Tips, Pitfalls and Best Practices for Managing Nonprofits' Risk with Third Parties

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Vendor Centric

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Today's Speakers

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Agenda

- Who are third parties and what is third-party risk management?
- 4 top influencers driving third-party risk management
- 9 trends and innovations for managing risk with your third parties
- Closing thoughts

Section 1:

Who Are Third-Parties and What Is Third-Party Risk Management?

The typical mid-sized organization has over 1,000 third-party relationships.

What Is a Third Party?

Any *company* or *individual* with which or whom you have entered into a business relationship to:

Provide goods and services for your own use

Perform outsourced functions on your behalf

Provide access to markets, products and other types of services

Examples of Nonprofit Third Parties

- Software manufacturers, such as membership, donors, grants, accounting, learning
- Software hosting
- Credit card processing
- Printing and publications
- Fulfillment and mail houses
- Meeting/event-related vendors
- Fundraisers
- Temporary agencies
- Subrecipients
- Subcontractors
- Consultants and independent contractors
- HR and payroll companies
- IT hardware, services and support
- Accountants and auditors
- Lawyers
- Agents and brokers

What Is Third-Party Risk Management?

The process whereby an organization monitors and manages the potential exposure to problems, harm or loss that arise from interactions with all external parties with which it has a relationship. This may include both contractual and non-contractual parties.

6 Types of Risks You Need to Manage

Reputational

Risk of your organization receiving *negative public opinion* due to problems with, or failure of, a vendor.

Strategic

Risk arising from your *inability to implement strategies* or strategic initiatives due to vendor advice/failure.

Operational

Risk of *disruption to operations* due to the failure in a vendor's processes, people or systems.

Transactional

Risk of *financial loss or damage to credit* due to your inability to deliver important services, or transact business, due to problems created by a vendor or even fraud.

Compliance

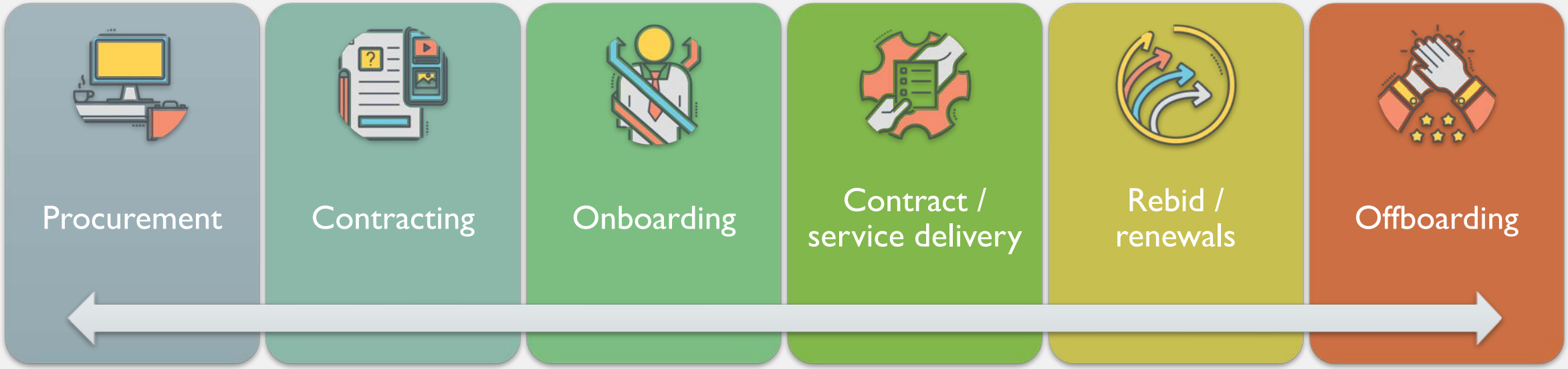
Risk related to your *violation of laws, policies, or regulations* due to something the vendor does (or doesn't do).

Information Security

Risk related to the *exposure of non-public information* (yours and your members, customers and clients') information due to breach or other fault of a vendor.

When Are Third Parties Risky?

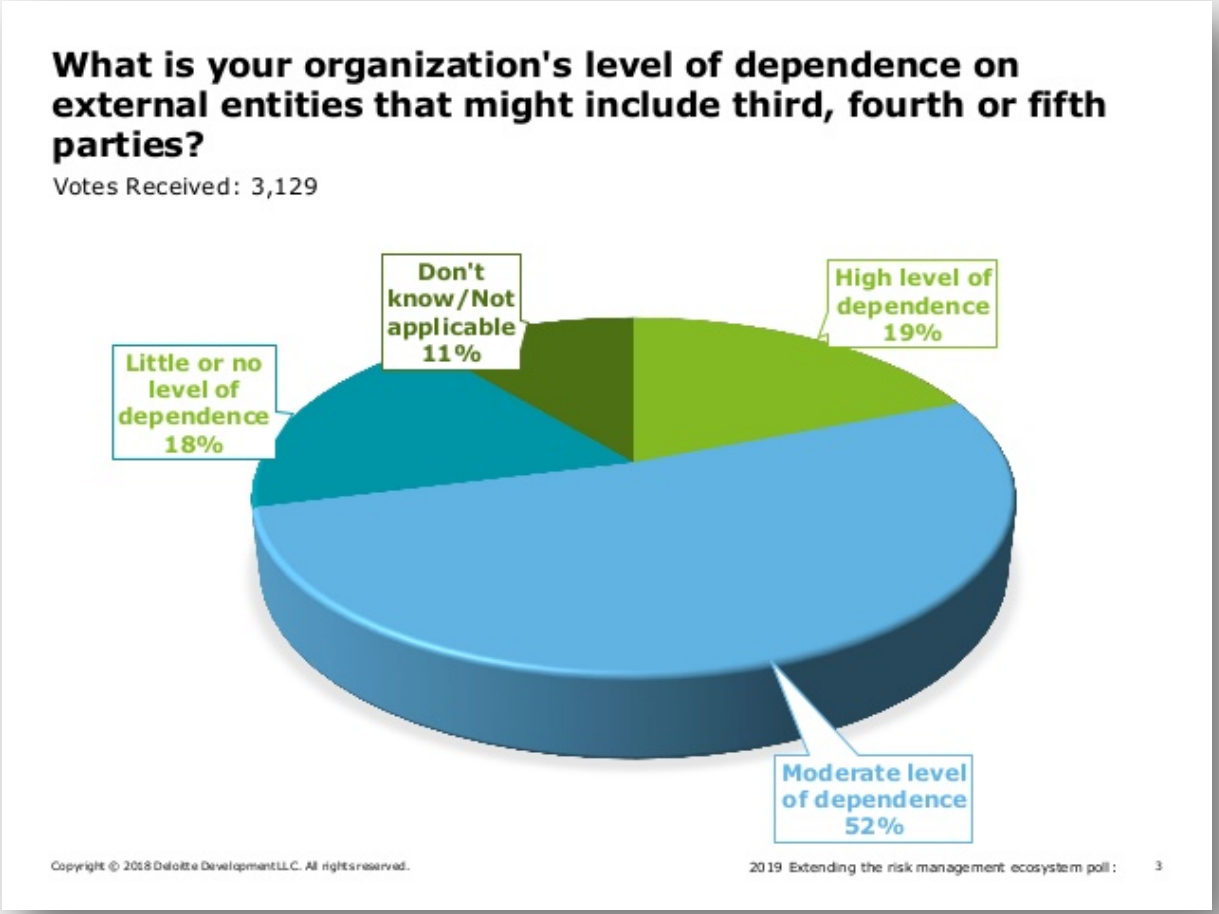
All of the Time!



Section 2:

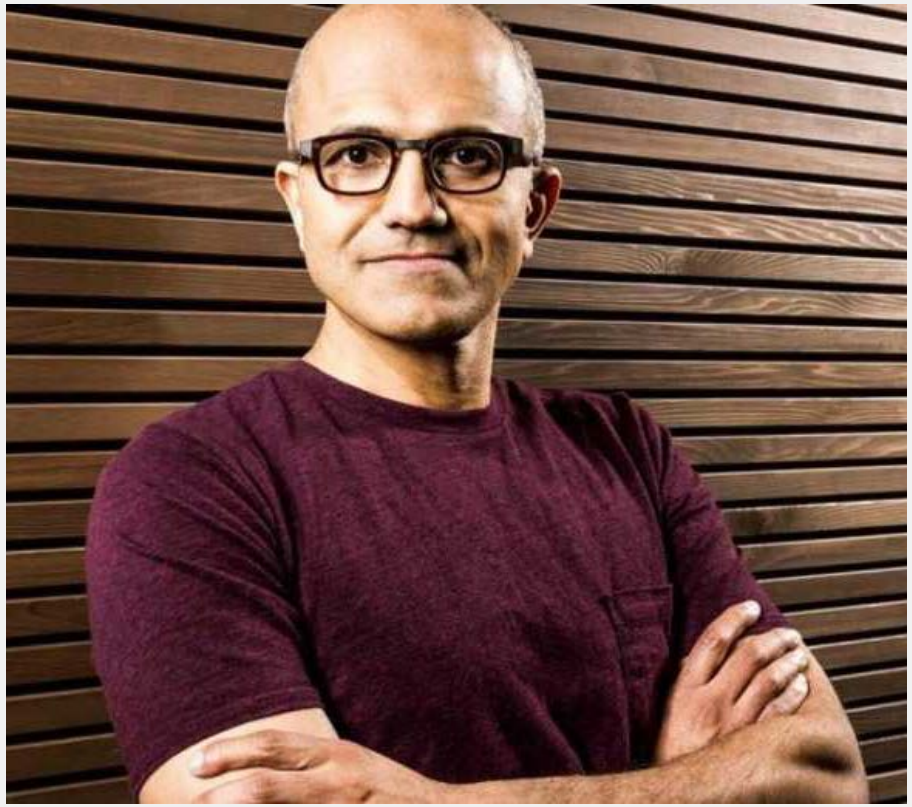
4 Key Influencers Driving Third-Party Risk Management

Driver #1. Increasing Reliance on Third Parties



Source: Deloitte Third-Party Management Global Survey

Driver #2. Increased Complexity of Relationships



"There's a secular movement that's happening... more to an annuity relationship as well as a subscription relationship. These are the long-term relationships we want to have with all customers."

- Satya Nadella
CEO, Microsoft

Driver #3. Increased Data-Sharing

SECURITY & FRAUD

Third-Party Data Breaches Rise To 61 Pct In US

By PYMNTS

Posted on November 15, 2018

Third-Party Data Security Breach Affects Approximately 650 Delawareans

Insurance Commissioner | News | Date Posted: Monday, January 28, 2019

Listen

Security: Third-Party Suppliers Major Source of Business Data Breaches

Home › Security › Security: Third-Party Suppliers Major Source of Business Data Breaches

By Dick Weisinger

Third party vendors and suppliers are the source of more than 60 percent of data breaches according to a survey by Ponemon Institute and Opus.

The survey by Ponemon found that the number of third-party incidents is [illegible] employers have fewer full-time employees. The number of third-party v[illegible] is growing. The number of third-party suppliers increased by 25 percent

16 Breach at Goodwill Vendor Lasted 18 Months

SEP 14

C&K Systems Inc., a third-party payment vendor blamed for a credit and debit card breach at more than 330 **Goodwill** locations nationwide, disclosed this week that the intrusion lasted more than 18 months and has impacted at least two other organizations.

On July 21, 2014, this site broke the news that multiple banks were reporting indications that Goodwill Industries had suffered an apparent breach that led to the theft of customer credit and debit card data. Goodwill later confirmed that the breach impacted a portion of its stores, but blamed the incident on an unnamed "third-party vendor."

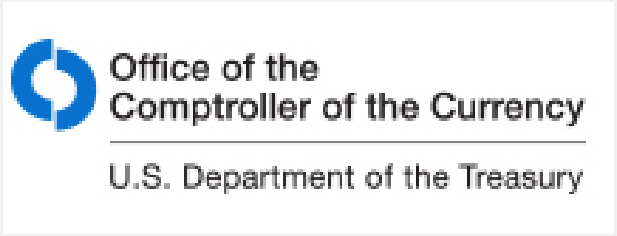
CK systems omni-channel retail solutions

Vendor error causes major patient record leak at New York hospital

Cause of Bronx-Lebanon Hospital Center breach tied to misconfigured rsync backup that was managed by iHealth Innovations.

By Bill Siwicki | May 09, 2017 | 12:42 PM

Driver #4. Increased Regulatory Oversight



83% of organizations experienced a third-party incident in the last 3 years.

46% of those experienced a **moderate to severe impact** on customer service, financial position, reputation or regulatory compliance.

Deloitte Third-Party Management Global Survey

Section 3:

3 Themes & 9 Trends in Third-Party Management

Theme 1

Expanded Risk Management Activities During Procurement

1. Organizations Are Being More Deliberate About Adding New Third Parties

Master Vendor List		
Last updated: 12/4/2018		
Vendor	Status	Notes on goods/services
Actuarial Careers	Active	Recruiter
Addison Group	Active	Recruiter
Adecco	Active	Recruiter
Aerotek Professional Services	Active	Recruiter
Alta IT Services	Active	Recruiter
Andover Research	Active	Recruiter
Beacon Recruiting	Active	Recruiter
Bridgeway	Active	Recruiter
Capstone Search	Active	Recruiter
CPA Search Inc.	Active	Recruiter
D.W. Simpson	Active	Recruiter
ECS (Employment Contractor Services Inc.)	Active	Recruiter
Executive Network, LLC	Active	Recruiter
Frank Consulting	Active	Recruiter
Group One Consultants	Active	Recruiter
Hanover Search	Active	Recruiter
Hire Strategy	Active	Recruiter
Kaye Bassman International	Active	Recruiter
KD&G	Active	Recruiter
KDG (Kathy Gibney)	Active	Recruiter
Latitude, Inc.	Active	Recruiter
MRI Network	Active	Recruiter
Neos LLC	Active	Recruiter

Key Reasons Why

- Avoid introducing unnecessary risks from new relationships
- Reduce the # of vendors, contracts and compliance requirements to manage

2. Organizations Are Developing Risk-Mitigating RFPs

Key Reasons Why

- Improve accuracy and completeness of vendor proposals and statements of work
- Identify and remediate risk issues early on
- Comply with regulatory requirements

Components of a Solid RFP Package

1. **Executive overview** – frames purpose and objectives
2. **Organizational background** – provides context about your organization
3. **Functional, technical and business requirements** – details everything that the solution needs to do
4. **Pricing information** – defines all components preferred methodology
5. **Deliverables and timelines** – what you expect to be produced and by when
6. **Responsibilities of both parties** – what resources you will provide and what you expect of them
7. **Evaluation process and key factors** – how you'll evaluate proposals and what factors are most important to you
8. **Standard terms and conditions** – teases out risk issues at the beginning of the process

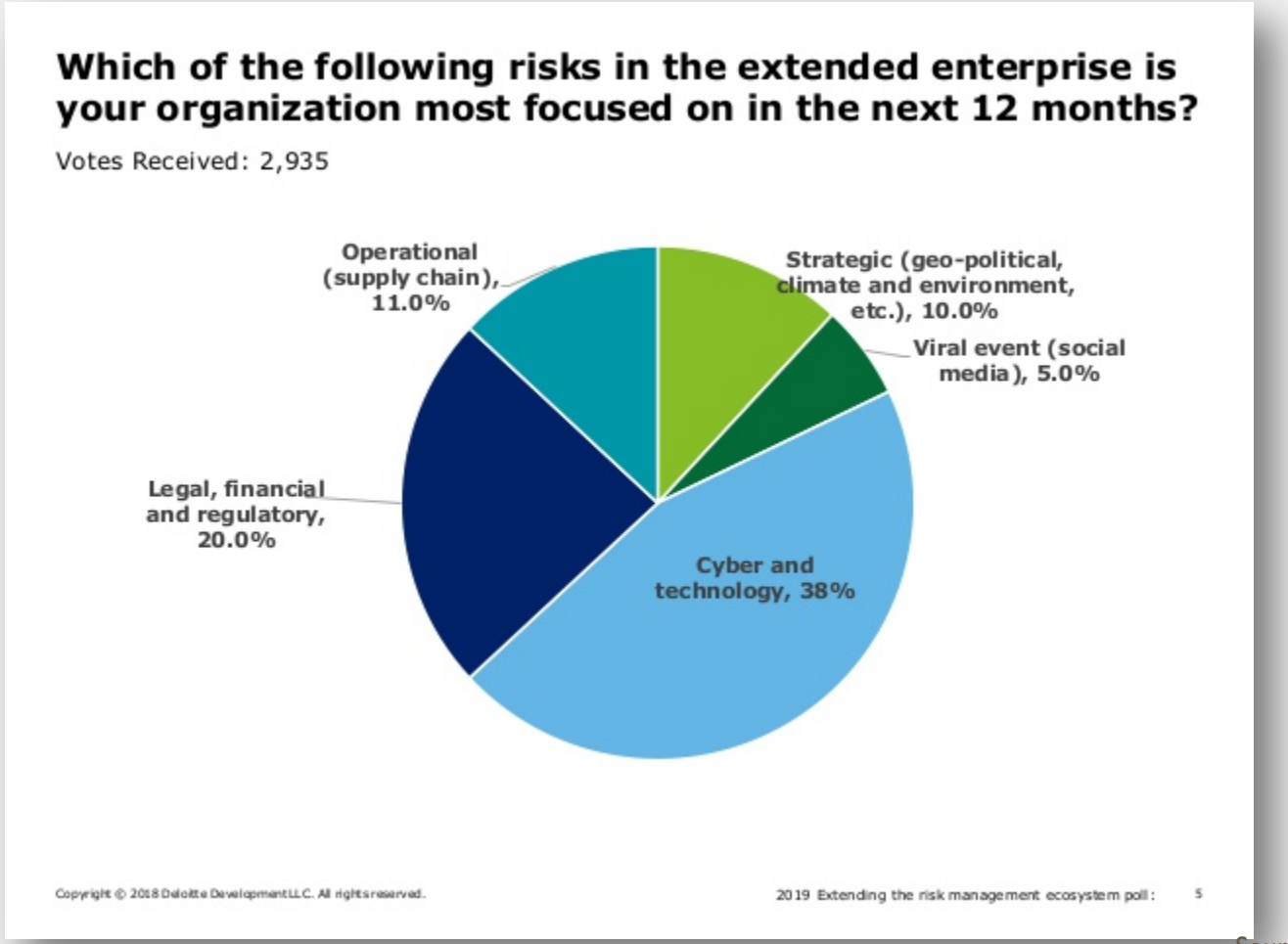
3. Organizations are Significantly Expanding Pre-Contract Due Diligence

Employment Practices		Completed?
1.	Will services be provided by subcontractors, instead of employees?	--
2.	Are employees, subcontractors and temporary workers with access to client data, bound by non-disclosure agreements (whether separately or as part of their code of conduct)?	--
3.	Does your company conduct background checks (that include credit, criminal, drug and employment checks) for all employees, consultants, temporary workers and external providers before they are hired and are granted access to sensitive data?	--
4.	Is there a termination checklist to ensure employees return assets upon termination, (laptop, desktop, PDA, cell phones, access cards, tokens, smart keys, proprietary documentation)?	--
Technology		**Completed?**
1.	Does your company have a SOC 1 – Type 2 report? If yes, please submit.	--
2.	Provide details on all locations where data is stored (including backup or replicated sites). List all locations, including any which may be data or portion of data taken offsite by an employee, contractor, on a laptop, etc.	--
3.	Briefly describe the process used to determine when a client should be notified after an incident or event.	--
4.	Has your company experienced any security breach in the past 3 years (internal or external)?	--
5.	How does your company ensure security of portable devices that potentially has Company's data and information (i.e. laptops, removable storage, mobile phones, etc.). Does this includes both firm and employee's own device?	--
Disaster Recovery/Business Continuity		**Completed?**
1.	Does your company have a Business Continuity Plan and/or Disaster Recovery? If Yes, please upload.	--

Key Reasons Why

- Understand risks that are inherent in the relationship
- Assess the adequacy of policies, controls and contractual terms to mitigate those risks
- Prevent contracting with third parties whose risk exceeds your tolerance

Where Companies Are Focusing Their Due Diligence



Source: Deloitte Third-Party Management Global Survey

Types of Due Diligence that May Be Needed

Corporate Health

- Financials and credit
- Bankruptcy
- Litigation
- Negative news

IT and Information Security

- Access
- Protection
- Storage
- Destruction

General Screening

- Business registration
- Licensing
- Insurance
- Sanctions
- Politically exposed persons
- Potential conflicts

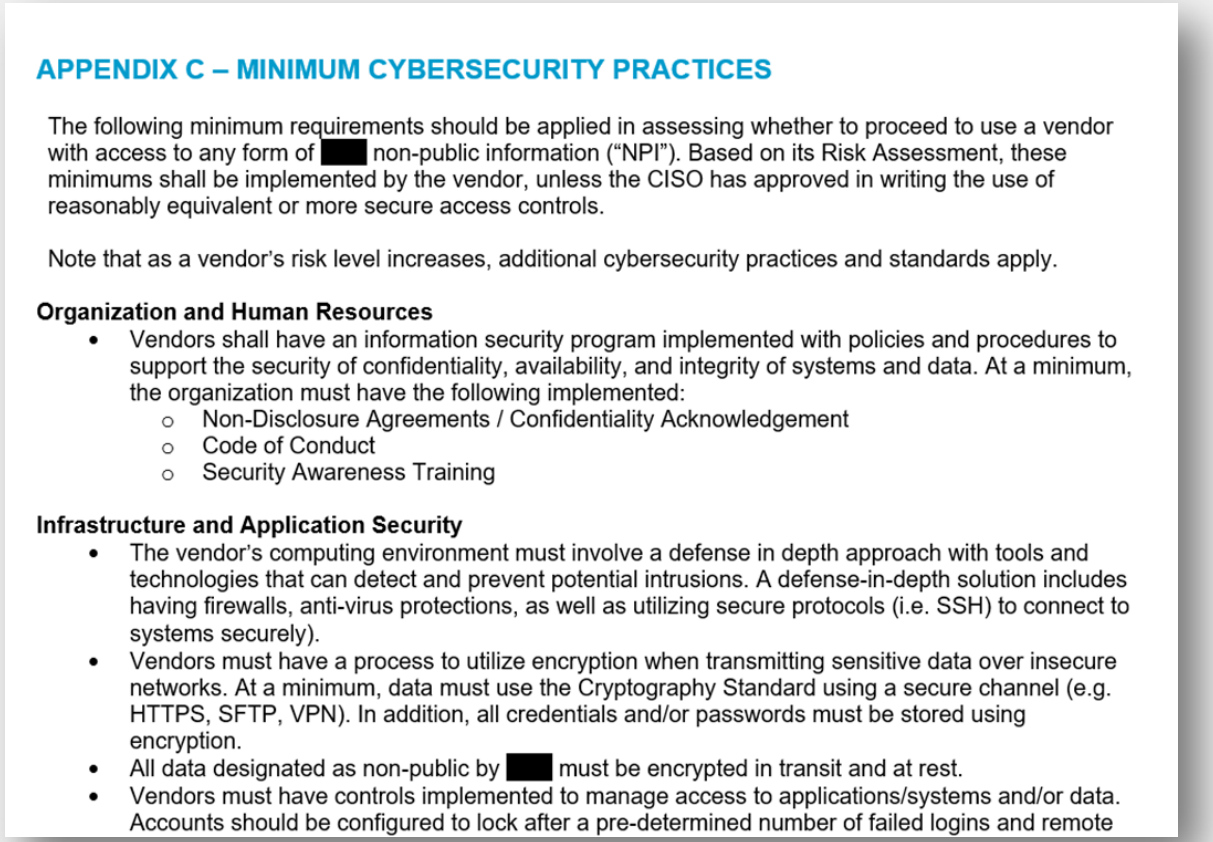
Employment Practices

- Background screening
- Code of conduct / conflicts
- Training
- Offboarding

Operations Management

- Quality systems
- Internal controls
- Core software platforms
- Downstream vendors (4th parties)

4. Organizations Are Establishing Standards for Their Third-Party Relationships



APPENDIX C – MINIMUM CYBERSECURITY PRACTICES

The following minimum requirements should be applied in assessing whether to proceed to use a vendor with access to any form of [redacted] non-public information ("NPI"). Based on its Risk Assessment, these minimums shall be implemented by the vendor, unless the CISO has approved in writing the use of reasonably equivalent or more secure access controls.

Note that as a vendor's risk level increases, additional cybersecurity practices and standards apply.

Organization and Human Resources

- Vendors shall have an information security program implemented with policies and procedures to support the security of confidentiality, availability, and integrity of systems and data. At a minimum, the organization must have the following implemented:
  - Non-Disclosure Agreements / Confidentiality Acknowledgement
  - Code of Conduct
  - Security Awareness Training

Infrastructure and Application Security

- The vendor's computing environment must involve a defense in depth approach with tools and technologies that can detect and prevent potential intrusions. A defense-in-depth solution includes having firewalls, anti-virus protections, as well as utilizing secure protocols (i.e. SSH) to connect to systems securely).
- Vendors must have a process to utilize encryption when transmitting sensitive data over insecure networks. At a minimum, data must use the Cryptography Standard using a secure channel (e.g. HTTPS, SFTP, VPN). In addition, all credentials and/or passwords must be stored using encryption.
- All data designated as non-public by [redacted] must be encrypted in transit and at rest.
- Vendors must have controls implemented to manage access to applications/systems and/or data. Accounts should be configured to lock after a pre-determined number of failed logins and remote

- Cybersecurity standards
- Licensing standards
- Insurance standards
- Employment screening standards
- Performance/reliability standards
- Contracting standards

Theme 2

Standardization of Contracting and Contract Management

5. Organizations Are Standardizing Contractual Terms and Conditions

Table 2: Top ten most negotiated terms 2018

'18			'15	'14/ '13	'12	'11	'10	'09	'08	'07
1	Limitation of Liability	-	1	1	1	1	1	1	1	1
2	Indemnification	-	2	3	2	2	2	2	2	2
3	Price/Charge/ Price Changes	-	3	2	3	3	3	3	3	4
4	Termination		9	4	8	11	7	6	7	11
5	Scope and Goals/ Specification		11	5	6	5	6	8	8	9
6	Warranty		7	8	7	4	4	4	4	3
7	Performance/ Guarantees/ Undertakings		8	7	9	12	10	11	13	14
8	Payment		5	9	16	7	18	-	15	15
9	Data Protection/ Security/Cybersecurity		18	17	18	15	5	5	10	7
10	Liquidated Damages		13	6	20	14	13	12	5	5

Table 3: Top ten most important terms 2018

1. Scope and Goals/Specification
2. Responsibilities of the Parties
3. Price/Charge/Price Changes
4. Delivery/Acceptance
5. Service Levels
6. Performance/Guarantees/Undertakings
7. Limitation of Liability
8. Payment
9. Data Protection/Security/Cybersecurity
10. Change Management

Key Reasons Why

- Create guidelines for contract signers
- Reduce overall risk exposure
- Address concerns when using vendor contractual templates

Source: IACCM

13 Common, Standard Terms and Conditions

1. Term and termination
2. Fees and expenses
3. Intellectual property ownership and licensing
4. Confidentiality, conflicts of interest, non-competition, non-solicitation of your employees
5. What is each party responsible to do under the contract?
6. Authority (including limits thereon) to act on your behalf?
7. How can the vendor describe its relationship with you?
8. Indemnification and limitation of liability
9. Insurance requirements
10. Post-termination/expiration obligations and restrictions
11. Dispute resolution
12. Service-level agreements
13. Others – each contract needs to be tailored to each matter/transaction

6. Organizations are Standardizing Third-Party Onboarding

Key Reasons Why

- Align stakeholders
- Support policy compliance
- Create basis for a more successful relationship

Key Onboarding Activities

7. Organizations Are Using Risk Standards to Determine Level of Contractual Oversight and Management

Key Reasons Why

- Focus on the riskiest contracts
- Scale oversight activities based on the level of risk
- Increase compliance with contractual terms and conditions

Types of Oversight Activities

- **Basic Oversight**
  - Ensuring goods and/or deliverables conform to agreement with vendor
  - Ensuring invoices are complete, accurate and reconciled to purchase order or contract
  - Ensuring timely payment of vendor according to payment terms
  - Monitoring contract auto-renewal and expiration dates
- **Expanded Oversight**
  - Monitoring compliance with service-level agreements
  - Conducting surveys of internal stakeholder (and perhaps the vendor)
  - Facilitating business reviews and issue remediation meetings
  - Onsite visits and control testing
  - Developing contingency plans
  - Formal offboarding

Theme 3

Establishing Resources and Infrastructure for the Third-Party Risk Management Function

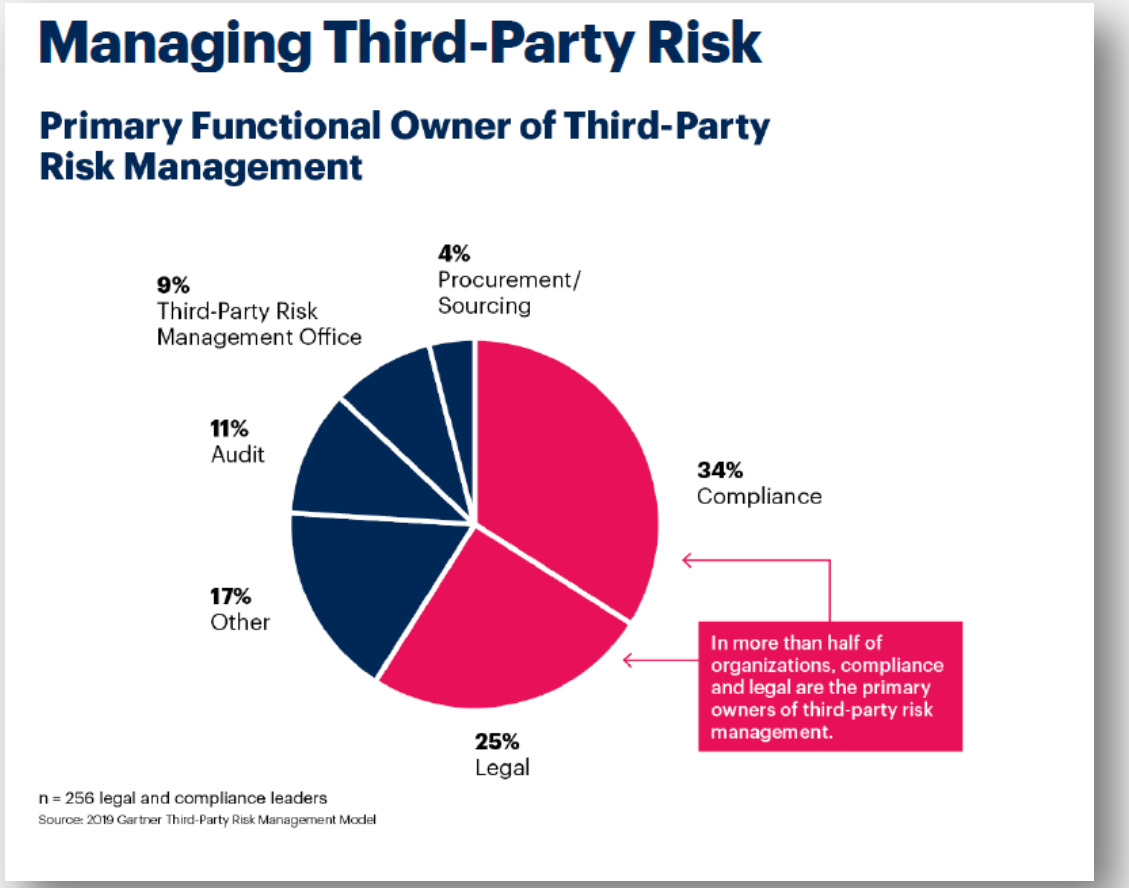
Third-Party Risk Management Framework

To manage third-party risks, it is critical to establish foundational components within TPRM Program.

TPRM foundational components					
Governance and oversight	Policies and standards	Third-party inventory and contracts	Risk approach and models	TPRM processes	Technology, automation and reporting

Source: EY

8. Organizations Are Establishing Functional Owners of TPRM

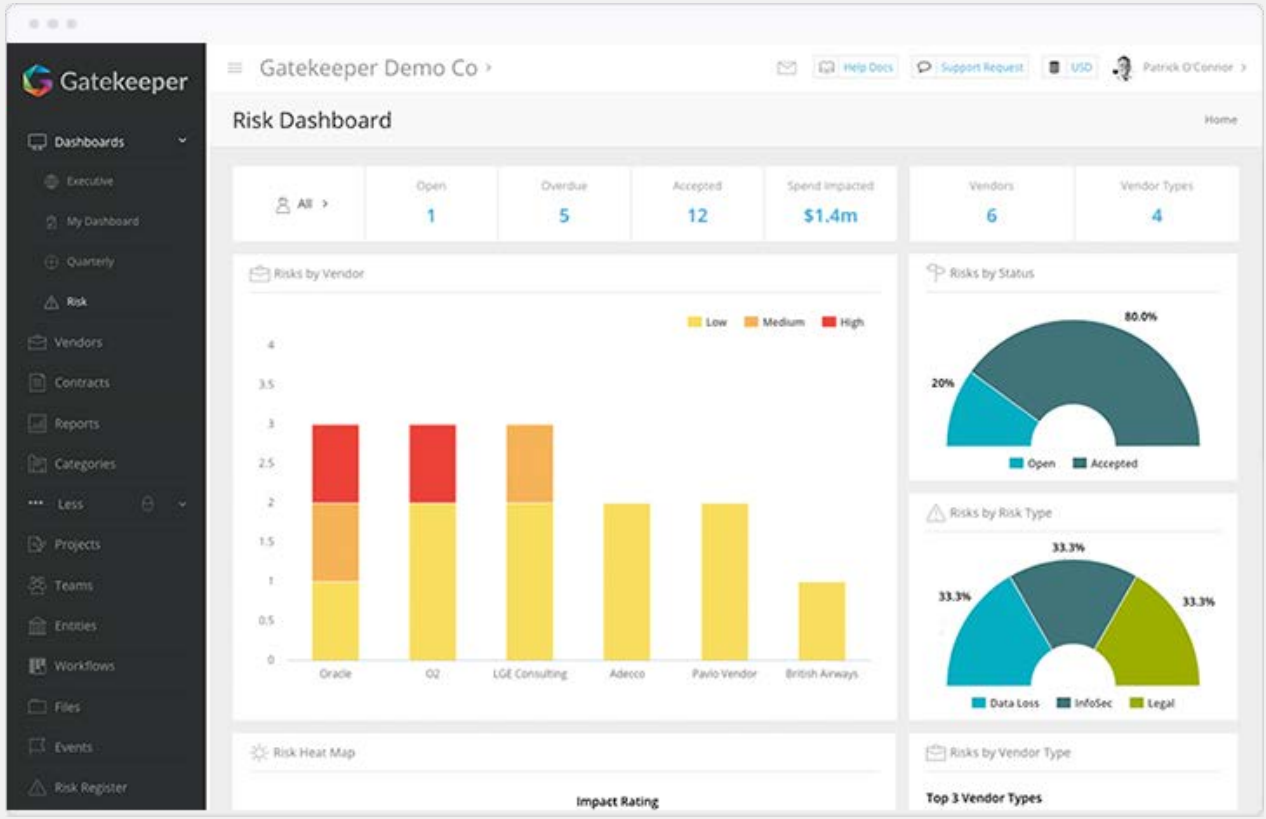


Key Reasons Why

- Provide governance and oversight
- Clarify roles and responsibilities
- Assign accountability
- Meet regulatory requirements

Source: Deloitte Third-Party Management Global Survey

8. Organizations Are Implementing Third-Party Management Software

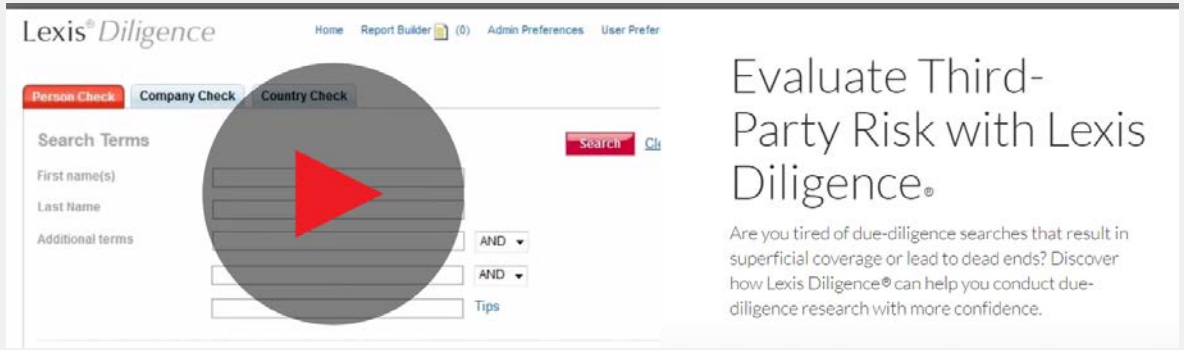


Key Reasons Why

- Create central inventory of third parties and contracts
- Build profiles of the relationships
- Store contracts and related documents
- Assess risk and perform due diligence
- Run reports to easily show compliance

Source: Gatekeeper

9. Organizations Are (Starting) to Leverage External Data Intelligence Tools

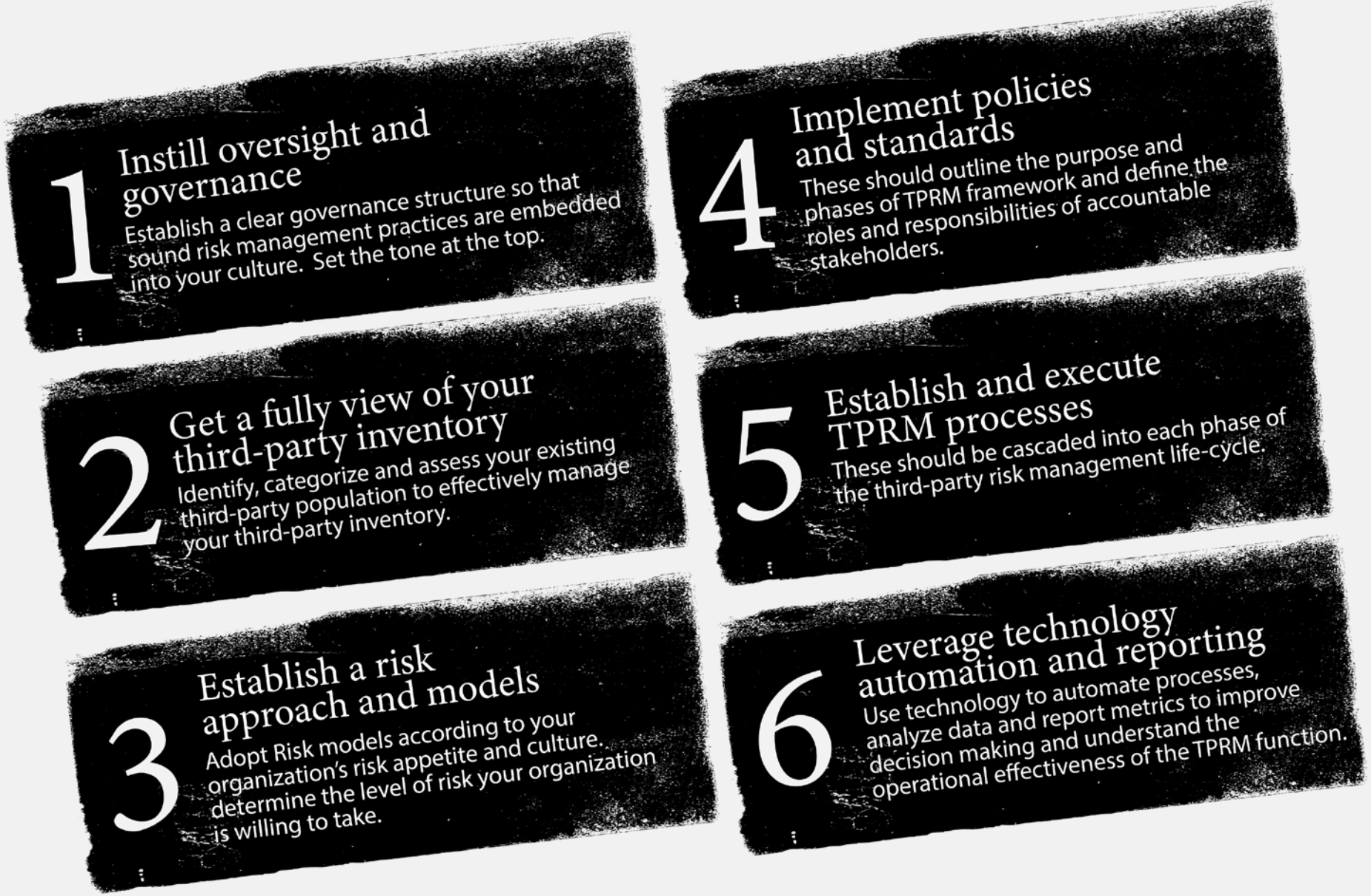


Current and Emerging Tools

- Business verification screening
- Background screening
- Licensing and certification screening
- Sanctions screening
- Cyber risk monitoring
- Financial health monitoring

Source: Lexis Nexis

Section 4:
Closing Thoughts


1
Instill oversight and governance
Establish a clear governance structure so that sound risk management practices are embedded into your culture. Set the tone at the top.
2
Get a fully view of your third-party inventory
Identify, categorize and assess your existing third-party population to effectively manage your third-party inventory.
3
Establish a risk approach and models
Adopt Risk models according to your organization's risk appetite and culture. determine the level of risk your organization is willing to take.
4
Implement policies and standards
These should outline the purpose and phases of TPRM framework and define the roles and responsibilities of accountable stakeholders.
5
Establish and execute TPRM processes
These should be cascaded into each phase of the third-party risk management life-cycle.
6
Leverage technology automation and reporting
Use technology to automate processes, analyze data and report metrics to improve decision making and understand the operational effectiveness of the TPRM function.

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