



March 3, 2008

LYNN MALCOLM
VICE PRESIDENT, CONTROLLER

SUBJECT: Audit Report – Oracle Processing – Application Control Review –
Processing Phase (Report Number IS-AR-08-005)

This report presents the results of our audit of the Oracle Payables® module to determine if processing controls are sufficient and operating as intended to ensure that transactions processed are valid, authorized, complete, and accurate (Project Number 07RG007IS000). Specifically, we were to determine if invoices and associated supplier master file data maintained in the Oracle Payables module are subject to sufficient application controls, both manual and automated, to ensure that the data and invoices are valid and accurately processed. This was a self-initiated audit to review the implementation of Oracle Payables, which represents a medium operational risk to the U.S. Postal Service. Click [here](#) or go to Appendix A for additional information about this audit.

Conclusion

We determined that the Oracle Payables module has sufficient application controls in place to ensure the system accepts and processes only valid invoice data. We could not identify whether transactions in the payables history are authorized, complete, or accurate because the controls that enforce these attributes reside with the subsystems that feed invoices to Oracle Payables. However, the Postal Service has an opportunity to improve controls associated with the management and maintenance of supplier master data.

Potential Duplicate and Inactive Suppliers

The supplier master file has 9,560 potential duplicate suppliers, representing 3 percent of all active, non-employee suppliers.¹ It also has 293 inactive suppliers under the category of 'Employer Identification Number' and 'Utility' with no recorded payment history. Managers did not detect duplicate and inactive suppliers because they did not perform or delegate reviews of supplier master data that would identify these conditions. Although the supplier maintenance group maintains procedures that address some aspects of supplier data entry, it has no comprehensive standard operating procedures

¹ According to the Institute of Management and Administration (IOMA), recovery auditors often find that 5 percent or more of the vendor accounts are duplicates.

that address the management and maintenance of the supplier master file.² Improper management and maintenance of the master file increases the risk of creating duplicate suppliers and potentially issuing duplicate payments. Typically, other significant costs include the expense of voiding and reissuing checks and the time and effort expended to recoup duplicate payments.

We recommend that the Vice President, Controller, direct the Manager, San Mateo Accounting Service Center, to:

1. Establish comprehensive standard operating procedures that address the proper entry, management, and maintenance of the supplier master file.
2. Establish and document quality control reviews of new and existing supplier data to identify, control, and reduce the number of duplicate and obsolete supplier records maintained in the supplier master file.

Management Comments



Management agreed with the recommendations. They have placed written procedures into effect for new Supplier and Electronic Funds transfer entry and established standard operating procedures for the management and maintenance of supplier data. These procedures will be reviewed and revised as new supplier operating reports become available. Additionally, management stated the San Mateo Supplier Maintenance Group began cleansing the supplier data shortly after migration to Oracle Accounts Payable and will continue to do so. Quality control reviews of supplier data are performed and enhancements will continue as new reports become available. Management has completed actions necessary to satisfy these recommendations. We have included management's comments, in their entirety, in [Appendix B](#).

Evaluation of Management's Comments

The U.S. Postal Service Office of Inspector General (OIG) considers management's comments responsive to the recommendations in the report.

² The supplier maintenance group has procedures that describe how to create suppliers and supplier sites, update supplier names, correct tax identification numbers, and request electronic funds transfer updates.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions, or need additional information, please contact Gary C. Rippie, Director, Information Systems, or me at (703) 248-2100.

E-Signed by Tammy Whitcomb 
VERIFY authenticity with Approve!


Tammy L. Whitcomb
Deputy Assistant Inspector General
for Revenue and Systems

Attachments

cc: H. Glen Walker
Jo Ann Mitchell
William A. Cole
Katherine S. Banks

APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

The Postal Service implemented Oracle Payables in August 2005. Oracle Payables processes all non-payroll related payments totaling approximately \$14 billion annually. Business processes include supplier maintenance and invoice management. Oracle Payables receives and processes invoices, receipts, and purchase orders from 30 electronic subsystems. The supplier maintenance group located at San Mateo, California is responsible for manually entering and maintaining supplier master data. The following four subsystems update the supplier master file via an electronic interface:

- Transportation Contract Support System
- PostalEASE
- Lease Payment System
- Enhanced Facility Management System

Each subsystem represents an individual application with its own inherent risks and unique controls.

The Institute of Management and Administration (IOMA) is an independent source of exclusive business management information for experienced senior and middle management professionals. Best business practices promoted by the IOMA recommend that functions responsible for supplier master files minimize the size of the file by identifying, merging, consolidating, and eliminating duplicate and inactive suppliers.

According to IOMA research:

. . . the consequences of substandard master vendor file management are far-reaching. Duplicate payments—most of which arise from duplicate vendor entries—are estimated to account for \$1.3 billion per year. Invoice fraud, which may be prevented or detected by sound master vendor file controls, averages over \$90,000 per instance. Fines for failing to exclude legally debarred vendors from receiving payments can reach \$350,000 or more. These and other direct costs are dwarfed by the indirect expenditures that accounts payable departments must make for employees to identify, research and correct errors in their master vendor files.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to determine if processing controls are sufficient and operating as intended to ensure that transactions processed are valid, authorized, complete, and

accurate. Specifically, we determined if invoices and associated supplier master file data maintained in the Oracle Payables module were subject to sufficient application controls, both manual and automated, to ensure the data and invoices are valid. We could not identify whether transactions in the payables history are authorized, complete or accurate because the controls that enforce these attributes reside with the subsystems that feed invoices to Oracle Payables.

We developed invoices in electronic format and processed the invoices through the Oracle Payables test system to test key validation controls at the invoice interface. Our intent was to identify whether or not the system accepted and paid invoices that possessed the following attributes:

- Invalid Supplier Number
- Duplicate Invoice Number³
- Invalid Purchase Order Number

We identified that Oracle Payables appropriately enforces controls at the invoice interface to reject invoices that possess invalid supplier numbers, duplicate invoices, and invalid purchase order numbers. Oracle Payables identifies invoices already paid and rejects invoices with a duplicate invoice number within the supplier's payment history. However, the system is not capable of identifying duplicate payments under different invoice numbers or supplier numbers.

To identify potential duplicate suppliers we removed any nonessential information from the supplier name, such as punctuation, symbols, and legal abbreviations. We subsequently counted the instances where the supplier name matched. To identify potentially inactive suppliers, we segregated all active suppliers that had not received a payment from the Postal Service since August 2005.

We conducted this performance audit from April 2007 through March 2008 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 the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective. We assessed the reliability of computer-generated data supporting the audit finding and concluded the data were sufficiently reliable to meet our review objective. We discussed our observations and conclusions with management officials on January 28, 2008, and included their comments where appropriate.

³ We tested for duplicate suppliers within the payment history of a supplier and within the processed batch.

PRIOR AUDIT COVERAGE

| Report Title | Report Number | Final Report Date | Monetary Impact | Issues Discussed in Report |
|---|----------------------|--------------------------|------------------------|---|
| <i>Oracle Application Control Review – Invoice Processing and Discounts</i> | IS-AR-08-003 | January 10, 2008 | \$765,165 | Controls in place over electronically processed invoices are adequate to ensure the U.S. Postal Service takes available discounts prior to payment. However, the Postal Service has an opportunity to improve its capability to take advantage of discounts on manually processed invoices. |
| <i>Application Control Review of Oracle Accounts Payable – Feeder Systems</i> | IS-AR-07-014 | August 7, 2007 | None | The Postal Service has an opportunity to improve controls in feeder systems to Oracle Accounts Payable by updating contract award numbers, reinforcing separation of duties, and implementing batch reconciliation procedures. |
| <i>United States Postal Service Comments on Internal Control and Other Matters, Year Ended September 30, 2005</i> | External | December 21, 2005 | None | Ernst & Young determined Oracle Accounts Payable would allow users to override payee information after personnel selected the payee from the separately controlled vendor master file. |

APPENDIX B: MANAGEMENT'S COMMENTS

LYNN MALCOLM
VICE PRESIDENT, CONTROLLER



February 25, 2008

JOHNSON JOHN

SUBJECT: Draft Audit Report – Oracle Processing – Application Control Review – Processing Phase (Report Number IS-AR-08- DRAFT)

This provides Postal management's response to the subject audit report. We appreciate the opportunity to review and provide comments.

The following addresses the specific recommendations to the Controller:

Recommendation #1

Establish comprehensive standard operating procedures that address the proper entry, management, and maintenance of the supplier master file.

Management Response

Management agrees with this recommendation. Written procedures are in place for new Supplier and Electronic Funds Transfer (EFT) entry. Comprehensive standard operating procedures for the management and maintenance of the supplier data have been established. These procedures will be reviewed and revised as new supplier operating reports become available.

Recommendation #2

Establish and document quality control reviews of new and existing supplier data to identify, control, and reduce the number of duplicates and obsolete supplier records maintained in the supplier master file.

Management Response

Management agrees with this recommendation. The San Mateo Supplier Maintenance Group began cleansing the supplier data shortly after migration from APARS to Oracle AP and will continue to do so. Quality control reviews of the supplier maintenance data are being performed. Enhancements to this process will continue as new reports become available.

This report contains no FOIA exempt information.

A handwritten signature in cursive script that reads "Lynn Malcolm".

Lynn Malcolm

cc: Katherine S. Banks
William Cole
Jo Ann Mitchell

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