



2nd Annual Vendor Onboarding Management & Compliance Survey

Conducted by:
VendorInfo



Introduction

Vendor onboarding is a process that involves obtaining, verifying and recording information about the vendor to enable not only vendor transactions, but also organizational compliance with various tax and regulatory requirements. An organization's accounts payable department needs to know more than where to send the payment.

Vendor onboarding is not especially difficult, though understanding and addressing the details involved in compliance can be challenging. Failure to adequately onboard vendors can lead to a variety of costly problems. Necessary internal controls protect against vendor fraud, payment fraud and employee fraud. Acquisition of all requisite information ensures compliance with federal and state tax and other authorities.

Financial Operations Networks conducted this survey to provide a picture of survey respondent organizations' current vendor onboarding and compliance practices.

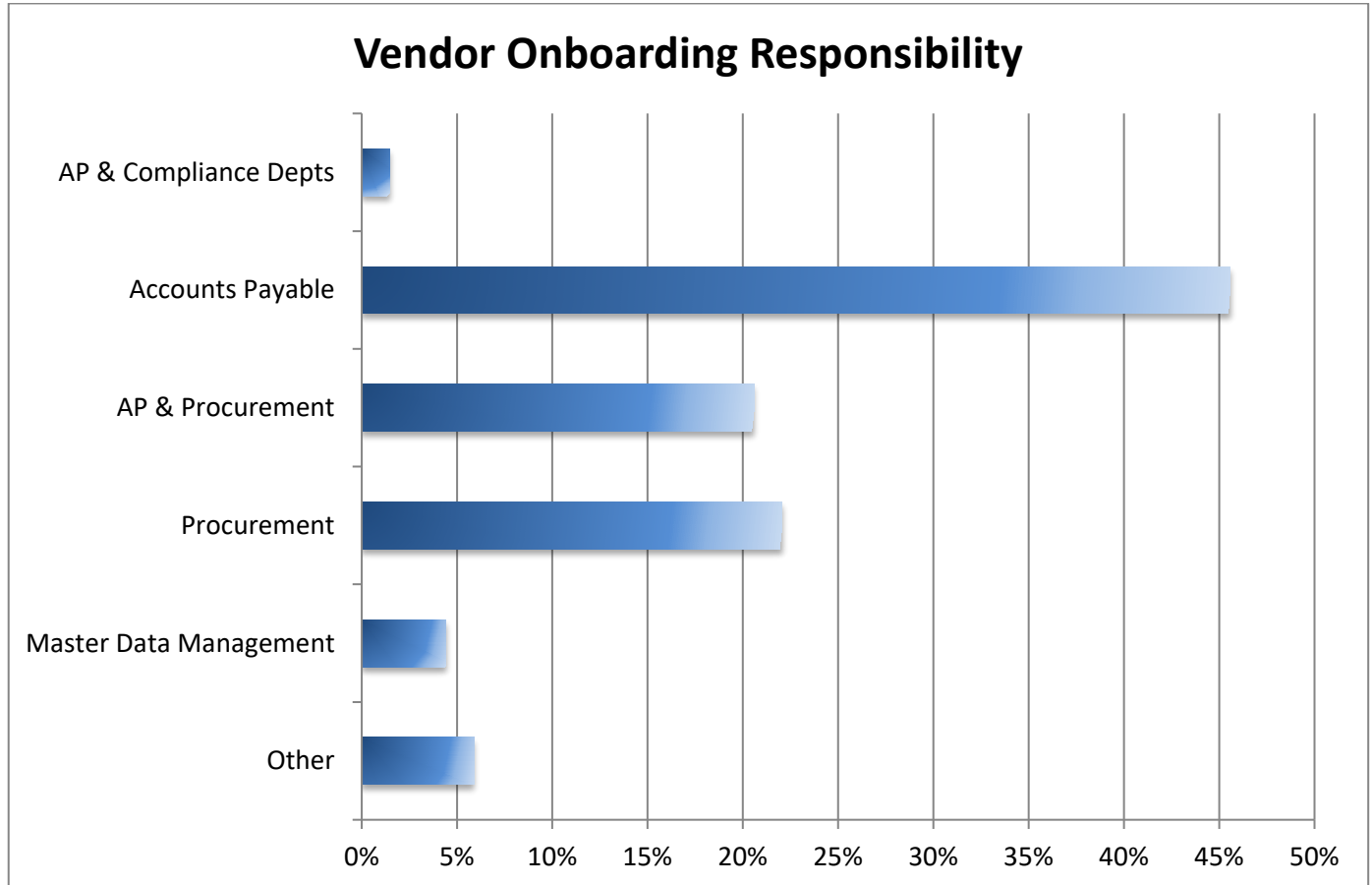
Study Summary

- Accounts payable most often is responsible for managing vendor onboarding along with managing the vendor master file.
- Onboarding responsibility includes determining whether the vendor is a U.S. or foreign entity, an important determinant in which rules to follow for payment reporting and backup withholding.
- The most common information required by new vendors centers on obtaining tax identification and classification information via IRS forms W-9 or W-8.
- In most organizations, vendor onboarding is still largely a manual process.
- Onboarding an individual new vendor is accomplished in under 15 minutes by more than half of the organizations in the study.
- Half of the organizations require multiple levels of approval of new vendors; among those, two levels of approval are most common.
- A quarter of organizations employ a vendor self-service application to onboard vendors.
- Slightly more than a third have an automated approval workflow.
- Existing vendor updates require less than 10 minutes for two-thirds of organizations.
- Vendor validation — establishing the legitimacy of the vendor—is the responsibility of purchasing in nearly 60 percent of organizations.
- Just less than two-thirds of organizations report being fluent with regard to their tax and regulatory responsibilities.
- Thirty-five percent do not check their vendors against government sanction lists; another 11 percent of respondents were uncertain whether their organizations were managing that risk.
- The same percentage, 35, do not verify TIN and vendor name through the IRS TIN match program either directly or through a third party.
- Eighty-two percent of organizations require a W-9 or W-8 prior to payment.

- Just 63 percent have a process in place to identify required backup withholding.
- Less than 40 percent of organizations have individuals certified in IRS Information Reporting.
- Failure to report and errors in reporting have consequences – 44 percent have received IRS forms CP2100 or CP2100A, 21 percent have received a 971CG in the last five years, and 13 percent have undergone an IRS audit for review of compliance with respect to accurately documenting and validating payees.

Responsibility for Vendor Onboarding

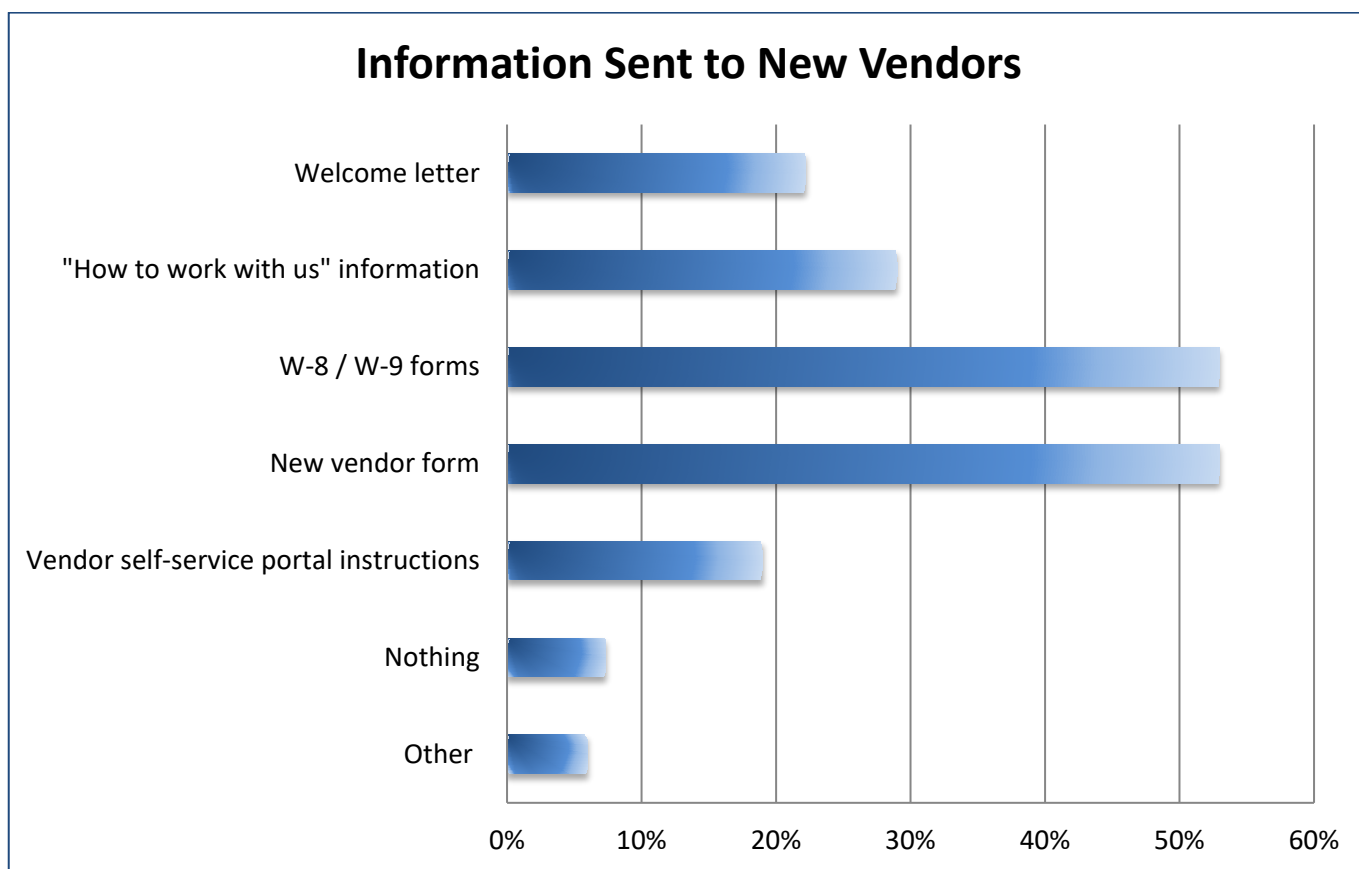
The accounts payable department is most often — in 45 percent of participant companies — responsible for vendor onboarding. In one out of five organizations the responsibility is shared between AP and procurement, while procurement handles it in another 22 percent of organizations.



Information Provided to New Vendors

Companies often provide some kind of information to new vendors. That may include a welcome message, instructions on how to get paid, forms W-9 or W-8 to be completed, or solicitation of bank information for ACH payment.

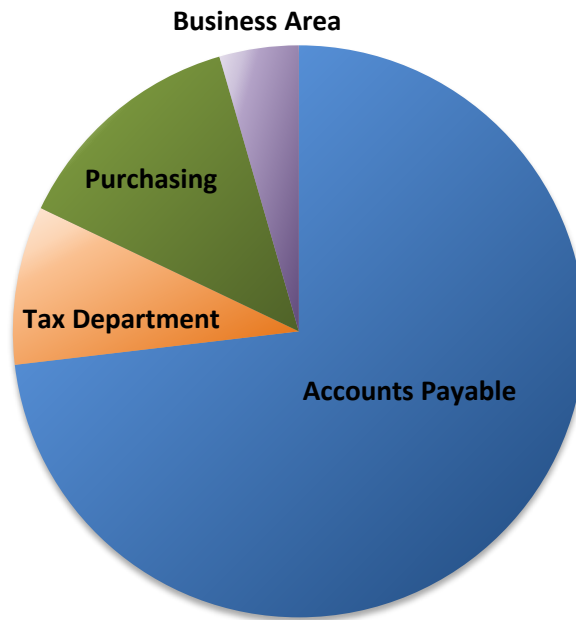
Twenty percent of organizations report sending a “welcome” letter. More than half provide new vendor information forms, and more than half send W-9/W-8 forms to the vendors. It is possible that some information forms may include substitute W-9 forms in the information they collect; “new vendor information form” is a broad term that can include many things. A few participants in selecting the “Other” category specified ACH enrollment forms — again these might also be a part of “new vendor forms” for some organizations. Seven percent of organizations said they send nothing.



U.S. vs. Foreign Vendors

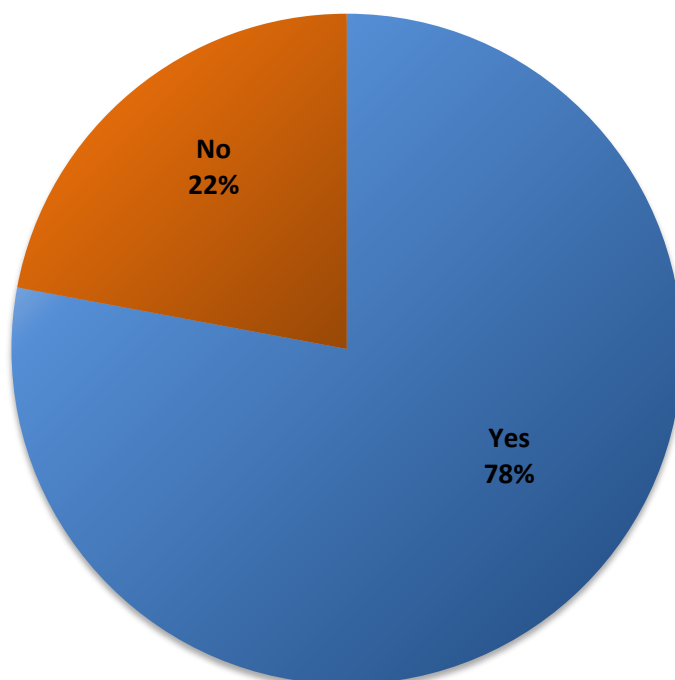
Foreign vendors are subject to different rules in payment reporting and backup withholding than U.S. vendors. Therefore it is important to identify whether a vendor is a U.S. or foreign entity. So what do companies — in most cases, the AP department — have in place to accurately identify the payee as a U.S. or Foreign individual or corporation?

Responsibility for Determining Vendor Foreign Status



Of the 78 percent of organizations that have a process in place to make that identification, most — 79 percent — follow a policy on collecting and validating proof of citizenship and tax status, such as individual, business entity or a U.S. corporation. Twenty-one percent determine the tax status of the payee based on payee address and type of payment.

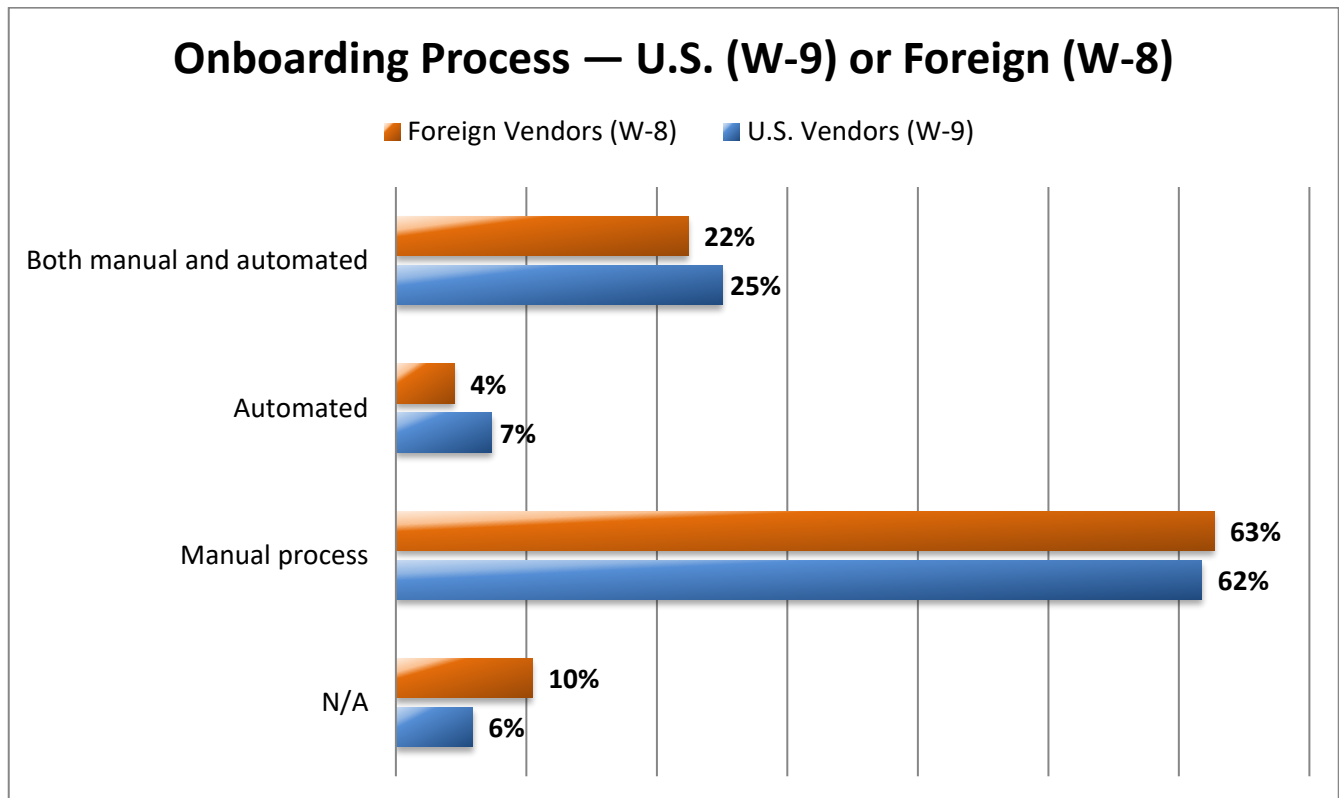
Process in Place to Identify Vendor as U.S. or Foreign



Of the 22 percent responding “no,” a third of them say the validation and proof process is performed elsewhere in their organization, while two-thirds (15 percent of all organizations in the survey) indicate they are not sure of the process used to identify and validate the U.S. or Foreign status of a vendor.

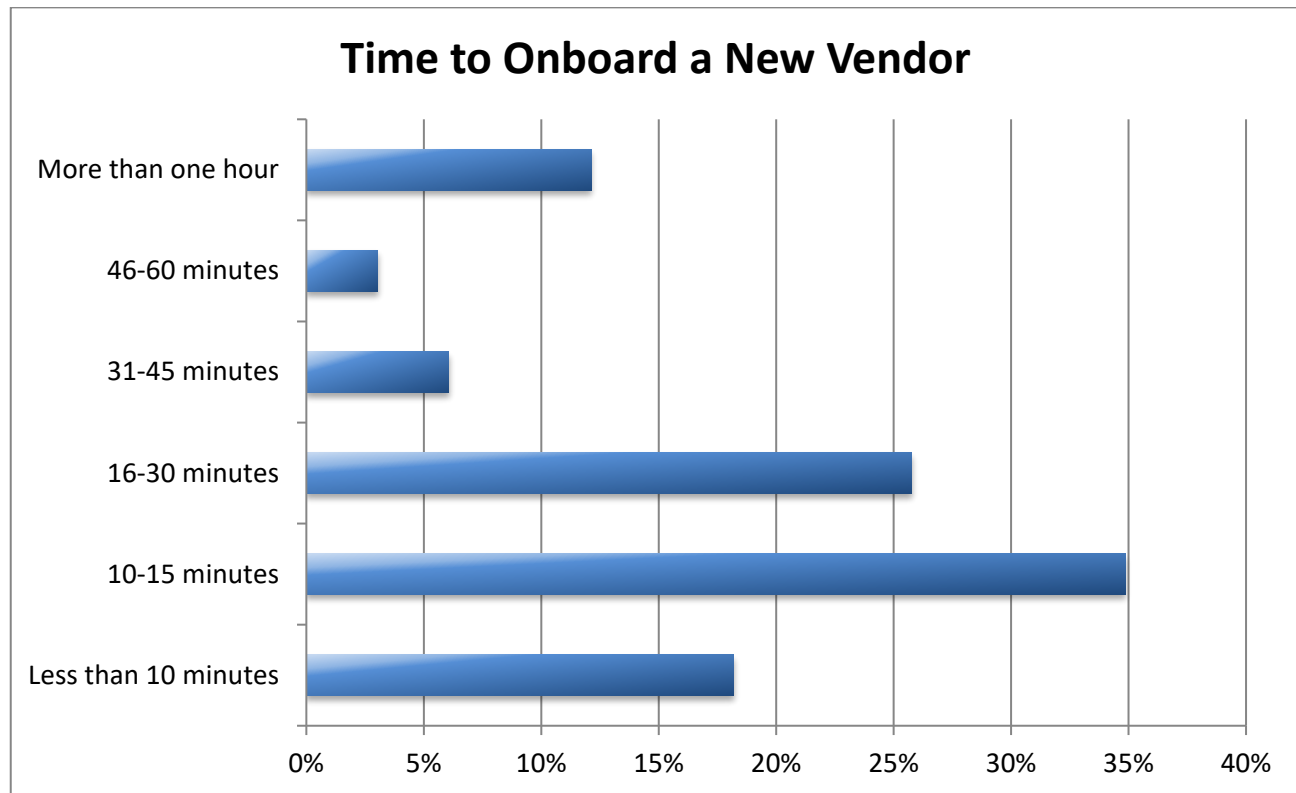
Level of Automation of W-9/W-8 Collection

When onboarding vendors, if the payee is determined to be a U.S. entity, collecting W-9s from the payee is still a manual process in over 60 percent of organizations (see below). Similarly when the payee is determined to be foreign, collecting W-8s is largely manual. However, nearly a quarter of organizations use some automation. (The N/A responses represent participants outside the U.S. that do not collect W-9 or W-8 forms, and U.S. organizations that do not have any foreign vendors.)

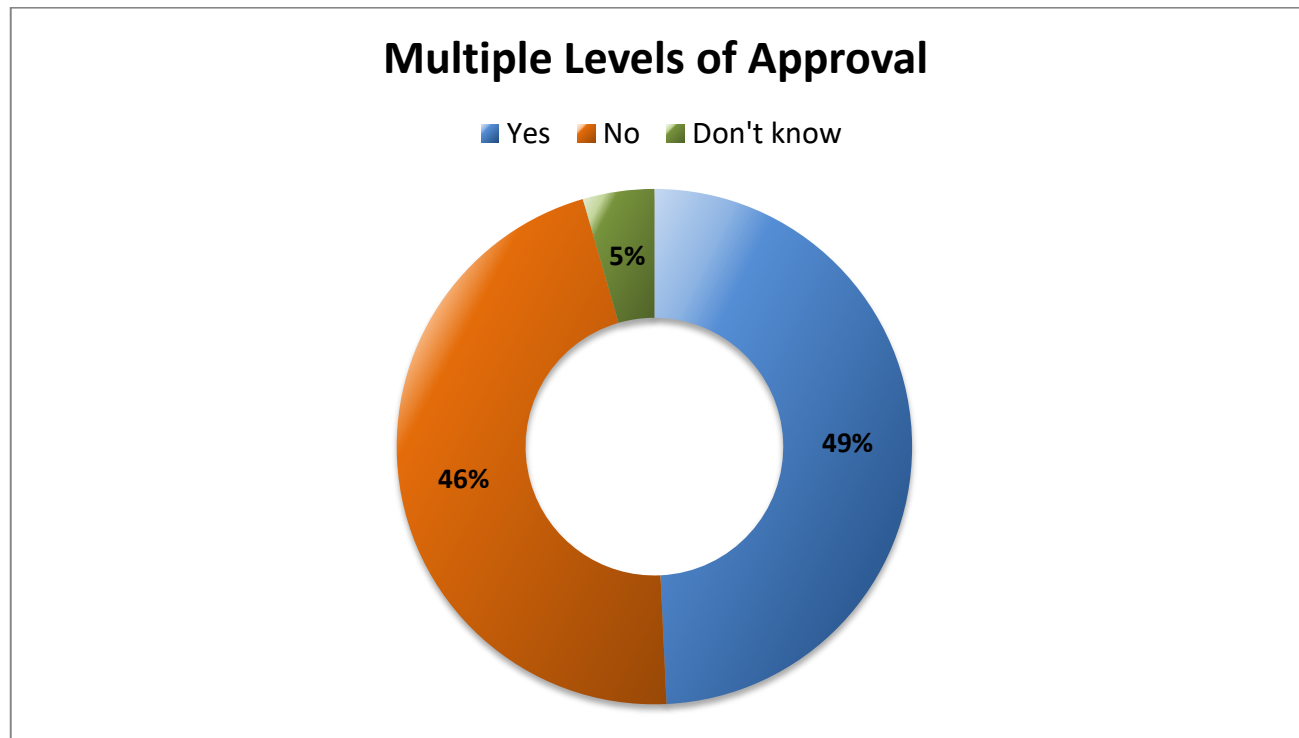


Onboarding Vendors

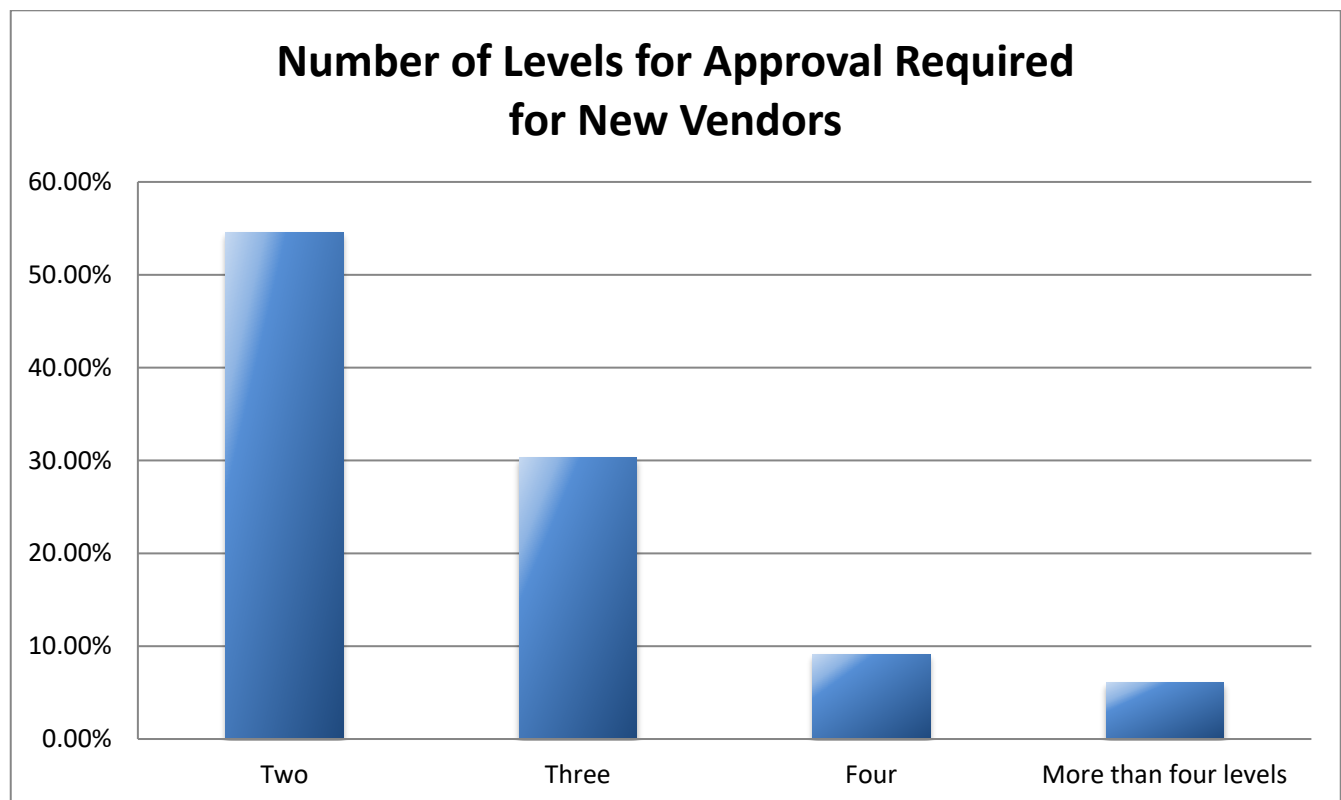
The time it takes for organizations to onboard a new vendor varies, but 53 percent handle it in 15 minutes or less, 35 percent take between 15 minutes to an hour, and 12 percent take more than an hour.



Half of the participant organizations have multiple levels of approval for onboarding new vendors.

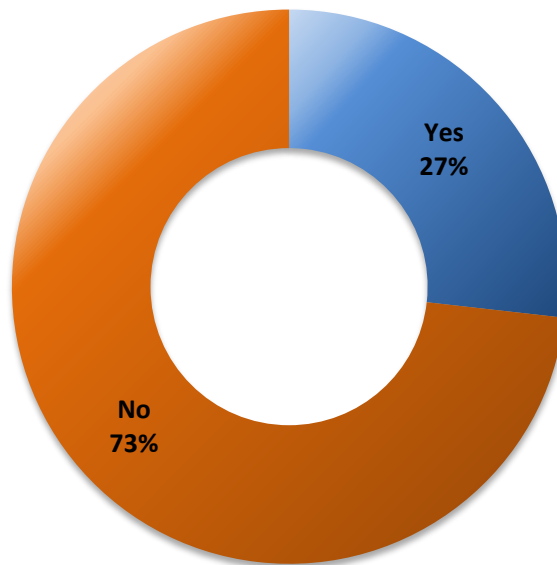


Most of those in the “yes” category above require two levels of approval in onboarding new vendors.



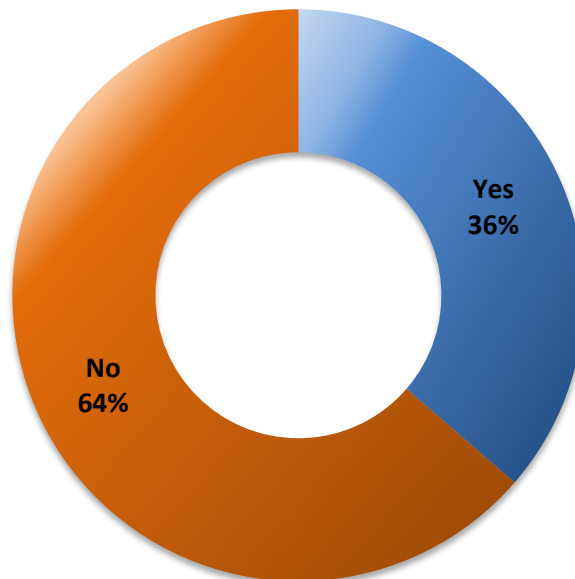
Just over a quarter of organizations employ a vendor self-service solution in onboarding new vendors.

Use of Vendor Self-Service Application in Onboarding



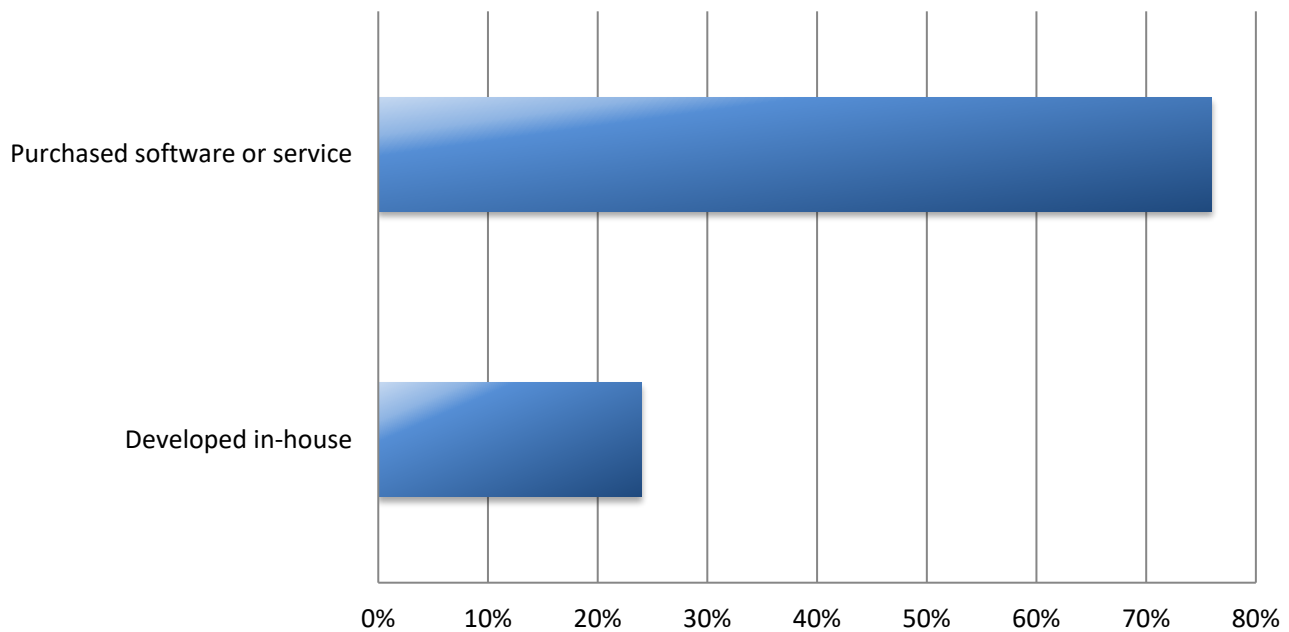
Thirty-six percent employ an automated workflow process in approving new vendors.

Have Automated Workflow for Vendor Approval



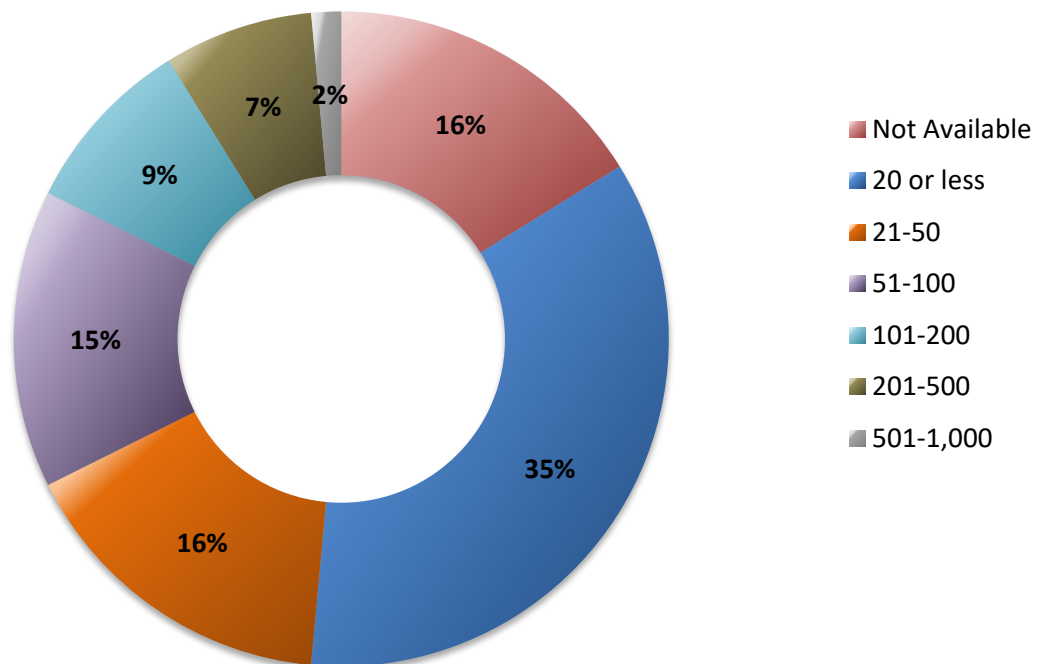
Automated workflow applications are more likely to be purchased software or SaaS than developed in-house, although in-house apps account for 22 percent.

Vendor Approval Workflow Automation Application



The number of new vendors an organization onboards each month will vary according to its size and industry. The chart below shows the number of new vendors added monthly (on average) for organizations in this survey.

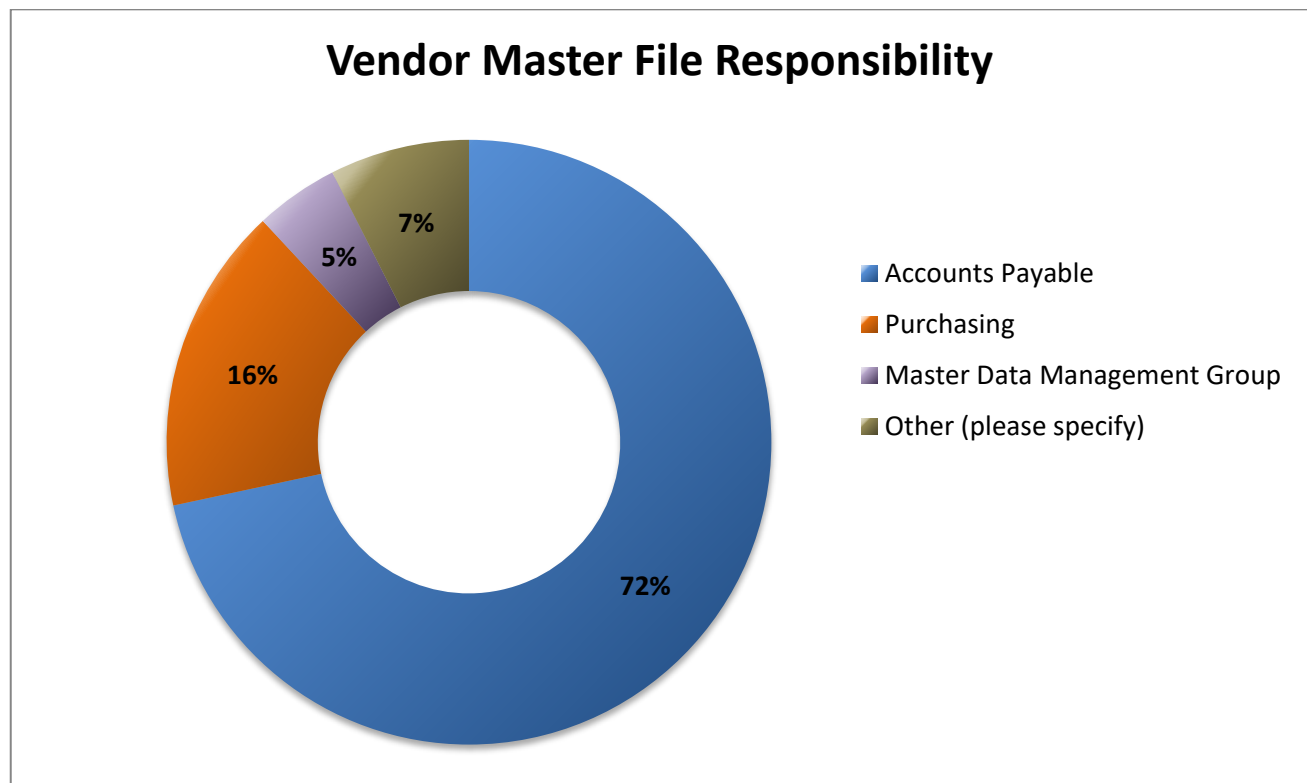
Number of Vendors Onboarded per Month



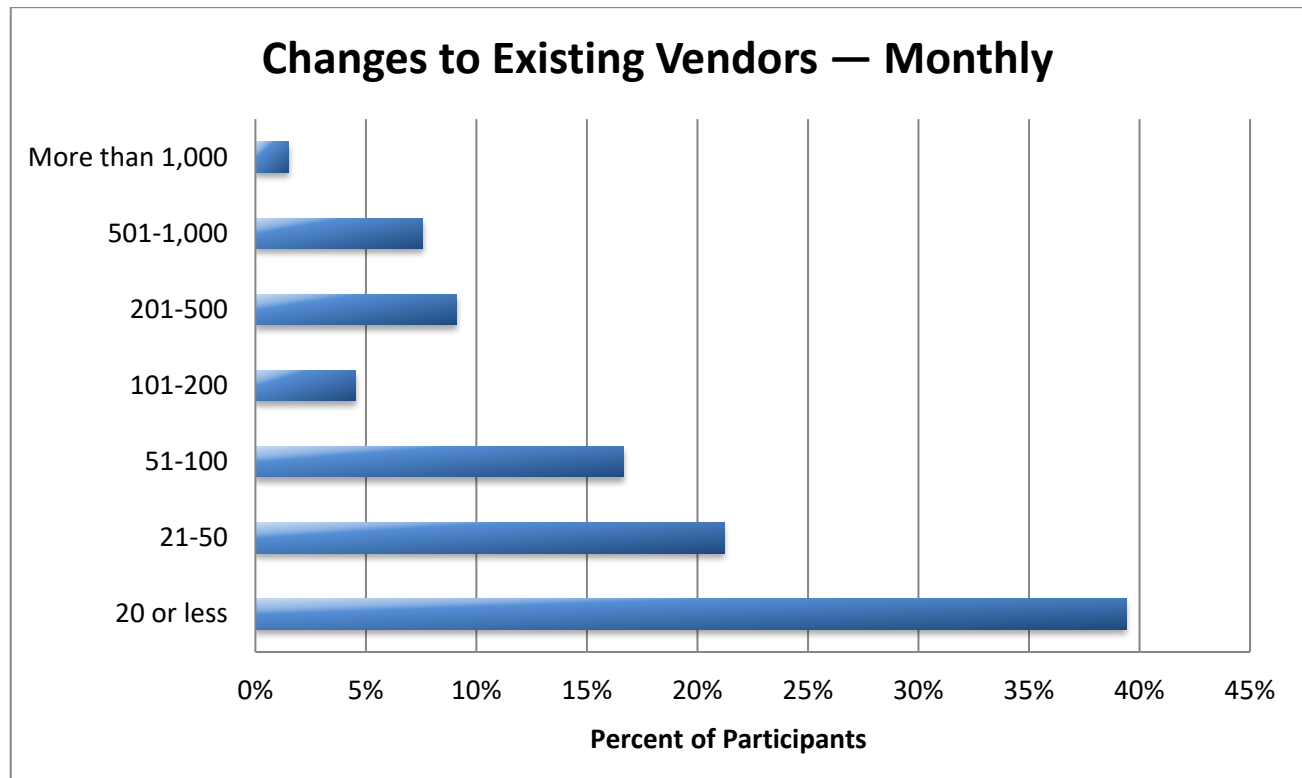
Vendor Master File

Management Responsibility

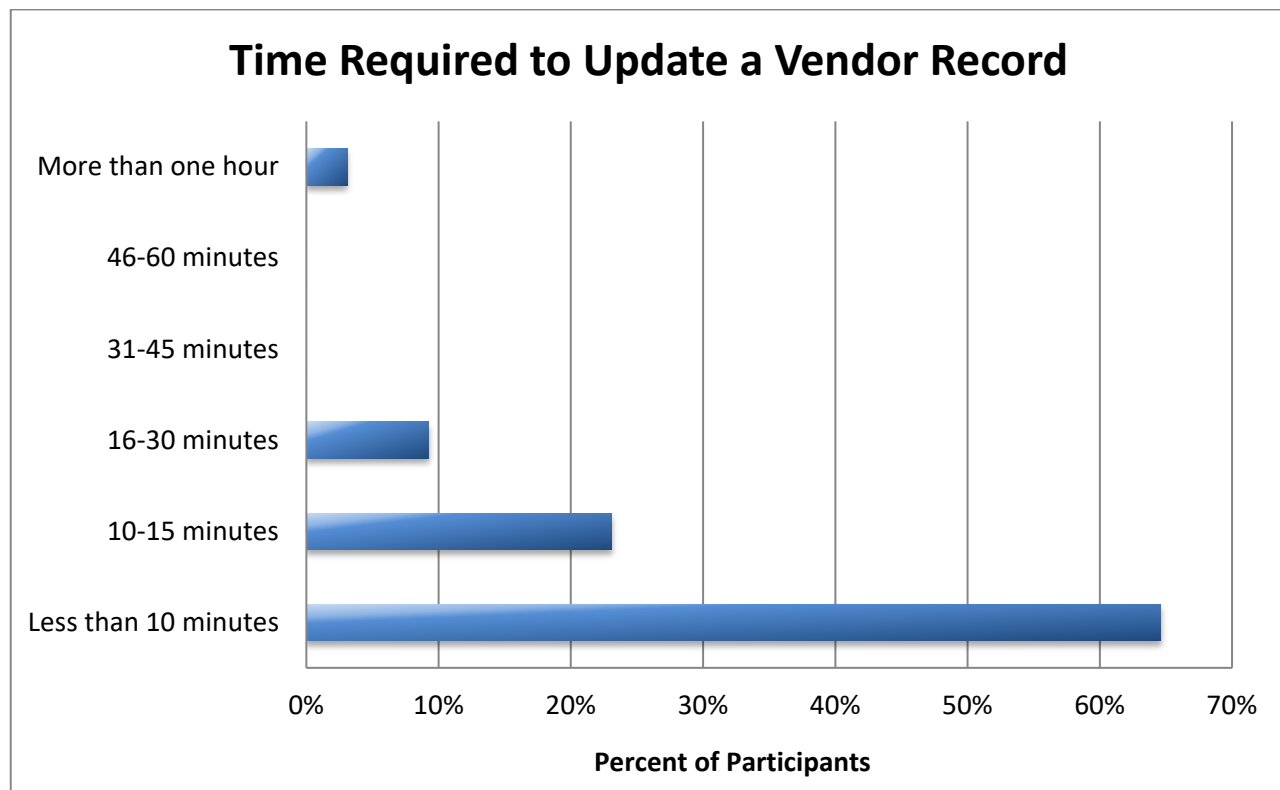
The AP department continues most often to carry responsibility for vendor master file management—72 percent of organizations in this survey. This figure is only slightly lower than it has been over the past decade, and by approximately the percentage represented by a separate master data management group, which did not show up in the early part of the new century but has become common in very large organizations. AP and purchasing share responsibility for the master file in a very small percentage of companies (within “Other” here).



An important part of vendor file management is keeping up with existing changes. The following shows the number of changes that organizations make each month to their existing vendor profiles.



Most changes to existing vendor profiles are done in ten minutes or less, though some require more time.

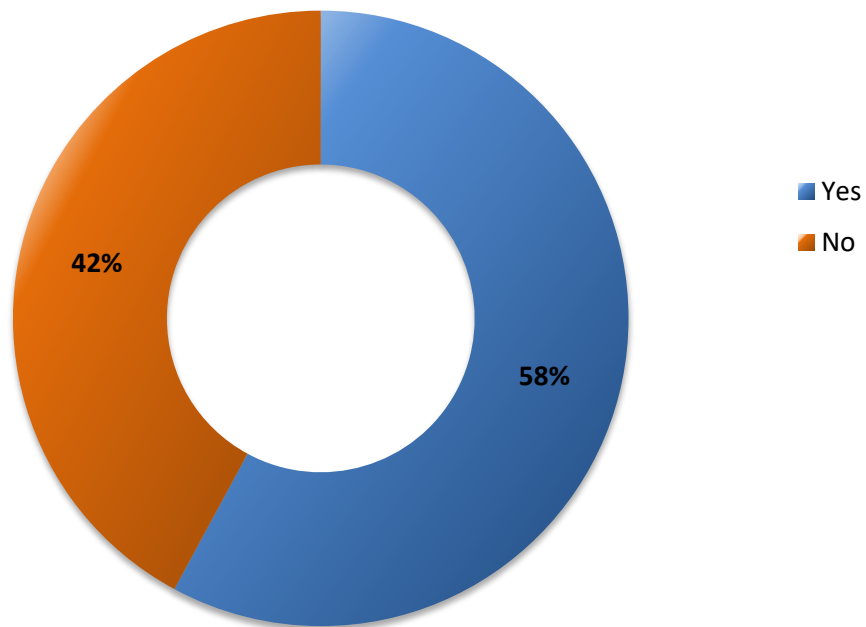


Vendor Compliance

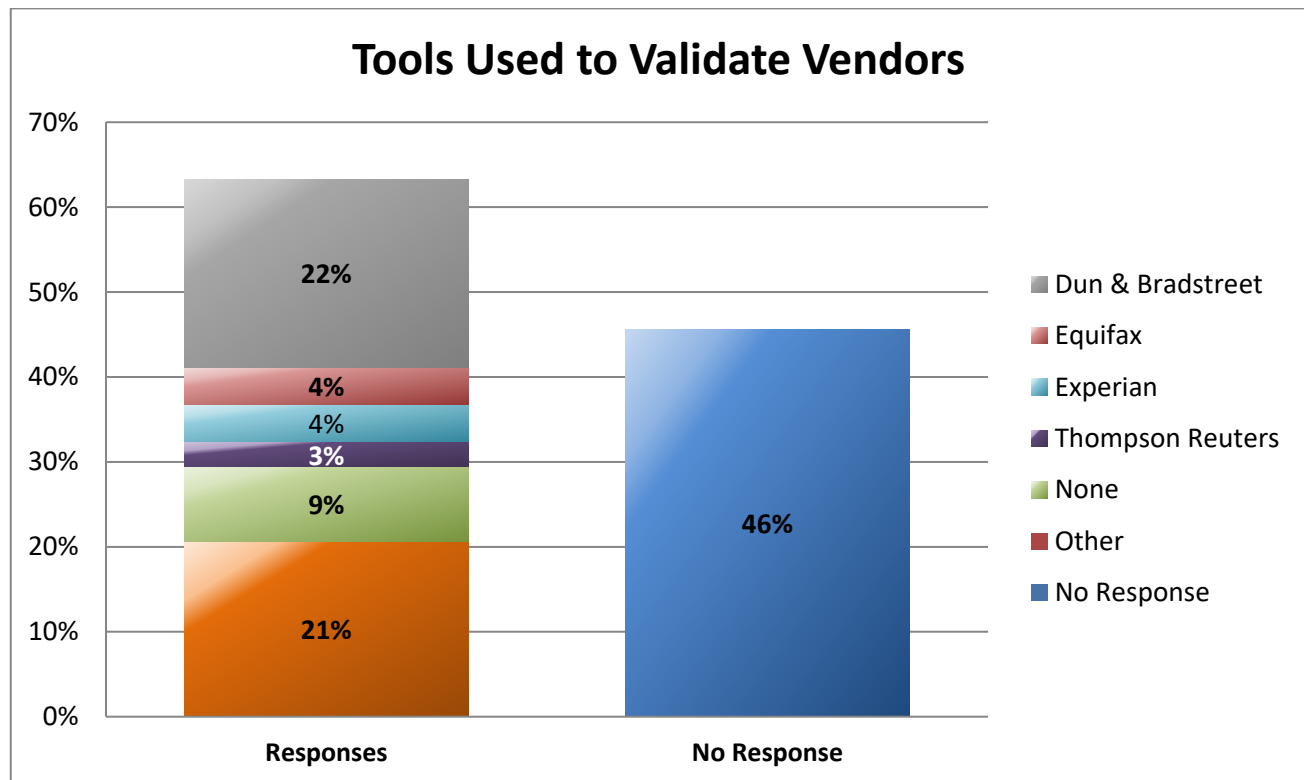
Vendor Compliance Issue Management

Often the first step in transacting with a vendor is to validate the legitimacy of the vendor. A lack of procedural controls can lead to paying phony invoices to fraudulent companies. Who is responsible for validation? Often it's purchasing.

New Vendor Validation by Purchasing



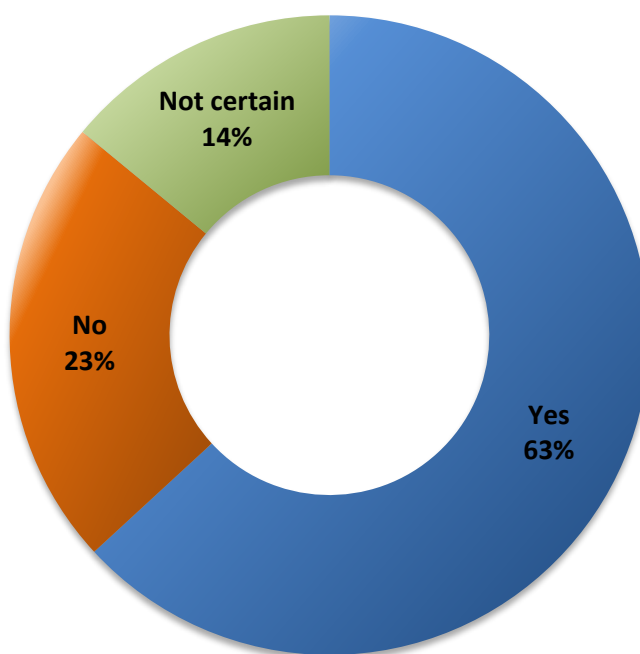
Tools used to validate vendors include a variety of resources. Within “Other” are State Secretaries.



Along with determining that a vendor is legitimate, there are a number of tax and regulatory compliance issues to be addressed. This is made easier in the digital age, with many tools at AP's fingertips.

Still, it is a complex area. The survey asked participants about their overall fluency with information collection and review required for U.S. and foreign payees, with the prohibitions of OFAC, and the requirements of IRS and individual states to properly report and apply withholding on payments. Just less than two-thirds reply in the affirmative, with 23 percent indicating a lack of fluency and 14 percent uncertain.

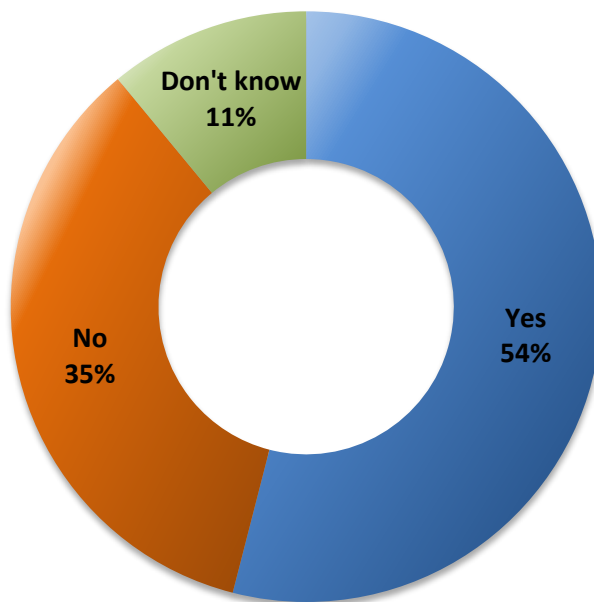
Organizations Fluent with Tax and Regulatory Responsibilities



An important but challenging area is compliance with various government sanctions. This involves checking vendors against the government's lists of prohibited persons and organizations. Many organizations have been slow to understand their responsibilities in this area. However, that has been changing, and nearly two-thirds have a grasp on their responsibilities.

A small majority of organizations check vendors against the sanction lists maintained by the Department of Treasury's Office of Foreign Assets Controls (OFAC). While the risk an organization faces varies by industry type, the only way to certainly avoid trouble is by checking against the multiple lists.

Organizations Checking Vendors Against OFAC Lists

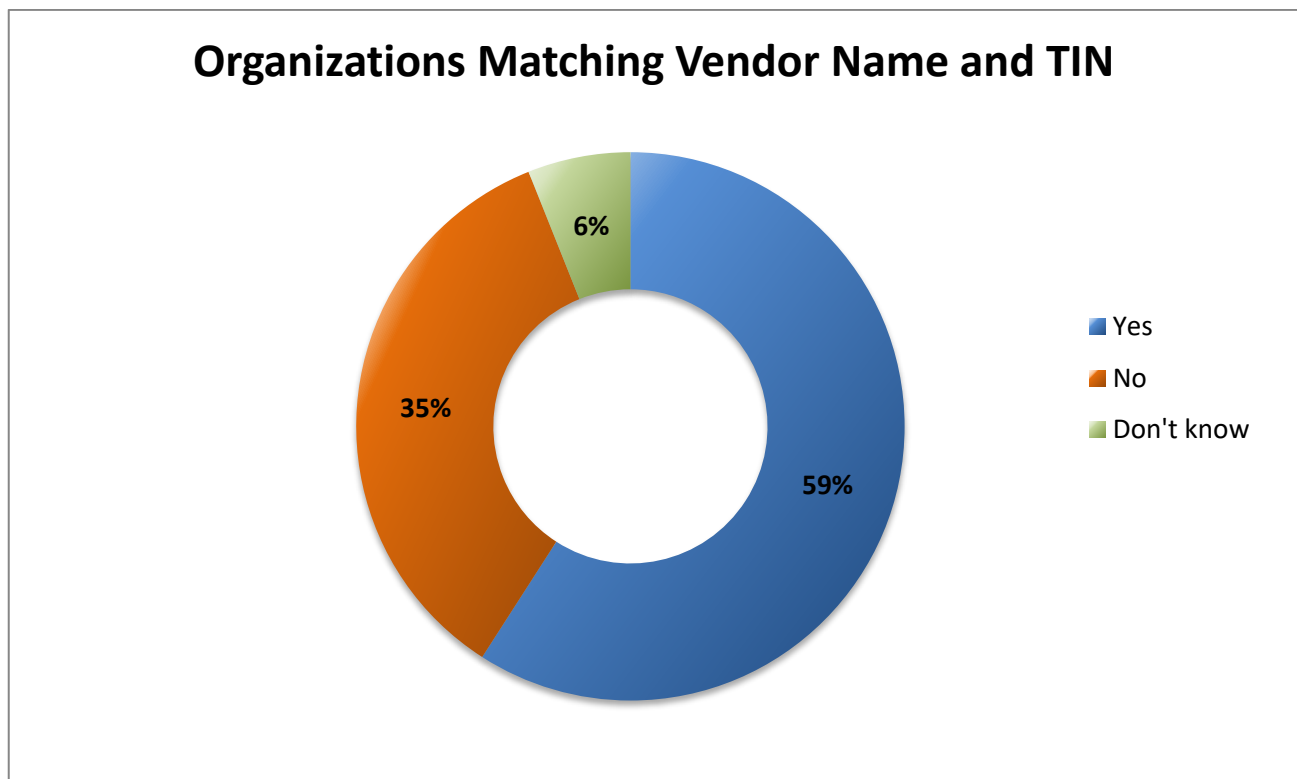


Payment Reporting and Withholding

Organizations also face interpreting complex tax reporting and withholding regulations.

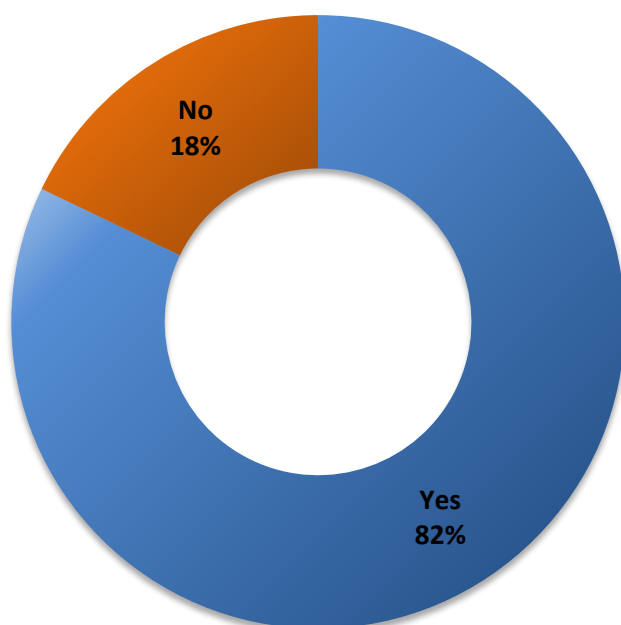
Compliance begins with correctly classifying a vendor and obtaining tax identification numbers (TINs) per the requirements. Submitting an incorrect TIN when reporting will lead to more work and possibly penalties. For more than a decade now, it has been possible to obtain confirmation in advance of submitting 1099s from the IRS of a vendor name and TIN match through its TIN-Match service.

Initially utilization of TIN matching was limited. But today, a 59-percent majority of organizations validate new vendor tax identification numbers (TINs) either directly through the IRS TIN Match system or by a third-party service to handle it for them.



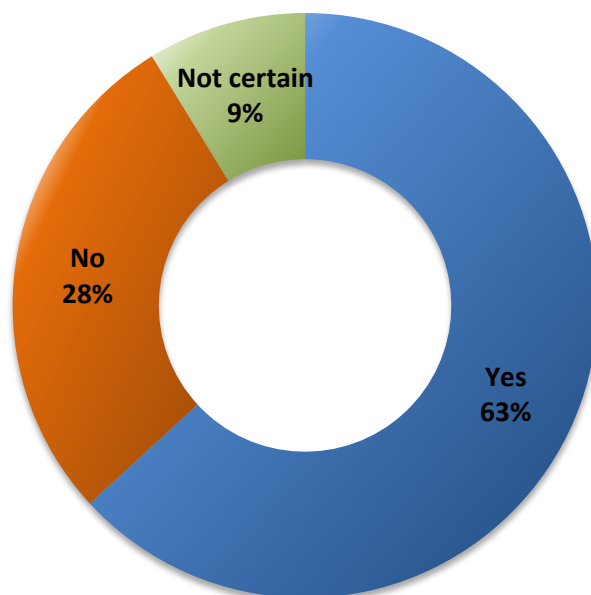
Before this can be done, of course, the TIN must be obtained from the vendor. Best practice is to get it at the beginning of the relationship, and failing that, prior to issuing payment. After payment, leverage over a recalcitrant vendor diminishes or disappears altogether. A high percentage of organizations indicate they do require a W-9 or W-8 form prior to payment.

Require W-9 or W-8 Prior to Vendor Payment



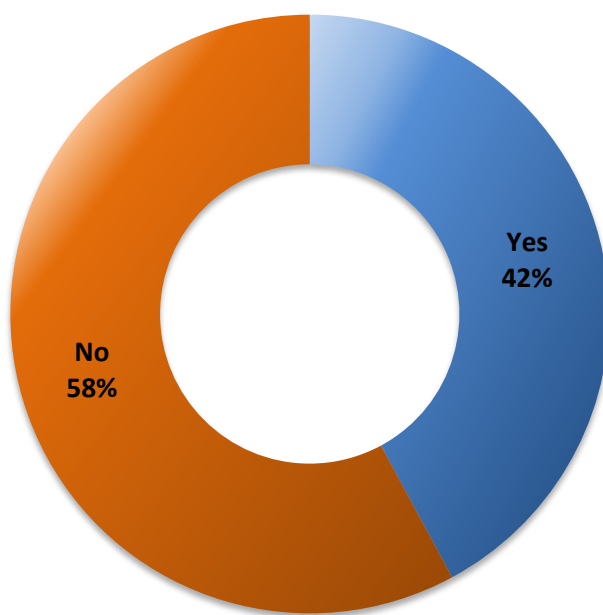
Beyond having the correct tax identification number, organizations must understand and follow the law on backup withholding. So organizations should have a process in place to identify when Federal and State withholding is required on payments to be issued. Nearly two-thirds do, but more than one-quarter do not, with nine percent uncertain.

Process in Place to Identify Required Withholding on Vendor Payment



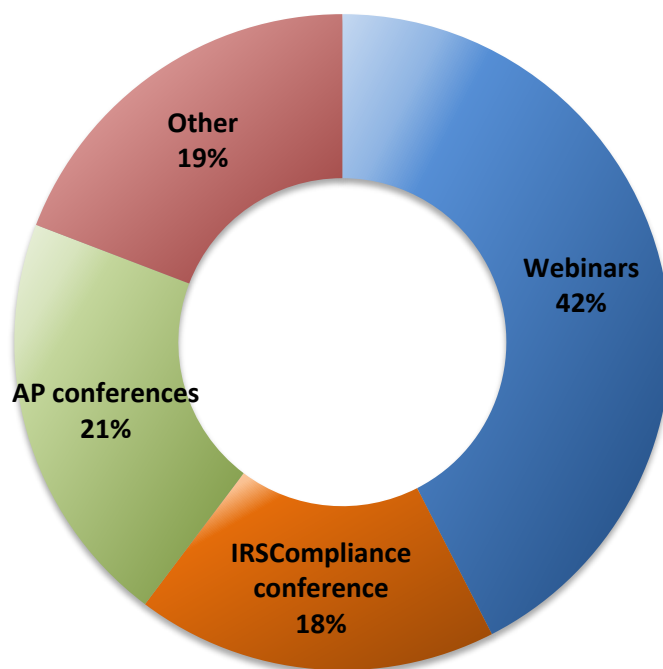
Despite the challenges and inherent risk in tax and regulatory challenges, less than half of organizations' AP departments have been pressured internally to improve the onboarding efficiency for better compliance with federal and state regulations regarding payees and payments. That may in part be due to those organizations having a firm handle on compliance.

AP Pressured to Improve Onboarding for Better Compliance with Federal & State Regulations

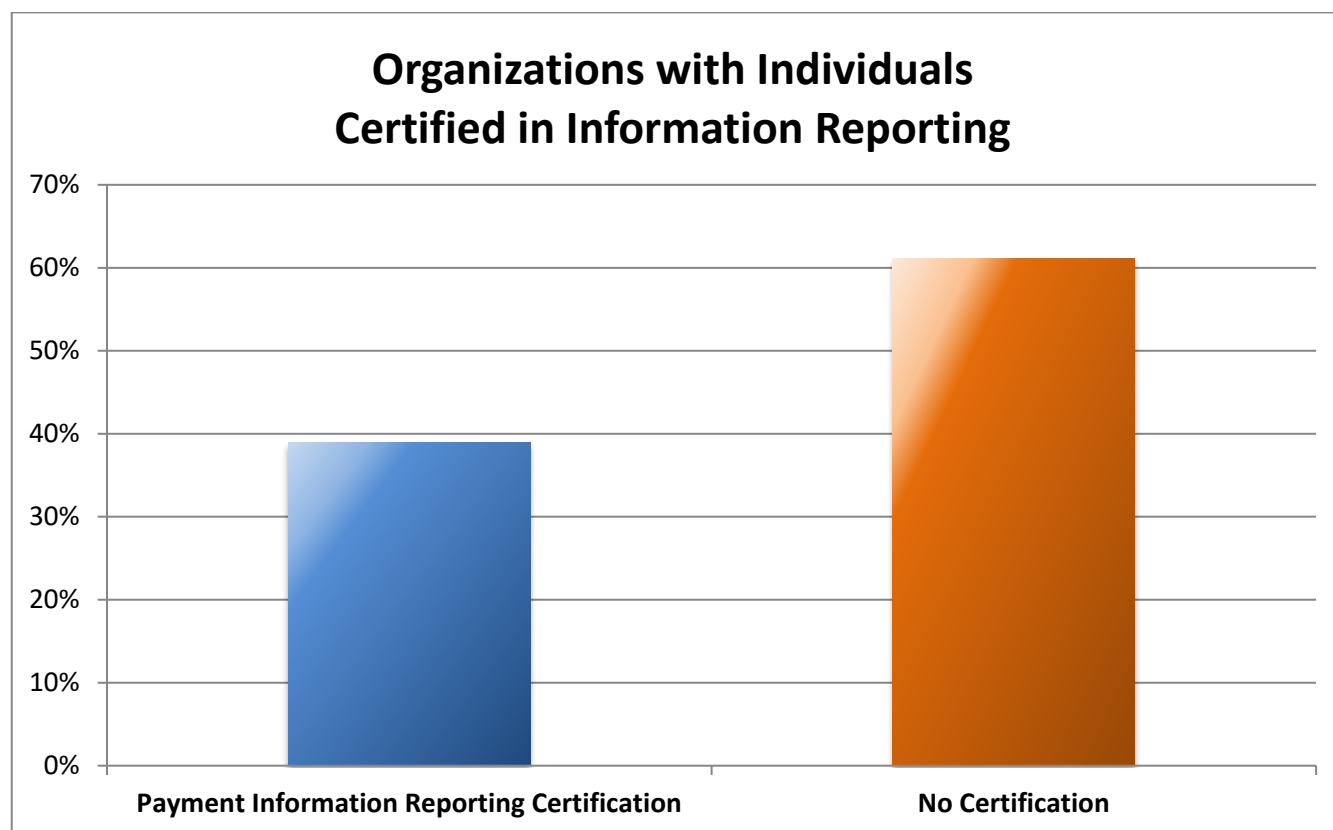


Training opportunities exist to ensure departments and their staffs keep up with new IRS, OFAC and other federal and state regulations regarding vendors. Webinars are the most-used. “Other” includes in-house research and training, along with instruction and alerts from internal tax departments.

Training Received to Keep Current with Tax and Other Regulations

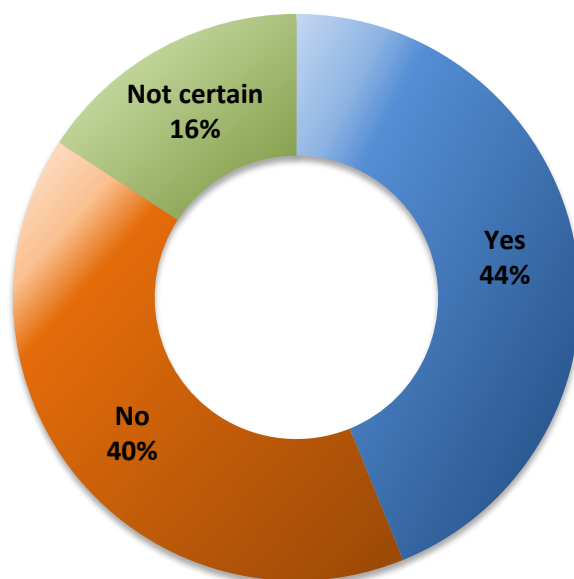


A third of participant organizations have individuals who have become certified in 1099 Reporting.

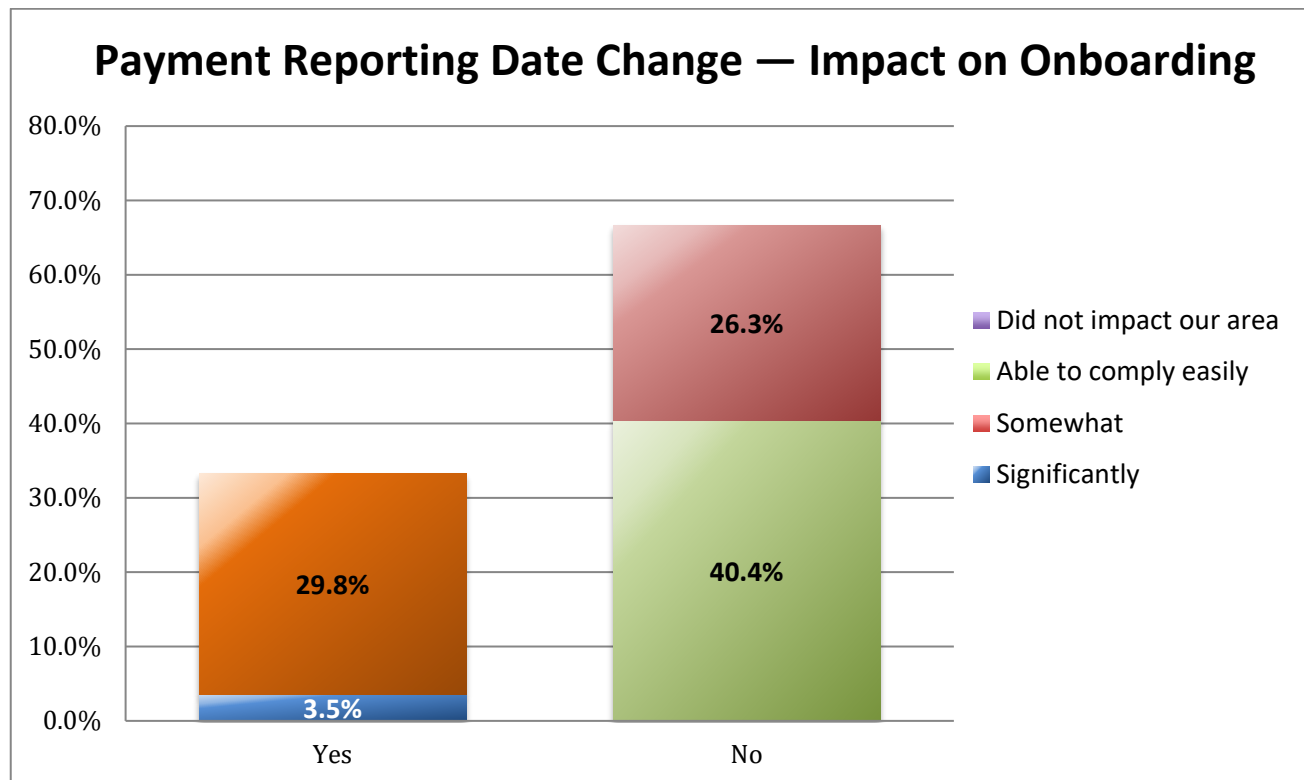


State requirements add another layer of complexity to payment information reporting. Not everyone fully understands the rules on state-level 1099 reporting. Along with determining when direct-to-state reporting is required, a main challenge in state reporting is determining to which state you must report. Forty percent of organizations do not have a process to track the state to which the payment reporting applies based on the nature of the payment. Reporting is not always to the resident state of the vendor. It depends on where services are performed, or the location of the rental property, or where the money (i.e. Interest, etc.) was earned. Less than half of organizations thoroughly track which state reporting is due to be made.

Thoroughly Track State to Which 1099 Reporting is Due



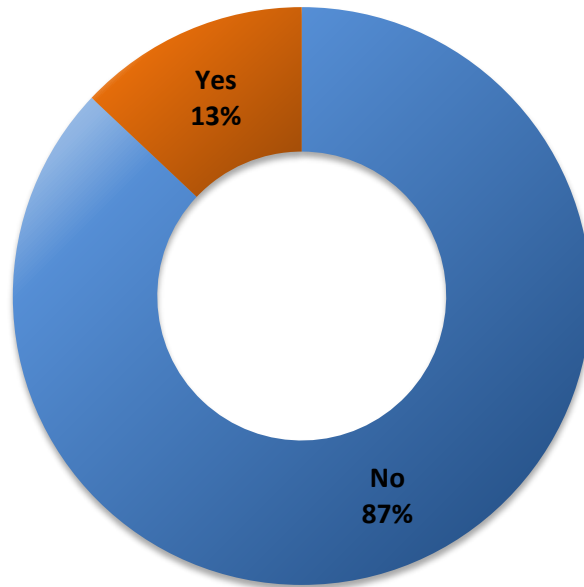
Change to certain reporting deadlines has required organizations to alter processes at least as far as the time allotted to get the reporting done. The new reporting due dates of January 31 to the IRS, SSA and states for non-employee compensation (box 7) reporting on Form 1099-Misc, and for Form W-2 have had an impact on onboarding and certification of payees and payment reconciliation for a third of organizations; forty percent found it easy to comply.



Risks: Audits, B-Notices and Penalties

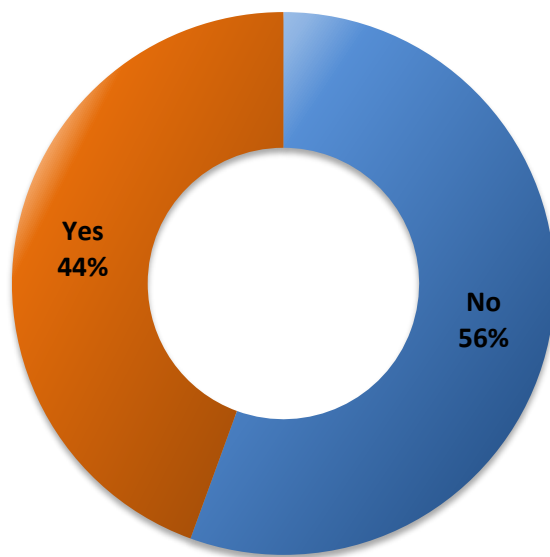
So what is the risk of audit by the IRS? Greater than one in ten. Thirteen percent of departments have been audited by the IRS for a review of compliance with respect to accurately documenting and validating payees.

Organizations Audited by the IRS



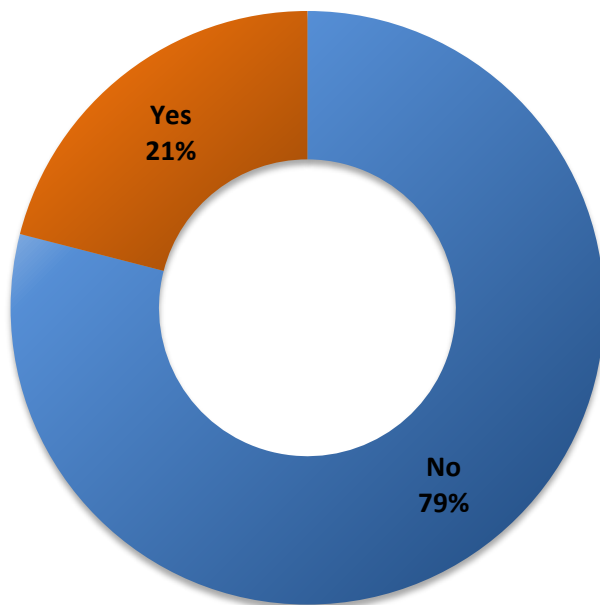
Meanwhile, 44 percent of departments have received an IRS form CP2100 or CP2100A, having to issue B-notices to vendors and begin backup withholding on those that fail to provide correct TINs.

Receipt of a CP2100 or CP2100A



And 21 percent — more than one in five departments — has received a 971CG Notice of Proposed Penalty from the IRS. The 971CG proposes a penalty and organizations may be able to mitigate them with sufficient effort and evidence, but of course that has a cost as well.

Percent in Receipt of a 971CG in the Last 5 Years





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