWCP) is responsible for administering the FECA program and ensuring it serves injured workers in an efficient and effective manner. Importantly, federal employees or their surviving dependents are not entitled to sue the government for work-related injuries or death. Although they may appeal their claims to OWCP and the Employees' Compensation Appeals Board for additional review, FECA benefits constitute their sole remedy.

Therefore, it is incumbent upon OWCP to promptly adjudicate claims, properly pay medical bills and compensation in accepted cases, and help employees return to work. Equally important, OWCP must ensure taxpayers only pay for—and federal workers receive—medical benefits, including prescription drugs, that are safe, effective, necessary, and economical.

OIG FECA Work Over the Years

Mr. Chairman, due to the program's cost and importance to injured federal employees, the OIG has dedicated significant resources to investigating and auditing the FECA program.

Our work has shown that FECA—especially the medical benefits portion—is vulnerable to fraud, waste, and abuse. Since 2016, we have listed medical benefit management under FECA as one of DOL's Top Management and Performance Challenges.[1] Our recent investigations have focused on doctors and pharmacists who defrauded the federal government by billing for services not rendered or necessary, charging multiple times for the same procedure, billing for non-existent illnesses or injuries, overcharging for prescriptions or services, and participating in kickback schemes. We also investigated claimants who defrauded the program by reporting false injuries, by continuing to claim benefits after they recovered from their injuries, and by failing to report or under-reporting income from outside employment to OWCP.

Since FY 2015, the OIG has opened more than 320 criminal investigations involving the FECA program. Our FECA investigations have resulted in the indictment and conviction of 322 individuals, including a significant number involving medical provider fraud, producing more than $1.7 billion in monetary results.

Also, since FY 2015, we have issued 33 audit reports or memoranda covering various aspects of the FECA program. These reports included 79 recommendations for improving the FECA program. Our most recent audit found OWCP overspent hundreds

[1] U.S. Department of Labor's Top Management and Performance Challenges (November 2024), available at: https://www.oig.dol.gov/public/DOL-OIG%202024%20Top%20Management%20and%20Performance%20Challenges_Final.pdf

of millions on prescription drugs and allowed inappropriate, potentially lethal prescriptions for FECA claimants from FYs 2015 through 2020.

Investigations and Fraud Trends

Combatting fraud in the FECA program has been a long-standing priority for the OIG, and investigating medical provider fraud—which can lead to higher financial losses—remains our primary focus in this area.

In early 2016, DOL-OIG and USPS-OIG uncovered a sharp rise in medical fraud related to compounded drugs, especially pain creams. Pharmacists create compounded drugs by combining, mixing, or altering the ingredients of commercially available drugs to fit the needs of individual patients. However, without standard pricing rules, they often billed FECA exorbitantly—far beyond the cost of the ingredients.

While OWCP has since implemented safeguards like prior authorization and prescription limits, the OIG continues to investigate compounding fraud. For example, the OIG and our partners at USPS-OIG, U.S. Department of Veterans' Affairs-OIG, and Internal Revenue Service Criminal Investigation recently obtained the highest forfeiture ever obtained in a healthcare fraud case.[2]

In February and March 2025, two Texas pharmacy owners were sentenced for their roles in a $158 million scheme to defraud OWCP through the submission of fraudulent claims for prescription compound creams. The owners were sentenced to 210 and 180 months in prison. Both were ordered to pay restitution of more than $115 million jointly and severally. Additionally, the court ordered the owners to forfeit $405 million in assets tied to their fraud and money laundering schemes.

The owners and others conspired to pay doctors millions in bribes and kickbacks to prescribe medically unnecessary, expensive compound creams to injured federal workers, prescriptions then filled by their pharmacies. For instance, from May 2014 to March 2017, the pharmacies billed OWCP and a private health insurance company more than $145 million and were paid over $90 million for unnecessary prescriptions received in exchange for illegal bribes and kickbacks.

Trial evidence showed these compounds were being mixed in the back rooms of the pharmacies at a cost to the defendants of around $15 per prescription and then billed to OWCP for as much as $16,000 per prescription.

In another OIG case, between May and July 2024, seven co-conspirators were sentenced to anywhere from 18 to 52 months in prison, with one individual receiving

[2] Office of Public Affairs, U.S. Department of Justice, Texas Pharmacist Sentenced to Over 17 Years in Prison and Ordered to Forfeit $405M in Assets for Defrauding the Department of Labor, press release (March 10, 2025), available at: https://www.justice.gov/opa/pr/texas-pharmacist-sentenced-over-17-years-prison-and-ordered-forfeit-405m-assets-defrauding

time served.[3] The seven men were also ordered to pay restitution, jointly and severally, of more than $59 million for their roles in a wide-ranging healthcare fraud scheme to defraud OWCP, TRICARE, Medicare, and Civilian Health and Medical Program of the Department of Veterans' Affairs.

Three members of the conspiracy were the owners of two compounding pharmacies. Other conspirators were the chief financial officer, the pharmacist-in-charge, and marketers for the pharmacies. From May 2014 to September 2016, the pharmacies formulated expensive compounded medications prescribed for people, including members of the armed forces and injured federal workers. The conspirators recruited a network of marketers, who, in turn, recruited doctors and patients to obtain prescriptions for the compounded medications. Recruiters were paid kickbacks for their recruitment efforts. In addition, doctors were paid kickbacks for writing prescriptions for compounded drugs.

Our investigations also focus on other types of medical provider fraud. For example, an owner of a physical therapy business was convicted of healthcare fraud, wire fraud, and aggravated identity theft and sentenced to 7 years in prison.[4] The physician had engaged in a sustained pattern of "upcoding," which is when a provider performs a service and bills it at a higher price than what was actually performed. Another recent OIG investigation resulted in a 12 year prison sentence for a physician convicted of conspiracy to distribute controlled substances, distribution of controlled substances, and mail fraud. The physician had engaged in the issuance of prescriptions for controlled substances without a legitimate medical purpose.[5] The practices of upcoding and prescribing unneeded medicines are common themes in many of our FECA medical provider investigations.

FECA fraud is not limited to medical providers and pharmacies. For example, one case with our law enforcement partners resulted in a postal employee pleading guilty to making false statements and committing fraud.[6] While claiming FECA benefits for total disability, including for compensation, compounded pain cream, and home health care, she was also observed to be "the living, breathing image of physical activity," traveling

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[3] Office of Public Affairs, U.S. Department of Justice, Pharmaceutical Marketer Sentenced for Compounded Medications Fraud Scheme, press release (July 12, 2024), archived, available at: https://www.justice.gov/archives/opa/pr/pharmaceutical-marketer-sentenced-compounded-medications-fraud-scheme, last accessed April 30, 2025

[4] Western District of Texas United States Attorney's Office, Department of Justice, Judge Sentences San Antonio Businessman to Federal Prison for Health Care Fraud Scheme, press release (December 2, 2019), available at: https://www.justice.gov/usao-wdtx/pr/judge-sentences-san-antonio-businessman-federal-prison-health-care-fraud-scheme

[5] Northern District of Texas United States Attorney's Office, Department of Justice, Arlington Doctor Sentenced to 12 Years in Pill Mill Case, press release (March 24, 2022), available at: https://www.justice.gov/usao-ndtx/pr/arlington-doctor-sentenced-12-years-pill-mill-case

[6] District of New Jersey United States Attorney's Office, Department of Justice, Former U.S. Postal Service Employee Admits Filing False Documents to Receive Over $650,000 in Workers' Compensation, press release (May 4, 2020), available at: https://www.justice.gov/usao-nj/pr/former-us-postal-service-employee-admits-filing-false-documents-receive-over-650000

and working without reporting the earnings.[7] In January 2024, the employee was sentenced to four years' probation and ordered to pay $743,000 in restitution to DOL. Because of the guilty plea, DOL terminated her workers' compensation benefits, which, according to USPS cost savings, saved them $1.3 million in future fraudulent claim payments.

The OIG has seen a recent increase in allegations related to fraudulent billing in physical therapy and home health care services and is investigating the matters accordingly.

Audit Work

Over the past decade, much of our audit work on the FECA program has focused on pharmaceutical spending due to its high risk of fraud, waste, and abuse.

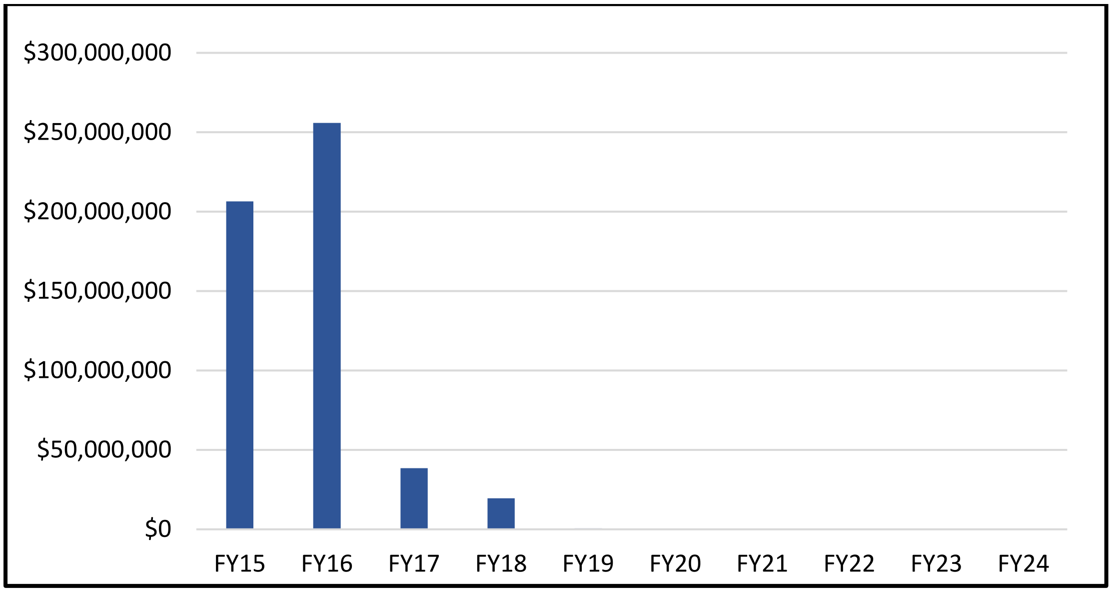
In 2016, USPS-OIG issued a management advisory noting OWCP had been warned more than a year earlier—in January 2015—about rising medical costs. OWCP dismissed the warning, saying the increase was simply "the law of averages catching up." In reality, spending on prescription drugs rose dramatically—from $183 million in FY 2011 to over $436 million in FY 2016. Most of that increase came from compounded drugs, which jumped from about $2 million to $256 million.

In May 2017, we issued an audit report[8] that found OWCP had not effectively managed the use and cost of compounded drugs in the FECA program. During the audit, OWCP began taking steps to improve the integrity of the program, such as requiring Letters of Medical Necessity from medical providers and prior approval for compounded drug prescriptions. As a result, OWCP reported an 84.9 percent decrease in compounded drug spending, from $256 million in FY 2016 to $38.5 million in FY 2017. Our latest analysis of FECA pharmaceutical data indicates the program practically eliminated spending on compounded drugs, spending approximately $100 total in FY 2024 (see Figure 1). This sharp decline raises serious questions about whether earlier billings were medically necessary or appropriate.

[7] Office of Inspector General, United States Postal Service, The Warnings Were Clear, Investigative Case Highlights (March 13, 2024), available at: https://www.uspsoig.gov/investigative-work/case-highlights/warnings-were-clear

[8] Interim Report on Audit of Pharmaceutical Management in DOL Benefit Programs - OWCP Needs Better Controls Over Compounded Prescription Drugs, Report No. 03-17-001-04-431 (May 23, 2017), available at: https://www.oig.dol.gov/public/reports/oa/2017/03-17-001-04-431.pdf

Figure 1: FECA Compounded Drug Spending, FY 2015–FY 2024



Source: OIG analysis of FY 2018–FY 2024 FECA pharmaceutical data as of April 10, 2025; Data for FY 2015–FY 2017 provided by OWCP

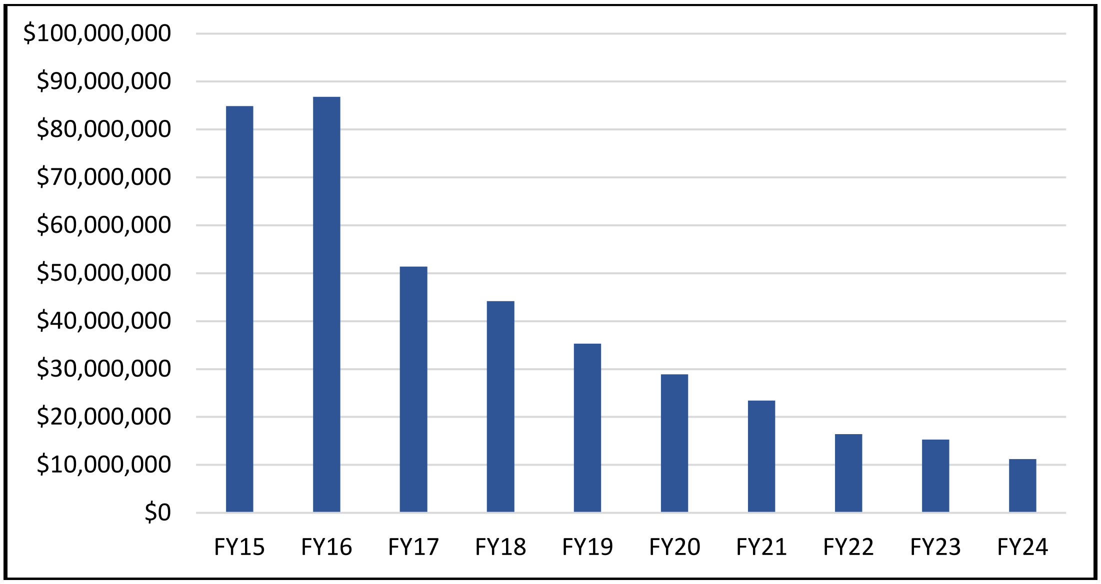
We have also evaluated the impact of opioids on the FECA program. We reported in May 2019[9] that, while OWCP had made progress in addressing our prior recommendations, more action was needed to further reduce the risks involving opioids. We found OWCP's policy on opioids was too permissive and OWCP had not developed sufficient controls to manage opioid addiction. For example, OWCP allowed physicians to initially prescribe opioids to FECA claimants for up to 60 days, while the Centers for Disease Control had reported prescribing opioids for 3 days or less was often sufficient and more than 7 days was rarely needed for the treatment of acute pain. In response to our work, OWCP strengthened controls over opioid prescriptions and began analyzing prescription data, reaching out to physicians when claimants have long-term prescriptions and high dosage levels, and taking a tailored approach with these claimants and their physicians to reduce their opioid usage.

During the COVID-19 pandemic, we audited whether the influx of claims affected OWCP's ability to manage opioid use and timely adjudicate claims. We reported in September 2021[10] that, although we found the timeliness of claims adjudication declined during the audit period, the changes OWCP made to opioid management in response to the pandemic—shifting opioid prescription management resources to the claims adjudication process—did not have a negative impact on opioid use among claimants. We noted that both the number of claimants receiving opioid prescriptions

[9] OWCP Must Continue Strengthening Management of FECA Pharmaceuticals, Including Opioids Report No. 03-19-002-04-431 (May 14, 2019), available at: https://www.oig.dol.gov/public/reports/oa/2019/03-19-002-04-431.pdf
[10] COVID-19: Pandemic Causes Delays in FECA Claims Adjudication, Report No. 19-21-007-04-431 (September 23, 2021), available at: https://www.oig.dol.gov/public/reports/oa/2021/19-21-007-04-431.pdf

and claimants' dosage levels continued their previous downward trends from December 2018 through March 2021. Our latest analysis of FECA pharmaceutical data shows the FECA program has reduced overall spending on opioids from a peak of almost $87 million in FY 2016 to approximately $11.2 million in FY 2024 (see Figure 2).

Figure 2: FECA Opioid Spending, FY 2015–FY 2024



Source: OIG analysis of FY 2017–FY 2024 FECA pharmaceutical data as of April 10, 2025; Data for FY 2015–FY 2016 provided by OWCP

Our most recent report[11] on the FECA pharmaceutical program, issued in March 2023, concluded that OWCP did not effectively manage pharmaceutical spending during the audit period, FY 2015 through FY 2020. Specifically, we found OWCP did not pay the best available prices for prescription drugs and we identified up to $321 million in excess spending during the audit period. In addition, OWCP did not effectively monitor pharmaceutical policy changes to ensure implementation, resulting in claimants receiving thousands of inappropriate prescriptions and potentially lethal drugs, including 1,330 prescriptions for fast-acting fentanyl after issuing a policy that restricted its use.

We also found OWCP failed to timely identify and address emerging issues and did not perform sufficient oversight of prescription drugs that are highly scrutinized and rarely covered in workers' compensation programs. As a result, OWCP spent hundreds of millions of dollars on drugs that may not have been necessary or appropriate for FECA claimants.

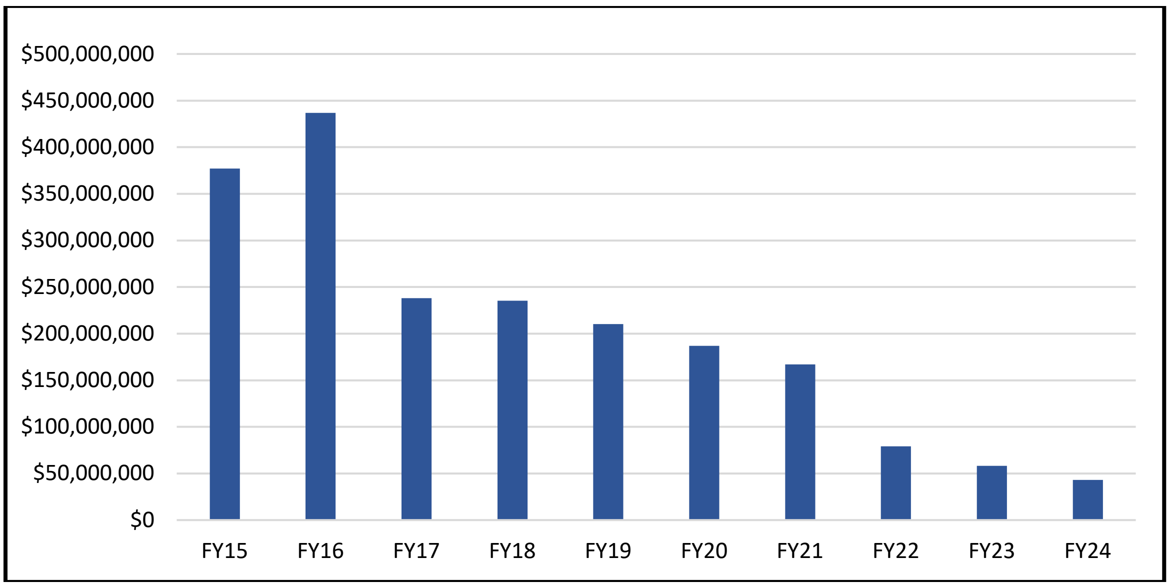
Overall, since 2017, we have made 33 recommendations to OWCP to strengthen management of pharmaceuticals in the FECA program. In addition to taking action on

[11] OWCP Did Not Ensure Best Prices and Allowed Inappropriate, Potentially Lethal Prescriptions in the FECA Program, Report No. 03-23-001-04-431 (March 31, 2023), available at: https://www.oig.dol.gov/public/reports/oa/2023/03-23-001-04-431.pdf

compounded drugs and opioids, OWCP improved the capability of its Program Integrity Unit to identify potential fraud cases by performing targeted reviews of providers based on billing trends and reports from outside partners and stakeholders, which resulted in an increase in referrals to the OIG for investigation. The Program Integrity Unit also began using data analytics and data science to proactively identify unusual payment activity and patterns to better detect and prevent fraud in the FECA program.

Most significantly, in 2021, OWCP contracted with a pharmacy benefit manager that is responsible for pharmaceutical transactions, including implementation of FECA eligibility determinations and pricing for prescription drugs. Combined, these actions have resulted in a significant reduction to overall pharmaceutical spending—from over $436 million in FY 2016 to approximately $43 million in FY 2024 (see Figure 3).

Figure 3: FECA Pharmaceutical Spending, FY 2015–FY 2024



Source: OIG analysis of FY 2017–FY 2024 FECA pharmaceutical data as of April 10, 2025; Data for FY 2015–FY 2016 provided by OWCP

OWCP has addressed our prior recommendations and made strides in reducing prescription drug costs and improving safety for claimants. However, it must continue to maintain proper oversight of the FECA program to ensure the medical benefits it provides are safe, effective, medically necessary, and economical. Specifically, OWCP needs to:

- monitor closely the performance of its pharmacy benefit manager contractor to ensure appropriate price and savings;
- continue to analyze and monitor FECA medical costs and related data to identify risks, trends, and emerging issues before they become critical issues;

- continue to evaluate alternate pricing methodologies and other sources regularly and update its pricing methodology as appropriate to ensure competitive prices;
- continue to monitor the effectiveness of policy and process changes to ensure appropriate implementation; and
- monitor industry best practices adopted by insurance providers and other federal, state, and local agencies to successfully manage medical costs and other workers' compensation issues to identify practices suitable for the FECA program.

Legislative Recommendations

The OIG has also proposed several legislative recommendations to further improve the effectiveness and integrity of the FECA program.

Accessing Earnings Data

Congress should provide DOL statutory access to the National Directory of New Hires and Social Security wage records. Currently, the Department has no direct access to the National Directory of New Hires data and can access Social Security wage information only if the claimant gives it permission. Without this information, OWCP is hampered in being able to determine whether FECA claimants are receiving outside employment income. Granting the Department routine access to these databases would aid in detecting fraud committed by individuals receiving FECA wage loss compensation but failing to report income they have earned. Since 2013, the Government Accountability Office (GAO) has had an open recommendation for Congress to consider granting DOL additional authority to access wage data to help verify claimants' reported income and ensure the proper payment of benefits.

Moving the 3-Day Waiting Period

FECA legislation provides for a 3-day waiting period, intended to discourage the filing of frivolous claims. Prior to being amended in 1974, the FECA statute required employees to use 3 days of accrued sick leave, annual leave, or leave-without-pay before they could begin receiving compensation for a work-related injury.

An amendment in 1974 added a continuation-of-pay provision allowing federal employees up to 45 calendar days of continued pay following a traumatic work-related injury. The intent of this provision was to eliminate interruption of the employee's income while OWCP processed the claim; however, the amendment placed the waiting period at the end of the 45-day continuation-of-pay period, thereby negating its purpose. The number of FECA claims escalated sharply after these changes, according to a 1979 GAO report. GAO found placing the 3-day waiting period at the end of the 45-day period encouraged employees to file claims for minor and short-duration injuries that might have otherwise been eliminated.

Legislation that passed in 2006 placed the waiting period for postal employees immediately after an employment-related injury and before the 45-day continuation of pay period. If the intent of the law is to ensure a true waiting period before an employee applies for benefits, then that period should likewise come immediately after an employment-related injury—for all federal workers, not exclusively postal employees.

Suspending Medical Providers Under Indictment

While FECA regulations allow OWCP to automatically exclude a provider who has been convicted of fraud from participating in the FECA program, it cannot automatically suspend payments to a provider who has been criminally indicted for alleged fraudulent billing practices. OWCP can pursue a government-wide non-procurement suspension, but this process and the various procedures involved can be lengthy and relies on the Department's Suspension and Debarment Official, delaying OWCP's ability to protect the FECA program from medical providers alleged to have engaged in fraudulent billing practices. Legislative changes are necessary to enable DOL to automatically suspend all medical providers who have been indicted for alleged fraudulent billing practices from providing further medical services and receiving payments from the program until the indictment is resolved.

Conclusion

Mr. Chairman, our oversight work has shown that the FECA program is vulnerable to fraud, waste, and abuse. Taxpayers and federal workers deserve a program that is cost-effective, free from fraud, and provides safe and medically necessary treatment for workers. While the Department of Labor has made substantial improvements to the FECA program over the past 10 years, proper programmatic oversight must continue to ensure the medical benefits provided are safe, effective, necessary, and economical. As such, the OIG will continue to work with the Department, Congress, and our law enforcement partners to ensure all vulnerabilities are addressed and all available remedies are pursued.

Thank you for the opportunity to testify at today's hearing. I would also like to take a moment to thank the dedicated employees of the OIG, who continue to work tirelessly in support of the agency and our essential oversight mission.

I would be pleased to answer any questions you may have.