



Results in Brief

OIG 19-06
January 18, 2019

Why We Did This Review

The VMF is a foundational element of the Accounts Payable and Procurement processes. The VMF contains vital information about vendors and facilitates their engagement in transactions for the procurement of goods and services.

It is essential to effectively maintain this file to avoid unauthorized or inappropriate activity, duplicate payments, and inefficiencies. To safeguard resources over the procurement of goods and services, a mechanism should be in place that supports the assertion that valid vendors exist to provide quality goods and services at competitive prices in a timely manner to meet business objectives.

As of September 30, 2017, WMATA had 14,931 approved vendors that accounted for \$1.4 billion dollars in disbursements from January 1, 2016 through September 30, 2017.

The audit objective was to evaluate the internal controls over the vendor verification, set-up, maintenance, and clean-up processes.

Audit of WMATA's Vendor Master File (VMF)

What We Found

WMATA could be exposed to fraud, improper payments, and error because of:

- Ineffective vendor verification, set-up procedures, vendor maintenance, lack of clean-up procedures; and
- A lack of separation of duties.

As a result of these issues, incorrect or incomplete payment information in VMF could cause an improper payment to a WMATA vendor. Also, the lack of validation of information and the lack of separation of duties increases the risk of fraud. For the 37 vendors selected for audit fieldwork, all had at least one internal control issue within the VMF process. In addition, 8,655 of the 14,931 (58 percent) of vendors in the VMF had no activity for 18 or more months as of September 30, 2017.

Management's Response

OIG received WMATA's comments dated January 11, 2019 (Appendix B). The Chief Financial Officer (CFO) concurred with the finding and recommendations and has initiated actions to correct the deficiencies identified in this report. These corrective actions should address the deficiencies.

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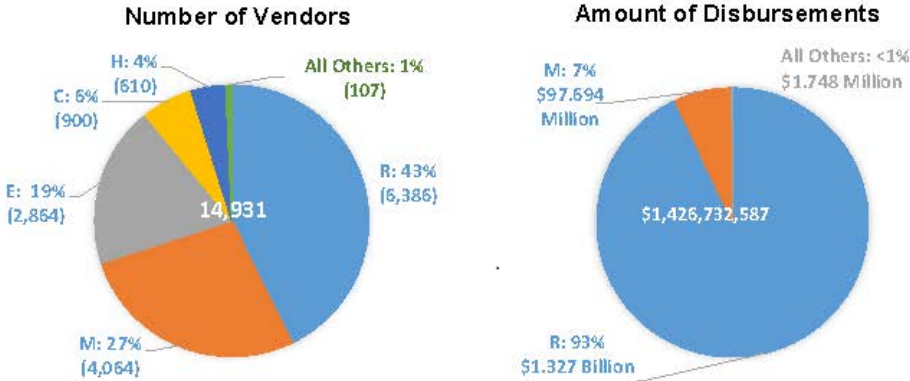
ABBREVIATIONS AND ACRONYMS

ABBREVIATION	DESCRIPTION
ACCT	Office of Accounting
A/P	Accounts Payable
CMRA	Commercial Mailbox Receiving Agency
EIN	Employer Identification Number
GAGAS	Generally Accepted Government Auditing Standards
IRC	Internal Revenue Code
IRS	Internal Revenue Service
P/I	Policy/Instruction
PII	Personally Identifiable Information
PO	Purchase Order
P.O. BOX	Post Office Box
PRMT	Office of Procurement and Materials
SSN	Social Security Number
TIN	Tax Identification Number
VMF	Vendor Master File
WMATA	Washington Metropolitan Area Transit Authority

BACKGROUND

WMATA's VMF is the listing of approved vendors that allows purchase orders (PO) to be issued and payments to be made to WMATA vendors. As of September 30, 2017, the VMF contained 14,931 approved vendors in eight classifications. The approved vendors accounted for \$1,426,732,587 in disbursements from January 1, 2016 through September 30, 2017, as seen in Chart 1:

Chart 1: WMATA's Vendor Universe:



R	Outside Party
M	Miscellaneous
E	Employee
C	Claim
H	Human Capital Management

Vendor Master File Roles and Responsibilities

The following is the division of roles and responsibilities for the VMF process:

- **Office of Procurement and Materials (PRMT) - Procurement Technology Support Team:** Provides oversight to "Outside Party"¹ vendors during vendor registration and for the PeopleSoft Financials "Supplier Portal" module.
- **Office of Accounting (ACCT) – Accounts Payable (A/P) Lead:** Sets up, performs updates to, and approves vendor profiles on the "Vendor Pages" in PeopleSoft Financials. The A/P Lead reviews and documents the Internal Revenue Service (IRS) Form W-9 – "Request for Taxpayer Identification Number and Certification," company letter head, and related email correspondence to support vendor profile information.
- **Department Program Office:** For all vendors, except "Outside Party" vendors, the department program office emails the IRS Form W-9 and requests a vendor to be set-up to A/P.

¹"Outside Party" - WMATA approved vendors with an issued PO and/or contract that make-up the majority of vendors in the VMF.

- **“Outside Party” Vendors:** Are required to register at WMATA’s PeopleSoft Financials “Supplier Portal” module and directly input their information prior to being awarded a PO and/or contract and approval of vendor ID.

Importance of VMF

The VMF is the foundation for the A/P and disbursements process. It defines approved business relationships, captures critical trading partner data and helps determine who gets paid, how and when. The VMF also helps make well-informed decisions about strategic sourcing and steps for reducing costs. Because the VMF is the predominant method in the disbursements process, it could be susceptible to fraud.

AUDIT OBJECTIVE AND RESULTS

Audit Objective

To evaluate the internal controls over the vendor verification, set-up, maintenance, and clean-up processes.

Audit Results

WMATA could be exposed to fraud, improper payments, and errors because of:

- Ineffective vendor verification, set-up procedures, vendor maintenance, lack of clean-up procedures; and
- A lack of separation of duties.

As a result of these issues, incorrect or incomplete payment information in VMF could cause an improper payment to a WMATA vendor. Also, the lack of validation of information and the lack of separation of duties increases the risk of fraud. For the 37 vendors selected for audit fieldwork, all had at least one internal control issue within the VMF process. In addition, 8,655 of the 14,931 (58 percent) of vendors in the VMF had no activity for 18 or more months as of September 30, 2017.

What is Required

Internal Revenue Code (IRC):

IRC Section 6109(a) generally provides that any person required to file a return, statement, or other document shall include an employer identification number or other acceptable identification. WMATA uses IRS Form W-9 to obtain this identifying number. W-9 Form's certification states in pertinent part that, "[t]he number shown on this form is my correct taxpayer identification number," and that, "I am not subject to backup withholding." Form W-9 further states that individuals completing the form "will not be subject to backup withholding . . . if you give the requester your correct TIN, make the proper certifications, and report all your taxable interest and dividends on your tax return."

WMATA's Office of Accounting Procedure Manual ("Accounting Manual"):

The Accounting Manual provides guidance for duplicate vendor accounts, vendor verification, vendor set-up, inactivation, the IRS Form W-9 process, and 1099-Misc process.

WMATA's Data Sensitivity Policy/Instruction (P/I) 15.12/2:

The P/I provides guidance for (1) protection of social security numbers and (2) collection and storage of personally identifiable information (PII).

Accounts Payable Best Practices:

Accounts Payable industry guidance provides VMF best practices for vendor verification, postal guidelines, persistence, audit trail changes, preventing duplicate vendors, vendor inactivation, and separation of duties. One of the best practices is to restrict access to the VMF to only a few key personnel, if possible only one person. The person with access to the VMF should not also process invoices.

What We Found

Table 1: Ineffective Vendor Verification and Set-up Procedures:

#	Finding Item	No. of Approved Vendors Tested with Disbursements	Percent of Applicable Vendors Tested
1	Vendors paid with missing IRS Forms W-9.	21 of 31	68%
2	No Backup Withholding, TIN Non-Reconciliation, and Missing TINs: <ul style="list-style-type: none"> ▪ Vendors paid with missing or incomplete IRS Forms W-9 could have been subject to backup withholding. ▪ TIN and Business Name in accounting system did not reconcile with IRS or vendor had missing TIN in the accounting system and a missing Form W-9. Therefore, the TIN could not be verified with the IRS. ▪ TIN was missing in the Vendor Profile in the accounting system. 	25 of 31 16 of 31 17 of 31	81% 52% 55%
3	Created Date/Time was the default date 01/01/1901. ²	16 of 37	43%
4	Vendor misclassification	6 of 37	16%
5	Persistence misclassification	4 of 37	11%
6	PII identified	67 WMATA employees with Vendor Profiles	100%

²ACCT provided explanation; "The created date for Vendor ID profiles pre-PeopleSoft conversion defaulted to 01/01/1901."

1. **Missing W-9s:** IRS Form W-9 was missing for 21 of 31 applicable vendors tested. Due to the IRS Forms W-9 not being documented, we could not verify the following vendor information for accuracy:
 - Backup withholding exemption.
 - TIN (e.g., social security number (SSN), employer identification number (EIN)).
 - Main business address.
2. **No Backup Withholding, TIN Non-Reconciliation, and Missing TINs:**
 - For 25 of 31 vendors tested, payments made to vendors with a missing or incomplete IRS Form W-9 could have been subject to backup withholding.
 - For 16 of 31 vendors tested, the vendor TIN and Business Name in the accounting system did not reconcile with the IRS TIN match database. Or the vendor tested had a missing TIN in the accounting system and a missing IRS Form and, therefore, the TIN could not be verified with the IRS TIN match database.
 - For 17 of 31 vendors tested, vendor TIN was missing in the accounting system.
3. **Incorrect Created/Issue Date:** 16 of 37 vendors had a created date/time of 01/01/1901 12:00 AM, which was not the actual created date and time.
4. **Vendor Misclassification:** 6 of 37 vendors had significant disbursements that were misclassified as "Miscellaneous" or "Human Capital Management" but should have been classified as "Outside Party" because a contract and/or PO could be tied to it.
5. **Persistence Misclassification:** 4 of 37 vendors were categorized with a persistence of "regular" and had a full vendor profile. However, these vendors received a one-time payment. These vendors should have had a "Single Payment Vendor" profile.
6. **PII Identified:** 67 WMATA employees that were set-up as vendors in the accounting system, the SSN of the WMATA employee could be viewed by any WMATA employee with "Read Only" access.

Table 2: Ineffective Vendor Maintenance Procedures:

#	Finding Item	# of Vendors Tested	% of Vendor Tested
7	Lack of evidence of vendor changes	3 of 31	10%
8	Lack of approval history	37 of 37	100%

7. **Lack of Evidence of Vendor Changes:** 3 of 31 vendors tested had a vendor name change or a change in ownership, evidence of the change, such as a novation agreement, was not on file with A/P. All additions, changes, and deletions should be logged, reported, reviewed and signed off by management other than the person posting updates.
8. **Lack of Supervisory and Approval History:** 37 of 37 vendors tested had only the latest approval in the vendor profile accounting system "Approval History" or evidence of "Approval History" could not be viewed at all. We could not determine if the approval was for the approval of setting up the vendor record or a vendor change, such as change to the vendor name, TIN, contact information, bank details, or other reference information. Also, for vendor set-up and changes, evidence of A/P supervisory review could not be determined.

Lack of Vendor Clean-Up Procedures:

- **Vendor Inactivity:** WMATA does not have a process in place to periodically deactivate vendors, such as every 18 months. In the population, 58 percent of vendors did not have any activity within an 18 month period (6,276 approved vendors had a “last activity date” of January 1, 2016 or more recent, and 8,655 had approved vendors that were older than January 1, 2016). Also, when comparing disbursements to the entire vendor population in the VMF within an 18 month period, 92 percent of vendors did not have disbursement activity. Although, the WMATA Accounting Manual states A/P is responsible for deactivating vendor accounts, it did not state how often and if this was a periodic process.
- **Vendor Duplicates:** 214 vendor duplicates were identified. The duplicate vendor business name, contact email address, bank details, and/or business address were the same. One vendor had a duplicate payment of \$980. A/P confirmed that the vendor was notified and a credit was issued on a later invoice. For the 214 duplicate vendors identified, A/P agreed the duplicate vendors needed to be deactivated from the VMF as part of the vendor clean-up process.

Lack of Separation of Duties:

Accounts Payable Lead prepared and approved the vendor profiles and posted invoices for payment.

Why This Occurred

Policies and procedures were not enforced for obtaining completed IRS Forms W-9, not paying vendors whose IRS Form W-9 was not on file and withholding part of payments to vendors who were subject to backup withholding if TIN or evidence of exemption (IRS Form W-9) was not provided.

The WMATA Accounting Manual did not include:

- Procedures for supervisory review of prepared vendor record during vendor set-up,
- Procedures for vendor verification (e.g. TIN Match Database),
- Definitions for vendor classification,
- Postal guidelines,
- Procedures for set-up for one-time payment vendor,
- Procedures to protect PII for WMATA employees,
- Procedures to check for duplicate vendors, and
- Procedures to periodically deactivate vendors.

The lack of separation of duties occurred because, according to WMATA management, ACCT had not restricted approval permissions for the A/P Lead when reviewing and approving vouchers for payment.

Why This Occurred

Potential Fraud:

If the vendor identifying information is not verified, such as the business name and TIN, there is risk that a fictitious vendor is created and fraudulent payments are made to the vendor. False documentation could be created to manipulate WMATA's A/P system to generate a false payment for a fraudster's benefit. For example, a fraudster could create a scheme to divert the payments to a fraudster's bank account. The fraudster could create a fake business name, fake TIN, use a post office box or Commercial Mailbox Receiving Agency (CMRA) for the main address, and receive payments from WMATA if A/P does not do their due diligence to verify the vendor.

The lack of separation of duties could result, for example, in the A/P Lead modifying the bank routing number of a vendor and directing a fraudulent payment to a personal bank account. The Lead could then approve an invoice payment. After payment is received, the VMF could be returned to its original state. Combined with the lack of approval history, it would be difficult to detect this type of fraud.

Risk of Improper Payments:

Incorrect or incomplete key payment information in the VMF could cause an improper payment. A payment could be improper if it is incorrectly delivered, duplicative, paid in the wrong amount, or not paid at all. There was no secondary review or direct oversight of the vendor profile for vendors that were paid in aggregate of \$748 million. Also, \$271 million was paid to vendors that had duplicate vendor records, thus, putting WMATA at risk of overpaying vendors.

Risk of Regulatory Non-Compliance:

Incomplete or inaccurate vendor reference information could cause non-compliance. The vendor submits to WMATA an IRS Form W-9 which may indicate whether the vendor is exempt from backup tax withholding. For vendors with missing or incomplete IRS Forms W-9, there is a potential for non-compliance with back-up withholding requirements. For vendors tested, \$605 million was paid where the backup withholding exemption could not be determined because the W-9 form was incomplete or missing.

Missing or Incomplete W-9s:

Internal Revenue Code and Treasury Regulations provide for penalties for failure to file correct informational returns, to file correct payee statements and to comply with other information reporting requirements. The penalties vary depending on whether the error is from intentional disregard, whether and when the error is corrected, whether there is reasonable cause for relief, whether the error is de minimis, and the number of returns affected, among other factors.

Exposed PII:

Employees with exposed SSNs could be victims of identity theft.

Leaner VMF Creates Payment Efficiencies:

By removing the inactive and duplicative vendors, the VMF list becomes leaner and the records are easier to access, which increases employee productivity and processing time. In addition, deactivating old vendor accounts without activity in the last 18 months can improve efficiencies.

Conclusion

Without a well-managed VMF maintenance process, WMATA could:

- Fail to identify illegitimate vendors, make duplicate payments, and pay unnecessary expenses; and
- Weaken vendor relationships if the vendor information is not complete and accurate.

In addition, IRS penalties may apply for IRS 1099 forms submitted with the incorrect TIN, when the error or the number of returns affected by the error is not *de minimis*, and the error is not corrected.

Recommendations

We recommend to the General Manager/Chief Executive Officer (GM/CEO):

1. Update WMATA Accounting Manual to address deficiencies noted in this report.
2. Obtain an updated IRS Form W-9 for all active business vendors and document it in PeopleSoft.
3. Assign approval permissions for the vendor maintenance function and the invoice approval function to separate individuals.
4. Protect PII of WMATA employees in the vendor profile section of PeopleSoft.
5. Deactivate duplicate vendors and vendors with no activity for 18 months in the VMF.

SUMMARY OF MANAGEMENT'S RESPONSE

OIG received WMATA's comments dated January 11, 2019 (Appendix B). The CFO concurred with the finding and recommendations. The written comments included a summary of actions to be taken to correct the issues. OIG considers management's comments responsive to the recommendations and corrective actions taken or planned should resolve the issues identified in this report. OIG will follow-up on planned actions in the corrective action plan phase.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

To evaluate the internal controls over the vendor validation, set-up, maintenance, and clean-up processes.

Scope

- Vendor additions, changes, and other vendor master file maintenance activities from October 1, 2016 through September 30, 2017.
- Disbursements from January 1, 2016 through September 30, 2017.

Methodology

To achieve our audit objective, our audit methodology was as follows:

- Researched background information about VMF process by reviewing WMATA policies and procedures, A/P industry guidance, PeopleSoft PeopleBook guidance, and prior audits outside of WMATA.
- Performed gap analysis of WMATA's vendor maintenance policies and procedures and A/P industry vendor maintenance best practices.
- Performed interviews and walkthroughs to gain an understanding and document the VMF process with ACCT-A/P Team and PRMT-Procurement Technology Support Team.
- Identified and documented entity and process internal controls for the VMF process.
- Tested the design effectiveness of the entity and process internal controls.
- Documented VMF process narratives, flowcharts, and risk control matrices.
- Performed vendor data analysis for vendor duplicates, inactivity, TIN matching, and employee address verification using electronic vendor, disbursement, and employee data population listings.
- Performed testing set-up and reporting for a "mock" vendor in the PeopleSoft "test" environment.
- Tested a sample of 87 of 14,931 vendors in the VMF using attribute and stratified random sampling. Within the sample, 37 of 87 vendors had disbursements from January 1, 2016 through September 30, 2017. And within the same sample, 50 of 87 vendors did not have disbursements and ACCT Executive Management determined they were inactive vendors in "approved" status that should be deactivated from the VMF.
- Tested the operating effectiveness of the internal controls for the purchase orders and invoices sampled.
- Analyzed results of testing and provided recommendations.

Generally Accepted Government Auditing Standards (GAGAS) Statement:

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

MANAGEMENT'S RESPONSE

M E M O R A N D U M



SUBJECT: Response to OIG's Draft Audit – 19-XX, Audit of WMATA's Vendor Master File DATE: January 10, 2019

FROM: CFO – Dennis Anosike [REDACTED]

THRU: GM/CEO – Paul J. Wiedefeld [REDACTED]

TO: OIG – Geoffrey A. Cherrington

The following represents the Chief Financial Officer's response to OIG's draft audit, *Audit of WMATA's Vendor Master File*.

OIG Recommendation 1:
Update WMATA Accounting Manual to address deficiencies noted in this report.

Management's Response:
Management accepts this recommendation. In collaboration with PRMT, ACCT is reviewing the Accounting Procedures Manual and will make updates to address the deficiencies identified in the report. Specifically, revised procedures will address adding new vendors, including a naming convention schema, use of vendor categories and persistence fields, and approvals for vendor setup; defining the inactivity period for vendor deactivation and clean-up processes; and obtaining and retaining vendor Form W-9s. The completion date for the finalized policies and procedures is April 30, 2019.

OIG Recommendation 2:
Obtain an updated IRS Form W-9 for all active business vendors and document it in PeopleSoft.

Management's Response:
Management accepts this recommendation. ACCT is developing procedures to update vendor information and plans to conduct a cleanup of its active vendors. As part of the cleanup effort, ACCT will obtain new Form W-9s and attach them to the vendors' file maintained in PeopleSoft. The completion date for obtaining new Form W-9s from all active vendors is June 30, 2019. Vendors who have not submitted a revised Form W-9 by the deadline will be deactivated. Inactive vendors will not be reactivated for payment unless a current Form W-9 is received and on file.

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OIG Recommendation 3:

Assign approval permissions for the vendor maintenance function and the invoice approval function to separate individuals.

Management's Response:

Management accepts this recommendation. The invoice approval role was removed from the analysts who perform vendor master file maintenance. In addition, ACCT is working with IT to develop and implement an approval workflow process for certain vendor master file actions. The completion date for these system configuration changes is February 28, 2019.

OIG Recommendation 4:

Protect PII of WMATA employees in the vendor profile section of PeopleSoft.

Management's Response:

Management accepts this recommendation. ACCT is currently working with IT to mask the TIN field in the vendor profile section of PeopleSoft. The completion date for the system configuration changes is February 28, 2019.

OIG Recommendation 5:

Deactivate duplicate vendors and vendors with no activity for 18 months in the VMF.

Management's Response:

Management accepts this recommendation. In collaboration with PRMT, ACCT is developing policies and procedures to define vendor cleanup processes and the appropriate inactivity period for vendor deactivation (e.g., 18 months, 2 years, etc.). Additionally, ACCT is developing a plan to clean the vendor master file. As a part of the cleanup effort, ACCT will review the vendor master file and deactivate vendors in accordance with the updated policies and procedures. The completion date for the vendor master file cleanup is June 30, 2019.

TO REPORT FRAUD, WASTE, OR ABUSE

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