



**Memorandum from the Office of the Inspector General**

June 12, 2019

Wilson Taylor III, WT 7D-K

**FINAL REPORT – EVALUATION 2018-15591 – ACCURACY OF PAYMENTS FOR WORKERS’ COMPENSATION BENEFITS**

Tennessee Valley Authority (TVA) employees injured in work-related incidents are covered by the workers’ compensation program administered through the U.S. Department of Labor’s (DOL) Office of Workers’ Compensation Programs (OWCP). TVA’s Workers’ Compensation Program acts as a liaison between TVA and DOL, which makes final decisions on claim approvals and denials. When a claim is approved for a schedule award,<sup>1</sup> DOL issues an award of compensation letter<sup>2</sup> that details the elements of the award. DOL makes the award payments to individuals and bills TVA annually for reimbursement along with other workers’ compensation benefits provided. Based on a finding in a previous evaluation<sup>3</sup> where we determined TVA does not verify the accuracy of the amounts billed by DOL for hearing loss claims, we initiated an evaluation of the accuracy of payments made for workers’ compensation benefits. Our objective was to evaluate the process TVA uses to verify the accuracy of payments made to DOL for workers’ compensation benefits. We limited the scope of our evaluation to workers’ compensation schedule award payments made in chargeback years<sup>4</sup> 2016–2018.

We determined TVA did not have a formal process to verify the accuracy of payments made for schedule awards. Although TVA’s Sarbanes-Oxley Act (SOX) controls verified certain aspects of the DOL billings, the SOX controls did not include steps to verify the accuracy of the elements in award of compensation letters and, as a result, some errors were not identified. Our review of 73 schedule awards identified 12 instances (16 percent) where there were errors in the associated award of compensation letters. During the course of our evaluation, TVA implemented a schedule award review process; however, the process does not require a check of the elements in the award of compensation letters. Additionally, we found TVA’s Workers’ Compensation was not performing a SOX control related to providing a summary of workers’ compensation charges to the applicable organizations for review.

We recommend the Vice President, Compensation and Benefits, (1) take steps to verify the accuracy of elements contained in award of compensation letters and (2) evaluate, in conjunction with Corporate Accounting, the need for the unperformed SOX control.

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<sup>1</sup> A schedule award is a compensation benefit provided to federal employees for specified periods of time for the permanent loss or loss of use of certain members, functions, and organs of the body.

<sup>2</sup> The award of compensation letter is the formal decision from OWCP outlining schedule award details.

<sup>3</sup> Evaluation 2017-15512, *Hearing Loss Claims*, September 24, 2018.

<sup>4</sup> A chargeback year is July 1–June 30.

In response to our draft report, TVA management provided details of actions taken to address the recommendations. See the Appendix for TVA management's complete response.

## **BACKGROUND**

TVA employees injured in work-related incidents are covered by the workers' compensation program for federal employees administered through DOL's OWCP in accordance with the provisions of the Federal Employee's Compensation Act. The Federal Employee's Compensation Act provides for, among other things, payment of workers' compensation benefits to federal employees for specified periods of time for the permanent loss or loss of use of certain members, functions, and organs of the body. TVA's Workers' Compensation Program acts as a liaison between TVA and DOL. Federal agencies reimburse the Employee's Compensation Fund<sup>5</sup> for the amounts paid to its employees in workers' compensation benefits through a chargeback method employed by OWCP.

DOL makes final decisions on claim approvals and denials. If approved for a schedule award, DOL continues to administer the claim on behalf of TVA and payment is made for a specified number of days or weeks according to the severity of the impairment. When DOL approves a schedule award, employees and TVA are notified by an award of compensation letter that outlines the elements of the award calculation including:

- Degree and nature of permanent impairment.
- Date of maximum medical improvement.<sup>6</sup>
- Period of award.
- Number of weeks of compensation.
- Weekly pay.
- Compensation rate.<sup>7</sup>
- Effective date of pay rate.
- Cost-of-living adjustments.
- Weekly compensation.
- Payment and period covered.

On a bi-weekly basis, DOL sends TVA reports of payments made to claimants. DOL also provides agencies with four quarterly chargeback reports and an annual bill for total charges for compensation and medical payments that agencies reimburse to the Employees' Compensation Fund. According to a DOL publication, *Injury Compensation for Federal Employees Publication CA-810*, the quarterly report can be used to identify and

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<sup>5</sup> The Employees' Compensation Fund consists of monies appropriated by Congress or contributed by certain agencies, including TVA, from operating revenues.

<sup>6</sup> The date of maximum medical improvement represents the date the physical condition of the injured member stabilized and not expected to improve further.

<sup>7</sup> Compensation rate for a schedule award is paid at either 66.67 percent (without dependents) or 75.00 percent (with dependents) of the pay rate.

correct errors before the agency is billed for them. When an adjustment to the chargeback bill is desired, the agency must send the request directly to the OWCP National Office. According to DOL, the chargeback system serves as a management tool for agencies to actively monitor information provided by OWCP to control compensation costs and evaluate the effectiveness of their compensation programs.

We initiated this evaluation based on a finding in a previous evaluation where we determined TVA does not verify the accuracy of the amounts billed by DOL for hearing loss claims.

### **OBJECTIVE, SCOPE, AND METHODOLOGY**

The objective of our evaluation was to evaluate the process TVA uses to verify the accuracy of payments made to DOL for workers' compensation benefits. We limited the scope of our evaluation to workers' compensation schedule award payments made in chargeback years 2016–2018.

To achieve our objective, we:

- Interviewed TVA Workers' Compensation and other pertinent personnel to gain an understanding of the schedule award process and determine what controls were in place to verify the accuracy of award payments made to DOL for workers' compensation benefits.
- Reviewed pertinent laws, regulations, and procedures to gain an understanding of schedule award payments, including:
  - Title 5, United States Code, Part III, Subpart G, Chapter 81, *Compensation for Work Injuries*
  - Title 20, Code of Federal Regulations, Part 10, *Claims for Compensation Under the Federal Employees' Compensation Act, as Amended*
  - OWCP's *Division of Federal Employees' Compensation Procedure Manual*
- Obtained and reviewed TVA Employee Health's, *Schedule Award Review an Internal Process Document*.
- Obtained and reviewed documentation from Corporate Accounting related to workers' compensation key<sup>8</sup> and non-key<sup>9</sup> SOX controls.
- Statistically selected a random sample of 73<sup>10</sup> of 162 schedule awards during chargeback years 2016–2018. We selected the awards using rate of occurrence sampling with a 95-percent confidence level. For each of the 73 awards selected, we:

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<sup>8</sup> According to TVA, key SOX controls provide reasonable assurance material errors will be prevented or detected in a timely manner.

<sup>9</sup> Non-key SOX controls achieve a control objective similar to a key or primary control, but it does not, on its own, provide the reasonable assurance material errors will be prevented or detected in a timely manner.

<sup>10</sup> The total amount to be paid for the 73 awards is approximately \$3 million.

- Verified the accuracy of the elements<sup>11</sup> in award of compensation letters.
- Calculated the total payments to be awarded using elements in the letters.
- Compared our calculated payment totals to the actual payment totals documented in DOL's Agency Query System (AQS).<sup>12</sup>

We did not project the results of our statistical sample.

This evaluation was performed in accordance with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation*.

## **FINDINGS**

We determined TVA did not have a formal process to verify the accuracy of payments made for schedule awards. While there was no formal process, TVA's SOX controls verified certain aspects of the DOL billings. However, the SOX controls did not include steps to verify the accuracy of the elements in award of compensation letters and, as a result, some errors were not identified. Our review of 73 schedule awards identified 12 instances (16 percent) where there were errors in the associated award of compensation letters. Additionally, we found TVA's Workers' Compensation was not performing a non-key SOX control.

### **TVA DID NOT VERIFY THE ACCURACY OF PAYMENTS MADE FOR SCHEDULE AWARDS**

We determined TVA did not have a formal process to verify the accuracy of payments made for schedule awards. While there was no formal process, TVA performed SOX controls to (1) reconcile the totals from the TVA's Workers' Compensation system to chargeback billings from DOL and (2) ensure TVA was not billed for workers' compensation benefits for non-TVA employees. However, the SOX controls did not include steps to verify the accuracy of the elements in award of compensation letters and, as a result, some errors were not identified. Our review of 73 schedule awards identified 12 instances (16 percent) where there were errors in the associated award of compensation letters. Two of the errors resulted in overpayments to the claimants of about \$15,000. The remaining ten errors resulted in nominal payment differences or the errors had previously been identified and the payments were corrected in AQS. The errors in the award of compensation letters included:

- Four letters with incorrect weekly pay amounts.
- Three letters with incorrect periods of award.
- One letter with incorrect number of weeks of compensation.
- One letter with an incorrect cost-of-living adjustment.
- One letter with an incorrect effective date of pay.

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<sup>11</sup> We did not verify information related to medical findings or DOL determinations (i.e., the degree and nature of permanent impairment, date of maximum medical improvement, effective date of pay rate, and the initial cost-of-living adjustment).

<sup>12</sup> AQS provides access to information on federal employees' compensation injury claims including compensation payment history.

During the course of our evaluation, TVA developed a schedule award review process that outlines roles and responsibilities and includes steps to compare information from TVA's Workers' Compensation System to AQS. The process requires TVA's Workers' Compensation Program Manager to perform a review on the total compensation expected and paid by OWCP and the total charged to TVA, note any variances, and provide this to the Senior Manager, Employee Health. The new process provides for the business support representative to "enter and/or check" the data that is uploaded into TVA's Workers' Compensation System. However, if the business support representative enters only data and does not perform a check of the elements in the award of compensation letters, TVA could continue to have the same errors identified above. Although the errors identified were minimal, without verifying the accuracy of the elements in award of compensation letters, there is an increased potential for TVA to pay incorrect amounts for schedule awards.

### **ADDITIONAL INFORMATION**

According to documentation provided by Corporate Accounting, TVA has eight SOX controls (four key and four non-key controls) related to workers' compensation benefits and expenses. Workers' compensation SOX controls are in place to reduce the risks of (1) inaccurate reporting of benefits expense and (2) balance sheet account reconciliations not being performed, reviewed, examined, and followed up on adequately. Corporate Accounting's SOX testing indicated the four key controls were operating effectively in 2018. However, only three of the four non-key controls were being performed.

According to TVA's Workers' Compensation personnel, a non-key control of providing a summary of workers' compensation charges to the applicable organizations for review is not being performed. This control provided for TVA's Workers' Compensation to send a quarterly summary of workers' compensation charges to the applicable organizations for review to ensure a claimant has appropriately been charged to their organization. Instead, according to Financial Operations and Performance personnel, TVA financial consultants review the charges and contact Workers' Compensation if charges vary significantly from budgeted amounts.

### **RECOMMENDATIONS**

We recommend the Vice President, Compensation and Benefits, (1) take steps to verify the accuracy of elements contained in the award of compensation letters, and (2) evaluate, in conjunction with Corporate Accounting, the need for the unperformed SOX control.

**TVA Management's Comments** – In response to our draft report, TVA management provided details of actions taken to address the recommendations that included (1) revising the schedule award review process to include step-by-step instructions for reviewing, checking, and validating payments and (2) removal of the unperformed SOX control from the SOX control registry. See the Appendix for TVA's complete response.

**Auditor Response** – We concur with TVA management's actions and reviewed documentation to verify completion of those actions.

Wilson Taylor III  
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June 12, 2019

This final evaluation report is for your review and information. No further action is required.

If you have any questions, please contact Kristin S. Leach, Senior Auditor, at (423) 785-4818 or E. David Willis, Director, Evaluations, at (865) 633-7376. We appreciate the courtesy and cooperation received from your staff during the evaluation.



David P. Wheeler  
Assistant Inspector General  
(Audits and Evaluations)  
WT 2C-K

KSL:FAJ

cc: TVA Board of Directors  
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OIG File No. 2018-15591



Tennessee Valley Authority, 400 West Summit Hill Drive, Knoxville, Tennessee 37902

June 7, 2019

David Wheeler  
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RESPONSE TO REQUEST FOR COMMENTS - 2018-15591 – ACCURACY OF  
PAYMENTS FOR WORKERS' COMPENSATION BENEFITS

Dear Mr. Wheeler:

Compensation and Benefits Leadership appreciates the opportunity to respond to the draft report. I value your observations regarding the accuracy of payments made for workers' compensation benefits. I concur with the observation that TVA did not have a formal process to verify the accuracy of payments made for schedule awards.

Our response to your recommendation is attached. Please let us know if your staff has any concerns with TVA's plan of action to address the documented recommendations.

I appreciate the professionalism of the review team. Please let me know if you need any further information.

Sincerely,

A handwritten signature in black ink, appearing to read "Wilson Taylor, III".

Wilson Taylor, III  
Interim Acting Vice President,  
Compensation and Benefits

ACCURACY OF PAYMENTS FOR WORKERS' COMPENSATION BENEFITS¶

OIG File Number	Reference	Date of Evaluation	Proposed Completion Date	Responsible Owner of Actions Noted as Management's Comments	BU	Tracking #	OIG Recommendations	Management's Comments	Actions Taken	Additional Information
2018-15591	Accuracy of Payments for Workers' Compensation Benefits	9/24/2018	8/1/2019	Angela Watkins/Mike Petty	Employee Health	1	Take steps to verify the accuracy of elements contained in award of compensation letters	Develop process document that defines the steps that one would take to verify the accuracy of elements contained in award of compensation letters	Process document has been created which includes step by step instructions on review, check and validate verification of payments. Roles and responsibilities have been added for all levels with the WC department. Additionally, information associated with overpayments "considered materiality of collection" has been defined per the DOL.	Action completed - as of 06/10/2019
2018-15591	Accuracy of Payments for Workers' Compensation Benefits	9/24/2018	8/1/2019	Angela Watkins/Mike Petty	Employee Health	2	Evaluate, in conjunction with Corporate Accounting, the need for the unperformed Sox control	Review all SOIX controls (key and non-key items) for Workers' Compensation department and determine if these are to remain and/or removed (all or partial)	Contacted SOIX control specialist [REDACTED] on 06/03/2019 and asked for J.10.117151 to be removed from the SOIX Control registry. All other SOIX controls reviewed and will remain in place.	Action completed-06/10/2019