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REPORT TO THE CONGRESS

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Need For A Faster Way To Pay Compensation Claims To Disabled Federal Employees

B-157593

Department of Labor

*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

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NOV. 21, 1973



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-157593

To the Speaker of the House of Representatives
and the President pro tempore of the Senate

Our review of the Department of Labor's administration of the Federal Employees' Compensation Act showed that there was a need for a faster way to pay compensation claims to disabled Federal employees.

We made our review pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

We are sending copies of this report to the Director, Office of Management and Budget; the Secretary of Labor; and the heads of other departments whose activities are discussed in the report.

A handwritten signature in cursive script that reads "James B. Stacks".

Comptroller General
of the United States

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ABBREVIATIONS

GAO	General Accounting Office
OFEC	Office of Federal Employees' Compensation

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

NEED FOR A FASTER WAY
TO PAY COMPENSATION CLAIMS
TO DISABLED FEDERAL EMPLOYEES
Department of Labor B-157593

D I G E S T

WHY THE REVIEW WAS MADE

Because of concern in the Congress and the Department of Labor and among Federal employees, GAO looked into the causes for delays in a disabled employee's receiving his first compensation payment and how the delays could be reduced.

Background

When a Federal employee gets hurt on the job and cannot work, his regular salary checks stop unless he takes annual or sick leave. The Federal Employees' Compensation Act is intended to overcome this hardship by compensating him until he returns to work.

To be compensated, the disabled employee must file a claim. Because of paperwork delays and sharply increasing workloads, several weeks of claim-processing time can go by before a disabled employee gets his first compensation check.

The Department's Office of Federal Employees' Compensation (OFEC) administers the act through its headquarters and 10 district offices. During fiscal year 1972, OFEC processed 26,459 injury claims and 315 fatality claims and paid \$186.6 million in compensation.

Claims are processed in two phases--external and internal lags. External lag is from the time the employee is injured and his pay stops

until OFEC receives his completed claim and medical report. Internal lag is from the time OFEC receives the completed claim until it approves the claim for payment. (See p. 8.)

FINDINGS AND CONCLUSIONS

On the average, lags ranged from 49 to 70 days. This means the disabled employee may have waited 4 or more weeks for his first compensation check. (See p. 9.)

External lag usually is two to three times longer than internal lag. Representatives of various agencies attribute a small part of this external lag to understaffing of the agency groups that handle claims and a large part to the disabled employee and his supervisor who often

--are lax in completing the required forms

--submit incomplete or inaccurate data, and

--possibly do not know their rights and responsibilities. (See pp. 9 and 10.)

Internal lag occurs because OFEC often does not get the data it needs before it can approve claims and because it does not have enough manpower to handle the increasing number of claims. (See pp. 10 to 12.)

The current system for paying compensation falters and lags occur when the involved parties do not promptly meet their responsibilities. Even if OFEC were to increase its staff to handle the increased number of claims, the overall lag would not be reduced significantly since a large part of it would still be external and beyond OFEC's control.

What is needed, then, is a new system.

Alternative system

A new system could take either of two forms.

--Each agency could keep the disabled employee in a pay status at a reduced rate of pay pending OFEC's approval of his claim. (See pp. 13 and 14.)

--OFEC could approve the disabled employee's claim immediately upon its receipt. (See p. 14.)

House bill 10096, introduced in the first session of the 92d Congress, proposed that each agency pay the claims of its employees. House bills 1203 and 9118, introduced by Congressmen Samuel S. Stratton and Dominick V. Daniels, respectively, in the first session of the 93d Congress, made similar proposals. Hearings have recently been held on House bill 9118; House bill 1203 has been referred to committee.

Under either system, the agencies would pay some claims that, upon review, OFEC would disapprove. This is not a significant problem because

--OFEC currently approves 90 percent

of the claims it receives and

--the Government could recoup such payments by withholding the disabled employees' salaries, retirement benefits, or leave balances when they return to work. (See p. 14.)

Either system would be an improvement over the current system because each would substantially decrease or would eliminate the payment delays being experienced by disabled employees. Either system also would benefit the disabled employees without sacrificing the control necessary to protect the Government's interest.

RECOMMENDATIONS

GAO recommends that the Congress favorably consider legislation that would reduce the lag in compensation payments outlined in this report. GAO favors the first alternative system, because it is a faster way to pay disabled Federal employees.

AGENCY ACTIONS AND UNRESOLVED ISSUES

The Department essentially endorsed GAO's report and said that the legislative proposal to have each agency pay its employees' claims was similar to one often discussed within the Department. The Department is presently considering the proposal as part of its planning process for the next 4 fiscal years.

Subsequent to officially commenting on the report, representatives of the Department appeared before a Congressional committee to discuss House bill 9118. In a prepared statement, they recommended against enactment of a provision in House

bill 9118 that would permit employees to receive compensation from their employing agencies up to 90 days after injury, the rationale being that this procedure would not result in any material change in processing claims.

Claims-processing time may not be noticeably improved by the procedures GAO is recommending. However, the delay in payments is the major issue and this would be substantially minimized since payment would not be contingent upon completing claims processing. The suggested approaches would alleviate any potential financial instability for the disabled employee.

The Department is studying other options for hastening the claims-processing procedure. That problem, one of long standing, has been studied in the past but no corrective action has been taken. GAO feels that the approaches presented in this report offer the best and most immediate solution to the problem of delayed compensation payments and should be tried.

The agencies that would be affected

by either proposal generally preferred the proposal to have agencies pay claims immediately. One agency would expand that proposal to allow agencies to handle both medical and compensation payments; another said that the proposal would necessitate an extensive revision of its compensation procedures. One agency favoring OFEC's immediate payment of claims did so because, in its opinion, the workload impact on agencies would be minimized. (See pp. 15 and 16.)

GAO did not determine the impact that either proposal would have on agency workloads. Neither did the agencies' informal comments provide any substantive data supporting increased workloads.

MATTERS FOR CONSIDERATION
BY THE CONGRESS

In considering legislation to implement our recommendation, the Congress should clearly spell out the Government's right to recover any invalid or erroneous payments made under the immediate-payment procedure.

CHAPTER 1

INTRODUCTION

Federal employees or their survivors are entitled, by law, to certain benefits for job-related disabilities or deaths. These benefits are

- compensation for loss of wages,
- dollar awards for bodily impairments or disfigurements,
- medical care for injuries or diseases,
- rehabilitation services, and
- compensation for survivors.

OFFICE OF FEDERAL EMPLOYEES' COMPENSATION

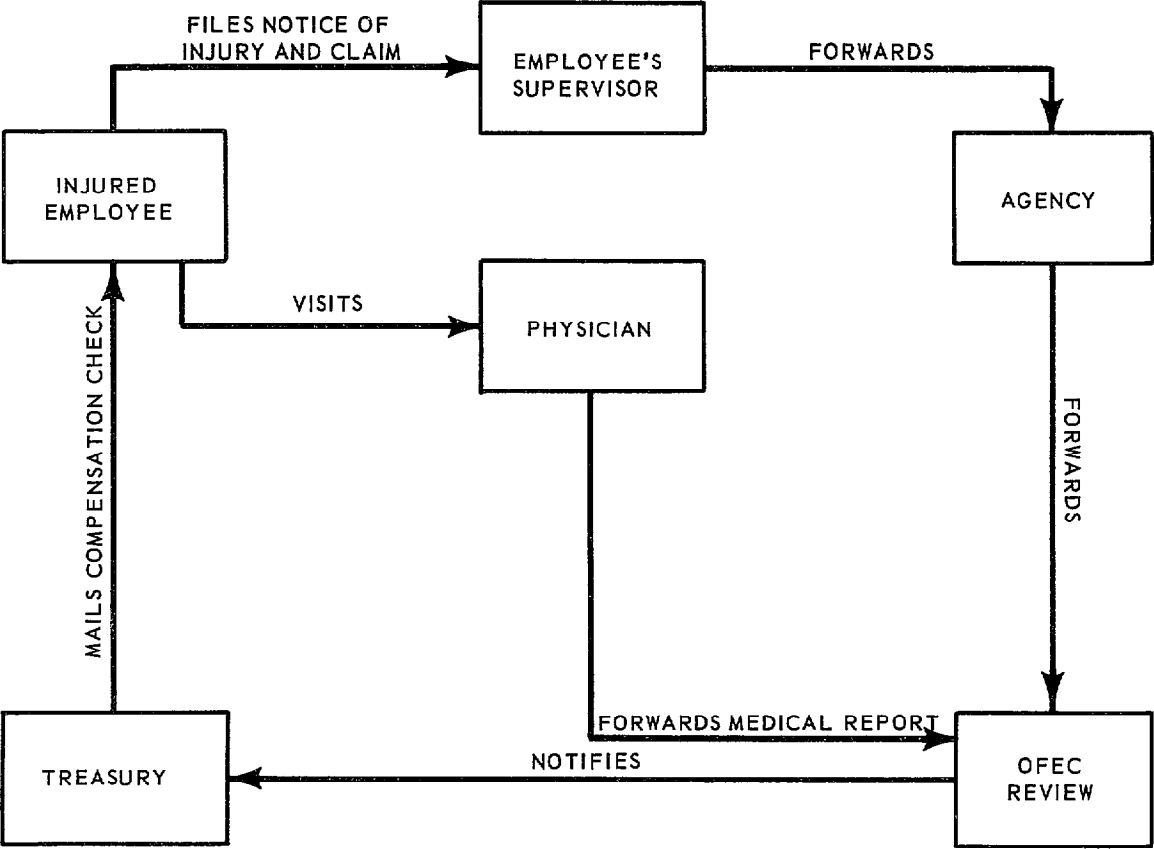
The Office of Federal Employees' Compensation (OFECC) administers the Federal Employees' Compensation Act. During fiscal year 1972, OFECC received an overall 815,000 pieces of mail, including 26,459 new injury claims, 315 fatality claims, an estimated 18,500 claims for continuance of compensation, and approximately 250,000 medical bills. In that year OFECC paid \$186.6 million in compensation, including compensation for over 27,500 long-term cases.

COMPENSATION CYCLE

When an employee is injured on the job, he is required to notify his supervisor who, in turn, must notify OFECC. (See illustration on p. 6.) If the employee obtains medical treatment, his physician is required to forward a report of his examination to OFECC. If the claim is approved, the employee generally receives monthly checks equal to two-thirds of his gross pay (three-quarters, if he has one or more dependents) until he returns to work.¹

¹An employee may elect to go on annual or sick leave in lieu of claiming compensation. He may later claim and receive compensation for the period during which he used leave, but he must refund any amount he received over and above the compensation that he would have been paid. He then is credited with any leave he took. OFECC believes that this procedure is not extensively used because of the bookkeeping problems involved.

THE COMPENSATION CYCLE



About 90 percent of all initial claims involve uncontested, traumatic injuries, of which about 70 percent involve temporary disability for less than 90 days. These claims also involve a relatively smaller amount of initial adjudicatory time, provided that all necessary information is received with the claim form. Processing and initial adjudication should take a relatively short time; however, they may take several weeks. In turn, compensation payments to the disabled employees are delayed.

SCOPE OF REVIEW

We directed our review to

--the delay between the time an employee is injured and stops work and the time he receives his first compensation check and

--what can be done to significantly reduce this delay.

We reviewed records at OFEC headquarters and district offices and held discussions with responsible OFEC officials and with representatives of local installations of the United States Postal Service; Veterans Administration; and Federal Aviation Administration, Department of Transportation.

CHAPTER 2

FIRST-PAYMENT LAG

Most Federal employees, like other salaried employees, live on a regular financial basis structured around their paychecks. They depend on this steady income to cover day-to-day household expenses, such as rent or mortgage payments, food bills, insurance, and automobile payments. Delays of even a few days may cause them temporary difficulties in meeting their financial obligations. When a Federal employee is disabled and unable to earn his salary, this temporary difficulty may become prolonged hardship. Disability compensation is intended to alleviate this hardship. The goal then, should be to provide a disabled employee with his first compensation check no later than the date he would normally receive his regular paycheck.

The current compensation system falls far short of this goal. The employee who is injured on the job and unable to return to work for a long time and who does not take leave may wait from 4 to more than 6 weeks for his first compensation check.

FIRST-PAYMENT LAG

Claims are processed in two phases--external and internal lags.

External lag is from the time the employee is injured and his pay stops until OFEC receives his claim and medical report.

Internal lag is from the time OFEC receives the complete claim until it approves the claim for payment.¹

¹The final processing phase is the actual payment of the claim. This phase is from the time OFEC certifies the claim to the Treasury Department for payment until the Department mails the compensation check, usually only 2 or 3 days.

Length of external and internal lags

The Director, OFEC, has established goals for external and internal lags. His aims are to (1) receive all claims within 14 days and (2) process 90 percent of the claims within 7 days and 100 percent within 14 days.

Since September 1971 OFEC has periodically checked external and internal lags in its district offices. Although lags have varied from office to office and from period to period, the total lag has never averaged less than 48.9 days.

<u>Test month</u>	<u>Average number of days</u>		
	<u>External lag</u>	<u>Internal lag</u>	<u>Total</u>
September 1971	40.4	13.4	53.8
December 1971	37.4	18.6	56.0
February 1972	38.0	10.9	48.9
May 1972	36.6	19.2	55.8
August 1972	49.0	21.1	70.1
November 1972	38.2	20.9	59.1
February 1973	34.5	19.3	53.8

More significant from the viewpoint of the injured employee is the income lag--the time the employee is without any income, either salary or compensation--which is from the time he receives his last pay check until he receives his first compensation check or his first paycheck after returning to work, whichever comes first. The income lag is about 21 days less than the total lag shown above.

According to our review of a sample of the 1,300 claims paid in OFEC's New York district office between February and July 1972, the average lag was 50.6 days, equally divided between external and internal lag, and the average income lag was 32.6 days. About one-third of all claims OFEC received, nationwide, were internally processed within 8 days.

Causes of external lag

Usually one person or a group in the personnel department is responsible for coordinating injury information. Such coordinators receive and monitor all claims and related information from employees and review them for accuracy and completeness.

We tried to determine the reasons for external lag at local installations of the United States Postal Service, the Veterans Administration, and the Federal Aviation Administration. These agencies did not have information systems which would reveal the exact causes. On the basis of their experience with the claim submission process, they suggested the following reasons.

- Employees were lax in obtaining, completing, and submitting required forms.
- Employees tended to leave work immediately after they were injured, which delayed the required paperwork.
- Some supervisors gave priority to their normal duties and tended to ignore claim paperwork.
- Information some employees and/or supervisors submitted was incomplete or inaccurate.
- Agency groups responsible for handling claims were understaffed, which hampered identification of, and followup on, slow-moving cases.
- Employees and/or supervisors lacked full knowledge of their rights and responsibilities.

Federal regulations suggest that an agency hold an employee's claim for 10 days before forwarding it to OFEC, to allow issuance of a more substantial initial compensation check.

Causes of internal lag

The major causes of internal lag are (1) inadequate manpower and (2) lack of information needed to review and approve claims promptly.

Inadequate manpower

From 1963 to 1972, OFEC's work force remained at a relatively constant level but the number of claims more than doubled.

<u>Fiscal year</u>	<u>Number of claims</u>	<u>Estimated number of OFEC employees</u>
1963	13,109	381
1964	13,379	402
1965	13,399	404
1966	13,570	384
1967	15,317	388
1968	17,102	400
1969	17,885	388
1970	17,795	350
1971	20,987	441
1972	26,774	400

Most of OFEC's work force are administrative and support employees who have little responsibility in the claim review process. Claims are reviewed and approved mainly by 110 skilled, higher grade claims examiners. Because the size of the OFEC staff did not keep pace with the rapidly growing workload, a substantial backlog of cases resulted, which further delayed internal claim processing. During fiscal years 1970-72, the number of claims increased, staffing figures fluctuated; and the backlogs for those 3 years were 31,557, 18,776, and 22,880 cases, respectively.

OFEC has estimated that, to reduce the backlog to a workable level and to achieve the goal of processing 90 percent of all claims within 7 days, more than 100 additional employees would be required, about 40 of whom should be claims examiners.

Lack of information

If it receives all necessary information in proper form, OFEC can review a claim in less than 30 minutes. Many cases, however, actually must be reviewed more than once. According to OFEC representatives, inaccurate, incomplete, or contradictory information was the primary cause of internal lags because OFEC often had to hold the claims until it received complete or correct information.

The major types of information lapses which prevented OFEC's immediately approving claims were contradictory, incomplete, or inaccurate information on

--medical reports,

- the claim form or notification of injury form,
- pay rates,
- causal relationship between the injury and the job, and
- buy-back of leave.

CONCLUSION

We believe that the current system is hampered most when any of the involved parties do not meet their responsibilities promptly. Even if OFEC were to hire additional employees to handle the increased number of claims, the overall lag would not be reduced significantly since a large part of it would still be external and beyond OFEC's control.

CHAPTER 3

ALTERNATIVE SYSTEMS FOR PAYING COMPENSATION

A system which pays disabled employees' claims immediately would, of course, eliminate any interruption in their incomes, although it would not do away with lags in processing claims. Neither proposal discussed below would substantially diminish OFEC's workload.

Immediate-payment procedures are not without precedent in the Government. The Internal Revenue Service, for example, annually refunds billions of dollars to taxpayers before auditing selected tax returns. Similarly, the Government can make progress payments to contractors before they deliver contract items.

Because the Federal Employees' Compensation Act requires that payment be made only after claims are adjudicated, new legislation would be required before either of the proposals could be adopted.

IMMEDIATE PAYMENT BY AGENCIES

One alternative would be to have each agency pay its employees' claims. Under this system the agency would keep the disabled employee in a pay status at a reduced rate of pay pending the filing of a claim by the employee and its review and approval by OFEC.

House bill 10096 embodying this basic proposal was introduced in the first session of the 92d Congress. The bill proposed that each agency pay a disabled employee at his usual compensation rate up to 90 days after injury. The payments would start immediately upon injury and would be made pending the normal filing of a claim by the employee and its approval by OFEC. The Department of Labor has made similar proposals in the past. House bills 1203 and 9118, introduced by Congressmen Samuel S. Stratton and Dominick V. Daniels, respectively, in the first session of the 93d Congress, made similar proposals. Hearings were held on House bill 9118 in early September, and House bill 1203 has been referred to committee.

Such a system would result in immediate compensation payments and would eliminate lags since payment would not be contingent upon claim processing's being completed. A period of 90 days in which to file, process, and approve a claim appears to be reasonable, inasmuch as OFEC approves nearly every claim within 90 days after the injury.

IMMEDIATE PAYMENT BY OFEC

The second alternative would be to have OFEC approve claims immediately upon their receipt. Although this system is not as extreme as the first alternative, it would result in a 2- to 3-week reduction in the first-payment lag.

Under this system, external processing, and consequently external lag, would remain essentially the same; however, OFEC would authorize payment immediately upon notification of a claim. Payment would be made regardless of whether information was missing from the claim. All claims, of course, would still have to be reviewed and approved--but after payment.

CONTROLS OVER INVALID CLAIMS

Under an immediate-payment procedure, some claims may be paid that, upon OFEC review, will be ruled invalid. This does not appear to be a significant problem, because currently OFEC approves more than 90 percent of the claims it receives. Thus the probability of paying an invalid claim is minimal.

For the few invalid claims which may be paid erroneously, adequate means of recoupment are available. The Government could recoup such amounts by withholding the employees' salaries, retirement benefits, or leave balances when the employees return to work. Our sample showed that more than 90 percent of all injured employees eventually return to work.

Any legislation which institutes an immediate-payment procedure should clearly spell out the Government's right to recover any invalid or erroneous payments made under such procedure.

CONCLUSION

Either of the two alternatives would be an improvement over the current system because it would substantially decrease or would eliminate the payment delays being experienced by injured employees. Either system would benefit the disabled employees without sacrificing the control necessary to protect the Government's interest.

RECOMMENDATION

We recommend that the Congress favorably consider legislation that would reduce the lag in compensation payments outlined in this report. We favor the first alternative system, because it is a faster way to pay disabled Federal employees.

AGENCY COMMENTS

Department of Labor

The Department of Labor essentially endorsed our report and said that the proposal to have each agency pay the claims of its employees was similar to one often discussed within the Department and presently being considered as part of its planning process for the next 4 fiscal years. Specific language changes were recommended by the Department for clarity, and we have incorporated these changes in this report.

Subsequent to officially commenting on the report, representatives of the Department appeared before a Congressional committee to discuss House bill 9118. In a prepared statement, they recommended against enactment of a provision in House bill 9118 that would permit employees to receive compensation from their employing agencies up to 90 days after injury, the rationale being that this procedure would not result in any material change in processing claims.

Claims-processing time may not be noticeably improved by the procedures GAO is recommending. However, the delay in payments is the major issue, and this would be substantially minimized since payment would not be contingent upon completing claims processing. The suggested approaches would alleviate any potential financial instability for the disabled employee.

The Department is studying other options for hastening the claims-processing procedure. That problem, one of long standing, has been studied in the past, but no corrective action has been taken. GAO feels that the approaches presented in this report offer the best and most immediate solution to the problem of delayed compensation payments and should be tried.

User agencies

The Veterans Administration stated that it preferred the first proposal (immediate payment by agencies) but suggested that the workload changes that would be necessitated by the proposal be considered. The United States Postal Service also preferred immediate payment by agencies, provided that the proposal would be expanded to allow the Postal Service to handle all payments, both medical and compensation. The Department of Defense endorsed the second proposal (immediate payment by OFEC) but noted that the Navy preferred the first proposal.

The principal objections of the Department of Defense to the first proposal were that it felt that the workload of the Department would be increased because disbursing officers would tend to require installations to acquire some degree of claims adjudication skill and because the payback procedures would cause some problems. However, our proposal does not visualize any change in the adjudicative process; adjudication would still be an OFEC function. It would simply be performed after, rather than before, the fact.

The Veterans Administration and the Postal Service made additional proposals beyond the present recommendations. Both would eliminate the present practice of initially charging a Department of Labor appropriation and subsequently charging back the cost of claims to agencies. Since we did not include the present charge-payback procedures in our study, we are not commenting on those proposals.

PRINCIPAL OFFICIALS OF
THE DEPARTMENT OF LABOR
RESPONSIBLE FOR THE ADMINISTRATION OF
ACTIVITIES DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
SECRETARY OF LABOR:		
Peter J. Brennan	Feb. 1973	Present
James D. Hodgson	July 1970	Feb. 1973
DIRECTOR, OFFICE OF FEDERAL EMPLOYEES' COMPENSATION:		
Herbert A. Doyle, Jr.	Dec. 1972	Present
Herbert A. Doyle, Jr. (acting)	Sept. 1971	Dec. 1972

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