

November 27, 2000

DONNA M. PEAK
VICE PRESIDENT, FINANCE, CONTROLLER

SUBJECT: Review of Indemnity Claims Process Redesign
(Report Number OS-MA-01-001)

This management advisory report presents the results of our review of the functional requirements of the indemnity claims process redesign (Project Number 00PR009SO000). The review was initiated to evaluate system controls during the redesign of the indemnity claims process. We are providing this interim report so you can consider our suggestions for improving customer service and internal controls as the system is developed.

Results in Brief

We concluded that controls over the redesigned indemnity claims process were generally adequate. However, our review of the functional requirements for the new Customer Claims Response System identified opportunities for improvement in the following areas:

- Customer service
- Product tracking
- Record retention
- Reliability of insurance claims data

The report provides eight suggestions to address these issues.

Background

Postal Service customers insure packages through various Postal Service special service product lines, such as insured, registered, collect on delivery, and Express Mail to protect against loss and damage. Approximately 250,000 insurance claims are filed each year for loss or damage.

In fiscal year (FY) 1999, 128,088 domestic claims for lost and damaged items were reviewed and paid by the St. Louis Accounting Service Center. Processing claims was time consuming and was a driving force behind this redesign process.

Postal Service officials believe a long processing time for claims resulted in poor customer service and lost revenues because competitors had shorter processing times. As a result, business mailers chose commercial insurance services over Postal Service insurance services to expedite the reimbursement for loss and damage.

The redesigned claim system, called the Customer Claims Response System, will allow Postal Service employees to enter claims on-line using web technology. Employees at local post offices will input claims data into the new system directly via the web or by dialing an 800 number. The Customer Claims Response System will generate a transaction for the Accounts Payable Account Reporting System and the payment will be processed if all edit checks are satisfied. The system is designed to improve claims processing response time.

Objective, Scope, and Methodology

The objective of our review was to evaluate the effectiveness of system controls during the redesign of the indemnity claims process. To accomplish our objective, we interviewed St. Louis Accounting Service Center employees in charge of the system redesign, attended meetings of the functional design team, interviewed the Inspection Service manager of Internal Crimes, and analyzed the FY 1999 claims master files. We also analyzed the internal controls proposed for the Customer Claims Response System.

We conducted our review between February and November 2000, in accordance with the President's Council on Integrity and Efficiency, Quality Standards for Inspections. We discussed our conclusions and observations with the appropriate management officials and included their comments, where appropriate.

Customer Claims Response System

We concluded that controls over the redesigned indemnity claims process were generally adequate. The process, when implemented, will improve customer service and reduce processing time for claims. However, we identified several opportunities to further improve customer service, product tracking, record retention, and the reliability of insurance claims data.

Customer Service

Customer service could be improved by making insurance claim forms and instructions available on the Postal Service's web site and the Corporate Call Management System.

The indemnity claims process was redesigned to reduce the time necessary to adjudicate claims and issue payments. However, customers potentially could make multiple trips to a post office--one trip to obtain the form and instructions, and a second trip to provide necessary proof of mailing and evidence of value. This process is inconsistent with Postal Service's Voice of the Customer goal to make products easy to use.

Customer service could be improved if claim forms and instructions were made available to customers through the use of current Postal Service web technology and the established corporate call network. To illustrate:

- Customers could use the Postal Service web site to obtain the necessary instructions and print a copy of the claim form.
- Customers could also use the Corporate Call Management System to request necessary forms and instructions. Necessary forms and instructions could be mailed or faxed to customers when the center is contacted.

We noted during our review that postal management planned to conduct a survey to determine whether customer service was improved as a result of the redesigned claims process.

Suggestion	We suggest that the vice president, Finance, Controller: 1. In coordination with the vice president, Information Technology, develop a web application that allows customers to obtain insurance claim forms and instructions directly from the Postal Service web site.
Management's Comments	Management agreed with our suggestion to develop a web application. The enablers business systems portfolio will add the insurance claim form to the Postal Service business forms web page when the new claims system is deployed.
Suggestion	2. In coordination with the vice president, Information Platform, implement a system that would supply insurance claim information, instructions, and forms by mail or fax to customers.
Management's Comments	Management disagreed that a new system should be implemented to supply forms and instructions to customers. As an alternative, management recommended using the St. Louis Accounting Service Center to distribute claim forms and instructions to customers by mail. Customers can obtain a claim form by calling the accounting service center's 800 number, which will be listed in the Customer Guide for Filing a Claim.
Evaluation of Management's Comments	Management's planned actions are responsive to suggestion one. Although management disagreed with suggestion two, they proposed an alternative action that meets the intent of our suggestion.

Product Tracking

Product tracking enhancements would reduce losses of insured mail and provide information to assist in the reduction of internal crimes.

Originally proposals made in March 2000, for the new Customer Claims Response System used the Product Tracking System to confirm delivery, but the functional requirements for the system did not require identification of the facility that accepted the insured mail. At the urging of the OIG and Postal Inspection Service, functional requirements were revised in April 2000 to identify the originating post office.

The existing claims process tracked insured mail manually. Once a claim was filed, a copy of the claim form was forwarded to the delivery post office, but employees were not required to identify the post office that accepted the insured mail. This manual process made it difficult to track missing mail.

The Postal Service's Product Tracking System has the capability to identify the entry point, not only for insured mail, but also for all accountable mail. However, the Customer Claims Response System, as currently envisioned, will not utilize the Product Tracking System to identify the post office where the insured article entered into the postal system.

Officials working on the Point of Service ONE System confirmed that the finance number and unit identification number, which identifies where an insured article entered the postal system, were captured for all accountable mail. Product Tracking System personnel further advised us that the new Point of Service One equipment would be capable of tracking not only insured mail but also accountable mail. However, they said that the older integrated retail terminals were not capable of capturing this information.

The Postal Inspection Service manager of Internal Crimes indicated that the ability to identify the point of entry for insured mail would greatly enhance their ability to combat internal crimes. We believe the Customer Claims Response System should include a requirement to identify the receiving facility in the Product Tracking System. This

enhancement could improve customer satisfaction by helping employees locate lost or misplaced insured mail. And, the change would provide postal inspectors with information needed to investigate internal crimes.

<p>Suggestion</p>	<p>We suggest that the vice president, Finance, Controller:</p> <ol style="list-style-type: none"> 3. Coordinate with the vice president of Retail to determine the feasibility of modifying the Product Tracking and Customer Claims Response systems to identify the post office accepting insured mail.
<p>Management's Comments</p>	<p>Management agreed with our suggestion. The functional requirements document was updated to include capture of the originating post office. The requirement document dated April 13, 2000, includes the capture of data elements from the product tracking system, which will identify the unit ID and ZIP Code of the originating post office.</p>
<p>Suggestion</p>	<ol style="list-style-type: none"> 4. Determine the feasibility of using hand-held scanners to capture entry point identification data, where there are integrated retail terminals that are not capable of reading the bar codes on special service receipts.
<p>Management's Comments</p>	<p>Management agreed with our suggestion and advised that core business marketing was considering future enhancements to the product tracking system and would review the option of scanning at entry point. In the interim, the originating post office will be captured on insurance claim forms and entered into the claims database for reporting purposes.</p>
<p>Evaluation of Management's Comments</p>	<p>Actions taken or planned are responsive to suggestions three and four.</p>

Record Retention

A change in record retention policy could facilitate false insurance claim investigations and prosecutions and increase security against unauthorized access to the records.

Currently St. Louis maintains the original signed Domestic Claim or Registered Mail Inquiry form (Form 1000) and supporting documentation for a three-year period, as required by the Postal Service Administrative Support Manual 13. However, United States Code Title 18, section 3282 establishes a minimum five-year period of limitations for commencing false claims prosecutions.

The Customer Claims Response System will eliminate the need for the St. Louis Accounting Service Center to maintain original claim forms and supporting documentation. The responsibility for maintaining records will be transferred to the local post office receiving the claim or to business mailers under specific agreement with the Postal Service. Under the Customer Claims Response System, the local post office that receives the indemnity claim will assume responsibility for the storage and retention of all documents received from the customer. Consequently, local post offices need secure storage areas for claims documents. An analysis of secure storage requirements for local post offices and business mailers is necessary to assess the impact of the Customer Claims Response System.

In addition, business mailers who enter into agreements with the Postal Service will also be affected because claims can be entered directly into the claims database using either the web-based application or through transmission of a file. This will place new requirements on business customers to retain documentation to support claims and access to documents for review.

Suggestion

For the vice president, Finance, Controller:

5. Establish a record retention policy, which will require retention of records for a minimum of five years.

**Management's
Comments**

Management disagreed with our suggestion to require postal facilities and business mailers to retain all insurance

claim records for five years or to have these records forwarded to the St. Louis accounting service center for imaging. However, the vice president offered an alternative retention policy. This policy would require post offices to forward the higher dollar value claims (\$1,000 and over) to the St. Louis accounting service center for storage for five years. Claims under \$1,000 will be maintained in the field for 18 months.

Suggestion	6. Ensure that post office facilities have proper storage to maintain customer privacy and retain insurance claim forms and supporting documents.
Management's Comments	Management agreed with our suggestion that post office facilities have proper storage to maintain customer privacy and retain insurance claim forms. Instructions outlining the proper storage procedures for insurance claim forms and supporting documentation will be drafted and issued to the field prior to deployment of the Customer Claims Response System.
Suggestion	7. Require approved business mailers to maintain documentation to support insurance claims for a period of five years.
Management's Comments	Management disagreed with this suggestion. However, as an alternative, management proposed that business mailers be required to retain claims under \$1,000 for eighteen months and claims \$1,000 and over for five years. The Domestic Mail Manual guidelines for businesses filing electronic claims would include this retention period.
Suggestion	8. As an alternative to local post offices maintaining records, determine the feasibility of using the Customer Claims Response System's image workflow system as a method of retaining claims documentation.
Management's Comments	Management disagreed with our suggestion for records retention. They indicated that forwarding all claims forms to the Accounting Service Center for imaging would add additional steps to the claims process and consequently increase costs. As an alternative, management will require that claims \$1,000 and over be sent to the Accounting

Service Center for imaging, and that claims under \$1,000 would be retained in the field for 18 months.

**Evaluation of
Management's
Comments**

Although management disagreed with our suggested method of retaining claims documentation, the alternative proposed by management is consistent with the intent of our suggestion.

Management's planned actions in response to suggestion six and alternative actions proposed for suggestion five, seven, and eight should correct the issues identified in this report.

**Reliability of
Insurance Claims
Data**

Routine testing of claims transactions would validate application controls and enhance the reliability of data in the claims database.

The Customer Claims Response System as envisioned would process claims through an automated payment system in the St. Louis Accounting Service Center. If the claim does not meet the criteria of specified edit checks, the system generates letters to the claimant requesting the needed documentation. Therefore, this automated process would reduce the need for accounting service center employees to conduct manual reviews of most claims. Accounting service center employees will create informational and edit check reports on claims data, but a testing methodology for claims transactions needs to be developed.

The General Accounting Office's Federal Information Systems Controls Audit Manual provides that general application controls should include the provision, detection, and correction of any errors and irregularities as the transactions flow through the financial information systems.

We believe that routine testing of transactions in the Customer Claims Response System is necessary to validate application controls. Testing could be accomplished with statistically valid samples of claims to ensure that results are projectable and reliable. Routine testing of claims transactions would validate application controls and enhance the reliability of data in the claims database.

Suggestion

We suggest that the vice president, Finance, Controller:

9. Implement a test plan to validate application controls and ensure the integrity and reliability of claims data.

**Management's
Comments**

Management agreed with our suggestion and advised that edits have been incorporated in the claims system that will identify selected claims for review.

**Evaluation of
Management's
Comments**

Management's comments are responsive to our suggestion. Actions taken or planned should validate application controls and enhance the reliability of data in the claims database.

We appreciate the cooperation and courtesies provided by your staff during the review. If you have any questions, please contact Gwen Johnson, director, Business Operations Support, or me at 703-248-2300.

Debra S. Ritt
Assistant Inspector General
for Business Operations

cc: Richard D. Weirich
Charles E. Bravo
Patricia M. Gibert
Edward L. Brown
Kristine A. Wright
Elvia L. Miller
John R. Gunnels

APPENDIX. MANAGEMENT'S COMMENTS

DONNA M. PEAK
VICE PRESIDENT
FINANCE, CONTROLLER



November 7, 2000

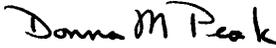
RONALD K. STITH
ACTING ASSISTANT INSPECTOR GENERAL
FOR BUSINESS OPERATIONS

SUBJECT: Draft Management Advisory on the Review of Indemnity Claims Process Redesign
(Report Number OS-MA-00-DRAFT)

Attached are our responses to the subject Management Advisory Report.

There are no portions of this report that we believe may contain proprietary or other business information that may be exempt from disclosure under FOIA.

If you have questions, or need additional information, please contact Kristine Wright, Manager, Accounting Operations, at (651) 406-1058.


Donna M. Peak

Attachment

cc: Charlie E. Bravo
Edward L. Brown
John R. Gunnels
Robert G. Krause
Richard Weirich
Kristine A. Wright

RECOMMENDATION # 1 - *In coordination with the vice president, Information Technology, develop a web application that allows customers to obtain insurance claim forms and instructions from the Postal Service web site.*

We agree with this recommendation. The Enablers Business Systems Portfolio will add the Claim Form 1000 to the Postal Service Business Forms Web page. The form will be added when the new claims system is deployed.

RECOMMENDATION # 2 - *In coordination with the vice president, Information Platform, implement a system that would supply insurance claim information, instructions and forms by mail or fax to customers.*

We disagree with this recommendation. As an alternative, the St. Louis Accounting Service Center (ASC) will distribute claim forms and instructions to customers by mail. Customers can obtain a claim form by calling the ASC call center. The Call Center 800 # will be on the Customer Guide for Filing a Claim.

RECOMMENDATION # 3 - *Coordinate with the vice president, Core Business Marketing to determine the feasibility of modifying the Product Tracking and Customer Claims Response systems to identify the post office accepting the insured mail.*

We agree with this recommendation. The Functional Requirements Document was updated to include capture of the originating post office. The requirement document dated April 13, 2000 includes the capture of data elements from the Product Tracking System, which will identify the unit id and ZIP of the originating post office. Reference Application Data Elements (Claims, Inspection Service and Product Tracking System).

RECOMMENDATION # 4 - *Coordinate with the vice president, Core Business Marketing to determine the feasibility of using hand held scanners to capture entry point identification data where there are integrated retail terminals that are not capable of reading the bar codes on special service labels.*

Core Business Marketing is in the process of reviewing the Product Tracking System for future enhancements. They will review the option of scanning at entry point. In the interim, the originating post office will be captured on Claim Form 1000 and entered into the claims database for reporting purposes.

RECOMMENDATION #5 - *Establish a record retention policy which will require retention of records for a minimum of five years.*

We disagree with this recommendation. We do not feel it would be cost effective to maintain all claim forms in the field for a period of five years. As an alternative, the higher dollar value claims (\$1,000.00 and over) will be forwarded to the St.Louis ASC for imaging and storage for five years. Claims under \$1,000.00 will be maintained in the field for 18 months.

RECOMMENDATION # 6 - *Ensure that post office facilities have proper storage to maintain customer privacy and retain insurance claim forms and supporting documentation.*

We agree with this recommendation. Instructions outlining the proper storage procedures for Claim Form 1000 and supporting documentation will be drafted and issued to the field prior to deployment of the Customer Claims Response System.

RECOMMENDATION # 7 - *Require approved business mailers to maintain documentation to support insurance claims for a period of five years.*

We disagree with this recommendation. The business mailers should be required to adhere to the same standards for record retention as the Postal Service. Eighteen months for claims under \$1,000 and five years for claims \$1,000.00 and over. The Domestic Mail Manual guidelines for businesses filing electronic claims will include this retention period.

RECOMMENDATION # 8 - *As an alternative to local post offices maintaining records, determine feasibility of using the Customer Claims Response System's imaging workflow system as a method of retaining claims documentation.*

We disagree with this recommendation. We feel the post offices will be able to properly store the claim in their facilities. Forwarding all forms to the ASC for imaging and storage would add additional steps to the claims process and consequently increase cost.

As an alternative, the higher dollar value claims will be sent to the ASC for imaging. Claims \$1,000 and over will be sent to the ASC for imaging and storage. Claims under \$1,000 would be maintained in the field for a period of 18 months.

RECOMMENDATION # 9 - *Implement a test plan to validate application controls and ensure the integrity and reliability of claims data.*

We agree with this recommendation. Edits have been incorporated in the claims system that will identify selected claims for review. The edits will identify claims meeting the following criteria:

- Claimed amount over \$1,000.00.
- Name edits - customers filing more than three claims within a twelve-month period. Customer name or variation of the name will be determining criteria.
- Address edit - three or more claims filed using the same address within a twelve-month period of time.
- Sampling - ASC will periodically sample claims to ensure compliance with claim processing guidelines.