August 9, 2007

SUSAN M. BROWNELL
VICE PRESIDENT, SUPPLY MANAGEMENT

B. LYNN MALCOLM
VICE PRESIDENT, CONTROLLER

SUBJECT: Audit Report – Application Control Review of Oracle Accounts Payable – Feeder Systems (Report Number IS-AR-07-014(R))

This report presents the results of our self-initiated application control review of Oracle® Accounts Payable Feeder Systems (Project Number 07BG003IS000). Our objective was to determine whether the Oracle Accounts Payable System (Oracle AP) and related modules have sufficient controls in place to ensure data and transactions are valid, authorized, and accurately processed. Due to the complexity of the application, we determined a separate review of each phase would be appropriate. Therefore, we limited this review to the input (feeder systems) component of this application and judgmentally selected three systems to review. We will assess the processing and output phases of this application in future audits.

Generally, the controls in place for the Contract Authoring Management System (CAMS), the Logistics Control Management System (LCMS), and the Transportation Contract Support System (TCSS) were adequate to ensure data and transactions are valid, authorized, and accurately processed. However, the U.S. 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. Additionally, management can improve processes of the Pay Alone feature in TCSS. During the course of our review, management strengthened security by implementing encryption of TCSS.

This report includes four recommendations for establishing and improving existing controls surrounding two of the three Oracle AP feeder systems reviewed. Specifically, we recommended establishing procedures to reissue old contracts within CAMS with new contract award numbers at the time of contract renewal, modification, or change. In addition, we recommended management establish interim procedures to separate duties between individuals manually entering both CAMS modifications and invoices.

We also recommended developing batch controls or strengthening existing controls to ensure proper accounting of all CAMS transactions. Finally, we recommended reviewing all third party payee arrangements to ensure negative invoices balance against standard invoices without unnecessary modification. There are no recommendations specific to LCMS.

Implementing actions referred to in recommendations 1 and 3 could improve customer service by ensuring data is accurately processed and suppliers are paid on time. Management's action to encrypt TCSS files helps ensure the integrity of sensitive customer information and maintains customer goodwill. Management did not comment on the potential non-monetary benefits described in this report. However, we will report the non-monetary impact (improving customer service, data integrity, and customer goodwill) in our *Semiannual Report to Congress*.

Management agreed with recommendations 1 and 4 and agreed with the intent of recommendation 2. They will provide instructions for CAMS users to update older contracts with new contract award numbers when these contracts are renewed, modified, or changed. Management believes that our concern identified by the finding and recommendation 2 will be resolved by implementation of these procedures. Management will also establish operational procedures to move the credit memoranda to a site that does not process third party payments, when a Pay Alone request for third party payment results in a negative invoice balance.

For recommendation 3, management took action and performed a review of processes and controls, concluding that the system processes and controls are adequate. We interpreted this action as agreement with the intent of the recommendation. Management's comments and our evaluation of these comments are included in the report.

The U.S. Postal Service Office of Inspector General considers recommendation 3 significant, and since management took action to review controls, we agree to close the recommendation in the follow-up tracking system when we issue this 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 Rippie, Director, Information Systems, or me at (703) 248-2100.

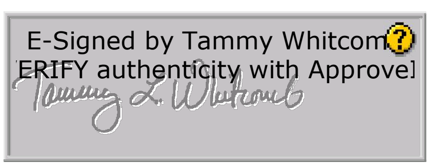

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TABLE OF CONTENTS

EXECUTIVE SUMMARY

Introduction

Our objective was to determine whether the Oracle® Accounts Payable System (Oracle AP) and related modules have sufficient controls in place to ensure data and transactions are valid, authorized, and accurately processed. Due to the complexity of the application, we determined a separate review of each phase would be appropriate. Therefore, we limited this review to the input (feeder systems) component of this application. We will assess the processing and output phases of this application in future audits.

Thirty electronic feeder systems provide input to Oracle AP. We judgmentally selected three feeder systems for review: the Contract Authoring Management System (CAMS), the Logistics Control Management System (LCMS), and the Transportation Contract Support System (TCSS). LCMS and TCSS processed and transmitted to Oracle AP approximately $5.3 billion[1] in invoices during fiscal year (FY) 2006. CAMS electronically feeds purchase orders (POs) to Oracle AP and U.S. Postal Service personnel manually enter invoices for payment against these POs. In FY 2006, Oracle AP paid 129,924 invoices against CAMS POs, totaling nearly $3.9 billion.

Results in Brief

Generally, the controls in place for CAMS, LCMS, and TCSS were adequate to ensure data and transactions are valid, authorized, and accurately processed. However, 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. Additionally, management can improve processes of the Pay Alone feature in TCSS. During the course of our review, management strengthened security by implementing encryption of TCSS.

Summary of Recommendations

This report includes four recommendations for improving the controls surrounding two of the three Oracle AP feeder systems reviewed. These recommendations apply to the feeder systems evaluated, but management should

[1] The $5.3 billion represents the dollar amount processed in 1 month during FY 2006 multiplied by 12 months: LCMS - $2.8 billion, TCSS - $2.5 billion.

consider whether these recommendations have application to other Oracle AP feeder systems. Specifically, we recommended the Postal Service establish procedures to reissue old contracts within CAMS with new contract award numbers at the time of contract renewal, modification, or change. In addition, we recommended management establish interim procedures to ensure the separation of duties between individuals manually entering both CAMS modifications and invoices.

We also recommended developing controls for CAMS batches sent to Oracle AP to account for acceptance, processing, or rejection of all transactions. Finally, we recommended management review all third party payee arrangements to ensure that negative invoices balance against standard invoices without unnecessary modification by moving credit memos to a site that does not process third party payments. There are no recommendations specific to LCMS.

Summary of Management's Comments

Management agreed either with the recommendations or with their intent. Management believes that recommendation 2 will be resolved when they implement recommendation 1. For recommendation 3, management did not specifically state agreement or disagreement, but took action and performed a review of processes and controls, concluding that the system processes and controls are adequate.

Management will provide instructions for CAMS users covering update of older contracts with new contract award numbers when a contract is renewed, modified, or changed. Management will also establish operational procedures to move the credit memoranda to a site that does not process third party payments, when a Pay Alone request for third party payment results in a negative invoice balance. Management's comments, in their entirety are included in the appendix.

Overall Evaluation of Management's Comments	We interpreted management's actions in response to recommendation 3 as agreement with the intent of the recommendation. Management's comments are responsive to our recommendations and actions planned or completed should correct the issues identified in the report.

INTRODUCTION

Background

The Oracle® Accounts Payable System (Oracle AP) replaced the Accounts Payable and Reporting System in August 2005. Oracle AP processes all non-payroll related payments totaling approximately $14 billion annually. Oracle AP is a commercial off-the-shelf application with business processes including supplier maintenance, purchase order (PO), and invoice management. Oracle AP is one component of the National Accounting Oracle Financials Application, which includes the General Ledger (GL) and Property and Equipment Accounting System modules.

Oracle AP receives and processes invoices, receipts, and POs from 30 electronic feeder systems. Each feeder system represents an individual application with its own inherent risks and unique controls. Oracle AP processes transactions from feeder systems which are recorded in the GL.

Objective, Scope, and Methodology

Our objective was to determine whether the Oracle AP System and related modules have sufficient controls in place to ensure that data and transactions are valid, authorized, and completely and accurately processed.

Since we were performing an application control review of Oracle AP, our work included reviewing the input, processing, and output controls of the entire application. Due to the complexity of the application, we determined a separate review of each phase would be appropriate. Therefore, we limited this review to the input (feeder systems) component of this application and judgmentally selected three systems to review. We will assess the processing and output phases of this application in future audits.

To accomplish our objective, we reviewed documentation and available policies and procedures, interviewed key officials, and examined other materials deemed necessary. We worked with U.S. Postal Service officials from the accounting service centers (ASC), the Integrated Business Systems Solutions Centers, the Distribution Networks Offices, and the category management centers (CMC) to obtain information needed to audit the selected systems that feed the Oracle AP portion of the National Accounting Oracle Financials Application.

We conducted this audit from December 2006 through August 2007 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. We assessed the reliability of the data for the transactions provided to Oracle AP and determined the information was sufficiently reliable to meet our audit objective. We discussed our observations and conclusions with management officials throughout the audit and on June 7, 2007, and included their comments where appropriate.

Prior Audit Coverage

Ernst and Young (EY) issued a report titled, *United States Postal Service Comments on Internal Control and Other Matters, Year Ended September 30, 2005*, dated December 21, 2005. EY 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 are committed to developing a policy to ensure the payee override report is being actively used and reviewed.

AUDIT RESULTS

Generally, 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. However, 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. Additionally, management can improve processes of the Pay Alone feature in TCSS. During the course of our review, management strengthened security by encrypting TCSS data.

Separation of Duties

Current CAMS procedures do not prevent an individual from manually entering both a PO and its corresponding invoice. This weakness creates an opportunity for an employee to generate improper or fraudulent POs and invoices. Specifically, POs, representing contract modifications to CAMS contracts, applied against contracts entered into CAMS prior to May 1, 2006, do not have an electronic interface to Oracle AP resulting in the need to manually enter these POs into Oracle AP.

CAMS is a web-based application for contract authoring and management that contains Postal Service contract information. When personnel make a request to purchase goods or services, a Purchasing Specialist or Contracting Officer (CO) determines if a contract exists to fill the request or whether the CO needs to make a solicitation. Once the CO identifies the relevant contract or creates a new contract from a solicitation, they modify the contract to create a new PO.

Several times a day, CAMS transmits an electronic file containing the POs to Oracle AP.[2] All contracts entered prior to May 1, 2006, have a different origin code associated with the contract award number and any POs against these contracts will not process through the electronic interface to Oracle AP. The headquarters Contractual Payables Group located at the San Mateo ASC prints and manually keys these POs into Oracle AP.

[2] The electronic feed originates via a batch job scheduler. The Postal Service established this process May 1, 2006.

After the Postal Service receives goods and services for a PO, it forwards invoices to the San Mateo ASC at which point the headquarters Contractual Payables Group manually enters them into Oracle AP. This process makes it possible for the same individual to manually enter a PO into the contract and then enter the invoice to pay the same PO.

Postal Service policy[3] states personnel with access to sensitive information must not be assigned duties that could cause a conflict of interest or present an undetectable opportunity for malicious wrongdoing, fraud, or collusion.

Management has strongly encouraged the COs to assign a new CAMS award number to older contracts at the time of contract renewal, modification, or change. This would allow POs against older contracts to transmit electronically through the Oracle AP interface, eliminating the need to enter these contracts manually. However, some CMCs do not ensure COs are updating old contract numbers which requires ASC personnel to enter both POs and invoices into Oracle AP. As of March 2007, 79 percent of all contracts in the CAMS system were older contracts that do not feed electronically into Oracle AP and any modifications to these contracts require manual entries. Assigning new award numbers resulting in increased electronic handling can help improve customer service.

Recommendation

We recommend the Vice President, Supply Management, direct Contract Authoring Management System users to:

1. Establish procedures to reissue old contracts within the Contract Authoring Management System with new contract award numbers at the time of contract renewal, modification, or change.

Management's Comments

Management agreed with our recommendation and will provide instructions for CAMS users covering update of older contracts with new contract award numbers when a contract is renewed, modified, or changed. Management will draft and post this guidance on the CAMS website and

[3] Postal Service Handbook AS-805, *Information Security*, Section 6-3.1.1, Required for Sensitive or Critical Information Resources, dated March 2002 (updated with *Postal Bulletin* revisions through November 23, 2006).

communicate via direct messaging to the CAMS users. Additionally, management will reinforce this guidance by cascading this report and recommendation to applicable Supply Management personnel. Management has targeted completion within 30 calendar days after issuance of this report.

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.

Recommendation

We recommend the Vice President, Controller, direct the Manager, Accounting Service Centers, to:

2. Establish interim procedures to ensure separation of duties between individuals manually entering modifications to the Contract Authoring Management System contracts and those manually entering Contract Authoring Management System invoices.

Management's Comments

Management agreed with the intent of the recommendation; however, they believe implementation of this recommendation is not in the best interest of the Postal Service. Management believes controls are in place to mitigate this risk and implementing this recommendation would result in additional resources and cost. Also, management stated this recommendation would no longer be necessary with the implementation of recommendation 1, which they scheduled for 30 days after issuance of this report.

Evaluation of Management's Comments

We consider management's comments responsive to our recommendation. Although management believes implementing interim procedures for separation of duties is costly and not in the best interest of the Postal Service, they are promptly implementing a solution to recommendation 1. We agree that this solution will resolve the issues identified in this finding.

Batch Reconciliation

CAMS does not use batch control totals, which summarize individual transaction counts and dollar amounts, to ensure all individual transactions are properly accounted for and processed. Business owners did not direct developers to implement these controls at the time of development. Batch controls reduce the possible misstatement of account balances due to missing or inaccurate transactions.

The Oracle AP interface has controls in place to ensure electronically transmitted files have all data required for Oracle AP to process the payment. However, CAMS does not transmit invoices electronically to Oracle AP, but sends POs (representing contract modifications) in batches several times a day. Oracle AP will accept only the POs that provide mandatory information fields with data meeting specific validation requirements. For example, key fields cannot be null (empty) or contain invalid information. If data provided is incorrect, Oracle AP will send the incorrect PO back to CAMS for correction and resubmission by the responsible CO. Oracle AP will accept and process the remaining complete and accurate POs in the batch. Currently, CAMS COs are responsible for ensuring individual POs are processed correctly and properly accounted for.

Best practices recommend the use of balancing and reconciliation (control totals) to verify the completeness of data entry and processing of batches. However, management did not ensure developers implemented batch control totals and other reconciliation mechanisms during development. Placing reliance on CAMS COs for ensuring individual POs are properly accounted for without batch controls in place to support this function unnecessarily increases the risk that some transactions may not be submitted for processing, or may be processed incorrectly. Implementation of these controls helps to improve customer service.

During our review, the CAMS application was updated with changes that will help the COs and management ensure POs are either released and processed by Oracle AP or disapproved and sent back to the CO for completion. Prior to these updates, some processing errors left the PO in a Pending Financial Approval status, which resulted in the PO neither being released nor disapproved. The goal of these updates is to ensure the CAMS validation process mirrors the Oracle AP validation process, guaranteeing release by Oracle AP. However, these updates do not guarantee reconciliation of all POs at the end of the working day.

Recommendation

We recommend the Vice President, Supply Management, coordinate with the Manager, Finance Business Systems Portfolio, to:

3. Develop and implement batch controls or strengthen existing controls for Contract Authoring Management System transactions to ensure individual transaction counts and dollar amounts submitted to Oracle AP are accurately transmitted, processed, and accounted for.

Management's Comments

Management did not clearly state agreement or disagreement with this recommendation. However, management took action and performed a detailed review of the processes and controls associated with transmission of transactions from the CAMS application to the Accounts Payable system. They believe the current processes and controls are adequate to ensure individual transaction counts and dollar amounts are accurately transmitted, processed, and accounted for, and concluded they cannot justify the cost of implementing the recommended batch controls.

Evaluation of Management's Comments

We interpret management's action to review the controls as agreeing with the intent of the recommendation. We consider management's comments and follow-up actions as responsive to the recommendation and do not plan to take the issue to audit resolution. Management's description of the current system processes identifies compensating controls, which they rely on to ensure all transactions are processed. In the future, we may do additional audit work to ensure these compensating controls are working as intended.

Since no further action is necessary, this item should be closed in the official tracking system when we issue this report.

Encryption

TCSS business owners did not encrypt files containing sensitive information prior to transfer to Oracle AP. Postal Service policy[4] states information resources that store or transmit sensitive information must have the capability to encrypt information. Best practices state “Encryption is an important tool for protecting the confidentiality of sensitive information entrusted to an agency's care.” According to Postal Service officials, data encryption prior to transmission to Oracle AP was not a mandatory requirement and, therefore, developers did not implement encryption. By encrypting files prior to transmission, the Postal Service can reduce the unnecessary and avoidable risk of potentially allowing unauthorized personnel and or devices to read or capture 'plain text' files. In addition, this will maintain customer goodwill and reliance on the Postal Service brand.

Oracle AP receives files for payment from the feeder systems via Assured File Transfer[5] (AFT), which has the capability to encrypt data prior to transmission. The Business Impact Assessment for TCSS states the files contain sensitive information;[6] however, TCSS business owners have not enabled this encryption feature.

Management Actions

During our review, the Transaction Processing Monitor Development and Support group deployed a new release of AFT, which overrides the user’s settings and forces encryption for all files under 10 megabytes.[7] Management implemented the changes as of June 15, 2007, resulting in the encryption of TCSS files prior to transmission to Oracle AP. Therefore, we are not making any recommendations regarding this issue at this time.

[4] Handbook AS-805, Section 9-8.2, Encryption.

[5] AFT was developed for and is owned by the Postal Service. AFT is a client/server application, replacing File Transfer Protocol for file transfer. It provides reliable and efficient transport of file data between geographically distributed and different systems. AFT has a data encryption feature built in for more secure transmission of data.

[6] This includes data such as Social Security numbers, Employer Identification Numbers, and Tax Identification Numbers.

[7] The Transaction Processing and Monitoring Group rolled out the new release, which encrypts the majority of these files. They plan to identify which systems remain, and then work with those customers with the large files to ensure proper processing.

Pay Alone Feature

Negative invoice amounts associated with suppliers on notice of assignment do not automatically net against standard invoices. This occurs because personnel who input standard invoices are not aware that the supplier maintenance group has already identified the third party payee as a pay site[8] within the supplier's site region and, therefore, mark the invoices Pay Alone with an address override. As a result, accounting personnel manually net standard invoices against negative invoices adding unnecessary overhead and potential for error to the payment process.

We reviewed TCSS invoice data processed on March 14, 2007. We identified five standard invoices totaling $9,301 and six negative invoices totaling $12,661 associated with a supplier that had a notice of assignment directing all of its receipts to a third party payee. According to accounting personnel, contracting personnel flag all invoices as Pay Alone with an address override to replace the supplier's address with the third-party payee's address. This ensures that the standard invoices do not net against negative invoices prior to payment.

The *Oracle® Payables User Guide* states that if an invoice has the Pay Alone option enabled, Oracle AP creates a separate payment for each invoice. If users do not enable the Pay Alone option for an invoice, then Oracle AP pays the invoice with other invoices for the same supplier site, on a single payment.[9] Negative invoices will net against positive invoices at payment time. The user guide suggests only enabling the Pay Alone option to require a separate payment that does not net against negative invoices.

[8] Each supplier has a supplier site identification, which allows personnel to select the appropriate address from multiple sites/addresses to remit the payment. When personnel enter invoices into the feeder systems, they select the appropriate supplier for payment.
[9] Oracle AP performs automated reconciliations during invoice processing, which balance any prepayments, credit/debit memoranda, or interest on a supplier's account and applies these to the payment.

Recommendation	We recommend the Vice President, Controller, direct the Manager, Accounting Service Centers, to: 4. Review all third party payee arrangements to ensure that negative invoices balance against standard invoices without unnecessary modification by moving credit memoranda to a site that does not process third party payments.
Management's Comments	Management agreed with our recommendation and will implement this change by August 30, 2007. Management stated they would establish operational procedures to move the credit memoranda to a site that does not process third party payments when a Pay Alone request for third party payment results in a negative invoice balance.
Evaluation of Management's Comments	Management's comments are responsive to our recommendation and the planned actions should correct the issues identified in the finding.

APPENDIX. MANAGEMENT'S COMMENTS

UNITED STATES
POSTAL SERVICE

July 26, 2007

TAMMY WHITCOMB

SUBJECT: Transmittal of Draft Audit Report – Application Control Review of Oracle Accounts Payable – Feeder Systems (Report Number IS-AR-07-DRAFT)

Thank you for the opportunity to comment on the subject June 28 draft audit report. We were pleased to receive your confirmation that the Contract Authoring Management System (CAMS), the Logistics Control Management System (LCMS), and the Transportation Contract Support System (TCSS) controls are generally adequate to ensure data and transactions are valid, authorized, and accurately processed. The attachment to this response addresses the report's four recommendations, and, as applicable, provides our planned actions concerning implementation.

We do not believe that this report contains any proprietary or business information and may be disclosed pursuant to the Freedom of Information Act. If you have any questions regarding this response, please contact Marie Martinez at (202) 268-4117 or Gladys Zamora at (202) 268-3262.

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ATTACHMENT
Management Response
OIG Report IS-AR-07-DRAFT
Page 1 of 2

Separation of Duties

We recommend the Vice President, Supply Management, direct Contract Authoring Management System users, to:

1. Establish procedures to reissue old contracts within the Contract Authoring Management System with new contract award numbers at the time of contract renewal, modification, or change.

Management Response: We agree with this recommendation and will provide instructions for Contract Authoring and Management System (CAMS) users covering update of older contracts with new contract award numbers when a contract is renewed, modified or changed, and it makes good business sense to do so. This guidance will be drafted and posted at the CAMS web site and communicated via direct messaging to the CAMS users, and reinforced by cascading this report and recommendation to applicable Supply Management personnel. These actions will be completed within 30 calendar days following final report issuance.

We recommend the Vice President, Controller, direct the Manager, Accounting Service Centers, to:

2. Establish interim procedures to ensure separation of duties between individuals manually entering modifications to the Contract Authoring Management System contracts and those manually entering CAMS invoices.

Management Response: We agree with the intent of the recommendation. However, implementing the recommendation is currently not in the Postal Service's best interest for the following reasons.

- The issue addressed by the Office of Inspector General (OIG) pertains only to modifications for existing contracts created prior to the CAMS/APEX electronic interface implementation. Since these are existing contracts, the extent of modification does not significantly affect the internal control for same individual entering both the invoice and contract modification.
- The entering of contract modification and invoices by separate individuals will require modification to San Mateo Accounting Service Center data processing workflow, resulting in additional resources and cost.
- A risk mitigating process is in place to randomly audit a sample of all invoices processed.
- This concern will eventually become a moot point with the implementation of OIG recommendation one above.

Batch Reconciliation

We recommend the Vice President, Supply Management, coordinate with the Manager, Finance Business Systems Portfolio, to:

3. Develop and implement batch controls or strengthen existing controls for Contract Authoring Management System transactions to ensure individual transaction counts and dollar amounts submitted to Oracle AP are accurately transmitted, processed, and accounted for.

Management Response: Based on this OIG recommendation and as described below, we reviewed the processes and controls associated with transmission of transactions from the CAMS application to the Accounts Payable system. We determined that both the processes and controls are adequate to ensure individual transaction counts and dollar amounts submitted to Oracle AP are accurately

ATTACHMENT
Management Response
OIG Report IS-AR-07-DRAFT
Page 2 of 2

transmitted, processed, and accounted for. Therefore, without any value-add identified, we cannot justify the cost of implementing the recommended batch controls.

The transmission of transactions from the CAMS application to the Accounts Payable system is completed by Assured File Transfer (AFT), which as its name indicates, assures the completeness of all file transfers. These transfers are monitored by Data Transfer Services (DTS) and any discrepancies will result in a process that creates an error condition which is acted on by DTS support personnel and logged. Accounts Payable (AP) validates transactions received from CAMS and issues a file back to CAMS indicating the transactions are accepted (released in CAMS) or not accepted (disapproved in CAMS). In addition, an email to the CAMS buyer is sent with the reason for any disapproved transactions. These transactions are original contracts or modifications to contracts from CAMS to AP and are separate from the invoicing process. Records within CAMS that are in a pending status (not sent from CAMS to AP) are captured in a report and available at anytime to the CAMS users. Further, Information Technology runs the pending record report every Monday, Wednesday and Friday. If any records are in a pending status, the status is reported to the supporting development organization for follow up with the business owner.

Pay Alone Feature

We recommend the Vice President, Controller, coordinate with the Manager, Accounting Service Centers, to:

4. Review all third party payee arrangements to ensure that negative invoices balance against standard invoices without unnecessary modification by moving credit memoranda to a site that does not process third party payments.

Management Response: We agree with the recommendation and will implement this change. By August 30, operational procedures will be established to move the credit memoranda to a site that does not process third party payments, when a Pay Alone request for third party payment results in a negative invoice balance.