



OFFICE OF INSPECTOR GENERAL

MEMORANDUM

DATE: November 22, 2004

TO: Inspector General *AK*

THRU: Thomas Cline *TC*
Assistant Inspector General, Audits

THRU: Walter Opaska *WPO*
Director IS, Audits

FROM: Joshua Karbelnig *JMK*
Office of Inspector General

SUBJECT: Vendor Master Survey

The Inspector General (IG) Act of 1978 requires IGs to provide leadership in preventing and detecting fraud and abuse at their agencies. As part of this program, we performed a survey to ensure that the Federal Communications Commission (FCC) is not sending checks to fraudulent businesses or addresses. The objectives of this survey were to: identify if any post office (P.O.) boxes belonged to potentially fraudulent vendors, document any anomaly that arose while comparing P.O. Box owners to vendors, and identify areas where more audit work should be performed.

REASON FOR SELECTION

This review is being conducted to prevent fraud in the accounts payable payment process. The objective is to identify vendors who have both post office boxes and street addresses, then to verify that the post office box belongs to that particular company.

BACKGROUND

In order to succeed, a fraudulent business must control costs associated with its commission. To easily hide and maintain a fictitious address, a fraudulent vendor may use a post office box to receive payments. The use of a postal box to receive payments is a common method of fraud. This technique has been documented in the handbook *Auditing Accounts Payable for Fraud*.

SCOPE OF SURVEY WORK PERFORMED

This project was conducted as a survey. A survey is preliminary audit work done before an audit and is not an audit conducted in accordance with Government Auditing Standards (i.e., GAO "Yellow Book" standards). The purpose of a survey is to gather general working information on important aspects of an entity, activity, or program, and to determine the nature and extent of any subsequent audit effort.

The purpose of this survey was to detect any potentially improper vendor addresses on the FCC vendor master file. To begin the survey, the vendor master list was analyzed to find accounts payable indicators that may signal fraud. For this survey, P.O. Box indicators, as described in the handbook *Auditing Accounts Payable for Fraud*, were used to find discrepancies within the vendor master file. Using Microsoft Excel, 117 discrepancies were found.

The next step was to send a letter to the post office responsible for each indicator address requesting the name and street address associated with each P.O. Box. The information was collected in accordance with Title 39, Chapter I, Section 256.6, Subsection (d)(4)(i) of the United States Code of Federal Regulations.

We compared names and addresses received from the postmasters to the Excel Spreadsheet of vendors. We were able to use the following methods to clear discrepancies within the Excel spreadsheet; (1) the name and address on the letter from the Postmaster matched the address on the spreadsheet; (2) the P.O. Box was owned by a bank because this indicated the use of a lockbox; and (3) internet searches and research cleared an address. Addresses were considered questionable if the vendor could not be validated after taking these steps.

SUMMARY OF OBSERVATIONS

Out of the ninety responses that we received, eighty-three of these contained useful information for this survey. Five of the eight-three responses were still questionable after the above steps were completed. However, we eliminated four of the five questionable vendors because of the length of time that had passed since the last payment. We used a cut off date of 2003.

We followed up with the Chief, Financial Systems Operations Group on one questionable vendor which had two questionable addresses. According to him, these addresses were branch offices of the same vendor. These were not vendors, per se. Instead, they were recipients of refunds of fees previously paid. Based on this information, we consider this instance closed.

LIMITATIONS

The survey had a number of limitations. Most related back to the responses of the postmasters, but sometimes, the name and/or addresses was written illegibly, or the letter was sent back without the name or address included. Not all of the postmasters responded to our letters. As of November 1, 2004, we had not received twenty-seven address responses. Since a majority of the postmasters replied with usable information, we were able to work with the information that was supplied.

FUTURE AUDIT COVERAGE

Because the FCC's has such a large vendor master list, the OIG should periodically evaluate the list to insure that none of the addresses are fraudulent. Any future survey should only look at vendors since the conclusion of this survey. Perhaps the FCC should also consider updating the vendor master list to eliminate addresses that no longer relate to a business or should limit the list to only addresses to which payment is sent.

CONCLUSION

Based on the results of this survey, an audit is not warranted relating to the vendor master list. However, if the OIG should continue to periodically review addresses on the vendor master list as warranted. An audit will be opened if future reviews indicate a need.

cc: Managing Director