



Office of Inspector General

AUDIT OF VA'S WORKERS' COMPENSATION PROGRAM COST

Broadcasting of best practices, implementation of key case management enhancement areas, and improved program management can significantly lessen the Department's risk for program abuse, fraud and unnecessary payments, and substantially reduce overall costs.

Report No. 8D2-G01-067
Date: July 1, 1998

Office of Inspector General
Washington DC 20420



DEPARTMENT OF VETERANS AFFAIRS
Office of Inspector General
Washington DC 20420

Memorandum to:

Assistant Secretary for Human Resources and Administration (006)
Acting Assistant Secretary for Management (004)

Audit of: VA's Workers' Compensation Program Cost

1. The purpose of the audit was to identify opportunities for the Department of Veterans Affairs (VA) to reduce costs associated with Workers' Compensation Program (WCP) claims. Review of this program was suggested to the Office of Inspector General (OIG) by the Office of the Assistant Secretary for Management, the Veterans Health Administration (VHA), and the National Cemetery System (NCS). To review the VA's program, we applied a three step approach: a comprehensive national audit; a joint investigative/audit fraud detection effort; and the development of a targeting protocol for future use by VA managers to manage and oversee the program. The national audit project focused on the effectiveness of VA's case management associated with WCP claims. The remaining two efforts are in process.

2. The Department is a significant Federal employer with approximately 251,000 employees and annually incurs substantial costs associated with WCP claims by employees resulting from injury sustained in the performance of duty. Injured employees can receive WCP benefit payments for lost wages and for medical treatment for the specific disability associated with the injury. The Department's Fiscal Year 1998 payment for WCP costs to the Department of Labor (DOL), who administers the Federal Employees' Compensation Act, will total about \$140.8 million. These costs are based upon actual payments made by DOL in Charge Back Year (CBY) 1996 for the period July 1, 1995 to June 30, 1996.

3. Our audit found that improvements have been made by VA in returning injured workers back to work and that overall program costs have been reduced for the past three CBYs (1995 to 1997) by a total of six percent. However, we found a lack of effective WCP case management at some VA facilities. This places the Department at risk for program abuse, fraud, and unnecessary costs. Our sample of active cases found that better case management could be achieved in 20.4 percent of the WCP cases reviewed. Based on the sample results, we estimate that \$17.5 million in WCP compensation costs could have been potentially avoided by VA in CBY 1996 by returning employees back to work and/or removing employees from WCP rolls. We also estimate a future cost avoidance of about \$247 million in reduced WCP compensation costs for projected

lifetime benefits for claimants over the next 18 years. Our review also identified 26 potential fraud cases, 5 (3.6 percent) from the national random sample, which were referred to the OIG Office of Investigations. Based on the sample results, we estimate that in CBY 1996 there were over 500 fraudulent WCP cases totaling about \$9 million. In addition to our national random sample, we also completed a follow up review of 70 WCP cases that had been included in a 1992 OIG audit. Our review found that improved case management still was needed in 21 (64 percent) of the remaining 33 active cases.

4. VA has developed a Workers Compensation Management Information System (WC-MIS) to aid field facilities in case management and recently issued new policy/guidance for management of the program. The audit identified a number of best practices that some VHA facilities have established to reduce WCP costs by returning injured workers back to work or otherwise removing them from the rolls. Key best practices we identified at some facilities included:

- Reviewing open/active WCP cases to identify and prioritize actions necessary to reduce cost.
- Ensuring that current medical evidence was continually received so the employee could be returned to duty as soon as possible.
- Establishing confidential hotlines for reporting WCP abuse or fraud.
- Reviewing and identifying injured workers on the WCP rolls that are not current or former VA employees.
- Developing local policies and practices that emphasize safety and training programs.

The audit found that, in addition to broadcasting these best practices, there are opportunities for VA to further reduce WCP compensation costs nationally with improvements in key case management areas. Key areas that can be enhanced included:

- Offering light duty to employees.
- Providing more timely follow up actions.
- Maintaining case files on all open/active WCP cases.
- Providing more consistent resources to the program.

5. Additional areas where program management could be enhanced include: (i) collecting and using “Continuation of Pay” cost information as a management tool for monitoring potential WCP cost and employee health and safety issues, (ii) establishing more comprehensive WCP policies and procedures that take advantage of the best practices and proven case management methods identified in our review, and (iii) providing all VHA facilities with access to the WC-MIS and complete certain system modifications to increase the ability to use the system.

6. The report includes recommendations that can strengthen WCP case management and reduce program cost by more effectively identifying employees who can be brought back to work or should be removed from the rolls. Given the significance of the audit findings and the continued risk of program abuse and fraud, we believe that the WCP should continue to be monitored by the Department and included on its potential material weakness watch list of Internal High Priority Areas.

7. The OIG continues to work with the Department to reduce WCP abuse and fraud. An OIG effort is now underway to provide VHA with assistance in establishing Veterans Integrated Service Network level case management review and oversight methodologies that can be used to identify potential fraud and reduce WCP costs. We believe that this effort will provide the Department with a good starting point for completing the Department-wide review of open/active WCP cases recommended in this report. This effort will provide the Department with a fraud targeting methodology and case review protocol package that can enhance case management efforts and identify opportunities to return employees back to work or otherwise remove them from the WCP rolls.

8. The Assistant Secretary for Human Resources and Administration and the Acting Assistant Secretary for Management concurred with report recommendations directed to them and provided appropriate implementation actions. The Assistant Secretary for Human Resources and Administration also agreed with the monetary benefits presented in the report and stated that “It is possible that even greater savings could be realized in approximately five years”. We consider the report issues resolved and will follow up on planned actions until they are completed.

(Original signed by)

MICHAEL G. SULLIVAN
Assistant Inspector General
for Auditing

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RESULTS AND RECOMMENDATIONS

Workers' Compensation Program Costs Can Be Reduced With Enhanced Case Management

Our audit found that there are opportunities for VA to further reduce Workers' Compensation Program (WCP) costs with improved case management that more effectively identifies employees who can be brought back to work or should be removed from the rolls. Key case management enhancement areas we identified included:

- Offering light duty to employees.
- Providing more timely follow up actions.
- Maintaining case files on all open/active WCP cases.
- Providing more consistent resources to the program.

The lack of effective WCP case management we found at some VA facilities places the Department at risk for program abuse, fraud, and unnecessary costs. The audit found that the potential extent of this risk is significant based on the results of a national random sample of WCP cases that we completed. Our national random sample of active cases found that enhancement in case management could be achieved in 28 (20.4 percent) of the 137 WCP cases reviewed. Based on the sample results, we estimate that \$17.5 million in WCP compensation costs could have been potentially avoided by VA in Charge Back Year (CBY) 1996 by improved case management (return employees back to work/remove from WCP rolls). We also estimate a future cost avoidance of about \$247 million in reduced WCP compensation costs for projected lifetime benefits for claimants over the next 18 years. Our review also identified 26 potential fraud cases, 5 (3.6 percent) from the national random sample, which were referred to the Office of Inspector General (OIG) Office of Investigations. Based on the sample results, we estimate that in CBY 1996 there were 567 fraudulent WCP cases totaling about \$9 million. (*A summary of the national sample results is in Appendix III on pages 25 to 28.*) In addition to our national random sample, we also completed a follow up review of 70 WCP cases that had been included in a 1992 OIG audit. Our review found that improved case management still was needed in 21 (64 percent) of the remaining 33 active cases. (*A summary of the review results on the follow up cases is in Appendix IV on pages 29 and 30.*)

Our audit also identified the following additional areas where program management could be enhanced by: (i) collecting and using "Continuation of Pay" (COP) cost information as a management tool for monitoring potential WCP cost and employee health and safety issues, (ii) establishing more comprehensive WCP policies and procedures that take advantage of the best practices and proven case management methods identified in our review, and (iii) providing all VHA facilities with access to the

Workers Compensation Management Information System (WC-MIS) and complete certain system modifications to increase the ability to use the system.

Opportunities Exist for VA to Further Reduce WCP Costs With Enhanced Case Management

Our review found that improvements have been made in returning injured workers back to work and overall program costs have been reduced for the past three CBYs. WCP costs decreased from a high of about \$145 million in CBY 1994 to about \$136 million in CBY 1997. Additionally, VA has developed the WC-MIS and recently issued new policy and guidance for program management in an effort to provide additional tools for facilities to better manage the WCP and reduce costs.

Our audit found that the Department's success in reducing WCP costs has resulted primarily from more active management of new cases with an associated reduction of medical costs. From CBY 1995 to 1997 WCP medical costs decreased 13.7 percent from \$35.3 to \$30.4 million. However, during the same time period, WCP compensation costs decreased by only 1.4 percent from \$107.4 to 106.2 million. (*A summary of program cost reductions is presented in Appendix V on pages 31 and 32.*) Our audit work found that the Department has the potential to more significantly reduce its annual WCP compensation costs. This can be accomplished with enhanced case management and increased focus on older cases (5 years and older) which account for a substantial portion of WCP compensation costs that could be avoided by identifying individuals that can be returned to duty or otherwise removed from the WCP rolls.

The following are examples of areas where WCP case management could be enhanced at selected facilities we visited:

- In one random sample case, case management could be enhanced through maintenance of a case file. Because the facility did not have a case file on the claimant, the WC-MIS was queried and showed that the case was still open. The claimant is receiving compensation for a traumatic injury sustained in April 1982. Currently, the claimant is 40 years old and no effort had been made to return the claimant to work or determine current medical status.
- At one facility, local policy was that long-term claimants had to apply for jobs and go through the normal hiring process. In one of our sample cases we found that the facility did not have a case file for an employee who had been injured in March 1979. The last action taken on this case was in 1994, when the facility had informed the claimant to apply for a job. In this instance, case management could be enhanced by offering the employee a position and not requiring the WCP claimant to apply for a job, maintaining a case file, and determining current medical status (work restrictions).

- In another sample case, the employee was injured in May of 1995. The Department of Labor (DOL) provided early nurse intervention and vocational rehabilitation programs for the injured employee (paid for by VA) and the employee was determined to have reached maximal medical improvement in September 1996. DOL requested that VA return the employee to work. In a letter from the facility to DOL, the WCP coordinator stated that “Medical Center management has made a decision that no accommodation is possible for (the claimant) due to his physical and medical condition.” As a result, VA continues to pay about \$7,000 a month to the claimant while he has started working for a private company. In this case, the facility did not take an opportunity to potentially reduce program costs by providing the WCP claimant with work.
- In one of the follow up cases we reviewed, an employee was injured in April 1984. The claimant returned to work in a light duty capacity, intermittently until the supervisor told the facility’s WCP specialist they could not use the claimant in a light duty capacity. The last action by the facility on this case was April 1994. This action was a request to update working restrictions from the claimant’s treating physician. The physician did not respond and no follow action was taken by the facility. In this instance, case management could be enhanced by offering the employee light duty and providing more timely follow up actions on the case.

In several sample and follow up cases we reviewed, the WCP claimant had moved out of state. We found that WCP coordinators/specialists assign a low priority to these cases because they believed that they can not force the WCP claimants to move back and accept a job or be dropped from the WCP rolls. However, program officials in DOL’s Office of Workers’ Compensation Programs (OWCP) informed us that they (OWCP) can provide an analysis to facilities that will show that it is cost effective to move claimants back for employment vs. continued WCP compensation payments. Additionally, we were advised that if the claimant refuses to move back for a valid job offer, compensation benefits could be terminated.

Our audit also found that the amount of staff resources used in WCP case management varied among field facilities and impaired the ability of some facilities to accomplish case management initiatives. The amount of staff used in WCP case management ranged from part time to full time WCP coordinators with as many as four assistants. Also, we found that the type of staffing resources used varied with some facilities using nursing staff to manage the program and others using human resources personnel specialists. For example, our telephone survey of 74 VHA field facilities found that 6 facilities had a nurse managing the program and 2 facilities had the program under the Director’s Office.

The survey found that staff time in WCP positions ranged from less than a year (25.7 percent) to over 5 years (27 percent). Other information obtained from this survey follows:

- 11 (14.8 percent) WCP coordinators had medical background experience.
- 36 (48.6 percent) WCP coordinators had at least one assistant.
- 11 (14.8 percent) WCP coordinators were once on the WCP rolls.

We found that those facilities that have nursing staff involved in the program are most likely to challenge medical assessments and were instrumental in returning injured employees back to work. At 36 facilities (48.6 percent), WCP case management was a full time position. At the remaining 38 facilities (51.4 percent), WCP staff have collateral duties such as processing buyouts for retirements or other personnel actions that can take a higher priority than WCP case management.

Additional Actions Can be Taken to Improve Overall Program Management

Our audit also identified the following additional areas where enhancements in program management could provide opportunities to improve overall program operations and reduce WCP costs:

- Collection and use of Continuation of Pay (COP) data.
- WCP policies and procedures.
- Access and system modifications to the WC-MIS.

Collection and Use of COP Data

The Federal Employees' Compensation Act (FECA) provides that an employee's regular pay may be continued for up to 45 calendar days of wage loss due to disability or medical treatment following a traumatic injury. The intent of this provision is to eliminate interruption in the employee's income while the claim is being adjudicated. Title 20 of the Code of Federal Regulations requires that VA, as an employing agency, submit a quarterly report of COP summary data to DOL's OWCP. The following summary data is required:

- Total number of employees provided COP.
- Total number of workdays or shifts for which employees were paid COP.
- Total amount of COP paid to all employees.

This data combined with additional information such as cause of injury, nature (type) of injury, and location of injury could be used by top management at facilities to anticipate increases or decreases in WCP costs. All of this information should already be collected through the WCP and the occupational health and safety program areas.

Discussions with management officials in Central Office (CO) and at field facilities found that VA is not reporting COP data as required by Title 20. Although some facilities continued to submit the reports to CO, no one was currently submitting the quarterly COP report as a result of recent budget cuts and reorganizations. According to CO officials, the last quarterly COP report was submitted in 1995; however, no one could find the report. We requested a copy from DOL's OWCP and were informed that they could not find a report from VA. Only the last 5 years of COP reports are maintained by OWCP. As a result of our audit, actions were initiated to begin collecting the COP data so the report could be submitted. Based on our audit results, we believe that collecting and using COP cost information can also provide VA with a useful management tool for monitoring potential WCP cost and employee health and safety issues.

WCP Policies and Procedures

In August 1997, VA issued a new directive on managing WCP cases and costs. The directive discusses specific policies, duties, and responsibilities for program management and was issued as part of the implementation plan for recommendations made in OIG's prior audit report on this program area. The directive updated old policies and procedures issued in July 1975. Based on our review results, additional enhancements to the directive should be made to include WCP policies and procedures that discuss proven case management methods (best practices) identified by the audit that can improve program management and reduce WCP costs.

Our discussions with DOL's OWCP program officials found that, in their opinion, no other agency has as many different procedures on how to manage the WCP as VA. Our review of local WCP policies and procedures at 74 VHA field facilities and 4 Veterans Integrated Service Networks (VISN) offices found that most facilities have similar key elements. However, our review found that some facilities and VISN offices have established local policies and procedures that are more effective because they take advantage of best practices that can provide opportunities for enhanced case management and reduced WCP costs. The following are some examples of best practices that we identified:

- Two of the VISNs had established a WCP task force, including WCP coordinators from field facilities, to identify key elements of effective case management and to aid in development of VISN policies and procedures that address these issues. Generally, quarterly task force meetings are held to exchange information and resolve program

issues. At one VISN, the quarterly meeting also included non-VA guest speakers who discussed WCP issues.

- One of the VHA field facilities we visited had established a special WCP hot line for reporting program fraud, waste, and abuse. Also, this facility has injured employees certify that they are not working part-time jobs while receiving WCP benefits.
- Several facilities we visited had a nurse as the WCP program coordinator. These facilities were more likely to challenge questionable medical reports, assessments, and bills that resulted in greater reductions in WCP costs.
- Two facilities had WCP specialists who had at one time been receiving WCP compensation benefits. One of the WCP claimants had been on VA's WCP rolls for 10 years before being offered a job. This WCP claimant has now been in the WCP specialist position for about 5 years.
- At one facility, Ergonomics Programs have been implemented to evaluate employees' workstations to prevent injuries and establish light duty positions. Another facility has a back injury program and provides back support appliances.

VA's new directive on managing WCP cases should include policies and procedures that take advantage of best practices and proven case management methods identified by our audit that can enhance program management at facilities nationwide.

Access and System Modifications to the WC-MIS

In 1994, the Austin Automation Center began developing the Workers Compensation and Occupational Safety and Health Management Information System (also called the Workers Compensation and Safety Tracking program) that consists of two management information systems. One of these systems is the WC-MIS that can assist field facilities in case management by giving them access to selected case information obtained from DOL OWCP and VA personnel records. We used the WC-MIS in our audit to obtain case information such as current cases status, injury type, and medical bills paid.

Our audit found that the WC-MIS greatly assists WCP specialists and coordinators in case management; however, not every facility has access to this system. As of October 31, 1997, 119 of 173 VHA facilities and 1 of 22 VISN Network Offices had access to the WC-MIS. Additionally, some of the facilities we visited that have access to the WC-MIS do not use the system because of a lack of understanding on how it can be used in case management. The WC-MIS has some online help screens, but they are not complete and information presented in the screens is very limited. The WCP program manager is currently providing quarterly training classes on operating the WC-MIS that should enhance field staff use of the system.

While we found that the WC-MIS can aid in case management, we also identified the following areas where certain modifications could be completed that would enhance use of the system:

- Automatic diary sub-system that will allow WCP case managers to diary follow-up dates and will automatically generate “needs action que” when case manager logs on if no actions have been taken for specific time.
- Additional data fields such as duty status (light duty, returned to work with no restrictions, etc.) to be used by WCP case managers.
- Additional “audit trail” information on charges and other actions. For example, if a bill is paid and then denied it should be shown in WC-MIS. Currently, the two actions would cancel each other out and not be shown. Additional information such as this is often needed for effective case management.
- Addition of a cumulative expense field to show complete historical payment information. Currently, the system only stores 2 years of payment information. With this modification, when payment information is deleted due to age the amount could be carried (rolled over) to a cumulative payment field. This would enable the WCP case manager and upper level management to see what the actual cost of the case is rather than the current most recent 2 years that is shown.

These WC-MIS enhancements could significantly improve the amount of available case management information and program oversight opportunities to monitor WCP costs and workload by facility program managers, VISN management, and other VA top management officials.

National Cemetery System (NCS) is Taking Action to Strengthen Case Management

The audit found that with the exception of larger NCS cemeteries, NCS field offices rely on the nearest VHA field facility to process and monitor their WCP claims. Our audit found that the amount of WCP case management assistance VHA field facilities provided to NCS cemeteries varied significantly. At one facility, we were told that NCS cases were assigned a much lower priority because their WCP costs were not coming from the facility’s budget/appropriations. At another facility, most of the case management requirements were provided. Some of the variances in amount of assistance provided could be attributed to geographical distance between sites.

In response to the audit findings, NCS has indicated that it will “assume full case management responsibilities and accountability, rather than relying on external organizations such as VHA”. We were advised that VHA has agreed to continue

providing light duty assignments and administrative processing support to NCS. In addition, NCS is assigning funding and payment responsibility to NCS field facilities for workers' compensation payments as part of a pilot project to reduce WCP costs. We believe that these actions should help strengthen management of NCS cases and provide the opportunity to reduce WCP costs.

The Department Should Continue to Monitor the WCP as a Potential Material Weakness Area

VA has been monitoring this program area as an item of concern to the Department because of its potential impact as a material weakness. As a result, the WCP has been listed by the Chief Financial Officer as an Internal High Priority Area.

Given the significance of the audit findings discussed in this report and the continued risk of program abuse and fraud, we believe that the WCP should continue to be monitored by the Department and included on its potential material weakness watch list of Internal High Priority Areas.

Some VISN WCP Costs are Significant and Should be Targeted for Review

To assist in our overall analysis of VA's WCP costs, we compared Fiscal Year (FY) 1996 operational expenditures for each of the 22 VISNs to their CBY 1996 WCP costs. Our analysis also compared each of the 22 VISN's WCP case workload to total reported VISN WCP case workload. *(A detailed discussion of this analysis is presented in Appendix VI on pages 33 to 36.)*

Our analysis of FY 1996 VISN operating expenditures and CBY 1996 WCP costs showed that CBY 1996 WCP costs ranged from .36 percent of FY 1996 expenditures in VISN 5 to 1.26 percent of FY 1996 expenditure in VISN 22. On average, the VISN CBY 1996 WCP costs totaled about .77 percent of the FY 1996 operational expenditures. Three VISNs had WCP costs totaling over 1 percent of their FY 1996 operational expenditures.

The analysis of WCP data showed that WCP claims with compensation or medical payments in CBY 1996 ranged from 249 cases in VISN 14 to 1,180 cases in VISN 11. Total WCP costs in CBY 1996 ranged from \$1,438,704 in VISN 14 to \$12,370,686 in VISN 22. The average number of cases per VISN was 705 with average WCP costs of \$6,056,402. Three VISNs had WCP costs in excess of \$10 million and four VISNs had over 1,000 cases with payments in CBY 1996. We believe that this type of analysis can be used by the Department to monitor WCP costs and identify field facilities where WCP costs levels need to be reviewed. The OIG is using this analysis to assist VHA in identifying potential program fraud and opportunities to reduce WCP costs at selected VISNs.

OIG Initiative is Providing Assistance to VISNs in Identifying Potential Program Fraud and Opportunities to Reduce Costs

An OIG effort is now underway to provide VHA with assistance in establishing VISN level case management review and oversight methodologies that can be used to identify potential fraud and reduce WCP costs. Our initial review work is focused on VISN 22 in Southern California that had the highest VISN WCP costs in CBY 1996, totaling about \$12.4 million. This initiative is a team effort with representatives from the OIG and the VISN. We are jointly completing case reviews and identifying opportunities to reduce WCP costs. This effort is expected to result in development of a case review protocol package that can be distributed to all 22 VISNs.

Conclusion

While the audit showed that improvements have been made in overall program management and WCP cost have been reduced, there are opportunities for VA to further reduce WCP compensation costs nationally with improvements in key case management areas. The lack of effective WCP case management we found at some VA facilities places the Department at risk for program abuse, fraud, and unnecessary costs.

For More Information

- *Detail discussions of case review results are presented in Appendixes III and IV on pages 25 to 30.*
- *Detail discussions of our analysis of WCP data is presented in Appendixes V through VII on pages 31 to 39.*

Recommendation 1

We recommend that the Assistant Secretary for Human Resources and Administration take the following actions to enhance VA's WCP management and reduce costs by:

- a. Coordinating with individual Department elements to conduct a one time review of all open/active WCP cases to prioritize and identify those cases where additional case management efforts could return employees back to work or otherwise remove them from the WCP rolls.
- b. Including the case management best practices identified by our audit in VA's new directive on managing WCP cases.
- c. Providing all VHA facilities with access to VA's WC-MIS and consider implementing the system modifications discussed in this report.
- d. Issuing policy and guidance on recording, tracking, and using "Continuation of Pay" information and cost as a management tool.

Assistant Secretary for Human Resources and Administration Comments

The Assistant Secretary for Human Resources and Administration concurred with recommendation 1 (a-d).

Implementation Plan

The Assistant Secretary provided the following implementation actions that address the recommendation sections 1 (a-d).

- a. The Office of Occupational Safety and Health (OSH) and the Office of Workers' Compensation Programs (OWCP) can provide the leadership and methodology to conduct a one time review of all open/active workers' compensation program cases. Your estimated figures of about \$247 million in reduced workers' compensation costs for projected lifetime benefits for such a review are not disputed. It is possible that even greater savings could be realized in approximately five years. However, it would take a team of approximately six VHA personnel skilled in workers' compensation management with augmentation from the field to conduct and follow through with such a review. Just to review and prioritize the cases would not yield the desired effect without follow through to bring the cases to resolution. This responsibility is an operations problem that needs to be addressed by the three Administrations.

b. These best practices are already included in the VA Directive 5810. However, later this summer, OSH and OWCP will send out an informational letter reiterating the key best practices as written in the audit report.

c. VA's WC-MIS is ready and capable of logging on all VA facilities who request access. As of May 18, 1998, 136 VA medical centers are logged on the system. The remaining medical centers with the necessary computers and software may log on upon request. The modifications discussed in this audit and additional data elements and tickler files are currently being developed in cooperation with the Austin Automation Center, National Aeronautics and Space Administration, General Services Administration, Department of Justice, and the Army Medical Command. The WC-MIS program managers are conducting a User's conference in July 1998, to refine these elements. Estimated time of completion and roll out is FY 2000.

d. Recording and tracking Continuation of Pay (COP) cost has always been one of the major objectives of the WC-MIS database. Currently, there is no mechanism to capture this information efficiently. When PAYVA is operational, additional screens will be available and show each quarter hour, days, dates, and amount charged to each claimant. At that time OWCP policy will be revised to include policy and guidance on recording, tracking, and use of COP information and cost as a management tool.

(See Appendix X on pages 47-49 for the full text of the Assistant Secretary's comments.)

Office of Inspector General Comments

The Assistant Secretary's implementation actions are acceptable and responsive to the recommendations. We consider the issues resolved and will follow up on planned actions until they are completed.

The Assistant Secretary commented on the resources and field support that would be needed to complete the Department-wide review of cases that we have recommended. We agree with the Assistant Secretary's comments and recognize the importance of committing sufficient resources in order to effectively accomplish necessary case review work and identify opportunities to reduce program costs. Our case review work has shown that the commitment of sufficient resources is a key element in the case management process. We have highlighted this fact in the report and in the project work that is now underway to assist VHA in establishing VISN level case management review and oversight methodologies. We believe that this effort will provide the Department with a good starting point for completing the Department-wide review of open/active WCP cases recommended in this report. This effort will provide the Department with a case fraud targeting methodology and case review protocol package that can enhance case management efforts for each of the agency elements and identify opportunities to return employees back to work or otherwise remove them from the WCP rolls.

The Assistant Secretary's comments also highlighted the Department's efforts to reduce WCP costs and provided supporting information on the accomplishments of individual facilities to reduce these costs. We recognize the Department's accomplishments and the report findings highlight the improvements that have been made by VA in returning injured workers back to work and that overall program costs have been reduced for the past three CBYs (1995-1997) by a total of six percent. The report also highlights a number of best practices that some VHA facilities have established to reduce WCP costs by returning injured workers back to work or otherwise removing them from the rolls.

Recommendation 2

We recommend that the Acting Assistant Secretary for Management continue to monitor the WCP as a management control Internal High Priority Area.

Acting Assistant Secretary for Management Comments

The Acting Assistant Secretary for Management concurred with the recommendation.

Implementation Plan

The Acting Assistant Secretary advised that the WCP would continue to be monitored as a management control Internal High Priority Area.

(See Appendix XI on pages 51-53 for the full text of the Acting Assistant Secretary's comments.)

Office of Inspector General Comments

The Acting Assistant Secretary's implementation actions are acceptable and responsive to the recommendation. We consider the issue resolved and will follow up on planned actions until they are completed.

The Acting Assistant Secretary also provided general comments on the information we discussed in the report concerning use of best practices, recommended WC-MIS enhancements, and presentation of some statistical data. In response to the comments provided, we made some revisions to the report and provide the following additional information to clarify some of the issues raised.

The Acting Assistant Secretary provided general comments that made various suggestions for additional data gathering and assessment of the best practice that we discussed involving the use of nursing staff in addition to human resources specialists to enhance case management and reduce costs. As discussed in the report, the facilities that have used this technique have been able to reduce WCP costs by more effectively

challenging questionable medical reports, assessments, and bills. The effectiveness of this best practice has certainly been demonstrated in the work that we have completed in coordination with VISN 22 in Southern California. This effort has resulted in improved case management and identified a significant potential for reduced WCP lifetime benefit costs. This effort will not only pay for the staff involved with case management who have a nursing background, but also provide the opportunity to use these scarce VISN resources for care of veterans. Our audit results clearly show that use of this best practice can significantly improve case management results and should be considered for use along with other best practices that we identified during the audit.

The Acting Assistant Secretary's comments also raised concerns about the cost/benefit relationship of returning employees to light duty status that could result in an "underemployed claimant". As discussed in the report, VA has an obligation to return an injured employee back to work as soon as they are able to work as a benefit to the employee. OWCP studies have found that the longer an employee is out of work, the harder it is to bring them back to work. A decision on use of light duty to return an employee back to work should not be based on a cost/benefit relationship. Our audit results showed that this is an effective means to return employees back to work and receive benefit for the salary costs incurred, even in a light duty status. While an employee is on workers compensation, VA receives no benefit for the cost incurred.

The Acting Assistant Secretary's comments concurred with our recommendation to improve the WC-MIS and provided additional suggested improvements to add other data fields. While two of the recommended data fields are already available, the suggested "date claim last accessed" field is a good suggestion to enhance the use of the WC-MIS that we will provide to program officials for consideration. The comments also discuss various performance measurements that could be used to compare VA with other agencies and internally by VISN. The report highlights the comparative data that we were able to develop which shows that VA has substantial WCP costs in relation to other agencies. The report also highlights the relationship of WCP costs and overall operating budgets of each VISN that clearly shows where additional efforts are needed to better control and reduce WCP costs. The comments also identified a need for expanded descriptions in the report, which we added to help distinguish between benefits paid to employees on work-related compensation and other benefits paid to beneficiaries. The comments also discussed the report presentation of the statistics on potential fraud which were based on our sample results and are independent of other issues presented.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

The audit was conducted to identify opportunities for the Department of Veterans Affairs (VA) to reduce costs associated with its Workers' Compensation Program (WCP). Review of this program was suggested by the Office of the Assistant Secretary for Management, Veterans Health Administration (VHA), and the National Cemetery System (NCS) because of concerns over WCP costs. Specific project objectives were to:

- Identify opportunities to enhance VA's case management.
- Determine the feasibility and potential cost efficiencies to VA by converting from Federal to state WCP regulations and processing.
- Follow up on selected cases from Office of Inspector General (OIG) audit work completed in 1992.
- Compare program cost to budget at individual VHA medical facilities.

Scope and Methodology

The audit focused on VHA and NCS because they comprise about 95 percent of VA's WCP costs. We reviewed 137 randomly selected WCP cases, selected from a national universe of 15,753 VHA and NCS WCP records that had medical or compensation payments in Charge Back Year (CBY) 1996¹. Site visits were conducted at 30 VHA facilities, 4 Veterans Integrated Service Network (VISN) Offices, and 1 NCS cemetery. WCP case files were requested from 51 VHA facilities and 3 NCS cemeteries for in-house case reviews. We also conducted a telephone survey of 74 sites to discuss local policies and procedures. (*A listing of the 89 VA facilities included in project case review work is in Appendix VIII on pages 41 to 43.*) During site visits, we reviewed WCP case files, facility personnel and financial records, and local program policies and procedures. Additionally, we reviewed 70 WCP cases from the 1992 OIG audit of this program area.

Discussions were held with VA officials in the Offices of the Assistant Secretary for Management, Under Secretary for Health, Deputy Assistant Secretary for Human Resources Management, and NCS. During site visits, we met with VISN Network Officers, facility Directors and Associates, and other management officials, including

¹ CBY 1996 – A CBY begins on the first day in July and ends on the last day in June. The WCP costs for work-related injuries and deaths are billed to employing agencies at the end of Department of Labor's fiscal accounting period. The CBY 1996 period was July 1, 1995 to June 30, 1996.

facility WCP staff. We met with program officials in Department of Labor's (DOL) Office of Workers Compensation Program (OWCP) to identify current OWCP priorities and initiatives.

We used automated data from VA and OWCP to perform national program analysis of VA's WCP cost and to identify the audit universe. Additionally, we used this automated data as corroborating evidence to audit findings, recommendations, and conclusions. An assessment of the reliability of this automated data was made by comparison of selected data elements to documentation in case files. We concluded, based on our comparison tests, that the data we used to accomplish the project objectives was sufficiently reliable.

Based on our initial project review work, we limited our review efforts on one project objective, suggested by VA, to evaluate the feasibility of converting from Federal to state WCP laws and processing. A recent General Accounting Office (GAO) report² addressed this issue and we provided it to VA officials for review. Based on the GAO review results, it was agreed that no additional work would be completed on this objective. The GAO report concluded that the Federal Employees Compensation Act (FECA) generally provides the same type of benefits to injured Federal workers as those provided to injured workers covered under state laws. This report identified three principal ways FECA and state laws differ and concluded that other less substantive similarities and differences make each workers' compensation system unique. The three principal differences are as follows:

- Authorized maximum weekly benefit amounts under FECA is greater than under state laws; however, less than one percent of the beneficiaries on long-term compensation rolls receive compensation benefits based on the authorized maximum benefit amount, according to OWCP.
- FECA provides claimants with one or more dependents an additional benefit of eight and one third percent of salary, which is provided only when authorized maximum benefit levels are not exceeded. While seven states authorize additional dependent benefits, increased benefits are for a fixed amount ranging from \$5 to \$10 per week for a spouse and/or each child.
- FECA provides eligible Federal workers who suffer traumatic injuries³ with salary Continuation of Pay (COP) benefits for a period not to exceed 45 days. After the 45th day, there is a 3-day waiting period before a wage-loss benefit begins. Under state workers' compensation laws, injured workers must be out of work for a 3 to 7 day

² GAO Report No. GAP/GGD-96-76 (issued April 1996) "Workers' Compensation –Selected Comparisons of Federal and State Laws"

³ OWCP defines traumatic injury as a wound or other condition of the body caused by external force that is identifiable by time and place of occurrence and part of body affected. It must be caused by a specific event or incident, or series of events or incidents, within a single day or work shift.

waiting period before they can receive wage-loss benefits and do not generally receive COP.

The audit was performed in accordance with generally accepted government auditing standards for staff qualifications, independence, due professional care; field work standards for planning, supervision and evidence; and, reporting standards for performance audits.

BACKGROUND

The Federal Employees' Compensation Act (FECA) provides compensation and medical benefits to civilian employees of the Federal government for personal injury or disease sustained while in the performance of duty. FECA also provides benefits to an employee's dependents if the work-related injury or disease results in the employee's death. Benefits provided under the FECA program constitute the sole remedy against the United States for work-related injury or disease. Additionally, under FECA, employees sustaining a traumatic injury in performance of duty are entitled to Continuation of Pay (COP) for up to 45 days while they recover from the injury. The Department of Veterans Affairs' (VA) Workers' Compensation Program (WCP) was established to administer employees' claims filed under FECA.

Legislative History

Administration of FECA was initially vested in an independent establishment known as the United States Employees' Compensation Commission. This commission was abolished and its functions were transferred to the Federal Security Agency's newly created Bureau of Employees' Compensation. In 1950, responsibility for administration of the FECA program was transferred to the Department of Labor (DOL). Currently, the program is administered by DOL's Employment Standards Administration, Office of Workers' Compensation Programs (OWCP). The employing agency is responsible for initiation of claims and much of the case management. Guidance for these responsibilities are contained in OWCP's publication CA-810 "Injury Compensation for Federal Employees, A Handbook for Employing Agency Personnel" revised in February 1994.

OWCP Responsibilities

OWCP is responsible for adjudicating claims and making payments to claimants. OWCP provides wage replacement benefits, payment for medical treatment, vocational rehabilitation, and certain other benefits to injured workers and their dependents. The OWCP Division of Federal Employees' Compensation has responsibility for adjudicating FECA claims filed by Federal employees. In addition to payment of medical costs and compensation benefits, case management services provided by OWCP include:

- Assistance in returning to work – FECA gives injured workers the right to reclaim their Federal jobs within one year of the onset of wage loss.
- Assignment of a registered nurse to work with injured employees who cannot return to work soon after the injury.

- Referral to a medical specialist for second opinion examination when necessary or required for additional medical information.
- Vocational rehabilitation services if the employees are unable to return to work at the employing agency or in the previous job/occupation category.

OWCP makes payments related to FECA claims out of the Employees' Compensation Fund and bills the employing agency annually. The employing agency then reimburses this fund through annual operating appropriations. Additionally, OWCP provides the employing agencies a quarterly listing of payments made to claimants and service providers.

Employing Agency Responsibilities

The employing agency has no authority for approval or denial of claims filed under FECA; however, the employing agency may dispute paying of COP. This process is known as controversion of claim. There is an appeal process for injured employees if the claim is denied. However, once wage loss compensation has been approved by OWCP, the employing agency cannot controvert the decision. VA as employing agency is responsible for:

- Ensuring that appropriate agency personnel such as supervisors understand their responsibilities under FECA.
- Notifying the injured employees of their rights and obligations under FECA.
- Controverting questionable claims.
- Initiating the FECA claim and ensuring timely notification to OWCP.
- Providing and tracking COP if employees are unable to return to work.
- Assisting employees with returning to work as soon as possible by providing light or modified work duties.
- Monitoring the medical status of injured employees to ensure they are able to return to work as soon as possible.

The Assistant Secretary for Human Resources and Administration is responsible for providing Departmental organizations with overall program guidance. WCP administration is decentralized within VA; therefore, program responsibilities in the Veterans Health Administration (VHA) and National Cemetery Service (NCS) are carried out by the field facilities. Each facility is responsible for designating an employee to serve as the facility's workers' compensation specialist or coordinator. This position is generally located within the Human Resource Service and has collateral duties assigned to the position.

Program Process

When employees are injured while in performance of their duties, prompt action should be taken to ensure the employees receive the appropriate FECA benefits and returned to duty as soon as possible. Once employees report their injury, they are to be informed of their rights and obligations under FECA. Generally, employees should receive appropriate medical attention, if needed, from VA's Employee Health Unit or employees' private physician. If employees are unable to return to their duties as a result of the injury, then they are entitled to up to 45 days of COP. COP is authorized for traumatic injury but not for occupational or other diseases. If employees are still unable to return to work at the end of the 45 days, they are entitled to begin receiving compensation for loss wages (after 3 days of no wages). The compensation will be based on employees' wage earning capacity. Employees' wage earning capacity is based on medical assessments and the employees' pay rate at the time of the injury. The WCP case should be monitored until cleared by a physician to return to work.

Audit History

Two prior OIG audit reports⁴ found continued problems in VA's management of its Workers' Compensation Program (WCP) cost.

1985 OIG Audit Work in WCP Area

- VA OIG conducted an audit of claims filed under FECA. The report cited the absence of clear program guidelines and the lack of overall responsibility for management of program. The report projected that program cost would reach \$98 million by 1990 if corrective actions were not taken to control costs.
- The principal recommendation was to assign responsibility in VA for program review, oversight, and evaluation of Department, agency, and facility activities. In response, VA established a part-time WCP Specialist position and developed program guidelines. A VHA circular, which provided instructions for managing WCP cases and costs, was issued in 1989.

1992 OIG Audit Work in WCP Area

- VA OIG conducted an audit of the WCP as part of a government-wide review of the FECA program sponsored by the President's Council on Integrity and Efficiency. The report cited deficiencies in program oversight and management. Specifically, VA was not effectively returning injured employees back to work, was not properly

⁴ OIG Reports - VA Management of FECA Cost for Work-Related Injuries (issued 2/85) and Audit of VA Management of Federal Employees' Compensation Act Program (issued 9/93).

monitoring long-term cases, not verifying chargeback costs, and not aggressively challenging questionable claims. Also, the report noted that WCP costs in 1990 had reached \$116 million, or \$18 million above the previous OIG report projection.

- The principal recommendations were to improve program management and provide accountability at the local level by changing policy so that associated WCP costs are charged back to local facilities. In response, VA began charging part of WCP costs to local facilities in 1994 and all of the costs in 1995. VA also began developing a WCP Management Information System in 1994, and issued new policies and procedures in August of 1997⁵.

Current OIG Audit Efforts in WCP Area

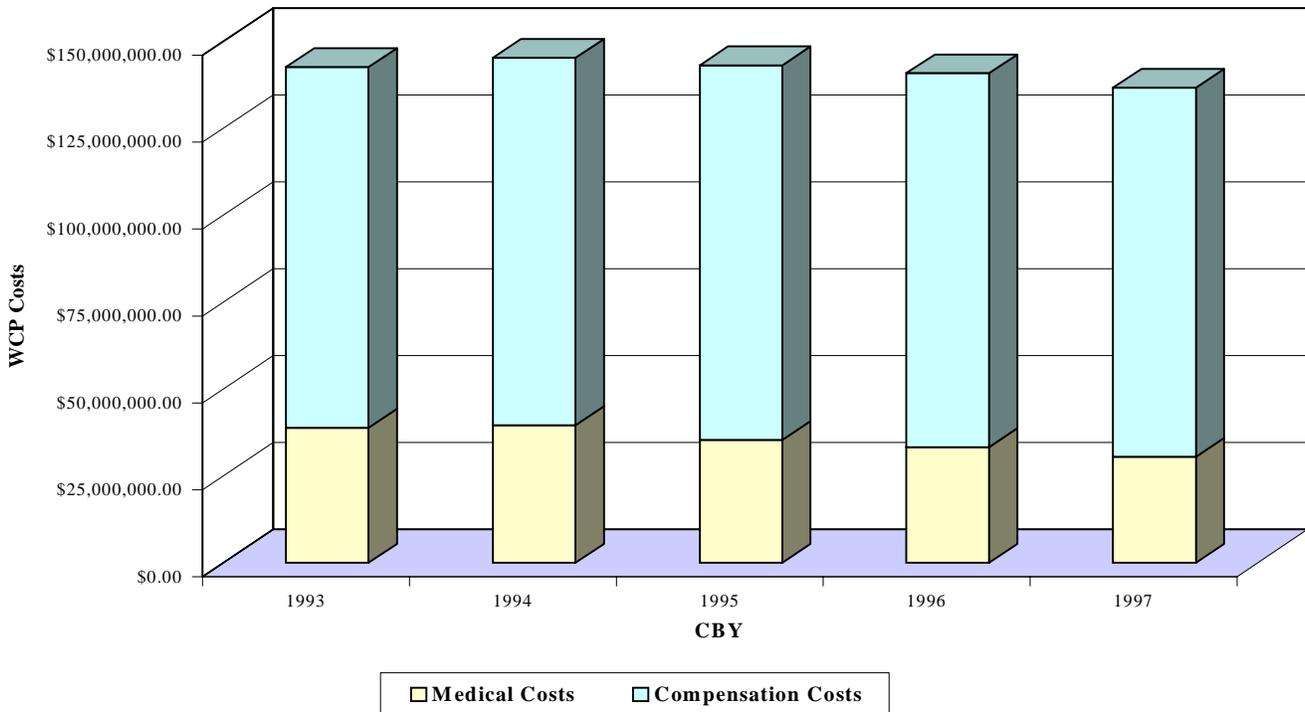
- The current audit found that improvements had been made and WCP costs had been reduced. Our review found that the Department's success in reducing WCP costs has resulted primarily from more active management of new cases with an associated reduction of medical costs. From CBY 1995 to 1997 WCP medical costs decreased 13.7 percent from \$35.3 to \$30.4 million. However, during the same time period, WCP compensation costs decreased by only 1.4 percent from \$107.4 to 106.2 million.

Program Size and Costs

Government-wide, VA has the fourth largest WCP cost. Annual FECA cost incurred by all Federal agencies is about \$1.8 billion. VA's WCP cost was about \$145 million in CBY 1994 which decreased to about \$136 million in CBY 1997. These costs will be paid out of VA's FY 1998 annual operating appropriations. VA's annual WCP costs for 1993 -1997 are shown on the following page. *(A detailed summary of VA WCP costs for CBYs 1993 though 1997 is presented in Appendix V on pages 31 and 32.)*

⁵ In addition to VA's initiatives in response to the OIG recommendations, the Department of Labor began developing automated processing programs in 1992 to reduce the number of duplicate payments made for medical bills associated with WCP claims.

VA WCP Costs (1993-1997)



When the OIG audited this program area in 1992, long-term WCP cases (over 5 years old) represented about 11.5 percent of the population and accounted for over 50 percent of the compensation benefits. The current audit shows that cases over 5 years old now represent about 36 percent of the population but account for about 77 percent of the compensation benefits in CBY 1996. (*An aging schedule of VA's WCP cases and costs is presented in Appendix VII on pages 37 to 39.*) As a result, our audit focused on ways to enhance case management associated with these older cases that account for a substantial amount of VA's WCP costs.

SUMMARY OF NATIONAL STATISTICAL SAMPLE RESULTS

SAMPLING PLAN

Audit Universe

To evaluate the overall management of VA's WCP claims, we reviewed a statistically random sample of WCP claims. Working with the OIG's Statistician we defined the population from all VA WCP claims that had a compensation or medical payment in CBY 1996. The sample population consisted of 15,753 (5,285 compensation and medical payments and 10,468 medical payments only) VHA and NCS WCP claims totaling \$132,802,934 for compensation and medical payments in CBY 1996. The audit focused on VHA and NCS claims because of their request for assistance and by the fact that their claims represent about 95 percent of all VA WCP claims in CBY 1996.

Sample Design

The purpose of our case review was to address the following three objectives:

- Identify opportunities to enhance VA's case management associated with WCP claims.
- Assess the Department's efforts in addressing program-operating deficiencies cited in prior OIG audits.
- Aid in assessing the reliability of computer-processed data maintained in VA's WC-MIS.

A random sample was drawn from the population, based on an attribute sampling design with a 10 percent error rate and a 95 percent confidence level. The sample consisted of a total of 137 records from 83 different VHA and NCS field facilities. We reviewed the full sample of 137 records in order to attain an acceptable level of accuracy.

Criteria used to establish the population, number of claimants, and sample size is as follows:

- VHA or NCS compensation or medical payment made between July 1, 1995 and June 30, 1996 (CBY 1996).
- Number of records in population – 15,753.
- Sample size 137.
- Confidence level 95 percent with 10 percent error rate.

SAMPLE RESULTS

Based on the results of our review, we estimate in CBY 1996 that:

- 1,265 WCP claims have no case file maintained by VA [11 exceptions divided by 137 cases sampled (8.03 percent) times 15,753 cases in universe equals 1,265].
- 1,078 WCP claimants could have been removed from the WCP rolls by returning employees back to some type of work (light duty, modified duty, etc.) or by more timely follow up actions [28 exceptions divided by 137 cases sampled (20.4 percent) times 5,285 claimants receiving compensation for work related injury equals 1,078].
- 567 WCP claims totaling about \$9 million could be fraudulent claims [5 potential fraud cases divided by 137 cases sampled (3.6 percent) times 15,753 cases in universe equals 567 times \$15,810.12 average amount of compensation and medical paid (in five cases) in CBY 1996 equals \$8,964,338].
- 457 WCP claims could have questionable medical payments that were duplicate payments or not related to accepted medical condition [4 exceptions divided by 137 cases sampled (2.9 percent) times 15,753 cases in universe equals 457].
- \$17.5 million in WCP compensation cost could have been potentially avoided by improved case management (return employees back to work/removal from the WCP rolls) in CBY 1996. *(See listing of exceptions and calculation of estimated cost avoidance on pages 27 and 28.)*
- \$246.9 million in future WCP compensation cost could be potentially avoided for projected lifetime benefits for claimants over the next 18 years. *(See listing of exceptions and calculation of estimated cost avoidance on pages 27 and 28.)*

PROJECTION TO POPULATION (95 percent confidence level, +/- 6.6 percent)

A listing of the 28 cases (compensation exceptions) used in calculation of the estimated cost avoidance is on pages 27 and 28. Our cost avoidance estimates are based on compensation payments only for active cases. We did not use medical payments or WCP cost for closed cases. To calculate the estimated lifetime benefits that would be avoided, we multiplied the estimated cost avoidance in CBY 1996 by the number of years until the claimants reach age 70. (We used age 70 in calculating future lifetime benefits since this is the generally accepted method used by other Federal agencies.) We then multiplied the average future cost avoidance by the 1,078 at risk cases in the population.

APPENDIX III

Estimated Annual Potential Cost Avoidance

Point Estimate (Midpoint):

Population (VHA and NCS CBY 1996 Compensation Cases)		5,285
Times Rate of Occurrence (Exception Rate 28/137 = 20.4 percent)		0.204
Equal Potential Number of Cases		1,078
Times Average Compensation Cost Per Exception		\$16,188
Equal Estimated WCP Cost Avoidance in CBY 1996 (1998 Budget Year)		\$17,450,168 *

Lower Limit:

Population		5,285
Times Rate of Occurrence (20.4 – 6.6 = 13.8 percent)		0.138
Equal Potential Number of Cases		729
Times Average Compensation Cost Per Exception		\$16,188
Equal Estimated WCP Cost Avoidance		\$11,800,717 *

Upper Limit:

Population		5,285
Times Rate of Occurrence (20.4 + 6.6 = 27 percent)		0.27
Equal Potential Number of Cases		1,427
Times Average Compensation Cost Per Exception		\$16,188
Equal Estimated WCP Cost Avoidance		\$23,099,620 *

*Differences caused by rounding in calculations.

**Listing of Exceptions by VISN and
Calculation of Estimated Cost Avoidance**

IG CNTRL	VISN	Clamnt's Age (6/30/96)	Age of Case (6/30/96)	Comp EXCP.	No File	COMPENS. AMOUNT	Clamnt's Yrs To Age 70	Future At Risk
19	2	52	8	1		\$28,456	18	\$512,205
14	3	39	14	1	1	5,357	31	166,067
24	3	38	7	1	1	4,413	32	141,216
25	3	74	18	1		24,947		
27	3	46	10	1		4,101	24	98,424
66	3	77	20	1	1	28,876		
36	4	40	1	1		18,727	30	561,816
31	4	76	17	1	1	24,826		
49	6	70	20	1	1	8,974		
6	7	40	1	1		18,014	30	540,411
5	8	50	9	1		11,175	20	223,490

**Listing of Exceptions by VISN and
Calculation of Estimated Cost Avoidance
(Continued)**

IG CNTRL	VISN	Clamnt's Age (6/30/96)	Age of Case (6/30/96)	Comp EXCP.	No File	COMPENS. AMOUNT	Clamnt's Yrs To Age 70	Future At Risk
136	8	54	7	1	1	\$13,349	16	\$213,581
82	9	60	19	1		9,264	10	92,643
58	10	68	9	1		27,390	2	54,781
87	10	61	11	1		13,102	9	117,916
64	11	72	11	1		18,763		
107	12	58	11	1		15,406	12	184,873
68	12	41	6	1		7,532	29	218,428
90	16	56	9	1		11,175	14	156,443
67	19	48	7	1		13,496	22	296,909
98	20	68	10	1	1	29,729	2	59,458
95	21	66	14	1		13,444	4	53,775
126	22	55	6	1		18,564	15	278,453
131	22	46	7	1		7,363	24	176,712
127	22	62	6	1		18,512	8	148,092
53	22	71	23	1	1	14,358		
119	22	77	21	1		24,878		
9	NCS	43	3	1		19,062	27	514,662
Totals				28	8	\$453,251		\$4,810,355
Averages		57	11			\$16,188	18	\$229,065
Times Estimated At Risk Cases (1,078)						\$17,450,168		\$246,931,574

Note: The \$246.9 million in WCP compensation cost represents future costs that could be potentially avoided for projected lifetime benefits for claimants over the next 18 years. We believe that this is a conservative estimate of the potential future dollar impact to VA since our cost avoidance estimates are based on a national statistical sample of compensation payments for only active cases. Our calculation did not include case exceptions from our sample results involving closed cases or for cases that only involved medical payments. Also, our calculation of estimated lifetime benefits that would be avoided is based on the number of years until the claimants reach age 70. This eliminated case exceptions and related costs in our sample involving claimants who had already reached age 70 or greater. Finally, our projected dollar impact figure has not been adjusted for future potential inflation costs.

SUMMARY OF REVIEW RESULTS ON FOLLOW UP CASES

As part of our audit of VA’s WCP cost, we conducted follow up reviews on 70 WCP cases from a prior OIG audit to update the current status of the cases and determine the effectiveness of case management. In 1992, the OIG audited VA’s WCP, as part of a government wide review, sponsored by the President’s Council on Integrity and Efficiency. We used VA’s WC-MIS to determine if the cases were still active/open. We reviewed all the cases from the prior audit at facilities where site visits were made.

Our review found that improved case management was still needed in 21 (64 percent) of the remaining 33 active cases. Case management could have been improved by offering light duty in 5 cases and by more timely follow up in 14 of the cases. There was no case file for 3 of the 21 cases. Additionally, we found indicators of fraud in 3 of the 21 cases. Examples of case management problems identified follows:

- An employee was injured in April 1986, and unable to work. The last action taken by the facility WCP specialist on this case was in November 1987. The action was in response to a request from DOL’s OWCP stating that no light duty position was available and that the claimant had applied for disability retirement.
- An employee was injured in April 1984. The claimant returned to work in a light duty capacity, intermittently until the supervisor told the facility’s WCP specialist they could not use the claimant in a light duty capacity. The last action by the facility on this case was April 1994. This action was a request to update working restrictions from the claimant’s treating physician. The physician did not respond and no follow up action was taken by the facility.

The schedule below and on the next page is a listing of the 21 cases with exceptions and the date of the last action taken by the facility. The last action date could not be determined on the 3 claims with no case files.

Schedule of Follow Up Exceptions

IG Cntrl.	VISN	Claimant's Age (6/30/96)	Age of Case (6/30/96)	Exception	No File	Last Action
1	3	60	11	1	1	
6	3	53	5	1		04/05/94
19	3	72	19	1		02/09/95
33	3	48	10	1		10/02/93
39	3	31	7	1	1	

**Schedule of Follow Up Exceptions
(Continued)**

IG Cntrl	VISN	Claimant's Age (6/30/96)	Age of Case (6/30/96)	Exception	No File	Last Action
45	5	39	11	1		06/12/95
61	5	76	14	1		11/06/96
62	5	49	17	1		07/29/93
63	5	71	13	1		05/07/96
9	10	69	14	1		02/09/95
10	10	64	11	1		04/10/96
7	12	64	7	1		08/07/96
16	12	40	12	1		04/01/94
28	22	40	11	1		09/11/97
30	22	59	10	1		11/06/87
31	22	51	6	1		09/09/97
58	22	61	24	1		09/08/97
65	22	64	18	1	1	
66	22	79	11	1		03/09/94
67	22	69	11	1		03/25/97
69	22	45	9	1		01/24/97
		Average Age of Claimant 57 Yrs.	Average Age of Case 12 Yrs.	21	3	

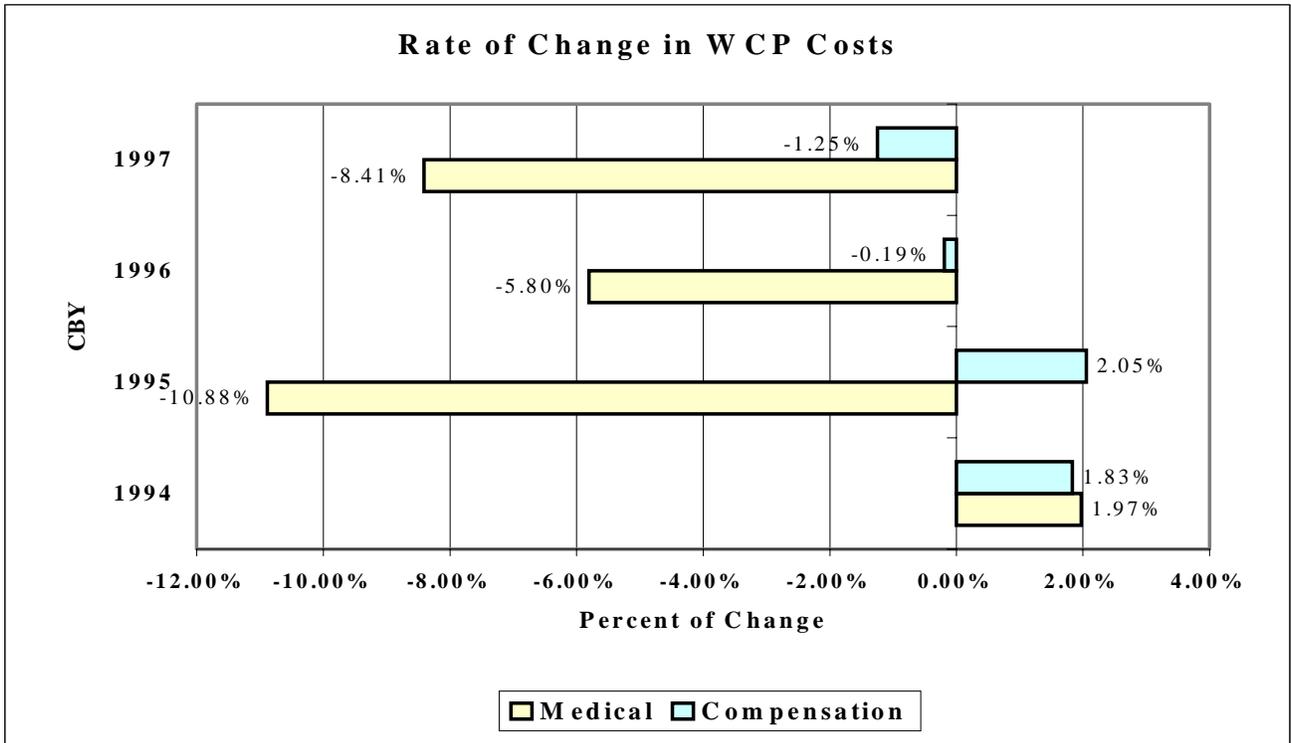
SUMMARY OF WORKERS' COMPENSATION COSTS
FOR CHARGE BACK YEARS 1993-1997

According to program officials in Department of Labor (DOL), Office of Workers Compensation Programs (OWCP), VA has the fourth largest WCP cost government-wide. Our review found that VA's WCP costs for CBYs 1993-1997 were substantial and totaled about \$708 million. A schedule of these WCP costs is presented below.

Schedule of WCP Costs for CBYs 1993 -1997

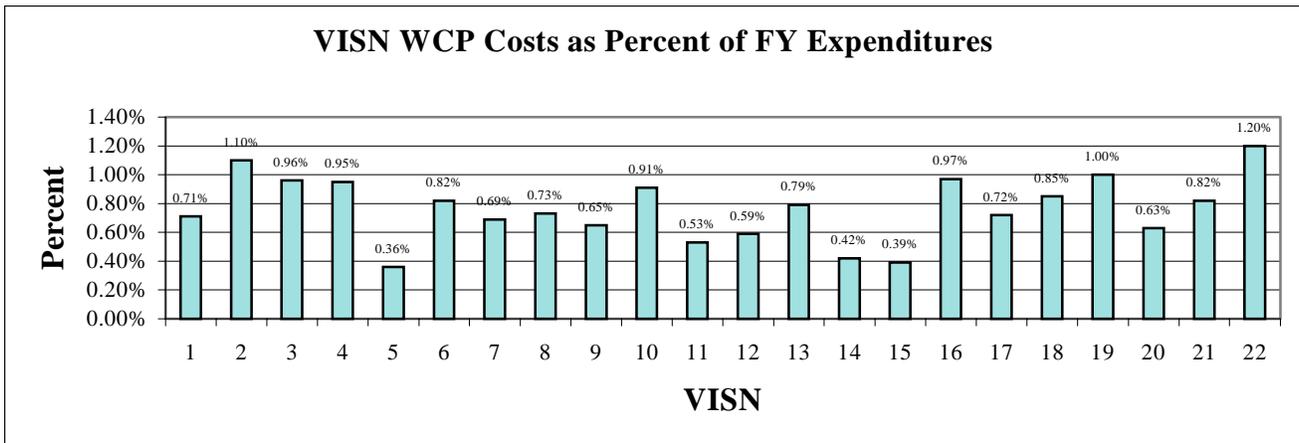
CBY	Medical Costs	Medical Rate Of Change	Compensation Costs	Comp. Rate Of Change	Total WCP Costs	Total Rate Of Change
1993	\$38,791,283		\$103,682,530		\$142,473,814	
1994	39,554,735	1.97%	105,581,927	1.83%	145,136,662	1.87%
1995	35,252,907	-10.88%	107,744,006	2.05%	142,996,914	-1.47%
1996	33,206,845	-5.80%	107,537,171	-0.19%	140,744,016	-1.58%
1997	30,414,832	-8.41%	106,192,273	-1.25%	136,607,105	-2.94%
Totals	\$177,220,602	-23.11%	\$530,737,907	0.58%	\$707,958,514	-5.88%
Percent of change CBY 1995 - 1997		-13.72%		-1.44%		-4.47%

As discussed in the report findings and reflected in the above table, the Department has taken various actions that have resulted in a reduction in its annual WCP costs since CBY 1994. As part of the Department's implementation plan for OIG recommendations made in a 1992 audit, program costs were transferred from the Department level to the facility level for accountability and control and to encourage more aggressive case management. Also, additional actions were taken by DOL and VA to eliminate duplicate payments on medical bills. As a result of these actions, WCP medical cost decreased from about \$40 million in 1994 to about \$35 million in CBY 1995. By CBY 1997, medical costs had further decreased by 23 percent to about \$30 million. Although at a much lower rate, WCP compensation costs also began to decrease in CBY 1996. From CBY 1995 to CBY 1997 WCP compensation costs decreased 1.4 percent, or from about \$108 million to \$106 million. The chart on the next page shows the percent of change in WCP medical and compensation costs for the Department from CBYs 1994 to 1997, using CBY 1993 as the baseline year.



**COMPARISON OF WORKERS' COMPENSATION COSTS
AND EXPENDITURES BY VISN**

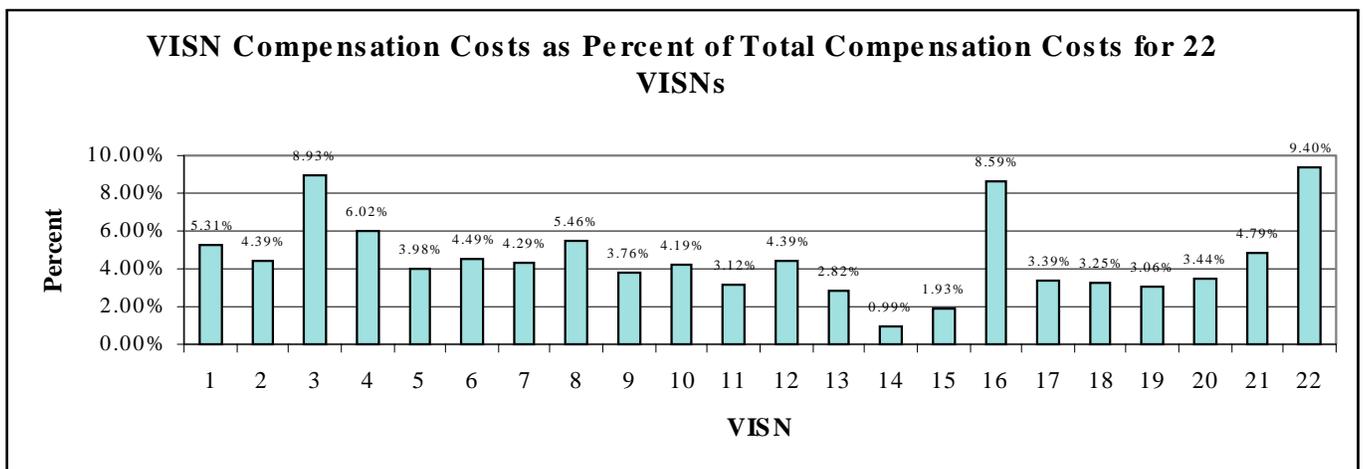
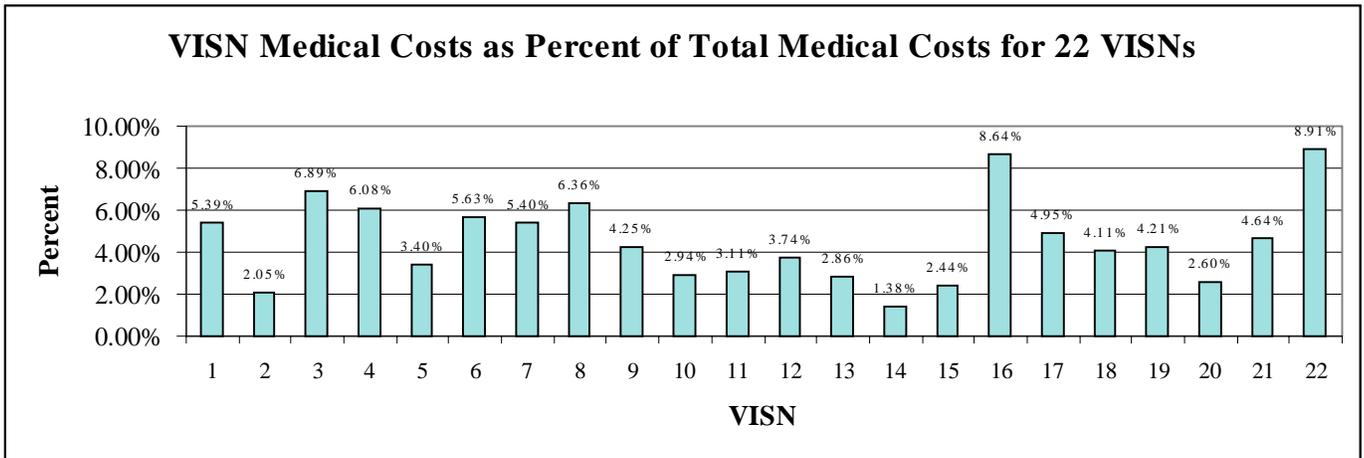
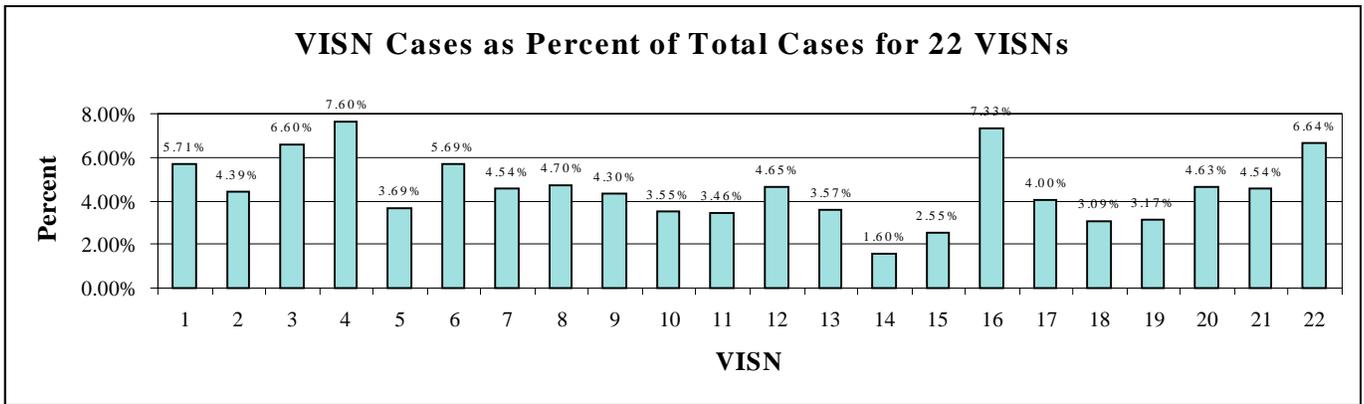
To assist in our overall analysis of VA's WCP costs, we compared each of the 22 Veterans Integrated Service Network's (VISN) FY 1996 operational expenditures to their CBY 1996 WCP costs. We could not perform the same analysis for National Cemetery Service (NCS) because NCS WCP records do not always have the correct station identifier. NCS is aware of this problem and is currently working on correcting the station identifier information. The FY 1996 expenditure data was obtained from a certified report prepared by VA for use in the OIG's audit of VA's Consolidated Financial Statements. The expenditure data we used represent all VISN funds expended, including prior year obligations. The WCP cost data was obtained from DOL's CBY 1996 automated file (June 30, 1996 summary file). On average, VISN CBY 1996 WCP costs totaled about .76 percent of their total FY 1996 expenditures. The graph below shows that three VISNs had WCP costs of over 1 percent of their total FY 1996 expenditures. (A schedule of each VISN's CBY 1996 WCP costs and FY 1996 expenditures is on page 35.)



We also compared individual VISN WCP data to the total WCP data for all 22 VISNs. The analysis showed that WCP claims with compensation or medical payments in CBY 1996 ranged from 249 cases in VISN 14 to 1,180 cases in VISN 4. Total WCP costs in CBY 1996 ranged from \$1,438,704 in VISN 14 to \$12,370,686 in VISN 22. The average number of cases per VISN was 705 with average WCP costs of \$6,056,402. Three VISNs had WCP costs in excess of \$10 million and four VISNs had over 1,000 cases with payments in CBY 1996. We believe that this type of analysis can be used by the Department to monitor WCP costs and identify VHA facilities where WCP claim expenditure levels need to be reviewed.

APPENDIX VI

The three graphs on this page show individual VISN data as a percent of the totals for all 22 VISNs. (Detail schedules of this data is on pages 35 and 36.)



**Schedule of VISN CBY 1996 WCP Costs
As a Percent of VISN FY 1996 Expenditures**

VISN	Facilities In VISN	CBY 1996 Cases	VHA CBY 1996 WCP Costs	VHA FY 1996 Net Expenditures	WCP Costs as Percent of Exps.
1	10	886	\$7,096,445	\$998,137,866	0.71%
2	6	682	5,118,801	466,437,814	1.10%
3	8	1,025	11,262,882	1,175,231,491	0.96%
4	11	1,180	8,039,408	850,100,675	0.95%
5	7	573	5,123,595	1,429,141,922	0.36%
6	8	883	6,340,581	769,079,250	0.82%
7	9	704	6,065,507	873,260,218	0.69%
8	7	729	7,556,552	1,034,815,505	0.73%
9	7	668	5,167,185	788,962,535	0.65%
10	5	551	5,197,607	573,102,432	0.91%
11	8	537	4,154,681	782,750,262	0.53%
12	8	721	5,647,387	953,131,800	0.59%
13	6	554	3,765,549	479,473,384	0.79%
14	6	249	1,438,704	340,189,026	0.42%
15	8	396	2,729,545	701,063,443	0.39%
16	10	1,138	11,462,839	1,187,603,827	0.97%
17	7	621	5,000,900	694,982,944	0.72%
18	7	479	4,596,084	543,485,792	0.85%
19	8	492	4,440,097	441,903,586	1.00%
20	9	718	4,326,353	683,971,860	0.63%
21	7	704	6,339,459	772,066,859	0.82%
22	7	1,030	12,370,686	1,027,462,700	1.20%
TOTALS	169	15,520	\$133,240,847	\$17,566,355,191	0.76%

Schedule of CBY 1996 WCP Data by VISN

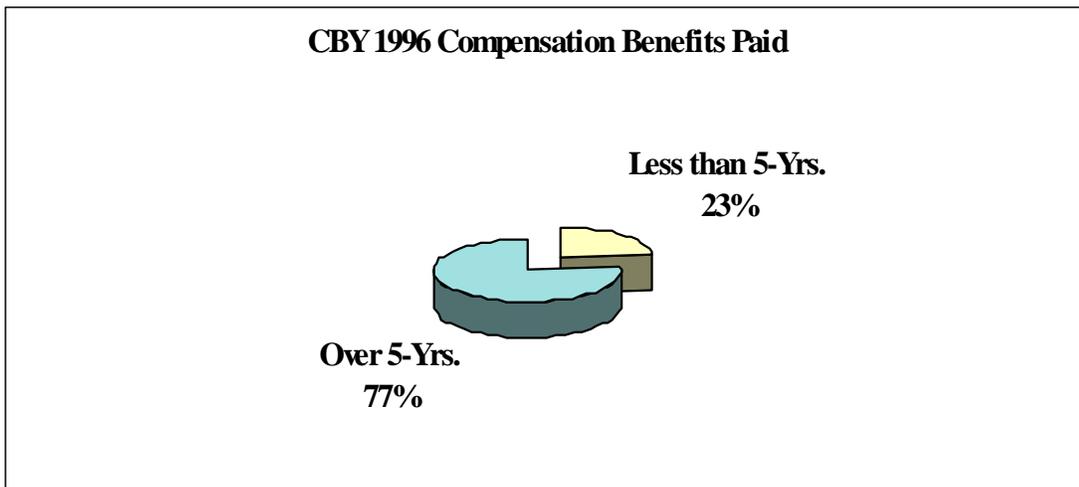
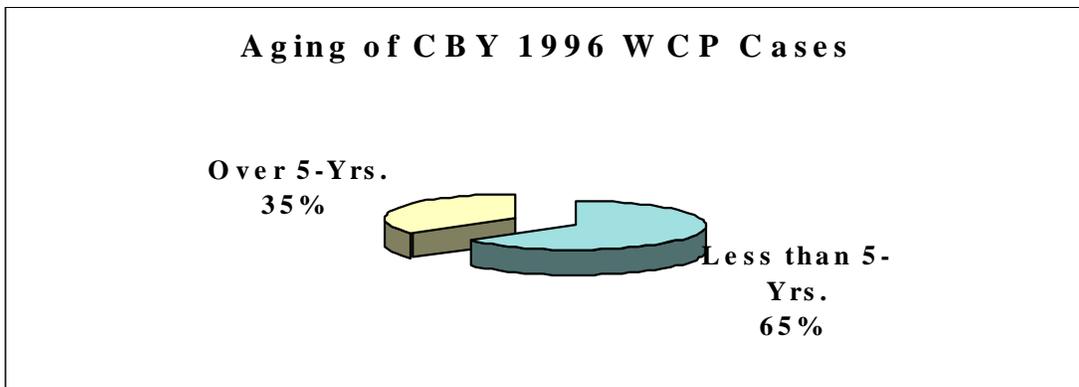
VISN	CBY 1996 Cases	Compensation Paid in CBY 1996	Medical Costs Paid in CBY 1996	Total CBY 1996 WCP Costs
1	886	\$5,417,809	\$1,678,637	\$7,096,445
2	682	4,479,762	639,039	5,118,801
3	1,025	9,117,140	2,145,743	11,262,882
4	1,180	6,145,181	1,894,227	8,039,408
5	573	4,064,348	1,059,248	5,123,595
6	883	4,588,979	1,751,602	6,340,581

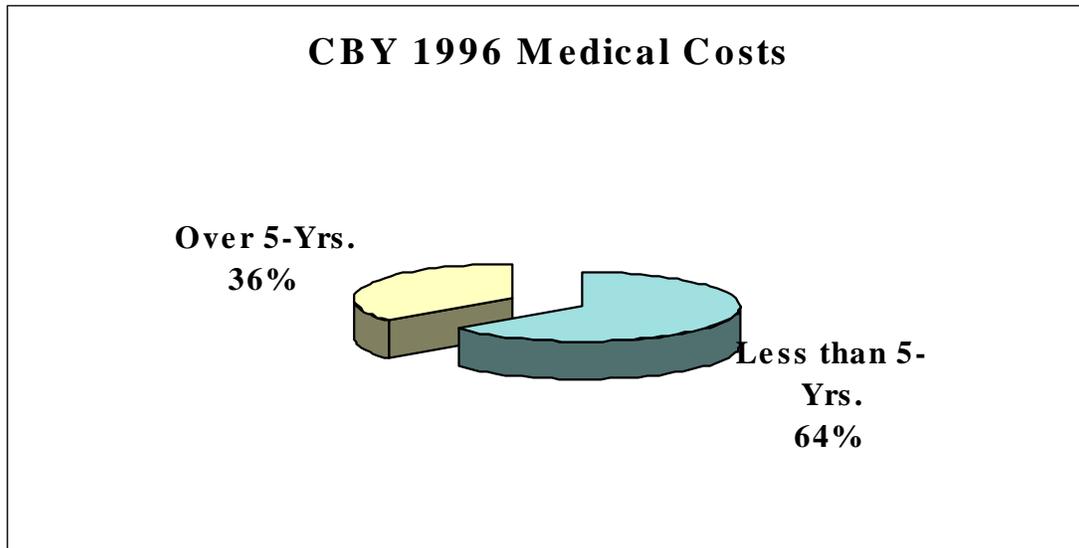
**Schedule of CBY 1996 WCP Data by VISN
(Continued)**

VISN	CBY 1996 Cases	Compensation Paid in CBY 1996	Medical Costs Paid in CBY 1996	Total CBY 1996 WCP Costs
7	704	\$4,384,268	\$1,681,238	\$6,065,507
8	729	5,575,151	1,981,401	7,556,552
9	668	3,843,662	1,323,523	5,167,185
10	551	4,280,924	916,683	5,197,607
11	537	3,186,142	968,539	4,154,681
12	721	4,483,827	1,163,560	5,647,387
13	554	2,875,288	890,261	3,765,549
14	249	1,008,251	430,453	1,438,704
15	396	1,970,582	757,962	2,727,972
16	1,138	8,772,298	2,690,541	11,462,839
17	621	3,461,150	1,539,750	5,000,900
18	479	3,316,079	1,280,005	4,596,084
19	492	3,128,124	1,311,972	4,440,097
20	718	3,516,388	809,964	4,326,353
21	704	4,895,630	1,443,829	6,339,459
22	1,030	9,595,517	2,775,169	12,370,686
Totals	15,520	\$102,106,501	\$31,134,346	\$133,240,847
Averages	705	\$4,641,205	\$1,415,198	\$6,056,402

**AGING SCHEDULE OF WORKERS' COMPENSATION
CASES AND COSTS**

We aged the 16,514 WCP records that had a compensation or medical payment made in CBY 1996 using June 30, 1996 (end of CBY 1996) and the Date of Injury (DOI). The aging charts below show that while cases over 5 years old represent only about 35 percent of the total cases, the compensation benefits paid for them is over 77 percent of the \$107,513,521 in compensation costs for CBY 1996. As shown by the aging chart on the next page, the medical costs for cases over 5 years old represents only about 36 percent of the \$33,215,751 in medical costs for CBY 1996. Our aging analysis shows that Department efforts to reduce WCP costs need to focus attention on reducing the significant compensation costs associated with older cases. On the other hand, efforts to reduce medical costs need to focus attention on newer WCP cases, which account for a significant portion of these costs. *(The detail distribution of cases and costs by age of case is presented on pages 38 and 39.)*





Detail Aging Distribution of WCP Cases and Costs

Frequency of CBY 1996 Summary Records Based on Age of Case

Age of Case Based on DOI	All VA	Percent of Total	VHA	Percent of Total	NCS	Percent of Total
Less than 2-Yrs.	7,320	44.33%	6,801	43.85%	118	48.56%
2 to 5-Yrs.	3,372	20.42%	3,138	20.23%	64	26.34%
5 to 10-Yrs.	2,109	12.77%	2,006	12.93%	27	11.11%
10 to 15-Yrs.	1,445	8.75%	1,394	8.99%	18	7.41%
15 to 20-Yrs.	1,024	6.20%	986	6.36%	6	2.47%
Over 20-Yrs.	1,244	7.53%	1,185	7.64%	10	4.12%
Totals	16,514	100.00%	15,510	100.00%	243	100.00%

Total CBY 1996 WCP Cost

Age of Case Based on DOI	All VA	Percent of Total	VHA	Percent of Total	NCS	Percent of Total
Less than 2-Yrs.	\$20,411,591	14.50%	\$18,797,380	14.13%	\$309,672	16.92%
2 to 5-Yrs.	25,458,197	18.09%	23,789,471	17.89%	391,540	21.40%
5 to 10-Yrs.	29,731,172	21.13%	28,167,345	21.18%	436,277	23.84%
10 to 15-Yrs.	23,370,771	16.61%	22,453,515	16.88%	308,047	16.83%
15 to 20-Yrs.	18,450,341	13.11%	17,857,054	13.43%	105,854	5.78%
Over 20-Yrs.	23,307,200	16.56%	21,923,643	16.49%	278,538	15.22%
Totals	\$140,729,272	100.00%	\$132,988,408	100.00%	\$1,829,928	100.00%

APPENDIX VII

Compensation Benefits Paid in CBY 1996

Age of Case Based on DOI	All VA	Percent of Total	VHA	Percent of Total	NCS	Percent of Total
Less than 2-Yrs.	\$7,400,989	6.88%	\$6,765,964	6.64%	\$105,547	8.08%
2 to 5-Yrs.	17,169,380	15.97%	16,053,230	15.75%	312,617	23.92%
5 to 10-Yrs.	24,035,607	22.36%	22,688,958	22.26%	372,949	28.53%
10 to 15-Yrs.	20,597,293	19.16%	19,855,704	19.48%	287,987	22.03%
15 to 20-Yrs.	16,431,151	15.28%	15,880,892	15.58%	101,639	7.78%
Over 20-Yrs.	21,879,100	20.35%	20,702,519	20.31%	126,260	9.66%
Totals	\$107,513,520	100.00%	\$101,947,267	100.00%	\$1,306,999	100.00%

Medical Costs Paid in CBY 1996

Age of Case Based on DOI	All VA	Percent of Total	VHA	Percent of Total	NCS	Percent of Total
Less than 2-Yrs.	\$13,010,602	39.17%	\$12,031,416	38.76%	\$204,124	39.03%
2 to 5-Yrs.	8,288,817	24.95%	7,736,241	24.92%	78,922	15.09%
5 to 10-Yrs.	5,695,565	17.15%	5,478,387	17.65%	63,327	12.11%
10 to 15-Yrs.	2,773,477	8.35%	2,597,811	8.37%	20,060	3.84%
15 to 20-Yrs.	2,019,190	6.08%	1,976,162	6.37%	4,216	0.81%
Over 20-Yrs.	1,428,101	4.30%	1,221,124	3.93%	152,278	29.12%
Totals	\$33,215,752	100.00%	\$31,041,141	100.00%	\$522,927	100.00%

**LISTING OF 89 VA FIELD FACILITIES INCLUDED
IN PROJECT CASE REVIEW WORK**

Random Sample Cases

VISN No.	Facility Sta. No.	Facility Location (City) (State)		Sample Cases	Site Visit	Mailed In
1	402	Togus	ME	2		1
1	525	Brockton	MA	4		1
2	500	Albany	NY	1		1
2	670	Syracuse	NY	2	1	
3	526	Bronx	NY	2	1	
3	527	Brooklyn	NY	2	1	
3	533	Castle Point	NY	1	1	
3	561	East Orange	NJ	1	1	
3	604	Lyons	NJ	3	1	
3	632	Northport	NY	2	1	
4	503	Altoona	PA	1		1
4	542	Coatesville	PA	5	1	
4	595	Lebanon	PA	3	1	
4	642	Philadelphia	PA	1	1	
4	645	Pittsburgh (HD)	PA	2	1	
4	646	Pittsburgh (UD)	PA	1	1	
4	693	Wilkes-Barre	PA	2	1	
5	566	Fort Howard	MD	1	1	
5	613	Martinsburg	WV	1	1	
5	641	Perry Point	MD	2	1	
5	688	Washington	DC	3	1	
6	565	Fayetteville	NC	1		1
6	637	Asheville	NC	1	1	
6	652	Richmond	VA	1	1	
6	659	Salisbury	NC	3	1	
7	508	Atlanta	GA	1		1
7	509	Augusta	GA	1		1
7	619	Montgomery	AL	1		1
7	679	Tuscaloosa	AL	1		1
8	516	Bay Pines	FL	1		1
8	573	Gainesville	FL	3		1
8	594	Lake City	FL	1		1
8	672	San Juan	PR	1		1
9	596	Lexington	KY	5		1
9	614	Memphis	TN	1		1
9	621	Mountain Home	TN	1		1
9	626	Nashville	TN	1		1

Random Sample Cases (continued)

VISN No.	Facility Sta. No.	Facility Location		Sample Cases	Site Visit	Mailed In
		(City)	(State)			
9	626	Nashville	TN	1		1
10	541	Cleveland	OH	3	1	
11	515	Battle Creek	MI	3		1
11	550	Danville	IL	1		1
11	553	Allen Park	MI	1		1
11	569	Fort Wayne	IN	1		1
11	583	Indianapolis	IN	2		1
11	610	Marion	IN	2		1
11	655	Saginaw	MI	1		1
12	537	Chicago (WS)	IL	1	1	
12	556	North Chicago	IL	1	1	
12	578	Hines	IL	1	1	
12	695	Milwaukee	WI	3	1	
13	438	Sioux Falls	SD	1		1
13	618	Minneapolis	MN	2		1
13	656	St. Cloud	MN	1		1
15	589	Kansas City	MO	2		1
15	647	Popular Bluff	MO	1		1
15	657	St. Louis	MO	2		1
16	564	Fayetteville	AR	1		1
16	580	Houston	TX	1		1
16	586	Jackson	MS	2		1
16	629	New Orleans	LA	1		1
17	549	Dallas	TX	1		1
17	671	San Antonio	TX	1		1
18	501	Albuquerque	NM	1		1
18	649	Prescott	AZ	1		1
18	678	Tucson	AZ	2		1
19	442	Cheyenne	WY	1		1
19	554	Denver	CO	2		1
19	575	Grand Junction	CO	1		1
19	666	Sheridan	WY	1		1
20	531	Boise	ID	1		1
20	648	Portland	OR	1		1
20	653	Roseburg	OR	1		1
20	663	Seattle	WA	1		1
21	612	Martinez	CA	1		1

Random Sample Cases (continued)

VISN No.	Facility Sta. No.	Facility Location (City) (State)		Sample Cases	Site Visit	Mailed In
21	640	Palo Alto	CA	3		1
21	662	San Francisco	CA	2		1
22	600	Long Beach	CA	4	1	
22	605	Loma Linda	CA	1		1
22	664	San Diego	CA	3	1	
22	665	Sepulveda	CA	2	1	
22	691	Los Angeles	CA	3	1	
VHA Facility Totals				134	29	51
NCS	805	Calverton	NY	1		1
NCS	894	Ft. Snelling	MN	1		1
NCS	901	Riverside	CA	1		1
NCS Facility Totals				3	0	3
Random Sample Totals				137	29	54

Other VA Field Facilities Visited

Facility Sta. No.	Facility Location (City) (State)		Site Visit
673	Tampa	FL	1
898	NCS Los Angeles	CA	1
VISN 3	Bronx	NY	1
VISN 4	Pittsburgh	PA	1
VISN 8	Tampa	FL	1
VISN 22	Long Beach	CA	1
Total Other VA Field Facilities			6

Summary of VA Facilities Included In Project Work

Random Sample Cases:	
Site Visit	29
Mail In	54
Other VA Facilities Site Visit	<u>6</u>
Total VA Facilities	89

MONETARY BENEFITS
IN ACCORDANCE WITH IG ACT AMENDMENTS

REPORT TITLE: Audit of VA’s Workers’ Compensation Program Cost

PROJECT NUMBER: 7D2-009

<u>Recommendation Number</u>	<u>Category/Explanation of Benefits</u>	<u>Cost Avoidance</u>	<u>Questioned Costs</u>
1(a)	Estimated WCP compensation costs that could be potentially avoided for projected lifetime benefits through enhanced case management.	\$ 246.9 million	
Total		<u><u>\$ 246.9 million</u></u>	

Note: The \$246.9 million in WCP compensation cost represents future costs that could be potentially avoided for projected lifetime benefits for claimants over the next 18 years. We believe that this is a conservative estimate of the potential future dollar impact to VA since our cost avoidance estimates are based on a national statistical sample of compensation payments for only active cases. Our calculation did not include case exceptions from our sample results involving closed cases or for cases that only involved medical payments. Also, our calculation of estimated lifetime benefits that would be avoided is based on the number of years until the claimants reach age 70. This eliminated case exceptions and related costs in our sample involving claimants who had already reached age 70 or greater. Finally, our projected dollar impact figure has not been adjusted for future potential inflation costs. *(Details on the calculation of potential reduced WCP compensation costs are in Appendix III on pages 27 and 28.)*

**ASSISTANT SECRETARY FOR HUMAN RESOURCES AND
ADMINISTRATION COMMENTS**

**Department of
Veterans Affairs**

Memorandum

Date: June 1, 1998

From: Assistant Secretary for Human Resources and Administration (006)

Subj: Draft Report of Audit of VA's Workers' Compensation Program Cost

To: Assistant Inspector General for Auditing (52)

1. In response to your memorandum dated April 28, 1998, my staff has reviewed the draft report of audit of VA's workers' compensation program cost and offers the following comments for your consideration:

a. **Recommendation 1.a.:** Concur.

The Office of Occupational Safety and Health (OSH) and Office of Workers' Compensation Programs (OWCP) can provide the leadership and methodology to conduct a one time review of all open/active workers' compensation program cases. Your estimated figures of about \$247 million in reduced workers' compensation costs for projected lifetime benefits for such a review are not disputed. It is possible that even greater savings could be realized in approximately five years. However, it would take a team of approximately six VHA personnel skilled in workers' compensation management with augmentation from the field to conduct and follow through with such a review. Just to review and prioritize the cases would not yield the desired effect without follow through to bring the cases to resolution. This is an operations problem that needs to be addressed by the three Administrations. This responsibility is contained in VA Directive 5810, paragraph 3.c., dated August 5, 1997.

b. **Recommendation 1.b.:** Concur.

These best practices are already included in the VA Directive 5810. However, later this summer, OSH and OWCP will send out an informational letter reiterating the key best practices as written in the audit report.

c. **Recommendation 1.c.:** Concur.

VA's WC-MIS is ready and capable of logging on all VA facilities who request access. As of May 18, 1998, 136 VA medical centers are logged on the system. The remaining medical centers with the necessary computers and software may log on upon request. The modifications discussed in this audit and additional data elements and tickler files are currently being developed in cooperation with the Austin Automation Center, National Aeronautics and Space Administration (NASA), General Services Administration (GSA), Department of Justice (DOJ), and the Army Medical Command

**ASSISTANT SECRETARY FOR HUMAN RESOURCES AND
ADMINISTRATION COMMENTS**

Page 2.

Assistant Inspector General for Auditing (52)

The WC-MIS program managers are conducting a User's conference in July 1998, to refine these elements. Each agency will have to pay their share of the development cost (based on number of cases in the data base) if they desire to have these enhancements added to their data base. A rough estimate of VA's GOE cost is \$25,000 to \$50,000, which has not been budgeted at this time. Estimated time for completion and roll out is FY 2000.

d. **Recommendation 1.d.:** Concur.

Continuation of Pay (COP) is managed by providing limited duty assignments to all job-injured employees consistent with their medical limitations and qualifications. This policy and guidance is contained in Directive 5810, paragraph 2.c., 3.e.(1), f. (1) and (2), and 3.i.(5).

Recording and tracking COP cost has always been one of the major objectives of the WC-MIS data base. Currently, there is no mechanism to capture this information efficiently. When PAYVA is operational, additional screens will be available and show each quarter hour, days, dates, and amount charged to each claimant. At that time OWCP policy will be revised to include policy and guidance on recording, tracking, and use of COP information and cost as a management tool.

2. The audit report correctly states that from Chargeback Year (CBY) 1994 to CBY 1995, most of the \$9 million reduction in OWCP costs is reflected as a reduction in medical costs. However, this does not correctly reflect a complete picture of the cost reduction and does not give credit to the tremendous work done by many of our VA medical centers to reduce these costs.

3. During this time period the government-wide average compensation cost increase for all Federal agencies went up 4.7 percent compared to VA's compensation cost decrease of 0.1 percent during the same time period. From CBY 1994 to CBY 1997, the OWCP District Offices had many of their denied cases overturned by Hearings and Review and the Employees' Compensation Appeals Board (ECAB). This resulted in many claimants receiving back compensation checks with large lump sum payments covering several years. Had this not occurred, VA's decrease would have been greater.

**ASSISTANT SECRETARY FOR HUMAN RESOURCES AND
ADMINISTRATION COMMENTS**

Page 3.

Assistant Inspector General for Auditing (52)

4. We should not lose sight of some very positive case management procedures implemented at several medical centers. Summary chargeback costs for the VISNs from CBY year 1994 to CBY 1997, show a decrease in compensation costs for nine VISNs. A comparison of the medical centers chargeback costs for CBY 1996 and CBY 1997, show that 105 medical centers had a total cost decrease; 82 medical centers had a decrease in total cost and a decrease in compensation cost; and 10 medical centers had an increase in total cost, but had a decrease in compensation cost.

5. This Office previously requested to have this program remain on the watch list of Internal High Priority Areas for support reasons and agrees with your recommendation.

6. Thank you for the opportunity to review this document. If you have any questions, please contact Royce E. Britt, Office of Occupational Safety and Health (OOS1), at 273-9830.

Signed by Eugene A. Brickhouse on June 1, 1998

Eugene A. Brickhouse

ACTING ASSISTANT SECRETARY FOR MANAGEMENT COMMENTS

**Department of
Veterans Affairs**

Memorandum

Date: June 9, 1998

From: Acting Assistant Secretary for Management (004)

Subj: Comments on Draft Report of Audit of VA's Workers' Compensation Program (WCP) Cost

To: Michael G. Sullivan, Assistant Inspector General for Auditing (52)

1. Your office requested comments on the subject draft report and particularly our concurrence or non-concurrence to recommendation 3 that the Acting Assistant Secretary for Management continue to monitor the WCP as a management control Internal High Priority Area. Our office concurs in recommendation 3 and comments are provided in the attachment.
2. If your staff has any questions, they may contact Steve Arisumi at (202) 273-5531.

Signed by Stanley Sinclair on June 9, 1998 for
D. Mark Catlett

Attachment

cc:

Stephen L. Gaskell, Director, Central Office Operations Division (52)

ACTING ASSISTANT SECRETARY FOR MANAGEMENT COMMENTS

Comments on Draft Report of Audit of VA's Workers' Compensation Program (WCP) Cost

1. The draft audit report discusses the professional backgrounds of the various WCP coordinators. For the two remaining efforts in progress, we recommend gathering statistical data that might aid in finding a "best practice" for program management expertise. Comments were made in the report that "those facilities that have nursing staff involved in the program are most likely to challenge medical assessments and were instrumental in returning injured employees back to work." We question whether a combination of a nurse and human resources specialist may be an appropriate best practice. While the data appears to be focused on reducing costs, it may be appropriate to check if any of the VISNs have data to indicate that a higher initial medical cost might yield a lower overall compensation cost.
2. The Office of Inspector General (IG) for Audit has indicated that the system called Workers' Compensation – Management Information System (WC-MIS) greatly assists WCP coordinators at the field stations. Therefore, WC-MIS training should begin immediately for all coordinators. Continuous updating of the status of injured employees will ensure validity of information.
3. We concur with Recommendation 3 that the Acting Assistant Secretary for Management continue to monitor the WCP as a management control Internal High Priority Area. The Office of Financial Management has taken over the Continuation of Pay (COP) report responsibilities from the National Center for Veterans Analysis Statistics (008C).
4. We concur in the IG recommendation of improving the WC-MIS by:
 - (a) insuring access by all stations and VISNs; and
 - (b) modifying the system to add the fields recommended in the report.
5. We also recommend the addition of other fields to:
 - (a) include whether benefit is for employee compensation or beneficiary payment;
 - (b) information about the occupation of claimant; and
 - (c) a type of "date claim last accessed" field that can be monitored by the Acting Assistant Secretary for Management for compliance.
6. It should be noted that the best practice recommendation to return employees to light duty status should be given additional consideration and more study to determine the potential cost/benefit relationship. A nurse would still be an asset behind a station desk, but a heavy equipment operator is not a likely candidate for a clerical job. The cost to keep an employee on WCP may be less than paying full salary plus benefits to an underemployed claimant.

ACTING ASSISTANT SECRETARY FOR MANAGEMENT COMMENTS

7. It is recommended the audit report include additional statistical data for comparison with other agencies. The report indicates VA has the 4th highest WCP cost, but does not indicate its ranking in number employed. The overall picture would be different if VA ranks 4th in WCP cost and 20th in the number of government workers employed by VA, or 4th in WCP cost and 2nd in number employed. Overall there should be a standard by which VA performance is measured in comparison with other government agencies. Other statistics of comparison that may be helpful might be information measuring internal performance. Examples of performance data would include data on VISN comparisons on the percent of budget used to pay for WCP, the actual budget dollar amount; and the number of cases per VISN compared to the total number of employees per VISN.

8. It is recommended the IG provide expanded descriptions in the audit report to help distinguish between benefits paid to employees on work-related compensation and those benefits paid to beneficiaries of a deceased claimant. For example, on page 20 of the report, bullet 2, the text states that an estimated 5,285 claimants receive compensation for work-related injury. It is not clear that the remaining estimated 10,468 are receiving survivor benefits.

9. It is also recommended the IG clarify any overlap in the percentages generated from the sample. For example, in paragraph 3 of the memorandum, data included figures of 20.4 percent for cases requiring better management, and 19 percent (26 cases) for potential fraud. It is not clear if there is a total of 39.4 percent of the cases that are at risk or some smaller combined percentage.

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