

September 28, 2000

GARY L. MCCURDY
VICE PRESIDENT, ALLEGHENY AREA OPERATIONS

SUBJECT: Audit Report – Erie Performance Cluster’s Process for Administering
Continuation of Pay Leave Benefits (Report Number HC-AR-00-002)

This report presents the results of our self-initiated audit of the Erie Performance Cluster’s Process for Administering Continuation of Pay Leave Benefits (Project Number 00RA058HC004). This report is the second of seven reports we plan to issue concerning the process for approving and tracking continuation of pay leave benefits in the Allegheny Area.

The audit revealed opportunities for improving the process of administering these benefits and complying with Postal Service policies. We provided three recommendations to improve the process. Management agreed with our finding and recommendations and the actions taken or planned should correct the issues discussed in this report. Management’s comments and our evaluation of these comments are included in the report.

We appreciate the cooperation and courtesies provided by your staff during the audit. If you have any questions, please contact Ms. Katherine K. Johnson, director, Health Care Fraud, or me at (703) 248-2300.

Billy Sauls
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for Business Protection

Attachment

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EXECUTIVE SUMMARY

Introduction

We completed a self-initiated audit to determine whether the Allegheny Area's process for approving and tracking the use of continuation of pay leave benefits complied with the Department of Labor, Office of Workers' Compensation Programs and United States Postal Service (Postal Service) policies. This report on the Allegheny Area's Erie Performance Cluster is the second of seven reports we plan to issue concerning the process for approving and tracking continuation of pay leave benefits in the Allegheny Area.

Results in Brief

The audit revealed the Erie Performance Cluster's process for approving and tracking continuation of pay leave benefits was generally sufficient. Our audit disclosed that the Erie Performance Cluster Control Office staff did effectively monitor continuation of pay usage. Specifically, only 2 out of the 32 continuation of pay injury claims reviewed had leave benefit errors that required pay adjustments. These errors resulted in continuation of pay overpayments totaling about \$160. However, we determined additional controls were required to reduce the risk of continuation of pay overpayments and unnecessary pay adjustments. Consequently, the Erie Performance Cluster can improve the monitoring and documentation of continuation of pay leave benefits by implementing an additional management control and following existing policies to prevent continuation of pay overpayments and unnecessary pay adjustments.

Summary of Recommendations

To correct the deficiencies associated with continuation of pay leave benefits, we recommended that Postal Service managers implement a new management control procedure for reconciling continuation of pay time and attendance reporting and follow established procedures for monitoring and documenting continuation of pay leave benefits. In addition, Postal Service managers should issue a district-wide policy requiring supervisors to ensure the proper completion and retention of continuation of pay leave requests.

**Summary of
Management's
Comments**

Management agreed with our recommendations and implemented corrective actions. Management implemented corrective actions by (1) instituting a new management control procedure to perform front-end reconciliation of continuation of pay hours; (2) instructing the manager, Injury Compensation to use the Continuation of Pay/Leave Without Pay-Injury on Duty Timekeeping Worksheet to document every injury claim file; and (3) issuing a district-wide policy requiring all supervisors to follow established Postal Service timekeeping and accounting guidelines, and management control procedures for proper completion of all continuation of pay leave requests.

Management comments, in their entirety, are included in Appendix B.

**Overall Evaluation of
Management's
Comments**

Management's comments were responsive to our finding and recommendations and we believe the actions taken should correct the issues identified in this report.

INTRODUCTION

Background

The Department of Labor, Office of Workers' Compensation Programs has sole responsibility for administering the Federal Employees' Compensation Act. The Code of Federal Regulations, Title 20, Part 10, April 1, 1999, establishes the rules for claiming benefits under the Federal Employees' Compensation Act. Specifically, Section 10.200 of the Code of Federal Regulations states, in part, that the employer must continue an employee's regular pay for up to a maximum of 45 calendar days of wage loss due to disability and/or medical treatment after a traumatic injury. This provision is called continuation of pay (COP). COP is considered regular income and unlike workers' compensation wage loss benefits, COP is subject to income taxes and other payroll deductions applicable to regular income. The intent of the COP provision is to eliminate interruption of the employee's income during the period immediately after a job-related traumatic injury, while the Office of Workers' Compensation Programs adjudicates¹ the employee's injury claim. After entitlement to COP leave benefits expires, the employee may apply for workers' compensation wage loss benefits or use personal leave.

The United States Postal Service (Postal Service) is geographically divided into ten decentralized areas and Metro Operations. During fiscal years (FY) 1998 and 1999, postal-wide payments for COP leave benefits averaged \$22.5 million annually for approximately 23,000 employees. The Allegheny Area averaged \$2.2 million in annual COP leave benefit payments for approximately 2,400 employees over the same two-year time span.

The Allegheny Area is geographically divided into ten performance clusters including the Erie Performance Cluster. The Postal Service's Injury Compensation Control Office (the Control Office) personnel manage all injury claims for each of the performance clusters. In addition, Control Office personnel are responsible for authorizing employee-requested COP leave benefits.

¹The process whereby the Office of Workers' Compensation Programs considers all information submitted by the employee, employer, and from its own investigation to reach a decision regarding entitlement to Federal Employees' Compensation Act benefits.

**Objective, Scope, and
Methodology**

Our audit objective was to determine whether the Allegheny Area, Erie Performance Cluster's process for approving and tracking the use of COP was in compliance with the Department of Labor, Office of Workers' Compensation Programs, and Postal Service policies. In addition, we reviewed the management controls applicable to COP leave benefits.

To accomplish our objectives, we reviewed Postal Service policies and procedures associated with COP leave benefits. We interviewed representatives from the Postal Service Headquarters, Health and Resource Management office and Erie Performance Cluster, Control Office. In addition, we contacted representatives from the Department of Labor, Office of Workers' Compensation Programs to discuss certain aspects of the COP guidance.

This audit was limited to FY 2000 COP injury claims administered by the Erie Performance Cluster for pay periods 20 through 26 in calendar year 1999 and pay periods 1 through 7 in calendar year 2000. We designed a stratified sampling procedure for the Allegheny Area, including the area Control Office and its ten performance clusters. The Erie Performance Cluster was one of the performance clusters included in the census stratum. We identified 32 COP injury claims in the Erie Performance Cluster's payroll sample frame for the audited period. As such, we reviewed all 32 COP injury claims during our audit and will add the actual results from the census to projected results to achieve overall projected results for the entire Allegheny Area.

We relied extensively on computer-processed payroll data contained in the Postal Service Payroll Pay Data and Employees Master Files. We also relied on prior audit work performed by the Postal Service Office of Inspector General on the FY 1999 Postal Service financial statement audit to assess the Payroll function's general and application controls. In addition, we traced all 32 COP injury claims identified in the census data from the Payroll Pay Data and Employee Master Files to the source documentation. Based on prior audit results and alternative testing procedures performed during the audit, we assessed the reliability of these data, including relevant general and application controls, and found them adequate. As a result

of tests and assessments, we consider the computer-processed data significantly reliable to satisfy the audit objectives.

We conducted the audit from April 2000 through September 2000 in accordance with generally accepted government auditing standards and included such tests of management controls as deemed necessary under the circumstances. We also discussed our conclusions and observations with appropriate management officials and included their comments, where appropriate.

Prior Audit Coverage

Since February 1996, the President's Council on Integrity and Efficiency issued one consolidated audit report on workers' compensation to include COP issues. In addition, the Postal Service Office of Inspector General issued two audit reports related to the Egan, Minnesota, Information Systems and Accounting Service Center for the fiscal year ended September 30, 1999. The Egan, Minnesota, Information Systems and Accounting Service Center has four departments. Our prior audit focused on two out of the four departments. Of these, the Integrated Business Systems Solutions Center concentrates on support and development for payroll and other clients. In addition, the accounting service center is responsible for a variety of accounting activities to include the payroll function. See Appendix A for prior audit report details.

AUDIT RESULTS

Continuation of Pay Leave Benefits

The Erie Performance Cluster Control Office staff's monitoring of COP leave benefits was generally sufficient. Specifically, we only found 2 out of the 32 COP injury claims reviewed had COP benefit errors that required pay adjustments² to correct employees' applicable sick, annual or other leave balances. These COP benefit errors resulted in overpayments totaling approximately \$160.³ However, we did identify additional controls to reduce the risk of COP overpayments and unnecessary pay adjustments. The Control Office staff did not perform a front-end reconciliation of COP hours to ensure employees were initially entitled to COP leave benefits before the COP hours were finalized in the payroll system. In addition, supervisors did not always follow established timekeeping and accounting procedures when documenting COP leave benefits. Consequently, the Erie Performance Cluster can improve the monitoring and documentation of COP leave benefits by implementing an additional management control and following established controls to prevent COP overpayments and unnecessary pay adjustments.

Monitoring Continuation of Pay Usage

Monitoring COP usage includes actively reviewing injury claim files to ensure appropriate COP leave benefits are provided to employees. Postal Service Handbook, EL-505, Injury Compensation, December 1995, Chapter 13, "Timekeeping and Accounting," provides guidance for monitoring COP. Chapter 13, Section 13.1, "Tracking Time for COP," states the Control Office staff must monitor COP hours and days to ensure employees do not receive COP leave benefits for more than a 45-calendar day period for any one injury associated with the tracking of COP leave benefits. In addition, the guidance requires the Control Office staff to actively manage injury claims to ensure employees receive the COP leave benefits they are entitled.

²The Postal Service estimates each pay adjustment costs \$75 on average and in some extreme cases, pay adjustments could cost as much as \$175, based on the time expended by responsible Postal Service employees. For audit reporting purposes, we used the lower estimate of \$75 per pay adjustment.

³COP overpayments result when COP hours are paid in error and the employee does not have any available sick or annual leave to cover the absence mistakenly recorded as COP hours. COP overpayments also result when COP hours are paid in error while the employee is simultaneously receiving wage compensation payments from the Office of Workers' Compensation Programs. Consequently, recovery procedures must be executed to collect overpaid COP hours from the employee.

The audit revealed the Control Office staff adequately monitored COP usage. Our review identified COP leave benefit errors for only 2 out of the 32 COP injury claims reviewed. The COP benefit errors led to unnecessary pay adjustments and COP overpayments of approximately \$160. However, we identified the need for a front-end reconciliation control and the use of an existing worksheet that could reasonably reduce the risk of future COP overpayments and unnecessary pay adjustments.

Section 13.17, "Recovering Excessive COP Hours," states the Control Office staff should use the Workers' Compensation–Injury on Duty report⁴ to review COP data. The report is used to reconcile COP leave benefits after those leave benefits have been reported and paid. We found the Control Office staff did reconcile the Workers' Compensation–Injury on Duty report with COP injury claims every accounting period as required by Postal Service guidance.

The existing report is a back-end monitoring control and, if used as intended, can readily identify inappropriately authorized COP leave benefits. However, the existing report was not designed to determine whether employees were initially entitled to COP leave benefits. Therefore, front-end reconciliation control was needed to assist the Control Office staff in weekly monitoring of COP hours. We determined the Postal Service already has a front-end reconciliation capability within the electronic time clock system.⁵ The electronic time clock system can generate a time and attendance exception report⁶ (ETC-245P1) to identify COP and other hourly leave categories. In our opinion, the use of this front-end reconciliation capability, if implemented, could reasonably reduce the recording of inappropriate COP hours, thereby avoiding unnecessary payroll adjustments.

⁴This report is automatically generated each accounting period.

⁵The electronic time clock system is used to report time and attendance for the majority of Postal Service employees in the Erie Performance Cluster. However, the electronic time clock system does not capture time and attendance for rural carriers.

⁶An electronic time clock exception report should be requested no later than Friday of each week that details all continuation of pay time reporting. The review and validation of the continuation of pay time reporting should be completed before the time reporting is finalized into the payroll system. Such a weekly review could allow management personnel in the Erie Performance Cluster to avoid unnecessary and costly payroll adjustments.

Further, we determined the Control Office staff did not annotate the case files to document authorized COP usage. Chapter 13, Section 13.1 states the "COP/Leave Without Pay-Injury on Duty Timekeeping Worksheet," should be used for assisting Control Office staff with tracking actual COP hours and days used by an employee. The Control Office staff did not use the COP/Leave Without Pay-Injury on Duty Timekeeping Worksheet to monitor employee COP hours and days. Had the Control Office staff used the worksheet, the COP leave benefits paid for exceeding the 45-calendar day entitlement period for any one injury and unnecessary pay adjustments could have been avoided. Furthermore, proper use of the COP/Leave Without Pay-Injury on Duty Timekeeping Worksheet provides internal staff and external reviewers the ability to obtain a timely chronological listing of events that have occurred on each individual injury claim.

Documenting Requests
for Continuation of Pay
Leave Benefits

Proper timekeeping and accounting procedures are essential for effective management and administration of the injury compensation program. Postal Service timekeeping and accounting guidelines provided special requirements for COP. For instance, a supervisor must ensure a Form 3971 is completed promptly after being advised of an employee request for COP leave benefits. When a traumatic injury occurs and employees are unable to initiate the Form 3971 to request COP leave benefits, supervisors are expected to perform this function. The senior installation official is required to retain Forms 3971 for two years from the date the leave is taken or disapproved. Contrary to this guidance, supervisors did not always follow established procedures for documenting requests for COP leave benefits. Our review disclosed that Forms 3971 for 18 out of the 32 injury claims were either improperly prepared or did not exist. We were unable to reconcile requested COP leave benefits with paid COP hours due to improperly completed or missing Forms 3971.

Although Forms 3971 were improperly prepared or missing, we used other injury claim file documentation to determine appropriate COP leave benefits. Employees must complete a Form 3971 to document requested COP leave benefits, which are not automatically provided to injured employees. Therefore, improperly prepared or missing Forms 3971 made it difficult to determine whether employees initially

requested any COP leave benefits. Consequently, without an adequate audit trail, we are not reasonably assured that all COP hours recorded in the payroll system resulted from employee requests for COP leave benefits

Recommendation

We recommend the vice president, Allegheny Area, improve the monitoring and documentation of requested continuation of pay leave benefits within the Erie Performance Cluster by directing district and plant managers to:

1. Direct the manager, Human Resources, in coordination with the manager of the Injury Compensation Control Office, to implement a new management control procedure to perform a front-end reconciliation of continuation of pay hours. The management control should require Injury Compensation Control Office personnel to perform a weekly review and validation of continuation of pay hours before time accounting is finalized in the payroll system.

**Management's
Comments**

Management concurred with the recommendation and stated they have implemented a process to perform front-end reconciliation of continuation of pay hours.

Recommendation

2. Direct the manager, Human Resources, to instruct the manager of the Injury Compensation Control Office to reemphasize using the COP/Leave Without Pay-Injury on Duty Timekeeping Worksheet to monitor employee continuation of pay hours and days. The manager should require each human resource specialist to include the worksheet in the injury claim files to facilitate timely internal and external review of the files.

**Management's
Comments**

Management concurred with the recommendation and stated that they have instructed the manager, Injury Compensation to use the COP/Leave Without Pay-Injury on Duty Timekeeping Worksheet to monitor employee continuation of pay hours and days. In addition, the worksheet will be maintained in the injury claim files.

Recommendation	3. Issue a district-wide policy requiring every supervisor to follow established Postal Service timekeeping and accounting guidelines as it pertains to continuation of pay leave benefits. Additionally, the district-wide policy should include: <ul style="list-style-type: none"><li data-bbox="691 421 1305 562">a) Instructions detailing supervisory responsibilities for ensuring the proper completion of continuation of pay leave requests.⁷<li data-bbox="691 604 1414 780">b) New management control procedures requiring proper processing of all continuation of pay leave requests to the finance and timekeeping elements and retention of supporting documentation in employee injury claim files.
Management's Comments	Management concurred with the recommendation and stated that they will issue a district-wide continuation of pay policy memorandum. The policy memorandum will address supervisory responsibilities for following established Postal Service timekeeping and accounting guidelines and management control procedures for proper completion of all continuation of pay leave requests. In addition, the manager, Injury Compensation will retain copies of all continuation of pay leave requests in the employee injury claim files.
Evaluation of Management's Comments	Management's comments were responsive to our finding and recommendations and we believe the actions taken should correct the issues identified in this report.

⁷Employee requests for leave hours are reported on PS Form 3971 "Request for or Notification of Absence."

APPENDIX A. PRIOR AUDIT COVERAGE

- The Postal Service Office of Inspector General issued audit report number FR-AR-00-006, Fiscal Year 1999 Postal Service Financial Statement Audit – Eagan Information Service Center, February 25, 2000. The audit report detailed the results of an audit on the financial activities and accounting records at the Eagan, Minnesota, Information Systems and Accounting Service Center (formerly the Minneapolis Information Systems and Accounting Service Center) for the fiscal year ended September 30, 1999. The audit was conducted in support of the independent public accounting firm's overall Postal Service financial statement audit. The objectives of the audit were to determine whether:
 1. Financial accounting policies and procedures provide for an adequate internal control structure and are in compliance with generally accepted accounting principles.
 2. General ledger account balances for assets, liabilities, equity, income, expenses, and commitments of the Postal Service are fairly stated in the national consolidated trial balance in accordance with generally accepted accounting principles.
 3. General ledger account balances conform to the general classification of accounts of the Postal Service on a basis consistent with that of the previous year.

The audit disclosed that management's policies, accounting procedures, and internal controls conformed with generally accepted accounting principles. The audit report did identify two internal control weaknesses concerning the accuracy of back pay awards and terminal leave payments. As part of the review, they reviewed the internal controls, tested transactions, and verified account balances. The audit was conducted from November 1998 through February 2000 in accordance with generally accepted government auditing standards and included such tests of internal controls, as were considered necessary under the circumstances.

- The Postal Service Office of Inspector General also issued audit report number FR-AR-99-009, Fiscal Year 1999 Information System Controls, Minneapolis Information Service Center, September 29, 1999. The audit report detailed the results of an audit on the information system controls at the Minneapolis Information Service Center. The audit was performed as part of the FY 1999 financial statement audit. The objective of the audit was to evaluate the adequacy of general controls over information systems at the Minneapolis Information Service Center. The audit concluded that general controls over software and data security at the Minneapolis Information Service Center (now referred to as the Eagan Information Service Center) were generally adequate. The audit report did identify issues requiring

corrective actions regarding mainframe security, application change control, local area network security, and UNIX security. This audit was conducted from December 1998 to August 1999 in accordance with generally accepted government auditing standards and included tests of internal controls as were necessary.

- The President's Council on Integrity and Efficiency, Audit Committee issued a consolidated audit report number 02-96-223-04-431, Consolidated Report on the Audit of Employing Agency Workers' Compensation Programs, February 16, 1996, on workers' compensation. The Department of Labor, Office of Inspector General led this audit of 13 Inspector General agencies. The audit was designed to evaluate the effectiveness and efficiency of employing agency workers' compensation programs and the audit report summarizes the results of those 13 audits. Specifically, the audit report provided an observation on continuation of pay leave benefits.

The Department of Transportation, Office of Inspector General was the only agency that reported on continuation of pay leave benefits. The Department of Transportation, Office of Inspector General reported 26 percent of the claims reviewed received continuation of pay although:

- The Office of Workers' Compensation Programs denied compensation claims.
- The time for eligible use had expired.
- No claim had been submitted to the Office of Workers' Compensation Programs.

The Department of Transportation, Office of Inspector General recommended employees' leave should be charged retroactively. Each Office of the Inspector General was responsible for follow-up action on specific recommendations made to employing agency officials. Overall, employing agency officials agreed that improvements were needed in the workers' compensation program.

APPENDIX B. MANAGEMENT'S COMMENTS

GARY L. MCCURDY
VICE PRESIDENT, ALLEGHENY AREA OPERATIONS



September 18, 2000

Billy J. Sauls
Assistant Inspector General
For Business Protection
Office of Inspector General

**SUBJECT: Transmittal of Draft Report – Erie Performance Cluster
Process for Administering Continuation of Pay Leave Benefits
(Report Number HC-AR-00-DRAFT)**

The Erie Performance Cluster's draft report has been reviewed. The recommendations provided to prevent the improper processing of continuation of pay leave benefits will be implemented as follows:

At the direction of the Human Resource Manager, the Injury Compensation Control Office is performing weekly review and validation of continuation of pay hours before time accounting is finalized in the payroll system. Arrangements have been made with finance to provide a report each Friday before time accounting is finalized in the payroll system. This report lists all offices that have COP input for that prior pay week. The Injury Compensation Control Office reviews this report each Friday and validates all COP input prior to finalization in the payroll system.

The COP/LWOP-IOD Timekeeping Worksheet will be utilized in every injury claim file. Each Human Resources Specialist will include the worksheet in the injury claim files to facilitate timely internal and external review of the files.

The Erie performance cluster will reissue a district-wide policy requiring every supervisor to follow the established Postal Service timekeeping and accounting guidelines as they pertain to continuation of pay. The policy will include instructions detailing supervisory responsibilities for proper completion of COP leave requests. Additionally, the policy will include instructions regarding management control procedures that will require proper processing of all COP leave requests to the finance and timekeeping function. During the OIG's review, the Erie District Injury Compensation Control Office immediately initiated the requirement that a copy of the all 3971s for continuation of pay leave requests be submitted for documentation and retention in the employee's injury claim file. The district-wide policy will be finalized by September 22, 2000.

Erie Performance Cluster's Process for
Administering Continuation of Pay Leave Benefits

HC-AR-00-002

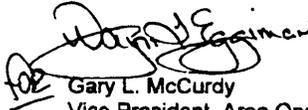
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ALLEGHENY AREA OFFICE

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Your assistance in reviewing our continuation of pay process is appreciated. If you have any questions, please contact Linda Young at (216) 443-4753 or Mary Hinson at (610) 372-5901.


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