BEST PRACTICES
Vendor Master Files in Accounts Payable

Karl Andersson
CEO Technology Insight
A key tool for accounts payable departments to fight inefficiencies within their organization is to tackle issues related to their Vendor Master Files. After many years of experience in the industry, Technology Insight has found that creating, maintaining and cleaning up Vendor Master Files is a constant battle for almost all companies. Informal polls conducted throughout the country at industry conferences reveal that 85% of attendees will readily admit that their database contains duplicate or inaccurate Vendor Master Files. Yet by using the right combination of common sense tools and top-tier software applications, corporations can be empowered to drive productivity and effectiveness within their groups.
Unclean Vendor Master Files can have a critically negative impact on the entire Purchase-to-Payment data cycle. It affects not only accounts payable but also the purchasing department, with the potential to even bring unwanted tension to vendor-client relationships.

Unclean Vendor Master Files are the result of many factors, from a lack of defined business processes and resources to the implications of mergers and acquisitions. However, to better understand the long-range impact of unclean Vendor Master Files, one factor must be accepted and understood: ERP systems are designed with the assumption that only one Vendor Master File record exists within the system. When duplicates exist, many of the controls built into the ERP system become worthless.
TOP 5 RAMIFICATIONS
OF UNCLEAN VENDOR MASTER FILES

Missed Earned Discounts and Contract Incentives:
Millions of dollars are lost by companies because of unclean Vendor Master Files as a result of missing earned discounts associated with meeting pre-defined contract metrics. When duplicate Vendor Master Files exist for a single supplier, companies are unable to determine when and if they meet those targets.

Inaccurate Spend Analysis and Reduced Negotiating Power:
Similar to the missed earned discounts, another costly ramification of unclean Vendor Master Files is the inability to answer the simple question "How much did we spend with ABC Supplier last year?" Contract negotiations with suppliers are adversely impacted when a company’s true spend metrics are inaccurately calculated. The resulting difference between the purchasing power of $10 million dollars a year is vastly different from $2 million dollars a year.
1099 Tax Reporting and Compliance Issues:
The issue of accurate 1099 reporting is a hot-button issue for the IRS and thus for companies. With duplicated Vendor Master Files the possibility of inaccurate aggregated purchases skyrockets, resulting in skipped vendors and erroneous totals. Vendor Master Files created with dummy TINs also result in significant database problems. Many companies, by utilizing a data scrubbing tool, discover that tens of thousands of dummy TINs (e.g. 99-9999999) were entered into Vendor Master Files. Penalties associated with 1099 errors seem deceptively low at $50 each, but over large quantities, the total fines can add up quickly.

Fraud Opportunities:
In every company, both large and small, fraud exists despite hopes to the contrary. Variations run the gamut but include: supplier addresses replaced with employee addresses, dummy vendor creation and exploitation of a lack of segregation of duties (or database access). Many of these fraud examples can be traced back to lax standards around Vendor Master Files.

Duplicate Payments:
Duplicate vendor records are the primary reason why duplicate payment happen. When your Accounts Payable system has multiple vendor records for the same supplier, you are at risk for duplicate payments. Your ERP will not stop the duplicate invoice entry when you enter the same invoice into two different vendor master records.
Despite the number of potential root causes, having clean Vendor Master Files is within reach. Best Practices do exist to mitigate risk and maintain a clean data base. First and foremost, an Action Plan for the approval and creation of new Vendor Master Files must be developed. This process is crucial to long-term compliance and should be completed prior to the clean-up of any existing database issues. Below, the core components of a solid Action Plan are listed in detail. Although the list may seem overwhelming at first, it is only because it serves to dissect the issue into the granular detail required to implement a viable process going forward. Consistency is the single most important element in creating a Vendor Master File system that will transcend staff changes, business changes or future mergers.
CONSIDERATIONS FOR DEVELOPING VENDOR MASTER FILE PROCESSES

Establish Ownership/Accountability:
Determine who or what department in your organization owns the Vendor Master File. Who is responsible for creating and then monitoring changes or new creations? How will you limit and track changes? This includes not only the accountability for staff compliance but also addresses potential security issues.

Steps Required to Find Existing Vendors:
A multi-step process is important to check the existing vendor lists and ensure that a duplicate record is not created. Many companies simply do not take the time to thoroughly examine existing entries before creating a new vendor. Multiple searches should be performed including variation on vendor name, tax ID, address.
Collect and Validate Tax ID Numbers:

Many companies now require that a tax ID number be gathered from potential suppliers, even including it as a part of the bidding process. The IRS has instituted a free tool called the IRS TIN Matching Program for companies to reduce errors and their associated fines. Companies should take immediate steps to register with the TIN Matching Program as the approval process for access can take some time. Once approval is granted, businesses can go to the TIN Matching Program website and submit data (either through an interactive screen for up to 25 TINs or a .txt file upload which accepts up to 100,000 TINs). The system will determine if the TIN is valid or if any exceptions are noted to the supplier name and TIN. This not only addresses the issue of creating an accurate Vendor Master File at the beginning but can drastically reduce the number of B-Notices that companies receive when 1099s go out with incorrect information. Each B-Notice received requires follow-up to correct the problem, consuming precious time better used elsewhere.
OFAC Matching:

An OFAC (Office of Foreign Asset and Control) Match is now required for all corporations before they create a supplier as a vendor. This government entity has created a list of Specially Designated Nationals (SDN's) that companies cannot do business with and if they do, a fine is issued. The mistaken assumption by some is that if they do not do business with any high-profile international countries (e.g. Pakistan, Iraq or Iran) they have no risk of violating this mandate. However at last count, of the 4,000-5,000 SDN's listed there were 27 US names, 24 UK names, 298 Mexican names and 1 Canadian name. By signing up with the OFAC, companies can be made aware via email when new names are added to the SDN list. In just six months, over $18 million in fines were issued to companies who violated the mandate, signifying the importance of checking both new and existing suppliers to this list.

The web address for the OFAC program is:
http://www.treasury.gov/resource-center/sanctions/SDN-List/Pages/default.aspx

Other Lists to Check:

Similar to the OFAC Matching program detailed above, some additional lists should be part of any new vendor creation or existing vendor maintenance. Visit this web address for details:
http://www.bis.doc.gov/complianceandenforcement/liststochek.htm
Updated Certificates of Insurance and Other Certificate Requirements:

Additional checks should be instituted to track and account for on-going certificate requirements. These can vary from Workers Compensation and Liability Certificates of Insurance to documentation of minority and women-owned businesses. Ensuring that expired certificates are updated as needed is critical to accurate Vendor Master File maintenance, especially for those organizations doing GSA associated work.

Individual/Sole Proprietor Data Entry Standards:

Determine how these suppliers will be entered into the system. First Name, Last Name or vice versa? Also, determine guidelines regarding punctuation, initials, middle names, titles and professional designations. Are they dropped entirely as a rule? Added parenthetically? Address how each item will be handled in the process.

LLCs/Corporations:

As with Individuals/Sole Proprietors, many of the same naming issues occur with companies. What is done with articles (A, An, The)? What about the tricky ampersand (&)? What about apostrophes, commas and hyphens? Are acronyms spelled out or normalized? What should be
done when a number is part of a name (1st Mortgage or First Mortgage)? Just imagine the number of ways that large companies like AT&T, GE and IBM have entered in Vendor Master Files - the versions are too numerous to list. Again, critically important is simply determining the naming standards and creating a defined process to follow.

State/Federal Agencies:

Determine how agency names are handled. Do they follow the same standards as companies? Is it the DMV or the Department of Motor Vehicles? Is it TX Child Support or Child Support - TX?

International Vendors:

The same core issues that occur with domestic vendors happen with foreign vendors with one additional component. The use of proper ISO Country Codes is important and companies should use the following list to ensure standardization:

DBA’s:

The use of DBA’s (Doing Business As) is increasingly common, so much so that many newer software programs now make specific accommodations for this entry. If your current system does not allow for this, a standard should be defined for its entry as it is a critical piece of information that should not be omitted.

System Character Length Limitations:

If the system in place has a limitation on the length of Vendor Master File names (e.g. 30 characters), a standard should be defined for how to handle this. The most common method is to continue the name into the first address line but every company should clearly define its own standards.

Address Standards:

As with vendor names, the addresses which follow the name are just as important. Are street names abbreviated and if so, how? Be sure to consider all types, not just Street and Avenue but also Road, Mailstop, North, South, East, West, PO Box, Highway, etc. Additionally, utilizing USPS address validation standards is key to reducing returned mail rates. A publication detailing these standards can be found at: http://pe.usps.gov/text/pub28/28c1_001.html
One-Time Vendors:

One-Time Vendors are a part of any business and should have their own explicit guidelines. In addition to meeting all of the fundamental new vendor creation requirements, the issue of how soon to inactivate a one-time vendor should also be considered.

Exceptions:

The notion of "No Exceptions" is impossible. With that, it is important to understand what exceptions are likely to occur in your environment. Are they the result of limitations in your ERP system? For example, are duplicate vendors needed when you have multiple payment terms with the same supplier? If so, how are those managed? Have enhancements to the ERP software addressed those issues, now resulting in the fact that duplicate vendors no longer need to be created? Put as much thought as possible into anticipating exceptions, complications and the resulting ramifications. Leave as few exceptions to chance as possible.

New Vendor Approval/Creation Form:

Once the standards have been determined, create one form that is utilized within your company when a new supplier is brought in. This will ensure that all critical information is collected in a consistent format. Make this form a requirement to the vendor setup process.
5-STEP VENDOR MASTER FILE CLEANSE

By following our 5-Step Vendor Master File Cleanse program, this daunting task becomes quite manageable. A good benchmark for this process is to make sure that 65% of the vendors available in the active system are of active usage in the past 12 months. After years of data analysis and consulting with clients, we have determined that the 65% benchmark is an excellent indicator that underlying business processes are thoroughly optimized.

Acknowledging that many organizations begin with usage rates as low as 10% (the average is around 40%) underscores the fact that most companies relinquish this type of work to a special projects designation. There are companies exceeding the 65% number and those are the organizations that have implemented a solid new vendor creation program, utilized our 5-Step Vendor Master File Cleanse Program and then executed a series of effective on-going measures.

Please note that our 5-Step Process should be followed in sequence. Many companies want to push steps 4 and 5 ahead of the first three but for maximum value it is important to proceed through the steps as they appear.
Inactivating Vendors Never Used: A great number of vendors exist in company records which, for whatever reason, have never been used. It is important to rid the system of these files. Begin by isolating those vendors in the active list who have never been used. Next, determine that there are no open PO’s associated with those vendors. Checking for open PO’s is crucial as a great deal of tension can arise when an order of goods is suddenly received yet the vendor has been mysteriously inactivated. Consider utilizing the purchasing department to cross-check the list. Once the list has been reduced down to those vendors remaining, go ahead and inactivate them.

Inactivating Vendors Not Used Within 48 (or 36 or 18) Months: Quite a few metrics exist for this component of clean up. Many advocate for a relatively stringent number of 18 months, but it is important to recognize your company’s indicators and cycles. We recommend that companies start as high as 48 months and then progressively reduce that number down until it aligns with their organization. Resist the urge to be too aggressive from the on-set as it can create similar departmental tensions as indicated in Step #1. Use the same open PO check before inactivating these unused vendors.
Inactivating Vendors Never Used: A great number of vendors exist in company records which, for whatever reason, have never been used. It is important to rid the system of these files. Begin by isolating those vendors in the active list who have never been used. Next, determine that there are no open PO's associated with those vendors. Checking for open PO's is crucial as a great deal of tension can arise when an order of goods is suddenly received yet the vendor has been mysteriously inactivated. Consider utilizing the purchasing department to cross-check the list. Once the list has been reduced down to those vendors remaining, go ahead and inactivate them.

Analyze Remaining Vendors for Missing Data: After completing steps 1-3, a clean list of vendors should remain which can now be fine-tuned for missing or inaccurate data. Each Vendor Master File should meet the metrics implemented in the Action Plan and the New Vendor Approval/Creation Form. This includes accurate information for the naming standards, address, TIN and payment terms.

TIN Matching: Once the remaining Vendor Master Files have been optimized, it is a good time to employ the IRS TIN Matching process.
ONGOING MAINTENANCE & ANALYSIS

THE BASICS

**Monthly Inactivation of Vendors:**
Applying Steps 1 and 2 of the Vendor Master File Cleanse on a consistent basis (monthly is ideal) will transform cleaning up Vendor Master Files from the typical "special projects" approach to a methodical maintenance process.

**Tracking and Analysis of Additions/Changes:**
By implementing a tracking process to see who is adding new Vendor Master Files or making changes, companies are better able to address process failures to the appropriate staff member or department.

**TIN Matching:**
If the New Vendor Creation process does not allow for immediate TIN Matching, this should be done on a regular basis. On-going TIN Matching has been shown to be a very beneficial tool in fraud detection by flagging fictitious suppliers promptly, thus reducing potential risk exposure.

**Certificates of Insurance Updates:**
To reduce risk exposure, it is imperative that companies stay on top of suppliers Certificates of Insurance. Reviewing these needs monthly is vital to maintaining Vendor Master Files.
ABOVE AND BEYOND

Third-Party Classification Services:
Using businesses such as Dunn & Bradstreet or Equifax to provide third-party classification reports can shed a good deal of light on your suppliers, their business environments and the associated risk to you.

Related Vendors Analysis:
By using tools such as those provided by Technology Insights, companies are able to get a more budget-friendly report on related vendors than those provided by the third-party classification companies listed above. The DataShark tool allows companies to see both the direct and the ancillary connections between multiple suppliers in their records. In some cases we have found up to seven suppliers who, through a variety of ways, are related (common addresses, TINs, phone numbers, domain names, etc.) to each other. This gives organizations powerful information with which they can garner greater buying power by establishing their true spend metrics with a multi-level supplier.

Payment Term Analysis:
When asked, most companies are confident that they have a strict payment term policy that is adhered to. What is revealed through analysis is that most times, the actual payment terms vary greatly from the company stated policy. Whether it is Net 60 or Net 30, the actual payment term almost never meets up with the expected term. Many issues with payment terms can be sourced back to Vendor Master File setup. Further scrutiny can also uncover discrepancies between the invoice record and Vendor Master File payment term record, bringing to light a significant amount of unnecessarily early outgoing cash flow.
A/P Staff Redeployment:
By making Vendor Master File maintenance an on-going procedure, staff can be redeployed to true "special projects". These can include spend analysis, missed discount analysis and potential rebate analysis in conjunction with the purchasing department.

Recovery Audits:
Effective recovery audits can be costly yet, when done properly, they yield significant return. From duplicate payment identification to statement reviews, a good recovery audit team can certainly generate sizeable cash flow recovery.

Risk Aversion Measures:
Performing an Employee File to Vendor Master File audit can reveal any matching remit addresses which could signal fraud by a staff member. Completing this kind of audit on a monthly basis is a great practice to reduce exposure. Additionally, reviewing your Segregation of Duties measures is also important to ensure that the same staff member cannot create both Vendor Master Files, PO's, invoices and payments.

Investment in Technology:
Tools such as Technology Insight’s DataShark can reduce the touch time for many of the dilemmas outlined above. The DataShark tool includes enhanced reports to clean up Vendor Master Files, isolate duplicate payments and uncover related vendors. Implementing services such as these greatly enrich underlying business process by identifying opportunities that could otherwise go unnoticed.
What successful accounts payables departments have come to understand is that creating and maintaining clean Vendor Master Files is a process, not a project. By doing so, these companies have harnessed a wealth of previously untapped potential, allowing them to leverage their own data properly. When their own records are optimized and utilized to their advantage, they are better able to communicate and collaborate with their suppliers - leading the way to increased
Karl Andersson graduated from SUNY Plattsburgh in 1991 with a BS in Accounting and a minor in Computer Science. He then went on to work Coopers & Lybrand (now PricewaterhouseCoopers) where he earned his CPA and CISA. Then, for the next three years, he was a Manager of Business Process Re-Engineering for the Dexter Corporation. At the time, Dexter was a Fortune 1000 company and Karl was actively involved in international projects in both Europe and Asia. It was during this time that Karl was able to bring all of his education and experience to the table while discerning how data solutions succeed and fail in real world corporate environments. After his time at Dexter, Karl was at Ernst and Young as an Application Controls Consultant for SAP.

After ten years working in the audit and consulting sectors, Karl was convinced that clients could be better served by a company that understood how to deploy targeted solutions instead of static half-measures. By combining his expertise in accounting and computer science, he was able to design a revolutionary software technology which delivers exceptional value to his clients. Therefore, in 1999 Karl founded Technology Insight Corporation (TIC) and set out to bring laser-sharp result-oriented solutions to the Recovery Audit service industry.

Ever since its beginning, Karl has gathered a team of industry experts to support TIC and its clients with dedication to the core values of professionalism, respect and integrity. His leadership is grounded in TIC's promise to bring sustainable solutions to every organization they work with.
Since 1999, Technology Insight Corporation (TIC) has provided companies with results-oriented solutions to effectively manage every aspect of the Purchase-to-Payment data cycle. By combining revolutionary software technologies with practical root-cause analysis, TIC brings an unprecedented level of value to their clients. TIC understands that millions of dollars are at stake for their clients and is committed to a distinct end result: To reduce, recover, and redeploy lost profits.

The foundation of TIC is built upon an innovative approach to Recovery Audit Services. Instead of the one-dimensional services that many other companies provide, TIC dissects each component of the cycle; from spend metrics to vendor master file analysis, in order to produce tangible results. This comprehensive methodology is powered by groundbreaking software which allows extremely large volumes of data from multiple sources to be processed in record time. This level of efficiency means that clients begin to see recovery in as little as 30 days.

Recovery Audit Services are supported by a proprietary web-based portal which allows TIC to perform most tasks off-site while still providing real-time results to clients 24/7. Additionally, TIC believes so strongly in a true partnership with their clients that Recovery Audit Services are contingency fee based - they are paid only when the client realizes a recovery. Even after the audit ends, TIC offers additional solutions to enhance on-going improvements. The DataShark A/P and Supply Chain Tools allow companies to harness their own future data for continuous improvements.

With a reputation built on results, TIC has assembled a team of experts that embody the company’s core values of professionalism, respect, and integrity. These values dictate their conduct with every client and bring a new degree of service to the recovery audit industry. Uniting TIC’s people power with their process power creates the kind of sustainable solutions that today’s organizations demand.