Sharpening Your Due Diligence Program

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Compliance Week West

Based on -

- More than 60 multinational implementations in the last 3 years.
- Companies ranging from $112 billion in market cap to private closely held companies with $500 million in sales.
- Half dozen DOJ & SEC investigations
  - Using a scalable application.
  - Risk based due diligence methodology that meets DoJ/ SEC, UK SFO and OECD requirements and recommendations.

1. Define standards.
    - Due diligence, training, compliance docs
    - Don’t think linear; use risk-based approach
2. Carefully consider complexity of your risk model.
    - Does data exist to calculate risk factors?
    - Needs to be sustainable with business processes – Business Justification, DDQ, RF Resolution
3. How do I aggregate my third-party data?
4. Clearly articulate a work plan.
5. Use a platform that is credible and intuitive.
6. Launching my program.
    - Where and when
    - This is a business opportunity and journey, not a one-time exercise

1. How do you know when and where to conduct due diligence?
2. What scopes of due diligence are appropriate?
3. Who do you focus on first?
4. How often should I conduct due diligence?
5. Is there a best practice for implementing a program?
6. How do I determine my risk today? What if it changes? How do I track those changes?

Creating Your Roadmap

1. There is no off-the-shelf program or risk matrix that provides a roadmap of where to focus your efforts.

2. A program requires financial investment – so be strategic with your resources when defining training, due diligence, and audit requirements.

3. Know which areas of your business (geography, business units, relationship types) present the greatest exposure for your company.

4. **You must know your business to know your risk.**

5. **You must know your risk to determine complexity of your program**

Know Your Business

Provides Visibility

- How you do business
- Types of relationships you have
- Clear classifications of your third parties
- Clear and concise picture of exposure and complexity requirements for effective and rigorous program

Illuminates where you need to focus your resources

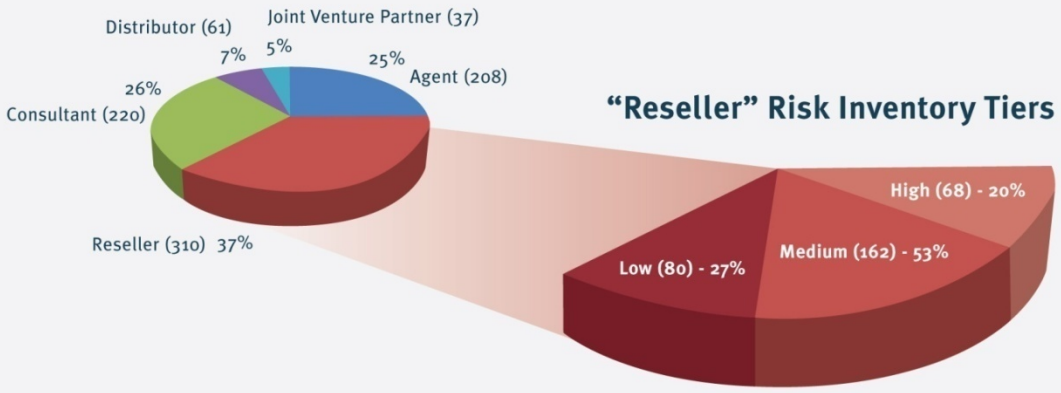
1. **Identify categories of third parties**: How does your company do business? -- by segment, by operating company, by region
    - Interview key stakeholder(s) (may include sales, legal, procurement, IA)
    - Collection of 3P definitions in broad terms (specific data not req'd)

2. **Weigh and assess risk**
    - Conduct risk analysis on the categories to determine the level of exposure for each discrete category

3. **Define risk tiers based on category risk scores** (i.e., risk thresholds) and the scope of due diligence (if any) to be applied to each tier.

4. **Data aggregation**
    - Data source identification, collecting, conforming, and cleansing
    - Assign category type (which has an associated risk and a predefined level of investigation)

We have identified five types of third party business relationships, including 836 companies, with which XYZ Company conducts business.



Based on individualized risk inventory, the following chart indicates
types relative to the total number of third parties currently e

Risk Score	Tier	Scope	
9 8 7	High	Enhanced Due Diligence (EDD)	Agent Type 1 Consultant
6 5 4	Medium	Open Source Investigation (OSI)	HCP Type 2 Distributor Type 1
3 2 1	Low	Internal Only	Agent Type 2

Thank you

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Overview

- Target End State
- Recommended Solution
- Bodies of Work
- Future Programs to Be Developed

Target End State

- Active international ground handlers who are listed as non-proprietary in our system will have completed the defined due diligence documents based on the set thresholds.
- Documents requiring renewal will be identified and obtained from the supplier.
- System will be developed to house supplier information and provide a centralized location of due diligence documents

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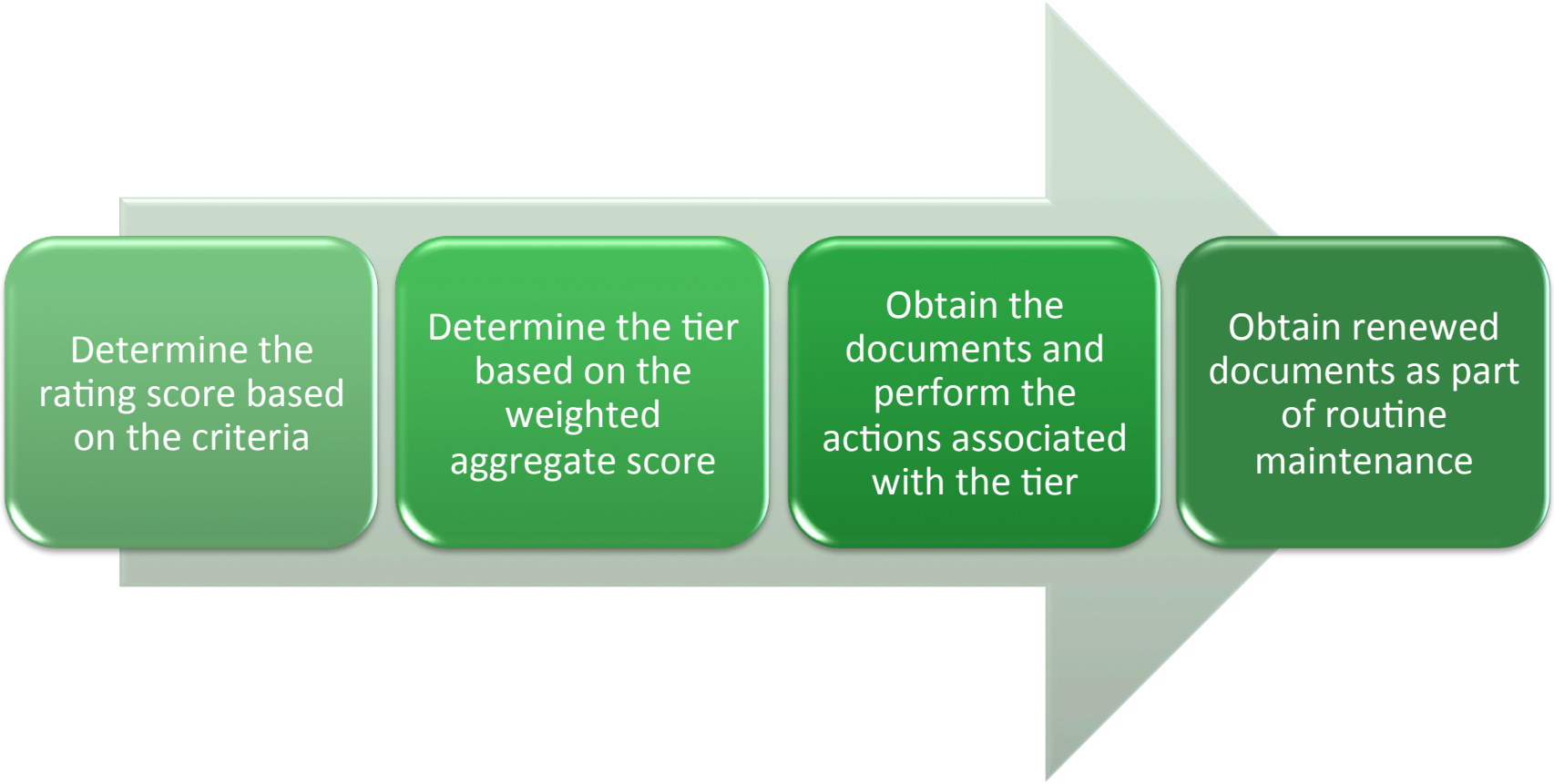
High Level Process



Rating Criteria

Rating Criteria - The purpose of this section is to illustrate the agreed upon criteria that will be applied to significant factors used to determine the overal Rank of each third party ground handler.

Score		1	2	3	4	5
Description	Weight 100 %	Low	Fair	Moderate	High	Critical
Years doing Business with UWA	20 %	>15	11-15	6-10	1-5	Unknown
Contract	20 %	2009 or newer PGH or ground handler agreement	UVGN to PGH	Marketing/Comission agreement/Preferred vendor agreements or primary ground svcs coordination agreement	One off agreements	None
Annual handlings per Calendar Year	20 %	<25	25-50	51-100	101-200	>200
CPI Rating	20 %	>7.0		7.0 - 5.0	4.9 - 3.0	<3.0
Annual Spend per calendar year in thousands (CPI Rating = Low or Moderate)	20 %	<10	10-75	76-250	251-500	>500
Annual Spend per calendar year in thousands (CPI Rating = High or Critical)		<5	6-75	76-250	251-500	>500
UWA Risk Ranking		<2.49		2.50-3.49		>3.50

Threshold Tiers

Tier	Description	Weighted Aggregate Score
Tier 1	Low Risk	<2.49
Tier 2	Moderate Risk	2.50-3.49
Tier 3	High Risk	>3.50

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Due Diligence Documents to Be Completed/Provided by the Supplier

	Requestor	Tier 1	Tier 2	Tier 3
New Handler Questionnaire	ADM	✓	✓	✓
New Vendor Set-up Form	Vdr Relations	✓	✓	✓
Bank Information Form	Vdr Relations	✓	✓	✓
W-9/W-8BEN	Vdr Relations	✓	✓	✓
Certificate of Insurance	GPM	✓	✓	✓
Operating Permits	GPM	✓	✓	✓
Price List	GPM	✓	✓	✓
Company Profile	Compliance		✓	✓
Business Registration and Organizational Documents	Compliance		✓	✓
Pictures	Compliance		✓	✓
List of Locations	Compliance		✓	✓

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Due Diligence Actions

	Requestor	Tier 1	Tier 2	Tier 3
CAA/Airport Authority validation	GPM	✓	✓	✓
MK Denial	Compliance	✓	✓	✓
Ac-U-Kwik	Compliance	✓	✓	✓
Web Search	Compliance	✓	✓	✓
Public records search	Compliance		✓	✓
Research corporate relationships	Compliance		✓	✓
Telephone Interviews, questionnaires (Company Profile), and supporting documents (organizational documents, etc.)	Compliance		✓	✓
Vendor Training (Online or Web-conference)	Compliance		✓	✓
Reference checks (bank, vendors, and customers)	Compliance			✓
Audit and review of 3rd party controls, policies and financial records	Compliance			✓
Third party investigation and report leveraging local data sources	Compliance			✓

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Bodies of Work

Body of Work	Actions	Time and Resources

Infrastructure	• Develop/Modify guidelines, processes, policies, Vendor Code of Conduct, and templates
	• Interim systems solution is to use SharePoint to store vendor information and continue with currently used document storage locations; Long term systems solution is to develop a centralized location (possibly VMS)
	• Internal training of conducting third party due diligence
		(Interim System Solution)
		• Time
		  • TBD
		• Resources
		  • TBD

New Supplier Set-up	• Consolidate due diligence documents into single package to be sent to and completed by all new suppliers (ground handlers will be set-up as proprietary until completed)
	• Single group to manage sending package to the supplier and responsible for internal distribution of the forms
		• Time
		  • TBD
		• Resources
		  • TBD

Bodies of Work

Body of Work	Actions	Time and Resources

Existing Suppliers	• Assessment will be performed on each ICAO and respective ground handlers based on the initial thresholds and risk matrix to understand what level of due diligence documentation has been collected and which documents and actions are missing or require updating
	• Missing or out of date documents will be collected
	• "Obtain Vendor Documents" process will be used which includes escalation for non-compliant suppliers
	• This will be broken down into sub-bodies of work
		<u>460 ICAOs w/o Co Profile</u>
		• Time
		  • TBD
		• Resources
		  • TBD
		<u>Solo/Government</u>
		• Time
		  • TBD
		• Resources
		  • TBD
		<u>All Others Based on Initial Thresholds</u>
		• Time
		  • TBD
		• Resources
		  • TBD

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Future Programs to Be Developed

- Audit Program
- Customer Awareness
- Training Programs for Suppliers
- Monitor and Reviewing Program

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HP Partner Diligence Framework

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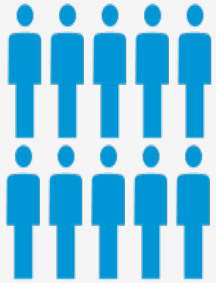
HP Partner Diligence Framework

Risk-Based Scope
Partner Type & Business Model



- Retailer
- Reseller
- Distributor
- Original Equipment Manufacturer
- Logistic Provider
- Agent
- Indirect Supplier

Weighted Risk Scoring
Low, Medium, High Risk

1 **Questionnaire**

2 2nd Level Investigation

3 3rd Level Investigation

Governance Board Decision
Legal, Business, Business Risk Mgmt

Pass

Fail

Special Handling

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