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SUZANNE F. MEDVIDOVICH
SENIOR VICE PRESIDENT, HUMAN RESOURCES

SUBJECT: Postal Service's Injury Compensation Program – Past and Present
(Product Number HM-OT-04-001)

This information report is one of two reports providing a history of the Postal Service's Injury Compensation Program – Past and Present (Project Number 03YS001HK000). This report also serves as an informational primer to help facilitate critical evaluations of future program initiatives, and it explains and provides an overview of the Department of Labor, Office of Workers' Compensation Programs. It encompasses the inception of Postal Service operations in July 1971 through September 2003. While we recognize senior Postal Service Injury Compensation Program management has extensive knowledge of the information presented in this report, the report was intended for use by others within Postal Service and Office of Inspector General management, as well as staff who may not be as familiar with the Postal Service's injury Compensation Program.

We briefed Postal Service management on this report. Because the report does not contain any recommendations, no written response from management is required. However, if you wish to submit a written response to this report, please notify us. We appreciate the cooperation and courtesies provided by your staff during this review. If you have questions or need additional information, please contact Erica Blackman, director, Health Care Audit, at (703) 248-2100 or me at (703) 248-2300.

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TABLE OF CONTENTS

Introduction	1
Background	1
History of Federal Employees' Compensation Act and Development of Postal Service's Injury Compensation Program	1
Program Funding and Reporting	2
Chargeback Cost Data	2
Chargeback Process	3
Administrative Fees	4
Injury Compensation Costs per Active Postal Service Employee	5
Management Challenge Concerning Injury Compensation Costs	6
OIG Reporting on Injury Compensation Costs	7
Roles, Entitlements, Responsibilities, and Discussion of the Claims Process	7
Role and Structure of the Office of Workers' Compensation Programs in the Claims Process	7
Role and Structure of the Postal Service in the Claims Process	8
Entitlements for the Benefit of Injured Federal Employees	8
Continuation of Pay Leave Benefits	8
Compensation for Wage Loss	9
Medical Care Benefits	10
Vocational Rehabilitation	10
Schedule Awards	10
Compensation for Loss of Wage-Earning Capacity	11
Death Benefits	11
Responsibilities of Postal Service Injury Compensation Control Office in the Claims Process	12
Responsibilities of Postal Service Supervisors in the Claims Process	12
Responsibilities of Injured Postal Service Employees in the Claims Process	12
Basic Injury Claim Forms	12
Claims Disputes	14
Controversions	14
Challenges	14
Appeals to the Employees' Compensation Appeals Board	14

Current Postal Service's Injury Compensation Program Initiatives	14
Postal Service's Arrangement with a Preferred Provider Organization	15
Shared Service Center Injury Compensation Program	15
Program Oversight	16
Program Oversight Conducted by the Postal Inspection Service	16
Program Oversight Provided by Joint Department of Labor and Postal Service OIG Audits	16
Appendix A. Source Documentation	17
Appendix B. Paid Administrative Fees Costs Chargeback Year 1976 – Chargeback Year 2002	18
Appendix C. Summary of Total Costs for Active Workers' Compensation Claims Incurred by Postal Service Employees, FYs 1972 - 2002	19
Appendix D. Summary of Paid Medical and Compensation Payments by Postal Service for Workers' Compensation Claims, FYs 1997 - 2002	20
Appendix E. The Postal Service's Claims Process for Traumatic Injuries	21
Appendix F. The Postal Service's Claims Process for Occupational Injuries	22
Appendix G. Compensation Schedule for Schedule Awards	23

INTRODUCTION

Background

This information report is one of two reports providing a history of the Postal Service's Injury Compensation Program. This report also serves as an informational primer to help facilitate critical evaluations of future program initiatives, and it explains and provides an overview of the Department of Labor, Office of Workers' Compensation Programs. It encompasses the inception of Postal Service operations in July 1971 through September 2003. This report includes the following:

- History of the Federal Employees' Compensation Act and the Postal Service's Injury Compensation Program
- Program Funding and Reporting
- Roles, Responsibilities, Entitlements, and Discussion of the Claims Process
- Current Postal Service's Injury Compensation Program Initiatives
- Program Oversight

The second report¹ provides a quick reference and summary of our prior audit work on the Postal Service's Injury Compensation Program. Both reports were written for informational purposes to benefit the Postal Service and Office of Inspector General (OIG) management.

History of Federal Employees' Compensation Act and Development of Postal Service's Injury Compensation Program

In 1908, legislation was enacted by Congress to provide workers' compensation for certain federal employees in unusually hazardous jobs. The law was narrow in scope and its benefits were limited. Subsequently, in 1916, the first Federal Employees Compensation Act (the act) was enacted. This superseded the 1908 statute and covered all federal employees. Since 1916, the purpose of the act as amended, title 5 United States Code 8101, has been to provide compensation and medical benefits to civilian employees of the United States for disabilities resulting from personal injuries or disease sustained while performing official duties. The act also provides for payment of benefits to dependents if a work-related injury or disease causes an employee's death.

In 1950, the administration of the act was assigned to the Department of Labor, now administered by Employment Standards Administration, Office of Workers' Compensation Programs. The sole function of the Office of Workers' Compensation

¹See our report entitled, Compendium of Prior Audits Addressing the Postal Service's Injury Compensation Program (Report Number HM-OT-04-002, dated December 10, 2003).

Programs is to administer, implement, and enforce the act. The Office of Workers' Compensation Programs is financed by the Employees' Compensation Fund, which consists of monies appropriated by Congress or contributed by certain agencies from operating revenues.

Effective August 1970, the act covered Postal Service employees.² Originally, the act covered the basic categories of benefits for medical, wage loss compensation, and death benefits. Subsequently, in 1974, legislative changes in the compensation laws resulted in the addition of continuation of pay leave benefits and the employee's ability to choose a physician.

Before fiscal year (FY) 1973, workers' compensation benefits were charged back to the Postal Service by the Department of Labor, and were then reclaimed by the Postal Service through congressional appropriations. Effective FY 1973, the Postal Service assumed the entire financial cost for its injured employees. In 1978, the Postal Service's Injury Compensation Program was established as Postal Service management realized the need to address the escalating costs of workers' compensation benefits.

Program Funding and Reporting

Chargeback Cost Data

Injury compensation costs are billed by the Department of Labor, Office of Workers' Compensation Programs, to federal agencies through the chargeback system. The chargeback system is the mechanism by which the costs of compensation for work-related injuries and deaths are assigned to federal agencies. Chargeback cost data is provided to federal agencies on a regular reporting basis; however, chargeback bills are submitted to federal agencies on an annual basis at the end of the fiscal accounting period, (also referred to as chargeback billing period), that runs from July 1 of one year to June 30 of the next year.

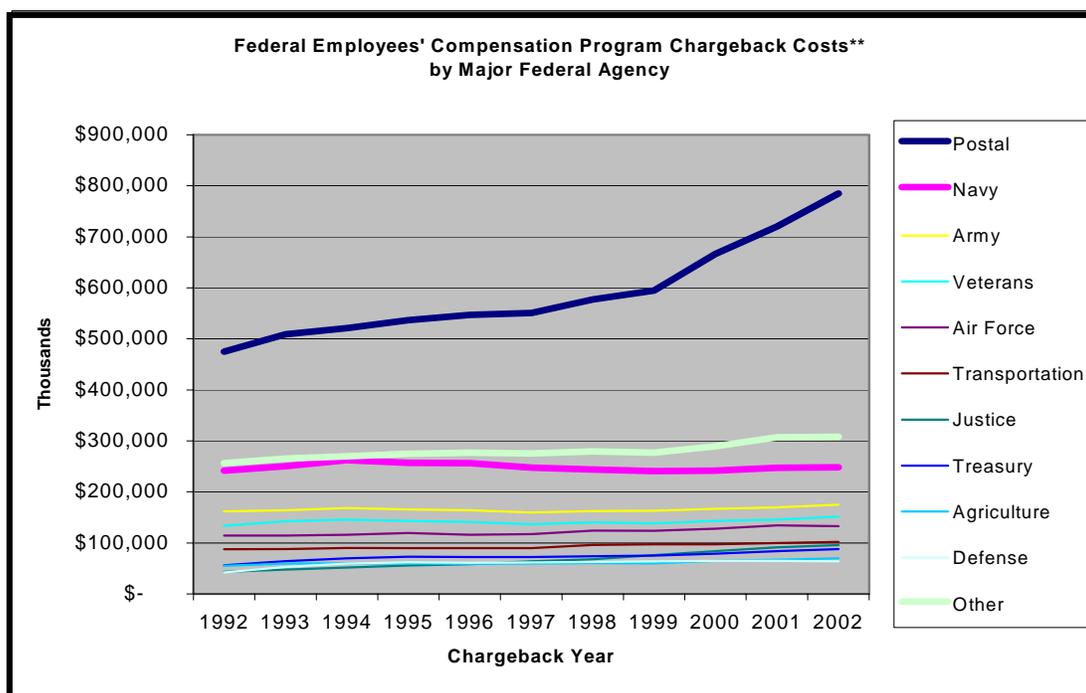
The Office of Workers' Compensation Programs furnishes each federal agency with a billing statement of injury compensation payments due to injuries suffered by employees of each respective agency. Each agency is responsible for reimbursing the Department of Labor's Employees' Compensation Fund for those billed expenses. Unlike most federal agencies, the Postal Service's contributions to the Employees' Compensation Fund are derived from operating revenue, not from congressional appropriations. Injury compensation costs and the respective payments made by the Office of Workers' Compensation Programs include medical payments and wage compensation (comprising disability payments, schedule awards, and death benefits).

In recent years, injury compensation costs for the federal government rose nationwide from \$1.7 billion in chargeback year 1992 to \$2.2 billion in chargeback year 2002.

²Under the provisions of the Postal Reorganization Act, Title 39 United States Code 1005[c], August 1970.

Likewise, the Postal Service's injury compensation costs increased from approximately \$474.9 million to \$785.2 million during the same period, an increase of 65 percent. As shown in Chart 1, annual chargeback costs for other federal agencies have remained flat; however, annual chargeback costs for the Postal Service's Injury Compensation Program have increased significantly.³

Chart 1



**Chargeback costs do not include the administrative fees.

Source: Department of Labor, "FY 2002 Workers' Compensation Costs Billed to Federal Agencies."

Chargeback Process

Chargeback data is provided to federal agencies on an annual, quarterly, and weekly basis. The Office of Workers' Compensation Programs bills each agency annually for paid compensation benefits.⁴ In addition, on a quarterly basis, the Office of Workers' Compensation Programs sends each federal agency, including the Postal Service, a chargeback report that lists all cases and their respective compensation costs. These costs accumulate and are subsequently included on the annual chargeback report and

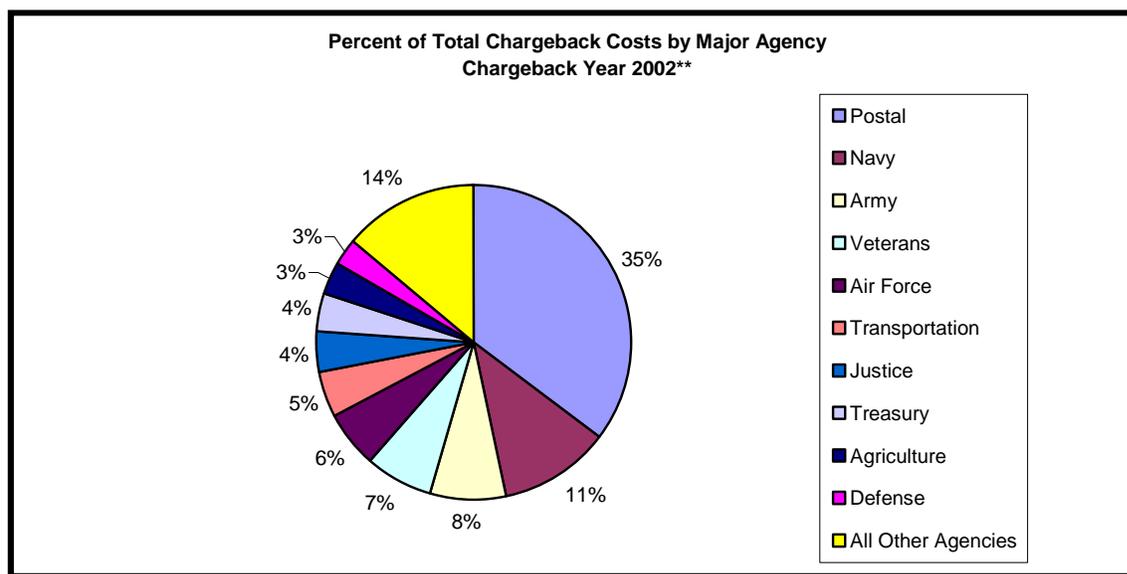
³Chargeback costs for chargeback years 1992 through 1997 included chargeback costs associated with the old Post Office Department for which the Postal Service received annual congressional appropriations. However, starting with chargeback year 1998, the Postal service assumed full responsibility for the old Post Office Department's chargeback costs and paid those costs from operating revenues without offsetting congressional appropriations.

⁴Title 5, United States code, Chapter 81, § 8147(b) requires that an agency not dependent upon annual appropriations reimburse the Employees Compensation Fund for the costs expended on its behalf by October 15 of each year.

also on a separately issued annual chargeback bill. Furthermore, on a weekly basis, the Office of Workers' Compensation Programs sends electronic data to the Postal Service that includes weekly compensation costs expended on behalf of the injured Postal Service employees. This electronic data is merged into the Postal Service's Workers' Compensation Information System, which is used by injury compensation personnel to identify and correct errors before the annual chargeback report is issued.

In chargeback year 2002, the Postal Service's injury compensation costs comprised approximately 35 percent (\$785.2 million out of \$2.219 billion) of federal workers' compensation expenditures, representing the largest amount of benefits paid by a federal agency under the act. The Department of Navy was the next largest agency, comprising nearly 11 percent (\$248.3 million of the \$2.219 billion). Chart 2 shows the percent of the total chargeback costs by major agency for chargeback year 2002.

Chart 2



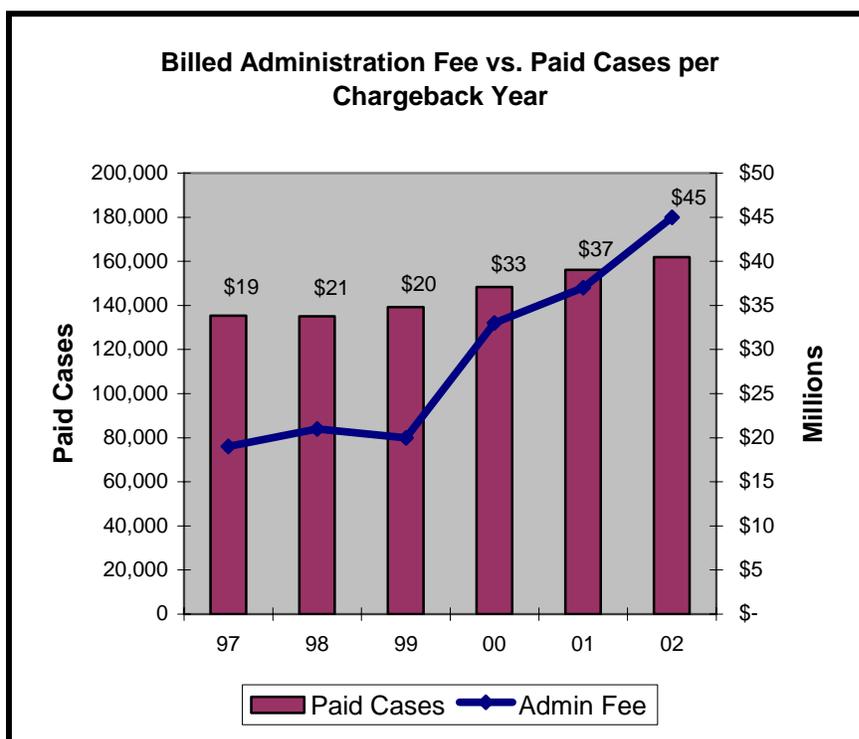
Administrative Fees

In addition to the annual contributions paid for the maintenance of the Employees' Compensation Fund, the act (5 United States Code, Chapter 81, § 8147. c) stipulates the Postal Service shall pay an additional amount for its fair share of the cost for administration of Employees' Compensation Fund, called administrative fees. These administrative fees represent costs annually assessed by the Office of Workers' Compensation Programs against claims paid for the benefit of injured Postal Service employees. Federal agencies that receive appropriated funds do not pay administrative fees. However, non-appropriated agencies, such as the Postal Service and the

Tennessee Valley Authority, pay both compensation for work-related injuries and administrative fees from their operating revenues.

From chargeback year 1997 through chargeback year 2002, the Postal Service was billed approximately \$175 million in administrative fees.⁵ As shown in Chart 3, administrative fees increased from \$19 million in chargeback year 1997 to \$45 million in chargeback year 2002, an increase of 137 percent. During the same period, the number of the Postal Service cases paid by the Office of Workers' Compensation Programs increased from 135,298 to 161,886 and increase of only 20 percent.

Chart 3



Source: FY 2002 USPS Comprehensive Statement on Postal Operations and USPS Workers' Compensation Information System, accounting period 13 report, for FYs 1996 through 2002.

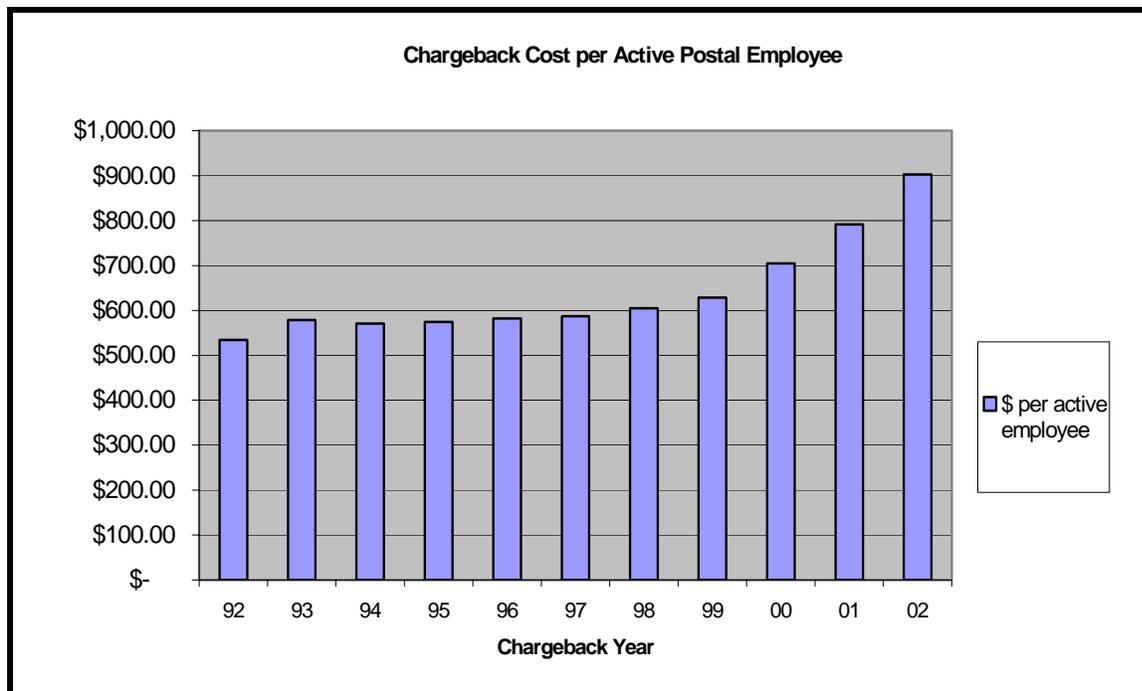
Injury Compensation Costs per Active Postal Service Employee

In contrast to increasing chargeback costs, the number of active Postal Service employees has not dramatically changed during the period from FYs 1992 through 2002. In FY 1992, the Postal Service had 816,192 employees, rising to 851,686 employees in FY 2002, an increase of 4.3 percent. However, the chargeback cost per active Postal Service employee increased from \$534.31 in chargeback year

⁵Administrative fees are billed once each year as a part of the Office of Workers' Compensation Programs' chargeback bill to the Postal Service.

1992 to \$902.47 in chargeback year 2002, an increase of 69 percent. Chart 4 displays the change in injury compensation costs per active Postal Service employee.⁶

Chart 4



Source: FY 2002 United States Postal Service Comprehensive Statement and data compiled by the OIG.

Management Challenge Concerning Injury Compensation Costs

The commitment to reduce or control injury compensation costs by the Postal Service was emphasized by Postmaster General John Potter in the Postal Service Transformation Plan, April 2002. Specifically, in the section under the Management Challenge of Performance Based Culture, the postmaster general stated his intention “to reduce workers’ compensation costs by implementing programs and developing opportunities for injured workers within and outside the Postal Service, and by working with the Department of Labor on new initiatives and regulatory changes.”

⁶Postal Service’s injury compensation costs per active employee were extracted from the USPS Workers’ Compensation Information System, Chargeback Summary, accounting period 13 reports, for the fiscal years ending 1992 through 2002.

OIG Reporting on Injury Compensation Costs

Likewise, the OIG has shown its ongoing commitment to the Postal Service by striving to identify ways to address the Postal Service's management challenge to reduce or control injury compensation costs. Specifically, the OIG assists Postal Service management in the protection of its workforce by conducting audits to prevent and detect fraud, waste, abuse, and mismanagement related to the Postal Service's Injury Compensation Program. In particular, from September 1998 through September 2003, we issued 16 reports, one closeout letter, and one white paper to Postal Service management. In our reporting, we identified three subject areas that continue to represent management challenges:

- Program Administration
- Claims Processing
- Continuation of Pay Leave Benefits

In the previously issued 16 reports, we provided Postal Service management with 50 recommendations. Although we have not confirmed, in all cases, the recommendations made have been implemented, we are confident the implementation of those reported recommendations would assist management in addressing the major management challenges inherent to the Postal Service's Injury compensation Program.⁷

Roles, Entitlements, Responsibilities, and Discussion of the Claims Process

Role and Structure of the Office of Workers' Compensation Programs in the Claims Process

The main responsibility of the Office of Workers' Compensation Programs is to determine whether the claimant is entitled to benefits under the act. The Office of Workers' Compensation Programs is responsible for adjudicating claims, authorizing medical bills and wage compensation payments, and safeguarding the integrity of the act.

The Office of Workers' Compensation Programs' management structure consists of the director for Federal Employees Compensation, various Office of Workers' Compensation Programs regional directors, and district directors. The district directors have responsibility for oversight of the office functions. In each district office, two or more claims managers are responsible for the operation of individual claim units. Claims examiners have primary responsibility for handling claims. Individuals at each level have specific responsibilities for making decisions on claims.

⁷See our report entitled, Compendium of Prior Audits Addressing the Postal Service's Injury Compensation Program (Report Number HM-OT-04-002, dated November 25, 2003).

Role and Structure of the Postal Service in the Claims Process

The primary role of the Postal Service's Injury Compensation Program is to assist injured workers in the completion and submission of the compensation claims to the Office of Workers' Compensation Programs and to facilitate the return of injured employees to the workplace. Policies and procedures for the Postal Service's Injury Compensation Program are established under the senior vice president, Human Resources, and the manager, Health and Resource Management. Currently 498 individuals nationwide administer the Postal Service's Injury Compensation Program.

Within each of the Postal Service's area offices, an area Human Resources manager implements the Postal Service's Injury Compensation Program and oversees area-wide activities to comply with national policies and guidelines. Also, within the area office, Human Resources analysts keep headquarters management advised of the status of the agency and Office of Workers' Compensation Programs initiatives, provide technical assistance, and manage and oversee cost reduction initiatives.

Nationally, the Postal Service's Injury Compensation Program is administered through a network of district offices and selected satellite offices. The district Human Resources manager implements headquarters and area program policies, objectives and action plans within the district boundaries. The Human Resources manager's responsibility is to ensure injury compensation control offices are fully staffed and personnel are properly trained.

Entitlements for the Benefit of Injured Federal Employees

The act provides entitlements for the benefit of injured federal employees. After the claims examiner within the Division of Federal Employees' Compensation adjudicates and accepts the claim filed by an injured federal employee, the employee is entitled to benefits. These benefits may include: continuation of leave pay benefits, compensation for wage loss, medical care benefits, vocational rehabilitation benefits, schedule awards, compensation for loss of wage-earning capacity, and death benefits.

Continuation of Pay Leave Benefits

The act provides that an injured employee's regular pay may be continued for up to 45 calendar days because of wage loss caused by disability or medical treatment after a traumatic injury. However, continuation of pay leave benefits are not payable for occupational illness or disease claims. The intent of this provision is to avoid interruption of the employee's income while the claim is being adjudicated by the Office of Workers' Compensation Programs. Continuation of pay leave benefits are administered and paid directly by the employing federal agency, and are not included in chargeback costs billed by the Office of Workers' Compensation Programs. Instead, continuation of pay is a leave benefit, funded as a normal payroll cost, which is paid

directly from the Postal Service's operating budget. Continuation of pay is considered income subject to the usual deductions from pay. After the entitlement to continuation of pay is exhausted, the employee may apply for wage loss compensation or use annual or sick leave. In FY 1997, \$24 million was paid for continuation of pay leave benefits. In FY 2002, the cost rose to \$27 million, an increase of 12.5 percent.

Compensation for Wage Loss

In cases of total disability caused by a work-related injury or illness, the employee may be eligible for wage loss compensation at a percentage of the employee's pre-disability pay rate. Without dependents, an employee is entitled to compensation at the rate of 66 2/3 percent of his or her salary. With dependents, he or she is entitled to compensation at the rate of 75 percent of the salary. Wage loss compensation benefits for total disability may continue as long as the employee's disability is medically certified. There is no lifetime maximum dollar amount for this entitlement.

Wage loss compensation payments are included as a portion of the total injury compensation costs billed annually by the Office of Workers' Compensation Programs to the Postal Service. However, on an interim basis, wage loss compensation payments are classified and reported by the Office of Workers' Compensation Programs according to the estimated duration of the employee's work related disability. The classification and reporting of wage loss compensation payments is by either "daily roll" or "periodic roll." The Office of Workers' Compensation Programs reports wage loss compensation payments on the "daily roll" for payments to current employees whose expected term of disability is not likely to exceed 60 days. Beyond the 60 days, the Office of Workers' Compensation Programs reports wage loss compensation payments on the "periodic roll" for payments to both current and former employees who have been medically determined to be totally disabled for an extended or indefinite period.

As of June 2002, injury compensation benefits were paid on 33,553 injury compensation cases representing 32,376 injured Postal Service employees. The difference between the number of cases and employees is attributed to injured Postal Service employees who filed multiple but separate claims. Of the 33,553 injury compensation cases paid in chargeback year 2002, 3,127 cases were for injuries sustained by 3,109 Postal Service employees that year.

In FY 1997, \$279.3 million was classified and reported as wage loss compensation, representing 53 percent of the total of \$522.1 million that was reported as injury compensation benefits by the Postal Service. In FY 2002, the amount of wage loss compensation rose to \$361.8 million; however, due to the rise in the cost of the other

injury compensation entitlements, wage compensation costs represented only 47 percent of the total \$768.6 million that was reported by the Postal Service.⁸

Medical Care Benefits

Injured employees are entitled to medical services if the claim has been accepted as compensable under the act. All medical treatment must be prescribed by a qualified physician and the claims examiner must be convinced the medical services will likely cure, give relief, or reduce the degree or the period of disability. There is no lifetime maximum dollar amount for this entitlement. Also, medical benefits may continue as long as the medical evidence supports the need for the medical treatment and remains related to the work related medical condition.

In FY 1997, \$176.3 million was reported as medical benefits, representing 34 percent of the \$522.1 million reported as injury compensation benefits by the Postal Service. In FY 2002, the amount of medical benefits rose to \$308.5 million, representing 40 percent of the total \$768.6 million reported by the Postal Service. (See Footnote 8 and Appendix D.)

Vocational Rehabilitation

As with all other injury compensation benefits, the Office of Workers' Compensation Programs, division of Federal Employees' Compensation claims examiners adjudicate entitlement to vocational rehabilitation services and may authorize such services for injured employees. Injured employees may receive rehabilitation services to assist in training or job placement when they are unable to perform the duties of the pre-injury job. The first vocational rehabilitation effort is for the employee to return to work with the previous employer. When rehabilitation services are authorized and used, employees can receive a monthly maintenance allowance not to exceed \$200 in addition to any approved wage loss compensation. The cost for vocational rehabilitation is included in the total chargeback cost for medical care benefits.

Schedule Awards

Injured employees may be eligible for schedule awards, which represent fixed dollar amounts paid to injured employees who suffer the permanent loss, or loss of use, of certain members and functions of the body due to traumatic injuries or occupational illness. Compensation is calculated based upon specific guidelines.⁹ Partial loss or loss of use of these members and functions is compensated on a proportional basis.

⁸The Postal Service's injury compensation costs were extracted from financial data reported in the USPS Workers' Compensation Information System, Chargeback Summary, Accounting Period 13 reports, for the fiscal years ended 1997 through 2002. Therefore, the amounts in the accounting period reports are very different than the amounts reported in any Office of Workers' Compensation Programs chargeback reporting period.

⁹American Medical Association's Guides to the Evaluation of Permanent Impairment.

In FY 1997, \$56.4 million was reported as schedule awards, representing 11 percent of the total \$522.1 million that was reported as injury compensation benefits by the Postal Service. In FY 2002, the amount of schedule awards rose to \$85.8 million, representing 11 percent of the total amount of \$768.6 million reported by the Postal Service. (See Footnote 8 and Appendices D and G.)

Compensation for Loss of Wage-Earning Capacity

An injured employee may receive compensation for the loss of wage-earning capacity if the employee is reemployed at a lower paying job, or if the Office of Workers' Compensation Programs, Division of Federal Employees' Compensation claims examiner determines the employee can perform duties of a lower paying position. In either case, the Postal Service, through the chargeback process, would be obligated to pay for the difference in salaries. The cost for loss of wage-earning capacity is included in the total chargeback cost for the wage compensation.

Death Benefits

In the event of work-related death, survivors of deceased employees may be eligible for payment of some funeral and burial expenses. In addition, survivors may be eligible for compensation of the deceased employee's lost wages. A surviving spouse with no eligible children is entitled to compensation at the rate of 50 percent of the deceased employee's salary. Benefits are paid to the spouse until death or remarriage, if he or she is under 55. If a spouse under age 55 remarries, claims examiners make a one-time lump sum payment equal to 24 times the monthly compensation at the time of remarriage.¹⁰

A surviving spouse who has eligible children is entitled to compensation at the rate of 45 percent of the deceased employees salary. An additional 15 percent is payable for each child, up to a maximum of 75 percent of the salary. If the deceased employee leaves no spouse, the first child is entitled to 40 percent, and each additional child is entitled to 15 percent of the deceased employees salary, up to a maximum of 75 percent of the deceased employee's salary.

In FY 1997, \$10.3 million was billed for death benefits, representing 2 percent of the \$522.1 million reported as injury compensation benefits by the Postal Service. In FY 2002, death benefit payments rose to \$12.5 million, representing 2 percent of the \$768.6 million reported by the Postal Service. (See Footnote 8 and Appendix D.)

¹⁰Remarriage after age 55 does not affect death benefits.

Responsibilities of Postal Service Injury Compensation Control Office in the Claims Process

Personnel in the local injury compensation control office are responsible for administering and monitoring all aspects of the Postal Service's injury Compensation Program. For example, after receiving injury claim forms from the employee, the control office staff is required to submit the applicable forms to the Office of Workers' Compensation Programs, within 10 working days.

Responsibilities of Postal Service Supervisors in the Claims Process

Postal Service supervisors are responsible for performing claims management immediately following the injury. This encompasses investigating the circumstances of the injury, and conducting the coordination and follow-up with the local control office staff. To help the injury compensation control office meet the requirement to submit injury claims within 10 working days, supervisors, upon receipt from the injured employees, must submit injury claims to the local control office as soon as possible. Specifically, throughout the Postal Service, supervisors are expected to sign injury claim forms, supply needed supporting information, and submit the claim form within 24 hours after receiving a signed claim form from an injured employee.

Responsibilities of Injured Postal Service Employees in the Claims Process

The injured employee, or person acting on the employee's behalf, is responsible for filing the initial claim form within 30 days of the date of traumatic injury, or after the condition has been recognized as connected to the work environment. In the case of the traumatic injury, the Postal Service encourages employees to file the initial injury claim form within 48 hours of the date of injury. However, an employee, or his representative, can file injury claim forms as late as 3 years following the date of injury or death. If an injured employee files an injury claim for a traumatic injury later than 30 days following the date of injury, the injured employee will lose entitlement to continuation of pay leave benefits.

Basic Injury Claim Forms

One or more types of injury claim forms may be required, depending on the type of injury sustained by the employee. The forms are used to notify the Office of Workers' Compensation Programs of the initial injury claim and serve as the official report regarding the claim. The initial claim forms are:

- Form CA-1, Federal Employee's Notice of Traumatic Injury and Claim for Continuation of Pay/Compensation.
- Form CA-2, Notice of Occupational Disease and Claim for Compensation.

- Form CA-2a, Federal Employee's Notice of Recurrence of Disability and Claim of Pay/Compensation.
- Form CA-5, Claim for Compensation by Widow, Widower, and/or Children.
- Form CA-6, Official Supervisor's Report of Employee's Death.¹¹

Form CA-1 is completed and submitted to Postal Service management in the event of a traumatic injury. A traumatic injury is defined as: "a wound or other condition of the body caused by external force, including stress and strain, which is definable as to the time and place of the occurrence and the member of the body affected." The injury must be caused by a specific event.

The Office of Workers' Compensation Programs' policy allows some Form CA-1 claims under the "Quick Close" provision, which means the claims examiner will not adjudicate the claim until wages and medical claims exceed \$1,500. All other Form CA-1 claims receive an approval letter in the mail from the Office of Workers' Compensation Programs. According to the act, the statute of limitations for filing to request injury benefits is 3 years from the date of injury. See Appendix E for a flow chart of the traumatic injury claims process.

Form CA-2 is filed when an employee sustains an occupational illness or disease. An occupational illness is defined as a condition produced in the work environment over a period of time, longer than 1 workday or shift. It may involve infection, repeated stress or strain, or exposure to toxins, fumes, or other continuing conditions of the work environment. These conditions are usually slow in developing and do not generally occur at a specific time and place. Examples of occupational illness or disease include carpal tunnel syndrome, rotator cuff strains and heart conditions.

Claims for occupational illness generally take longer to adjudicate (approximately 3 to 6 months); therefore, while claim examiners are adjudicating the injury, employees are allowed to use sick leave, annual leave, or leave without pay for any related absences. Postal Service regulations permit employees, on a case-by-case basis, who use sick or annual leave, to buy-back leave with compensation payments. See Appendix F for a flow-chart of the occupational illness claims process.

Form CA-2a provides notice to Postal Service management and the claims examiner that an employee, after returning to work, is again disabled because of a prior injury or occupational illness.

Form CA-5 provides notice to Postal Service management and the claims examiner of the survivor's widow, widower, and/or dependent's claim for compensation because of the employee's death due to a job-related injury.

¹¹Claim forms are available at www.dol.gov/esa/regs/compliance/owcp.

Form CA-6 provides notice to Postal Service management and the claims examiner of an employment-related death of an employee.

Claims Disputes

Claims may be disputed through controversions, challenges, or appeals to the Employees' Compensation Appeals Board.

Controversions

When Postal Service management believes an employee was not traumatically injured, the Postal Service can controvert the employee's injury claim by objecting to the employee's request for continuation of pay leave benefits for one of the reasons provided by regulation. Postal Service supervisors may controvert a claim by completing the indicated portion of Form CA-1 and submitting it with supporting detailed information to the Office of Workers' Compensation Programs.

Challenges

In contrast to a controversion, which objects to an employee's right to continuation of pay leave benefits, a challenge is the formal administrative procedure through which Postal Service management disputes any element of an employee's claim, except for continuation of payment of benefits, for injury compensation benefits that appear questionable. The facts must be thoroughly documented by the Postal Service with a written explanation of the dispute.

Appeals to the Employee's Compensation Appeals Board

The Employees' Compensation Appeals Board (the board) is a quasi-judicial appellate body with exclusive jurisdiction to consider and decide appeals of final claim decisions made by claims examiners within the Office of Workers' Compensation Programs. It was created in 1946 as part of the Federal Security Agency, and in 1950 was transferred to the Office of Workers' Compensation Programs. The board reviews issues on disputed questions of fact, law, and the abuse of, or failure to exercise discretion. The board's decisions can be for further development of the evidence or other appropriate actions. The board's decisions are final and are not subject to judicial review by another agency.

Current Postal Service's Injury Compensation Program Initiatives

Rising injury compensation costs have had a major impact on the Postal Service's financial condition, which is directly affected each time an injured employee is compensated. Postal Service management has planned numerous initiatives to help control injury compensation costs. Two such initiatives are:

- Postal Service's Arrangement with a Preferred Provider Organization.
- Shared Service Center Injury Compensation Program.

Postal Service's Arrangement with a Preferred Provider Organization

In April 2000, representatives from a preferred provider organization approached the Postal Service with an unsolicited proposal to reduce medical costs associated with injured Postal Service employees. As a result, Postal Service management initiated an arrangement with a Preferred Provider Organization¹² and authorized a pilot program to determine the feasibility of slowing the rapidly increasing medical costs. The contractor projected that the medical cost savings would be achieved by using its network of fee schedule discounts, which were negotiated by the preferred provider organization with its network of medical providers.

The preferred provider organization estimated the Postal Service's portion of medical cost savings to be as high as \$30 million annually when the test program was fully implemented. The Postal Service began using the preferred provider organization network for medical case management as a 2-year pilot program beginning in March 2001. The contract, which expired in February 2003, was renegotiated and signed in October 2003.

Shared Service Center Injury Compensation Program

Postal Service management initiated the Shared Service Center Injury Compensation Program (the shared service center)¹³ to better control costs and to improve operational efficiency. The shared service center concept involves sharing technology, people, and other resources within and across administrative functions in order to reduce costs and improve the quality of administrative services. The Postal Service initiated the shared service center concept as a pilot to address injury compensation issues in the Postal Service's Eastern Area.

A pilot program was designed to reengineer and standardize the injury compensation process, with the goal of reducing administrative costs. This concept involved the consolidation of injury compensation and accident reporting operations at one centralized location. Objectives of the program were to reduce costs, promote efficiency, standardize processes to eliminate redundant activities, and improve customer service. The pilot program, which ended in December 2002, became fully operational in the Postal Service's Eastern Area.

¹²See our audit report entitled, Postal Service's Arrangement with a Preferred Provider Organization, (Report Number HK-AR-03-001, dated March 31, 2003).

¹³See our audit report entitled, Shared Service Center Injury Compensation Program (Report Number HK-AR-03-002, dated June 19, 2003).

Program Oversight

Program Oversight Conducted by the Postal Inspection Service

Originally, the Postal Inspection Service had primary responsibility for workers' compensation investigations. Although the OIG had the jurisdiction to perform this work, at our inception in 1996,¹⁴ we did not have sufficient staffing and resources to do so. Having grown in size since our inception, on December 2002, the OIG assumed responsibility for Postal Service employee-related workers' compensation fraud investigations in the Capital Metro Area. As part of the transition to assume this work, it was decided that workers' compensation cases being investigated by the Postal Inspection Service as of December 7, 2002, would remain with the Postal Inspection Service, and the OIG would investigate all new allegations of claimant workers' compensation fraud in the Capital Metro Area. Further, the OIG continues to support active Postal Inspection Service investigations by providing subpoenas to the Postal Inspection Service. In addition, the OIG works with the Postal Inspection Service to avoid duplication of effort.

Program Oversight Provided by Joint Department of Labor and Postal Service OIG Audits

The Department of Labor OIG and the Postal Service OIG have begun efforts to improve oversight of both the nationwide Workers' Compensation and the Postal Service's Injury Compensation Programs. Both agencies have agreed to work jointly to address the escalating injury compensation costs and to develop program improvements.

¹⁴5 United States Code Service Appendix § 8(G)(f)(2) (1996).

APPENDIX A

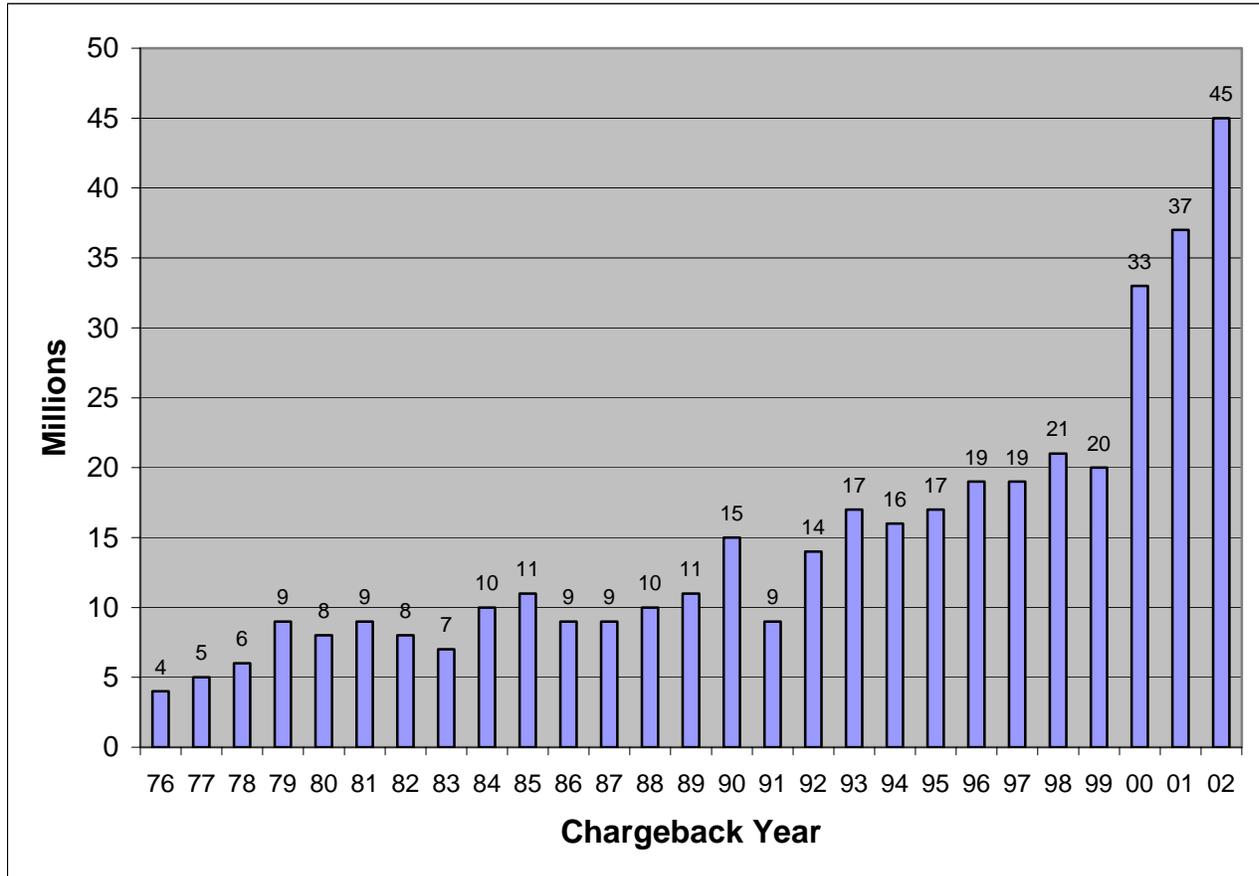
SOURCE DOCUMENTATION

For this report, we reviewed documents for background information pertaining to the Office of Workers' Compensation Programs, and we obtained additional documentation from Postal Service management on the operation and history of the Postal Service's Injury Compensation Program. Those documents included:

- The Federal Employees Compensation Act, 5 United States Code, Chapter 81.
- The Postal Reorganization Act, Title 39 United States Code 1005[c], April 1970.
- Injury Compensation, Office of Workers' Compensation Programs, Publication CA-810, January 1999, pages 4, 9-18, 24-32, 37, 43-47, 55, 63 and 64.
- Employee and Labor Relations Manual-15, Chapter 540, December 1999, pages 479-504.
- Administrative Support Manual, Issue 13, July 1999.
- Handbook EL-505, entitled, Injury Compensation, dated December 1995.
- The Postal Service Transformation Plan, April 2002.
- Postal Service OIG Testimony to the Subcommittee on International Security, Proliferation and Federal Services of the Senate Committee on Government Affairs, September 27, 2002.
- Postal Service Annual Reports and Comprehensive Statements on Postal Operations (FYs 1976 through 2001).
- Injury Compensation Program, The Supervisor's Role and Responsibilities, The Student's Workbook, February 1990.
- Various issues from The Postal Record.
- Postal Employees' Injury Compensation Presentation to the Board of Governors, dated June 7, 1977.
- www.dol.gov/esa.
- Postal Service's Arrangement with a Preferred Provider Organization, (Report Number HK-AR-03-001), dated March 31, 2003.
- Shared Service Center Injury Compensation Program, (Report Number HK-AR-03-002), dated June 19, 2003.
- Retirement Eligible Postal Service Employees on the Workers' Compensation Periodic Rolls, (Report Number HK-MA-03-001), dated March 21, 2003.

APPENDIX B

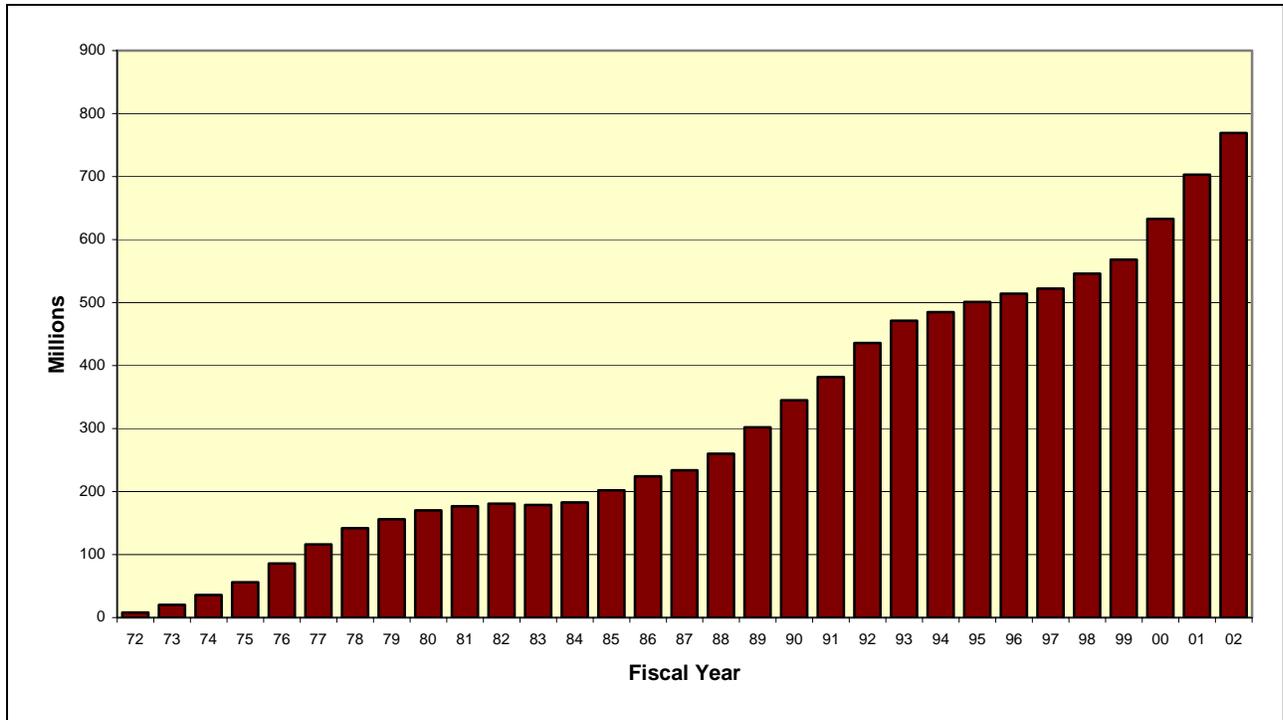
PAID ADMINISTRATIVE FEES COSTS CHARGEBACK YEAR 1976 – CHARGEBACK YEAR 2002



Source: USPS Comprehensive Statement on Postal Operations with inclusive financial data from FYs 1978 through 2002.

APPENDIX C

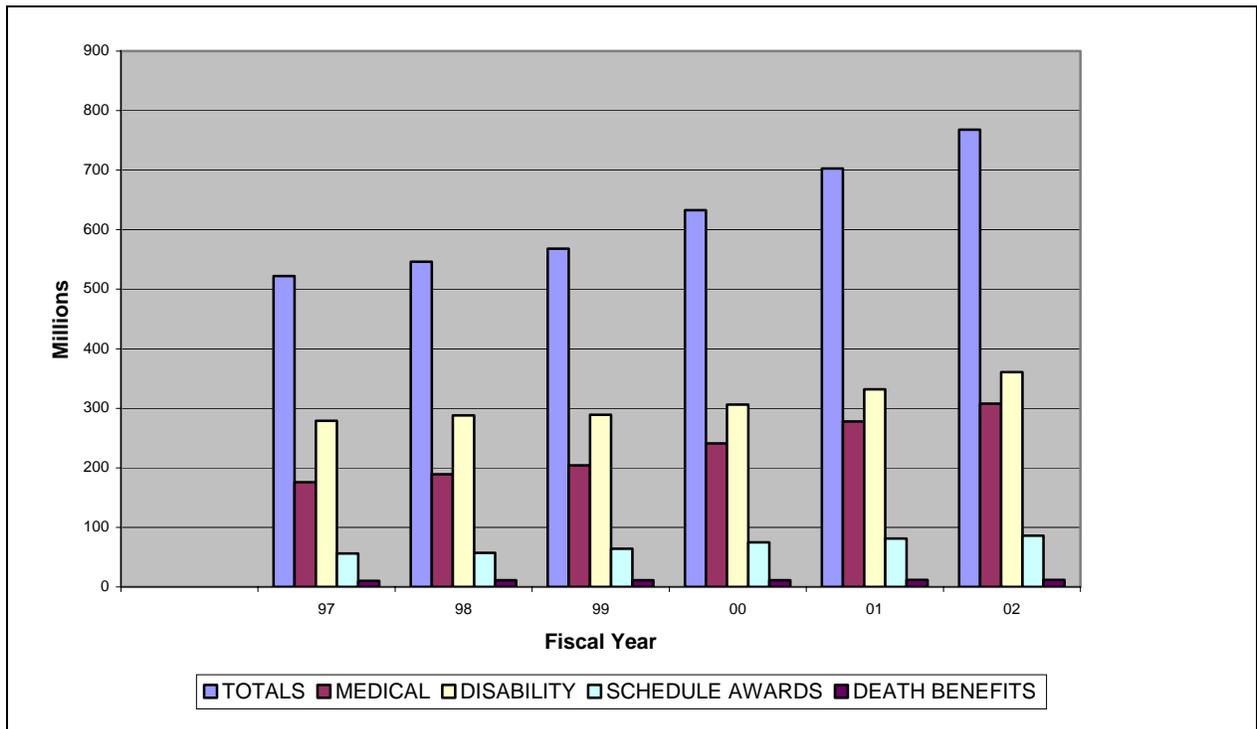
SUMMARY OF TOTAL COSTS FOR ACTIVE WORKERS' COMPENSATION CLAIMS INCURRED BY POSTAL SERVICE EMPLOYEES, FYs 1972 – 2002



Source: USPS Comprehensive Statements and Annual Reports from FYs 1972 through 2002 and USPS Workers' Compensation Information System-Chargeback Summary accounting period 13. Report for FYs 1996 through 2002.

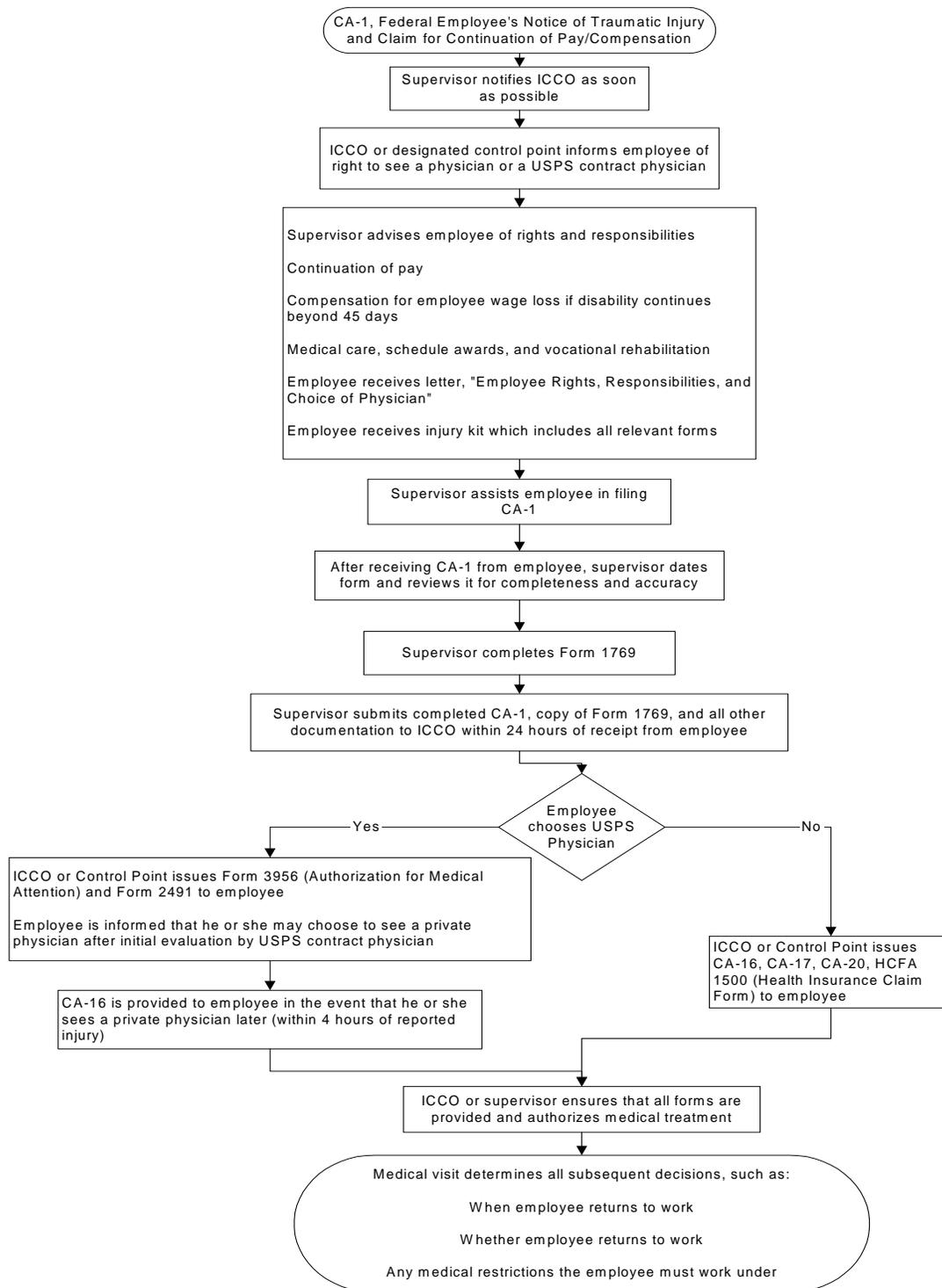
APPENDIX D

SUMMARY OF PAID MEDICAL AND COMPENSATION PAYMENTS BY POSTAL SERVICE FOR WORKERS' COMPENSATION CLAIMS, FYS 1997 – 2002



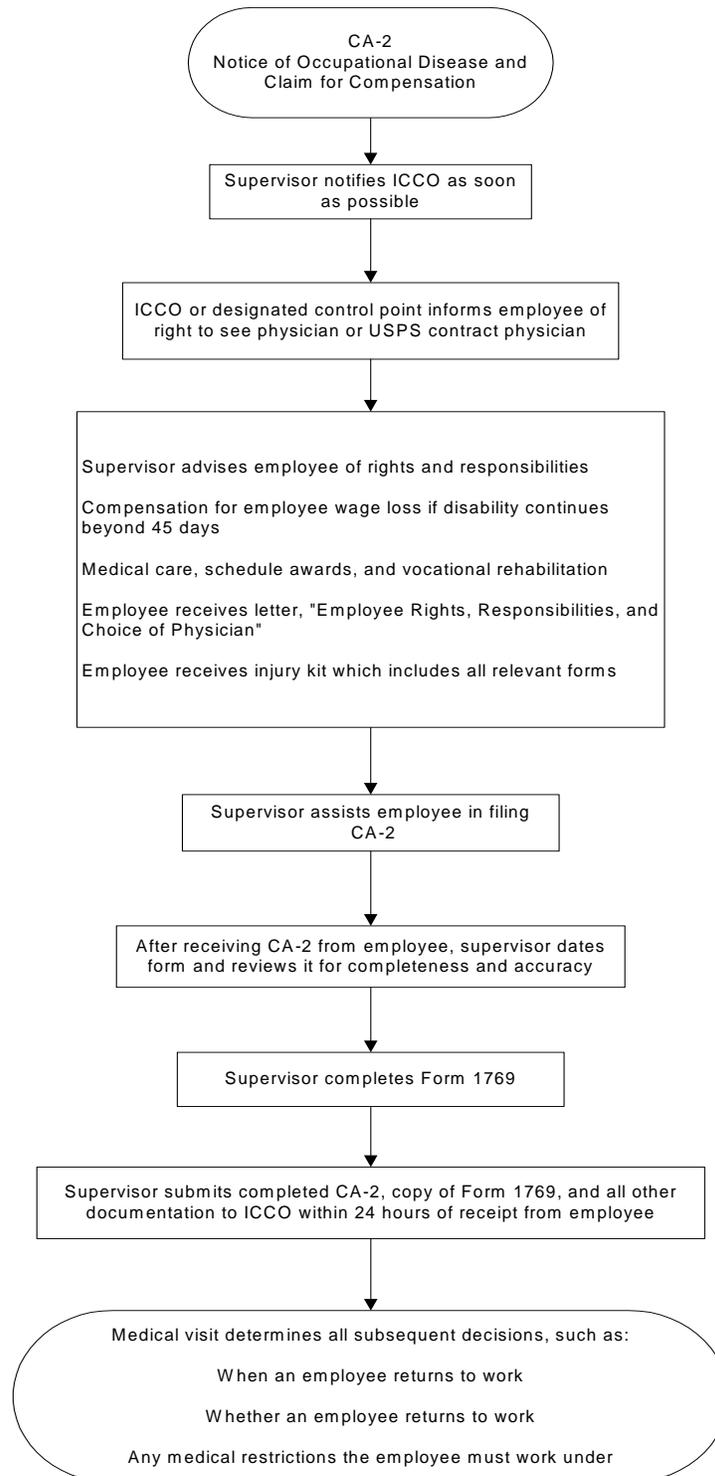
Source: USPS Comprehensive Statements and Annual Reports from FYs 1972 through 2002 and USPS Workers' Compensation Information System, Chargeback Summary, accounting period 13 Reports for FYs 1996 through 2002.

APPENDIX E. THE POSTAL SERVICE'S CLAIMS PROCESS FOR TRAUMATIC INJURIES



Source: Office of Workers Compensation Programs, Publication CA-810, January 1999, pages 9-31 and Handbook EL-505, Injury Compensation, pages 24-46.

APPENDIX F. THE POSTAL SERVICE'S CLAIMS PROCESS FOR OCCUPATIONAL INJURIES



Source: Office of Workers Compensation Programs, Publication CA-810, January 1999, pages 14-16 and Handbook, EL-505, Injury Compensation, pages 24-46.

APPENDIX G. COMPENSATION SCHEDULE FOR SCHEDULE AWARDS

Injury Compensation For Federal Employees

B. Schedule Awards.

Compensation is provided for specified periods of time for the permanent loss, or loss of use, of certain members and functions of the body. Partial loss or loss of use of these members and functions is compensated on a proportional basis.

(1) **Compensation Schedule.** The following table shows the number of weeks payable for each schedule member if the loss or loss of use is total:

Member	Weeks
Arm	312
Leg	288
Hand	244
Foot	205
Eye	160
Thumb	75
First finger	46
Great toe	38
Second finger	30
Third finger	25
Toe other than great toe	16
Fourth finger	15
Loss of hearing—monaural	52
binaural	200
Breast	52
Kidney	156
Larynx	160
Lung	156
Penis	205
Testicle	52
Tongue	160
Ovary (including Fallopian tube)	52
Uterus/cervix	205
Vulva/vagina	205

Compensation for loss of binocular vision or for loss of 80 percent or more of the vision of an eye is the same as for loss of the eye. The degree of loss of vision or hearing is determined without regard to correction; that is, improvements obtainable with use of eyeglasses, contact lenses and hearing aids are not considered in establishing the percentage of impairment. The law does not allow for payment of a schedule award for impairment to the back, heart or brain.

(2) **Medical Evidence Required.** Before OWCP can consider payment of a schedule award, the condition of the affected part of the body must reach maximum medical improvement. This determination involves a medical judgment that the condition has permanently stabilized. In most cases the percentage of impairment is determined in accordance with the American Medical Association's Guides to the Evaluation of Permanent Impairment, and the evaluation on which the award is based must conform to the rules set forth there.

(3) **Claim and Payment.** Form CA-7 may be used to file a claim for schedule award, or consideration may be requested by narrative letter. Compensation for schedule awards is computed by multiplying the indicated number of weeks times 66 2/3 percent (without dependents) or 75 percent (with dependents) of the pay rate. (See paragraph a(1) above for more information concerning dependents.)

²This chart represents the discussion of schedule awards on page 11 of this report.