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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

HUMAN RESOURCES DIVISION

B-215152

MAY 21, 1984

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The Honorable Susan R. Meisinger
Deputy Under Secretary for
Employment Standards
Department of Labor

Dear Ms. Meisinger:

Subject: Office of Workers' Compensation Programs Needs To Improve Procedures To Help Reduce Payment Errors and Identify Dual Payments (GAO/HRD-84-63)

We have completed our survey of payment and collection activities administered by the Division of Federal Employees' Compensation, Office of Workers' Compensation Programs (OWCP). We evaluated these activities in district offices in Jacksonville, Florida, and Washington, D.C.

We found that incorrect payments were made in about 20 percent (80 of 379) of the payment transactions reviewed. About 5 percent of the benefits paid during our test period were paid in error. Of the $1.4 million paid to beneficiaries, overpayments and underpayments totaled about $69,000.

A few erroneous payments occurred because claimants or their employing agencies did not report events which affected their benefits. However, most errors occurred because claims examiners or other district office personnel did not process, incorrectly processed, or failed to follow up on data in the case files. More than half of the transactions involving errors were reviewed by supervisors or other district office personnel, but they did not detect the errors. In addition, local quality control units, which are responsible for monitoring the effectiveness and quality of local operations, were not required to, and generally did not, review the accuracy of payments.

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Because we used a combination of random and judgmental factors to select the cases sampled and because we reviewed cases in only two district offices, the results of our tests cannot be projected to the universe of compensation claims. It should be noted, however, that (1) the problems our tests found frequently were not identified by OWCP because its quality control procedures related to verifying payment amounts were not adequate and (2) these procedures are applicable to all OWCP district offices. Thus, we believe that OWCP management should improve its quality control procedures to reduce or eliminate these problems.

In addition to the payment problems we identified, Labor's Office of the Inspector General reported that some beneficiaries were overpaid because they improperly received Civil Service retirement benefits at the same time they were receiving benefits under the Federal Employees' Compensation Act (FECA). Because problems related to dual payment errors were being reviewed when we completed our fieldwork, we did not review individual case files to determine why these errors occurred. Regardless of the reasons for the dual payment errors, OWCP could have helped prevent or limit these overpayments if (1) the questionnaire that it mails annually to beneficiaries had requested information on retirement benefits received from the Office of Personnel Management (OPM) or (2) it had made arrangements with OPM to periodically compare benefit rolls.

We also found that claims examiners had not followed debt collection procedures for almost two-thirds (34 of 55) of the accounts receivable cases tested. In September 1983, the Division transferred debt collection follow-up responsibilities from claims examiners to district office fiscal sections. Because our review of these activities occurred before the transfer, we did not evaluate the effect of the transfer. According to Division officials, because debt collection follow-up activities are currently the responsibility of one individual--the district office's fiscal officer--rather than the responsibility of individual district office claims examiners, debt collection activities should receive more emphasis.

RECOMMENDATIONS

We recommend that you:

--Require that staff responsible for quality control activities monitor the accuracy of compensation payments and the effectiveness of local review of payment transactions.

--Establish controls, using revised claimant questionnaires, to help identify OPM retirement benefits received by FECA beneficiaries.

--Coordinate with OPM in conducting periodic comparisons of benefit rolls to identify FECA beneficiaries who are receiving prohibited dual benefits.

Actions by the Employment
Standards Administration

In commenting on the results of our work, Employment Standards Administration officials generally agreed with our findings and conclusions and described several actions that they believe will help improve payment activities. These actions include establishing specific functions and performance standards for local quality control activities and revising claimant questionnaires to request information on benefits paid by OPM. Regarding the problem of individuals simultaneously receiving benefits from OWCP and OPM, OWCP has reminded its district office staffs of existing coordination procedures and is identifying additional actions, such as periodic comparisons of benefit rolls, needed to prevent this problem from occurring in the future.

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The results of our survey are discussed in enclosure I. We would appreciate receiving your comments on the report's contents and on any actions you plan to take on our recommendations. We are sending copies of this report to the Chairmen, Senate Committee on Labor and Human Resources and Subcommittee on Labor Standards, House Committee on Education and Labor; the Director, Office of Personnel Management; and the Inspector General of Labor.

Sincerely yours,

Richard L. Fogel

Richard L. Fogel
Director

Enclosure

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ABBREVIATIONS

FECA	Federal Employees' Compensation Act
OIG	Office of Inspector General
OPM	Office of Personnel Management
OWCP	Office of Workers' Compensation Programs

OFFICE OF WORKERS' COMPENSATION PROGRAMS

NEEDS TO IMPROVE PROCEDURES TO HELP REDUCE

PAYMENT ERRORS AND IDENTIFY DUAL PAYMENTS

BACKGROUND

The Federal Employees' Compensation Act (FECA), as amended (5 U.S.C. 8101), authorizes workers' compensation benefits for federal employees with job-related injuries or diseases. Benefits provided include:

--payments for medical services required as a result of the injury or disease,

--assistance in obtaining employment and vocational rehabilitation,

--compensation for lost wages,

--schedule awards (awards for specific periods of time) for permanent physical impairments to body members identified in the statutes, and

--payments to survivors of employees whose deaths were job related.

Injured employees' compensation for lost wages is computed at either 66-2/3 percent of the claimants' preinjury pay for total disability or, in cases of partial disability, 66-2/3 percent of the difference between the claimants' pay and their wage earning capacity. Compensation benefits increase to 75 percent for injured employees with one or more dependents. Compensation is periodically adjusted for increases in the cost of living.

The Employment Standards Administration's Office of Workers' Compensation Programs (OWCP) administers the FECA program. Within OWCP, the Division of Federal Employees' Compensation (the Division) develops policies and procedures, and 16 district offices approve claims, determine benefit levels, authorize payments, and monitor claims to ensure continued eligibility for benefits.

During fiscal year 1983, OWCP reported that it paid about $150 million in medical expenses and about $770 million in compensation and other benefits to or on behalf of about 250,000 eligible claimants. These benefits are paid from the Employees'

Compensation Fund and, in most cases, are subsequently charged to the agency that employed the injured worker.

The FECA automated payment system includes two major subsystems for paying compensation benefits--the daily roll and the periodic roll. Claimants with short-term injuries are placed on the daily roll and must demonstrate their continued disability before each payment is authorized and processed. Claimants with long-term injuries are placed on the periodic roll and automatically receive compensation checks for each 4-week period. They must, however, periodically submit current data concerning medical condition, dependent status, earnings, and other factors affecting compensation.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our primary objective was to evaluate the accuracy of FECA payments. We selected and reviewed cases at the Jacksonville, Florida, and Washington, D.C., district offices in the following manner.

--We identified about 3,300 payment transactions[1] processed during February and March 1983.

--We judgmentally decided how many transactions of each type (such as benefit terminations and those processed by bypassing certain computer edits) to review and randomly selected case files that contained 58 transactions.

--For the 58 case files selected, we evaluated the accuracy of all payments made during the 2-year period ended June 15, 1983. We did not evaluate OWCP's decisions to approve these claims. In total, the beneficiaries in our sample were paid $1.4 million during this period and their files contained 379 transactions.

Because our survey was limited to 2 of the 16 district offices and because we used judgmental and random factors in selecting our sample, we cannot project our sample results to the universe of FECA payments.

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[1]In general, we considered transactions to be individually authorized actions to start, stop, or change the claimant's payment amount. We did not count periodic roll payments, which are issued automatically every 4 weeks, as transactions.

During our tests of compensation payments, we noted the following two problems which are not discussed elsewhere in this report. First, Labor's payment history records that contain information on amounts paid to individual beneficiaries were inaccurate. Because Labor uses these payment histories to bill employing agencies for compensation and medical expenses incurred on behalf of their employees, the Employees' Compensation Fund has not been accurately reimbursed. We did no detailed work in this area because at the time of our review, the Division and its contractor (a certified public accounting firm) were making an extensive evaluation of the extent and causes of these inaccurate billings.

We also noted several cases where the medical evidence indicated that beneficiaries were no longer totally disabled and OWCP had not established their wage earning capacity. In such cases, OWCP's procedures require claims examiners to initiate this process for reducing partially disabled employees' benefits based on the difference between their preinjury pay and their actual wages or ability to earn wages. We discussed OWCP's wage earning capacity activities in our report to the Secretary of Labor entitled Labor Needs To Adjust Compensation Benefits It Pays Injured Federal Employees To Levels Appropriate To Their Disabilities (GAO/HRD-84-29, Mar. 26, 1984).

To evaluate the Division's collection procedures, we randomly selected 55 of 687 accounts receivable reported outstanding by the Jacksonville and Washington, D.C., district offices as of December 31, 1982. At that time, the two offices reported accounts receivable valued at about \$3.2 million or 25 percent of the \$12.7 million reported outstanding by OWCP. For each case selected, we compared all collection efforts documented in the employee's case file with OWCP's collection procedures.

To determine whether debts existed that were not recorded in accounts receivable records, we reviewed these records to determine whether receivables had been established for overpayments that Labor had identified in the 58 cases we had selected for review. We identified 10 overpayments. In all 10 cases, OWCP either had established, or was in the process of establishing, an account receivable, or had collected the debt by the time we examined the receivable records.

We reviewed the provisions of FECA related to payments; OWCP accountability review reports and Office of Inspector General (OIG) reports related to payment and collection activities; the Division's written policies, procedures, and instructions; and other pertinent documents and records related to payments.

We also interviewed claims examiners, their supervisors, and other district office, Division, and OWCP officials responsible for payment activities.

We did not evaluate the management, general, or application controls related to the payment system's automated data processing components. However, we indirectly tested the effectiveness of these controls by evaluating the Division's procedures to establish or change payment amounts for the compensation transactions included in our sample. Otherwise, our survey was made in accordance with generally accepted government audit standards.

MANY PAYMENTS WERE INCORRECT

Of the 379 transactions we examined, 80 (21 percent) resulted in overpayments and underpayments totaling about $69,000 (5 percent of the $1.4 million paid). In seven cases, the incorrect payments occurred because claimants did not report or delayed reporting events which affected their benefit levels. In the remaining 73 cases, errors occurred because district office personnel did not process, incorrectly processed, or failed to follow up on data which we found in the case files. Clerical errors were often not detected by supervisors or other designated reviewers of payment transactions. Local quality control units generally did not verify payment accuracy or the effectiveness of supervisory review procedures.

Information on the number of transactions causing erroneous payments and the amounts and causes of these incorrect payments is shown below.

Causes of Incorrect Transactions

Description	Overpayments Number	Overpayments Amount	Underpayments Number	Underpayments Amount	Total Number	Total Amount
Documents not processed	4	$22,581	12	$ 4,912	16	$27,493
Processing delayed for 1 to 3 months	2	5,070	1	40	3	5,110
Erroneous processing						
--Data used incorrectly	17	9,803	13	7,845[a]	30	17,648
--Calculation error	4	1,056	2	293	6	1,349
--Data entry error	4	1,533	4	2,058	8	3,591
Needed data not requested	3	6,722	1	475	4	7,197
Required data not provided by agencies or claimants[b]	3	3,804	4	11[a]	7	3,815
Other	0	0	6	3,160	6	3,160
Total	37	$50,569	43	$18,794	80	$69,363

[a]For one transaction in each category, we could not determine the amount of the underpayment.

[b]Although these transactions were incorrect, OWCP's claims examiners were not responsible for the problem. In these cases, the employing agency or the claimant failed to provide OWCP with information needed to adjust the benefit level. For example, one claimant continued to receive compensation benefits because he did not inform OWCP of his postinjury employment.

Of the 80 incorrect transactions in our test cases, 30 (38 percent) were identified and corrected by Labor. The remaining 50 were identified during our review.

In addition to the 80 incorrect transactions in our sample, 13 beneficiaries in our sample were underpaid an average of $1.29 because the Division used the wrong computer program for paying 1983 retroactive cost-of-living adjustments and thus erroneously deducted a percentage of the health benefit premiums from the beneficiaries' cost-of-living check. All disabled employees on the periodic roll who had health benefit deductions were underpaid. OWCP officials told us they are taking action to prevent this problem from occurring in the future.

Many errors not detected

Most of the errors in our sample cases were clerical errors by district office personnel who did not use or incorrectly used case file data to establish or adjust benefit levels. Because clerical errors occur in any payment system, adequate supervision and quality control are needed to help ensure that documents are processed correctly.

Supervisory claims examiners, designated claims examiners, or in the case of calculations, fiscal personnel are responsible for certifying payment transactions. District office personnel told us that this certification generally includes verifying the payment calculation as well as the case file documentation supporting any changes which affect payments. In addition, each district office is required to maintain a quality control unit to continually monitor adherence to procedures, effectiveness of local operations, and other quality factors.

Although supervisors at both district offices we visited told us that they verified the documentation supporting all payment changes, they did not identify and correct 38 of the 73[2] errors (52 percent) in our test cases. In these cases, claims examiners incorrectly used data to establish or adjust payment amounts, and the reviewers failed to detect the error. For example, one claimant was overpaid more than $5,000 because both the claims examiner and the reviewer authorized a lump sum payment for the entire disability period when case file data showed that the claimant had already been paid sick leave and compensation for part of that period. In another case, the claimant was underpaid over $3,000 because both the claims examiner and the reviewer did not include documented premium pay when calculating the claimant's benefit rate.

Most of the other 35 errors in our test cases were not subject to supervisory review by district office personnel because (1) claims examiners did not act on information which should have resulted in a payment transaction or (2) fiscal personnel entered incorrect information into the automated payment system.

OWCP's procedures require each district office quality control unit to perform certain tests to determine whether local

[2]Seven of the 80 incorrect transactions were not OWCP errors. They resulted from the failure of the claimant or employing agency to provide OWCP with the data needed to adjust the benefit level.

operations are effective. However, none of the required tests include verification that the amounts paid were correct. While Jacksonville's quality control unit had verified the payment accuracy of certain types of transactions, it did not review the accuracy of payment transactions affecting claimants on the periodic roll. The Washington district office had not staffed its quality control unit during most of our test period because of other priorities. In the summer of 1983, staff were assigned to this unit, but their work was limited to processing potential third-party liability cases and to ensuring that other district office personnel performed their assigned duties during overtime hours.

DUAL BENEFIT PAYMENTS CAN BE REDUCED

Some FECA beneficiaries are also eligible for civil service retirement benefits paid by the Office of Personnel Management (OPM). Because simultaneous receipt of compensation benefits for lost wages and OPM retirement benefits is prohibited,[3] beneficiaries must select which of these benefits they wish to receive.

Two of the 58 cases in our sample involved prohibited dual benefits. We classified one case as an error because data in the case file showed that the claimant had elected to receive retirement benefits. The other case was not an error on the part of Labor because the claimant had elected FECA benefits.

In 1983, Labor's OIG compared FECA and OPM benefit rolls, and identified about 1,125 beneficiaries who were on both rolls. According to a February 1984 analysis by the Division, the 1,125 matches included the following:

--about 665 cases which did not have prohibited dual benefits,

--about 230 cases of prohibited dual benefits which had previously been identified by routine coordination procedures between OPM and the Division,

--about 150 cases of OPM overpayments,

--about 50 cases of OWCP overpayments, and

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[3]Simultaneous receipt of certain other benefits, such as FECA schedule awards and OPM annuity payments, are not prohibited.

--about 30 cases for which OWCP and OPM have not determined which agency should collect the overpayment or if a prohibited dual payment existed.

For 38 of the 52 cases where OWCP had computed the overpayment, these overpayments totaled $845,500. For example, a beneficiary was overpaid about $4,500 when he received benefits from both OPM and FECA for 4 months. This error occurred because OWCP continued to pay workers' compensation benefits to this individual after his schedule award expired.

Because an OIG, OWCP, and OPM study group was reviewing dual payment cases when we completed our work, we did not attempt to identify the causes for these dual payments. Regardless of the reasons for specific errors, there are two procedures which could, in our opinion, help to more quickly identify dual payments and thus limit the funds overpaid. First, OWCP could identify FECA beneficiaries who have applied for or received OPM benefits as part of its review of the status of all beneficiaries on the periodic rolls. As part of this review beneficiaries must, at least annually, complete a questionnaire which asks for current data on dependents, employment, and veterans benefits applied for or received. However, the questionnaire does not ask the claimant to report benefits applied for or received from OPM.

In addition, periodic computerized comparisons of the Division's and OPM's rolls could help OWCP more quickly identify prohibited dual benefits.

CLAIMS EXAMINERS WERE NOT ADEQUATELY PURSUING DEBTS

For 34 of the 55 accounts receivables--13 of 30 in Jacksonville and 21 of 25 in Washington--claims examiners did not pursue these debts in the manner specified in the Division's procedures.

Once a debt is established and arrangements to collect the debt fail, Division procedures (that were in effect when we evaluated receivables) called for examiners to send debtors at 30-day intervals a series of three progressively stronger demand letters related to establishing an acceptable repayment plan. If the demand letters were ineffective, claims examiners were required to refer the case to district office, regional office, or Division management to determine if further collection action was warranted.

Claims examiners--in 34 of the 55 cases reviewed--had exceeded the 30-day criteria for taking collection actions sometime during the 1-year period ended in April 1983. For 31 of these cases, delays between collection actions exceeded 3 months, and for 5 of the 31 cases, claims examiners had not taken collection action in over a year.

Claims examiners did not effectively use the Division's automated call-up system, which is designed to identify when follow-up actions are needed. Of the 34 debts that were not promptly pursued during the year, 28 required action as of April 30, 1983. Claims examiners had (1) not established call-ups in 10 cases, (2) established call-ups for excessively long periods in 5 cases, (3) did not respond to call-ups in 8 cases, and (4) responded to call-ups in an untimely manner in 2 cases. For three cases, the call-up records for the time period examined were not available.

According to a Jacksonville district office official, claims examiners did not pursue some debts because they attached a lower priority to collections than to their other duties. A Washington district office official told us that examiners did not give priority to collections.

In September 1983, after the completion of our fieldwork, OWCP transferred debt collection follow-up responsibilities from claims examiners to district office fiscal sections. Before this transfer, fiscal sections' involvement with debt collection activities was generally limited to preparing various records and reports related to accounts receivable.

OWCP officials told us that the transfer--along with previously issued instructions on debt collection activities that had been issued earlier in the year--was made to

--clarify and improve district office debt collection activities,

--assign specific responsibilities for the collection of debts in accordance with the Debt Collection Act of 1982, and

--consolidate all debt collection activities in one section.

These officials told us that transferring debt collection responsibility to district office fiscal sections should improve debt collection activities because (1) debt collection will be the responsibility of one person--the fiscal officer--rather than that of many claims examiners, (2) the fiscal staff, whose workload is declining due to automation, should be able to devote more attention to debt collection than could claims examiners, and (3) collection activities will be concentrated in the fiscal section, thus eliminating previous coordination problems between claims examiners and fiscal staff.

OWCP officials also told us that during fiscal year 1984, they plan to monitor local debt collection activities by assessing the effectiveness of the call-up system that OWCP uses to identify when follow-up actions are needed.

CONCLUSIONS AND RECOMMENDATIONS

About one-fifth of the transactions that we reviewed had errors. Although over half of the transactions with errors were reviewed by supervisors or other district office personnel, the errors were not corrected. OWCP procedures did not require district office quality control units to verify the payment amounts. We believe that district office quality control activities should include tests of payment accuracy to ensure compliance with required certification and review procedures and to identify other local actions needed to limit the frequency and extent of payment errors.

Because of the potential for large overpayments to individual beneficiaries, we believe that additional controls are needed to prevent beneficiaries from inappropriately receiving OPM and FECA benefits at the same time. Revising the annual questionnaire sent to compensation recipients on the periodic roll to identify OPM benefits and periodically comparing benefit rolls with OPM offer feasible methods to prevent or reduce these overpayments.

Claims examiners' efforts to collect debts were not sufficient. However, because OWCP has recently transferred debt collection responsibilities from claims examiners to fiscal officers, we are making no recommendations regarding debt collection.

We recommend that the Deputy Under Secretary for Employment Standards direct OWCP to:

--Require that the staff responsible for quality control monitor the accuracy of compensation payments and the effectiveness of local review procedures.

--Establish controls using revised claimant questionnaires to help identify OPM benefits received by FECA beneficiaries.

--Coordinate with OPM in conducting periodic comparisons of benefit rolls to identify FECA beneficiaries who are receiving prohibited dual benefits.

PROPOSED ACTIONS BY THE EMPLOYMENT STANDARDS ADMINISTRATION

We discussed the results of our work with Employment Standards Administration officials in December 1983. They generally agreed with our findings and conclusions and that increased management oversight was needed to improve FECA payment activities. They stated that the following actions either have been or would be taken to meet this objective.

--The Employment Standards Administration is currently reevaluating FECA quality control activities and plans to establish specific required quality control functions as well as performance standards for district office personnel performing quality control activities. Once established, the Administration plans to ensure--as part of its periodic accountability reviews of district office operations--that quality control activities are effectively implemented.

--The Employment Standards Administration has proposed revisions to its questionnaire to obtain information concerning OPM benefits directly from beneficiaries and has submitted these changes to the Office of Management and Budget for approval.

--OWCP has reminded the district offices of its coordination procedures with OPM and has been participating in a joint evaluation with the OIG and OPM to identify additional actions, including periodic comparisons of benefit rolls, to help prevent future overpayments.