BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

OFFICE OF INSPECTOR GENERAL

March 31, 2005

Ms. H. Fay Peters
Director, Management Division
Board of Governors of the Federal Reserve System
Washington, DC 20551

Dear Ms. Peters:

The Office of Inspector General (OIG) has completed a review of the Board of Governors of the Federal Reserve System's (Board) workers' compensation program. The transfer of the program from a support services function to a human resources activity during the Management Division (MGT) reorganization, and the subsequent retirement of an experienced employee who administered the program for many years, prompted us to initiate this review. Moreover, we believe that the substantial growth in the size of the Board's guard force and the nature of their work increases the Board's risk for additional workers' compensation claims.

Our overall objectives were to (1) assess the Board's compliance with the Department of Labor's (Labor) workers' compensation regulations, and (2) evaluate the program's overall performance and operations. To accomplish the compliance objective, we inspected workers' compensation policies, procedures, and guidance issued by Labor and the Board, and thirty-four active case files as of March 31, 2004. To fulfill our evaluation objective, we interviewed MGT officers, the workers' compensation coordinator, and external agency workers' compensation specialists. In addition, we conducted a literature search and other research to identify best practices in both the public and private sectors. Our work was conducted in accordance with the *Quality Standards for Inspections* issued by the President's Council on Integrity and Efficiency.

Inspection of Workers' Compensation Program Compliance

Board employees are covered by the Federal Employees' Compensation Act (FECA) which pays workers' compensation benefits to federal civilian government employees for disability due to personal injury or occupational disease sustained while in the performance of their official duties. Labor's Office of Workers' Compensation Program (OWCP) administers FECA by approving or disallowing claims, paying benefits, and administering a chargeback system that allocates compensation costs for work-related injuries and deaths back to participating agencies. OWCP guidance specifies that agencies like the Board will perform certain key administrative duties to initiate and support workers' compensation claims, primarily by submitting a variety of forms within prescribed timeframes. For the thirty-four workers' compensation cases that we inspected, we found that the Board fulfilled its responsibilities as outlined in the OWCP

guidelines. In each case, the appropriate workers' compensation forms were prepared and submitted within the timeframes prescribed by OWCP.

Evaluation of the Workers' Compensation Program

Overall, we found that the Board's workers compensation expenses compare favorably to other federal agencies and private entities. For example, the Board's 2003 workers' compensation expenses were approximately $400,000, or .25% of total payroll expenses. In contrast, the 2003 workers' compensation expenses of the federal government and the private sector were significantly higher percentages of payroll, at approximately 1.8% and 2.3%, respectively. Notwithstanding the Board's relatively low workers' compensation expenses, we have identified several recommendations that we believe could augment the program's performance.

Recommendation 1: We recommend that the Director of the Management Division establish a "return-to-work" program for worker compensation beneficiaries.

Our research revealed that a systematic effort to contact and encourage injured employees to return to work as soon as medically feasible is an industry best practice. Although regulations do not specifically require a return-to-work program, OWCP guidance suggests that federal agencies stay in-touch with injured employees while they are receiving compensation. In addition, the guidance also advises that agencies take steps to reemploy recovered or recovering employees in suitable jobs as soon as the medical evidence shows that it is possible. The Board does not have a formal return-to-work program, although the current program coordinator has made an effort to more closely monitor the recovery of injured employees and to maintain regular communication with them. In a recent case, for example, the coordinator worked with an employee and Board supervisors to develop temporary, light-duty tasks that hastened the employee's return to work. While commendable, these arrangements were not made as part of an organized return-to-work effort.

A well-designed, return-to-work program should include policies and procedures that prescribe steps to monitor employees with work-related injuries, and devise alternative work arrangements and accommodations when medical evidence shows that the disability has ended. A Government Accountability Office (GAO) report on return-to-work strategies offers what we believe are concise, but robust, guiding principles for a return-to-work program.[1] Specifically, the guidelines suggest that program officials

- intervene as soon as possible after an actual or potentially disabling event to promote and facilitate return to work, and

[1]GAO report, *Disability: Return-to-Work Strategies from Other Systems May Improve Federal Programs,* Num. HEHS-96-133SSA.

- identify and provide necessary return-to-work assistance and manage cases to achieve return-to-work goals.

Significant benefits can accrue from an active return-to-work program. According to an Office of Personnel Management (OPM) study of workers compensation, early and sustained follow-up emphasizing the availability of modified or light-duty assignments deters claims for long-term disability, and generally reduces overall workers' compensation costs.[2] We believe that the Board should implement a return-to-work program to ensure that every opportunity is taken to bring employees back to work as early as possible.

Recommendation 2: We recommend that the Director of the Management Division establish a formal process to collect and analyze detailed, Boardwide, accident-related data to identify accident/injury trends.

Our review of best practices indicates that an ongoing and systematic review of data generated from workers' compensation injury and illness cases should be an integral component of an agency's health and safety program. Thorough and regular data analysis provides important insights into the performance of a workers' compensation program. This analysis can also reveal systemic health and safety weaknesses that, once identified, should be corrected to prevent further work-related injuries. According to an insurance industry special report, the best workers' compensation programs discern workplace-related injury and illness patterns by employing an ongoing, data-driven process to analyze elements of workers' compensation claims such as date, time, environmental factors, and location of incidents.[3]

We found that the Board does not perform a formal analysis of workers' compensation claims to identify systemic patterns and recurrent injury risks. We believe that analyzing workers' compensation data from a Boardwide perspective would help to identify health and safety risks and enable managers to determine whether additional controls might be necessary. Board staff recognize the need to automate the process for preparing, submitting, and analyzing information on work-related injuries and illnesses. They recently evaluated a Labor software package that provides not only an online workers' compensation claims processing feature, but also analytics for identifying health and safety risks by detecting trends in claims that have been submitted. The Board decided not to purchase this particular software because it was not certified as being compliant with the Federal Information Security Management Act, and also did not comply with Section 508 of the Rehabilitation Act of 1973, as amended, regarding accessibility by people with disabilities. We were told that a search for an acceptable automated solution is continuing.

MGT has recently filled a new position—Manager, Health and Safety. According to the job description, this senior manager will be responsible for directing research and analysis of significant health and safety issues. We believe this new manager should design the appropriate

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[2]OPM study, "Workers' Compensation Administration Laboratory Site Study, 1997."

[3]Risk Management memorandum from the League of Minnesota Cities titled, "Employee Injury Analysis and Prevention," April 2004.

analytical framework for detecting injury trends and other safety risks from workers' compensation data.

Recommendation 3: We recommend that the Director of the Management Division establish an internal control procedure to ensure that workers' compensation cases are systematically reviewed for fraud indicators and, when appropriate, are referred for further investigation.

Workers' compensation fraud is an enterprise-wide risk that can be mitigated by systematically reviewing fraud indicators or red flags. While our research indicates that only a small percentage of workers' compensation cases are fraudulent, false claims can account for almost ten percent of an agency's total workers' compensation expenses. During our evaluation, we noted that best practice organizations have developed specific procedures to ensure claims are periodically reviewed using a fraud indicator instrument or checklist that highlights suspicious claims that are subsequently referred for further investigation. The Board does not have formal procedures for identifying and referring workers' compensation cases that could involve fraud. In our view, the risk of fraud associated with workers' compensation cases is inherently high enough to necessitate internal controls for ongoing detection and investigation of suspicious claims.

As part of our evaluation efforts, we developed a fraud indicator worksheet based on a variety of similar instruments being used in public and private sector workers' compensation programs. We prepared worksheets for the workers' compensation cases reviewed during our compliance inspection. Our analysis surfaced three cases that we believe require further scrutiny. These cases have been referred to our investigators for additional review to determine if any formal investigations are warranted.

We believe that MGT staff should design a fraud detection instrument to be used as part of implementing fraud internal controls. We have included our worksheet as an attachment to this report as a potential first step in that effort.

Recommendation 4: We recommend that the Director of the Management Division enhance the program's operations by (a) preparing a job description for the workers' compensation coordinator, (b) providing additional training opportunities for the workers' compensation coordinator, (c) assigning a backup for the coordinator and ensuring this employee has sufficient workers' compensation training and program knowledge, and (d) preparing written guidance to help Board supervisors fulfill their key role in reporting the facts of an injury and assisting with ongoing case management.

During the course of our review, we identified a number of operational issues that should be addressed to improve the program's overall management. For example, the workers' compensation coordinator position lacks a written job description, partly because the current coordinator is a nurse who is on detail from the Board's Health Unit. Defining the coordinator's position in a written job description would align specific duties and responsibilities with the

program's performance objectives. We also noted that the coordinator has taken only one basic workers' compensation training course. In our view, additional training is necessary to ensure the coordinator has the knowledge and skill necessary to fulfill day-to-day responsibilities, and to implement our recommendations. We also found that no one has been specifically trained to handle the program's day-to-day responsibilities while the coordinator is on leave or otherwise absent. We believe it is important that the program's continuity be maintained to ensure OWCP deadlines are met, and that open cases receive ongoing attention. This can be accomplished by training another staff member to serve as the coordinator's back up. Finally, during our evaluation, we noted that there is no written guidance available outlining the steps Board supervisors should take when an employee is injured. We believe written guidance is necessary because Board supervisors have an important role in assisting the coordinator's efforts to document and manage workers' compensation claims.

We appreciated the opportunity to meet with you on March 24, 2005, to discuss our report. We are pleased that you concurred with our conclusions and agreed to implement each of our recommendations.

Major contributors to this report were Mr. John F. Ayers, Senior Auditor and Project Leader; Mr. Alvaro Soto, Auditor; and Mr. Anthony J. Castaldo, Senior Program Manager for Inspections and Evaluations. We have provided copies of this report to Board officials and it will be added to our publicly available web site at www.federalreserve.gov/oig. We will also include a synopsis of this report in our next semiannual report to Congress. Please contact me if you would like to discuss this report or any related issues.

Sincerely,

Barry R. Snyder
Inspector General

Attachment

cc: Governor Mark Olson
Governor Edward Gramlich
Governor Donald Kohn
Mr. Stephen Malphrus
Mr. Darrell Pauley
Ms. Chris Fields
Mr. Donald Robinson
Mr. William Mitchell
Mr. Anthony Castaldo
Mr. John Ayers