



January 10, 2008

SUSAN BROWNELL  
VICE PRESIDENT, SUPPLY MANAGEMENT

LYNN MALCOLM  
VICE PRESIDENT, CONTROLLER

SUBJECT: Audit Report – Oracle Application Control Review – Invoice Processing and Discounts (Report Number IS-AR-08-003)

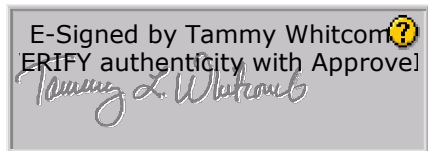
This report presents the results of our self-initiated application control review of Oracle® Accounts Payable Processing (Project Number 07RG007IS001). Our objective was to determine whether Oracle Accounts Payable (AP) processing controls are sufficient and operating as intended to ensure that transactions processed are valid, authorized, and completely and accurately processed. This audit continues the work of our Oracle AP Feeder System audit, which evaluated Oracle AP input controls. This report only addresses Oracle processing of discounted invoices. We will assess additional processing and output functionality in a future report (Project Number 07RG007IS000).

Generally, the 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 further improve its capability to take advantage of discounts on manually processed invoices through timely certification of invoices and timely delivery of certified invoices for payment, reduced errors, and a re-worked discount calculation and certification process. This report includes our recommendation for strengthening these controls which will result in timelier processing of payments, reductions in overall outlays, and increases in discounts earned. We identified total monetary impact of \$765,165. This consists of \$404,057 in unrecoverable questioned costs and \$361,108 in funds put to better use. We will report this monetary impact in our *Semiannual Report to Congress*.

Management agreed with the recommendation and has actions taken or planned to address the concerns expressed in this report. Specifically, management will direct contracting officers to take the necessary actions to ensure discounted invoices reach

the accounting service center prior to 5 business days from the end of the discount period to accommodate the time required to process invoices for payment. They also consider our characterization of monetary impact as reasonable. Management's comments and our evaluation of these comments are included in the report.

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



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

#### Attachments

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

## INTRODUCTION

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### **Background**

Oracle® Accounts Payable (AP) processes all non-payroll related payments totaling approximately \$14 billion annually. Business processes include supplier maintenance, purchase orders (PO), and invoice management. Oracle AP receives and processes invoices, receipts, and POs from 30 electronic subsystems. Each subsystem represents an individual application with its own inherent risks and unique controls.

According to Oracle 'Discounts Taken and Lost' reports, available discounts totaled \$4,676,261 from August 12, 2005, through July 11, 2007. To take a discount, the U.S. Postal Service must process the invoice and schedule the payment within the discount period. Payments scheduled after the discount period lapses must be made within 30 days of the latter of the invoice date, the invoice received date, or the goods received date. If the Postal Service does not pay a supplier's invoice on or before the due date, then the supplier is entitled to an interest payment.

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### **Objective, Scope, and Methodology**

Our objective was to determine whether Oracle AP processing controls are sufficient and operating as intended to ensure that transactions processed are valid, authorized, and completely and accurately processed. We reviewed manual and automated application controls to ensure the Postal Service realized all available discounts on invoices for payment.

We selected all Accounts Payable Excellence (APEX) records within the Electronic Data Warehouse (EDW) with a General Ledger date of August 12, 2005, through July 11, 2007, where the discount lost exceeded \$0.00. Subsequently, to identify why the Postal Service missed discounts, we reviewed all 42 occurrences for invoices where the discount lost was greater than or equal to \$1,000. We also selected a random sample of 50 of 3,870 manually processed invoices where the discount lost was less than \$1,000 and 50 of 13,504 electronically processed invoices without regard to the amount of the lost discount. Finally, we reviewed hard copy invoices when available and interviewed Postal Service personnel to identify why the agency missed the discounts associated with the selected transactions.

We conducted this performance audit from June 2007 through January 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 findings and conclusions based on our audit objective. We assessed the reliability of computer-generated data supporting the audit findings and concluded the data to be sufficiently reliable to meet our review objective. We discussed our observations and conclusions with management officials on December 10, 2007, and included their comments where appropriate.

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**Prior Audit Coverage**

The U.S. Postal Service Office of Inspector General (OIG) issued a report titled *Application Control Review of Oracle Accounts Payable – Feeder Systems* (Report Number IS-AR-07-014, dated August 7, 2007). We determined the controls in place for the Contract Authoring Management System (CAMS), the Logistics Control Management System, and the Transportation Contract Support System (TCSS) were adequate to ensure data and transactions are valid, authorized, and accurately processed. However, we determined the Postal Service has an opportunity to improve controls by updating contract award numbers, reinforcing separation of duties, and implementing batch reconciliation control totals in CAMS. During the course of the review, management strengthened security by implementing encryption of TCSS. Management generally agreed with the recommendations and took action associated with the one significant recommendation. All recommendations have subsequently been closed.

Ernst & Young (E&Y) issued a report titled *United States Postal Service Comments on Internal Control and Other Matters, Year Ended September 30, 2005*, dated December 21, 2005. E&Y determined Oracle AP would allow users to override payee information after personnel selected the payee from the separately controlled vendor master file. Payee override capability exists for six feeder

systems, as well as for manual entries to Oracle AP. Management stated they developed a standard operating procedure to ensure they actively use and review the payee override report.

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## AUDIT RESULTS

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Generally, the controls in place over electronically processed invoices are adequate to ensure the Postal Service takes available discounts prior to payment. However, the Postal Service has an opportunity to further increase the number of discounts taken from manually processed invoices. The Postal Service missed discounts from manually processed invoices because of errors or delays in the invoice certification, invoice delivery, and data entry business process flow. We identified monetary impact totaling \$765,165 associated with missed discounts. This amount consists of \$404,057 in unrecoverable questioned costs and \$361,108 in funds put to better use which we will report as monetary impact in our *Semiannual Report to Congress*.

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### Discounts Taken

The Postal Service missed taking \$451,054 in discounts during the period August 12, 2005, through July 11, 2007. This occurred primarily on manually processed invoices for a variety of reasons associated with processing timeframes. By improving controls for processing invoices with available discount terms the Postal Service has an opportunity to capture future savings. We identified monetary impact totaling \$765,165, including \$361,108 in savings that the Postal Service can realize by taking better advantage of discounts in the future.

Management Instruction FM-610-2000-2<sup>1</sup> defines the discount period as “the time between the invoice date and the day on which a discount may be taken” and states that the “payment will be made on or before the end of the discount period.” When early payment discounts are taken, payment must be made on the payment cycle immediately preceding the end of the discount period. Generally, the Postal Service cannot take an early payment discount unless payment is actually made within the discount period allowed. The number of days allowed for taking the discount is counted from the invoice date through the last day of the discount period. When the discount period ends on a Saturday, Sunday, or federal holiday, the discount due date becomes the next business day.

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<sup>1</sup> Management Instruction FM-610-2000-2, *Compliance with the Prompt Payment Act*, dated March 7, 2000.

The Postal Service missed discounts on some manually processed invoices because:

- Certifying officials certified the invoices on time but did not provide them to the accounting service center (ASC) until the discount period lapsed.
- Certifying officials certified the invoices after the discount period lapsed.
- Certifying officials incorrectly certified invoices requiring the ASC to hold invoices awaiting corrections through the end of the discount period.
- The ASC received the invoices within 3 days of the end of the discount period but did not process the invoices in time to ensure the payment date fell within the discount period.<sup>2</sup>

The Postal Service missed discounts totaling \$451,054, or 9.6 percent of available discounts, during the period August 12, 2005, through July 11, 2007, on 17,416 electronically and manually processed invoices with a total invoice amount of \$47,651,009. Manually processed discounted invoices accounted for approximately 90 percent of lost discounts, or \$404,057. Appendices A and B describe the methodology we used to determine the monetary impact of \$765,165.

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**Recommendation**

We recommend the Vice President, Supply Management, direct Contracting Officers to:

1. Identify, prioritize, correctly certify, and submit discounted invoices to the accounting service center prior to 5 business days from the end of the discount period to accommodate the time required to process an invoice for payment.

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**Management's  
Comments**

Management agreed with the recommendation and will direct contracting officers to take the necessary actions to ensure discounted invoices reach the ASC prior to

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<sup>2</sup> Postal Service personnel could not always recall specific reasons for missed discounts. We recognize the difficulty involved in recalling the details associated with specific transactions, so we relied heavily on date and certification stamps to identify causes for missed discounts.

5 business days from the end of the discount period to accommodate the time required to process invoices for payment. Management will reinforce its guidance by cascading this report and recommendation to applicable Supply Management personnel. Management targeted completion within 30 calendar days after issuance of this report.

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**Evaluation of  
Management's  
Comments**

Management's comments are responsive to our recommendation and actions planned or completed should correct the issues identified in the finding.

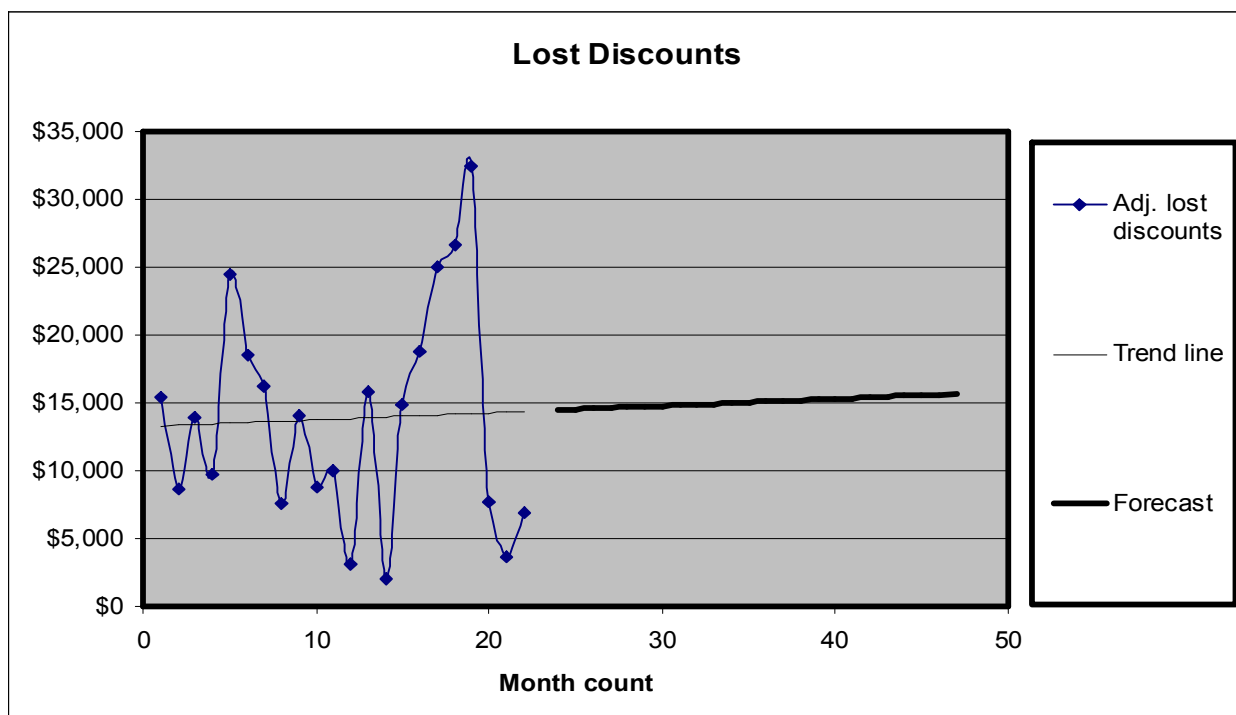


## APPENDIX A. SUMMARY OF MONETARY IMPACT

	Questioned Costs (22 Months Past)	Funds Put To Better Use (2 Years Future)	Total Monetary Impact
Invoice Type			
Lost Discounts On Manually Processed Invoices	\$ 404,057	\$ 361,108	\$ 765,165

Questioned costs are limited to the total of actual missed discounts identified in the EDW from August 12, 2005, through July 11, 2007.

Future savings were calculated by applying the average amount of missed discounts for September 2005 through June 2007 to a full 24-month period. We did not include August 2005 and July 2007 in the analysis because they each represent partial months. We also did not include a missed discount totaling \$91,965 attributable to an invoice processed in January 2007 to avoid misrepresenting the trend line.



The trend line represents 22 months of actual discount data totaling \$404,057, categorized as questioned costs, while the forecast line represents a statistical regression of the trend line 24 months into the future totaling \$361,108, representing future savings categorized as funds put to better use.

## APPENDIX B. MONETARY IMPACT CALCULATION

### **Background**

The Postal Service implemented a new accounts payable system, Oracle Payables, in August 2005, which replaced the previous system, the Accounts Payable Accounting and Reporting System. Oracle Payables processes both electronic and manually entered invoices. Many vendors offer early payment discounts. We identified missed discounts for manually and electronically processed invoices that occurred since the implementation of Oracle Payables.

We performed an analysis to determine the value of discounts missed since the implementation of Oracle Payables (questioned costs) and to forecast the savings (funds put to better use) the Postal Service can achieve over a future 2-year period by implementing the audit recommendation.

The OIG Computer Assisted Analysis Team provided us with an Excel spreadsheet containing accounts payable records for which the value of discounts lost exceeded \$0.00, for the period August 12, 2005, through July 11, 2007. The source information system was APEX in the EDW. The spreadsheet contained 17,416 records.

### **Methodology**

To calculate monetary impact, we used manually processed payments only, because the events that caused missed discounts associated with electronically processed invoices will not likely recur in the future. The spreadsheet contained a field named 'Source Code,' which allowed us to identify manually processed payments. We also determined that records with a value of 'Manual Invoice Entry', 'Non-Committed Purchase Orders', or 'Recurring' identified manually processed payments. There were 3,914 records of this type. We limited our monetary impact analysis to these records.

Through manual on-site analysis of a sample of the 3,914 invoices corresponding to the records in our spreadsheet, we discovered five invoices for which the value in the 'Discounts Lost' field in the spreadsheet was incorrect. This was due to either a discount credit memorandum occurring after the payment was processed by Oracle Payables or the discovery that the discount terms in the Oracle Payables database were incorrectly stated. The corrections resulted in a reduction of \$72,455 in total missed discounts. We added a new field to the spreadsheet titled 'Actual Discounts Lost' to reflect the corrected amounts.

We summed the values in the 'Actual Discounts Lost' field by month and produced a table summarizing the results for the months August 2005 through July 2007. The sum of the monthly amounts represents the total value of missed

discounts for the entire 24-month period which we categorized as questioned costs.

We forecast the funds put to better use resulting from the audit recommendation for a future 24-month period. In order to accomplish this, we analyzed the data in the table by producing a graph of the monthly missed discounts for the months September 2005 through June 2007. We excluded August 2005 and July 2007 from the graphical analysis because the corresponding amounts were for partial months. In addition, we observed a large data spike in January 2007 and determined it occurred because the Postal Service missed an extraordinarily large discount associated with one invoice totaling \$91,965. We elected to eliminate this amount from the analysis and calculation because we judged it a probable non-recurring anomaly. This measure ensured we would produce a conservative forecast.

Using the 'Intercept' and 'Slope' functions in Excel for the period September 2005 through June 2007, we calculated the values of points on a least squares linear regression line (Trend Line in Appendix A) for the missed discounts data.

We produced a forecast of funds put to better use by applying the same linear regression line formula to the future 24-month period of August 2007 through July 2009. The sum of the values comprising the points on the linear regression line for this period is the forecast.

## **Results**

The questioned costs for the period August 2005 through July 2007 are \$404,057. We estimate the Postal Service can save approximately \$361,108 (funds put to better use) over the next 2 years by implementing the audit recommendation.

## APPENDIX C. MANAGEMENT'S COMMENTS

SUSAN M. BROWNELL  
VICE PRESIDENT, SUPPLY MANAGEMENT



January 3, 2008

TAMMY L. WHITCOMB

SUBJECT: Draft Audit Report – Oracle Application Control Reviews – Invoice Processing  
and Discounts (Report Number IS-AR-08-DRAFT)

We have completed our review of the subject December 19 draft audit report and appreciate the adjustments made by your audit team following the exit conference on December 10. I was pleased to learn that your report findings support our ongoing efforts to automate invoice processes and that you found the controls over electronically processed invoices to be generally adequate to ensure discounts are taken prior to payment. In addition, the limited number of missed discount opportunities over the 22 month review period for manually processed invoices was encouraging; however, we can do better and will use your report to reinforce the importance of timely invoice processing.

I agree with the report's one recommendation and will direct contracting officers to take necessary actions to ensure discounted invoices reach the Accounting Service Center prior to five business days from the end of the discount period to accommodate the time required to process invoices for payment. This will be accomplished with a cascade of your final report to all Supply Management personnel responsible for processing or directing others, such as contracting officer's representatives, to certify and submit invoices for payment. The cascade will be issued within 30 calendar days following issuance of your final report.

Your characterization of \$765,165 as monetary impact (\$404,057 in unrecoverable questioned costs and \$361,108 in funds put to better use) appears to be reasonable and we are currently in the process of reviewing the questioned invoices with our Supply Management staff. If any discrepancies are found, supporting documentation will be forwarded by January 31. This report does not contain proprietary business information and may be disclosed under the Freedom of Information Act. Marie Martinez, of Supply Management, will monitor implementation of the report recommendation. She can be reached at (202) 268-4117.

A handwritten signature in cursive script that reads "Susan M. Brownell".

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