

Vendor Onboarding Management & Compliance Survey

Conducted by:
InvoiceInfo
and
IRSCCompliance



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Introduction

Vendor onboarding is a critical process at the early stages of a vendor relationship. Prior to onboarding the vendor has spent time, in some cases much time, with others in the organization determining the suitability of the vendor's products or services. Onboarding is considered by the vendor, and often by those in the organization who manage the vendor, as an administrative necessity to get the vendor in the payables database to facilitate payment. In fact, IRS regulations and many U.S. states require that U.S. organizations comply with these requirements to properly identify and document any payee *prior to issuing any reportable payment* to determine what – if any withholding taxes are required to be applied to any such payments.

There is much more to onboarding, though, than entering names and addresses into the vendor file. Assuring compliance with IRS regulations, Treasury Department regulations, data accuracy, corporate payment and other initiatives should be addressed in the onboarding process to prevent omissions and errors that create exception items downstream that are both expensive and increase the risk of being out of compliance. How this is handled affects the tone of the relationship with both the vendor and the vendor relationship manager. In addition, vendor onboarding processes including verification and compliance have become boxes to be checked off by internal audit.

Failure to implement and maintain a sound practice to properly document vendors/payees can result in IRS and state audits, penalties and financial liabilities for withholding taxes that were not applied and deposited with the requiring tax agencies.

InvoiceInfo and IRSCompliance surveyed 61 organizations of all sizes and industries. The survey reveals best practices, processes and insights into how organizations handle new vendor onboarding/registration and information reporting management and compliance.

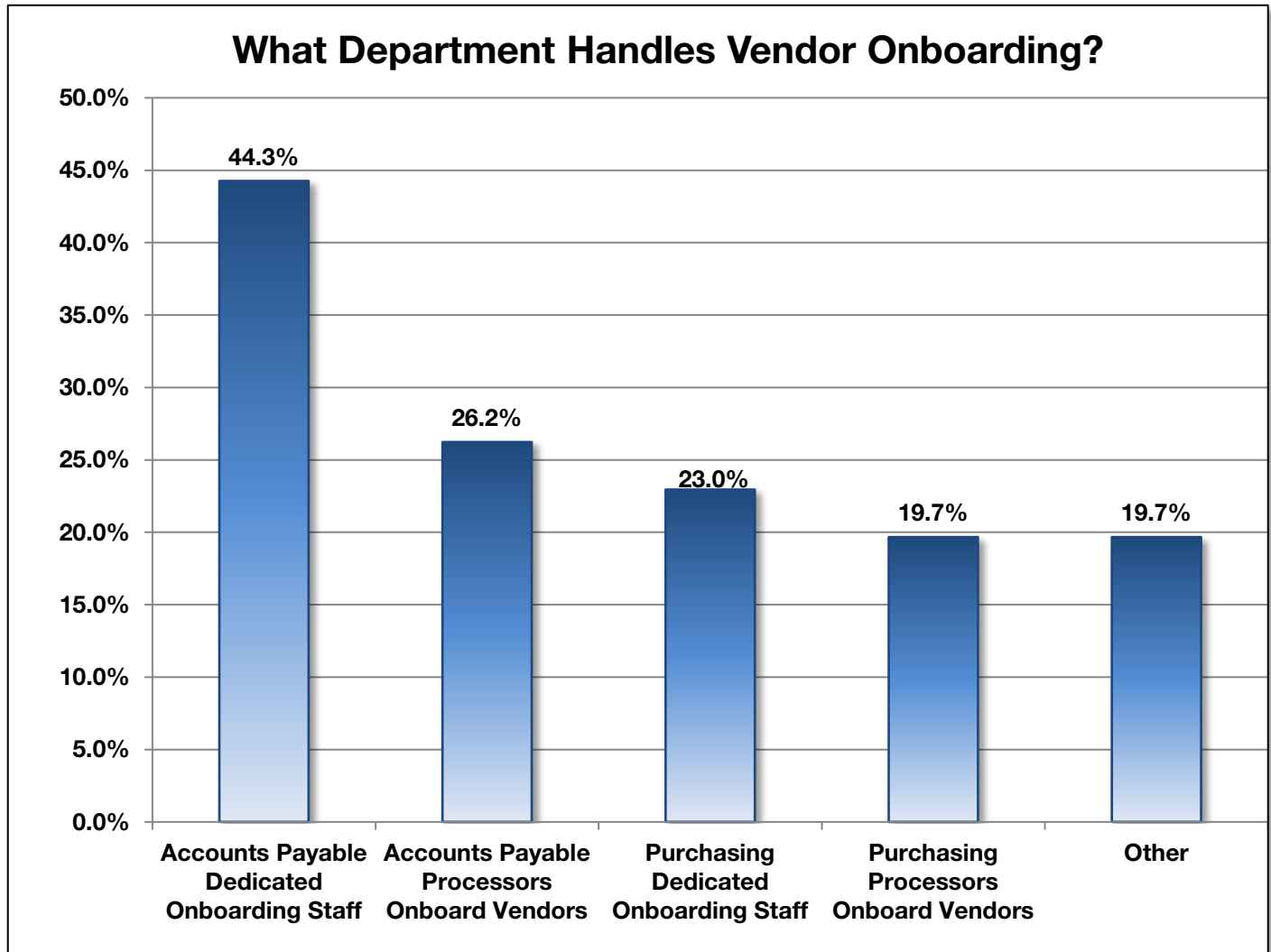
Study Summary

- When asked which department handles vendor onboarding/registration, the majority, who were asked to select all that apply, said that AP is responsible (70%), 43% said purchasing handles and 20% said other.
- The majority of participants have a policy in place to accurately identify the payee as a U.S. or a Foreign entity (82%).
- In response to the question, “Which area determines the payee’s tax status,” 69% responded that accounts payable handles it; 13% said that the tax department handles; 10% said purchasing handles and 8% responded it is handled by the business area.
- When asked to describe the current process for onboarding a new U.S. vendor, the clear majority (69%) onboard new vendors manually and 77% onboard new foreign vendors manually.
- When asked what information is sent to new vendors, again asking them to check all, the most popular answer was W-8 and W-9 forms (67%), followed by new vendor forms (43%), welcome letter (30%), “how to work” with us information (21%) and how to use the vendor self-service portal (13%).
- The majority of respondents indicate that accounts payable is responsible for the vendor master file (69%), 13% say purchasing is responsible and the remaining 18% said other.
- The IRS TIN Match program, available for the past decade, is now used by 61% of respondents to validate vendor tax ID numbers.

- Meanwhile just 54% are checking their vendors against the OFAC SDN list.
- Fifty-seven percent of respondents reported that it takes between 10-30 minutes to onboard a new vendor.
- The majority of respondents (48%) spend less than 10 minutes on profile changes, while 35% spend 10-15 minutes, 12% spend 16-30 minutes and 5% spend more than 31 minutes.
- Most survey participant organizations require multiple levels of approval (54%) for onboarding new vendors. For those that do require multiple levels, 52% require two levels, 30% require three levels, 9% require four levels and 9% require more than four levels.
- The majority (67%) of survey respondents do not have an automated workflow process for approving new vendors. For those that do, 65% have purchased software or a service, while 35% have developed an in-house solution.
- The majority of participants (63%) validate new vendors prior to purchasing from them.
- The majority of respondents (91%) require a completed W-9 or W-8 prior to payment.
- The majority of participants (61%) have a process in place to identify when Federal and State withholding is required on payments to be issued.
- When asked if their department has been pressured to improve the onboarding efficiency for better compliance with Federal and State regulations regarding payees and payments, 68% of respondents said no, with only 32% saying yes.
- Participants are trained primarily by attending webinars, with attending conferences coming in second.
- Most of the respondents (41%) do not track more than the vendor's state, such as where the service is performed or where the rental property is located or where the money was earned, while 32% do track and 27% were not certain.
- The majority of respondents (82%) have not been audited by the IRS for review of compliance with respect to accurately documenting and validating payees. That means that nearly one in five participants have been audited.

What Department Handles Vendor Onboarding

When survey participants were asked what department handles vendor onboarding in their organizations, 44% responded that dedicated onboarding staff in accounts payable handle it; 26% said that accounts payable processors are responsible; 23% said that dedicated onboarding staff within purchasing are responsible; 20% said that processors within purchasing handle onboarding; and 20% said other. Note that participants were asked to check all that apply so there is duplication in some instances.



Of those that replied “Other,” here are some of the responses:

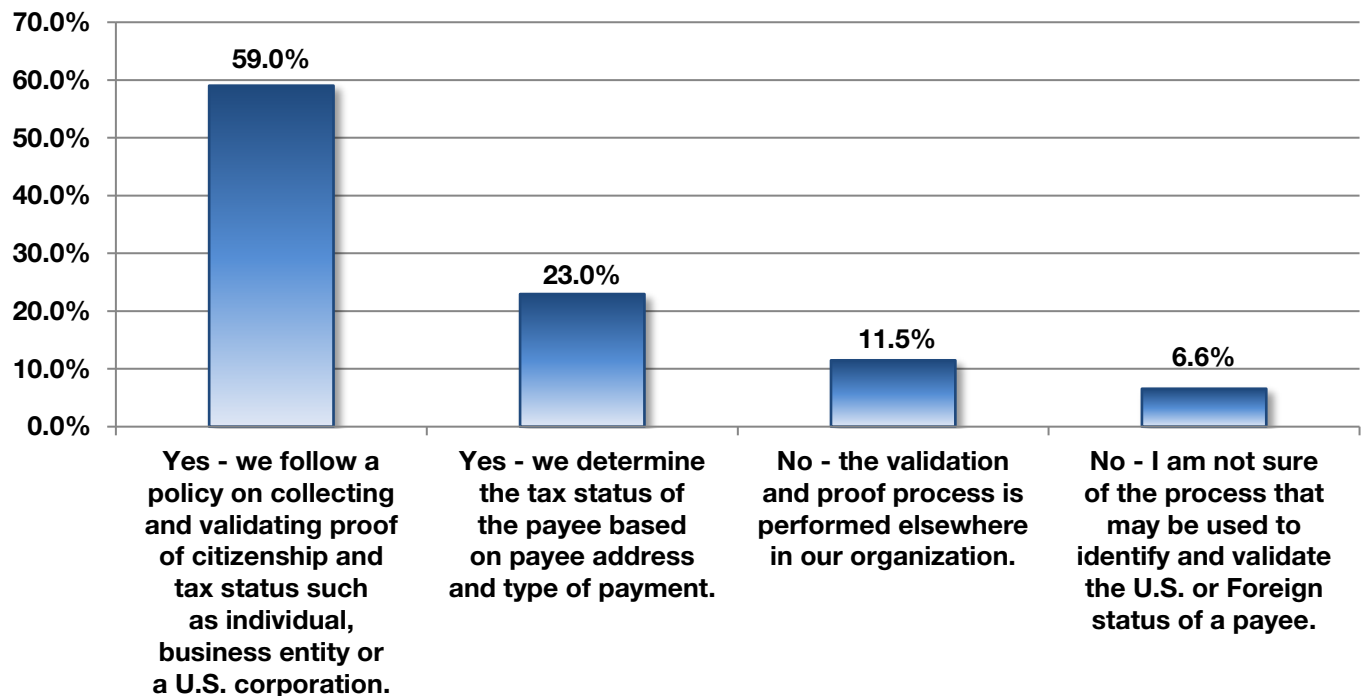
- Compliance department
- A data management group that establishes all vendors and customers
- Vendor master department
- Treasury operations
- Vendor management specialist
- Sourcing
- Accountant
- Master data management
- Separate team to AP, AR and purchasing
- Separate supplier governance department
- AR and AP setup separate from both and purchasing
- Master data governance, under P2P organization
- Operations and engineering participate in vendor discovery and selection

Determination of the Payee's Tax Status

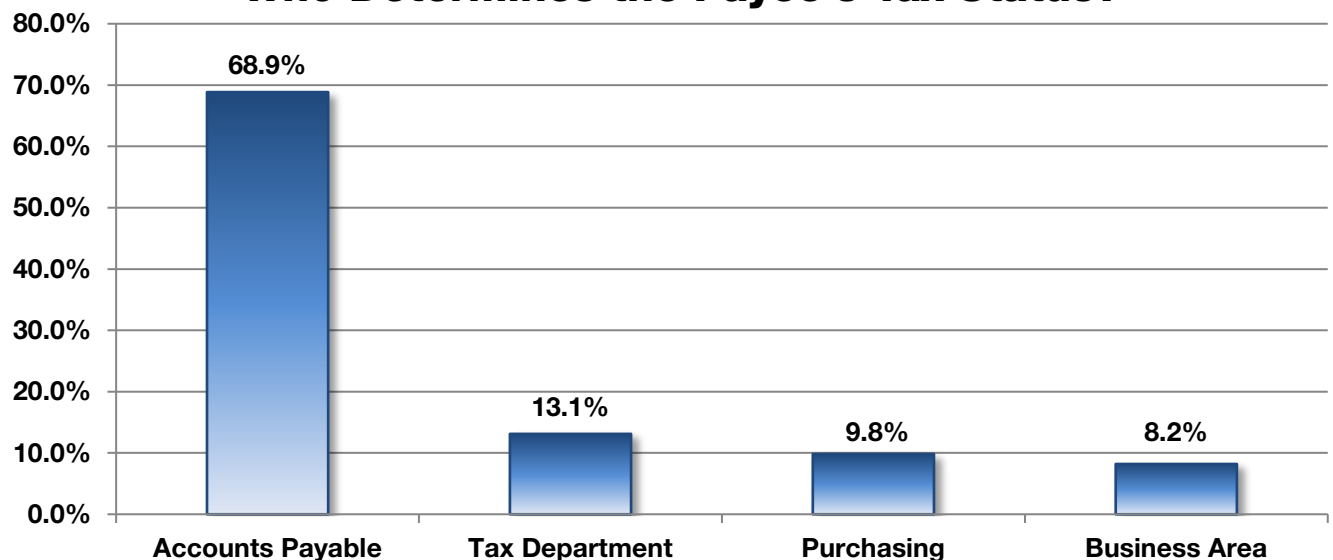
When onboarding a vendor, the majority of the survey respondents said that they have a process in place to accurately identify the payee as a U.S. or Foreign individual or corporation (82%).

In response to the question, "Which area determines the payee's tax status," 69% responded that accounts payable handles it; 13% said that the tax department handles; 10% said purchasing handles and 8% responded it is handled by a business area.

Does AP Have a Process in Place to Accurately Identify the Payee as a U.S. or Foreign Individual or Corporation?

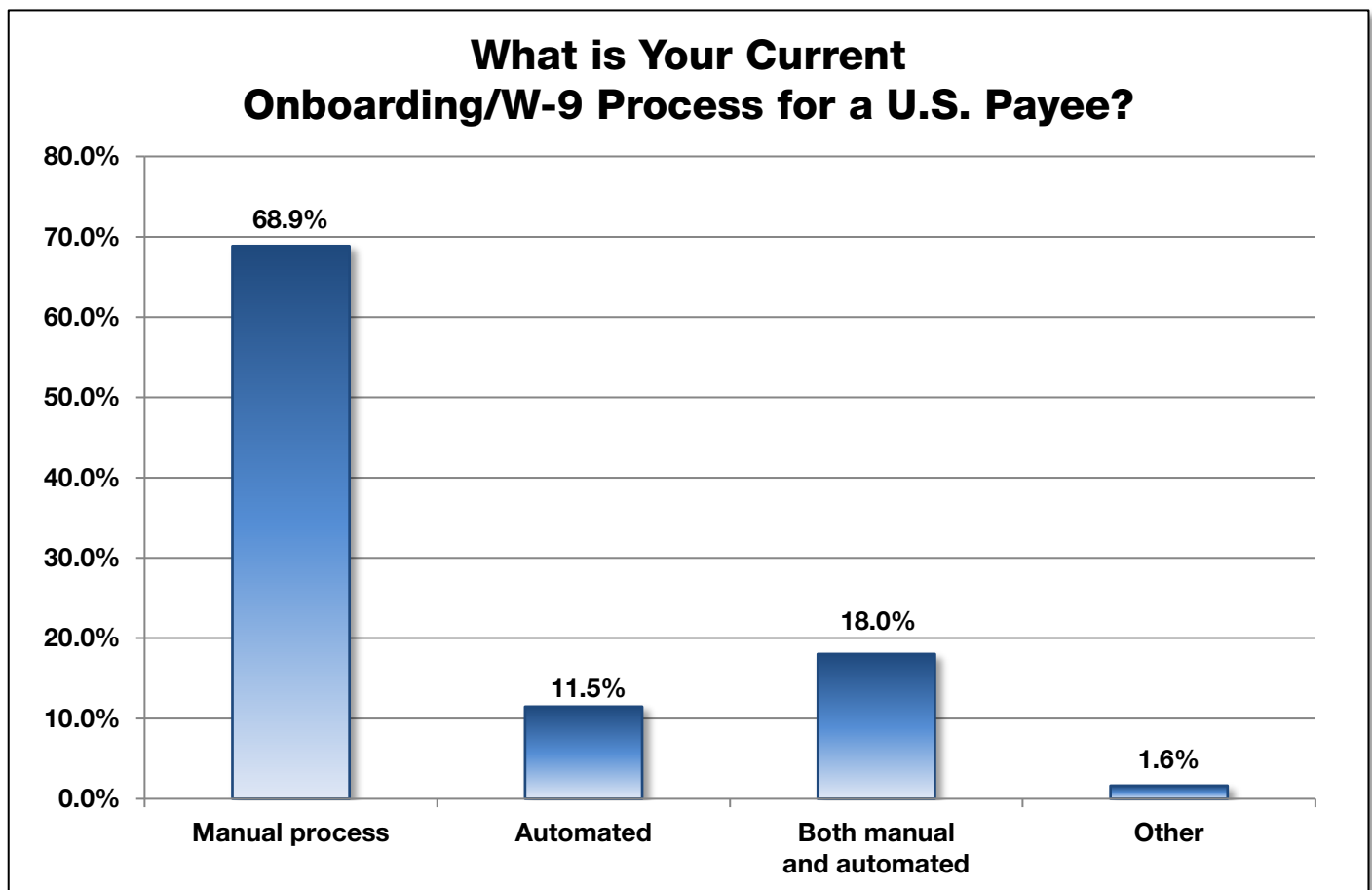


Who Determines the Payee's Tax Status?



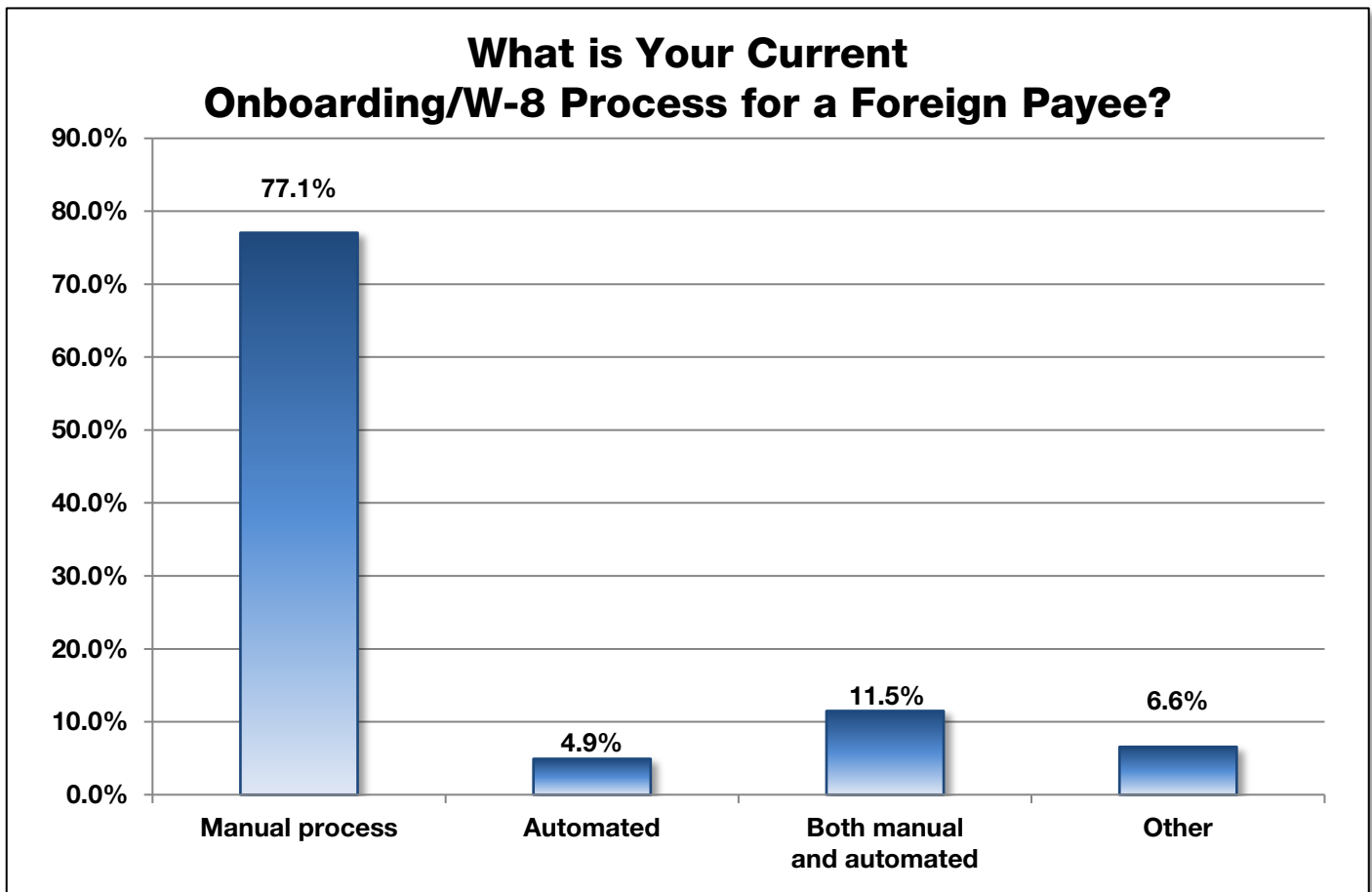
Onboarding/W-9 Process for U.S. Payees

When asked to describe the current process for onboarding a new U.S. vendor, the majority of the respondents (69%) said that they have a manual process; 11% have an automated process, 18% have both manual and automated and 2% said other.



Onboarding Foreign Payees

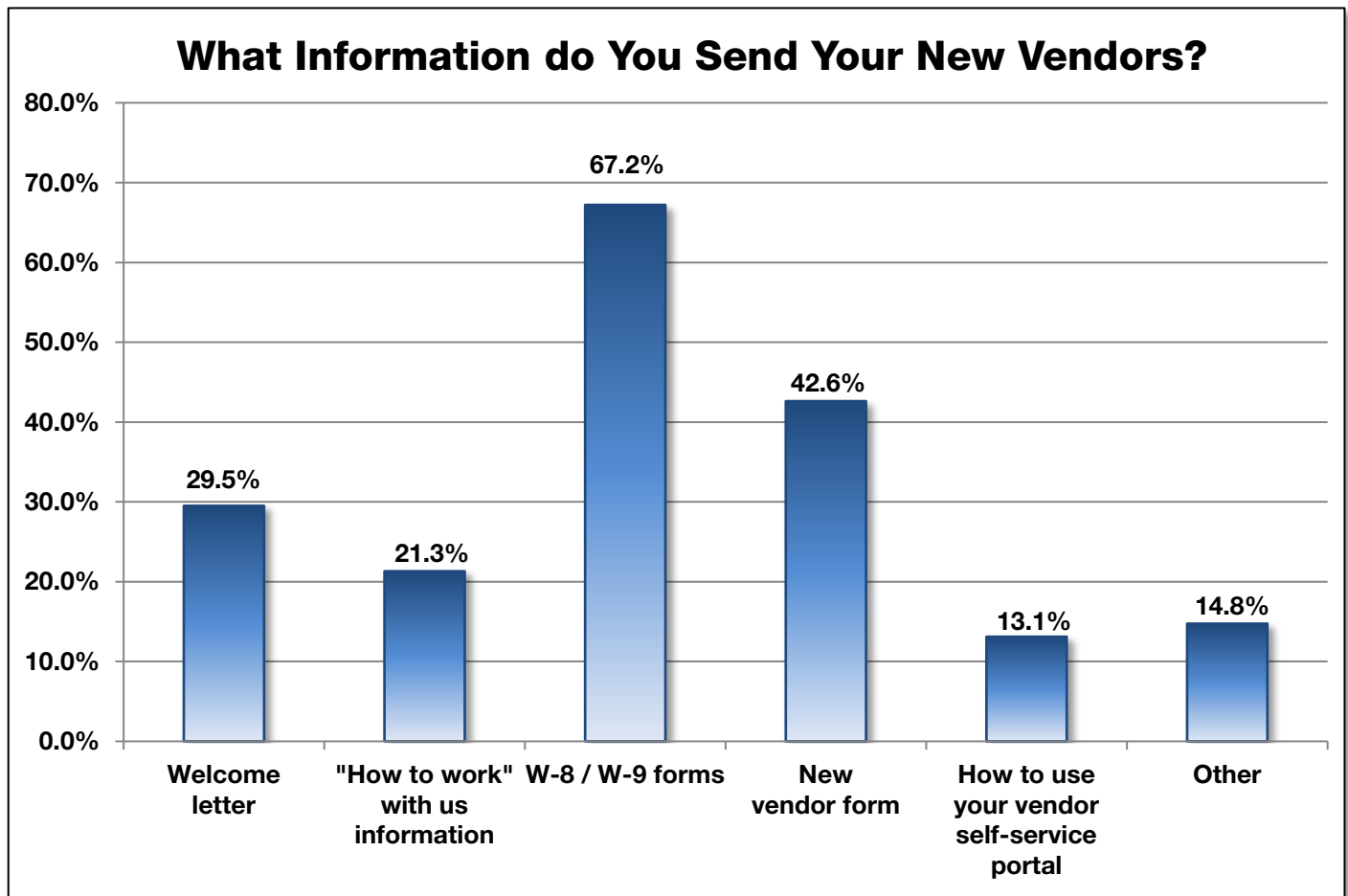
Participants were asked to describe how they currently onboard and handle W-8s for foreign payees. Similar to U.S. payees, the clear majority of respondents (77%) have a manual process, followed by both a manual and automated processes at 11%; an only automated process (5%) and 7% said other.



For those that replied “Other,” those companies do not have foreign vendors.

New Supplier Information

When asked what information is sent to new vendors, W-8 and W-9 forms was the most popular answer at 67%, followed by a new vendor form (43%), welcome letter (30%), “how to work” with us information (21%), how to use your vendor self-service portal (13%) and other (15%).

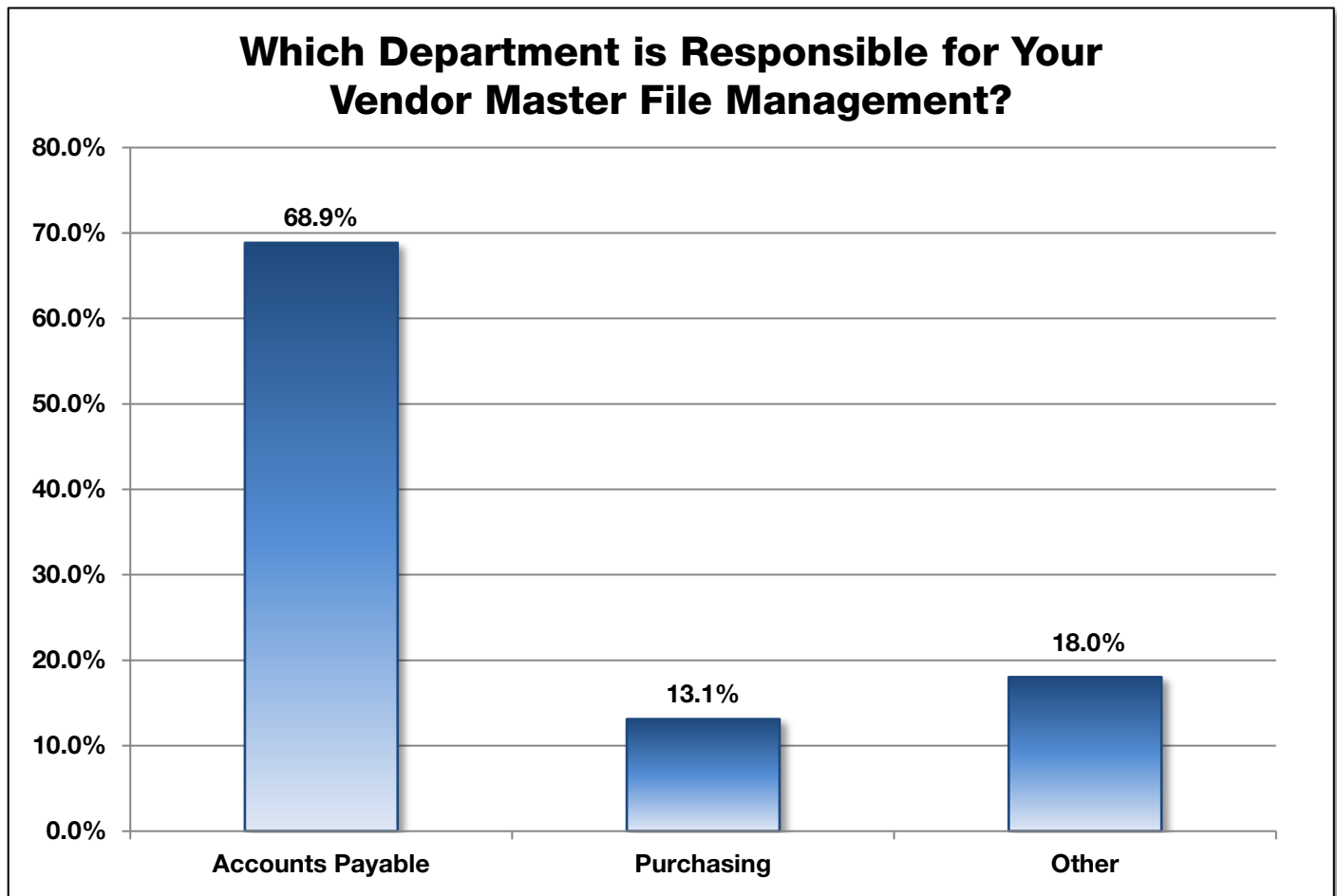


For those participants who said other, here are some of their responses:

- Nothing is sent to the vendor
- Banking information request for ACH payments
- List of requirements and terms
- Minority owned business form

Responsibility for Vendor Master File

Accounts payable best practice dictates that accounts payable should be responsible for the vendor master file, and according to the survey results the majority (69%) of the participants are doing just that. Purchasing is responsible in 13% of participating organizations and 18% said other.

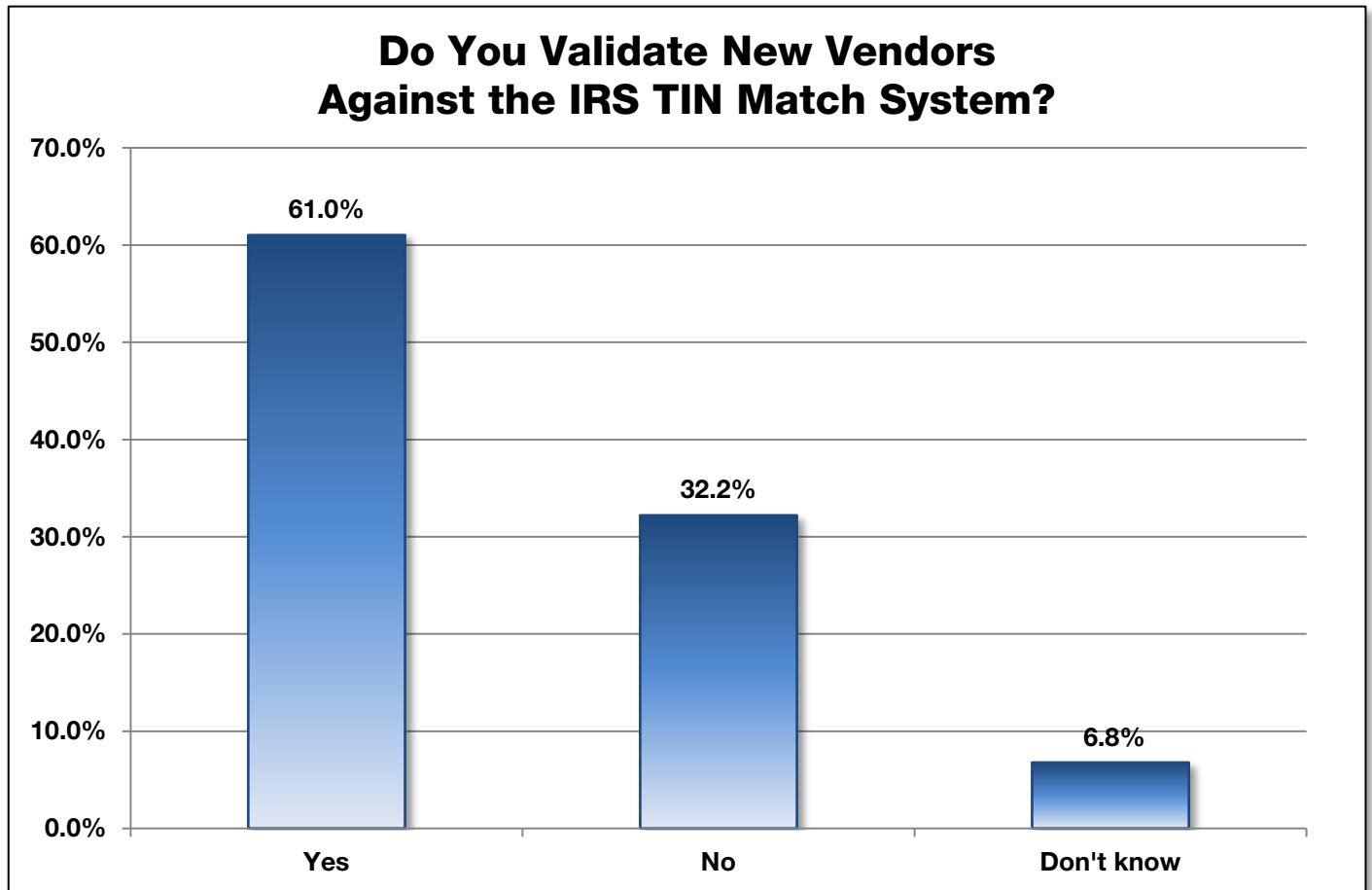


For those who replied “other,” some of the results follow:

- Finance, accounting or treasury operations
- Master data management group (separate from AP, AR purchasing)
- Strategic sourcing
- Supplier governance

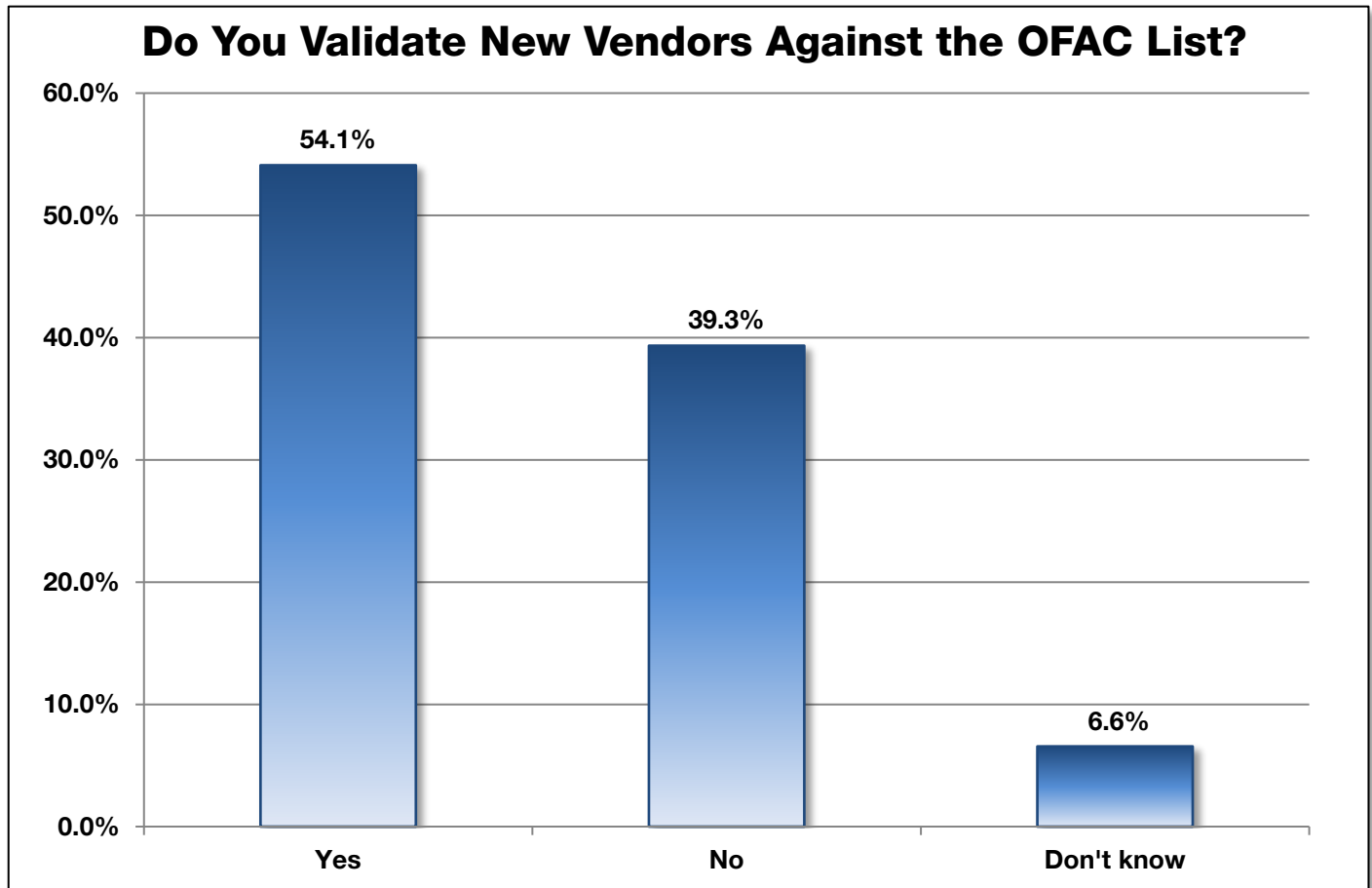
Vendor TIN Match Validation

When asked if new vendors are validated against the IRS TIN match system, 61% said yes, 32% said no and another 7% said they did not know.



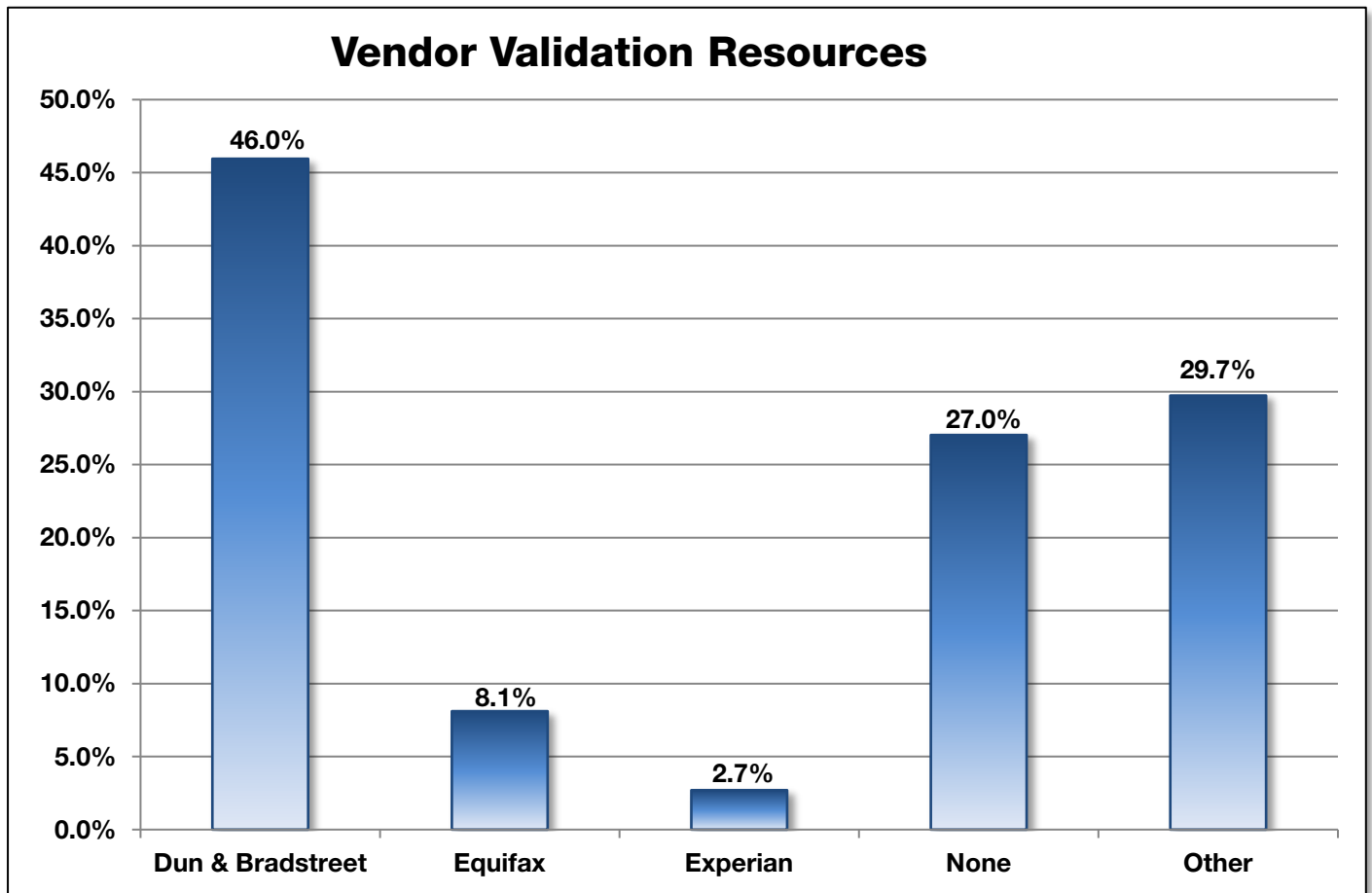
Vendor OFAC Validation

When participants were asked if they validate new vendors against the Office of Foreign Controls (OFAC) list, 54% responded yes, 39% said no and 7% said they did not know.



Other Vendor Validation Tools

Participants were asked to describe all the tools they use to validate vendors other than TIN Match and OFAC validation. Of those that responded, 46% use Dun & Bradstreet, 8% use Equifax, 3% use Experian, 27% use none and 30% said other.

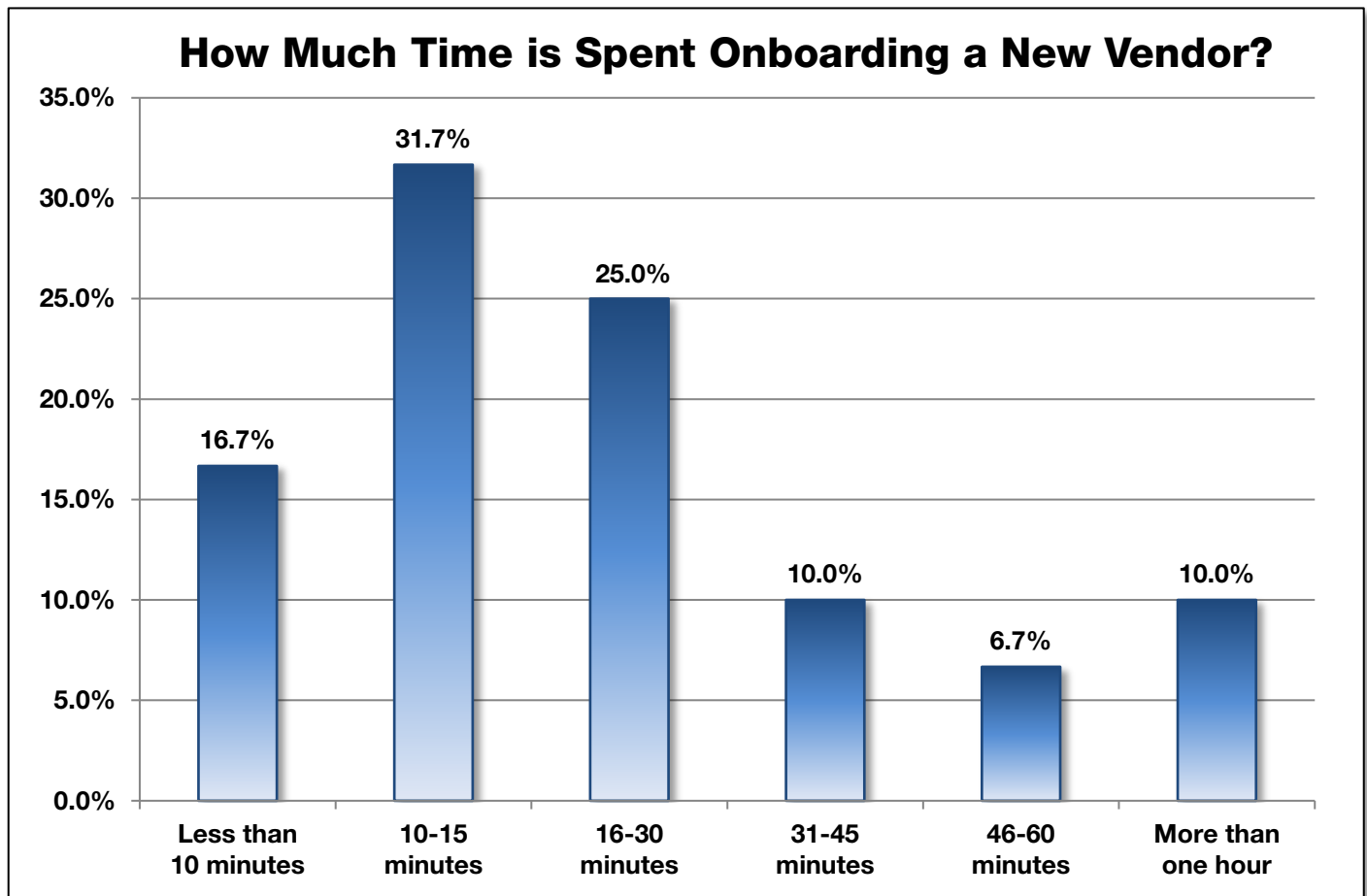


Of those that responded other, here are some of their responses:

- GST Registry
- In-house assessment by master team
- No validation process is followed except the checking of bank details with the vendor
- Not done by AP
- SAM
- Streamline Verify
- Third party
- Thomson Reuters
- TIN Check

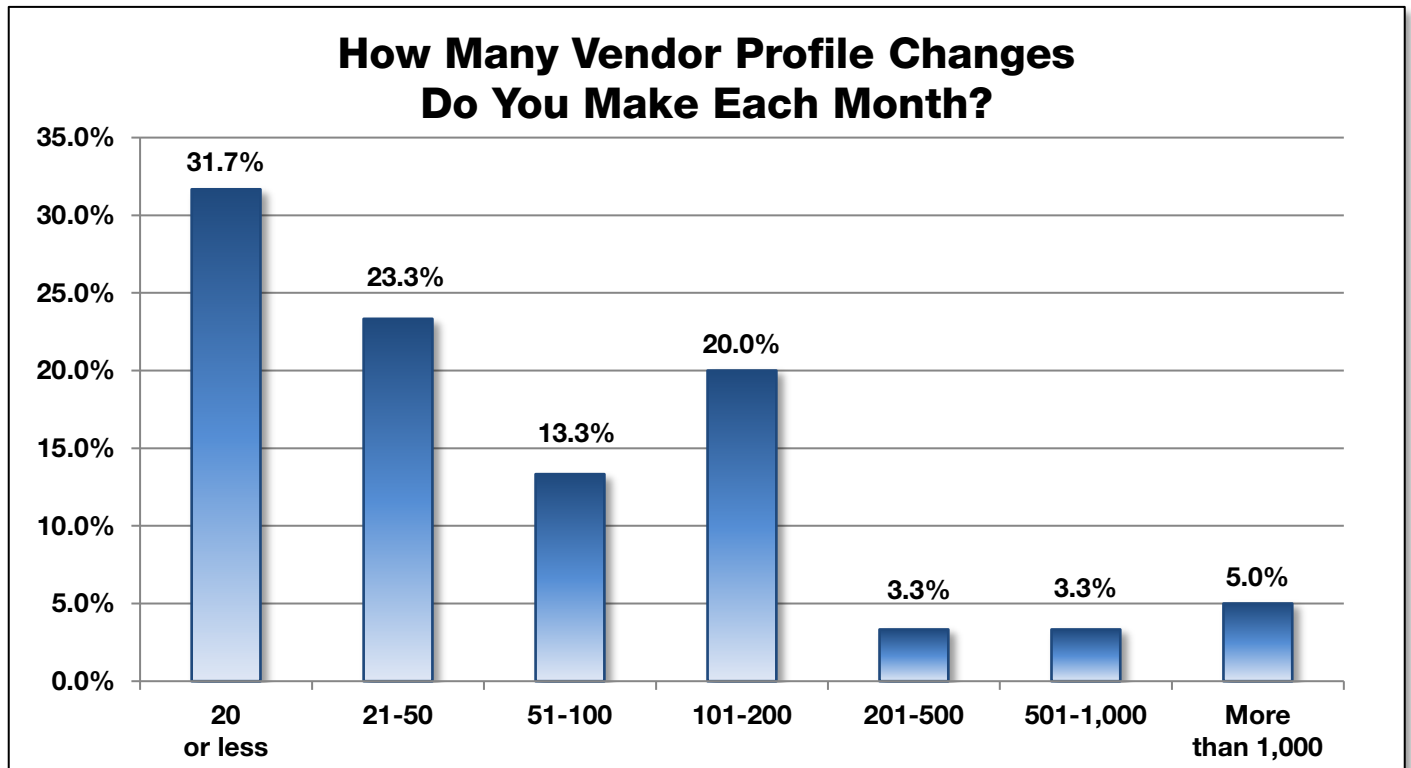
Length of Time to Onboard a New Vendor

When asked how much time is spent onboarding a new vendor, the majority (57%) said it takes between 10-30 minutes, 17% said it takes less than 10 minutes, 16% said it takes between 31-60 minutes and 10% said it takes more than one hour.

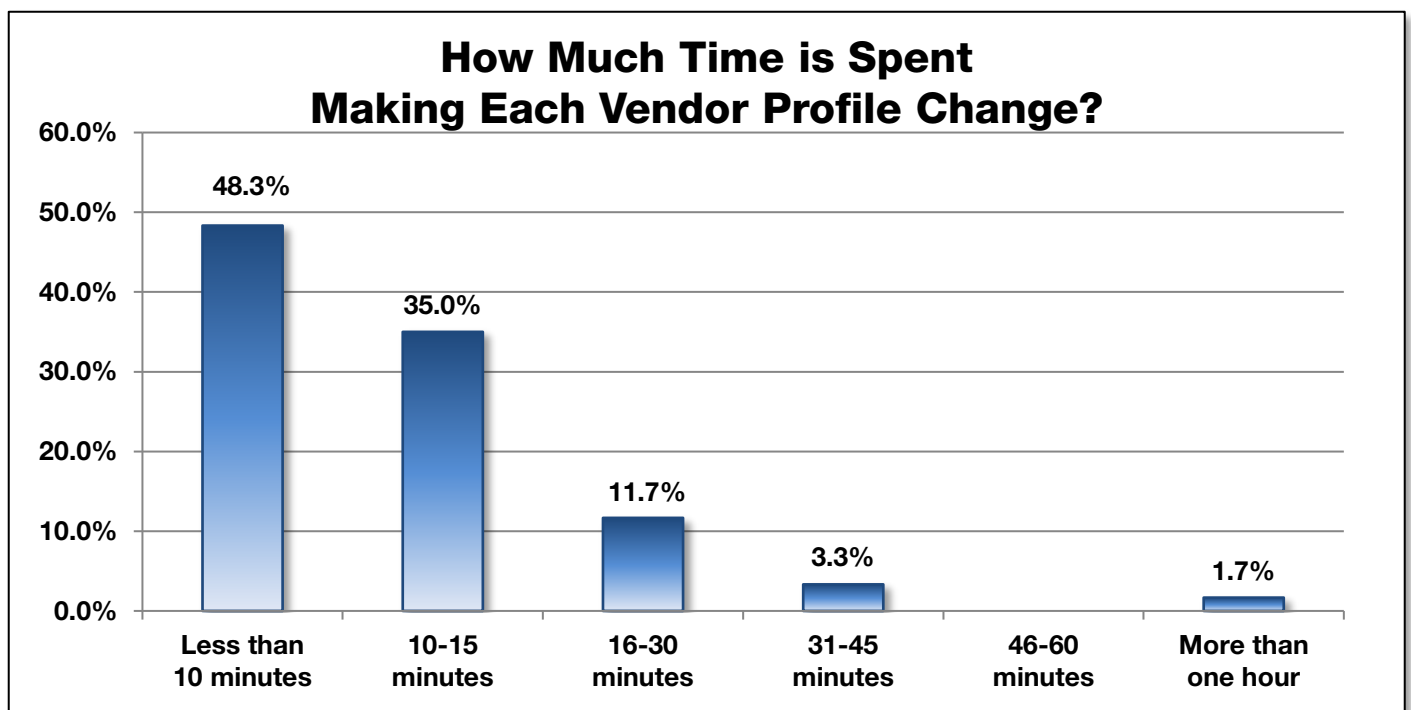


Vendor Profile Changes

When asked how many vendor profile changes are processed each month, 32% responded 20 or less, 23% said 21-50, 20% said 101-200, 13% from 51-100, 20% from 101-200, and 12% process more than 201 vendor profile changes each month.

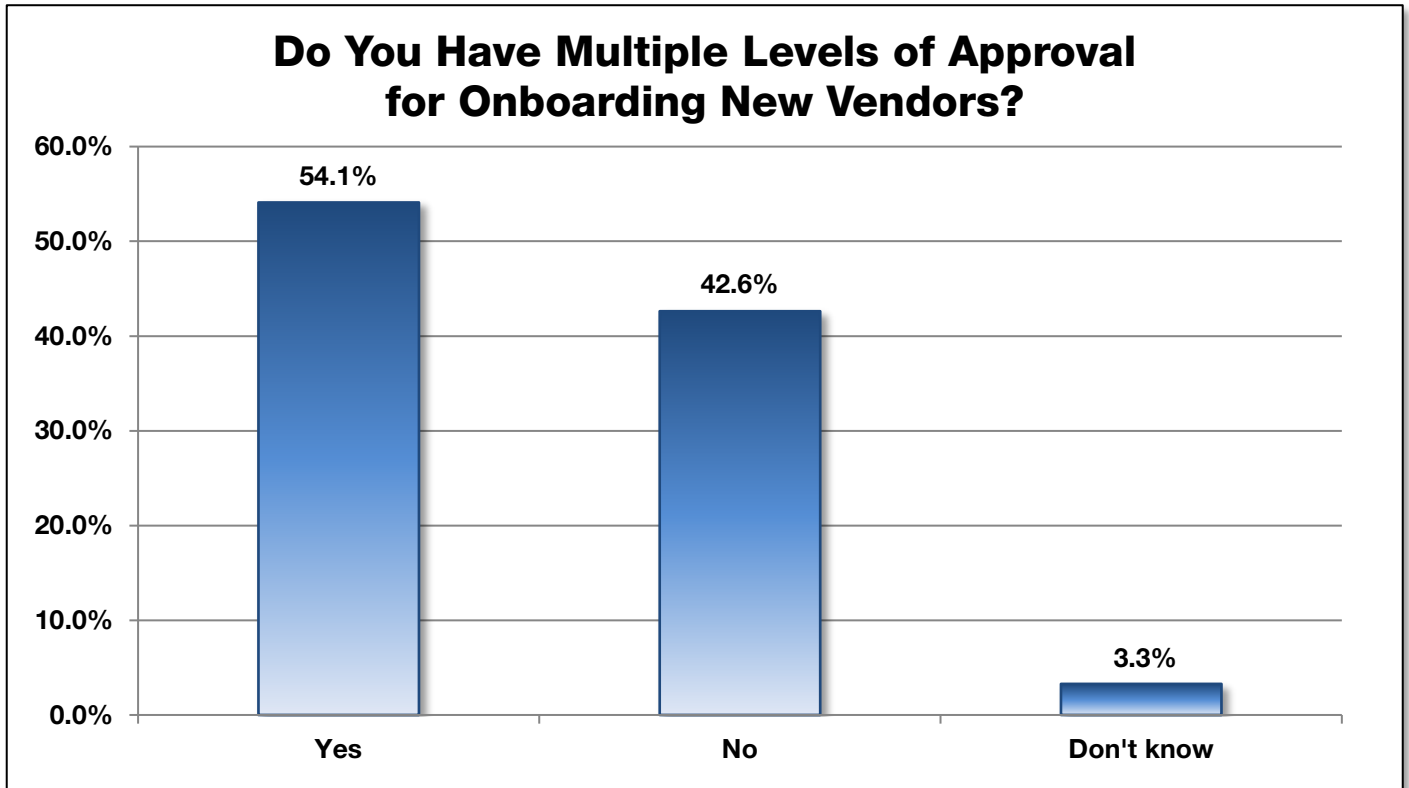


The majority of respondents (48%) spend less than 10 minutes on profile changes, 35% spend 10-15 minutes, 12% from 16-30 minutes and 5% spend more than 31 minutes.

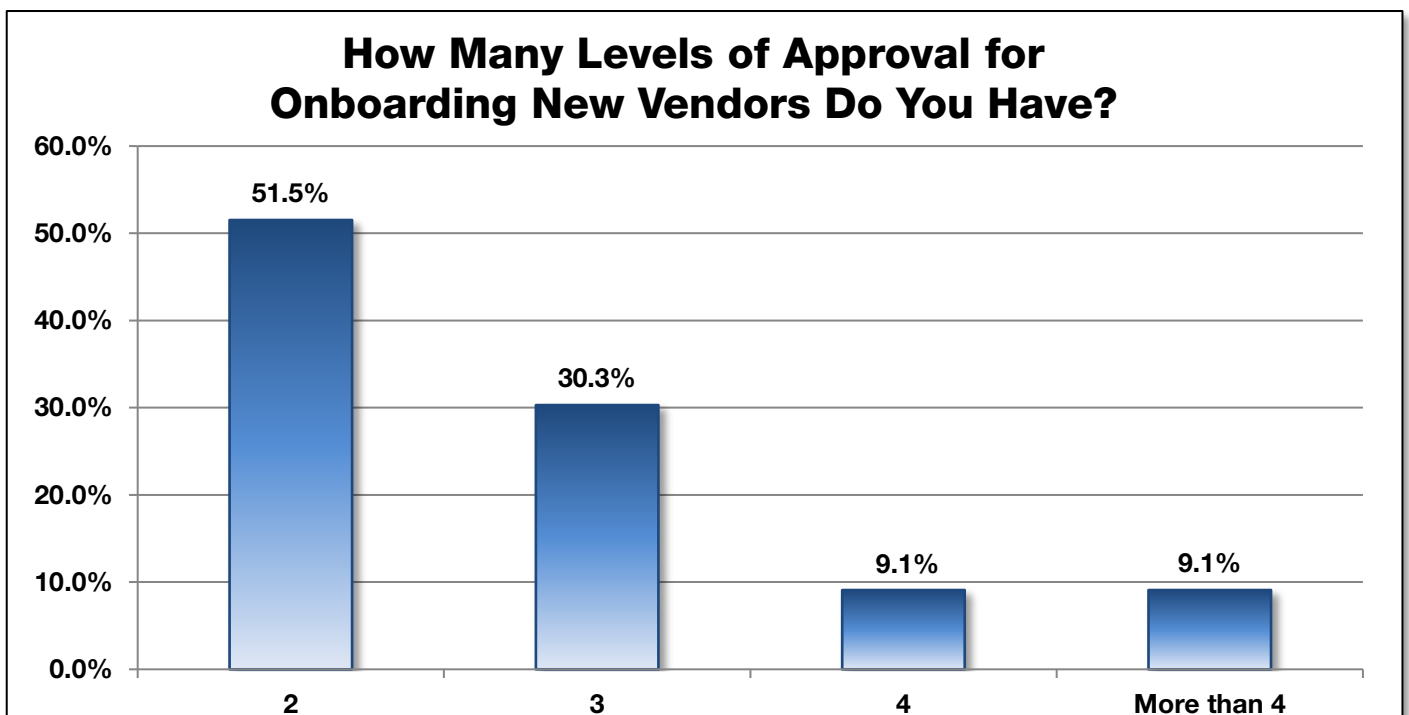


New Vendor Approval

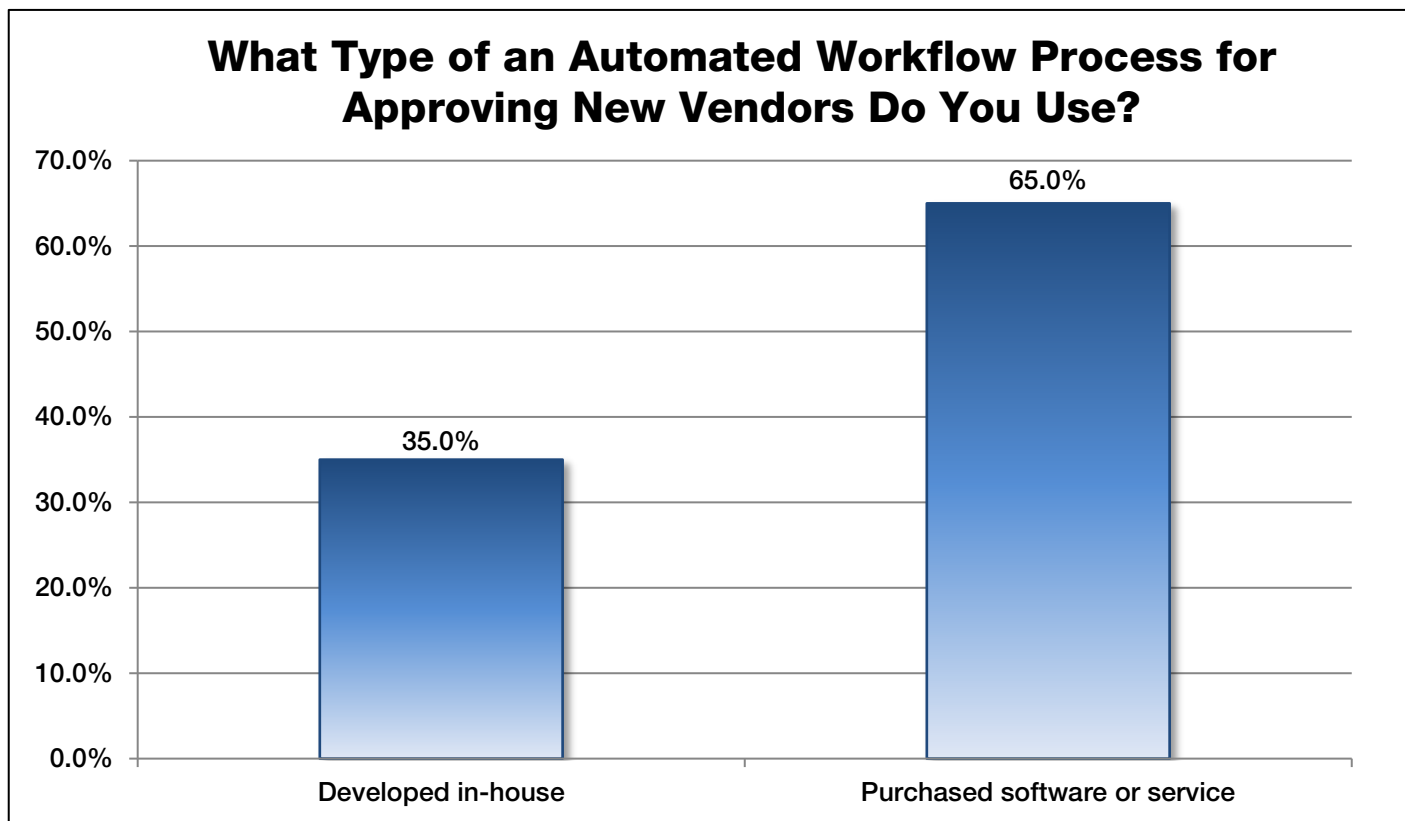
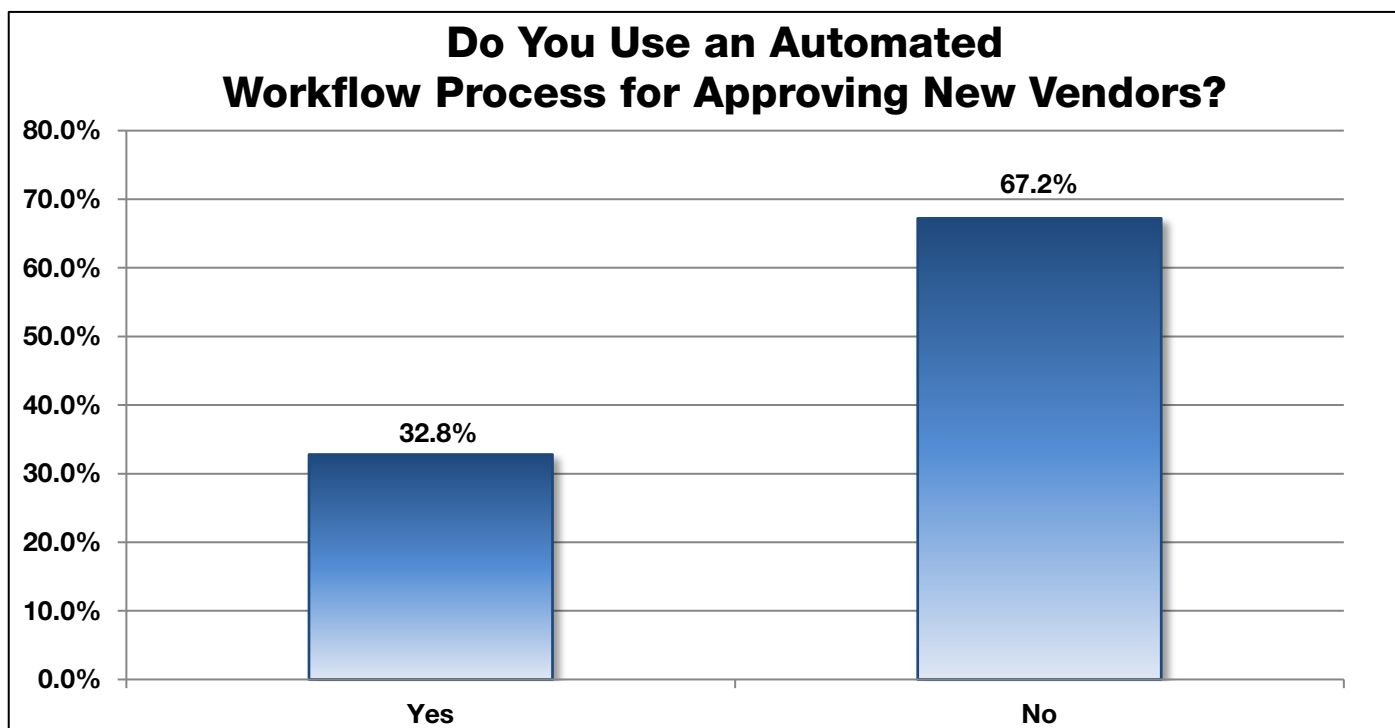
Most participants require multiple levels of approval (54%) for onboarding new vendors, while 43% do not.



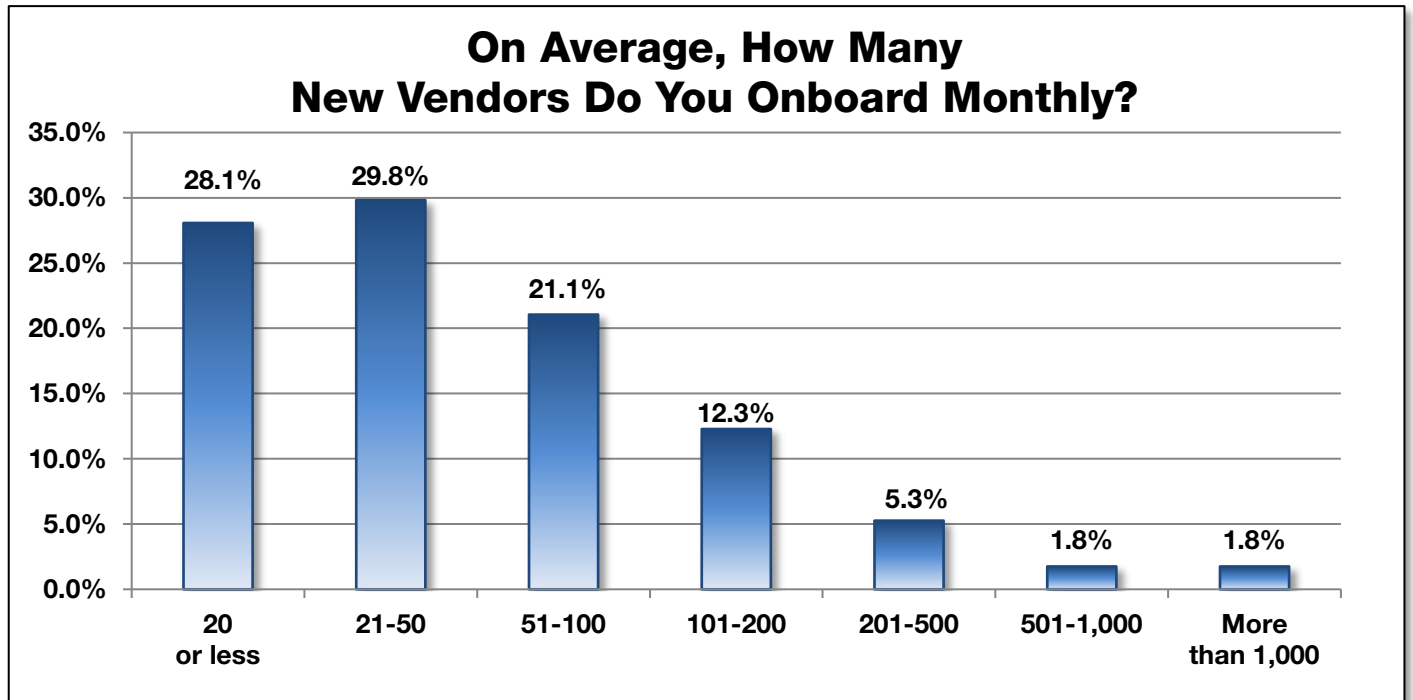
For those organizations that do require multiple levels, 52% require two levels, 30% require three levels, 9% require four levels and 9% require more than four levels.



The majority (67%) does not have an automated workflow process for approving new vendors. But for those that do have an automated process (33%), 35% have developed an in-house solution to handle this, while the majority (65%) has purchased software or a service.

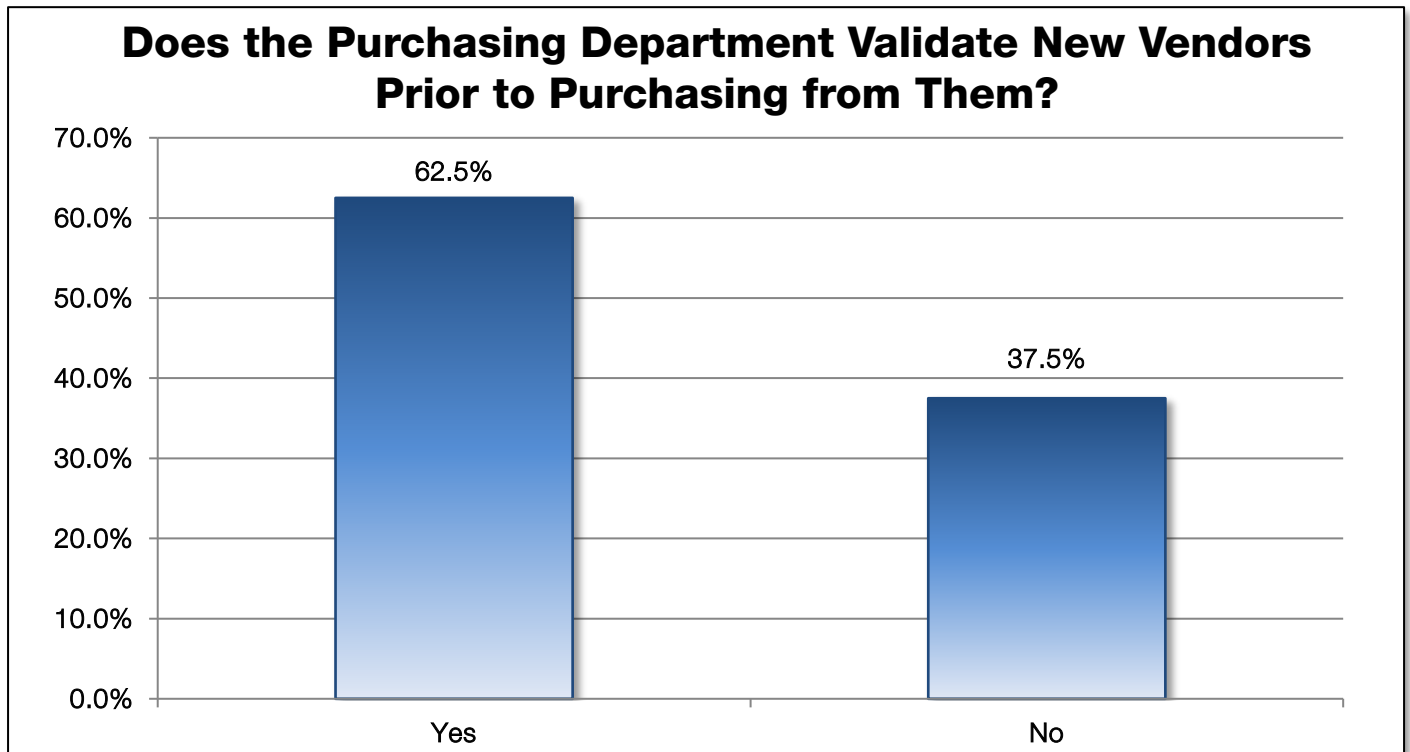


When asked how many new vendors are onboarded monthly, 28% said 20 or less, 30% said 21-50, 21% said 51-200, 12% said 101-200 and 9% process more than 200 new vendors.

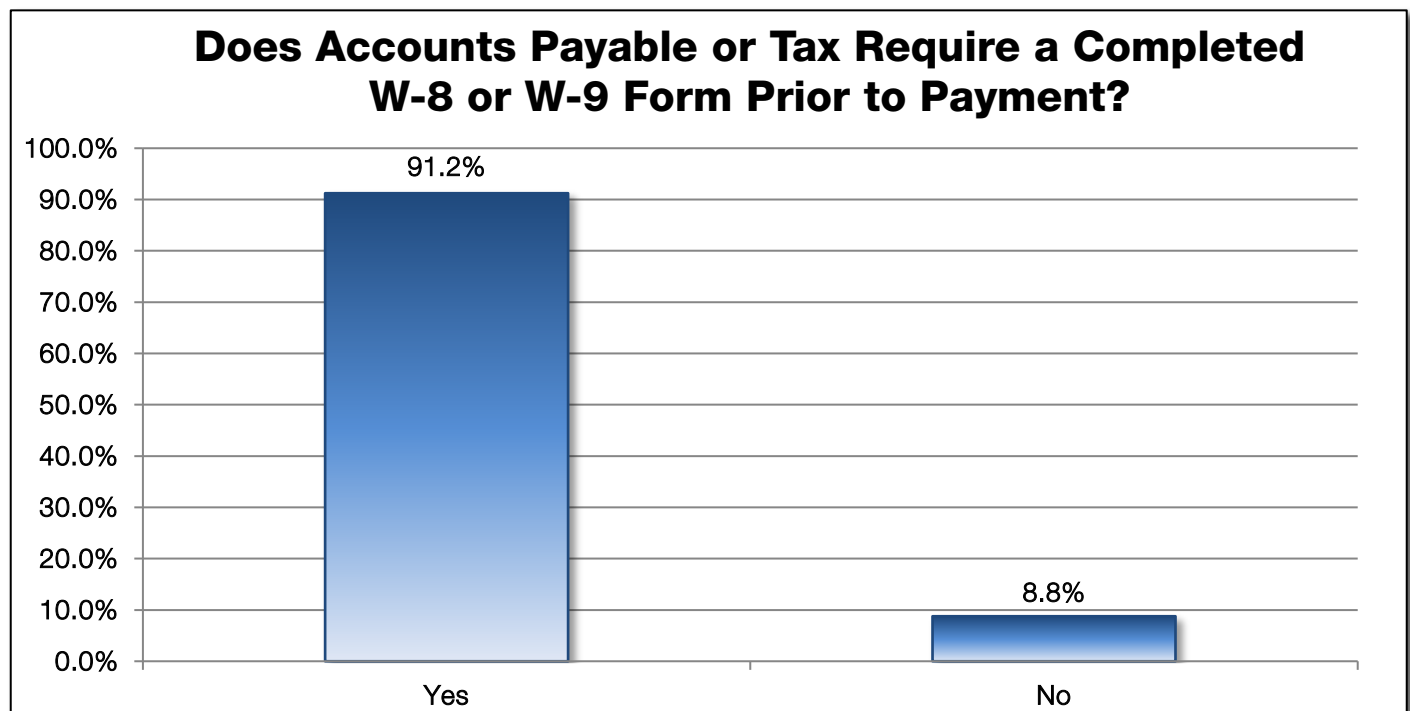


Validating New Vendors

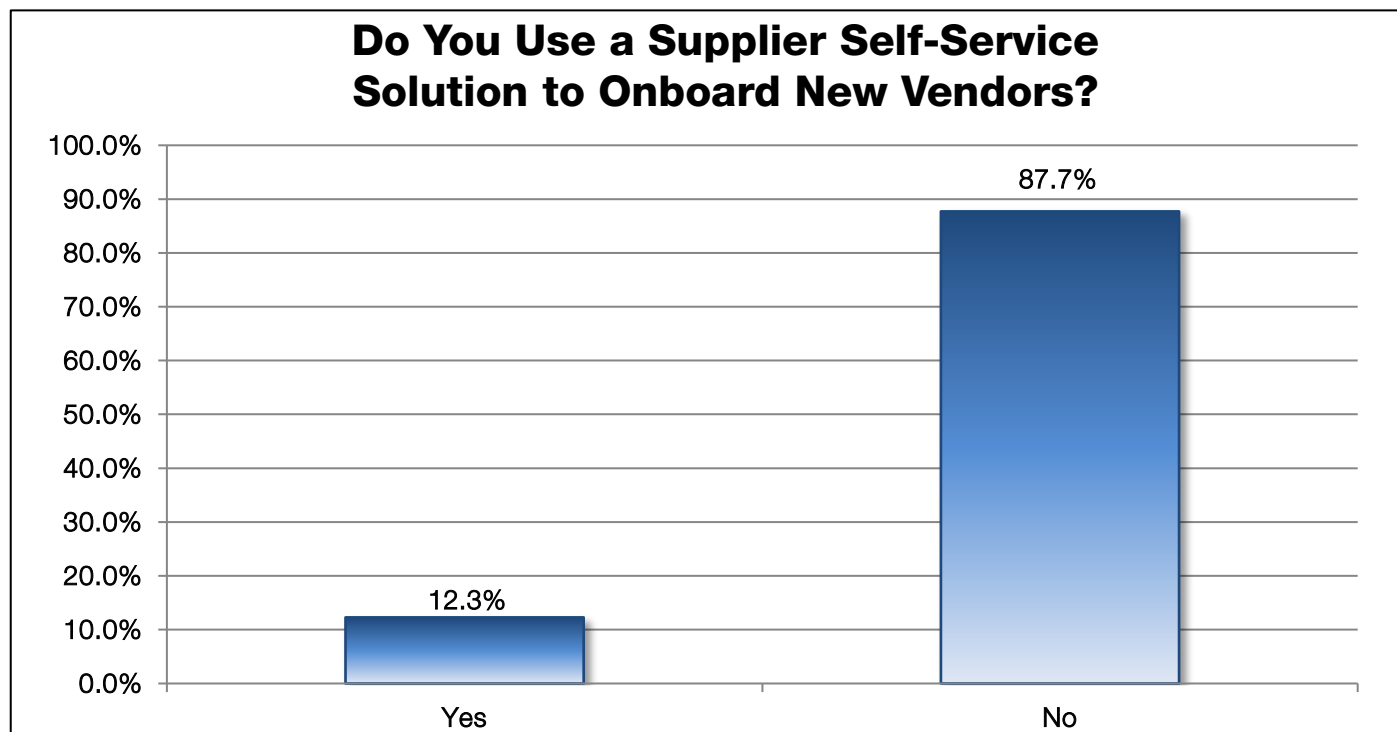
The majority of participants (63%) validate new vendors prior to purchasing from them.



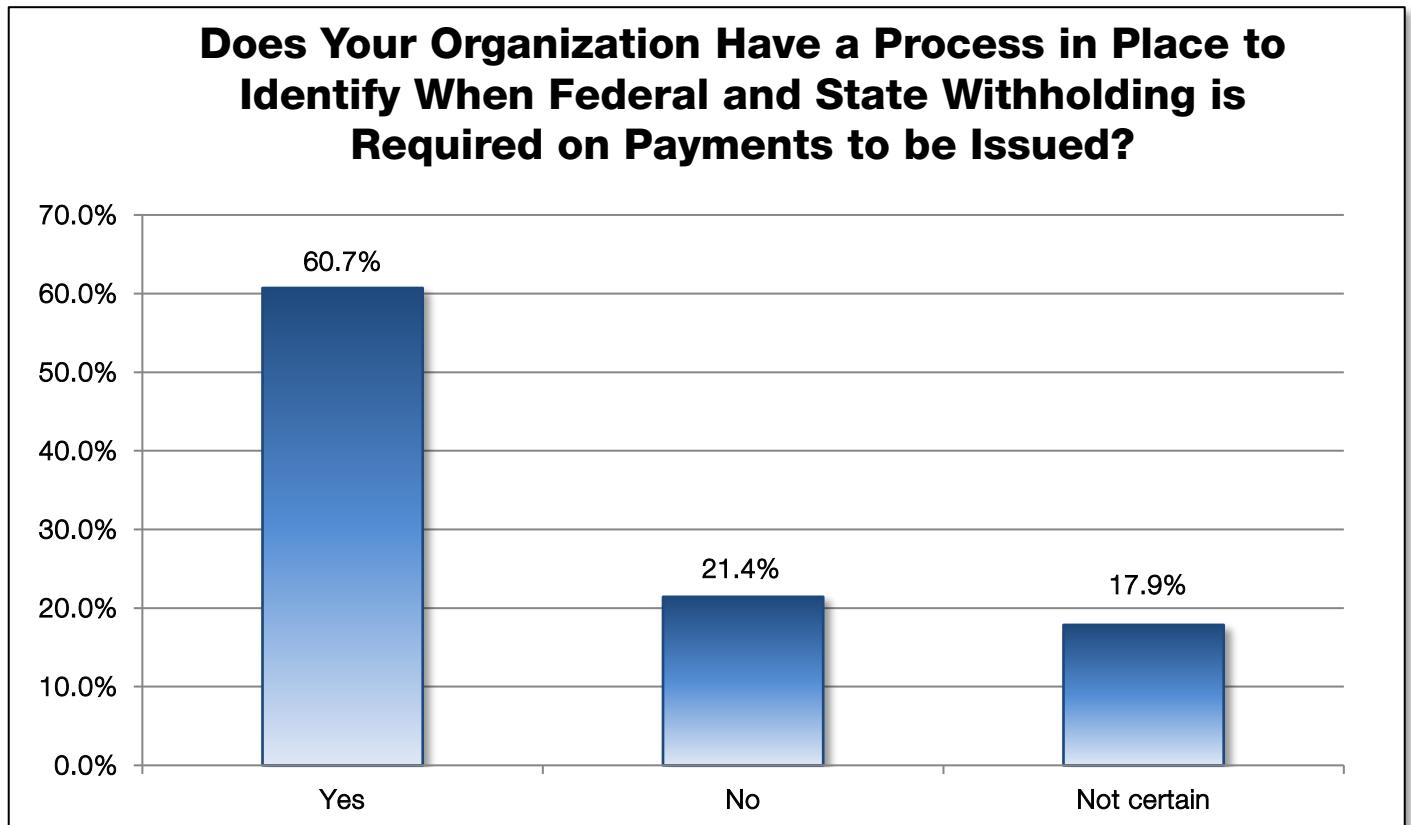
The clear majority of respondents (91%) requires a completed W-8 or W-9 prior to payment and clearly understands how difficult it is to stay compliant after the vendor has already been paid.



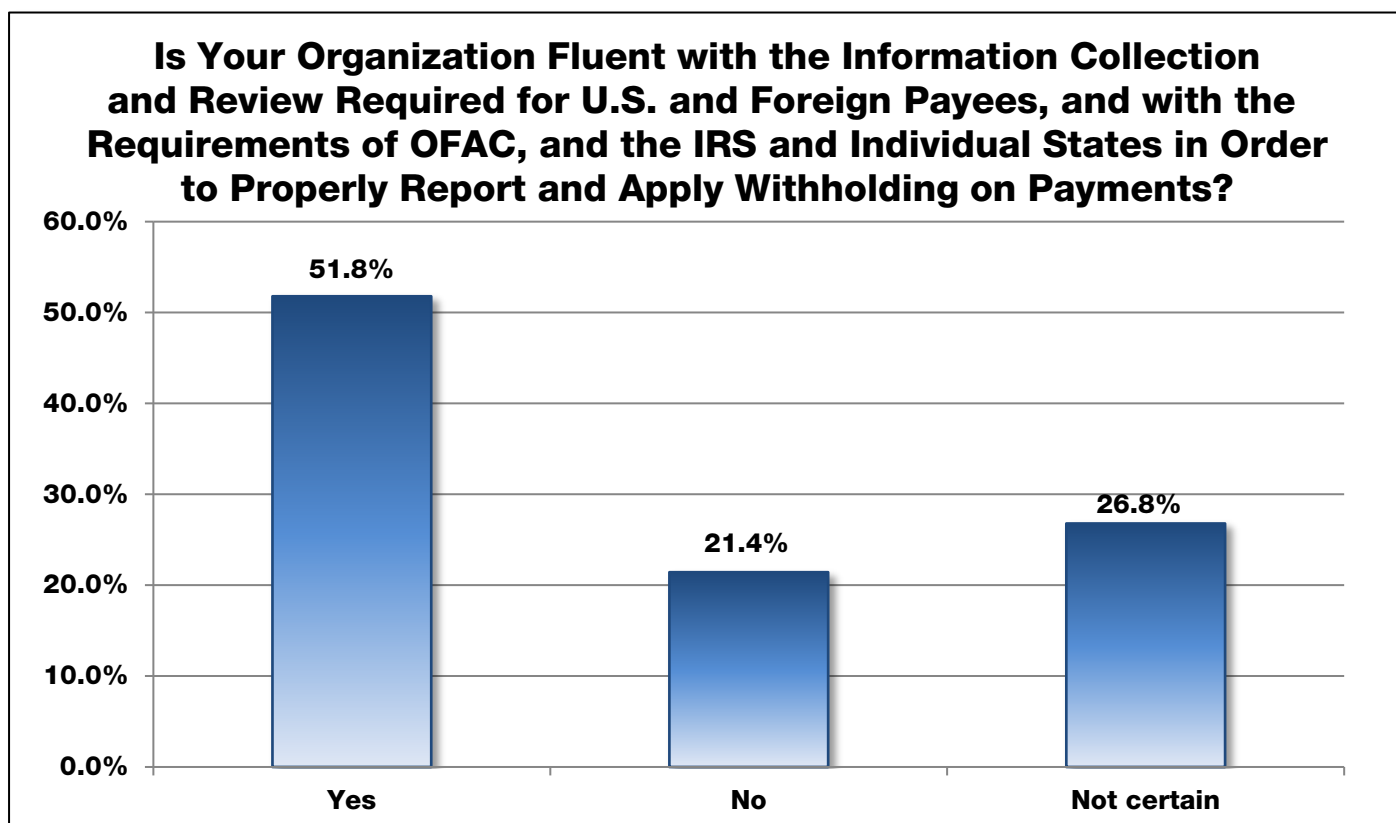
The clear majority (88%) does not use an automated supplier self-service solution to onboard new vendors.



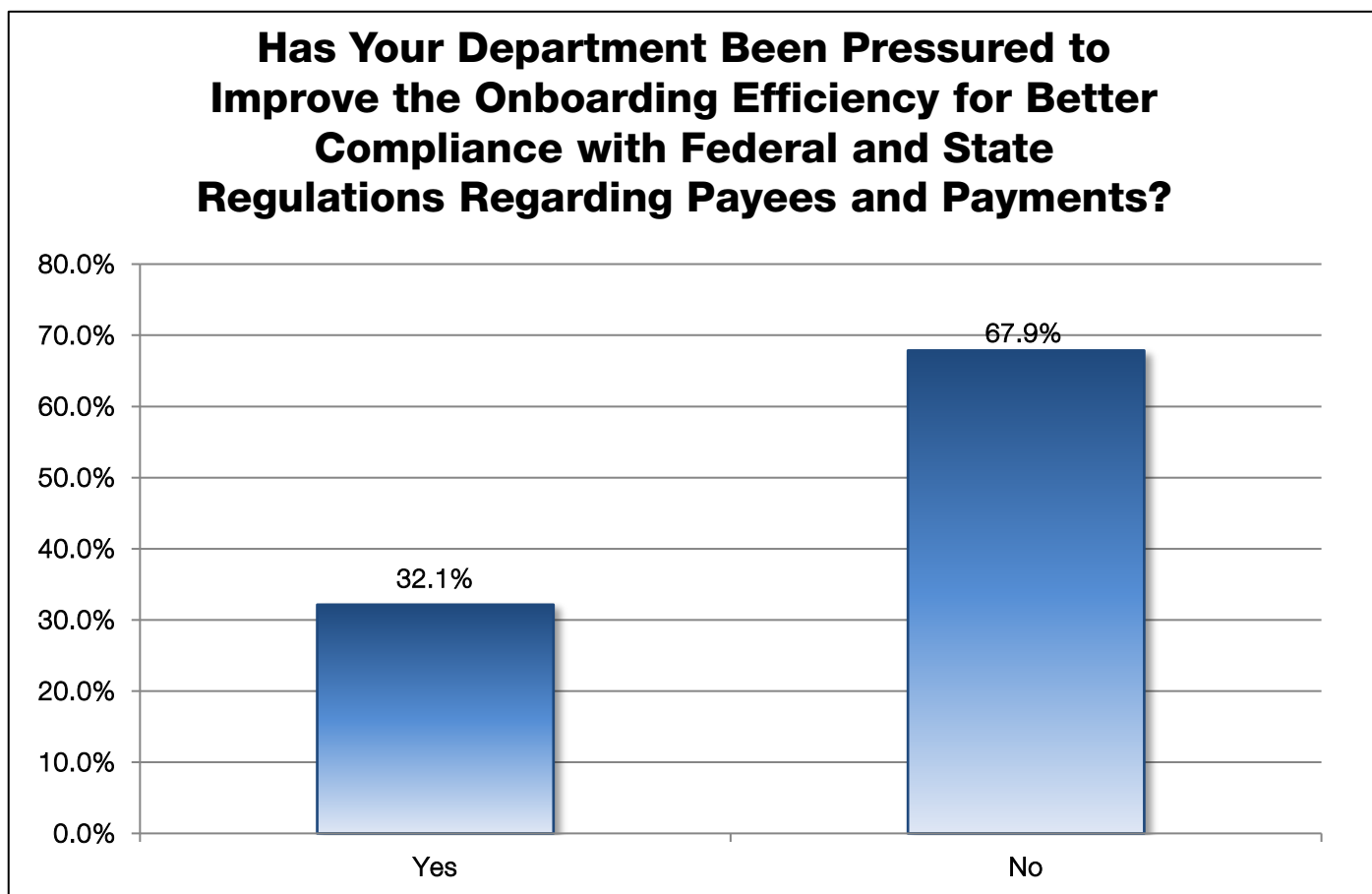
The good news is that the majority of participants (61%) have a process in place to identify when Federal and State withholding is required on payments to be issued, 21% do not have a process in place and 18% do not know if they do.



When asked if their organization was fluent with the information collection and review required for U.S. and foreign payees, and the requirements of OFAC and the IRS and individual states in order to report and apply correctly, only 52% said yes, while 21% said no and 27% were uncertain.

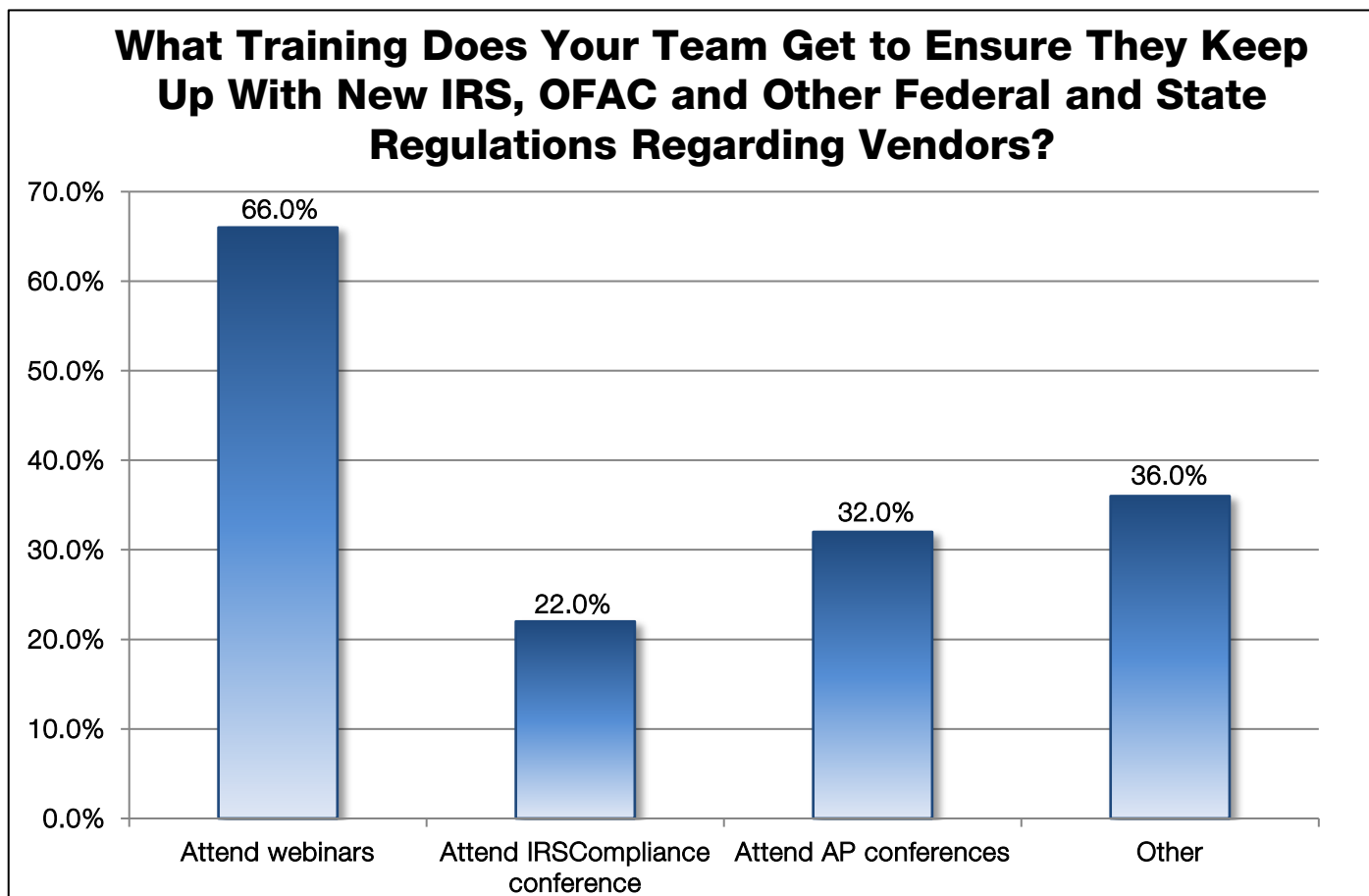


While the IRS is increasing fines and penalties for improper filings, it does not seem to be affecting organizations desire to spend the time and money to comply. According to the survey, when asked if their department has been pressured to improve the onboarding efficiency for better compliance with Federal and State regulations regarding payees and payments, 68% of respondents said no, with only 32% saying yes.



Compliance Training

When it comes to training employees to ensure they keep up with new IRS, OFAC and other federal and state regulations regarding vendors, 66% of survey participants said they attend webinars, 22% attend the IRSCompliance conference, 32% attend AP conferences and 36% said other.



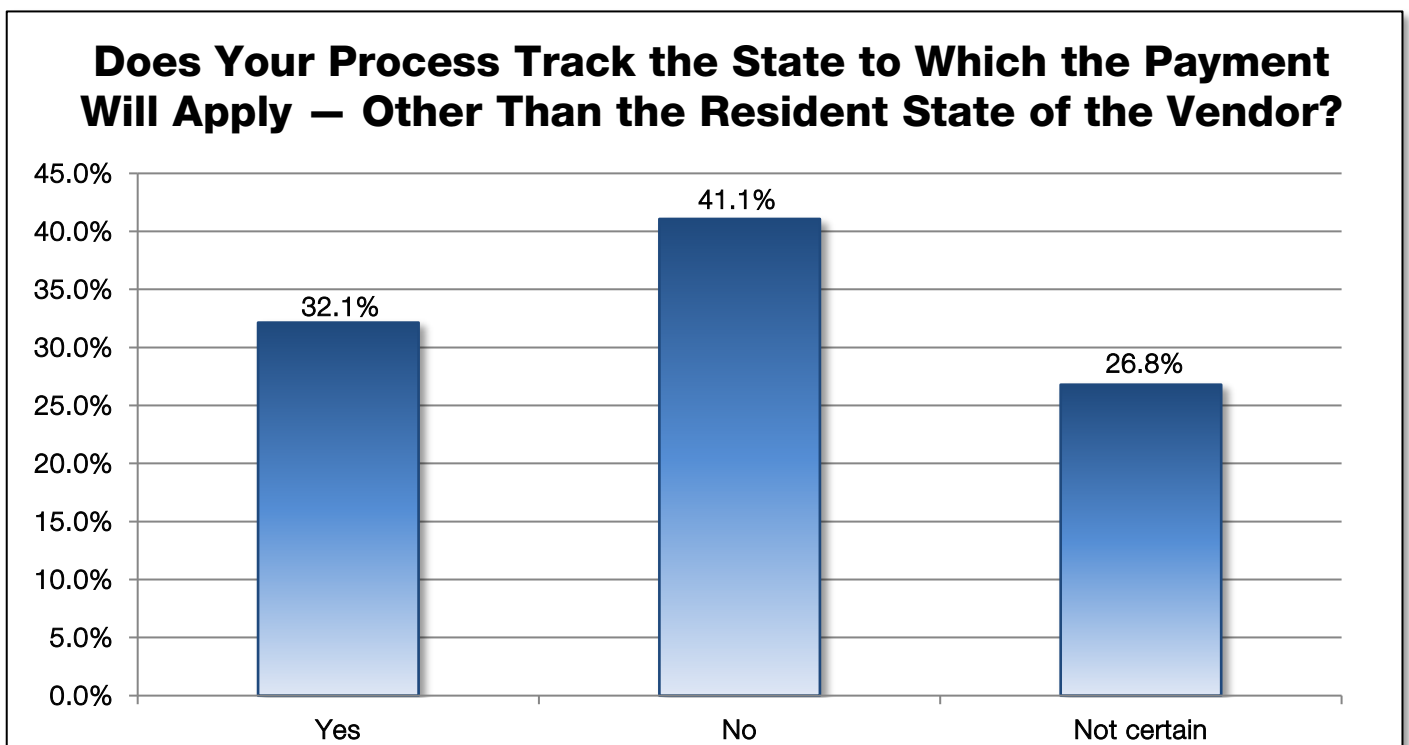
Of those that responded other, here are some of the ways they train their team:

- Corporate tax group provides training
- Counter fraud guidance
- Websites, emails with updates
- Handled by data management team
- IFRS, IPAS
- In-house training
- Internet
- Literature
- Outside CPA training and consultation
- Not much training; usually self-taught

Several organizations, including IRSCompliance, offer professional certifications to ensure that an employee has a complete understanding of information reporting. Only 30% of survey respondents are certified; 70% are not.

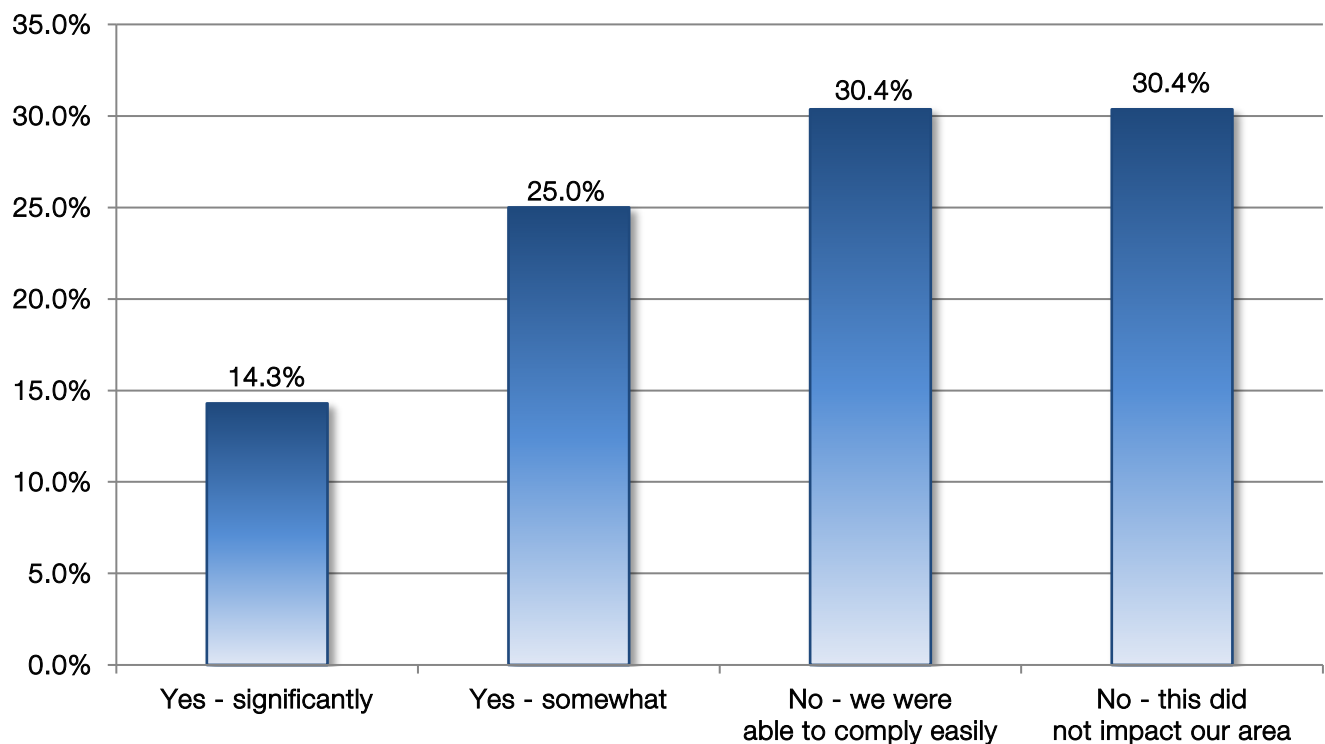


When asked if their organization's process tracks the state to which the payment will apply, other than the state of the vendor, for example, where the service was performed or where the rental property is located or where the money was earned, only 32% answered yes, 41% answered no and 27% were not certain.



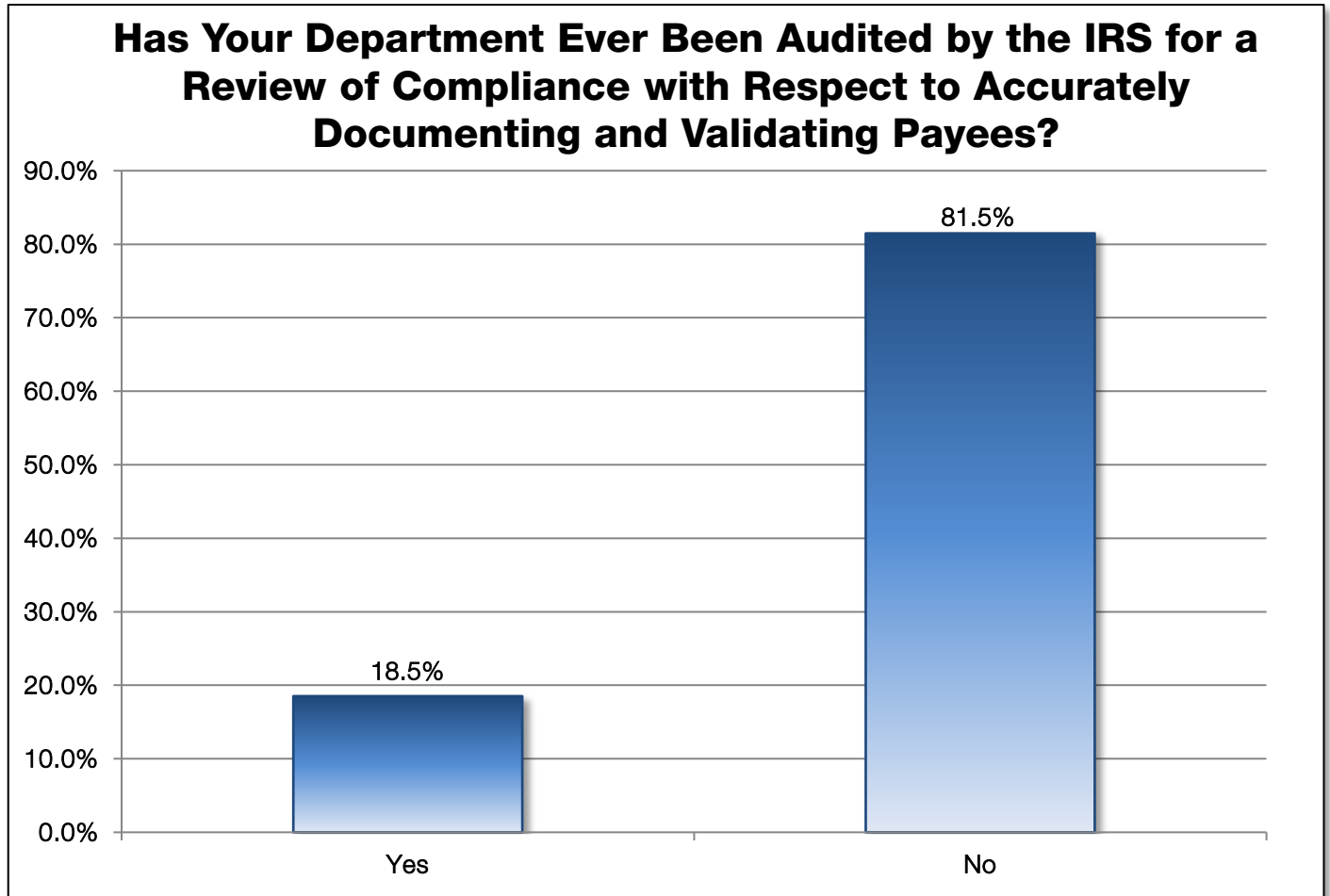
The reporting due dates to report to the IRS, SSA and states for non-employee compensation (box 7) reporting on Form 1099-MISC and Form W-2 have changed to January 31. When asked how this has impacted onboarding and certification of payees and payment reconciliation, 14% responded that it has significantly affected them, 25% responded that it had a somewhat affect, 30.5% were able to comply easily and 30.5% said it did not impact their area.

Have the New Reporting Due Dates of January 31st to the IRS, SSA and States for Non-Employee Compensation (Box 7) Reporting on Form 1099-Misc and Form W-2 Impacted Your Onboarding and Certification of Payees and Payment Reconciliation?



Audits

Let's face it, when it comes to information reporting, compliance is complex and difficult to understand. Many AP professionals are concerned about errors being made and penalties being assessed. And, the worst possible outcome is an IRS audit. The good news according to the survey is that the majority of respondents (81%) have not been audited by the IRS for review of compliance with respect to accurately documenting and validating payees.





2100 RiverEdge Parkway, Suite 1010
Atlanta, GA 30328
(678) 894-4600

202 Blum Court, #1209
Bel Air, MD 21014
(410) 914-5470

info@InvoiceInfo.com | www.InvoiceInfo.com

compliance@irscompliance.org | www.IRSCompliance.com