



Office of Inspector General | United States Postal Service

Audit Report

Online Priority Mail Express Refunds

Report Number 20-268-R21 | July 20, 2021



[Domestic Refunds](#) | [International Refunds](#)

Domestic Refunds

All refunds need a proof of purchase. You may need one or all of the following when you request a refund:

- Tracking number
- Purchase receipt
- Photo ID (if in person)

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Highlights

Objective

Our objective was to determine if the U.S. Postal Service properly processed and supported online refund requests for Priority Mail Express (PME).

We conducted this audit in response to concerns raised by the U.S. Postal Inspection Service and our Office of Investigations. The concerns related to potential erroneous payments with online PME refunds issued by the Postal Service from October 1, 2018, through July 31, 2020.

The Postal Service provides customers the convenience of requesting refunds for domestic service failures (guaranteed delivery time commitment) for PME and applicable Extra Services online.

The Postal Service has an online refund application that works in coordination with their Product Tracking and Reporting system (system) in determining eligibility and issuing refunds to customers for Postal Service PME products.

There are several methods the Postal Service offers for customers to purchase postage for PME. One method is self-service kiosks (kiosk), placed in retail lobbies, allowing customers to ship packages, mail letters, and buy stamps. The goal of the kiosk program is to provide customers with a convenient self-service alternative to the full-service counter.

“The Postal Service did not always properly process and support online PME refunds paid to customers.”

The Postal Service paid about \$5.6 million for 177,596 online PME refunds from October 1, 2018, through July 31, 2020. We reviewed the top 12 customer addresses exceeding \$60,000 in refunds paid, which accounted for 70,545 refunds, or 39.7 percent. Referrals were made to the Postal Inspection Service as appropriate.

Findings

The Postal Service did not always properly process and support online PME refunds paid to customers. Specifically:

- Refund requests from purchases made at a kiosk could potentially allow fraudulent claims to be processed through the online refund application.
- Online refund requests for PME purchases initiated at the kiosk, through commercial manifests or PC Postage customers can allow customers to receive an improper refund. The online refund uses a “Start the Clock” time event scan for PME when processing the refund even though the Postal Service does not necessarily have physical possession of the mailing.
- The online refund application does not require documentation of proof of postage paid, does not identify, or prevent [REDACTED] and does not provide correct [REDACTED] information.
- The system did not deny eligibility for refunds where the mailings were [REDACTED] or mailed between December 22 and 25.

We concluded that the conditions we observed occurred because the Postal Service did not implement adequate internal controls regarding kiosk and verifications for the online process for PME refunds. We estimate the Postal Service issued refunds that were not always warranted and incurred a revenue loss of about \$1.9 million from October 1, 2018, to July 31, 2020.

Postal Service Headquarters took corrective action by adding additional wait time for online refund requests to be made during this audit. In addition, management updated the system to include a refund logic to assess refund eligibility for PME mailings mailed from December 22 through 25 (peak season mailing). However, additional opportunities exist to resolve the internal control deficiencies identified in the PME online application.

Recommendations

We recommended management:

- Validate the process between the Retail Systems Software and Product Tracking and Reporting system to confirm the amounts customers paid using the [REDACTED] option on the Self-Service Kiosks.
- Change the “Start the Clock” process for guaranteed service commitments to identify when the Postal Service has physical possession of the mail prior to permitting the processing of online Priority Mail Express refunds.
- Enhance the online refund application to provide automated edit checks and validate the requested amount submitted for refunds, create a report to identify [REDACTED] to be reviewed, and verify the accuracy of automatic responses to refund approvals or denials.
- Incorporate a schedule to verify all acceptance and possession scans are entered into Product Tracking and Reporting system prior to determining eligibility of refunds and enhance relevant systems to properly evaluate mailings to verify that they are eligible for refunds.

Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

July 20, 2021

MEMORANDUM FOR: CARA GREENE
VICE PRESIDENT, CONTROLLER

LINDA MALONE
VICE PRESIDENT, ENGINEERING SYSTEMS

GARY REBLIN
VICE PRESIDENT, INNOVATIVE BUSINESS TECHNOLOGY

A handwritten signature in black ink, reading "M Schoenberg", is positioned above the "FROM:" field.

FROM: Mitchell S. Schoenberg
Deputy Assistant Inspector General for Finance and Pricing

SUBJECT: Audit Report – Online Priority Mail Express Refunds
(Report Number 20-268-R21)

This report presents the results of our audit of Online Priority Mail Express Refunds.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Michelle Lindquist, Director, Financial Controls, or me at 703-248-2100.

Attachment

cc: Postmaster General
Corporate Audit Response Management

Results

Introduction/Objective

We conducted a self-initiated audit of the U.S. Postal Service's online refunds process for Priority Mail Express¹ (PME) (Project Number 20-268). Our objective was to determine if the Postal Service properly processed and supported online refund requests for PME. See [Appendix A](#) for additional information about this audit.

Background

On June 19, 2020, Postal Service management referred concerns to the U.S. Postal Inspection Service over 3,633 online refunds paid, totaling about \$272,152 from the Pacific and Western areas.² Specifically, they identified numerous refunds paid to customers from the [REDACTED] customers using the [REDACTED], and a commercial business mailing [REDACTED]

We conducted this audit in response to concerns raised by the Postal Inspection Service and our Office of Investigations. The concerns were regarding potential erroneous payments with online PME refunds the Postal Service issued from October 1, 2018, through July 31, 2020. We identified potential issues with about \$1.9 million of \$5.6 million online refunds paid for the same period.

The online refund process started in September 2017 and only accepts refunds for PME. This service was designed to benefit the Postal Service and customers:

- **Benefit to the Postal Service:** The Product Tracking and Reporting system³ (system) validates the eligibility of refunds, reducing ineligible refunds.

- **Benefit to Customers:** Reduces the time it takes for customers to receive a refund and provides a status of their request.

Customers can request an online refund for either postage or fees for Extra Services for PME when the Postal Service does not meet guaranteed service⁴ standards, regardless of whether the postage or fees were purchased using a self-service kiosk⁵ (kiosk) or by other means.

Residential and business customers can use the online refund application⁶ by logging into www.usps.com. In addition, business customers can request an online refund through the business customer gateway.⁷ Business customers use a manifest mailing system⁸ that allows mailers to document postage and fees for all pieces in a permit imprint mailing. Business customers can request up to 1,000 refunds in one bulk file.

The online refund application works in coordination with the system, which determines eligibility for a refund, and the Postal Service issues a refund to customers for Postal Service PME products.⁹ Refunds for PME items must be filed within 30 days of mailing and refunds for qualifying Extra Services¹⁰ must be filed within 60 days. The system retrieves tracking information from the Retail

“Postal Service management referred concerns to the U.S. Postal Inspection Service over 3,633 online refunds paid, totaling about \$272,152 from the Pacific and Western areas.”

1 A premium expedited service with a postage refund guarantee if delivery is not made within a specified time.

2 Areas prior to the reorganization of the Postal Service initiated in August 2020.

3 A system that determines the eligibility of a refund for the PME mailings.

4 The money back guarantee if the recipient does not receive the package by the guaranteed time.

5 Kiosks are placed in retail lobbies to enable customers to ship packages, mail letters, and buy stamps. This equipment is in about 2,495 kiosks in post office lobbies and the majority are accessible by customers 24 hours a day, 7 days per week.

6 Customers can request a refund online for PME and applicable Extra Services from their laptop, desktop, smartphone, or tablet.

7 The hub for all online mailing and shipping services for business customers.

8 A method of verifying postage payment of permit imprint mailings, as an alternative to weight verification. The USPS [REDACTED]

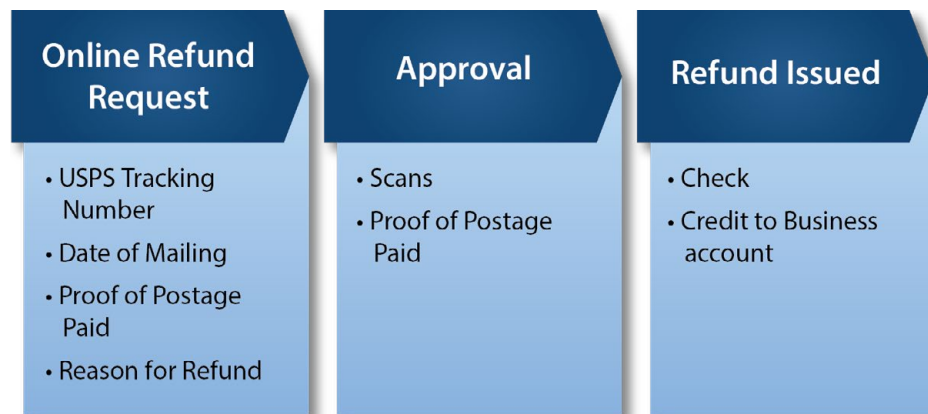
9 There are three basic service offerings: Next Day, Second Day, and PME Military Service.

10 Examples are insurance, certified mail, return receipt, signature confirmation, USPS tracking, and signature tracking.

Systems Software (RSS).¹¹ It provides the Postal Service with real-time visibility as it relates to services as the transactions occur.

To file an online refund, customers must enter a Postal Service tracking number, mailing date, proof of Service Postage (if applicable), and a reason for requesting the refund. If the refund is approved, the Postal Service will mail a check to the customer for reimbursement or issue a credit to a business account (see Figure 1).

Figure 1. Online Refund Application Approval Process for PME



Source: U.S. Postal Service Office of Inspector General (OIG) analysis from information provided by the Postal Service, Domestic Mail Manual, updated May 4, 2020.

We judgmentally selected¹² a sample of 70,545 online refunds paid to the top 12 addresses that received total refunds exceeding \$60,000, in which online refunds were paid for PME (see Table 1). These refunds accounted for 39.7 percent of 177,596 online refunds, and more than \$1.9 million of the \$5.6 million paid in total during this period (October 1, 2018, through July 31, 2020).

¹¹ The hardware and software retail transaction system used at post offices.
¹² Summarized all online refunds paid for PME by address and selected those over \$60,000.
¹³ This is a separate address in [REDACTED]

Table 1 Top Twelve Addresses for Online Refunds for PME

| Origin City, State for Each Identified Address | Number of Refunds | Refund Amount Paid |
|--|-------------------|--------------------|
| [REDACTED] | 31,372 | \$766,068 |
| [REDACTED] | 11,502 | 239,876 |
| [REDACTED] | 3,020 | 130,422 |
| [REDACTED] | 2,580 | 126,670 |
| [REDACTED] | 4,689 | 110,750 |
| [REDACTED] | 4,772 | 107,188 |
| [REDACTED] | 4,447 | 101,764 |
| [REDACTED] | 213 | 83,320 |
| [REDACTED] | 1,027 | 73,439 |
| [REDACTED] | 2,497 | 66,069 |
| [REDACTED] | 2,660 | 63,918 |
| [REDACTED] | 1,766 | 63,709 |
| Total | 70,545 | \$1,933,193 |

Source: Data provided by OIG Office of Investigations.

Findings Summary

The Postal Service issued online refunds that were not always properly processed and supported. The kiosks allow customers to [REDACTED] option, which allows [REDACTED]. In addition, the Postal Service did not implement adequate internal controls regarding kiosks, the online refund application used for PME, and the

system which determines eligibility, did not always work properly. Further, the “Start the Clock”¹⁴ time event scan to calculate service commitments for PME refunds started immediately without verification or acceptance of the physical mail piece by the Postal Service for residential and commercial customers.

We identified opportunities to improve the online refund application for PME, improve the system to ensure proper scans determine the eligibility of refunds, and identify when [REDACTED] are being mailed. In addition, we identified an opportunity for the Postal Service to improve its PME service performance by ensuring the service commitment begins when the Postal Service [REDACTED]

Finding #1: Self-Service Kiosks

Refund requests from initial purchases made at the kiosk can potentially allow for [REDACTED] fraudulent claims through the online refund application. We found customers can [REDACTED] option for initial purchases at the kiosk. The [REDACTED] option should be the [REDACTED].

“Customers can [REDACTED] through the online refund application because the [REDACTED] entered at the kiosk may not be valid and [REDACTED] is not required.”

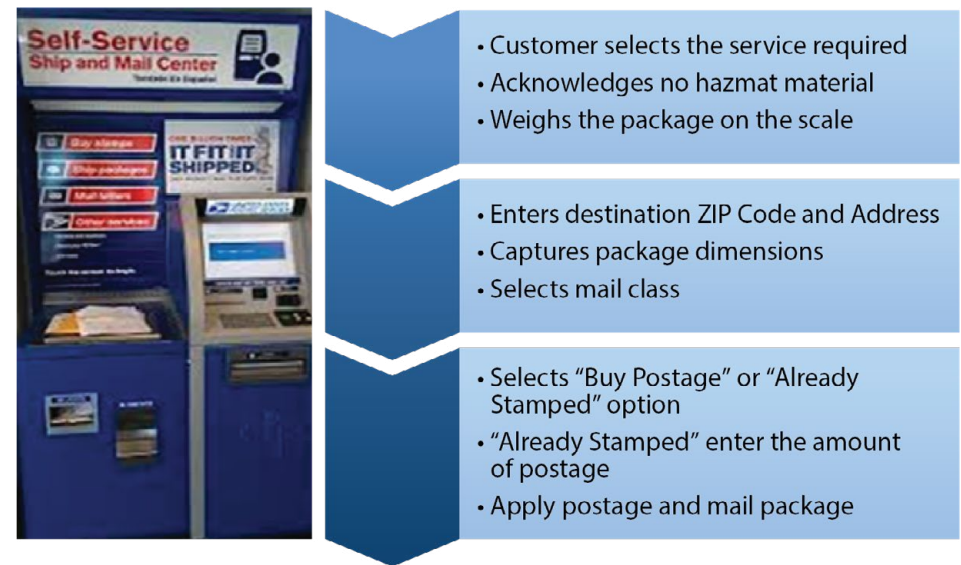
However, the online refund application does not require [REDACTED] to be submitted with a refund request, including postage entered in the [REDACTED] option at the kiosks, which could be [REDACTED].

For example, one customer was issued 213 refunds from September 2019 through March 2020, totaling about \$83,320. At a kiosk, this same customer, indicated they were mailing a heavy package (i.e.,

69 pounds), requested PME service, paid [REDACTED], and entered between [REDACTED] option. With these [REDACTED], the customer subsequently requested [REDACTED]

We tested nine different kiosks in three states to understand and ensure the process of using a kiosk for purchasing postage was consistent (see Figure 2). We confirmed that customers can [REDACTED] A minimum of [REDACTED] must be paid at the kiosk.

Figure 2. Self-Service Kiosk Process



Source: OIG analysis based on Postal Service management.

Customers can [REDACTED] through the online refund application because the [REDACTED] entered at the kiosk may not be valid and [REDACTED] is not required.

¹⁴ Once all Priority Mail Express items receive an initial acceptance scan of the barcode on the Priority Mail Express label, this action starts the clock and determines the guaranteed service standard.

Postal Service management stated that when they noticed this was happening, they referred it to the Postal Inspection Service for further investigation. Management stated there may be differences in payment transaction amounts being sent from the RSS software to the system when online refunds are being processed.

When refunds are not processed properly, the risk of overpayment increases. We estimate the Postal Service refunded the identified customer \$83,320 for [REDACTED] which we consider a revenue loss.¹⁵

Recommendation #1

We recommend the **Vice President, Controller**, in coordination with the **Vice President, Innovative Business Technology**, and **Vice President, Engineering Systems** validate the process between the Retail Systems Software and Product Tracking and Reporting system to confirm the amounts paid by customers using the [REDACTED] option on the self-service kiosk.

Finding #2: “Start the Clock” for Priority Mail Express

Mailings initiated at a kiosk, using a commercial manifest, or PC Postage¹⁶ receive a “Start the Clock” time event scan. This scan immediately starts the guaranteed service commitment, measuring the time the Postal Service has to meet the delivery commitments. This event occurs without the Postal Service necessarily having physical possession of the mailing and customers can subsequently request a refund through the online refund application when the Postal Service does not meet the guaranteed service commitment. Customers can receive unearned refunds since the Postal Service may not have physical possession of the mail.

We found the Postal Service improperly paid 68,849 refunds due to the guaranteed service period or “Start the Clock” time event scan which started

prior to the Postal Service taking physical possession of the mailings. These refunds were made for postage purchased on a kiosk or a shipment label created from a commercial manifest or the use of PC Postage and processed using the online refund application.

Self-Service Kiosks

We identified 1,867 mailings totaling \$53,789 where postage was paid on the kiosk and refunds were issued from the online application system. When postage is paid for mailings at the kiosk, it starts the acceptance process for the guaranteed service standard, which gives a false indication of when mail is physically accepted. The system scan event code 03¹⁷ may indicate acceptance on a kiosk; however, this code does not necessarily signal that the Postal Service had possession of the items, but rather that a barcode representing the shipment was scanned.

Postal Service policy¹⁸ states that when PME items receive an initial acceptance scan of the barcode on the PME label, this action “Starts the Clock” and determines the guaranteed service standard.

This occurred because the system did not check for specific scan events that verify the Postal Service has physical possession of the mail piece. Mailings should have the following scan event codes recorded in the system (see [Table 2](#)).

“We found the Postal Service improperly paid 68,849 refunds due to the guaranteed service period or “Start the Clock” time event scan which started prior to the Postal Service taking physical possession of the mailings.”

¹⁵ Applies to funds such as postage, retail sales, rent leases, or fees the Postal Service is entitled to receive but was underpaid or not realized because policies, procedures, agreements, or requirements were lacking or not followed. Revenue loss is sub-categorized as either recoverable or unrecoverable. The revenue loss category may be used for historical and future time periods.

¹⁶ USPS-approved, third-party vendor software that mailers can use to pay for and print their postage using a computer, printer, and internet connection.

¹⁷ A 03 scan is a scan event that a mailing would receive from a retail (full window service, kiosk, or business partner), or via a scan by a handheld scanner. This event may also be applied to individual commercial pieces via a handheld scanner or applied to nested commercial pieces via a hand-held scanner acceptance scan on the container barcode.

¹⁸ Domestic Mail Manual (DMM), Section 604.9.5, Postage Payment Methods and Refunds, Section 9.5.1, Priority Mail Express Postage and Fees Refunds, updated May 4, 2020 and Standing Operating Procedure, internal use only.

Table 2. Scan Events and Descriptions From the Product Tracking and Reporting System

| Scan Event Code | Internal Description | Scan Event Description |
|-----------------|----------------------------|--|
| 03 | Accept or pick up | The item was picked up, either as part of a scheduled pickup or by the carrier on the route; the event will display as "Picked Up." If the item was scanned at the post office, either at the retail counter or on the back dock, the scan event will display as "USPS in possession of item." |
| 07 | Arrival at unit | The item has arrived at the local post office on the day indicated and is scheduled for delivery. Usually, if the item arrives before 9:30 a.m., it will be delivered that day; if after 9:30 a.m., on the next business day. |
| 10 | Processed at USPS facility | The item was sorted in the processing facility indicated by the city, state, and ZIP code. Note that on USPS internet sites the event is referred to as "Enroute/Processed." |
| OA | Origin acceptance | The item is a commercial package entered at the origin and has both a shipping services file and an enrooted scan event at the origin entry point. |
| AD | Acceptance at destination | The item is a commercial package entered at the destination and has both a shipping services file and either an enroot or arrival at unit scan event at the destination entry point. |

| Scan Event Code | Internal Description | Scan Event Description |
|-----------------|----------------------|---|
| TM | Shipment acceptance | This scan occurs when an employee scans a PS Form 5630, the online manifest form, or a form including the barcode which does not signal that USPS has physical possession of the item, but rather that a barcode representing the shipment was scanned. |

Source: Postal Service Product Tracking and Reporting system scan event codes.

Management stated that the online refund system was initially programmed to "Start the Clock" when the postage is purchased at the kiosk and not when physically possessed by the Postal Service, even if a customer does not apply the label to the mail piece or mail it. On April 5, 2020,¹⁹ Postal Service management added a business rule that a scanning event code 03 from a kiosk is only counted as an acceptance event when the package has an additional physical scan.

In October 2020, we tested the system by purchasing postage at several kiosks and printing the shipping labels. We reviewed the system, and it showed an acceptance scan when the postage was purchased which "Starts the Clock" for the guaranteed service. This allows customers the opportunity to request a refund due to the guaranteed services not being met since the Postal Service did not have physical possession of the mailing at the time the clock started.

Firm or Manifest Generated Mailings

We found the Postal Service made 66,982 business mailing refunds where guaranteed service or "Start the Clock" began when the manifest and/or PC postage, or "OA scan" was generated. However, the Postal Service had not verified physical possession of all the mailings and improperly issued refunds

¹⁹ Product Tracking and Reporting System Release 20.3.1, included these business rules.

in the amount of about \$1.75 million. Of the 66,982 manifest-generated and PC postage mailings reviewed, the system issued:

- 20,147 commercial manifest-generated refunds totaling \$515,976.
- 46,835 PC postage mailing refunds totaling \$1,232,423.

The Postal Service uses a “TM scan” to start the clock for PME, only when an enroute or another scan is indicated. The TM scan does not indicate physical possession, according to policy. At times, these scans are completed after the “OA scan.” “OA scans” occur after an “enroute (10)” physical scan and starts the clock indicating physical possession. However, the time the “OA scan” is system generated, which may not be the time it was physically accepted.

“Management stated if the PME package has only the “TM scan” and no other physical possession scans refunds should not be allowed. However, we identified instances where this occurred.”

Management stated if the PME package has only the “TM scan” and no other physical possession scans refunds should not be allowed. However, we identified instances where this occurred.

Postal Service policy²⁰ states that when customers go online to ship packages, they have the option to create a Postal Service (PS) Form 5630, Shipment Confirmation Acceptance Notice. This form links all the packages in the shipment to one barcode and allows the shippers to show their customers that items have been shipped.

The Postal Service issued improper refunds because the system is programmed to “Start the Clock” and guaranteed service begins based on the start date and time the manifest was created. This “Start the Clock” time is prior to the Postal Service employees scanning the barcode on the manifest and creating the acceptance/possession scan.

Management stated that when the system makes its refund assessment to determine eligibility for online PME refunds, one of the criteria that is checked is whether the item has an acceptance scan event or an additional physical possession scan. If the acceptance scan event took place, the mailing is considered eligible for a refund, even though the scan took place prior to the time the Postal Service took physical possession.

As a result, when the Postal Service starts the guaranteed service time without physical possession of the mailing, it increases the risk that refunds will be improperly paid due to the inability for the Postal Service to process the mail within the time limits. We estimate the Postal Service incurred \$1,748,399 in revenue loss for online PME refunds.

Recommendation #2

We recommend the **Vice President, Controller**, in coordination with the **Vice President Enterprise Analytics**, change the “Start the Clock” for guaranteed service commitments to identify when the Postal Service has physical possession of the mail when processing online Priority Mail Express refunds.

Finding #3: Online Refund Application System

The Postal Service did not always properly process and review supporting documentation submitted to the online refund application for PME. Specifically, the online refund application did not:

- Validate the [REDACTED] and [REDACTED].
- Identify [REDACTED]
- Provide [REDACTED] to customers.

Validity of Documentation Submission

We determined the online refund application does not require [REDACTED] [REDACTED] and issued refunds that included falsely claimed

²⁰ Publication 399, Frequently Asked Questions, Section 7.12, February 2019.

[REDACTED]. The system did not validate the [REDACTED], only whether the amount was eligible for a refund.

Postal Service policy²¹ states that evidence of services purchased must be retained by the mailer until the refund request is resolved. Postal Service online guidance to customers (Apply Online video)²² shows what customers will be required to enter about their items, including tracking number, the reason they are requesting a refund, and proof of postage, if applicable.

According to Postal Service management, the online refund application was designed to validate postage paid through the system. For online refunds, [REDACTED] with the requests since the validation is done by [REDACTED] to determine if it is eligible or not [REDACTED]. The adjudication is automated based on the response and therefore the [REDACTED] are only required if the customer requests refunds at a retail postal unit.

[REDACTED]
We found 179 occurrences of [REDACTED], totaling \$77,525, with each refund averaging \$433. In addition, one customer received a refund of \$3,551 and another customer received a refund of \$971, with their associated packages only weighing [REDACTED] respectively. These refunds were from manifest mailings.

This occurred because the online refund application does not have controls to identify refunds in amounts greater than [REDACTED] or to validate [REDACTED] before issuing a refund.

Management stated that when they noticed that [REDACTED] from the Postal Service were being issued [REDACTED] they contacted the Postal Inspection Service to conduct further investigation.

[REDACTED] Information

The online refund application does not consistently provide correct [REDACTED] information when denials for refunds are made. We tested the system by submitting [REDACTED] requests using the tracking numbers on the shipping labels from packages that were not mailed. While the Postal Service's automatic adjudication system denied the refunds, the online refund application stated, "our records show that these services [REDACTED]," although [REDACTED]

Postal Service management stated the denial reason displayed on the customer side is not in sync with the actual denial reasons from the system. Revenue and Field Accounting²³ is currently working to update the system and review the list of denial reasons and the corresponding messaging displayed by the online service refund system to customers.

As a result, when the Postal Service authorizes payments without proper documentation, validates [REDACTED], and provides improper [REDACTED] information, it negatively impacts the brand.²⁴

Recommendation #3

We recommend the **Vice President, Controller**, in coordination with the **Vice President, Innovative Business Technology**, enhance the online refund application process to provide automated edit checks to validate the requested amount submitted for refunds, create a report to identify [REDACTED] to be reviewed, and verify the accuracy of automatic responses to refund approvals or denials.

21 DMM, Section 604, Postage Payment Methods and Refunds, Section 9.2.5, Applying for Refund, updated May 4, 2020.

22 Available to customers via <http://www.usps.com>.

23 Streamlines, and modernize accounting changes in systems, processes, and policies. Monitors compliance with accounting controls and support cross functional groups for timely revenue recognition and protection.

24 An actual or potential event or problem that could harm the reputation of the Postal Service.

Finding #4: Product Tracking and Reporting System

The Postal Service did not have effective internal controls in the system to access, determine, and detect the eligibility of online PME refunds. Specifically, we identified 2,915 examples of PME mailings refunded that were not eligible for a refund based on Postal Service policy. The improper refunds paid related to:

- [REDACTED]
- [REDACTED]
- [REDACTED]
- Peak Season

We identified 2,915 examples of PME mailings refunded that were not eligible for a refund based on Postal Service policy. The improper refunds paid related to:



[REDACTED]

We found 400 mailings were refunded totaling \$16,778 due to the guaranteed service performance not being met. However, mailings being [REDACTED] or [REDACTED] purposes are not eligible for the guaranteed service.

²⁵ This includes insufficient or incorrect addresses, incorrect ZIP Code, and forwarding or return services were not provided.

²⁶ DMM, Section 604.9.5.5, Postage Payment Methods: Refunds and Exchanges, Section 9.5.5.a.c., Refunds Not Given, updated May 4, 2020.

The system did not deny eligibility for:

- 326 refunds for [REDACTED] mailings totaling \$14,054
- 74 refunds for mailings [REDACTED] totaling \$2,724

Postal Service policy²⁶ states that postage will not be refunded if the guaranteed service was not provided because the item is delayed due to being [REDACTED] or if the item was [REDACTED] purposes.

According to management, these refunds occurred because the system did not always receive scanning events timely to effectively determine the eligibility of refunds. The refunds were issued prior to the scan events [REDACTED] being entered into the system.

The Postal Service made enhancements to its online refund application by implementing a configuration update. This update changed the number of days a customer must wait to submit for a refund (from acceptance) to [REDACTED], as opposed to [REDACTED], for PME guaranteed service refunds. This allows additional time for the various scanning events to be entered into the system. We considered the \$16,778 a revenue loss.

[REDACTED]

We identified 933 mailings totaling \$26,795 which were improperly refunded to one [REDACTED] company. The system data had [REDACTED] or [REDACTED] which indicates [REDACTED] are in the package. However, the system did not properly determine the guaranteed service of delivering, or delivery was attempted within [REDACTED] of the date of mailing, which is the guaranteed service standard for [REDACTED]. Instead, the system allowed the eligibility for refunds when guaranteed service did not meet 1-Day Service standards.

“The Postal Service did not have effective internal controls in the system to access, determine, and detect the eligibility of online PME refunds.”

Postal Service policy²⁷ states that refunds for postage will not be refunded if the guaranteed service was not provided due to the shipment containing [REDACTED] and it was delivered or delivery was attempted within three days of the date of mailing.

The system logic did not properly determine the eligibility of the refunds for [REDACTED]. The system made these refunds eligible based on guaranteed 1-Day Service standard, which totaled \$26,795 in revenue loss.

Peak Season Mailings

We identified 1,582 mailings which were improperly issued refunds totaling \$36,931. These mailings were delivered or attempted to be delivered within two days of mailing during December 22 through 25 in fiscal years²⁸ 2019 and 2020.

Postal Service policy²⁹ states that refunds for postage will not be provided if the PME 1-Day shipment was mailed from December 22 through 25 and was delivered or delivery was attempted within two business days of the date of mailing.

This error occurred because the system did not determine these mailings were mailed during the excludable period. As a result, the system determined 1,582 mailings were eligible for a refund and the Postal Service incurred a revenue loss of \$36,931.

Postal Service management stated that they have updated the system to include a refund logic to assess the refund eligibility for PME mailings mailed during the excludable timeframe. Therefore, we will not be making a recommendation on this issue.

When the Postal Service authorizes payments for improper refunds, it incurs revenue loss. Revenue loss associated with improper refunds also negatively affects the profitability of PME mail products.

Recommendation #4

We recommend the **Vice President, Controller**, in coordination with the **Vice President, Enterprise Analytics**, incorporate a schedule to verify all acceptance and possession scans are entered into the Product Tracking and Reporting system prior to determining eligibility of refunds and enhance relevant systems to properly evaluate mailings to verify that they are eligible for refunds.

Management's Comments

Management agreed with recommendations 1, 2, and 3 and the associated findings and disagreed with recommendation 4 and its associated finding.

Regarding the monetary impact, management agreed with Table 1 in the monetary impact document and disagreed with all other monetary impact in Tables 2, 3 and 4. Management stated 65,015 refunds equate to \$1.7 million of correctly issued refunds due to service failures.

Regarding recommendation 1, management will update the process between the RSS and Product Tracking and Reporting system to confirm the amounts customers paid using the [REDACTED] option on the kiosk. In addition, they will direct customers to retail counters for postage verification and [REDACTED]. Management's target implementation date is March 31, 2022.

Regarding recommendation 2, management agreed that specific scans were not reviewed to determine whether or not the Postal Service had physical possession of the mail prior to issuing refunds. They stated that updates made to the Product Tracking and Reporting system in April 2020 resolved the issue and they now only issue refunds once a physical scan event is recorded.

Regarding recommendation 3, management will implement automated edit checks to validate refund request amounts above a certain threshold and identify and report [REDACTED] and payments made to the [REDACTED]. In addition, management agreed to verify the accuracy of automatic

²⁷ DMM, Section 604.9.5.5, Postage Payment Methods: Refunds and Exchanges, Section 9.5.5.g, Applying for Refund, updated May 4, 2020.

²⁸ The fiscal year is October 1 through September 30.

²⁹ DMM, Section 604.9.5.5, Postage Payment Methods: Refunds and Exchanges, Section 9.5.5.h, Refunds Not Given, updated May 4, 2020.

responses from the online refund application after refund approval/denial. Management's target implementation date is December 31, 2021.

Regarding recommendation 4, management stated that due to the nature of [REDACTED] and [REDACTED] scan events and a review of the OIG's analysis of [REDACTED], they do not believe the recommendation is viable. Management stated they issued refunds based on the scan events at the time the refund request was submitted. Employees' identification of [REDACTED] during the firm book creation process and failure to use extra service codes when customers mail from third-party vendors creates refund issues.

See [Appendix B](#) for management's comments in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments responsive to findings and recommendations 1, 2, and 3. However, we consider the response to finding and recommendation 4 as unresponsive.

Regarding recommendations 1 and 3, the corrective actions taken should resolve the issues identified. Regarding recommendation 2, the corrective actions the Postal Service has taken should correct the issue with issuing improper refunds.

Regarding recommendation 4, the OIG considers management's comments unresponsive. Management stated that they issued refunds based on the information available at the time the refunds were submitted. However, the latency of the scan events impacted the issuance of refunds; therefore, the OIG still recommends implementing a schedule to ensure all scans are available to verify the eligibility of refunds.

Regarding the monetary impact, the OIG disagrees that the amounts calculated in Tables 2, 3, and 4 in the monetary impact form are due to service failures and that refunds were correctly issued. In Table 2, the OIG's approach was a fair assessment and showed that time commitment starts when the manifest for commercial and PC postage is created and not at the time of physical possession. As for Tables 3 and 4, these mailings were refunded due to latency issues regarding the scans and not due to service issues.

All recommendations require OIG concurrence before closure. The OIG requests written confirmation when corrective actions are completed. Recommendations 1, 3, and 4 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. Recommendation 2 will be closed with the issuance of this report. We view management's response to recommendation 4 as unresponsive and will pursue it through the formal audit resolution process.

Appendices

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Appendix A: Additional Information

Objective, Scope, and Methodology

The scope of our audit was online PME refunds from October 2018 through July 2020. We judgmentally selected 12 addresses that each received over \$60,000 in refunds for PME during that specific period. Specifically, we reviewed how online PME refunds are issued and its impact on revenue, service, and the Postal Service brand.

To accomplish our objective, we:

- Reviewed policies and procedures related to the online refund process for PME.
- Analyzed refund trends for PME.
- Evaluated the online refund process to identify what requirements and conditions must be met to issue a refund.
- Determined the payment method used for refunds.
- Assessed internal controls over the online refund process for PME.

- Tested the online systems by purchasing postage for PME on kiosks and requested online refunds.

We conducted this performance audit from August 2020 through July 2021 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management on April 30 and May 17, 2021, and included their comments where appropriate.

We assessed the reliability of online refunds data from Accounts Payable Excellence and Product Tracking and Reporting system by testing the completeness and reasonableness of the data by conducting several tests on kiosks at nine different post offices, cross checked data across the systems, and interviewed Postal Service officials knowledgeable about the data. We determined that the data were sufficiently reliable for the purposes of this report.

Appendix B: Management's Comments



July 2, 2021

JOSEPH WOLSKI
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Management Response: Online Priority Mail Express Refunds (Report Number 20-268)

Finding 1:

Management agrees with the finding that refund requests from initial purchases made at the kiosk can potentially allow for [REDACTED] fraudulent claims through the online refund application.

Recommendation 1:

We recommend the Vice President, Controller, in coordination with the Vice President, Innovative Business Technology, and Vice President, Engineering Systems validate the process between the Retail Systems Software and Product Tracking and Reporting system to confirm the amounts paid by customers using the [REDACTED] option on the self-service kiosk.

Management Response/Action Plan:

Management agrees with the recommendation. A change request is targeted for implementation by Q2 FY 2022. This will enhance self-service kiosk (SSK) workflow and disable the [REDACTED] postage workflow for Priority Mail Express (PME). It will further direct customers to retail counters for postage verification [REDACTED]

Target Implementation Date:

Q2, FY 2022

Responsible Official:

Senior Director, Revenue and Field Accounting
Director, Delivery & Retail Technology
Manager, Mail and Package Information Systems

Finding 2:

Management agrees with the finding that the system did not check for specific scan events that verify the Postal Service has physical possession of the mail piece.

Recommendation 2:

We recommend the Vice President, Controller, in coordination with the Vice President Enterprise Analytics, change the "Start the Clock" for guaranteed service commitments to identify when the Postal Service has physical possession of the mail when processing online Priority Mail Express refunds.

Management Response/Action Plan:

Management agrees with the recommendation and has already implemented the solution. "Start the Clock" for guaranteed service commitments for SSK, Commercial, and PC Postage were fixed in April 2020 via an update to Product Tracking & Reporting (PTR). A refund is now only issued once a physical scan event is recorded.

Target Implementation Date:

Recommendation has been implemented

Responsible Official:

Recommendation has been implemented

Finding 3:

Management agrees with the finding that the Postal Service did not always properly process and review supporting documentation submitted to the online refund application for PME.

Recommendation 3:

We recommend the Vice President, Controller, in coordination with the Vice President, Innovative Business Technology, enhance the online refund application process to provide automated edit checks to validate the requested amount submitted for refunds, create a report to identify customers with [REDACTED] to be reviewed, and verify the accuracy of automatic responses to refund approvals or denials.

Management Response/Action Plan:

Management agrees with the recommendation and notes that automated checks against data from other systems already exist. At the time of a refund submission, PTR validates eligible postage amounts and extra service fees for refund via the shipper payment files or other payment source systems. Subsequent validations of requested amounts through the online refund application would be redundant as it would leverage systems already consulted. Management agrees to implement automated edit checks to validate refund request amounts above a certain threshold for fraudulent postage labels. Management agrees to identify and report [REDACTED] of payments to the [REDACTED]

In addition, management agrees to verify accuracy of automatic responses from the online refund application after refund approval/denials. These additional checks will initially be performed manually until automated solutions can be implemented at a later time.

Target Implementation Date:

Q1 FY2022

Responsible Official:

Senior Director, Revenue and Field Accounting

Finding 4:

Management respectfully disagrees with the finding that the Postal Service did not have effective internal controls in the system to access, determine, and detect the eligibility of online PME refunds due to the results of management's analysis of the OIG's findings described further below.

Recommendation 4:

We recommend the Vice President, Controller, in coordination with the Vice President, Enterprise Analytics, incorporate a schedule to verify all acceptance and possession scans are entered into the Product Tracking and Reporting system prior to determining eligibility of refunds and enhance relevant systems to properly evaluate mailings to verify that they are eligible for refunds.

Management Response/Action Plan:

Management respectfully disagrees with the recommendation. Due to the nature of [REDACTED] scan events and a review of OIG analysis of [REDACTED] values, management does not believe this recommendation is viable.

USPS analyzed OIG's findings: [REDACTED]

[REDACTED] The following information resulted:

- 67 labels identified for [REDACTED] reasons include:
 - 67 refunds issued were validated based on scan events available at the time of issuance of the refund,
 - [REDACTED] scan events were generated & posted in PTR after ~15 days.

- 23 labels identified for [REDACTED] reasons include:
 - 23 refunds issued were valid based on the scan events available at the time of issuance of the refund,
 - The [REDACTED] scan event was generated and posted in PTR typically after ~114 days.

- 658 labels were identified as [REDACTED] from one customer:
 - After a review of PTR data - [REDACTED] indicating [REDACTED]
 - [REDACTED] values in the "Firm" column is assigned by an employee during the firm book creation process. It is used when delivering bulk quantities to businesses, multi-residence buildings, and institutions. This is user defined and has no bearing on a refund assessment. (Note: extra service codes are used for this purpose: 854/855 or 856 determine if the [REDACTED] logic is applied for refund assessment.)
 - Refunds did not include [REDACTED] extra service codes. The logic applies standard PME refund criteria for all such scenarios. Missing [REDACTED] extra service codes for this customer's mailing was identified by management and brought to the attention of the OIG for fraud concerns. (Note: An OIG agent

visited this customer confirming the missing extra service code for [REDACTED] (from the postage labels.)

Target Implementation Date:

N/A

Responsible Official:

N/A

Monetary Impact:

Management agrees with the amounts presented in Table 1.

Management respectfully disagrees with the amounts presented in Table 2. Of the 68,849 refunds reviewed by the OIG, management was able to review 65,373 refunds. Of the 65,373 refunds reviewed by management, 65,015 of the refunds were identified to have appropriate [REDACTED]. The 65,015 refunds equate to \$1.7 million of correctly issued refunds due to service failures. Thus management disagrees with the monetary impact noted in Table 2.

Management respectfully disagrees with the amounts presented in Tables 3 and 4 for reasons noted above. Finally, management disagrees with the amounts presented in Table 5 as it is a culmination of amounts noted in Tables 1-4.

Thank you,

E-SIGNED by Cara.M Greene
on 2021-07-01 17:06:42 CDT

Cara Greene, Vice President, Controller

E-SIGNED by Linda.M Malone
on 2021-07-06 12:14:02 CDT

Linda Malone, Vice President, Engineering Systems

E-SIGNED by Gary.C Reblin
on 2021-07-02 07:50:57 CDT

Gary Reblin, Vice President, Innovative Business Technology

cc:

VP Enterprise Analytics
Senior Director, Revenue and Field Accounting
Director, Delivery & Retail Technology
Manager Mail & Package Information Systems
CARM

OFFICE OF
**INSPECTOR
GENERAL**
UNITED STATES POSTAL SERVICE

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