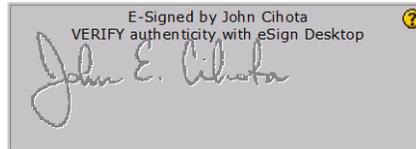




March 2, 2020

MEMORANDUM FOR: CARA M. GREENE
VICE PRESIDENT, CONTROLLER



FROM: John E. Cihota
Deputy Assistant Inspector General
for Finance and Pricing

SUBJECT: Management Alert – Automatic Indemnity Claim Payments
(Report Number 19-008-R20)

This management alert presents issues identified with automatic indemnity claim payments. Our objective is to provide U.S. Postal Service officials notification of the issues identified during our audit of controls over automatic indemnity claim payments. The issues require immediate attention and remediation.

We appreciate the cooperation and courtesies provided by your staff. If you have questions or need additional information, please contact Sherry Fullwood, Director, Cost and Pricing, or me at 703-248-2100.

Attachment

cc: Corporate Audit Response Management

Introduction

During our audit of controls over automatic indemnity claim payments (Project Number 19-008), we found significant internal control weaknesses in the U.S. Postal Service's claims system. The purpose of this management alert is to bring these issues to your attention and make recommendations for corrective action.

The Postal Service offers up to \$5,000 of insurance coverage as protection against the loss or damage of customers' packages. Some domestic premium products (for example, Priority Mail and Priority Mail Express) offer free insurance, generally at \$100 or less. When an insured item is lost or damaged, the customer may request compensation by filing a claim. When the Postal Service approves a claim, it pays the lesser of the maximum insurance coverage amount or the value of the lost or damaged item. From fiscal year (FY) 2014 to FY 2019, the Postal Service paid a total of about \$194 million in connection to about 2.3 million domestic indemnity claims. During that period, the number and dollar value of domestic indemnity claim payments per year more than doubled, growing by 263,673 (106 percent) and \$29.7 million (139 percent) respectively, as shown in [Table 1](#) and [Figure 1](#). This increase in indemnity claim payments may correspond with the increase in shipping and packages volume, as shown in [Figure 2](#). However, from FY 2018 to FY 2019 alone, payouts jumped nearly 29 percent while shipping and package volume remained relatively the same.

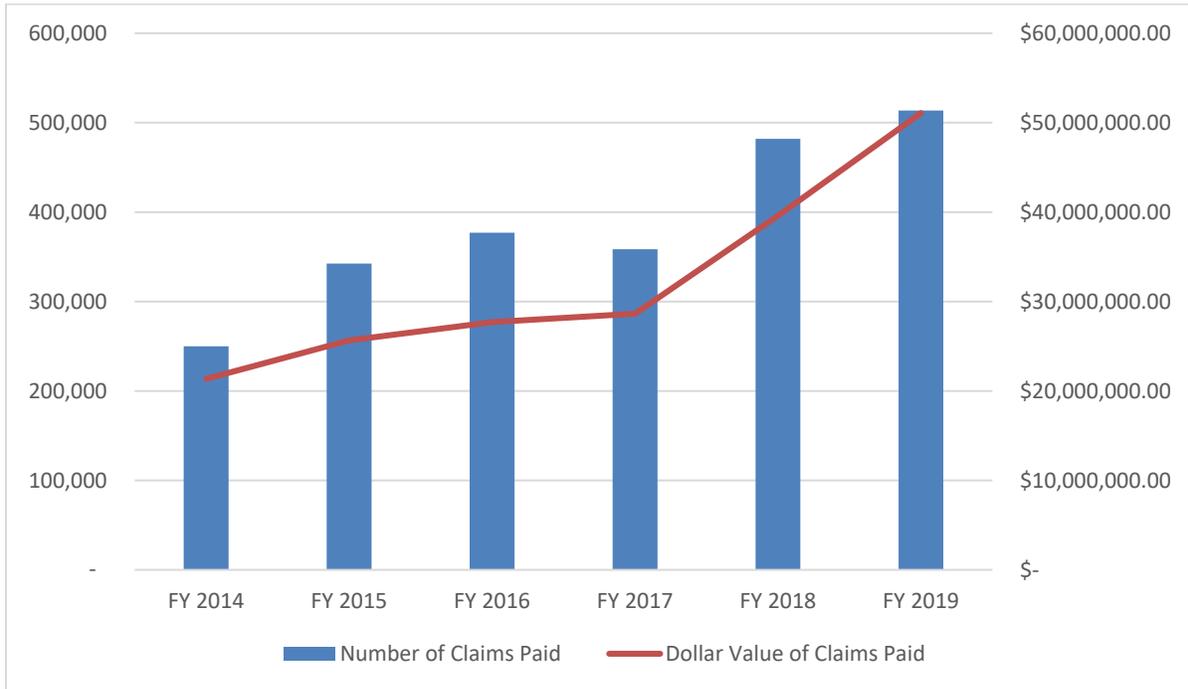
Table 1. FYs 2014 – 2019 Domestic Indemnity Claim Payments

Fiscal Year	Number of Claims Paid	Dollar Value of Claims Paid
2014	249,900	\$21,354,633
2015	342,400	\$25,658,476
2016	376,933	\$27,703,017
2017	358,438	\$28,644,588
2018	481,852	\$39,593,277
2019	513,573	\$51,076,358
Total	2,323,096	\$194,030,349

Source: FYs 2014-2019 Accounts Payable Excellence (APEX)¹ reports.

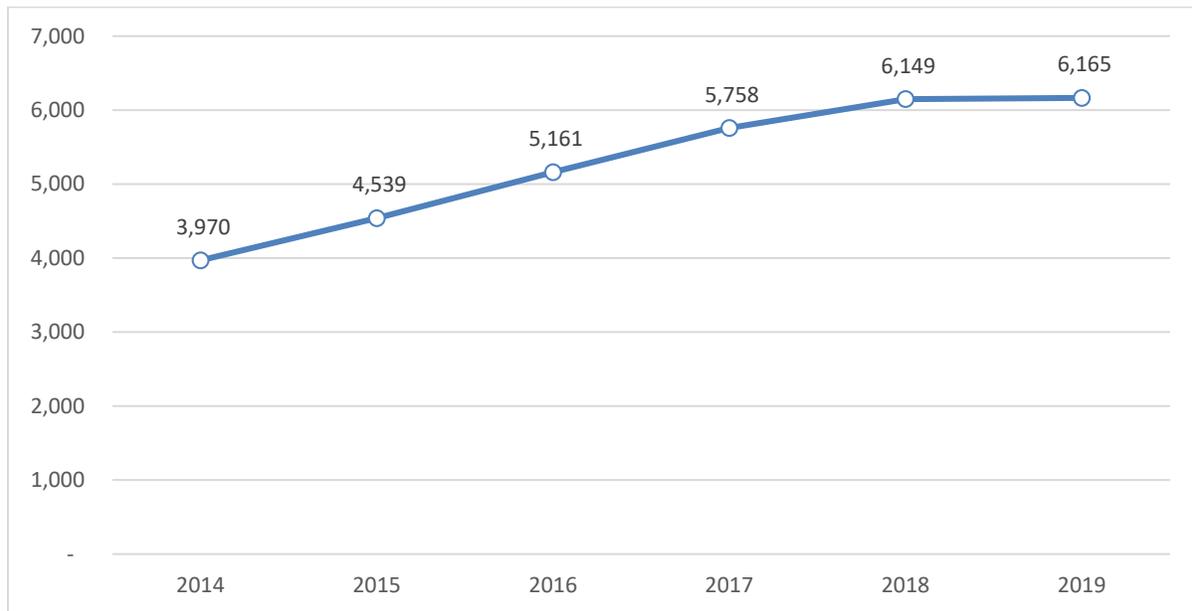
¹ APEX is a commercial off-the-shelf product that the Postal Service purchased to modernize its financial systems.

Figure 1. FYs 2014 – 2019 Trend of Domestic Indemnity Claim Payments



Source: FYs 2014-2019 APEX reports.

Figure 2. FYs 2014 – 2019 Trend of Shipping and Packages Volume (in millions)



Source: FYs 2016 and 2019 Postal Service Annual Report to Congress.

The Postal Service uses the Customer Inquiry and Claims Response System (CICRS) to receive, process, and pay or deny indemnity claims. During the scope of this audit, the CICRS [REDACTED] most domestic claims of [REDACTED]. All domestic claims over [REDACTED] are manually reviewed and approved or denied by Postal Service personnel. According to CICRS data provided by management, the Postal Service [REDACTED] about 90 percent of domestic claims of [REDACTED] from FY 2018 to FY 2019.

In FY 2019, over 98 percent of domestic indemnity claim payments, and over 81 percent of the total dollar amount paid, fell within the [REDACTED], as shown in Table 2 and Table 3.⁴ The tables also show a significant increase in payments made at, or slightly below, [REDACTED] in FY 2019.

Table 2. FYs 2014 – 2019 Number of Domestic Indemnity Claim Payments by Payment Amount

Payment Amount	FYs 2014-2018 Combined		FY 2019	
	Number of Claims Paid	Percentage	Number of Claims Paid	Percentage
\$0.01 - \$50	1,073,280	59.3%	246,494	48.0%
\$50.01 - \$100	482,764	26.7%	156,605	30.5%
\$100.01 - \$150	120,854	6.7%	41,610	8.1%
\$150.01 - \$200	47,831	2.6%	14,983	2.9%
\$200.01 - \$250	20,388	1.1%	7,058	1.4%
\$250.01 - \$300	27,640	1.5%	38,396	7.5%
>\$300	36,766	2.0%	8,427	1.6%
Total⁵	1,809,523	100.0%	513,573	100.0%

Source: FYs 2014-2019 APEX reports.

[REDACTED]

⁴ We used APEX data instead of CICRS data for our analysis because APEX provided more historical data needed to illustrate the significant increase in domestic indemnity claim payments in recent years. CICRS only maintains claims data for the [REDACTED] fiscal years.

⁵ Total values may be off due to rounding.

Table 3. FYs 2014 – 2019 Dollar Value of Domestic Indemnity Claim Payments by Payment Amount

Payment Amount	FYs 2014-2018 Combined		FY 2019	
	Dollar Value of Claims Paid	Percentage	Dollar Value of Claims Paid	Percentage
\$0.01 - \$50	\$38,504,047	26.9%	\$9,228,355	18.1%
\$50.01 - \$100	\$36,474,266	25.5%	\$12,338,976	24.2%
\$100.01 - \$150	\$13,954,709	9.8%	\$4,732,800	9.3%
\$150.01 - \$200	\$8,871,131	6.2%	\$2,796,315	5.5%
\$200.01 - \$250	\$4,597,537	3.2%	\$1,602,215	3.1%
\$250.01 - \$300	\$8,024,945	5.6%	\$11,448,976	22.4%
>\$300	\$32,527,356	22.7%	\$8,928,721	17.5%
Total⁶	\$142,953,991	100.0%	\$51,076,358	100.0%

Source: FYs 2014-2019 APEX reports.

Conclusion

We examined the CICRS [REDACTED] process and found that the Postal Service did not have effective controls in place to detect and prevent improper indemnity claims. We identified numerous examples of customers who received multiple claim payments at, or slightly below, the prior [REDACTED]. While the Postal Service's claims system has several checks to safeguard against improper payments, such as verifying the mailpiece had insurance coverage and lost items did not receive a delivery scan, we found these measures were [REDACTED].

Management stated they have collaborated with the OIG since FY 2015 to identify and refer suspicious indemnity claim payment activities. Management also stated they enhanced controls within the claims system in November and December 2019. For example, the Postal Service [REDACTED] threshold and required verification of damage [REDACTED]. These enhancements should help to identify and reduce occurrences of possible fraud.

We also identified examples of good practices employed by businesses in the insurance, finance, retail, and manufacturing industries that the Postal Service should consider to mitigate abuse of its indemnity claims system. These good practices include the use of fraud detection technology and strict limits and criteria for approving customer claims.

⁶ Total values may be off due to rounding.

Claims System Controls

We found the Postal Service’s claims system permitted improper indemnity claim payments [REDACTED]. We reviewed 93,482 payments between [REDACTED] that the Postal Service made between FYs 2014 and 2019. We targeted this dollar range because it had a significantly high volume of potentially fraudulent claims. For example, one customer received 5,799 payments of [REDACTED] for FYs 2017 through 2019, totaling about [REDACTED] million. This claimant received as many as 70 payments in a single day. This and other suspicious activities have been referred to the OIG’s Office of Investigations.

We analyzed indemnity claim payments made to addresses that received five or more payments between [REDACTED] and received a total of \$5,000 or more between FYs 2014 and 2019. From our analysis, we found 2,445 addresses that received five or more of these payments. Of those addresses, we found 506 claimants at 1,206 unique addresses that received \$5,000 or more in payments. These claimants received a total of 125,057 payments, totaling about \$17.2 million and averaging \$33,979 per claimant.

We identified numerous other examples of customers who received many indemnity claim payments [REDACTED]. This occurred because the Postal Service did not [REDACTED] in CICRS to effectively detect and prevent questionable indemnity claim payments. Specifically, CICRS did not:

- Send a verification message [REDACTED]
- Detect the [REDACTED] for multiple claims.
- Verify that [REDACTED].
- Have [REDACTED] suspicious claims for [REDACTED].

[REDACTED]

Verification of Claimant Information

The Postal Service made payments on improper indemnity claims, in part, because it [REDACTED].⁸ To fill out the online claim form, customers must create or login to a Postal Service account. Once logged in, the claim form pulls in the customer’s first and last name, address, email address, and phone number from the account profile. Our testing of the account registration and claims processes found that the systems [REDACTED]

In addition, while many businesses use the [REDACTED] to ensure customers submit proper mailing addresses, the Postal Service’s customer registration and claims systems [REDACTED]

Individual claimants

[REDACTED] For example, we found one individual’s claims listed under nine different addresses because [REDACTED]

The implementation of system verification controls at the beginning of the claims process would prevent a significant portion of the improper activity. These controls would mitigate [REDACTED]. Verification controls would also make it easier for the Postal Service to identify suspicious quantities of claims with the [REDACTED].

Identification of [REDACTED]

Improper indemnity claim payments also occurred because the Postal Service [REDACTED]. The Postal Service requires the claimant to attach a proof of value document (for example, an invoice or sales receipt) to substantiate the requested payment amount.¹⁰ Each claim should have a unique proof of value; however, some claimants [REDACTED]

⁸ This poses a data integrity risk, which is the risk that the authorization, completeness, and accuracy of transactions as they are entered into, processed by, summarized by, and reported by the various application systems are compromised due to inadequate recording structures.

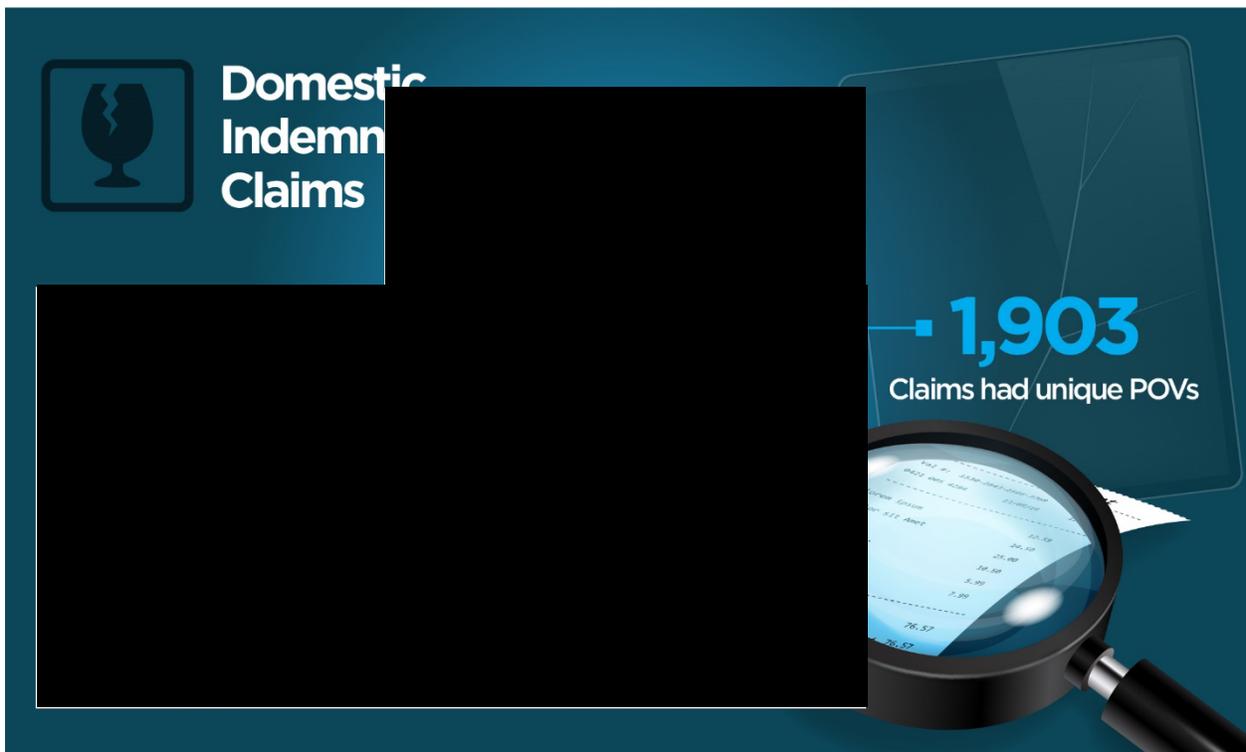
⁹ The Postal Service mails claimants a check in the approved payment amount to the address specified on the claim.

¹⁰ *Domestic Mail Manual (DMM)*, 609 – Filing Indemnity Claims for Loss or Damage, Section 3.2 – Proof of Value. The DMM is a directive that contains the basic standards governing domestic mail services, descriptions of the mail classes and services and conditions governing their uses, and standards for price eligibility and mail preparation.

[REDACTED] to falsely support dozens or even hundreds of claims. The system only verifies [REDACTED]
[REDACTED]

We reviewed 10,216 domestic indemnity claims paid in the state of New York for FY 2017 through FY 2019.¹¹ Only 1,903 (19 percent) of these claims had [REDACTED]. The remaining 8,313 (81 percent) were [REDACTED]. Of the [REDACTED], as shown in [Figure 3](#).

Figure 3. [REDACTED] Used to Support Claims in New York



Source: October 1, 2016, through September 23, 2019, APEX data.

The OIG recently investigated a case of improper indemnity claims [REDACTED]. [REDACTED] OIG investigators found that, between March 2015 and August 2017, an individual filed about 440 improper claims [REDACTED], totaling about \$124,000. The individual [REDACTED]

[REDACTED]

[REDACTED] . He used the [REDACTED] . He also used [REDACTED] . During interviews with [REDACTED] .
OIG investigators, the individual cited the [REDACTED] .¹²

We also tested Postal Service controls over the use of the [REDACTED] . We filed two damage claims on test mailpieces, using the [REDACTED] .

Electronic documents and images have unique hash values.¹³ Hash value software can be used to determine if two or more files have the same hash value and are, therefore, identical files. [REDACTED]

Verification of Mailing

Another cause of improper indemnity claim payments was ineffective business rules for verifying mailpieces entered into the mailstream. For lost claims, the CICRS checks to ensure there [REDACTED] . However, [REDACTED] which meets the minimum one scan requirement.¹⁴ This allows claimants to receive payments for mailpieces [REDACTED] .

Our testing found that a customer [REDACTED] at a Self-Service Kiosk (SSK),¹⁵ [REDACTED] . Since the [REDACTED] CICRS [REDACTED] . We tested this process by [REDACTED] . We filed two lost mailpiece claims using the tracking numbers on the [REDACTED] .¹⁶

¹² On February 5, 2019, the individual and a co-conspirator pled guilty to mail fraud and aiding and abetting. They were both sentenced to three years of probation, a \$100 special assessment, and restitution of \$124,183.56.
¹³ A hash value is an alphanumeric string of 64 characters created by a cryptographic algorithm that uniquely identifies a file.
¹⁴ PTS receives and stores all tracking scan data, from acceptance to delivery. Employees and customers reference the system for shipment tracking information.
¹⁵ SSKs provide quick access for postal products and services without requiring customers to visit a service window.
¹⁶ We also tested whether the [REDACTED] .

On November 5, 2019, Postal Service management stated they were actively exploring a system change that would check for specific [REDACTED]. This should prevent payments for lost claims [REDACTED]. At this time, however, the Postal Service [REDACTED].

Identification of [REDACTED]

The absence of [REDACTED] in the CICRS that flag an [REDACTED] [REDACTED] further contributes to improper indemnity claim payments. Postal Service Accounting Services management stated that, beginning in August 2013, the system started randomly selecting a sample of [REDACTED] of the claims for manual adjudication for each of three dollar ranges: [REDACTED].¹⁷ They also stated Accounting Services employees report suspicious indemnity claim activity to their managers when that activity is noticed during [REDACTED] and management forwards this information to the OIG.

The CICRS verifies customers submitted claims within required timelines, purchased insurance coverage, and attached the required number of attachments, and it verifies a variety of other claim attributes. However, it does not [REDACTED].

[REDACTED] Enhancing CICRS controls and developing internal analytical tools to detect and prevent potential fraud would enable the Postal Service to proactively and more quickly mitigate improper indemnity claim payments.

As noted previously, we and management have seen a significant increase in potentially improper indemnity claims. While the Postal Service has a process for forwarding information related to potentially improper indemnity claims to the OIG, management should develop and disseminate clear procedures and guidance to headquarters and field personnel for submitting this information. The OIG has an established Hotline to receive information from Postal Service employees, including a Hotline email for receiving notice of suspicious activity from the Postal Service. Once received, OIG personnel route the information to the appropriate office for further review. However, Postal Service Headquarters and field personnel have worked directly with local OIG personnel on these potentially improper claims rather than using the OIG's Hotline. When this occurs, information on the activity may not get centrally captured or stored in the appropriate system to ensure the OIG can efficiently route it to the right contacts and have it readily available and accessible to investigators, especially as the number of potential improper claims is increasing.

¹⁷ Potentially improper activity from analysis of these randomly selected claims were forwarded to the U.S. Postal Inspection Service or OIG. The Postal Service does not track or maintain a report of the disposition of these randomly-selected claims for manual adjudication.

Claims System Enhancements

Postal Service management stated that Accounting Services and the Corporate Information Security Office have worked with OIG's Office of Investigations to share data and examine specific improper activity since FY 2015. However, these efforts have not reduced fraudulent acts overall. Management stated that, due to recent, dramatic increases in [REDACTED] indemnity claim payments, they have enhanced their current system and procedures. They stated that, on December 3, 2019, the Postal Service decreased the [REDACTED]. Management further [REDACTED] on December 5, 2019. This will enable the Postal Service to mitigate improper payments over these dollar amounts because [REDACTED]. [REDACTED] provide the Postal Service an opportunity to detect and prevent improper payments.

Management stated that, on November 8, 2019, the Postal Service began daily monitoring and tracking of multiple claims [REDACTED]. They stated that, on November 26, 2019, the Postal Service expanded this criteria to include [REDACTED]. This should enable the Postal Service to detect improper claims before payment.

Management also stated that, on November 8, 2019, the Postal Service also made a configuration change in the CICRS to send notification letters to claimants with [REDACTED].¹⁸ The letters would instruct claimants to take their package with the damaged item to a local post office for verification.¹⁹ While this control should reduce improper activity for damage claims to a degree, it [REDACTED] this activity for claimants who file improper damage claims [REDACTED]. The effectiveness of this change will not be maximized until the Postal Service requires [REDACTED].

[REDACTED] In addition, an analysis of suspicious activity since the date of this change suggested that the CICRS may still be authorizing payment for [REDACTED]. However, it appears the system effectively blocks [REDACTED] until the claimant receives verification of damage.

A more robust and sophisticated fraud detection and prevention software would allow the Postal Service to more effectively flag questionable payments for [REDACTED] or automatically deny payment on improper claims. The Postal Service plans to implement a new and improved claims system. Management stated they plan

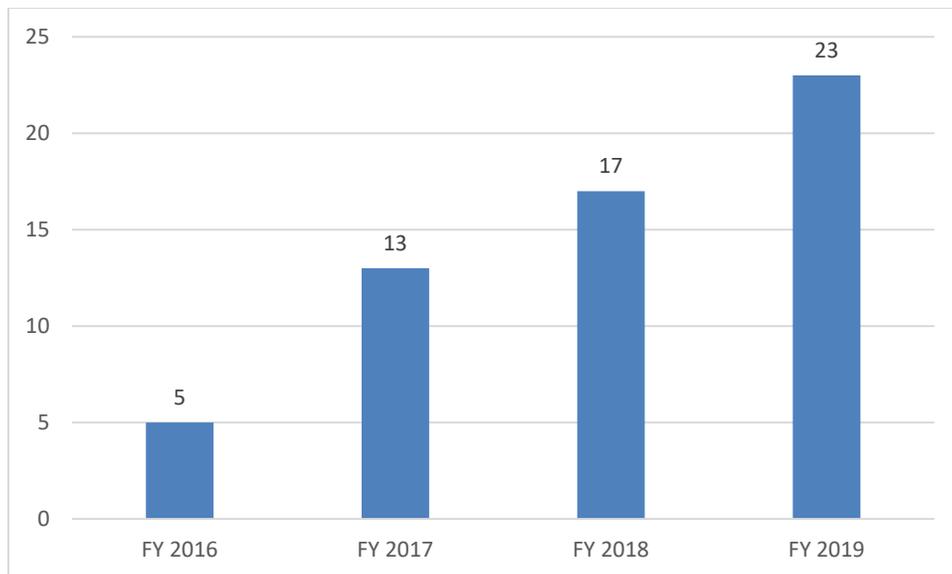
¹⁸ The Postal Service uses [REDACTED].

¹⁹ Previously, the Postal Service required claimants to take damaged packages to a local post office for verification [REDACTED].

to develop the decision analysis report (DAR)²⁰ that will incorporate enhanced fraud detection and prevention mechanisms. However, at the time of our audit, management stated there was no funding available to implement the system. In the interim, management stated they are using available resources to strengthen controls over indemnity claim payments. For example, they stated they review a pending claims report daily to identify suspicious activity.

Ineffective CICRS [REDACTED] that permit improper payments have resulted in an increase in investigative cases and resources over the past few years, as shown in Figure 4. From FY 2016 to FY 2019, the OIG opened 58 indemnity cases. During that period, the OIG also had 53 individuals criminally prosecuted for indemnity-related crimes and made 19 indemnity related arrests, as shown in Table 4.

Figure 4. FYs 2016 – 2019 OIG Indemnity Cases Opened by Fiscal Year



Source: OIG Office of Investigations.

²⁰ A DAR is a document developed to justify an investment and to assist the approving authorities in making decisions concerning the use of Postal Service funds.

Table 4. FYs 2016 – 2019 Statistics for OIG Indemnity Cases

Statistic	FY 2016	FY 2017	FY 2018	FY 2019	TOTAL
No. of Criminal Prosecutions	14	8	15	16	53
No. of Arrests	6	3	5	5	19
No. of Informations ²¹	4	1	3	2	10
No. of Indictments ²²	0	0	4	3	7

Source: OIG Office of Investigations.

When the Postal Service authorizes payments for improper indemnity claims, it incurs unnecessary costs and loses valuable capital that could be used to improve the business through enhancements to current operations or new investments. Costs associated with improper indemnity claims also negatively impact the profitability of the insurance service as well as mail products that include free insurance (for example, Priority Mail and Priority Mail Express). We found the Postal Service incurred about \$14.3 million in improper indemnity claim payments during FYs 2018 and 2019. Further, if the Postal Service does not improve CICRS controls, we estimate that it will authorize about \$182.3 million for improper payments over the next five years (FY 2020 through FY 2024).

We recognize Postal Service management has recently begun to strengthen claims system controls. Based on data provided by Postal Service management, the number and dollar value of claims paid in November through December 2019 decreased by 16 percent as compared to November through December 2018. Although there is insufficient data to reliably determine the impact of recent enhancements on future projections of improper payments, we encourage management to continue their efforts to strengthen controls over the claims system.

Recommendation #1: We recommend the **Vice President, Controller**, coordinate with the **Vice President, Information Technology**, to update Postal Service systems to require [REDACTED].

Recommendation #2: We recommend the **Vice President, Controller**, coordinate with the **Vice President, Information Technology**, to evaluate and implement available technology to detect repeat use of the [REDACTED] for different indemnity claims.

²¹ Accusations or charges brought by the public prosecutor without a grand jury indictment. Informations are charged by a judge.

²² Charges of a felony voted by a grand jury based upon a proposed charge, witness testimony, and other evidence presented by the public prosecutor.

Recommendation #3: We recommend the **Vice President, Controller**, coordinate with the **Vice President, Information Technology**, to update the Customer Inquiry and Claims Response System to check for [REDACTED].

Recommendation #4: We recommend the **Vice President, Controller**, coordinate with the **Vice President, Information Technology**, to implement [REDACTED] in the Customer Inquiry and Claims Response System and internal data analytic tools to identify, halt action on, and alert Postal Service officials when individuals file [REDACTED] and potentially improper claims.

Recommendation #5: We recommend the **Vice President, Controller**, develop and disseminate clear procedures and guidance to headquarters and field personnel for submitting potentially improper indemnity claims to the U.S. Postal Service Office of Inspector General.

Fraud Detection and Prevention Good Practices

Opportunities exist for the Postal Service to improve its controls to detect and prevent improper indemnity claim payments. We identified technologies and good practices that assist businesses in detecting and preventing fraud and abuse, including graph databases and other risk-mitigating policies.

Graph database technology is an emerging tool to prevent fraud in the insurance and banking industries. Companies use graph databases to uncover collusion and other sophisticated scams. Graph databases are designed to look beyond individual data points to link information across multiple transactions and reveal hidden connections, as shown in [Figure 5](#). Older, more traditional fraud detection measures have become less effective against sophisticated fraudsters who have developed a variety of ways to elude discovery by colluding with others, [REDACTED], and exploiting system vulnerabilities.²³ The Postal Service could leverage graph database technology to more effectively identify and stop claimants who [REDACTED].

[REDACTED]

Figure 5. Illustration of Graph Database Technology²⁴



Source: OIG illustration.

Businesses in the finance, retail, and manufacturing industries have employed other techniques to mitigate abuses of programs designed to indemnify customers. Many companies set strict limits for the magnitude and frequency of indemnity or refund payments. As an example, some credit card companies promise to refund their customers' purchase if a retailer refuses to accept a return. One company we reviewed explicitly limits these payouts to \$300 per item and \$1,000 per customer per year.

We also reviewed some retailers' methods to prevent abuse of their return policies. One retailer made the criteria for receiving a refund stricter for customers that appeared to be abusing the system and tracked refund activity. For example, it would only offer the refund on a company gift card and/or required a driver's license to process the claim.

In addition, we also reviewed manufacturers that offer accidental damage coverage for their customers' cellphones. If the customer damages the phone, the company will repair it. One manufacturer we reviewed set a customer-paid deductible for each repair and limited the coverage to two incidents per year. These practices limit exposure to fraud and disincentivize abuse of the companies' indemnity programs.

Since the Postal Service plans to develop new strategies and controls for detecting and preventing improper indemnity claim payments, we are not making a recommendation related to these practices at this time. However, we believe the Postal Service should

²⁴ This illustration shows how graph database technology can uncover [REDACTED]

consider using similar technology and practices to discourage and mitigate fraud and abuse of its indemnity claims system.

Management's Comments

Management agreed with all recommendations presented in this management alert. However, they disagreed with the monetary impact and expressed concerns about the accuracy of some information.

Regarding recommendation 1, management stated Postal Service systems should be evaluated to determine whether [REDACTED] should be required. They plan to evaluate the system to determine the best course of action for mitigating risk. The target implementation date is December 31, 2020.

Regarding recommendation 2, management stated that [REDACTED] is a risk and plan to evaluate available technology to detect [REDACTED]. The target implementation date is December 31, 2020.

Regarding recommendation 3, management will update the CICRS to check for specific [REDACTED]. They further stated they implemented a manual process for monitoring lost claims in November 2019, and plan to automate this monitoring in the future. The target implementation date is December 31, 2020.

Regarding recommendation 4, management stated they have implemented some tools, to include changing the [REDACTED] and establishing SSK physical scan monitoring. They plan to work with Enterprise Analytics to develop more internal data analytics for claims data, automate some of the manual controls, and continue to evaluate and identify controls to halt action on and alert officials of [REDACTED] and potentially improper claims. The target implementation date is December 31, 2020.

Regarding recommendation 5, management updated the desk procedures to include the OIG Hotline email and provided training in January 2020. They plan to resend communication on these procedures to the field via the Retail Digest. The target implementation date is April 30, 2020.

Regarding the monetary impact, management stated we calculated it without using data from the appropriate system of record and without consideration of control enhancements implemented in November and December 2019. They stated that only the CICRS, not APEX, can appropriately differentiate between [REDACTED] adjudicated claims. They further stated that recently implemented adjustments to controls and additional controls have significantly mitigated suspected fraud. Using CICRS data from FY 2017 to FY 2020, Quarter 1 and considering recent control enhancements, management calculated a monetary impact of \$2.2 million.

Management also expressed several concerns with the accuracy of some information in the report. Management’s concerns and our evaluation of those concerns are included in the table below.

Management Concern	OIG Response
<p>The DMM, section 503, states that free insurance is \$50 for residential customers and \$100 for business customers, as opposed to the \$200 cited in this management alert.</p>	<p>The Postal Service offers free insurance up to \$200 for some international premium products. We revised the statement in the Introduction section to speak specifically to the \$100 free insurance maximum for domestic premium products.</p>
<p>The OIG based its conclusions on the wrong data set because it used APEX data rather than CICRS data. APEX data does not distinguish between [REDACTED] adjudicated claims. For this reason, management stated they could not corroborate the OIG’s analysis for finding 1.</p>	<p>We address this concern in our Evaluation of Management Comments below.</p>
<p>The OIG did not appropriately support the statement regarding the CICRS not sending a verification message.</p>	<p>We tested Postal Service systems by creating user accounts and filing claims. We found that the systems did not validate [REDACTED]. In addition, our analysis of claims data showed that many claimants filed claims with [REDACTED]. During fieldwork, management acknowledged issues with the [REDACTED] and stated that the Customer Registration group was working to identify improved capabilities for [REDACTED].</p>
<p>The statement regarding the CICRS not verifying mailpieces associated with lost claims had entered the mailstream was not wholly correct. The CICRS did check for scans to indicate mail entered the mailstream, but those scans did not [REDACTED].</p>	<p>In our report, we acknowledged that the CICRS checked for at least one scan event other than the delivery scan. However, as management stated in their comments, this did not [REDACTED].</p>
<p>Management disagreed that the CICRS did not have [REDACTED] to flag suspicious claims for manual processing or automatic denial.</p>	<p>Our testing and analysis found that, while the CICRS had some [REDACTED] and business rules to route some claims for manual adjudication or automatic denial, the system did not flag claimants with an</p>

	<p>██████████ number of claims. We clarified this statement in our report.</p>
<p>Management has been manually monitoring lost claims filed without a valid PTS scan daily since November 2019.</p>	<p>Our report included several, but not all, examples of controls implemented by the Postal Service in response to the issues identified by the Postal Service and OIG regarding ██████████ of indemnity claims. During the exit conference, management stated they were working to address the SSK physical scan issue. However, when we requested documentation to support any related control changes, management did not provide any information prior to issuance of the draft report.</p>
<p>Management has worked directly with local OIG personnel at the explicit direction of the OIG. In September 2019, the OIG determined that the Hotline was the more appropriate communication channel. Management has used the Hotline since then, per OIG instructions.</p>	<p>As noted in our report, with the significant increase in potentially improper indemnity claims, the Hotline is the best alternative to ensure the referrals are centrally captured so the OIG can efficiently address the concerns. We appreciate the Postal Service’s efforts to work with the OIG and to use the Hotline for these referrals.</p>
<p>Management stated the dates we cited for changes to the CICRS system are incorrect.</p>	<p>The dates for changes to the CICRS system that management provided in their comments match the dates we included in our report, except for one. During a previous meeting with management, they provided a different date for one of the CICRS changes. However, we updated the report accordingly. Management shared information regarding the November 24, 2020 change three days after the exit conference. We could not verify this information; therefore, we did not include it in the report.</p>
<p>The CICRS blocks the ██████████ claim submitted by a claimant until proper verification of damage is received, not the ██████████ as cited in the management alert.</p>	<p>In an email from a Postal Service official, they stated this control occurred “██████████” suggesting the CICRS blocks the ██████████. In a preliminary review of claims filed on or after this change, we found an instance where the system approved ██████████ blocking subsequent claims.</p>

See [Appendix A](#) for management’s comments in their entirety.

Evaluation of Management's Comments

We consider management's comments responsive to the recommendations in the report and corrective actions should resolve the issues identified in the report.

Regarding the monetary impact, we believe our calculations and the data source used provide a reasonable and reliable estimate of historical and projected improper payments if management did not take or does not complete corrective actions to effectively address the issues in our management alert. We used APEX data because the system retains payment data for a longer period than the CICRS, as mentioned in footnote 4. Further, we believe that APEX is a more reliable system to extract payment data as the financial data from this system is assessed annually by an independent public accounting firm as part of the evaluation of the Postal Service's controls over financial reporting.

While we understand that the APEX system does not distinguish between [REDACTED] adjudicated claims, we do not believe there would have been a substantial difference in our monetary impact if we had used CICRS data. Our analysis only captured payments associated with claimants who received a number and dollar value of payments that was indicative of potential fraud. We believe there is a high probability that the Postal Service [REDACTED] these claims; otherwise, these claimants likely would not have received those questionable payments. In addition, the Postal Service [REDACTED] [REDACTED] during the scope of our review, as mentioned in our report.

We acknowledge that management has implemented control enhancements in November and December 2019 that should mitigate future improper payments. However, these changes occurred too recently to assess their effectiveness and to collect enough data to reliably project future improper payments. As such, we believe management used unproven assumptions and insufficient data to estimate fraudulent claims for the next five fiscal years.

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

Appendix A: Management's Comments

CARA M. GREENE
VICE PRESIDENT, CONTROLLER



February 26, 2020

LAZERICK POLAND
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Management Alert – Automatic Indemnity Claim Payments (Project Number 19-008)

Management has identified a number of fraudulent or potentially fraudulent indemnity claim payments and referred such cases to the OIG Office of Investigation. Some of these cases have been used as the basis for the OIG's management alert.

Management has also identified a number of concerns related to the accuracy of factual information in the management alert, as further described below, listed in order of section within the report.

Introduction

The following facts are missing from the report or are incorrect:

- As stated in the DMM, Section 503, free insurance is \$50 for residential customers and \$100 for business customers, not \$200 as stated in the management alert.
- All data in tables and figures is sourced from APEX (Accounts Payable System), not CICRS (Claims System). As discussed with the OIG, the data from APEX does not exclusively reflect payments related to automated claims, which is the entire objective of the audit. As a result, the OIG has formed conclusions on the wrong data set.

Claims System Controls

- Management cannot corroborate the OIG's analysis in this section because the OIG did not use payment information from our claims system.
- Management disagrees with the recommendation embedded in the following statement:
 - a. This statement contains a specific recommendation, not supported by appropriate analysis.
 - b. Management is conducting in-depth analysis which is expected to identify appropriate factors that will enhance [REDACTED]
 - c. These factors may or may not include the specifically identified components stated by the OIG.
- Management notes that the following statement is not wholly correct: CICRS did not [REDACTED]
 - a. Manual review is being conducted until automation or an appropriate means of automatically mitigating this aspect of the risk can be implemented.
- Management disagrees with the statement: [REDACTED]

Identification of [REDACTED]

- Management cannot corroborate the OIG's analysis in this section because the OIG did not use payment information from CICRS.
- Management cannot corroborate OIG's statement: "OIG investigators found that, between March 2015 and August 2017, an individual filed about 440 improper claims within the [REDACTED] totaling about \$124,000. The individual [REDACTED]"
 - a. The OIG did not provide the name of the individual for management to verify the perpetrator.

Verification of Mailing

- Management has been manually monitoring lost claims filed without a valid PTS scan daily since November 2019.

Identification of Excessive Claims

- As previously discussed with the OIG, CICRS has risk-based, automated fraud indicators, which results in certain claims being routed for manual adjudication which normally would have been done automatically through CICRS.
- With respect to the following statement: "However, Postal Service Headquarters and field personnel have worked directly with local OIG personnel on these potentially improper claims rather than using the OIG's Hotline."
 - a. Management has worked directly with local OIG personnel at the explicit direction of the OIG. The OIG determined in September 2019 that the Hotline was the more appropriate communication channel. Management has used the Hotline since then, per OIG instructions.

Claims System Enhancements

- The dates stated for changes to the CICRS system and daily monitoring are incorrect. The changes occurred as follows:
 - a. November 8 - management changed the threshold in CICRS to send notification letters to claimants with [REDACTED] to the Post Office for verification prior to processing of the claim.
 - b. November 24 - management changed the pay/deny process to update logic for claims submitted in the amount of [REDACTED] with damage or missing contents claim reasons to check for physical delivery scan codes.
 - c. On November 26 - management changed CICRS criteria to include [REDACTED] match to eReg when processing claims.
 - d. December 3 - management lowered the upper limit for [REDACTED] from [REDACTED]
- Management notes that the following statement is not factually correct: "However, it appears the system effectively blocks [REDACTED] until the claimant receives verification of damage."
 - a. CICRS blocks claims starting with the [REDACTED] submission, until proper verification of damage is received.
- Management disagrees with the following statement "Management stated they plan to develop the decision analysis report (DAR) that will incorporate enhanced fraud detection and prevention mechanisms. However, at the time of our audit, [REDACTED] In the interim, management stated they are using available resources to strengthen controls over indemnity claim payments."
 - a. Management is not planning to develop a DAR, management is in the process of developing a DAR.

- b. Controls have already been implemented to the CICRS system where the USPS has seen a drastic decrease in improper payments in recent months.
 - c. While full [REDACTED]
- Management disagrees with this statement and notes that the OIG has calculated monetary impact without consideration for control enhancements implemented starting November 2019.
 - a. Management analysis contradicts OIG estimates significantly.
 - b. Implemented adjustments to controls, and additional controls have significantly mitigated suspected fraud.
 - c. Management has supplied OIG with CICRS (system of record) based analysis demonstrating a trajectory that is an order of magnitude lower than OIG projections.
 - d. A significantly monetary impact of this magnitude could lead an uninformed manager to make a poor investment decision that results in a negative return on investment. Management will use its own calculation of monetary impact, which is approximately [REDACTED] of OIG's monetary impact, to determine the most cost-effective solution.

Monetary Impact

Management disagrees with the amounts in the Monetary Impacts document due to the following reasons:

- As previously mentioned, the OIG has used data from APEX to improperly calculate amounts related to [REDACTED] claims.
- CICRS is the system for claims source details, and the only system that can appropriately differentiate [REDACTED] APEX is a payment based system that is aggregate in nature, not discriminating appropriately to support analysis of [REDACTED]
- The OIG's projections do not appear to take into account any changes implemented in November/December 2019
- Management has supplied the OIG with figures and analyses refuting reported claims, including base data from CICRS, extraction, and analysis methodology, summarized as follows:
 - Obtained CICRS automated claims dataset that contains all automated claims filed between FY2017 and the current period (end Q1 FY2020)
 - Obtained the number of maximum [REDACTED] claims per month (indicator of fraudulent claims)
 - Management noted that since the Maximum Claim value was lowered from [REDACTED] to [REDACTED] in December FY20, and that in this period, there were 0 claims at [REDACTED] automatically paid by CICRS and only 182 maximum [REDACTED] claims, this resulted in a potential fraud amount of [REDACTED] Management believed this was mainly due to the additional controls implemented in CICRS during November/December 2019, especially the new threshold of 2 from 100 claims before receiving a letter to bring their item to the Post Office for verification, was responsible for stopping many repeat-offenders who capitalized on the previously higher thresholds.
 - Given that recent changes to CICRS will remain effective over the long haul, we expected the number of Maximum [REDACTED] claims to flat-line, resulting in a forecast reflecting relatively low amounts of fraudulent Max Value claims filed. To create this, we assumed every month starting in December 2019 and going forward through 2024 (next five years), we would also see a monthly total of approximately 182 maximum [REDACTED] claims filed resulting in a value of [REDACTED] per month. This estimate is also conservatively high given that December is within our peak period.

- o Summing up the value of all claims in the forecast starting in January 2020 through December 2024, we calculated a total potentially fraudulent claims of [REDACTED] (or [REDACTED] rounded).

Recommendation #1:

We recommend the **Vice President, Controller**, coordinate with the **Vice President, Information Technology**, to update Postal Service systems to [REDACTED]

Management Response:

Management agrees with the recommendation that the Postal Services systems should be evaluated to determine whether [REDACTED]

Target Implementation Date:

Evaluation of system – December 2020, upon completion of evaluation, management will determine the best course of action for mitigating the risk of [REDACTED]

Responsible Official:

Manager, Revenue and Field Accounting

Recommendation #2:

We recommend the **Vice President, Controller**, coordinate with the **Vice President, Information Technology**, to evaluate and implement available technology to detect [REDACTED]

Management Response:

Management agrees that [REDACTED] therefore, management agrees to evaluate available technologies to [REDACTED]

Target Implementation Date:

Management will complete evaluation by December 2020, upon completion of evaluation, management will provide a determination of the system and method for fraud mitigation.

Responsible Official:

Manager, Revenue and Field Accounting

Recommendation #3:

We recommend the **Vice President, Controller**, coordinate with the **Vice President, Information Technology**, to update the Customer Inquiry and Claims Response System to check for [REDACTED]

Management Response

Management agrees with the recommendation to update CICRS to check for [REDACTED]

Target Implementation Date:

This has been implemented as of November 2019, when we began using a [REDACTED] monitoring. We plan to [REDACTED] in December 2020 but believe that the [REDACTED] meets the spirit of the recommendation.

Responsible Official:

Manager, Revenue and Field Accounting

Recommendation #4:

We recommend the **Vice President, Controller**, coordinate with the **Vice President, Information Technology**, to implement [REDACTED] in the Customer Inquiry and Claims Response System and internal data analytic tools to identify, halt action on, and alert Postal Service officials when individuals file [REDACTED] and potentially improper claims.

Management Response:

Management agrees with the recommendation. Management has implemented some manual tools, and will continue to evaluate and identify controls to halt action on, and alert Postal Service officials when individuals file [REDACTED] and potentially improper claims. Tools already implemented include: threshold adjustment for [REDACTED] was changed, SSK physical scan monitoring. Management will work with Enterprise Analytics to develop more internal data analytics for claim data, as well as automate some of the manual controls already implemented to streamline the claim process.

Target Implementation Date:

Evaluation of system – December 2020, upon completion of evaluation, management will determine the best course of action to support these capabilities.

Responsible Official:

Manager, Revenue and Field Accounting

Recommendation #5:

We recommend the **Vice President, Controller**, develop and disseminate clear procedures and guidance to headquarters and field personnel for submitting potentially improper indemnity claims to the U.S. Postal Service Office of Inspector General.

Management Response

Management agrees with this recommendation. Management has already updated the desk procedures to include the Hotline email and provided training in January 2020. Management will resend communication to Retail (field) via Retail Digest.

Target Implementation Date:

- o Desk procedures already updated in January 2020
- o Communication to Retail will be re-sent via Retail Digest to the field no later than April 2020

Responsible Official:

Manager, Accounting Service Center



Cara Greene
Vice President, Controller

cc: Manager, Corporate Audit Response Management