



*Improvements Are Needed to
Provide Effective Oversight of
Workers' Compensation Claims*

June 15, 2018

Reference Number: 2018-10-037

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

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HIGHLIGHTS

IMPROVEMENTS ARE NEEDED TO PROVIDE EFFECTIVE OVERSIGHT OF WORKERS' COMPENSATION CLAIMS

Highlights

Final Report issued on June 15, 2018

Highlights of Reference Number: 2018-10-037 to the Acting Commissioner of Internal Revenue.

IMPACT ON TAXPAYERS

The Federal Employees' Compensation Act program, which provides workers' compensation (compensation and medical benefits) to Federal Government employees, remains vulnerable to fraud because program benefits equal up to 75 percent of the injured worker's pre-disability wage income tax free. Given the substantial cost of this program, it is important for the IRS to accurately initiate and consistently monitor claims to ensure that taxpayer funds are spent properly.

WHY TIGTA DID THE AUDIT

This audit was initiated to determine the nature of IRS workers' compensation claims and assess the IRS's oversight of workers' compensation claim initiation, monitoring, and cost.

WHAT TIGTA FOUND

For the four-year period ending June 30, 2017, the IRS paid an average of about \$40 million per year for workers' compensation cases. TIGTA found that, as of July 2016, 892 (62 percent) of 1,433 IRS employees in the program had received benefits for six or more years. This includes more than 100 employees receiving workers' compensation for more than 30 years and almost 50 employees receiving benefits for more than 40 years.

For a sample of active claims as of July 15, 2016, TIGTA estimates that about 133 (9 percent) were not initiated properly. For example, agencies are required to obtain documentation to determine whether claimants sustained or aggravated their injuries in the performance of their duties. However, for some

cases, the physicians did not indicate in medical documentation whether the claimants' injuries were attributable to IRS work activities. If cases are not properly initiated, the IRS risks incurring unnecessary and substantial costs for many years for injuries not attributable to working at the IRS. For example, TIGTA identified one sampled case with insufficient documentation that had total compensation costs of more than \$1 million.

Workers' compensation claims monitoring can also be improved. TIGTA estimates that about 957 (67 percent) claims from the same statistical sample were not monitored timely. For example, agencies are required to follow up at scheduled intervals to obtain updated medical status reports and determine whether claimants had any non-IRS earnings that could affect the amount of the claims being approved. TIGTA determined that IRS specialists in charge of monitoring cases frequently did not timely follow up or did not follow up at all. For example, in one case for which more than \$20,000 was paid in medical expenses over a two and one-half year period, TIGTA could find no evidence that the IRS requested updated medical documentation during this time.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS Human Capital Officer: 1) train IRS specialists to ensure that all five elements are met when initiating workers' compensation claims, 2) develop procedures to remind specialists when it is time to obtain updated documentation to monitor active claims, and 3) conduct quality reviews of active claims to determine whether updated documentation is being obtained and reviewed as required.

IRS management agreed with all of our recommendations.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

June 15, 2018

MEMORANDUM FOR ACTING COMMISSIONER OF INTERNAL REVENUE

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Improvements Are Needed to Provide Effective Oversight of Workers' Compensation Claims (Audit # 201610011)

This report presents the results of our review to determine the nature of Internal Revenue Service (IRS) workers' compensation claims and assess the IRS's oversight of workers' compensation claim initiation, monitoring, and costs. This audit is included in the Treasury Inspector General for Tax Administration's Fiscal Year 2018 Annual Audit Plan and addresses the major management challenge of Achieving Program Efficiencies and Cost Savings.

Management's complete response to the draft report is included as Appendix VII.

Copies of this report are also being sent to the IRS managers affected by the report recommendations. If you have any questions, please contact me or Troy Paterson, Acting Assistant Inspector General for Audit (Management Services and Exempt Organizations).



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Abbreviations

ADMS	Application and Database Maintenance System
AQS	Agency Query System
DOL	Department of Labor
FECA	Federal Employees' Compensation Act
IRS	Internal Revenue Service
SHIMS	Safety and Health Information Management System
TIGTA	Treasury Inspector General for Tax Administration
WCB	Workers' Compensation Branch



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Background

The Federal Employees' Compensation Act (FECA)¹ provides workers' compensation (compensation and medical benefits) to civilian employees of the Federal Government for personal injury or disease sustained while in the performance of duty or, in the case of death, provides survivor benefits to family members. The

Internal Revenue Service workers' compensation costs averaged about \$40 million for the four-year period ending June 30, 2017.

FECA is primarily administered by the Department of Labor's (DOL) Office of Workers' Compensation Programs. However, each Federal agency has financial and management responsibility for its own FECA cases (hereafter referred to as workers' compensation cases). The DOL bills Federal Government agencies for the amount of benefits paid on behalf of the agencies' injured employees. These "chargeback billings" cover the 12-month expense period of July 1 to June 30 each year, and agencies pay the expenses from their appropriations or operating revenues. Internal Revenue Service (IRS) workers' compensation costs averaged approximately \$40 million during the last four chargeback years² ending on June 30, 2017.

The DOL encourages all Federal agencies to actively manage their workers' compensation programs. The IRS's Workers' Compensation Program is centrally located and managed from its Workers' Compensation Branch (WCB) in Richmond, Virginia. The IRS's WCB serves as the IRS's liaison with the DOL and is responsible for, among other things, initiating FECA claims and monitoring the medical status of injured employees. Upon receipt of a claim, employees in the IRS's WCB review the claim to ensure that it includes five required elements.³ If any of the required elements are not met, the IRS's WCB may challenge the claim, but the authority to approve or deny a claim resides with the DOL. In addition, employees in the IRS's WCB monitor accepted claims and related medical reports on an ongoing basis to determine whether employees can return to work.

Although the FECA is intended to be a temporary benefit, an employee can continue to receive FECA compensation for as long as medical evidence shows that the employee is totally or partially disabled and that the disability is related to the accepted injury or condition. The FECA program provides basic disability benefits equal to two-thirds of an injured worker's pre-disability wage, which increases to 75 percent of the pre-disability wage if the worker has

¹ Ch. 458, 39 Stat. 742 (1916) 5 U.S.C. §§ 8101-8193 (2013) (codified as amended in scattered sections of 1 U.S.C., 5 U.S.C., and 18 U.S.C.)

² See Appendix VI for a glossary of terms.

³ For further details on the five required elements for initiating a claim for Federal workers' compensation, see the section of this report entitled *Workers' Compensation Claims Are Not Always Initiated Properly*.



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any dependents. These benefits are generally free from Federal and State income tax. Additionally, under the FECA, all medical costs including medical devices, therapies, and medications associated with the treatment of a covered injury or illness are paid for, in full, by the Federal Government. Both FECA compensation and medical benefits are payable for the duration of a person's disability. As such, the FECA program remains vulnerable to fraud.⁴

There is no maximum duration of benefits and no maximum age at which benefits must be terminated. Beneficiaries who are eligible for Civil Service Retirement System or Federal Employees Retirement System retirement or disability annuities may choose to remain in the FECA program. In some cases, a monthly FECA benefit is higher than what someone would be paid by a Civil Service Retirement System or a Federal Employee Retirement System annuity because FECA benefits: 1) can be as high as 75 percent of a worker's pre-disability wage, 2) can increase due to annual cost of living adjustments, and 3) are not generally subject to Federal and State income tax. Medical benefits are payable regardless of whether beneficiaries remain a Government employee or retire.

This review was performed at the IRS's WCB in Richmond, Virginia, during the period April 2016 through November 2017. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions 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. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

⁴ For example, see the discussion of fraud vulnerabilities in Government Accountability Office, GAO-12-402, *Federal Employees' Compensation Act: Preliminary Observations on Fraud-Prevention Controls* (Jan. 2012), and recent fraud cases in Office of Inspector General for the U.S. Department of Labor, *Semiannual Report to Congress Vol. 78* (April–September 2017).



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Results of Review

Workers' Compensation Cases Are Costly, Diverse in Nature, and Often Remain Open for Long Periods of Time

For the four-year period ending June 30, 2017, the IRS paid an average of about \$40 million per year for workers' compensation cases. TIGTA found that, as of July 2016, 892 (62 percent) of 1,433 IRS employees in the program had received benefits for six or more years. This includes more than 100 employees receiving workers' compensation for more than 30 years and almost 50 employees receiving benefits for more than 40 years.

Approximately \$40 million is spent yearly for medical payments and lost wages associated with workers' compensation cases

According to chargeback reports prepared by the DOL, the IRS was charged more than \$160 million between July 1, 2013, and June 30, 2017, for medical and compensation payments made to IRS employees with workers' compensation cases. Figure 1 shows that the IRS is billed approximately \$40 million per chargeback year for workers' compensation claims.

***Figure 1: Total Number and Cost of
IRS Workers' Compensation Cases
(Chargeback Years 2014 Through 2017)***

Chargeback Year	Number of Cases	Total Cost
2014	2,293	\$41,093,986
2015	2,195	\$41,267,176
2016	2,433	\$40,684,183
2017	2,391	\$38,837,224

Source: Workers' compensation chargeback reports provided by the IRS WCB.



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Active workers' compensation cases are diverse in nature, ranging from those involving medical payments only to those involving loss of wages for short-term injuries, longer term disabilities, and deceased employees

We analyzed active workers' compensation cases as of July 15, 2016,⁵ and determined that more than one-third of the cases were categorized as involving medical payments only. However, there were a significant number of cases involving short-term injuries, injuries that are expected to be longer term in nature, and injuries that cause the employee to have reduced or no wage-earning capacity, as well as a small number of cases involving deceased employees. Figure 2 provides a breakdown of the types of active workers' compensation cases as of July 15, 2016.

**Figure 2: Categories of Active Workers' Compensation Cases
(as of July 15, 2016)**

Case Status Category	Number of Cases	Percentage ⁶
Medical Payments Only	521	36.4%
Disabilities Expected to Last > 60 to 90 Days	316	22.1%
Short-Term Injuries	256	17.9%
Employees With No Wage-Earning Capability	186	13.0%
Employees With Reduced Wage-Earning Capability	109	7.6%
Deceased Employees ⁷	45	3.1%

Source: The IRS's Safety and Health Information Management System-Application and Database Maintenance System (SHIMS-ADMS).

A significant percentage of cases remain open for long periods of time

To determine the length of time that cases remain open, we analyzed active workers' compensation cases as of July 15, 2016, and determined that 892 (62 percent) of 1,433 active workers' compensation claims were open for more than five years. This includes more than 100 cases that have been open for more than 30 years and almost 50 additional cases that have been open for more than 40 years. This is significant because it adds to the complexity required to oversee cases, given that longer term cases require monitoring at different intervals based on

⁵ This was the most current data available as we were concluding the planning phase of this audit.

⁶ Percentages do not total 100 percent due to rounding.

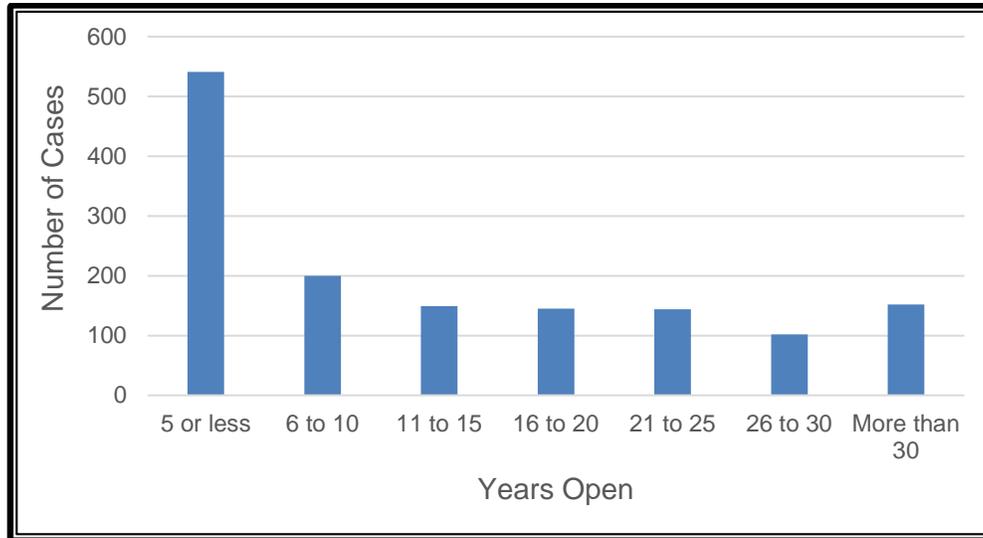
⁷ The FECA provides for the payment of monetary compensation to specified survivors of an employee whose death is the result of an employment-related injury or illness and for payment of certain other death-related expenses.



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how each case is categorized.⁸ Figure 3 shows the amount of time that active cases had been open as of July 15, 2016.

Figure 3: Length of Time Active Workers' Compensation Cases Have Been Open⁹ (as of July 15, 2016)



Source: The IRS's SHIMS-ADMS.

The age of workers' compensation claimants ranges from early twenties to beyond the normal retirement age

We analyzed active workers' compensation cases as of July 15, 2016,¹⁰ and determined that the age of claimants receiving workers' compensation benefits varied from 23 years old to more than 90 years old. In addition, a large number of claimants have reached or surpassed the normal retirement age, which begins at age 65. Once individuals reach their normal retirement age, workers have the option of continuing to receive workers' compensation or collecting retirement benefits.¹¹ As noted by the Government Accountability Office, it is sometimes more beneficial for the claimant to continue receiving workers' compensation benefits versus collecting

⁸ See the section of this report entitled *Workers' Compensation Claims Are Not Always Monitored As Required* for further discussion of the IRS's efforts to monitor active workers' compensation cases.

⁹ For each case, we rounded the number of years that the case was open to the nearest whole number.

¹⁰ For this analysis, we excluded all cases involving deceased employees as well as four cases that did not include the age of the claimant on the SHIMS database.

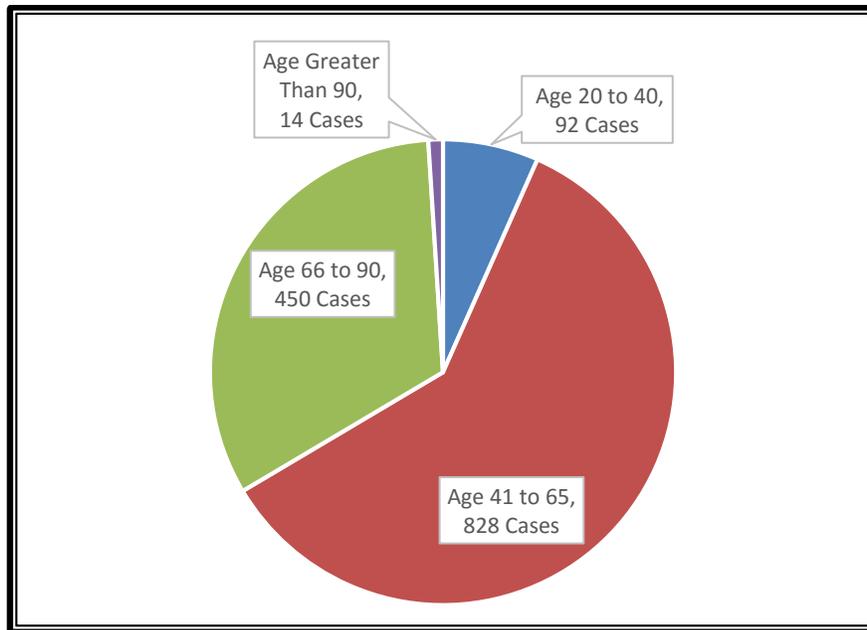
¹¹ If a worker chooses to retire and begin collecting retirement benefits, the worker can continue to be reimbursed for medical payments through the workers' compensation program.



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retirement benefits.¹² Figure 4 shows that approximately one-third of active cases were associated with claimants over the age of 65.¹³

**Figure 4: Age of Claimants for Active Workers' Compensation Cases
(as of July 15, 2016)¹⁴**



Source: The IRS's SHIMS-ADMS.

The types of injuries claimed by IRS workers vary widely

We analyzed the Nature of Injury Codes for active workers' compensation cases as of July 15, 2016, and determined that more than one-fourth of the cases included a specific code that did not specify the nature of the injury. For the remaining cases, we determined that there were more than 50 Nature of Injury Codes associated with active cases. Due to the diversity of Nature of Injury Codes, there was no clear trend; however, the top three cited codes related to back injuries, carpal/cubital tunnel syndrome, and mental/emotional/nervous conditions.

¹² Government Accountability Office, GAO-12-309R, *Federal Employees' Compensation Act: Benefits for Retirement-Age Beneficiaries* (Feb. 2012).

¹³ While approximately 92 percent of the cases concerning claimants over the age of 65 involved longer term disabilities or medical payments, about 8 percent were coded as cases involving short-term injuries.

¹⁴ For each case, we rounded the age of the claimants to the nearest whole number.



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Workers' Compensation Claims Are Not Always Initiated Properly

Based on a statistical sample of active claims, we estimate that 133 (9 percent) active claims were not initiated properly.¹⁵ If claims are not initiated properly, the IRS may make payments for compensation and medical expenses that are not necessary. Given that some IRS employees may receive workers' compensation benefits for decades, improperly approving even one claim could prove very costly to the IRS. Figure 5 shows that the IRS must obtain documentation to prove that five elements are met when initiating a claim to obtain Federal workers' compensation.

Figure 5: Five Elements Required to Properly Initiate Workers' Compensation Claims

#	Elements
1	Notice of the injury or death was provided in a timely manner (within three years).
2	The claimant was employed by the Federal Government.
3	The claimant experienced the accident and the medical condition connected with the event.
4	The claimant sustained the injury in the performance of duty.
5	The work-related injury is connected to the specific condition for which compensation is claimed.

Source: Publication CA-810, Injury Compensation for Federal Employees.

We reviewed a statistical sample of active claims¹⁶ as of July 15, 2016, and determined that the IRS was ensuring that the notice of injury or death was provided in a timely manner and that the claimant was employed by the Federal Government. However, we determined that some case files associated with workers' compensation claims did not include documentation proving that all five elements were met.

If the IRS determines that documentation submitted by a claimant does not meet all five elements, the IRS can challenge the validity of the claim. For 22 cases we reviewed, the IRS determined that one or more of the five elements were not met and properly challenged the claims. However, we identified nine cases in our sample that were either not challenged by the IRS or the IRS challenged the claim but had insufficient documentation showing how the challenge was resolved. For each of these cases, the IRS did not have documentation proving

¹⁵ The point estimate projection is based on a two-sided 95 percent confidence interval. We are 95 percent confident that the point estimate is between 46 and 220.

¹⁶ Our statistical sample was of 78 active claims; however, three claims could not be reviewed because key documentation was missing from the case files. See Appendix I for information on our sampling methodology.



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that all five elements were met. For all nine cases,¹⁷ we determined that the case files associated with the claims did not include documentation proving that the work-related injury was connected to the specific condition for which compensation was being claimed. For instance, these cases often included documentation from physicians; however, the medical documentation did not indicate whether the claimants' injuries that were being treated were attributable to IRS work activities or whether IRS work activities aggravated a preexisting condition. If the IRS does not obtain appropriate documentation, the IRS risks incurring unnecessary and substantial costs for many years for injuries not attributable to working at the IRS. The nine cases for which documentation did not prove that all five elements were met had total compensation costs totaling \$3,750,596 as of July 15, 2016, including one case with more than \$1 million in total compensation costs.¹⁸

We discussed these cases with IRS WCB management, who stated that IRS claims specialists sometimes do not challenge claims because they believe that the DOL will challenge the claims. However, IRS case files show that the DOL only challenged one of the nine claims. Depending on the DOL to challenge claims is risky because, once the DOL approves the claim and accepts the condition(s), the IRS is ultimately responsible for paying workers' compensation benefits for potentially decades.

Recommendation

Recommendation 1: The IRS Human Capital Officer should train IRS specialists to ensure that all five elements are met when initiating workers' compensation claims.

Management's Response: The IRS agreed with this recommendation. Training on all five factors was conducted on April 26, 2018. The WCB developed a checklist with all five factors to be completed for each new claim received, providing clear documentation that the five factors were reviewed.

Workers' Compensation Cases Are Not Always Monitored As Required

Based on a statistical sample of active claims, we estimate that 957 active claims were not adequately monitored.¹⁹ If IRS WCB specialists do not monitor workers' compensation cases,

¹⁷ One of the nine cases also did not meet several of the five elements, including insufficient documentation proving that the claimant sustained the injury in the performance of duty.

¹⁸ According to IRS officials, this case occurred in 1977 and is currently on a three-year periodic review schedule. In the last four years, the IRS states it received medical updates on multiple occasions, and the DOL continues to uphold the 87-year old claimant's status.

¹⁹ The point estimate projection is based on a two-sided 95 percent confidence interval. We are 95 percent confident that the point estimate is between 794 and 1,120. See Appendix IV for further details.



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specialists may not identify instances in which employees could return to work or determine whether claimants are entitled to continued medical benefits.

IRS WCB specialists did not always timely obtain updated medical documentation

The IRS did not timely²⁰ request updated medical information for 40 (66 percent) of 61 cases in our sample.²¹ The 40 cases had total compensation costs of more than \$25 million as of July 15, 2016, including 10 cases with more than \$1 million each in total compensation costs. For example:

- An employee filed a claim related to an injury. The IRS should have been requesting medical information every year based on the case status category to determine whether the employee should still have been receiving benefits. However, no evidence of medical requests was in the case file for six of the nine years we reviewed.
- In another case, the IRS should have been requesting medical information annually; however, it only requested the medical information for five of the nine years we reviewed.
- In another case, more than \$20,000 was paid to a claimant for medical expenses over a two and one-half year period. During this time period, the IRS should have requested updated medical documentation seven times; however, we found no indication that the IRS did so.

According to the IRS's procedures, the WCB is responsible for monitoring approved claims and medical evidence to determine the earliest practical return-to-duty date. In order to monitor the employee's medical and duty status, claimants are required to periodically obtain documentation from a physician on their current condition and ability to return to work.

We discussed the results of our case reviews with IRS WCB management, who offered a variety of reasons for why updated medical documentation may not be obtained timely. For example, IRS WCB management stated that some specialists focus on more recent claims rather than cases involving older injuries and do not put reminders on the system to alert them when it is time to obtain updated documentation. In addition, there are no managerial reviews being performed to determine whether IRS WCB specialists are obtaining updated medical documentation.

²⁰ See Appendix V for details on the methodology we used to determine whether updated medical documentation was obtained timely.

²¹ Our statistical sample was of 78 active claims; however, three claims could not be reviewed because key documentation was missing from the case files. In 14 additional instances, we excluded short-term injuries and death cases from this analysis. Therefore, we evaluated the remaining 61 cases to determine whether the IRS obtained updated medical information.



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IRS WCB specialists did not always timely obtain updated earnings and dependency documentation

The IRS did not timely²² request updated earnings and dependency documentation for 49 (98 percent) of 50 cases in our sample of active claims as of July 15, 2016.²³ For example, in one case, IRS WCB specialists only requested updated earnings and dependency documentation three times over a nine-year period even though updated earnings and dependency documentation should be obtained annually from the DOL. The 49 cases had total compensation costs of more than \$33 million as of July 15, 2016, including 12 cases with more than \$1 million each in total compensation costs.

All claimants who are receiving workers' compensation benefits (other than those who are only receiving reimbursements for medical payments), have not returned to work, and have experienced more than a short-term injury are required to submit an annual Form CA-1032, *Request for Information on Earnings, Dual Benefits, Dependents, and Third-Party Settlement Forms*, to the DOL stating whether their income or dependent status has changed. Although this form is completed by the applicant and self-certified, it can be useful when employing agencies review claims files for continued eligibility and could help the IRS identify employees with the potential to return to work. For example, the Veterans Health Administration adopted a best practice to obtain these forms to provide specialists with information to assist in returning claimants to work, potentially reducing workers' compensation costs. The IRS does not have any other way to independently verify whether claimants are receiving non-IRS earnings, which could be helpful in identifying potential fraud. For example, the IRS determined that it could not use tax information for this purpose, and the IRS is not authorized to use the National Directory of New Hires.

We discussed the results of our case reviews with IRS WCB management. We noted that there were no specific procedures for specialists to monitor claims periodically, and case monitoring can be complex because longer term cases require monitoring at different intervals based on how each case is categorized. As a result, IRS WCB management suggested that monitoring could be improved if IRS WCB specialists had a list of all cases requiring follow-up and received additional guidance and training.

²² See Appendix V for details on the methodology we used to determine whether updated earnings and dependency documentation was obtained timely.

²³ Our statistical sample was of 78 active claims; however, three claims could not be reviewed because key documentation was missing from the case files. In 25 additional cases, the requirement to obtain updated earnings and dependency documentation was not applicable. For example, when a claimant has returned to duty full time and is only receiving reimbursements for medical payments, the IRS is not required to obtain updated earnings and dependency documentation. Therefore, we evaluated the remaining 50 cases to determine whether the IRS obtained updated earnings and dependency information.



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In two cases, the IRS was erroneously charged for payments being made related to deceased employees

We matched all workers' compensation claims made during the period of July 1, 2015, through June 30, 2016, against the Social Security Death Master File. As a result, we identified two workers' compensation claimants who were deceased but for whom the DOL continued to send payments for workers' compensation benefits.²⁴ The IRS had not identified that it was being charged by the DOL for benefits paid after these employees died because the IRS relies on the DOL to inform the WCB when a claimant has passed away. IRS WCB officials also stated that the WCB may have identified this issue in the future through its ongoing monitoring activity. During the audit, we recommended that the IRS's WCB contact the DOL to stop future payments and attempt to recover funds that should not have been expended. IRS WCB officials agreed with our recommendation and provided us with documentation showing that the DOL was working with the estates of the two deceased employees to obtain repayment of approximately \$13,000 that was erroneously sent and received by someone for the two employees after they had died.²⁵

Recommendations

The IRS Human Capital Officer should:

Recommendation 2: Develop procedures to remind specialists when it is time to obtain updated documentation, *e.g.*, updated earnings and dependency information, to monitor active claims.

Management's Response: The IRS agreed with this recommendation. The Human Capital Officer plans to update procedures to remind specialists when it is time to obtain updated medical documentation to monitor active claims.

Recommendation 3: Conduct quality reviews of active claims to determine whether updated documentation is being obtained and reviewed as required.

Management's Response: The IRS agreed with this recommendation. The Human Capital Officer developed an action plan to conduct a comprehensive quality review of all claims for employees who are on rolls and have not returned to work, all employees who are off rolls with claims, and employees who have returned to work and have claims for which they receive part-time benefits and/or medical compensation.

²⁴ In each instance, survivor benefits were not due to family members.

²⁵ See Appendix IV for details.



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Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to determine the nature of IRS workers' compensation claims and assess the IRS's oversight of workers' compensation claim initiation, monitoring, and costs. To accomplish our objective, we

- I. Evaluated the extent to which the IRS's WCB accurately and timely initiates workers' compensation claims.
 - A. Obtained and reviewed source and background information to gain an understanding of the IRS's workers' compensation claims process and controls.
 - B. Interviewed staff from the IRS's WCB to obtain an understanding of the process for initiating workers' compensation claims.
 - C. Determined the nature of IRS workers' compensation cases.
 1. Obtained chargeback reports¹ to determine the total number and cost of workers' compensation claims.
 2. Researched the IRS's SHIMS-ADMS to determine the case status categories of active claims.
 3. Researched the IRS's SHIMS-ADMS to determine the length of time that active claims have been open.
 4. Researched the IRS's SHIMS-ADMS to determine the age of claimants for active claims.
 5. Researched the IRS's SHIMS-ADMS to determine the Nature of Injury Codes for active claims.
 - D. Obtained a copy of the IRS's SHIMS-ADMS database for active IRS workers' compensation claims as of July 15, 2016.
 1. To test the completeness of the IRS's SHIMS-ADMS database (downloaded from the Department of the Treasury's SHIMS database), selected a judgmental sample² of active IRS cases from the Department of the Treasury's SHIMS database and compared the sample to the population of claims on the

¹ See Appendix VI for a glossary of terms.

² A judgmental sample is a nonprobability sample, the results of which cannot be used to project to the population.



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- IRS's SHIMS-ADMS database. The data were determined to be reliable for our purposes.
2. Selected a statistically valid random stratified³ sample of 78 of the 1,433 active workers' compensation claims on the SHIMS-ADMS database as of July 15, 2016. We used the following criteria to select our sample: 95 percent confidence level, 60 percent expected error rate, and ± 11 percent precision rate. We relied on a contract statistician to review our sampling plans and projections.
- E. Requested and reviewed the sampled cases and related history notes to determine whether the IRS's WCB was properly initiating workers' compensation claims as required.
1. Determined whether the claim included evidence supporting the five required elements and the case file included the supporting documentation.
 2. Determined whether the claim file included evidence that the claim was challenged if some of the required elements included questionable issues.
- II. Assessed how the IRS's WCB monitors active workers' compensation claims. *Note: All steps in this subobjective were completed using the sample cases obtained in Step I.D.*
- A. Determined whether the IRS's WCB obtained updated medical status reports to support continued workers' compensation benefits.
 - B. Determined whether Form CA-1032, *Request for Information on Earnings, Dual Benefits, Dependents, and Third-Party Settlement Forms*, was requested and obtained from the DOL to determine whether the claimant had earnings.
 - C. Determined whether benefits were improperly paid for employees who have died by comparing the claimants listed on the quarterly chargeback report covering the cumulative chargeback year (July 1, 2015, through June 30, 2016) to the Social Security Death Master File.

³ We stratified the population of active workers' compensation claims into six strata (DE, DR, MC, PN, PR, and PW (defined in the glossary of terms)) based on the current case status categories of each claim.



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Internal controls methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal controls were relevant to our audit objective: the IRS's WCB processes for properly initiating and monitoring workers' compensation claims. We evaluated these controls by reviewing Federal Government and internal IRS procedures, interviewing IRS WCB management, reviewing a statistical sample of workers' compensation case files, and matching workers' compensation claimants against the Social Security Death Master File.



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Appendix II

Major Contributors to This Report

Gregory Kutz, Assistant Inspector General for Audit (Management Services and Exempt Organizations)
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Appendix III

Report Distribution List

Deputy Commissioner for Operations Support
Human Capital Officer
Director, Work-Life Benefits and Performance
Director, Office of Audit Coordination



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Appendix IV

Outcome Measures

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. These benefits will be incorporated into our Semiannual Report to Congress.

Type and Value of Outcome Measure:

- Reliability of Information – Potential; 133 active workers' compensation claims¹ for which the IRS did not obtain necessary documentation to properly initiate claims (see page 7).

Methodology Used to Measure the Reported Benefit:

The IRS must obtain documentation to prove that five elements are met when initiating a claim to obtain Federal workers' compensation. We selected a stratified sample of 78 of 1,433 active workers' compensation cases as of July 15, 2016, and identified nine cases in our sample that were either not challenged by the IRS or the IRS challenged the claim but had insufficient documentation showing how the challenge was resolved. For each of these cases, the IRS did not have documentation proving that all five elements were met. Figure 1 shows that we then determined the error rate for each strata, multiplied the error rate against the population of cases in each strata, and summed the estimated errors in each strata to determine an estimate of the number of active workers' compensation cases for which the IRS did not obtain necessary documentation to properly initiate claims.

¹ The point estimate projection is based on a two-sided 95 percent confidence interval. We are 95 percent confident that the point estimate is between 46 and 220.



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Figure 1: Calculation of Estimated Active Workers' Compensation Cases for Which the IRS Did Not Obtain Necessary Documentation to Properly Initiate Claim

Case Status Category	Cases in Population	Sample Size	Missing Initiation Documentation	
			Sample Cases	Population Estimate
Deceased Employees	45	5	0	0
Short-Term Injuries	256	8	0	0
Medical Payments Only	521	18	1	29
Employees with No Wage-Earning Capability	186	18	3	31
Disabilities Expected to Last > 60 to 90 Days	316	23	4	55
Employees with Reduced Wage-Earning Capability	109	6	1	18
TOTAL	1,433	78	9	133

Source: Department of the Treasury's SHIMS and TIGTA audit case review results.

Type and Value of Outcome Measure:

- Reliability of Information – Potential; 957 active workers' compensation claims² that were not adequately monitored by the IRS (see page 8).

Methodology Used to Measure the Reported Benefit:

We selected a stratified sample of active workers' compensation cases and determined that the IRS:

- Did not timely request updated medical information for 40 (66 percent) of 61 cases in our sample.³

² The point estimate projection is based on a two-sided 95 percent confidence interval. We are 95 percent confident that the point estimate is between 794 and 1,120.

³ Our statistical sample was of 78 active claims; however, three claims could not be reviewed because key documentation was missing from the case files. In 14 additional instances, we excluded short-term injuries and deceased cases from this analysis. Therefore, we evaluated the remaining 61 cases to determine whether the IRS obtained updated medical information.



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- Did not timely request updated earnings and dependency documentation for 49 (98 percent) of 50 cases in our sample.⁴

After eliminating duplication, we determined that the IRS either did not timely obtain updated medical documentation or updated earnings and dependency documentation for 59 cases in our sample. Figure 2 shows that we then determined the error rate for each strata, multiplied the error rate against the population of cases in each strata, and summed the estimated errors in each strata to determine an estimate of the number of active workers' compensation cases for which the IRS did not timely obtain updated documentation to properly monitor cases.

Figure 2: Calculation of Estimated Active Workers' Compensation Cases for Which the IRS Did Not Timely Obtain Updated Documentation

Case Status Category	Cases in Population	Sample Size	Updated Documentation Was Not Timely Obtained	
			Sample Cases	Population Estimate
Deceased Employees	45	5	5	45
Short-Term Injuries	256	8	3	96
Medical Payments Only	521	18	10	289
Employees With No Wage-Earning Capability	186	18	16	165
Disabilities Expected to Last > 60 to 90 Days	316	23	21	289
Employees With Reduced Wage-Earning Capability	109	6	4	73
TOTAL	1,433	78	59	957

Source: Department of the Treasury's SHIMS and TIGTA audit case review results.

⁴ Our statistical sample was of 78 active claims; however, three claims could not be reviewed because key documentation was missing from the case files. In 25 additional cases, the requirement to obtain updated earnings and dependency documentation was not applicable. For example, when a claimant has returned to duty full time and is only receiving reimbursement for medical payments, the IRS is not required to obtain updated earnings and dependency documentation. Therefore, we evaluated the remaining 50 cases to determine whether the IRS obtained updated earnings and dependency information.



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Type and Value of Outcome Measure:

- Questioned Costs – Actual; \$13,246 in workers' compensation benefits that were charged to the IRS after two employees had died (see page 8).

Methodology Used to Measure the Reported Benefit:

We matched all workers' compensation claims made during the period of July 1, 2015, through June 30, 2016, against the Social Security Death Master File and identified two workers' compensation claimants who were deceased but for whom the DOL continued to send payments for workers' compensation benefits. During the audit, we recommended that the IRS's WCB contact the DOL to stop future payments and attempt to recover funds that should not have been expended. IRS officials agreed with our recommendation and provided us with documentation showing that the DOL was working with the estates of the employees to obtain repayment in the amount of \$13,246.23.



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Appendix V

Methodology for Determining Whether Updated Medical, Earnings, and Dependency Documentation Was Obtained Timely

This appendix presents detailed information on the methodology we used to determine whether updated medical, earnings, and dependency documentation was obtained timely.

Updated medical documentation

Publication CA-810, *Injury Compensation for Federal Employees*, states that, in the interest of providing good service to employees while containing costs, the DOL encourages active management of workers' compensation programs by agency personnel. This includes obtaining medical information from the DOL or injured employees as often as necessary (within DOL and Office of Personnel Management regulations) to assess potential return to regular, light, or limited duty.

IRS WCB management confirmed that its specialists have a responsibility to coordinate with the DOL in monitoring the medical status of injured employees to help determine whether, and when, employees can resume working. According to IRS WCB personnel, specialists conduct periodic reviews of active cases at different time frames based on the case status category assigned by the DOL. Figure 1 shows the time frames for following up to obtain updated medical documentation.



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Figure 1: Time Frames for Obtaining Updated Medical Documentation

Case Status Category	Time Frame for Obtaining Updated Medical Documentation
Medical Payments Only (active)	Every 120 Days
Medical Payments Only (inactive) ¹	Every Year
Disabilities Expected to Last > 60 to 90 Days	Every Year
Employees With Reduced Wage-Earning Capability	Every Two Years
Employees With No Wage-Earning Capability	Every Three Years
Short-Term Injuries	Variable ²
Deceased Employees	Not Applicable

Source: Division of Federal Employees' Compensation Procedure Manual and WCB personnel.

In conducting our case reviews, we considered: 1) all of the information included in the case file, 2) the history notes found on the SHIMS along with other pertinent SHIMS worksheets, and 3) information we found on printouts of the DOL's Agency Query System (AQS) that IRS WCB personnel provided to us. We reviewed all of this documentation to determine whether IRS WCB specialists were requesting updated medical documentation and requesting it timely. We did not have to see the actual documentation in the case file. For example, we gave the IRS credit for requesting updated medical documentation if we saw an entry in the SHIMS history notes that referenced the request. We also applied a 30-day grace period in our methodology. In addition, we only considered the IRS untimely if IRS WCB specialists did not request updated medical documentation timely at least 80 percent of the time. For example, if a case had been open 10 years and the IRS was required to obtain updated medical documentation yearly, we considered the IRS as timely if it obtained updated medical documentation yearly (with a 30-day grace period) in at least eight of the 10 years.

Updated earnings and dependency documentation

Claimants are required to submit an annual form to the DOL stating whether their income or dependent status has changed. The form must be signed to acknowledge evidence of benefit eligibility and to acknowledge that criminal prosecution may result if deliberate falsehood is provided. While we did not identify any requirement for the IRS to obtain updated earnings and dependency documentation from the DOL, the DOL encourages active management of workers'

¹ Cases open for medical payments only are closed as inactive if there has been no activity within the past 120 days. If additional expenses are subsequently paid, the case is reopened as active.

² We did not include these cases in our analyses for obtaining updated medical documentation because there is no periodic requirement to provide it.



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compensation programs by agency personnel, and IRS WCB specialists indicated that they send a letter to the DOL to request this documentation. Requesting this documentation is important because IRS WCB personnel stated that their requests sometime alert the DOL to send out a request for updated earnings and dependency documentation to the IRS employee. Figure 2 shows the time frames for following up to obtain this documentation from the DOL.

Figure 2: Time Frames for Obtaining Updated Earnings and Dependency Documentation

Case Status Category	Time Frame for Obtaining Updated Earnings and Dependency Documentation
Medical Payments Only (active)	Not Applicable
Disabilities Expected to Last > 60 to 90 Days	Every Year
Employees With Reduced Wage-Earning Capability	Every Year
Employees With No Wage-Earning Capability	Every Year
Short-Term Injuries	Every Year
Deceased Employees	Every Year

Source: Division of Federal Employees' Compensation Procedure Manual and WCB personnel.

In conducting our case reviews, we considered: 1) all of the information included in the case file, 2) the history notes found on the SHIMS along with other pertinent SHIMS worksheets, and 3) information we found on printouts of the DOL's AQS that IRS WCB personnel provided to us. We reviewed all of this documentation to determine whether IRS WCB specialists were requesting updated earnings and dependency documentation and requesting it timely. We also applied a 30-day grace period in our methodology. In addition, we gave the IRS credit if it requested updated documentation timely at least 80 percent of the time. For example, if a case had been open 10 years and the IRS should have obtained updated earnings and dependency documentation yearly, we would consider the IRS as timely if it obtained updated documentation yearly (with a 30-day grace period) in at least eight of the 10 years.



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Appendix VI

Glossary of Terms

Term	Definition
Active	For the purposes of this audit, “active” refers to all open workers’ compensation cases on the Department of the Treasury’s SHIMS as of July 15, 2016, in the following case status categories: DE, DR, MC, PN, PR, and PW.
Agency Query System	The DOL’s AQS is a secure Internet site available to authorized personnel from Federal employing agencies that provides access to information on workers’ compensation injury claims. The information available includes current claims status, compensation payment history, and medical bill payment history.
Case Status Category DE	These workers’ compensation cases involve deceased employees and are referred to as case status “DE = death roll” cases by the DOL.
Case Status Category DR	These workers’ compensation cases involve short-term injuries and are referred to as case status “DR = daily roll” cases by the DOL.
Cases Status Category MC	These workers’ compensation cases involve workers who are only being reimbursed for medical payments. These cases are referred to as case status “MC = medical claims” cases by the DOL.
Case Status Category PN	These workers’ compensation cases involve employees with no wage-earning capability and are referred to as case status “PN = periodic roll, no wage-earning capacity” cases by the DOL.
Case Status Category PR	These workers’ compensation cases involve employees with disabilities expected to last more than 60 to 90 days and are referred to as case status “PR = periodic roll” cases by the DOL.
Case Status Category PW	These workers’ compensation cases involve employees with reduced wage-earning capability and are referred to as case status “PW = periodic roll, limited wage-earning capacity in place” cases by the DOL.



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Term	Definition
Chargeback Report	The DOL administers the workers' compensation program and is responsible for claim adjudication and payment of benefits. However, the DOL bills Federal Government agencies for the amount of benefits paid on behalf of the agencies' injured employees. These chargeback billings cover a 12-month expense period, and agencies pay the expenses from their appropriations or operating revenues.
Chargeback Year	A 12-month expense period from July 1 to June 30 each year.
National Directory of New Hires	The National Directory of New Hires includes, among other information, quarterly wage information on individual employees from the records of State workforce agencies and Federal agencies.
Nature of Injury Code	The Nature of Injury Code indicates the medical condition resulting from an injury.
Normal Retirement Age	The normal retirement age, or full retirement age, for Social Security benefits varies from age 65 to age 67 by year of birth. If born in 1937 or earlier, the normal retirement age is 65. If born between 1943 and 1959, the normal retirement age is 66. If born after 1959, the normal retirement age is 67. It should also be noted that some Federal Government workers may retire with full benefits at the age of 55 with 30 years of service.
Safety and Health Information Management System	The IRS's WCB uses the Department of the Treasury SHIMS to process and control workers' compensation claims. The SHIMS was implemented on October 1, 2001, and was designed to replace the paper accident claim reporting process with an electronic system that would allow claims to be submitted to the WCB and the DOL quickly.
Safety and Health Information Management System – Application and Database Maintenance System	The SHIMS-ADMS is a network of Microsoft Access applications that utilizes data extracted and downloaded from the Department of the Treasury's SHIMS for quick look-up and workload management.
Social Security Death Master File	The Death Master File contains more than 86 million records created from Social Security Administration payment records, including the following information on each decedent, if available: Social Security Number, name, date of birth, and date of death.
Social Security Number	A nine-digit number assigned to taxpayers for identification purposes.



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Appendix VII

Management's Response to the Draft Report



Human Capital Office

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, DC 20224

MAY 22 2018

MEMORANDUM FOR MICHAEL E. MCKENNEY
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Katherine M. Coffman *Katherine M. Coffman*
IRS Human Capital Officer

SUBJECT: Draft Audit Report – Improvements Are Needed To Provide
Effective Oversight Of Workers' Compensation Claims,
Audit #201610011

Thank you for the opportunity to review the draft report – Improvements Are Needed To Provide Effective Oversight Of Workers' Compensation Claims, TIGTA #201610011, issued on April 27, 2018. We are committed to accurately initiating and consistently monitoring claims to ensure taxpayer funds are spent properly.

Highlighting our commitment to effective oversight, over the past 4 years:

- IRS Workers' compensation Medical Cases have decreased from 2,037 to 1,708
- Total Compensation Cases have decreased from 2,293 to 1,978
- Compensation Costs have decreased from \$41,093,986 to \$38,837,224

Source: Treasury WC Chargeback as of FY17 Q4

TIGTA recommended the IRS Human Capital Officer: (1) train IRS specialists to ensure that all five elements are met when initiating workers' compensation claims, (2) develop procedures to remind specialists when it is time to obtain updated documentation to monitor active claims, and (3) conduct quality reviews of active claims to determine whether updated documentation is being obtained and reviewed as required. We agree with TIGTA's recommendations and outcome measures.

Attached is a detailed response outlining corrective actions the Human Capital Officer will take to address TIGTA's recommendations. If you have any questions, please contact me at (202) 317-7600, or a member of your staff may contact Debra Popoli, Director, Worklife Benefits & Performance, at (202) 744-0387.

Attachment



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Attachment

RECOMMENDATION 1:

The IRS Human Capital Officer should train IRS specialists to ensure that all five factors are met when initiating workers' compensation claims.

CORRECTIVE ACTION:

Training on all five factors was conducted on April 26, 2018. WCB developed a checklist with all five factors to be completed for each new claim received, providing clear documentation the five factors were reviewed.

IMPLEMENTATION DATE:

Completed on April 26, 2018

RESPONSIBLE OFFICIAL:

Human Capital Office: Director, Worklife, Benefits & Performance

CORRECTIVE ACTION MONITORING PLAN:

We will enter accepted Corrective Actions into the Joint Audit Management Enterprise System (JAMES), monitor progress towards completion on a monthly basis, and upload supporting documentation into JAMES with Form 13872 *Planned Corrective Action (PCA) Status Update for TIGTA/GAO/MW/SD/TAS/REM*.

RECOMMENDATION 2:

The IRS Human Capital Officer should develop procedures to remind specialists when it is time to obtain updated documentation to monitor active claims.

CORRECTIVE ACTION:

We agree with this recommendation. The Human Capital Officer will update procedures to remind specialists when it is time to obtain updated medical documentation to monitor active claims.

IMPLEMENTATION DATE:

September 15, 2018

RESPONSIBLE OFFICIAL:

Human Capital Office: Director, Worklife, Benefits & Performance



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CORRECTIVE ACTION MONITORING PLAN:

We will enter accepted Corrective Actions into the Joint Audit Management Enterprise System (JAMES), monitor progress towards completion on a monthly basis, and upload supporting documentation into JAMES with Form 13872 *Planned Corrective Action (PCA) Status Update for TIGTA/GAO/MW/SD/TAS/REM*.

RECOMMENDATION 3:

The IRS Human Capital Officer should conduct quality reviews of active claims to determine whether updated documentation is being obtained and reviewed as required.

CORRECTIVE ACTION:

We agree with this recommendation. The Human Capital Officer developed an action plan to conduct a comprehensive quality review of all claims for employees who are on rolls and have not returned to work, all employees who are off rolls with claims, and employees who have returned to work and have claims for which they receive part-time benefits and/or medical compensation.

IMPLEMENTATION DATE:

February 15, 2019

RESPONSIBLE OFFICIAL:

Human Capital Office: Director, Worklife, Benefits & Performance

CORRECTIVE ACTION MONITORING PLAN:

We will enter accepted Corrective Actions into the Joint Audit Management Enterprise System (JAMES), monitor progress towards completion on a monthly basis, and upload supporting documentation into JAMES with Form 13872 *Planned Corrective Action (PCA) Status Update for TIGTA/GAO/MW/SD/TAS/REM*.