



February 4, 2004

SUZANNE F. MEDVIDOVICH
SENIOR VICE PRESIDENT, HUMAN RESOURCES

SUBJECT: Audit Report - Postal Service's Rehabilitation Program for the
Long Beach, Los Angeles, and San Diego Performance Clusters
(Report Number HM-AR-04-005)

This report presents the results of our self-initiated audit of the Postal Service's Rehabilitation Program for the Long Beach, Los Angeles, and San Diego Performance Clusters (Project Number 03YN001HM001). The objective of our audit was to determine whether the Long Beach, Los Angeles, and San Diego Performance Clusters were placing injured employees, who were medically approved to return to work, in modified work assignments. However, we did not evaluate whether any of the injured employees are "disabled" as defined by the Rehabilitation Act of 1973.

The Postal Service's Rehabilitation Program is adequately placing employees with work-related injuries in its Long Beach, Los Angeles, and San Diego Performance Clusters in modified work assignments. However, Postal Service management expects that placing injured employees will become increasingly difficult due to automation, consolidations, declining workloads, and outsourcing of Postal Service functions. As a result, the Postal Service will experience future increases in workers' compensation costs due to its inability to provide placements to injured employees.

Although the Postal Service placed injured employees in modified work assignments, the performance clusters' injury compensation control office staff did not closely monitor the medical and work status of rehabilitation employees. This situation occurred because the injury compensation control office did not consider these case management tasks as important as managing other injury compensation cases such as, periodic roll and limited duty cases. Consequently, some rehabilitation employees may work beyond their recommended medical restrictions, risking additional injury or, conversely, not working to their full capacity and reducing their unit's productivity in the future.

We provided management with three recommendations to improve the Rehabilitation Program. Management agreed to recommendations 1 and 3 and has initiatives in progress, completed, or planned addressing the issues in this report. However, management partially disagreed with recommendation 2. We do not view the partial

disagreement as unresolved and do not plan to pursue it through the formal audit resolution process. Management's comments and our evaluation of these comments are included in the report.

The Office of Inspector General (OIG) considers recommendations 2 and 3 significant and, therefore, requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective action(s) are completed. These recommendations should not be closed in the follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

We appreciate the cooperation and courtesies provided by your staff during the review. If you have any questions or need additional information, please contact Erica Blackman, director, Health Care Audit, at (703) 248-2149 or me at (703) 248-2300.

/s/ Mary W. Demory

Mary W. Demory
Deputy Assistant Inspector General
for Operations and Human Capital

Attachment

cc: Ronald E. Henderson
Alfred Iniguez
John A. Rapp
Donna M. Peak
Susan M. Duchek

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EXECUTIVE SUMMARY

Introduction

This report presents the results of our self-initiated audit of the Postal Service's Rehabilitation Program (Project Number 03YN001HM001). The overall objective of our audit was to determine whether the Long Beach, Los Angeles, and San Diego Performance Clusters were placing injured employees in modified work assignments who were medically approved to return to work. However, the audit did not evaluate whether any of the injured employees are "disabled" as defined by the Rehabilitation Act of 1973.

The Postal Service's Rehabilitation Program fulfills its legal obligation under Title 5 of the Code of Federal Regulations, Part 353.301, which directs agencies to make every effort to restore to work an employee who has partially recovered from a compensable injury. Postal Service's Handbook EL-505, Injury Compensation, Section 11, states the Postal Service will make every effort to reemploy or reassign injured-on-duty employees with permanent partial injuries to positions consistent with their medical work restrictions.

Results in Brief

The Postal Service's Rehabilitation Program placed employees with work-related injuries in its Long Beach, Los Angeles, and San Diego Performance Clusters in modified work assignments. However, Postal Service management expects that placing injured employees will become increasingly difficult due to automation, consolidations, declining workloads, and outsourcing of Postal Service functions. Therefore, these changes in Postal Service operations will likely reduce the availability of work assignments for injured employees. If the Rehabilitation Program cannot continue to place current and newly injured employees, workers' compensation costs for the Postal Service will increase.

Although the Postal Service placed injured employees in modified work assignments, the injury compensation control office staff did not closely monitor the medical and work status of rehabilitation employees. This situation occurred because the injury compensation control office staff did not consider these case management tasks as important as managing other injury compensation cases such as,

periodic roll and limited duty cases. Consequently, some rehabilitation employees may work beyond their recommended medical restrictions, risking additional injury or, conversely, not working to their full capacity and reducing their unit's productivity in the future.

The Postal Service has initiated actions to help control rising workers' compensation costs. In its National Rehabilitation Initiative, the Postal Service is reassessing its Rehabilitation Program nationwide. The National Reassessment Initiative has improved the program by updating medical records and returning some employees to full duty. It has assigned some rehabilitation employees to labor distribution codes that reflect the work they are currently performing. This initiative, when completed, will help the Postal Service to reduce its annual workers' compensation costs.

**Summary of
Recommendations**

We recommended Postal Service management continue its efforts to partner with the Department of Labor to better utilize the Office of Workers' Compensation Programs Vocational Rehabilitation Program. In addition, Postal Service management should fully implement new procedures established by the National Reassessment Initiative in the Long Beach, Los Angeles, and San Diego Performance Clusters. Finally, Postal Service management should issue a nationwide policy letter to control office staff to reaffirm the importance of case management tasks needed to monitor current and future rehabilitation employees.

**Summary of
Management's
Comments**

Management agreed with recommendations 1 and 3 and has initiatives in progress, completed, or planned addressing the issues in this report. For recommendation 1, management stated they were partnering with the Office of Workers' Compensation Programs on two rehabilitation efforts. For recommendation 3, management stated they had completed the National Reassessment Initiative in December 2003 and they would provide a detailed report showing the results in February 2004.

However, management partially disagreed with recommendation 2. Specifically, management agreed they would issue a letter in February 2004 to the Injury Compensation control office staff reiterating the requirement that medical information, relating to employees in

permanent rehabilitation assignments be reviewed on an annual basis. However, management disagreed with the control office staff coordinating case management actions with supervisors on a quarterly basis, or as soon as changes may occur in each case. Management's comments, in their entirety, are included in Appendix B of this report.

**Overall Evaluation of
Management's
Comments**

Management's actions taken or planned are responsive to recommendations 1 and 3 and should resolve the issues identified in the report. In addition, management's actions taken or planned are responsive in part to recommendation 2 and should resolve the issues identified in the report. Even though management partially disagreed with recommendation 2, we do not view the disagreement as unresolved and we do not plan to pursue it through the formal audit resolution process.

INTRODUCTION

Background

The Federal Employees' Compensation Act, Title 5 United States Code, Section 8102, provides for compensation to federal civilian employees injured by personal injury or disease sustained while performing their duties. Eligible employees are also entitled to receive medical and related services.¹ The Department of Labor, Office of Workers' Compensation Programs, administers the Federal Employees' Compensation Act.

The Postal Service's Rehabilitation Program fulfills its legal obligation under Title 5 of the Code of Federal Regulations, Part 353.301, which directs agencies to make every effort to restore to work an employee who has partially recovered from a compensable injury. Postal Service's Handbook EL-505, Injury Compensation, Section 11, states the Postal Service will make every effort to reemploy or reassign injured-on-duty employees with permanent partial injuries to positions consistent with their medical work restrictions.

While a conclusive study has not been conducted to evaluate the total administrative cost versus the benefit, it is believed that the Rehabilitation Program helps the Postal Service reduce workers' compensation costs because partially injured employees are provided productive work assignments. In addition, injured employees receive payroll wages as returned to work employees instead of receiving workers' compensation payments as nonworking injured employees. The Postal Service places an employee in its Rehabilitation Program when the effects of the injury are considered permanent and the employee has reached maximum medical improvement. If the Postal Service is unable to provide the employee with a rehabilitation assignment, the Postal Service will then refer the employee to the Office of Workers' Compensation Programs' Vocational Rehabilitation Programs for outplacement.

In September 2001, the Postal Service began a National Reassessment Initiative to identify more productive work assignments for rehabilitation and limited duty employees.

¹Injured employees will be furnished medical services, appliances, and supplies prescribed or recommended by a qualified physician, which the Office of Workers' Compensation Programs considers likely to cure, give relief, reduce the degree or the period of injury, or aid in lessening the amount of the monthly compensation.

The purpose of the National Reassessment Initiative for rehabilitation was to provide a consistent management process for identifying more productive work assignments for injured Postal Service employees. As of September 30, 2003, the Postal Service had identified nationwide approximately 10,759 rehabilitation employees. Approximately 2,260 out of 10,759 rehabilitation employees identified belong to the Pacific Area.

**Objectives, Scope,
and Methodology**

Our objective was to determine whether the Postal Service's Rehabilitation Program is placing injured employees, who were medically approved to return to work, in modified work assignments. However, we did not evaluate whether any of the injured employees are "disabled" as defined by the Rehabilitation Act of 1973. To achieve this objective, we reviewed the Postal Service and the Office of Workers' Compensation Programs' policies and procedures for returning injured employees back to work. We also interviewed appropriate Postal Service Headquarters, area, and performance cluster control office staff. In addition, we reviewed individual workers' compensation case files for randomly selected employees assigned to the Rehabilitation Program in the Long Beach, Los Angeles, and San Diego Performance Clusters of the Pacific Area. We extracted our sample of employee case files from the Production Payroll Mergdpay Files Application for rehabilitation employees who had paid workhours. Details of the employee sample selection methodology are discussed in the Appendix A.

This audit was conducted from November 2002 through February 2004, in accordance with generally accepted government auditing standards and included such tests of internal controls as were considered necessary under the circumstances. We discussed our conclusions and observations with appropriate management officials and included their comments, where appropriate.

Prior Audit Coverage

The Postal Service Office of Inspector General (OIG), Department of Labor Office of Inspector General, and Ernst and Young LLP have issued prior reports addressing the Postal Service Rehabilitation Program and workers' compensation issues.

Postal Service OIG, Postal Service's Increased Workers' Compensation Costs (Product Number HK-OT-02-001, dated August 29, 2002), noted that one factor contributing to a rise in workers' compensation costs was a freeze on rehabilitation workhours that prevented some managers from returning injured employees to restricted work. The OIG made no recommendations.

Department of Labor OIG, Review of Workers' Compensation Program[s] for U.S. Postal Service Employees (Report Number 035-1126281AO (1), dated May 10, 1995), concluded the Office of Workers' Compensation Programs was not timely in obtaining sufficient medical evidence to clearly document the extent of claimants' injuries and the Postal Service was not timely in returning injured employees to work. The latter was attributed to control office staff not following established procedures and supervisors' reluctance to accept injured employees.

The report recommended the Postal Service ensure control office staffs provide employees and physicians written notice of the availability of limited duty assignments and to timely offer limited duty assignments in writing. It also recommended the Postal Service provide incentives to encourage offices to return recovered employees to the workplace and implement a standardized tracking system to monitor limited duty employees.

Ernest and Young, LLP, United States Postal Service Comments on Internal Controls and Other Matters Year Ended September 30, 2001, dated November 9, 2001, issued a management letter regarding certain internal control issues noted during its audit of the Postal Service's fiscal year (FY) 2001 financial statements. The letter reported the number of employees entering the rolls of workers' compensation recipients whose injury claims were more than five years old increased 154 percent between FY 1999 and 2001. Ernst and Young recommended the Postal Service study volume trends in compensation claims, and the Postal Service agreed.

In its follow-up study, the Postal Service found there had been a continual increase in the number of claimants added

to the workers' compensation rolls whose claims were greater than five years old. These claimants had previously been in labor distribution code 69² status over FYs 2000 through 2002. This increase could be attributed to injured employees in labor distribution code 69 who were no longer being provided with work and subsequently returned to the periodic rolls. In addition, there had been a substantial increase in new claims, despite meaningful reductions in the number of new injuries. The Postal Service concluded the FY 2000 change in the labor distribution code 69 policies contributed significantly to field managers' reluctance to place injured employees in limited duty or rehabilitation assignments. As a result, the Postal Service placed injured employees on the periodic roll.

²Labor distribution code (also referred to as "LDC") is a two-digit code designating personnel costs for specific activities at all Postal Service organizations and installations. Specifically, the Postal Service used labor distribution code 69 for injured employees in rehabilitation job assignments.

AUDIT RESULTS

**Postal Service
Rehabilitation
Program**

The Postal Service’s Rehabilitation Program in the Long Beach, Los Angeles, and San Diego Performance Clusters placed 168 of the 171 rehabilitation employees, who were medically approved to work, in modified work assignments. However, in the future, these performance clusters will find placing injured employees increasingly difficult. Changes in Postal Service operations, such as automation, consolidations, declining workloads, and the outsourcing of Postal Service functions are decreasing the type of work normally assigned to injured employees. As a result, the Postal Service will experience future increases in workers’ compensation costs due to its inability to place injured employees.

**Placement of Injured
Employees**

To comply with federal regulations and Postal Service policy, the control office staff placed 168 of the 171 rehabilitation employees in modified work assignments. However, three employees could not be placed due to the severity of their medical restrictions. Table 1 shows the number of cases reviewed in each performance cluster.

Table 1. Number of Employees Reviewed and Placed at Each Performance Cluster

Pacific Area Performance Clusters	Number of Employees Reviewed	Number of Employees Placed
Long Beach	56	55
Los Angeles	58	56
San Diego	57	57
Total	171	168

Before their on-the-job-injury, the Postal Service employed 98 of the rehabilitation employees as letter carriers, 45 as clerks, and 11 as mail handlers. The Postal Service employed the remaining 17 rehabilitation employees in “other” pre-injury duty assignments, such as custodians and mechanics. Table 2 shows the pre-injury job titles held by injured employees reviewed in each performance cluster.

Table 2. Pre-Injury Job Titles

Pacific Area Performance Clusters	Letter Carriers	Clerks	Mail Handlers	Other	Total
Long Beach	38	12	1	5	56
Los Angeles	23	19	8	8	58
San Diego	37	14	2	4	57
Total	98	45	11	17	171

Changes in Postal Service Operations

Because of changes in Postal Service operations, such as automation, consolidations, declining workloads and the outsourcing of Postal Service functions, the type of work normally assigned to injured employees is decreasing in availability. As a result, in the future the Postal Service will find placing injured employees increasingly difficult. For 168 of the 171 rehabilitation employees placed, Table 3 shows the type of modified work assignments used to place those injured employees.

Table 3. Rehabilitation Work Assignments Performed by Injured Employees

Job Duties and Tasks	Number of Employees
Mail Delivery	22
Casing Mail	30
Administrative and Clerical	62
Lobby Monitor, Window Clerk, and Customer Service	17
Other ³	37
Total	168

The Postal Service has acknowledged the issue of possibly not being able to place injured employees in modified work assignments within the Postal Service. In the United States Postal Service Transformation Plan, April 2002,⁴ the postmaster general states “the Postal Service is quickly approaching a situation where it will no longer have positions

³Other duties include jobs such as data conversion operators and security guards.

⁴Postal Service Transformation Plan, April 2002, Appendix O Performance-Based Strategies, Substrategy 4.

available to internally place injured employees and an accelerated rehabilitation process that will expeditiously outplace injured employees in private sector employment positions is needed.”

The Postal Service finds itself in a most difficult position because Postal Service management would really like to have the resources to place all injured employees in positions within the Postal Service, however, that reality is unlikely. Therefore, it is important for the Postal Service to utilize outplacement as a means to place injured employees. The Postal Service must continue its efforts to partner with the Office of Workers' Compensation Vocational and Outplacement Rehabilitation Programs to increase outplacement of its injured employees.

The Federal Employees' Compensation Act, Title 5 United States Code, Section 8104, provides for vocational rehabilitation services to assist injured employees in returning to gainful employment consistent with their physical, emotional, and educational abilities. The Office of Workers' Compensation Programs, if requested by the agency may consider an employee with an extended injury for rehabilitation services. In addition, the Office of Workers' Compensation Programs will consider a case for rehabilitation services if the agency cannot reemploy the employee. The employee is provided a rehabilitation plan that consists of one or more rehabilitation services such as, selective placement with the previous employer, placement with a new employer, counseling, guidance, test, work evaluations, training, and job follow up.

Possible Increases
in Future Workers'
Compensation Costs

The Postal Service has recognized the importance of the Rehabilitation Program as a viable option in controlling workers' compensation costs. However, if the Postal Service cannot continue to place all injured employees within the Postal Service, it will incur increased workers' compensation costs in the future. All Postal Service rehabilitation employees worked approximately 22 million hours in FY 2002 and earned over \$459 million in payroll salaries. If the Postal Service becomes unable to place all rehabilitation employees within the Postal Service in the future, these payroll salaries will automatically convert into increased workers' compensation payments.

Recommendation	We recommend the senior vice president, Human Resources, direct the manager, Health and Resource Management to: <ol style="list-style-type: none"><li data-bbox="613 384 1409 594">1. Continue efforts to partner with the Office of Workers' Compensation Programs to identify opportunities to better utilize the Office of Workers' Compensation Programs' Vocational and Outplacement Rehabilitation Programs and streamline the process for accelerated outplacement.
Management's Comments	Management agreed with the recommendation. Management stated they are partnering with the Office of Workers' Compensation Programs on two rehabilitation program efforts in FY2004. The two rehabilitation program efforts are the National Outplacement Initiative with outplacements to private industry and the Accelerated Outplacement Process with the New York Office of Workers' Compensation Programs regional office and the New York Metro Area office.
Evaluation of Management's Comments	Management's actions taken or planned are responsive to the recommendation and should resolve the issues identified in the report.

Monitoring Rehabilitation Employees	<p>Although the Postal Service placed injured employees in modified work assignments, the control office staff did not always request updated medical documentation and closely monitor work status for rehabilitation employees. Specifically, the control office staff did not always obtain and review annual medical updates for employees in rehabilitation assignments. In addition, the control office staff did not always update rehabilitation job offers to reflect changes in medical restrictions. This occurred because the control office staff did not consider these case management tasks as important as managing other injury compensation cases such as periodic roll and limited duty cases. Consequently, some rehabilitation employees may work beyond their recommended medical restrictions, risking additional injury or conversely, not working to their full capacity and reducing their unit's productivity in the future.</p>
Current Medical Documentation	<p>The control office staff did not obtain current medical documentation or adequately review employees' medical restrictions for 70 of the 171 case files reviewed. For example, one employee's file did not contain medical documentation supporting the restrictions outlined in the rehabilitation job offer. In another instance, the employee's medical documentation was over three years old.</p> <p>Title 20, Code of Federal Regulations, Part 10.506, authorizes agencies to monitor employees' medical progress and duty status by obtaining periodic medical reports. In addition, Postal Service's Handbook EL-505, <u>Injury Compensation</u>, Section 11.17, states upon completion of the employee's first year in an assignment under the Rehabilitation Program, and continuing on an annual basis, the control office staff should request the Postal Service contract physician to review current medical information from the employee's treating physician.</p>
Rehabilitation Job Offers for Injured Employees	<p>The control office staff did not always update rehabilitation job offers to reflect changes in medical restrictions. Of the 171 employee case files reviewed, the control office staff did not monitor the work status of 52 employees. In one case file, a rehabilitation job offer allowed an employee to work an eight-hour day when the medical documentation restricted the employee to a</p>

six-hour workday. In another case file, a rehabilitation job offer allowed an employee to work an eight-hour day when the medical documentation restricted the employee to a four-hour workday.

The Postal Service's Handbook EL-505, Chapter 11, Section 11.16, requires the control office staff or the employee's supervisor to:

- Monitor and conduct periodic follow-ups in coordination with the Office of Workers' Compensation Programs to assist the employee in readjusting to a working environment.
- Ensure the employee is working safely within prescribed restrictions in order to identify potential problems.
- Contact the employee on the day of return to work, at the end of the first week, and at the end of the first, third, and sixth month.
- Monitor the employee's progress as long as the employee remains in the Rehabilitation Program.

Prioritizing Case
Management Tasks

The control office staff did not consider case management tasks as important as managing other injury compensation cases such as, periodic roll and limited duty cases. Although the control office staff in all three performance clusters agreed they were responsible for obtaining current medical information and updating rehabilitation job offers, they did not consider these tasks as priorities. The control office staff also stated they did not perform these tasks consistently due to shortages in control office staffing and because their efforts were spent on managing more costly injury compensation cases.

Control office staff at one performance cluster stated managing new injury cases was difficult and they did not have enough staff to monitor rehabilitation employees. The control office staff indicated each injury compensation specialist is responsible at any given time for approximately 1,500 injury compensation cases. At another performance cluster, the control office staff stated focusing limited resources on the most costly cases was a more

responsible approach to managing workers' compensation costs. They did not always obtain updated medical information because rehabilitation employees incurred fewer costs than injured employees on the periodic roll who receive wage compensation benefits and whose injuries have not yet been resolved or have reached maximum medical improvement.

Finally, control office staff in the third performance cluster indicated obtaining annual medical updates for rehabilitation employees was an unwarranted medical expense because these employees have returned to work. Furthermore, if an employee does not respond to a request for updated medical information, the control office staff must request assistance from the Office of Workers' Compensation Programs personnel who may not respond for months.

Injured Employees Working Above or Below Medical Restrictions	The failure of the control office staff to obtain periodic medical documentation and to update rehabilitation job offers to reflect changes in medical restrictions may result in injured employees working above or below their medical restrictions. Specifically, employees who have not had periodic medical examinations may be able to work above their current medical restrictions, or may even be able to return to full duty. In contrast, rehabilitation employees who are working above their current medical restrictions are at risk for a recurrence, which could be costly to the Postal Service.
Corrective Action Taken to Improve the Rehabilitation Program	To facilitate creation of new internal positions, the Postal Service began a National Reassessment Initiative to identify productive work assignments for rehabilitation and limited duty category employees. The purpose of the National Reassessment Initiative for rehabilitation was to provide a consistent management process for identifying more productive work assignments for injured Postal Service employees. As of September 30, 2003, the Postal Service has completed the Reassessment Initiative at 62 out of 80 performance clusters, including the 12 performance clusters in the Pacific Area. The Postal Service has also started the process for 17 out of 80 performance clusters. In addition, the Postal Service has not started the process for one remaining performance cluster. Further, the Postal Service has reviewed injury

claim files for approximately 7,114 out of 10,759 rehabilitation employees.

The National Reassessment Initiative has improved the Rehabilitation Program by updating medical records and, in some cases, returning employees to full duty. The National Reassessment Initiative placed emphasis on continuous limited duty and rehabilitation program management, including periodic medical updates and recording current information in a tracking system. In addition, the Postal Service reassessment team reviewed employees' work assignments to determine whether they should be assigned productive labor distribution codes to more accurately reflect the work they are performing.

Another phase of the National Reassessment requires the Postal Service to develop strategies to refer employees on the periodic roll to other positions outside the Postal Service. Postal Service Headquarters has directed area offices to identify potential employees for referral to the Office of Workers' Compensation Programs for rehabilitative case management. As a result, the area offices have referred 571 injured employees to the Office of Workers' Compensation Programs for outplacement consideration. In addition, the Postal Service and the Office of Workers' Compensation Programs are working together to streamline the process for accelerated outplacement.

Recommendation

We recommend the senior vice president, Human Resources, direct the manager, Health and Resource Management to:

2. Issue a policy letter for the Rehabilitation Program instructing all control office staff to:
 - Obtain annual medical updates for all rehabilitation employees after the employees' first year in the Rehabilitation Program.

- Require mandatory coordination with supervisors, at minimum, on a quarterly basis, or as medical or work changes occur, to effectively monitor rehabilitation employees to validate whether employees are working within their current medical restrictions.
- Continue to update data in the automated tracking system developed by the National Reassessment Initiative team for all current and new rehabilitation employees.
- Assign, where possible, all new rehabilitation employees to productive labor distribution codes.

**Management's
Comments**

Management partially agreed with this recommendation. Specifically, management agreed they would issue a letter in February 2004 to the Injury Compensation control office staff reiterating the requirement that medical information, relating to employees in permanent rehabilitation assignments, be reviewed on an annual basis per Handbook EL-505, "Injury Compensation," Chapter 11, Section 11.17. However, management disagreed that the control office staff be required to coordinate case management actions with supervisors on a quarterly basis, or as soon as changes may occur in each case. Management stated this recommended activity is the responsibility of the Injury Compensation function and is required to be regularly completed in accordance with ELM 17.2, dated February 2003, Section 545.52.

**Evaluation of
Management's
Comments**

Management's actions taken or planned are responsive to part of recommendation 2 and should resolve the issues identified in the report. Even though management partially disagreed with recommendation 2, we do not view the disagreement as unresolved and we do not plan to pursue it through the formal audit resolution process.

Recommendation	We recommend the senior vice president, Human Resources, direct the manager, Health and Resource Management to: 3. Continue efforts to complete the Postal Service's National Reassessment Initiative and provide the OIG with a detailed report showing overall results.
Management's Comments	Management agreed with the recommendation. Management stated the National Reassessment Initiative was completed in all 80-performance clusters in December 2003. Management also stated they would provide the OIG a detailed report showing the results of the National Reassessment Initiative in February 2004.
Evaluation of Management's Comments	Management's actions taken or planned are responsive to the recommendation and should resolve the issues identified in the report.

APPENDIX A. METHODOLOGY FOR REHABILITATION EMPLOYEE SAMPLE SELECTION

Purpose of the Sampling

One of the objectives of this audit was to determine whether the Postal Service's Rehabilitation Program is accommodating employees who are medically approved to work. In support of this objective, the audit team employed stratified random samples for three judgmentally selected performance clusters.

Definition of the Audit Universe

The audit universe consisted of employees having LDC 69 hours for FY 2002 for three judgmentally selected performance clusters: Long Beach, Los Angeles, and San Diego.

Sample Design and Modifications

Within each performance cluster LDC 69 employees were selected using a stratified random sample. LDC 69 employees were stratified into five strata.

- Stratum 1: LDC 69 employees with 0 paid hours and 0 total hours.
- Stratum 2: LDC 69 employees with 0 paid hours and more than 0 total hours.
- Stratum 3: LDC 69 employees with paid hours between 0 and 1,040.
- Stratum 4: LDC 69 employees with paid hours between 1,040 and 1,560.
- Stratum 5: LDC 69 employees with paid hours greater than 1,560.

LDC 69 employees were selected (simple random sample) independently within each stratum. From the three performance clusters 223 employees were selected.

STRATUM #	San Diego		Los Angeles		Long Beach	
	Population Size	Sample Size	Population Size	Sample Size	Population Size	Sample Size
1	0	0	2	2	1	1
2	3	3	25	20	9	9
3	82	20	31	20	43	21
4	30	20	20	20	32	20
5	320	27	192	20	195	20
		70		82		71

The audit team discovered 50 of the selected employees were outside the scope of the audit. This was a result of retirements, deaths, terminations, resignations, employees placed in LDC 69 in error, and employees that had returned to full duty. In addition, records for two selected employees were unavailable for review. As a result, the total number of employees reviewed was reduced to 171.

Performance Cluster	Sample Size	Outside of Scope	Records Not Available	Reviewed in Audit
San Diego	70	12	1	57
Long Beach	71	15	0	56
Los Angeles	82	23	1	58
Total	223	50	2	171

APPENDIX B. MANAGEMENT'S COMMENTS

SUZANNE F. MEDVIDOVICH
SENIOR VICE PRESIDENT
HUMAN RESOURCES



January 20, 2004

KIM H. STROUD

SUBJECT: Transmittal of Draft Audit Report – Postal Service's Rehabilitation Program for the Long Beach, Los Angeles, and San Diego Performance Cluster's (Report Number HM-AR-04-DRAFT)

This responds to your December 22, 2003, memorandum regarding the Postal Service's Rehabilitation Program in selected performance clusters in the Pacific Area. Human Resources will respond to recommendations 1 through 3.

Recommendation #1:

Continue efforts to partner with the Office of Workers' Compensation Programs to identify opportunities to better utilize the Office of Workers' Compensation Programs' Vocational and Outplacement Rehabilitation Programs and streamline the process for accelerated outplacement.

Response:

The Postal Service agrees with this finding. In FY2004 the Postal Service is partnering with the Office of Workers' Compensation Programs on two rehabilitation program efforts: (1) National Outplacement Initiative, with outplacements to private industry; and (2) piloting an Accelerated Outplacement Process with the New York OWCP regional office and the New York Metro Area Office.

Recommendation #2:

Issue a policy letter for the Rehabilitation Program instructing all control office staff to:

- Obtain annual medical updates for all rehabilitation employees after the employees' first year in the Rehabilitation Program.
- Require mandatory coordination with supervisors, at minimum, on a quarterly basis, or as medical, or work changes occur to effectively monitor rehabilitation employees to validate whether employees are working within their current medical restrictions.
- Continue to update data in the automated tracking system that was developed by the National Reassessment Initiative team for all current and new rehabilitation employees.
- Assign, where possible, all new rehabilitation employees to productive labor distribution codes.

Response:

The Postal Service is in partial agreement with this recommendation. Specifically, Health and Resource Management will issue a letter in February 2004 to the Injury Compensation function reiterating the requirement that medical information, relating to employees in permanent rehabilitation assignments, be reviewed on an annual basis per Handbook EL-505, *Injury Compensation*, Chapter 11, Section 11.17.

We do not agree with the recommendation that control office staff be mandated to coordinate case management actions with postal management on a quarterly basis, or as soon as changes may occur in each case. This recommended activity is the responsibility of the Injury Compensation function

475 L'ENFANT PLAZA SW
WASHINGTON DC 20260-4000
202-268-4000
FAX: 202-268-4009
www.usps.com

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and is required to be regularly completed in accordance with ELM 17.2, dated February 2003, Section 545.52, which states in part "...must monitor the employee's medical progress and determine return-to-work capability by obtaining periodic medical reports..." In addition, limited duty and rehabilitation assignments are reviewed by a local performance cluster team (Operations, Injury Compensation, and Medical), led by Operations to insure assigned tasks are in accordance with an employee's current medical restrictions.

The National Reassessment Initiative requires that all performance clusters track and report activities on all limited duty and rehabilitation assignments. This process insures that all assigned tasks are within the current medical restrictions and captured in either productive or nonproductive labor distribution code transactions.

Recommendation #3:

Continue efforts to complete the Postal Service's National Reassessment Initiative, and provide the OIG with a detailed report showing overall results.

Response:

The Postal Service agrees with this recommendation. The National Reassessment Initiative was completed in all 80 performance clusters in December 2003. A detailed report showing the results is being compiled at this time and will be sent to the OIG in February 2004.



Suzanne F. Medvidovich

cc: Mr. Harris
Mr. Iniguez
Ms. Peak
Mr. Rapp
Ms. Duchek
Mr. Henderson