

Vendor Due Diligence

A straight forward approach to vendor **due diligence** and its value



What is Due Diligence?

1

Initial Due Diligence

Involves analyzing and verifying that your prospective vendor meets your needs, and is in regulatory compliance. You need to determine if a relationship would help achieve your company's strategic and financial goals and then mitigate identified risks to the best of your ability.

2

Ongoing Due Diligence

Involves the ongoing monitoring of your vendor to ensure they continually meet your needs. Not only should due diligence be performed prior to selecting a vendor, but it should also be performed periodically during the course of the relationship, particularly when considering a renewal of a contract. The more critical the vendor is to your operation, the higher the frequency of your on-going due diligence schedule.

FOR EXAMPLE:

Critical vendors =
(minimum) annual risk assessment + controls review.

You are expected to **perform initial and ongoing due diligence** over your key vendors and ensure procedures are in place to continuously measure, monitor and control risks that you identify.

What is the Importance of Due Diligence?

Often Overlooked Benefits

Your Board of Directors and senior management are ultimately responsible for managing activities conducted by a service provider as if the activity were handled within your company. The examiners **will** evaluate your third party relationships.

Regulatory

- Eliminate surprises to you, senior management, your Board and (most importantly) your customers.
- Ensure you have chosen the best vendor for the best product at a fair price. Beware of falling into the trap of always choosing the cheapest provider. You may get what you pay for.
- Comparing product/service received against contractual obligations facilitates open communication between you and your vendor and builds the best possible long-term working relationship.



Protecting Your Company

Continual monitoring and regularly scheduled review of controls will ensure you have taken steps to mitigate expected risk and provide opportunity to take corrective action when residual risk is on the rise.

Scope of Due Diligence

The scope and depth of due diligence is directly related to the importance and magnitude of the company's relationship with the vendor.

Comprehensive due diligence involves a review of all available information about a potential vendor, focusing on the entity's financial condition, its specific relevant experience, its knowledge of applicable laws and regulations, its reputation and the scope and effectiveness of its operations and controls.



The evaluation of a vendor may include the following items:

- Audited financial statements, annual reports, SEC filings and other available financial indicators
- Significance of the proposed contract on the vendor's financial condition
- Experience and ability in implementing and monitoring the proposed activity
- Business reputation (including references)
- Qualifications and experience of the vendor's principals
- Strategies and goals, including service philosophies, quality initiatives, efficiency improvements and employment policies
- Existence of any significant complaints or litigation, or regulatory actions against the vendor
- Ability to perform the proposed functions using current systems or the need to make additional investment
- Use of other parties or subcontractors by the vendor
- Scope of internal controls, systems and data security, privacy protections and audit coverage
- Cybersecurity preparedness
- The vendor's vendor management program
- Business resumption strategy and contingency plans
- Knowledge of relevant consumer protection and civil rights laws and regulations
- Adequacy of management of information systems
- Insurance coverage



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