

Abstract

Oracle applications are highly configurable and flexible to allow for implementation in any company in the world. With that flexibility and complexity comes risk. The passage of SarbOx has greatly increased the scrutiny on your control environment. This paper will address several key setups, help identify technology within the applications to help you monitor your controls, discuss the importance of change management, and give you an overview of the system from a functional perspective.

Executive Summary

Oracle applications are highly configurable and flexible to allow for implementation in any company in the world. With that flexibility and complexity comes risk. The passage of the Sarbanes Oxley Act of 2002 has increased the scrutiny on your control environment. This paper will address key setups in several modules and the risk related to your control environment. This paper will also give you an overview of the system from a functional perspective and help identify technology within the applications that can help you monitor your controls.

Control Risks

Because the applications were developed to be used in virtually any company or industry, the system is highly configurable and flexible. For instance, in AR you can define a transaction to be postable to the GL (i.e. create journal entries), postable to the subledger (i.e. create an open transaction on your AR subledger) or both. The system *allows* you to create a transaction that could create an open invoice on your AR aging, but not send journal entries to the GL for that transaction. This would cause a reconciling difference between your subledger and your control account in the GL at month end. Having such a setting in your system would cause a control weakness about which your auditors would get a little excited and would inevitably end up on your management letter at the end of your audit.

You also need to have a basic understanding of menus, responsibilities, request groups, and data security to make sure you have proper security around your application and proper segregation of duties.

Tools to manage your controls

To develop and maintain proper controls, you need to understand and utilize the tools at your fingertips. There are several tools in Oracle to help in managing your control risk. One tool is Security Rules. The use of Security Rules can greatly reduce the posting to invalid GL accounts. For instance, you wouldn't want an AP clerk coding an invoice to your Additional Paid In Capital or Common Stock account. The proper use of a security rule would restrict that payables clerk from using those accounts.

Another way to manage your risk is use suspense accounts. For example, refunding a credit balance to a customer is a two-step process in Oracle. First, you have to write off the balance in AR. Then, in AP you have to enter an invoice and make the payment to the customer. If these transactions aren't completed in the same period, there will be a

reconciling entry at month end. To best identify the nature of this reconciling entry, you could set up a suspense account in your GL to isolate these transactions.

Finally, take advantage of automation tools to help you monitor your controls. Use the system's workflow mailer, request sets, or advanced features in their personal home page to monitor information key to your control environment.

Criticality of Change Management Process

While change management practices have always been important, SarbOx has dramatically increased the need for an effective change management process. For example, when a new family pack is applied internal controls and process documentation need to be reviewed, new setups introduced in the family pack need to be documented, and process documentation (desk manuals) need to be updated. In addition, traditional change management issues still need to be addressed such as test plans, a training plan, a communication plan, a transition plan, and a contingency plan.

Overview of technical nature of applications

To effectively provide a quality control environment, you must first have an understanding of the overall system. The system is made up of three layers – a database layer, an application layer, and a presentation layer. *The database layer* holds your data and is made up of hundreds of interconnected tables. *The application layer* is the brains of your system and provides the application logic. This layer contains the rules and regulations of the application. This layer also dictates which forms are used in the procedures. *The presentation layer* is what the user sees as they interact with the system.

Conclusion

Often times, once an implementation is complete, the fallout from poorly designed controls is evidenced by lengthy or problematic month end reconciliations, audit adjustments, and management letter comments. Being a student of YOUR Oracle Financial system is critical to your success and the credibility of your company's financial reports.

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