



Office of Inspector General | United States Postal Service

## Audit Report

# Workers' Compensation Program Cost Containment Activities

Report Number 19-031-R20 | August 6, 2020



# Table of Contents

Cover		
Highlights.....	1	
Objective .....	1	
Findings.....	1	
Recommendations.....	2	
Transmittal Letter .....	3	
Results.....	4	
Introduction/Objective .....	4	
Background.....	4	
Presidential Task Force.....	4	
FY 2019 Budget for the U.S. Government .....	5	
Department of Labor Office of Workers' Compensation Programs.....	5	
Postal Service Employees .....	6	
Finding #1: Cost Containment Activities .....	8	
Safety Initiative .....	8	
Return-to-Work Efforts.....	9	
Recommendation #1.....	9	
Other Matters: Health Care Investigations .....	10	
Management's Comments.....	11	
Evaluation of Management's Comments .....	11	
Appendices .....	12	
Appendix A: Additional Information.....	13	
Prior Audit Coverage.....	14	
Appendix B: Benchmarking with State Governments .....	15	
Employer-Selected Physicians .....	15	
Generic Drugs .....	15	
Appendix C: Management's Comments.....	17	
Contact Information .....	18	

# Highlights

## Objective

The Federal Employees' Compensation Act (FECA) program provides coverage for and assistance to about 2.6 million federal civilian and U.S. Postal Service employees who have sustained work-related injuries or disease by providing appropriate monetary and medical benefits and assistance in returning to work. The modern FECA program was created in 1916 with the overall intention of bringing protections offered to federal employees in line with those offered to state employees and provide workers' compensation coverage to all federal employees regardless of occupation.

The U.S. Department of Labor's (DOL) Office of Workers' Compensation Programs (OWCP) has the exclusive authority to administer, implement, and enforce FECA, including paying claims on behalf of injured employees. In fiscal year (FY) 2019, the DOL OWCP provided about \$3 billion in benefits to over 200,000 workers and survivors in the federal government. However, Postal Service workers accounted for more than 50 percent of all workers' compensation cases across the federal government. The Postal Service reimburses the DOL for its workers' compensation claim costs, including administrative fees, through a process known as chargeback billings.

Containing OWCP costs is of critical importance to the Postal Service. As of September 30, 2019, the estimated present value of the Postal Service workers' compensation liability was about \$19 billion. Discount (interest) rates, which are out of Postal Service management's control, determine the present value of the estimated liability. As discount rates change, the resulting differences in liability are recorded as operating expenses in the financial statements and can be dramatic. In FY 2019, workers' compensation operating expenses totaled about \$3.5 billion. The portion of those expenses attributed to the effect of discount rate changes totaled about \$2.4 billion (67 percent), which contributed to a \$3.5 billion increase in total operating expenses compared to FY 2018.

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***“Containing OWCP costs is of critical importance to the Postal Service.”***

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The Postal Service's cash portion of annual workers' compensation costs marginally decreased from about \$1.36 billion to about \$1.35 billion (1 percent) between July 2013 and June 2019. Although annual costs decreased by 1 percent, the administrative fee portion of the costs increased from \$69 million to \$81 million (17.6 percent) during the same period. Further, the number of Postal Service employees (career and non-career) increased from about 618,000 in FY 2014 to about 633,000 in FY 2019 – a 2 percent increase.

FECA claimants who are eligible for federal retirement or disability annuities may chose to remain in the FECA program for the entire duration of their disability, rather than move to retirement. As of June 2019, the Postal Service had 14,941 disabled employees on the periodic roll – employees receiving workers' compensation benefits and having disabilities that are expected to be permanent or indefinite. As of September 2019, 2,619 of the employees on the periodic roll were 70 years and older.

This audit is a follow-up to our 2014 white paper on FECA reform. Our objective was to determine the current status of Postal Service cost containment activities related to workers' compensation costs and liabilities.

Our fieldwork was completed before the President of the United States issued the national emergency declaration concerning the novel coronavirus disease (COVID-19) outbreak on March 13, 2020. The information contained in this report does not reflect workers' compensation claim statistics as a result of the pandemic.

## Findings

Workers' compensation costs continue to represent a significant liability for the Postal Service. However, existing cost containment activities have resulted in fewer employee accidents and a reduction in the number of employees on the periodic roll. Although the number of Postal Service employees has increased by 2 percent in the last five years, OWCP costs have decreased by about 1 percent.

The Postal Service is limited in pursuing certain cost containment options, including best practices used in state government and the private sector. These

organizations have adopted initiatives to mitigate workers' compensation costs; however, FECA restrictions do not allow the Postal Service to adopt these initiatives. Some of these initiatives include limiting the amount and duration of benefits, allowing settlement of workers' compensation cases, and requiring claimants to use in-network physicians and generic drugs. We estimate the Postal Service could have saved about \$385 million annually if FECA allowed the adoption of state government and private sector best practices.

The Postal Service has two primary activities — accident safety initiatives and return-to-work efforts — that contribute to reducing employee injuries and the number of employees on the periodic roll:

- To enhance safety, the Postal Service established a goal of reducing motor vehicle and industrial accidents that affect employee wellness, performance, and efficiency. From FY 2015 to FY 2019, total accidents decreased

by 7 percent (about 2 percent per year). Specifically, in July 2019, the Postal Service introduced the Informed Mobility Safety Observation, which is an electronic application for managers and supervisors to identify and correct unsafe behaviors by working with employees to correct those behaviors.

- For return-to-work efforts, the Postal Service has focused on identifying viable options for returning injured employees to work. This activity has reduced the number of employees on the periodic roll by 8 percent from FY 2014 (16,238) to FY 2019 (14,941).

## Recommendations

While we recognize the Postal Service is currently limited in pursuing certain cost containment options, we recommended management evaluate workers' compensation cost containment options based on private sector practices and determine a strategy forward.

# Transmittal Letter



OFFICE OF INSPECTOR GENERAL  
UNITED STATES POSTAL SERVICE

August 6, 2020

**MEMORANDUM FOR:** ISAAC S. CRONKHITE  
Chief Human Resources Officer and Executive  
Vice President

E-Signed by Jason Yovich  
Authenticity with eSign Desktop

**FROM:** Jason M. Yovich  
Deputy Assistant Inspector General  
for Supply Management and Human Resources

**SUBJECT:** Audit Report – Workers' Compensation Program Cost  
Containment Activities (Report Number 19-031-R20)

This report presents the results of our audit of the Workers' Compensation Program Cost Containment Activities.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Kelly Thresher, Acting Director, Human Resources and Support, or me at 703-248-2100.

Attachment

cc: Postmaster General  
Corporate Audit Response Management

# Results

## Introduction/Objective

This report presents the results of our self-initiated audit of Workers' Compensation Program Cost Containment Activities (Project Number 19-031). This audit is a follow-up to our prior 2014 white paper on the Federal Employees' Compensation Act (FECA) Reform.<sup>1</sup> Our objective was to determine the current status of the U.S. Postal Service's cost containment activities related to workers' compensation costs and liabilities.

Our fieldwork was completed before the President of the United States issued the national emergency declaration concerning the novel coronavirus disease outbreak (COVID-19) on March 13, 2020. The information contained in this report does not reflect workers' compensation claim statistics as a result of the pandemic.

## Background

The FECA program provides coverage for and assistance to about 2.6 million federal civilian and Postal Service employees who have sustained work-related injuries or disease by providing appropriate monetary and medical benefits and

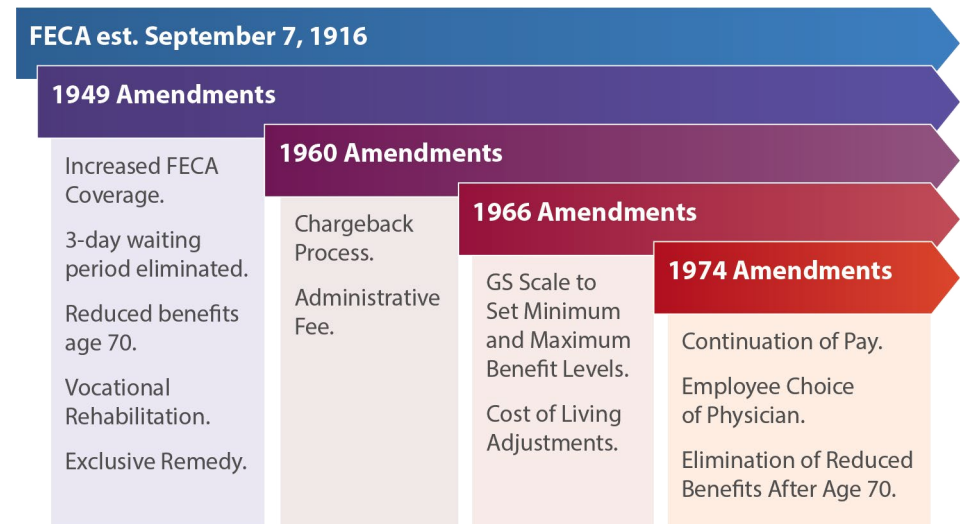
assistance in returning to work. The modern FECA program was created in 1916 with the overall intention to bring the protections offered to federal employees in line with those being offered by states, and to provide workers' compensation coverage to all federal employees regardless of occupation.

Congress reformed FECA with four major amendments through legislation between 1949 and 1974. Although these

***“While there have been no FECA amendments since 1974, over the last decade, supporters have attempted to modernize FECA based on the current needs of the program.”***

amendments made significant changes to FECA, the basic framework remained the same (see Figure 1).

**Figure 1. Amendments to Federal Employees Compensation Act of 1916**



Source: Congressional Research Service's The Federal Employees' Compensation Act (FECA): Workers' Compensation for Federal Employees.

## Presidential Task Force

While there have been no FECA amendments since 1974, over the last decade, supporters have attempted to modernize FECA based on the current needs of the program. In April 2018, U.S. President Donald Trump established the Task Force on the U.S. Postal System to evaluate the Postal Service's operations and finances and develop recommendations for administrative and legislative reform. The goal of these recommendations was to identify a framework for developing a business model to compete in the commercial market.

In December 2018, the presidential Task Force recommended the Postal Service and Congress work to overhaul the Postal Service's business model to return it to

<sup>1</sup> Federal Employees' Compensation Act Reform (Report Number HR-WP-14-003-R, dated August 20, 2014).

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***“Postal Service workers accounted for more than 50 percent of all workers’ compensation cases and 47 percent of all benefit costs across the federal government.”***

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sustainability. The Task Force stated that both administrative and legislative actions are needed to ensure the Postal Service does not face a liquidity crisis, which could disrupt mail service and require an emergency infusion of taxpayer dollars.

Specifically, the Task Force recommended reforming FECA federal government-wide as proposed in the president’s fiscal year (FY) 2019 budget, which repeats prior

Department of Labor (DOL) proposals from 2012 to have a single compensation rate, retirement age conversion, and a waiting period for all employees.<sup>2</sup>

Additionally, the Task Force made recommendations to increase benefits for disfigurement and burial, suspend payments to indicted medical providers, and improve program integrity and reduce improper payments.

### **FY 2019 Budget for the U.S. Government**

The FY 2019 U.S. government budget proposed reforming FECA to save taxpayer dollars by modernizing program administration, simplifying benefit rates, and introducing controls to prevent waste, fraud, and abuse. The budget also recommended:<sup>3</sup>

- Establishing a single rate of compensation for new injuries at 66⅔ percent of the injured worker’s pay.
- Converting retirement-age beneficiaries to a retirement annuity-level benefit.
- Establish an upfront waiting period for benefits for all beneficiaries.
- Increase disfigurement and burial benefits.

- Suspend payments to indicted medical providers.
- Improve program integrity and reduce improper payments.

Additionally, both the DOL’s Office of Inspector General (OIG) and the Government Accountability Office proposed, through various prior reports and congressional testimony, FECA reforms similar to those recommended by the presidential Task Force and the U.S. government budget. The budget improves the quality of life for all workers by making targeted, evidence-based investments to help workers improve and eliminate duplicative, wasteful, and non-essential activities.

### **Department of Labor Office of Workers’ Compensation Programs**

The DOL’s Office of Workers’ Compensation Program (OWCP) has exclusive authority to administer FECA and determine an injured worker’s eligibility for benefits. In FY 2019, there were over 100,000 new workers’ compensation cases for which the DOL’s OWCP provided about \$3 billion in benefits to over 200,000 workers and survivors for work-related injuries or illnesses. Of these benefit payments:

- Over \$2 billion was for wage loss compensation.
- About \$900 million was for medical and rehabilitation services.
- About \$150 million was for death benefits payments to surviving dependents.

Postal Service workers accounted for more than 50 percent of all workers’ compensation cases and 47 percent of all benefit costs across the federal government. All federal agencies, including the Postal Service, reimburse the DOL for their workers’ compensation claims expenses and administrative fees through an annual process known as chargeback billings. DOL uses a standard formula to calculate the administrative costs it charges “Fair Share Agencies,” which include the Postal Service and certain other non-appropriated entities of the federal government.<sup>4</sup> Containing workers’ compensation costs is of critical importance to the Postal Service.

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<sup>2</sup> The Postal Service has a three-day waiting period.

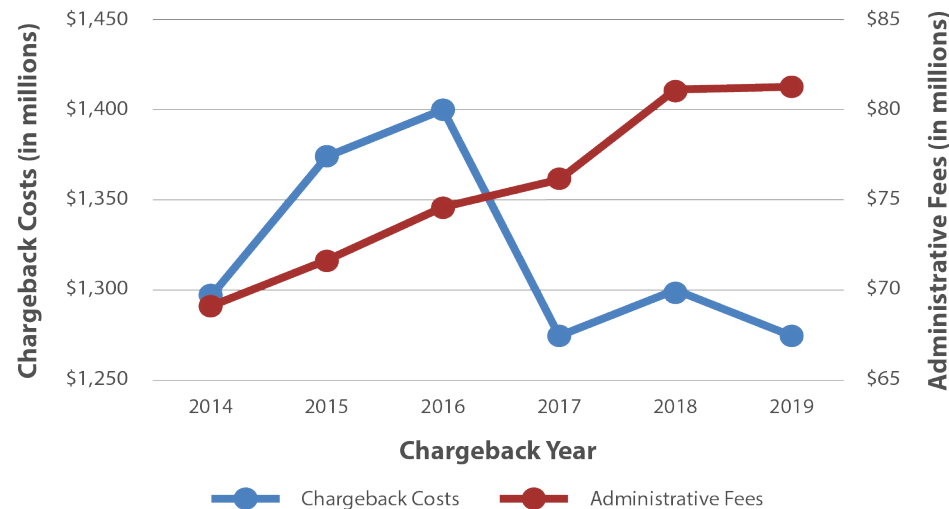
<sup>3</sup> *Major Savings and Reforms, Budget of the United States Government, Fiscal Year 2019*, issued February 12, 2018.

<sup>4</sup> The amount of administrative costs OWCP charges is not within control of Postal Service management.

## Postal Service Employees

In FY 2014, the Postal Service had about 618,000 employees (488,000 career and 130,000 non-career) and by FY 2019 there were 633,000 employees (497,000 career and 136,000 non-career). Although the number of Postal Service employees has increased by 2 percent from FY 2014 to 2019, FECA costs decreased by about 1 percent during Chargeback Years (CBY)<sup>5</sup> 2014 to 2019 (see Table 1). Even though total FECA costs decreased by 1 percent between CBY 2014 and 2019, administrative fees paid to the DOL for this program have significantly increased by 17.4 percent during the same period. Specifically, the Postal Service paid \$69 million in administrative fees to the DOL during FY 2014 compared to \$81 million in FY 2019 (see Figure 2).

**Figure 2. Chargeback Costs vs. Administrative Fees**



Source: DOL chargeback billings and U.S. Postal Service Office of Inspector General (OIG) analysis.

The Postal Service's annual cash outlays for workers' compensation costs decreased from about \$1.36 billion to about \$1.35 billion from CBY 2014

to 2019. During that same period, the Postal Service paid an average of \$2,208 per employee in workers' compensation costs and the average workers' compensation cost per claim was \$28,200 (see Table 1).

**Table 1. Workers' Compensation Cost per Employee**

CBY	Total Workers' Compensation Cost	Number of Employees	Number of Claims	Cost Per Claim	Cost Per Employee
2014	\$1,364,370,079	618,000	48,234	\$28,286	\$2,208
2015	\$1,444,654,072	622,000	49,195	\$29,366	\$2,323
2016	\$1,476,439,729	640,000	48,749	\$30,287	\$2,307
2017	\$1,350,372,021	644,000	50,958	\$26,500	\$2,097
2018	\$1,378,239,205	634,000	50,226	\$27,441	\$2,174
2019	\$1,354,406,993	633,000	49,580	\$27,318	\$2,140
<b>Average Per Year</b>	<b>\$1,394,747,016</b>	<b>631,833</b>	<b>49,490</b>	<b>\$28,200</b>	<b>\$2,208</b>

Source: DOL chargeback billings and OIG analysis.

The Postal Service records a liability for the estimated present value of future workers' compensation claims costs. As of September 30, 2019, the estimated present value of the workers' compensation liability was about \$19 billion. Discount rates<sup>6</sup> — which are out of Postal Service management's control — determine the present value of the estimated liability; therefore, changes in discount rates affect the present value of the liability.<sup>7</sup> For example, if interest rates increase, the recorded liability would decrease. The difference in the recorded liability because of the interest rate change is recorded as an operating expense in the financial statements and can be dramatic.

<sup>5</sup> The term "chargeback" refers to the process by which DOL bills agencies for their workers' compensation costs. By August 15 of each year the DOL informs each agency of the amount spent on behalf of its employees during the preceding year, which for chargeback purposes runs from July 1 to June 30 of the following year.

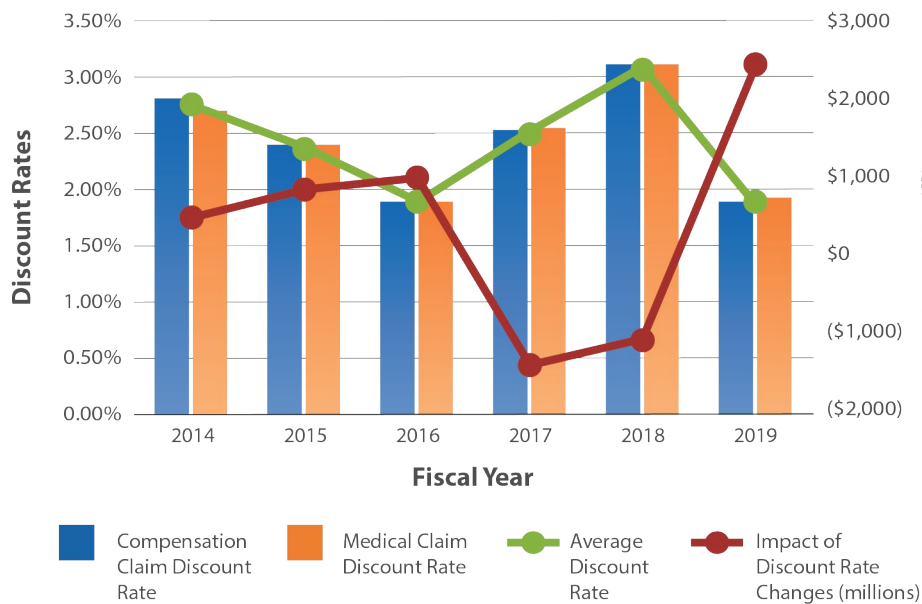
<sup>6</sup> The discount rate represents the interest rate that would have to be earned on an amount equal to the workers' compensation liability to fully fund the estimated future total cost of workers' compensation claims.

<sup>7</sup> To calculate the appropriate current discount rates, the Postal Service used the rates taken from the U.S. Treasury - Daily Treasury Yield Curve Rates, September 30, 2019.



The Postal Service calculates separate discount rates for the portion of the workers' compensation liability that includes direct compensation to claimants versus the portion that includes medical claims, such as doctor visits and pharmaceuticals. Between FYs 2014 and 2019, the largest change in discount rates (decrease) and corresponding effect to workers' compensation liability and related expense (increase) occurred in FY 2019. In FY 2019, workers' compensation operating expenses totaled about \$3.5 billion. The portion of those expenses attributable to the effect of discount rate changes totaled about \$2.4 billion (67 percent) (see Figure 3). Accordingly, total FY 2019 workers' compensation operating expense increased by \$3.5 billion from FY 2018.

**Figure 3. Discount Rate Changes<sup>8,9,10</sup>**



Source: Postal Service 2016 Report on Form 10-K, Note 11 and 2019 Report On Form 10-K, Note 14 and OIG analysis.

8 The compensation claim discount rate represents a weighted average of the Daily Treasury Yield Curve Rates for losses associated with compensation paid directly to claimants, based on the timing of forecasted payments.

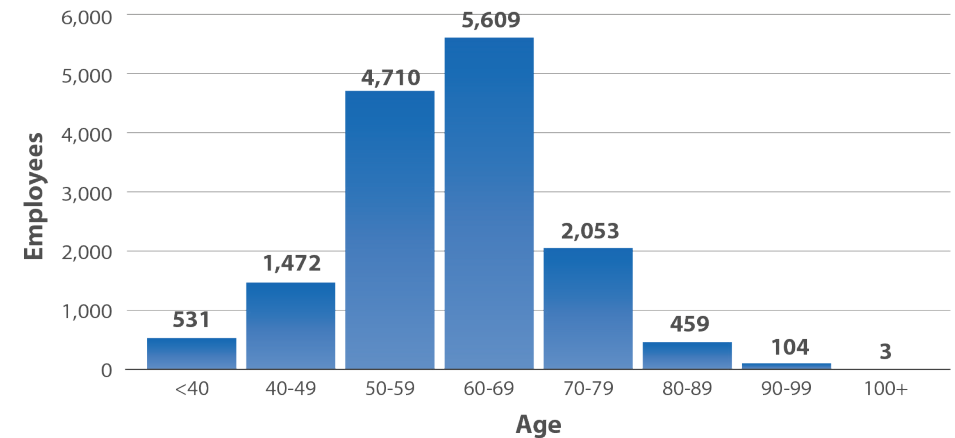
9 The medical claim discount rate represents a weighted average of the Daily Treasury Yield Curve Rates for losses associated with medical payments, based on the timing of forecasted payments.

10 The average discount rate represents the average of the compensation and medical discount rates. The OIG calculated these averages for analysis purposes, but they do not correspond to any financial metrics presented in the Forms 10-K.

11 Employees 50 years and older would likely be at or close to retirement. However, retirement eligibility varies depending on many factors, such as age and years of service.

FECA claimants who are eligible for federal retirement or disability annuities may chose to remain in the FECA program for the entire duration of their disability, rather than move to retirement. As of September 2019, the Postal Service reported 12,938 employees 50 years and older and 2,619 participants 70 years and older<sup>11</sup> on the periodic roll. This total included three employees 100 years or older (see Figure 4). The periodic roll contains the names of employees receiving workers' compensation benefits and/or disabilities that are expected to be permanent or indefinite.

**Figure 4. Chargeback Year 2019 Employees on Periodic Roll**



Source: Postal Service Injury Compensation & Medical Management.

## Finding #1: Cost Containment Activities

Workers' compensation expenses continue to represent a significant liability for the Postal Service. Without legislative change, the Postal Service is limited in pursuing certain cost containment options, including best practices used in state government and the private sector. We estimate the Postal Service could have saved about \$385 million per year during CBYs 2014 through 2019<sup>12</sup> if FECA allowed the adoption of state government and private sector best practices. See [Appendix B](#) for a detailed description of some of the best practices that state governments allow.

Although limited by current legislation, two primary Postal Service activities contribute to reducing employee injuries and the number of employees on the periodic roll. These ongoing activities include accident safety initiatives and return-to-work efforts.

### Safety Initiative

In July 2019, the Postal Service introduced the Informed Mobility Safety Observation Tool as an enhancement to its ongoing safety observation program.

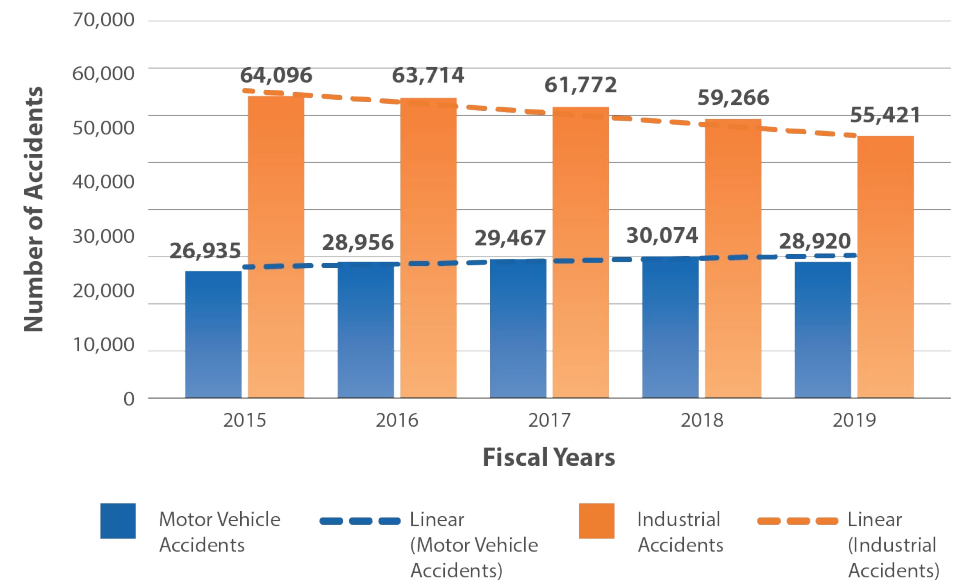
***“Although limited by current legislation, two primary Postal Service activities contribute to reducing employee injuries and the number of employees on the periodic roll.”***

This electronic application allows managers and supervisors to identify unsafe behaviors and work with employees to correct those behaviors. It also allows managers and supervisors to record findings from safety observations and provide insight into safety trends or training gaps in the workplace.

We analyzed the Postal Service's Safety Dashboard<sup>13</sup> and noted that total motor vehicle and industrial

accidents<sup>14</sup> decreased at an average rate of about 2 percent per year (7 percent overall) for FY 2015 to FY 2019.<sup>15</sup> Specifically, industrial accidents decreased by about 15 percent from FY 2015 to FY 2019. Conversely, motor vehicle accidents increased by 7 percent during the same period<sup>16</sup> (see Figure 5).

**Figure 5. FY 2015 - 2019 Safety Initiative Trend**



Source: Postal Service Safety Dashboard FYs 2015 - 2019.

According to the U.S. Postal Service Future Ready Five-Year Strategic Plan 2020 – 2024, one of the Postal Service's goals is to Equip, Empower, and Engage Employees. To accomplish this, the Postal Service plans to enhance existing safety programs with a goal of reducing all accidents (motor vehicle and industrial) that effect employee wellness, performance, and efficiency.

<sup>12</sup> Employer Costs for Employee Compensation Historical Listing - National Compensation Survey 2004-2019.

<sup>13</sup> The Safety Dashboard provides a national level breakout for the various categories of accidents that can be drilled down by area, district, and facility.

<sup>14</sup> Heat accidents were included in industrial accidents prior to 2019.

<sup>15</sup> Accident data for FY 2014 is no longer available.

<sup>16</sup> According to Postal Service safety management, the increase in motor vehicle accidents was due to several years of extreme winter weather conditions.

On January 9, 2020, the Office of Management and Budget issued a memorandum called The Peer Initiative: Protecting Employees and Enabling Re-employment. The primary goals of the initiative are to “improve workplace safety and health, improve efficiencies, reduce the financial burden of injury on taxpayers, and relieve unnecessary suffering by workers and their families.”

*“As shown in Figure 6, the number of employees on the periodic roll dropped from 16,238 in FY 2014 to 14,941 in FY 2019 (down 8 percent).”*

Specifically, the Postal Service must improve or maintain seven performance areas:

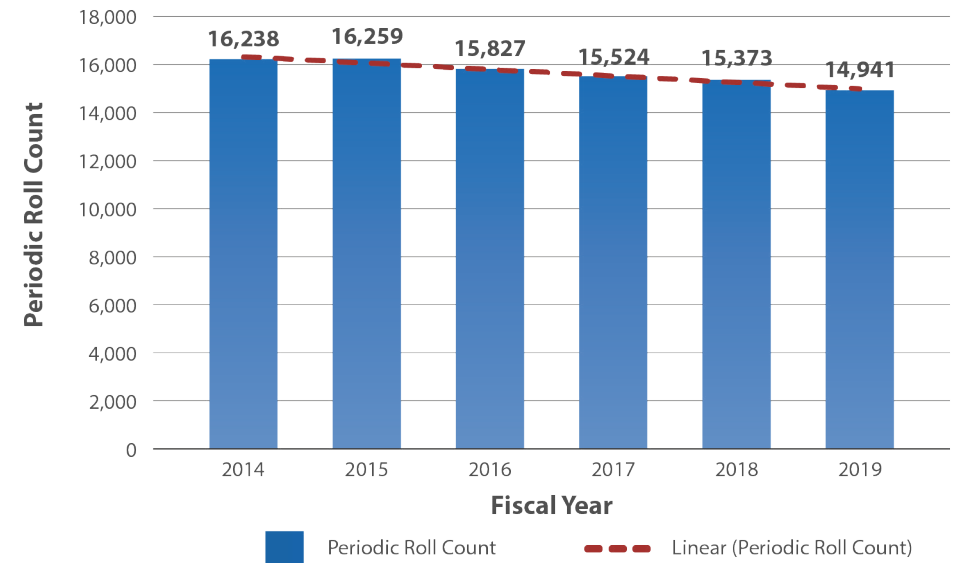
1. Reduce total injury and illness case rate.
2. Reduce lost-time injury and illness case rates.
3. Increase the timely filing rate for workers’ compensation claims.
4. Increase the timely filing rate for wage-loss claims.
5. Increase the rate of return-to-work outcomes during the initial 45-day post-injury period for traumatic injury cases.
6. Improve the rate at which employees return to work in cases of moderate to severe injury or illness.
7. Implement and fully use the DOL electronic filing system.

### Return-to-Work Efforts

During the past five years, the Postal Service has focused its efforts on identifying viable options for returning injured employees to work. The Postal Service’s

return-to work efforts contributed to having fewer employees on the periodic roll. As shown in Figure 6, the number of employees on the periodic roll dropped from 16,238 in FY 2014 to 14,941 in FY 2019 (down 8 percent).

**Figure 6. FY 2014 – 2019 Periodic Roll Trends**



Source: Postal Service Injury Compensation and Medical Services and OIG analysis.

While we recognize the Postal Service is currently limited in pursuing certain cost containment options, it needs to evaluate cost containment options based on private sector practices and determine a strategy forward.

### Recommendation #1

We recommend the **Chief Human Resources Officer and Executive Vice President**, evaluate workers’ compensation cost containment options based on private sector practices and determine a strategy forward.

## Other Matters: Health Care Investigations

The Postal Service's workers' compensation expense is affected by fraudulent activity; therefore, we continue to investigate this type of activity. While the number of Postal Service periodic roll cases prosecuted decreased from 195 to 52 (73 percent) from FY 2014 to FY 2019, the number of health care providers investigated and prosecuted increased from five to 34 (580 percent) over the same period. Recent examples of workers' compensation fraud include:

- In 2016, we partnered with the Internal Revenue Service Criminal Investigation Division; and the Department of Veterans Affairs, Department of Homeland Security, and DOL OIGs to investigate a conspiracy involving a medical equipment company and a network of clinics providing physical therapy services to federal employees, including Postal Service employees, in the Houston area. In April 2017, the owner of the medical equipment company pled guilty to paying kickbacks, defrauding the government, and laundering money. The owner admitted to paying the chief executive officer of the health care company kickbacks for access to patients in TX and LA. In April 2018, he was sentenced to nearly six years in prison and ordered to pay about \$3 million in restitution. In addition, the health care company's chief executive officer, vice president, and chief financial officer were charged with fraudulently obtaining more than \$18.3 million in workers' compensation funds. They received respective prison sentences of 19, 25, and 10 years.
- A rural mail carrier in FL misrepresented her medical condition and physical limitations to her physician to obtain federal workers' compensation benefits. During our investigation, agents observed the carrier scuba diving, boating, and riding 40-foot-tall waterslides which would be inconsistent with her stated

condition. In December 2017, a U.S. District Court found the carrier guilty on one count of theft of government funds and two counts of false statement or fraud to obtain federal workers' compensation. In March 2018, the carrier received a sentence of three years' probation, 100 hours' community service, and 30 days at the Brevard County, FL work camp. The court further ordered the carrier to pay restitution of nearly \$113,000. The DOL terminated the carrier's benefits, which saved the Postal Service more than \$1 million in future payouts.

- We received a complaint in 2015 concerning health care fraud, prompting a request for a Postal Injury Compensation System query and an Investigative Analyst Report. The resulting information revealed that from about December 2008 through December 2014, a group of integrated hospitals and health care providers in NY billed the Postal Service for services related to workers' compensation claims, leading to payments of about \$200,000. The ensuing OIG investigation discovered instances of insufficient documentation to support the level of service billed and billing for ineligible services and evidence of kickbacks. On July 9, 2018, the group of hospitals and providers agreed to a settlement requiring payment of more than \$14.7 million to resolve allegations of violations of the False Claims Act.

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***“The Postal Service’s workers’ compensation expense is affected by fraudulent activity; therefore, we continue to investigate this type of activity.”***

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## Management's Comments

Management agreed with our finding and recommendation. Regarding the recommendation, management stated its efforts and initiatives aligned toward reducing the financial impact will continue and will remain a critical part of the Injury Compensation Management program. Management agrees to continue researching best practices from the private sector and other federal agencies related to cost containment efforts and legislative reform. In addition, management will provide current workers' compensation cost containment activities and a summary of legislative changes needed to the Executive Leadership Team to develop a strategy. Per discussion with management, the target implementation date is September 1, 2020.

See [Appendix C](#) for management's comments in their entirety.

## Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendation and their planned actions should address the issues identified in the report. Management's continued focus on employee safety and return to work efforts are contributing to containing workers' compensation costs. However, absent legislative change, the Postal Service will continue to be hindered in adopting best practices of private sector companies that will limit its cost containment efforts. Executive Leadership Team involvement and support to develop a strategy and engage with external stakeholders will be critical.

All recommendations require OIG concurrence before closure. The OIG requests written confirmation when corrective actions are completed. Recommendation 1 should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendation can be closed.

# Appendices

Click on the appendix title below to navigate to the section content.

- Appendix A: Additional Information..... 13
  - Prior Audit Coverage ..... 14
- Appendix B: Benchmarking with State Governments..... 15
  - Employer-Selected Physicians ..... 15
  - Generic Drugs..... 15
- Appendix C: Management’s Comments..... 17

# Appendix A: Additional Information

## Scope and Methodology

We analyzed Postal Service workers' compensation costs and liabilities data from CBYs 2014 through 2019. Specifically, we obtained DOL's annual billing for Workers' Compensation Chargeback Costs and administrative fees for CBYs 2014 to 2019. We obtained Postal Service long-term workers' compensation liability costs from their form 10-K financial statements for the years under review. We also reviewed the 5-Year Strategic Plans for 2017-2021 and 2019-2024 to identify any initiatives that would be applicable in containing workers' compensation costs.

To accomplish our objective, we:

- Interviewed personnel at Postal Service Headquarters to understand and identify workers' compensation costs and liabilities.
- Identified cost-saving activities to offset rising workers' compensation costs and liabilities.
- Obtained and reviewed applicable federal and Postal Service regulations, manuals, instructions, and standard operating procedures related to FECA and DOL OWCP.
- Obtained Postal Service data for OWCP periodic roll for CBYs 2014 through 2019.
- Contacted the DOL's OWCP to understand the assessment and calculation of administrative fees.
- Benchmarked state government and private industry to FECA medical costs containment tools using the Workers' Compensation Research Institute.

We conducted this performance audit from September 2019 through August 2020 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusion based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusion with management on June 5, 2020 and included their comments where appropriate.

Additionally, we analyzed data captured on the Postal Service's Safety Dashboard for FYs 2015 through 2019 regarding motor vehicle, industrial, and heat accidents.<sup>17</sup> We believe that this information provided sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusion based on our audit objective.

We did not assess the reliability of any computer-generated data for the purposes of this report because of the Postal Service processes or timeliness associated with the Postal Service's administration of the OWCP claims. We believe this information was not needed as the Postal Service's Safety Dashboard provided sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusion based on our audit objective.

<sup>17</sup> Accident data for FY 2014 is no longer available.

## Prior Audit Coverage

Report Title	Objective	Report Number	Final Report Date	Monetary Impact (in Millions)
<i>Federal Employees' Compensation Act Reform</i>	Summarize FECA reform proposals presented in multiple OIG reports <sup>18</sup> and provide updated Postal Service OWCP costs and liabilities.	HR-WP-14-003(R)	8/20/2014	None
<i>Postal Service Injury Compensation Program</i>	Assess the Postal Service's administration of workers' compensation claims and identify opportunities to reduce these costs by implementing best practices.	HR-AR-13-004	7/25/2013	\$171

<sup>18</sup> *Retirement for U.S. Postal Service Employees on Workers' Compensation* (Report Number HR-MA-11-001, dated April 22, 2011); *Postal Service Workers' Compensation Program* (Report Number HR-AR-11-007, dated September 30, 2011); and *Postal Service Injury Compensation Program* (Report Number HR-AR-13-004, dated July 25, 2013).



# Appendix B: Benchmarking with State Governments

We reviewed research from the Workers' Compensation Research Institute to compare private sector mitigation efforts to those made by the Postal Service. The following cost-saving initiatives have been adopted by some state governments that also govern the practices of private sector companies not covered under FECA. See Table 2 for a summary of best practices:

**Table 2: State Government Best Practices**

Best Practice	Not Covered Under FECA	FECA
Limit amount of benefits	12/50 states have limitations on amount of benefits	No limitations
Limit duration of benefits	9/50 states limit duration of benefits	No limitations
Allow settlements and buy outs	43/50 states allow settlements	Settlements not allowed
Require use of generic drugs	35/50 states require substitution of generic drugs	Not required
Required utilization review	15/50 state require a utilization review	No utilization review guidelines

Source: Workers' Compensation Research Institute and OIG analysis.

## Limited Amount and Duration of Benefits

FECA does not have an age or time limit to receive benefits. It provides tax-free compensation for wage loss at 66⅔ percent of an employee's salary, if there are no dependents, or a maximum of 75 percent if there are dependents. In contrast, 12 of 50 state governments limit the amount of benefits paid, while nine state governments limit the duration of benefits. The Postal Service could potentially save costs by limiting the amount and duration of benefits.

## Settlements and Buyouts

In some states, all organizations, except federal agencies, have the option of settling costs for future medical care in the form of a compromise and release agreement.<sup>19</sup> However, the Postal Service is restricted by FECA, which does not allow settlement of workers' compensation cases unless they involve third-party liability. For reference, 43 of the 50 states allow settlements and buyouts. If FECA allowed for settlements or buy-outs, the Postal Service could decrease its workers' compensation expenses.

## Employer-Selected Physicians

Most third-party administrators and private companies are permitted by their respective states to require use of in-network physicians; however, FECA does not mandate this restriction. Based on research from the Workers' Compensation Research Institute, the method of provider selection and the regulations on change of health care providers can affect the cost of medical care, indemnity costs, and outcomes for workers regarding disability duration, physical recovery, and satisfaction with care.

## Generic Drugs

In the private sector, mandatory use of generic drugs is an effective way to control costs. According to the Food and Drug Administration, generic drugs provide the same clinical benefit but typically cost up to 85 percent less than brand name drugs. While FECA allows Postal Service employees with approved workers' compensation claims to choose brand name or generic drugs, 35 of 50 states require the substitution of name brand drugs with generic drugs. The Postal Service could benefit from mandating the use of generic drugs to reduce workers' compensation costs.

<sup>19</sup> An enforceable promise to not proceed with a legal claim. It protects the organization from all future claims related to an incident in exchange for an upfront payment.

## Utilization Review

Utilization review refers to the review of the quantity and type of treatment provided to injured workers to ensure treatment is appropriate and necessary. The review typically considers the appropriateness of the location place and level of care. Further, the review considers the duration, frequency, and quantity of services in relation to the accepted condition of the injured worker.

We found 15 of 50 states require a utilization review, but FECA does not have a similar requirement. Although FECA does not mandate utilization reviews, the Postal Service does conduct reviews of randomly selected workers' compensation cases. Based on the results of the reviews, ongoing training is provided in areas identified as opportunities for improvement. The training is provided to field Occupational Health management staff and covers various topics such as accuracy of data entry, how to dispute claims, and how to identify and report potential fraud.

# Appendix C: Management's Comments

ISAAC S. CRONKHITE  
CHIEF HUMAN RESOURCES OFFICER  
AND EXECUTIVE VICE PRESIDENT



July 30, 2020

LAZERICK POLAND  
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Workers' Compensation Program Cost Containment Activities Report Number 19-031- DRAFT

Thank you for the opportunity to review and comment on the above mentioned draft audit report (Draft Report) prepared by the Office of Inspector General (OIG), and to address the findings and recommendations contained therein. As discussed, the United States Postal Service (Postal Service) continues to pursue strategies to reduce the overall costs associated with workers' compensation claims. The Postal Service agrees it will continue to research best practices from the private sector and other federal agencies related to cost containment efforts and legislative reform.

Recommendation 1:

While we recognize the Postal Service is currently limited in pursuing certain cost containment options, we recommended management evaluate workers' compensation cost containment options based on private sector practices and determine a strategy forward.

Management Response/Action Plan:

Management agrees that as part of our fiduciary responsibility we must always seek best practices and strategies aligned toward reducing the financial impact of work related injuries and resultant workers' compensation claims. These efforts and initiatives focused on return to work efforts and accident prevention will continue and will remain a critical part of the Injury Compensation Management program. Current legislative limitations prevent efforts to address additional best practices from private sector employers, such as benefit limitations at retirement age, active case management and medical cost containment.

Currently the USPS has 8,499 employees over the age of 60 receiving tax free compensation benefits. They represent more than half of all employees on the periodic roll. The oldest claimant is 105 years old. The agency does not have any input into ongoing case management such as being able to have the employee evaluated by a physician. Since the employee has the right to choose their own physician, the USPS is unable to negotiate costs savings for medical care and require participation. Until such time as Congress addresses these issues and enacts legislation to amend the Federal Employees Compensation Act, the USPS is hindered in implementing cost savings strategies that are currently controlled by the US Department of Labor, Office of Workers' Compensation Program.

Management will provide current workers' compensation cost containment activities and a summary of legislative changes needed to the Executive Leadership Team to develop a strategy forward. Management will also address Line 2 J costs containment strategies and tactics with the field.

Target Implementation Date:

As the OIG draft report states, the Postal Service is limited in pursuing cost containment options and has successfully implemented practices to reduce the financial impacts of workers' compensation claims, the Postal Service respectfully requests that this recommendation be closed. The Postal Service will continue to monitor private sector and federal agency best practices and identify opportunities to engage with external stakeholders. Communication to the field on Line 2 J will be accomplished no later than September 1, 2020.

Responsible Official:

Linda DeCarlo, Director, Occupational Safety & Health

A handwritten signature in black ink, appearing to read "Isaac S. Cronkhite".

Isaac S. Cronkhite

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