FECA Improper Payment Rate Estimation Methodology

(Revised June 25, 2018)

I. Background/Purpose

Improper Payments Elimination and Recovery Act Requirement
In January 2010 the U.S. Congress enacted the Improper Payments Elimination and Recovery Act (IPERA). That act amends the Improper Payments Information Act of 2002 and requires Federal agencies to take actions to prevent the loss of billions in taxpayer dollars due to improper payments. The IPERA definition of "improper payment" (IP) means "any payment that should not have been made or that was made in an incorrect amount", "including any payment to an ineligible recipient, for an ineligible good or service, duplicate payment, or payment for a good or service not received". IPERA requires that any program found "susceptible to improper payments" shall produce a statistically valid estimate of their IP rates and provide reporting in the Department's Agency Financial Report (AFR).

The Office of Workers' Compensation Programs' (OWCP) Federal Employees' Compensation Act (FECA) program was found susceptible to improper payments and began reporting an improper payments estimate in the Department's FY 2014 AFR.

II. Improper Payment Rate Estimation Methodology

The Office of Management and Budget (OMB) requires federal agencies to report annually on their efforts to reduce IP. This document describes a statistically valid and rigorous method that OWCP will use to report annual estimates of the IP rate for its FECA program[1].

This methodology is a resubmittal of the previously approved 2014 Methodology for FECA Improper Payment Rate Estimation plan. This updated IP rate estimation methodology is prepared in accordance with OMB guidance to provide correct data, calculation, and estimation. OWCP has revised its sampling methodology to capture all areas of payments, including previously excluded initial 90-day payments, and payments on non-imaged cases. Additionally, OWCP is revising the scope of IP fraudulent payments as those based on actual court-ordered restitution amounts.

Historically, the Department's Office of the Inspector General (OIG) has issued recommendations that these exclusions be eliminated or clarified and that the Department do more to report on issues surrounding undetected fraud.

The Department is dedicated to the principles of transparency and fiscal integrity. Excluded payments were considered administratively burdensome, immaterial, and not cost-effective to include in the Methodology. However, in late 2017 OWCP completed a review of the Methodology and determined that resources could be realigned to include these excluded

[1] This document replaces the 2014 Methodology for FECA Improper Payment Rate Estimation *https://www.dol.gov/ocfo/media/reports/20141104IPMETHODOLOGY.pdf*

payment areas in its estimation methodology without undue harm to the mission. Issues surrounding fraud are reexamined and estimated in a manner conforming with legislation and recent OMB guidance.

III. Characteristics of the FECA Payment Population

Approximately 8.2 million FECA payments totaling roughly $2.9 billion dollars were made in 2017. Some of those payments are considered improper per the IPERA definition. The primary root causes for improper FECA payments include administrative errors, inability to authenticate eligibility, failure to verify data, and claims by beneficiaries and health care service providers later found to be fraudulent. Previous OWCP internal auditing has shown that the magnitude of improper FECA payments is relatively small. The comprehensive methodology for measuring the FECA IP rate proposed herein will include tools to aid in the elimination of some IP in the future.

Although the FECA improper payment rate will be estimated and reported on a FY basis, much of the underlying data and calculations will be done on a chargeback year (CBY) basis. A chargeback year extends from July 1st in a given calendar year through June 30th of the next calendar year (thus preceding the closest fiscal year by three months). For example, CBY 2017 spans July 1, 2016 through June 30, 2017. Reliance upon the chargeback year is consistent with OMB guidance and helps maintain consistency with other FECA reporting since the chargeback year is dictated by the FECA statute and serves as the basis for billing employing agencies. CBY 2017 data was reported for FY 2017, CBY 2018 data will be reported for FY 2018, and so forth.

IV. Approach to Estimating the Improper Payment Rate

The universe of FECA payments consist of compensation payments and medical payments. Compensation payments include those made to replace lost wages due to an employee’s work related injury or compensate the employee for permanent impairment. Compensation payments also include payments made to a beneficiary due to the death of an employee. Medical payments are made to cover the expenses of medical services, equipment and supplies incurred from treatment for illness and/or injury sustained while an employee was engaged in job-related activities. In CBY 2017 the number of medical payments accounted for 90% of FECA payments and the remaining 10% were compensation payments. In contrast, the total amount of compensation payments was about $2 billion dollars (about 68%); whereas, the total amount for medical payments was $0.93 billion dollars (about 32%).

OWCP will estimate the FECA IP rate in two components. One component will be the determination of an IP rate for only properly adjudicated fraudulent payments (compensation and medical) by using a three-year average of all established fraudulent payments. The other component will use statistical sampling to determine the IP rate for all other FECA payments. After the two component rates have been established, an overall IP rate for FECA payments will be calculated and reported. The following steps describe the method by which the FECA IP rate will be estimated for a given fiscal year.

Step 1: Determine the total outlay of FECA payments for the CBY

The universe of FECA payments consists of all FECA compensation and medical payments that were paid in that CBY. This includes expenses charged back to the employing agencies and non-chargeable expenses. The sum of those payments will serve as the total outlay of FECA payments for IP rate estimation. Data captured for each payment will include the following: FECA case number, date the payment was made, amount of the payment, designation of the payment (compensation or medical), and the type of payment (disability, death benefit, medical bill, etc.)

A system generated simple random sampling (SRS) technique will be used to select samples based on a random number generator. For this technique, a random number is assigned to each payment. The numbers are chosen at random to select the specified sample of payments. The use of a random number ensures a random selection of the payments and will ensure a proper representation of the payment universe.

A random sample of compensation payments in a CBY is produced by pulling necessary fields from the payment extract table. Payments are selected where the check request date is within the CBY and where the pay period amount is greater than zero. Initial 90 day payments and payments in non-fully imaged cases are included. The sample includes the imaged status field in the case table so that OWCP can identify the non-fully imaged cases in an effort to convert them to fully imaged prior to the audit for ease of administration and review. Payment types representing a deduction are removed from the random sample. The last name field is pulled from the case extract table. The tables are joined to return matching data based on their database relations. Each row of the payment sample represents a single payment made for one case. The same methodology is used to extract the medical payments for review, with the exception that the medical bill payment table is used as the source table.

Step 2: Estimate the IP rate component for fraud restitution payments

Consistent with OMB guidance, OWCP considers the restitution amount adjudicated and awarded in cases where fraud was properly adjudicated (e.g. admitted or proven in the judicial system). The IP fraudulent payment calculation is based on actual court-ordered restitution amounts and does not reflect an estimate of risk or undetected fraud. OWCP will use the annual figure reported by DOL OIG, for which there is concurrence by OWCP regarding the validity and applicability of the reported fraud. Since this number is determined from population measurements, it has no associated standard error or related variance.

Fraudulent payments require special consideration because, unlike other IP, there is typically a significant passage of time between the occurrence of payments and the recognition of those payments as a result of adjudicated fraud. In addition, large restitution cases can create significant spikes if included as a whole in a particular fiscal year reporting. These spikes could mask other issues in the reported IP rate estimation and thus lower the utility of such reporting to the Administration, Congress, program managers, and the public. Therefore, the fraudulent payment portion of the IP rate for a given year will be determined by averaging the court-ordered awarded restitution that is identified in a three year period. This three year period includes the current year under review in addition to the two prior years. This three year rolling average approach will help mitigate the spikes associated with isolated instances of large judgements.

The IP rate for fraud for a given fiscal year will be determined by dividing the three year average court-ordered restitution amount by the total outlay of FECA payments for the IP fiscal year being estimated.

While guidance does not allow agencies to report estimated fraud in the IP rate, OWCP, in consultation with the Office of the Chief Financial Officer (OCFO), evaluates fraud risks and uses a risk-based approach to design and implement financial and administrative control activities to mitigate identified fraud risks.

The Department is committed to preventing and detecting potential fraud risks, to eliminating opportunities for waste, fraud, and abuse, and to reporting all suspected fraud. OWCP will continue to work with the OIG community to continuously improve detection and assist with prosecution. Working in cooperation with DOL OIG, in May 2017 OWCP published three new procedure documents pertaining to both medical provider and claimant fraud. These documents established communication protocols between the OIG community and OWCP and outlined OWCP's internal procedures pertaining to both claimant and medical provider fraud. OWCP has also adopted a new methodology for reviewing overall spending patterns to spot trends early and react more quickly to changing fiscal landscapes. When anomalous or potentially fraudulent billing is identified, a referral is made to DOL OIG.

Step 3: Establish criteria for determining if a payment is improper
The pertinent criteria for improper FECA payments include any payment which:

- Was made in an incorrect amount, or
- Was made to an ineligible recipient, or
- Was for an ineligible good or service, or
- Was for a good or service not received (except where authorized by law), or
- Was a duplicate payment, or
- Does not account for credit for applicable provision of any funding mechanism (contract, grant, lease, etc.).

The criteria above will be used as the specific criteria for the evaluation of FECA payments.

Step 4: Determine IP rate component for non-fraud payments by random sampling
The IP rate component for non-fraudulent (compensation and medical) FECA payments will be determined by random sampling. The following paragraphs describe the plan for stratification, and exclusion for the sampling size.

Stratification of FECA Payment Sampling Size Data

The following stratification scheme will be used for the random sampling. FECA Payment Sampling Size Stratification.

Stratum	Population Proportion		Sample Size[2]
	Count	Percent	
Compensation payments	793,173	9.6	504
Medical payments	7,452,295	90.4	504
Total	8,245,468	100	1,008

The selected sample size of 1,008 payment records, exceeds the minimal sample size to assure a 90% confidence interval with a precision of 2.5%. The FECA IP rate, based upon a particular sample, is a "point estimate" of the IP rate. While another sample would yield a different point estimate of the IPR, this sampling methodology provides reasonable assurance of a similar result even with that variance.

The population proportion numbers are taken from CBY 2017 data, but the proportion of compensation and medical payments has not changed significantly over time. Therefore, the sample sizes, which match the sample sizes in the previously approved methodology in 2014, are determined to be valid for CBY 2018 and subsequent years. Should material changes in population proportion occur, sample size may be adjusted in keeping with OMB guidance to ensure a statistically significant estimate is made and such adjustments will be reported in the AFR, as appropriate.

As the random sampling size is conducted per the stratification stated above, each sampled payment will be closely examined to determine whether or not it was improper. If a sampled payment is found to be improper then the examiner will determine and record the discrepancy amount (i.e., the amount of the payment that was improper), the payment type, and the reason that the payment is improper. Recording the payment type and reason the payment was improper will enhance the effectiveness of corrective actions downstream.

The discrepancy amounts found from the sample will be totaled and then projected to a dollar amount that represents the discrepancy amount for the entire population. The IP rate component for non-fraudulent payments would then be the projected discrepancy amount of non-fraud IP payments divided by the total FECA outlay for the CBY (from Step 1).

Payments to Be Excluded from Sampling

The FY2014 Methodology report outlined three types of payments that would be excluded from the sample: fraudulent payments, initial payments, and payments in non-

[2] Cochran, W.G., 1963, Sampling Techniques, 2nd Ed., Wiley and Sons, Inc. NY

imaged cases. This revised methodology removes the exclusion of initial payments and payments made in non-imaged cases.

Step 5: Calculate the improper payment rate estimate

After the completion of Steps 1 through 4 above, both components of the FECA IP rate will have been established. One component is an estimated IP rate for adjudicated fraudulent payments which is based upon the population of annual FECA payments. The other component, an IP rate for non-fraudulent FECA payments, is also determined by projecting statistical samples to population proportions. Since both of the component IP rates are derived from a common population, they can be simply added to produce an overall FECA IP rate.

In summary, the FECA IP rate will be produced by:

(1) Per Step 1, establish the population total (PT) of FECA payments for the chargeback year.

PT = Population Total of FECA payments

(2) The IP rate for adjudicated fraudulent payments is obtained from Step 2 by a three-year average of:

Restitution adjudicated/awarded for the current fiscal year under review (FP),
Restitution adjudicated/awarded for the prior fiscal year (FP1),
Restitution adjudicated/awarded for the fiscal year two years prior (FP2).

IP rate for fraud (IP_F) is then expressed by:

IP_F = Average (FP + FP1 + FP2) / PT

(3) The results of the random sampling described in Step 4 will produce an IP rate proportion for non-fraudulent payments (IP_N).

(4) The FECA improper payment rate will be **IP_F** + **IP_N**

Management's Representation

The undersigned attest that this methodology represents a statistically sound means to obtain an Improper Payment rate for FECA and that it includes all the requisite components listed in Step 2.2 of the guidance provided in OMB Circular A-123, Appendix C dated October 20, 2014.

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