Using Third-Party Vendors to Enhance Compliance
Thursday, May 16
11:00 a.m. – 12:00 p.m.

During this session, panelists discuss finding a technical solution that is a good fit for your firm, tips on performing an efficient due diligence review, contract issues and advice on implementing new software.

Moderator:  Andrew McElduff
            Associate District Director, Sales Practice
            FINRA New York District Office

Panelists:  Brian Curtis
            Global Head of Anti-Money Laundering
            Pershing LLC

            Paige Pierce
            Management Consultant
            Larimer Capital Corporation

            Baha Sarana
            Executive Director, Global Head of Financial Crimes Screening
            Morgan Stanley
Using Third-Party Vendors to Enhance Compliance Panelist Bios:

Moderator:

Andrew McElduff is Associate Director in FINRA’s New York Regional Office. His role includes managing a staff of approximately 30 staff including Examination Managers and examiners who are responsible for conducting the cycle, branch, and cause examinations of member firms. During his tenure with FINRA, Mr. McElduff has both conducted and managed examinations of small, mid, and large member firms. Mr. McElduff joined FINRA in September 2007 after working at a startup handling all day to day operations and managing a national sales team. Prior to that, Mr. McElduff graduated from the University of North Carolina at Chapel Hill.

Panelists:

Brian Curtis is Global Head of Anti-Money Laundering for BNY Mellon’s Pershing, as well as the Head of Compliance for Pershing’s Florida Regional Office. In his role, Mr. Curtis is responsible for overseeing all areas of Pershing’s Global AML Program including Surveillance and Investigations, Sanctions Compliance, and Suspicious Activity Monitoring and Reporting. Prior to his current position, Mr. Curtis led Pershing’s KYC Program where he managed a team responsible for the initial due diligence and ongoing risk monitoring of Pershing’s clients globally. Before joining Pershing, Mr. Curtis was Chief Compliance Officer and Chief AML Officer for Newbridge Securities Corporation and Newbridge Financial Services Group. He also had a successful career as a Compliance Specialist in FINRA’s Regional Florida District Office, where he led numerous examinations focused on compliance and Anti-Money Laundering programs as well as participating in key regulatory initiatives. Mr. Curtis has held leadership positions as an industry consultant focusing on key regulatory initiatives for Broker-Dealers, Registered Investment Advisers, and CFTC Registrants. Mr. Curtis maintains a B.A.A. from Central Michigan University, an MBA from Florida Atlantic University, and is a Certified Regulatory Compliance Professional (CRCP)® and active FINRA Arbitrator.

Paige W. Pierce brings more than 30 years of senior level investment industry experience with small firms and major corporate entities in the North American capital markets to her regulatory and business development work with Larimer Capital. She has extensive trading and sales, compliance, operational, financial control, business management and regulatory compliance consulting, as well as strategic partner development experience both domestically and internationally. Ms. Pierce is known as a leader of leaders who has made a difference by seeing landscapes in ways no one else can. She has played principal roles in multiple startups, guiding them to profitable exits, and realized equal success turning around underperforming organizations and helping growing concerns figure out “What’s next?” In addition to her work with Larimer Capital and on the FINRA Board of Governors, Ms. Pierce helps small businesses overcome efficiency and growth obstacles and assists clients in navigating regulatory compliance challenges. She is further an in-demand strategist working with securities counsel and industry member clients on FINRA-related inquiries, investigations and enforcement matters. Nowhere is Ms. Pierce’s ability to navigate changing markets more apparent than with her tenure at RW Smith & Associates, a Fixed Income Interdealer Broker (IDB). A Founding Principal of the firm, she returned to the business as a consultant in 2001, positively resolving a critical regulatory issue and revamping compliance in the wake of the 2001 recession and the regulatory repercussions of the Enron and Arthur Andersen scandal. As President and CEO of RW Smith, Ms. Pierce responded to downward margin pressures and an unfavorable regulatory environment by leading the evolution of the firm’s business model while simultaneously initiating an aggressive talent acquisition campaign. Internally, she resolved market and cash flow challenges by twice negotiating the sale of the firm, once to a venture capitalist and later in parts to complementary businesses. She also revamped product offerings to increase top-line sales 7X. Ms. Pierce was the CFO, Operating Officer, and a Founding Principal of Agincourt, Ltd., a Bermuda-based broker/dealer focused on creating structured products for the fixed income institutional market. She spearheaded the creation of strategy, financial controls, and systems overseeing Bermuda-, UK-, and US-based activities for this Bermuda-based broker/dealer, ultimately engineering a successful exit. An early career in banking and finance formed the foundation of Ms. Pierce’s lead-from-the-front style. Her approach led to repeated promotions and upward recruitment. Representative accomplishments include the recapture of tens of millions of dollars for two of LaSalle Bank’s operating units, the transformation of one of their cost centers into a profit center, and success in PaineWebber’s fast-paced, high-stakes Municipal Trading Division. On the regulatory and legislative front, Ms. Pierce spent the better part of 20 years advocating on behalf of small firms with purpose and passion, working to advance regulatory and legislative understanding of these important market participants and the challenges they face. Currently,
she is working tirelessly on behalf of small firms leading the effort in Washington, DC with Congress, the SEC, PCAOB and FINRA, amongst others, to obtain exemptive relief for small, non-public, non-custodial brokers and dealers from PCAOB audits. As an advocate for small businesses, Ms. Pierce has been invited to the Federal Reserve, offices of State and Congressional legislators, the Securities and Exchange Commission, FINRA and other regulatory agencies, and has been included in many important policy discussions. She was the first IDB representative in many FINRA groups, including the National Adjudicatory Council, Fixed Income Committee, and Small Firm Advisory Board, the latter as elected Chair in 2017. Currently, Ms. Pierce holds a Small Firm Seat on the FINRA Board of Governors (2018-21). Ms. Pierce organized previously siloed competing firms, contributing actively to professional organizations and co-founding the BMA/SIFMA Municipal Securities Broker’s Broker Committee, the Municipal Bond Information Service company, and the Bond Dealers of America Small Firm Division. She has built unique and lasting relationships through the course of her career. Ms. Pierce is an active member of YPO (Young President’s Organization) and is an Honorary Commander and Falcon with the 388th FW out of Hill Air Force Base in Utah, supporting the airmen/women who serve our great country.

**Baha Sarana** is Executive Director at Morgan Stanley and the Global Head of Financial Crimes Screening and Head of AML Advisory and Onboarding for the Wealth Management business. In these roles, Mr. Sarana is responsible for managing the GFC Screening Program, including screening for sanctions compliance and adverse media and advising the Wealth Management business on AML matters. Prior to these roles, Mr. Sarana was Global Head of the Financial Intelligence Unit and Head of AML for Morgan Stanley’s Hong Kong PWM business.
Using Third-Party Vendors to Enhance Compliance
Panelists

Moderator
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To Access Polling

- Under the “Schedule” icon on the home screen,
- Select the day,
- Choose the Using Third-Party Vendors to Enhance Compliance session,
- Click on the polling icon:
Topics

- Finding a solution that is a good fit for your firm
- What to do before engaging a vendor(s)
- How to avoid contract issues
- Industry advice and lessons learned
- FINRA reviews
- Resources
Polling Question 1

1. What size firm do you represent?
   a. Small (1 – 150 Registered Representatives)
   b. Mid-Size (151 – 499 Registered Representatives)
   c. Large (500 + Registered Representatives)
Polling Question 2

2. What does your firm currently use vendors for?
   a. Compliance Consulting
   b. Cybersecurity
   c. FinOp Consulting
   d. Exam Prep & Firm Continuing Education
   e. Information Archive (e-mail archiving, books & records)
   f. Monitoring & Surveillance
   g. PCAOB Registered Accountants
   h. Registrations
Finding the Right Solution

Why do we need a vendor?
- Firm internal review (business or compliance gap identification)
- Change in business (growth/expansion, merger, etc.)
- Consent agreement requirement

What do we do next?
- Review FINRA’s Compliance Vendor Directory
- Review FINRA’s Notice to Members 05-48
- Who has a seat at the table (business, compliance, legal, audit)?
- Get peer institution feedback on vendors
We Have a Vendor – What Do We Do Now…

- Establish policies, procedures and controls
- Establish who “owns” this relationship
- Establish process for change / tailoring of system(s)
- Establish process for monitoring vendor performance
What Do We Do Now…Continued

- **Technology:**
  - Quality Data Sources – what will feed into the new system(s)
  - Testing – run historical data in system prior to going live

- Provide training to personnel who will use system(s)

- Determine a “go live” date

- Engage personnel for feedback on new system(s)

- Conduct intermittent supervisory testing of systems
Ensure Your Contract Establishes:

- Compliance with all applicable International, Federal, State laws & SRO regulations
- Data privacy provisions, maintenance / upgrade timelines
- Define what the vendor is responsible for vs. the firm
- Define audit rights and proactive issues communication requirements
- Define termination, cancellation or “out” clause $$$
- Outline subcontractor use and roles
What is FINRA reviewing for?

- A list of all vendors the firm uses & services provided.
- Procedures outlining vendor / firm outsourcing.
- Any operational failures during the review period?
- What did the firm do once aware of the failure?
- Reasonable system parameters, thresholds, scenarios?
- Evidence of reasonable reviews & supervisory approval
Resources

- FINRA Compliance Vendor Directory (CVD)
- Notice To Members 05-48 “Outsourcing”
- FDIC FIL-44-2008: Guidance for Managing 3rd-Party Risk
- Federal Reserve Board, December 5, 2013: Guidance On Managing Outsourcing Risk
- Small Firms: Sample Vendor Compliance Documents
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Resources

FINRA Resources

- FINRA Compliance Vendor Directory
  www.finra.org/industry/cvd

- Notice to Members 05-48, Outsourcing, Members’ Responsibilities When Outsourcing Activities to Third-Party Service Providers (July 2005)

Other Resources

- Federal Reserve Board, Guidance on Managing Outsourcing Risk (December 2013)
  www.federalreserve.gov/supervisionreg/srletters/sr1319a1.pdf


- Federal Deposit Insurance Corporation (FDIC) Third-Party Risk: Guidance for Managing Third-Party Risk (June 2008)
This questionnaire has been issued by __________________ (name of firm) to satisfy certain supervision and monitoring requirements.

Table of Contents:

Section 1 General Information
Section 3 Contracted Services
Section 4 Technology
Section 5 Marketing
Section 6 Financial Health
Section 7 Third-party Audit
Section 8 Certification

Please return this questionnaire and/or direct any questions to:

Name: ___________________________________________ Title: _______________________________________
Email: ___________________________________________ Phone: ______________________________________
Mailing Address:  _______________________________________________________________________________  ___________________________________________________________________________________
### Section 1 | General Information

<table>
<thead>
<tr>
<th>Full business name (as listed on your state license(s), no abbreviations)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Primary address where services for the firm are performed</td>
</tr>
<tr>
<td>City</td>
</tr>
<tr>
<td>------</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Mailing address</td>
</tr>
<tr>
<td>☐ Same  ☐ Different:</td>
</tr>
<tr>
<td>City</td>
</tr>
<tr>
<td>------</td>
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<tr>
<td></td>
</tr>
<tr>
<td>Do you have other locations at which services for The firm are performed?</td>
</tr>
<tr>
<td>☐ Yes  ☐ No</td>
</tr>
<tr>
<td>If yes, please indicate the purpose of each location and its address:</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Web site address</td>
</tr>
<tr>
<td>Federal tax ID #</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>In the event we have questions regarding the completion of this summary, whom should we contact?</td>
</tr>
<tr>
<td>Name:  Email:  Phone Number:  Additional contact information:</td>
</tr>
</tbody>
</table>

### Section 2 | Contracted Services. *(Customize/expand this section as appropriate to the contracted services – some examples below)*

<table>
<thead>
<tr>
<th>Please describe the general services you perform on behalf of the firm:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Who is responsible for overseeing services on behalf of the firm?</td>
</tr>
<tr>
<td>What is the total number of staff dedicated to the services?</td>
</tr>
<tr>
<td>What experience is required of new staff?</td>
</tr>
<tr>
<td>Please describe the new staff training program.</td>
</tr>
</tbody>
</table>

<p>| |
|                                                                        |</p>
<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Please describe your process for __________________________</td>
<td></td>
</tr>
<tr>
<td>What is your turnaround time (goal and actual) for ____________________?</td>
<td></td>
</tr>
<tr>
<td>What are your quality control procedures for __________________________?</td>
<td></td>
</tr>
<tr>
<td>What is your accuracy rate standard or the SLA applicable to the firm contract?</td>
<td></td>
</tr>
<tr>
<td>How is evidence of __________________________ maintained?</td>
<td></td>
</tr>
<tr>
<td>□ Family □ Batch □ Other (please describe):</td>
<td></td>
</tr>
<tr>
<td>How is any backlog managed?</td>
<td></td>
</tr>
<tr>
<td>How is missing or incorrect information handled?</td>
<td></td>
</tr>
<tr>
<td>How are non-standard __________________________ handled?</td>
<td></td>
</tr>
<tr>
<td>How are OFAC reviews handled?</td>
<td></td>
</tr>
<tr>
<td>Do you work with contractors during the __________________________ process?</td>
<td></td>
</tr>
<tr>
<td>□ Yes □ No</td>
<td></td>
</tr>
<tr>
<td>If yes, how many:</td>
<td></td>
</tr>
<tr>
<td>Have there been any complaints, whether accepted or denied, regarding the services?</td>
<td></td>
</tr>
<tr>
<td>□ Yes □ No                If yes, please describe:</td>
<td></td>
</tr>
<tr>
<td>Is there a formal procedure for tracking complaints and their resolution?</td>
<td></td>
</tr>
<tr>
<td>□ Yes □ No                If yes, please describe:</td>
<td></td>
</tr>
<tr>
<td>Do you maintain and conduct fraud detection procedures?</td>
<td></td>
</tr>
<tr>
<td>□ Yes □ No</td>
<td></td>
</tr>
<tr>
<td>If yes, how are suspect situations flagged and tracked?</td>
<td></td>
</tr>
<tr>
<td>Are there any exceptions to the processes noted above?</td>
<td></td>
</tr>
<tr>
<td>□ Yes □ No</td>
<td></td>
</tr>
<tr>
<td>If yes, please describe:</td>
<td></td>
</tr>
</tbody>
</table>

**Section 3 | Technology**

Please comment on the software or systems used to support services performed under contract with the firm and the give a brief description of the activity supported by the software or system.

<table>
<thead>
<tr>
<th>Software/System name:</th>
<th>Used to:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Question</td>
<td>Options</td>
</tr>
<tr>
<td>-------------------------------------------------------------------------</td>
<td>--------------------------</td>
</tr>
<tr>
<td>Is your IT department in-house or are these responsibilities outsourced?</td>
<td></td>
</tr>
<tr>
<td>If outsourced, please provide the full name of the outsource party:</td>
<td></td>
</tr>
<tr>
<td>Do you have a formal program for protecting confidential and sensitive information?</td>
<td>Yes ☐ No ☐</td>
</tr>
<tr>
<td>What security measures are in place to monitor system overrides?</td>
<td></td>
</tr>
<tr>
<td>Is there a person or department responsible for this function?</td>
<td>Yes ☐ No ☐</td>
</tr>
<tr>
<td>Do you review for duplicate entries?</td>
<td>Yes ☐ No ☐</td>
</tr>
<tr>
<td>Please describe your records retention schedule:</td>
<td></td>
</tr>
<tr>
<td>What type of media are the records stored on?</td>
<td></td>
</tr>
<tr>
<td>Please attach a copy of your disaster recovery program.</td>
<td></td>
</tr>
<tr>
<td>Has the disaster recovery program been tested within the last 12 months?</td>
<td>Yes ☐ No ☐</td>
</tr>
</tbody>
</table>

**Section 4 | Marketing**

Please describe your marketing approach:

Do you concentrate marketing efforts on any specific industries?  
☐ Yes ☐ No ☐  If yes, please describe:

What is your average client size based on value of services handled?

How many clients did you add in the past 12 months?

How many clients did you cease services for in the past 12 months?

Are you currently aware of any negative press that is pending about your company?  
☐ Yes ☐ No

**Section 5 | Financial Health**
Are you subject to a third-party financial audit?
☐ Yes  ☐ No

If yes, when was your last third-party financial audit completed?

If no, please attach a copy of your latest balance sheet.

Section 6 | Third-party Audit

Have the services contracted for the firm been subjected to a SSAE16 audit in the last 12 months?
☐ Yes  ☐ No

If yes, please attach copy of the latest audit report with this questionnaire.

If yes, were there any unresolved findings?
☐ Yes  ☐ No

If yes, please note each finding and the expected date for resolution:

Section 7 | Certification

I, the undersigned representative of the business identified in Section 1 of this questionnaire, certify that the information contained herein is correct to the best of my knowledge.

________________________________________________________________________
Signature                                          Date

________________________________________________________________________
Printed Name                                       Title
This template was created to guide ___________’s staff as they perform on-site audits of vendors to satisfy certain monitoring and supervision requirements.

Table of Contents:

Section 1 General Information
Section 2 Pre-Audit Checklist
Section 3 Vendor Interview
Section 4 Performance Audit
Section 5 Records Audit
Section 6 Certification

Section 1 | General Information

<table>
<thead>
<tr>
<th>Full Business Name of the vendor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Is vendor a Division or Subsidiary of Another Business? If yes, Name of Parent:</td>
</tr>
<tr>
<td>Audited Location Address</td>
</tr>
<tr>
<td>City</td>
</tr>
<tr>
<td>Vendor Contact Name</td>
</tr>
<tr>
<td>Nature of Vendor’s General Business</td>
</tr>
<tr>
<td>Audit done for (The firm function or division)</td>
</tr>
<tr>
<td>Auditor name</td>
</tr>
</tbody>
</table>
### Section 2 | Pre-Visit Planning Sheet

<table>
<thead>
<tr>
<th>Notes from Review of Service Agreement or Contract</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notes from Review Annual Questionnaire Responses</td>
</tr>
<tr>
<td>Amount of Business YTD ($ or pieces processed by vendor, for the firm)</td>
</tr>
<tr>
<td>Has business flowing through this vendor increased, decreased or stayed the same year-over-year?</td>
</tr>
<tr>
<td>Any concerns from the firm’s business area that works with this vendor?</td>
</tr>
<tr>
<td>Any negative press or public concerns about this vendor? (e.g. Google the vendor)</td>
</tr>
<tr>
<td>Applicable Service Level Agreements (SLA), if any</td>
</tr>
<tr>
<td>SLA Test Plan (outline your general plan to review SLAs based on SLA assurance reports received from the vendor and/or the SLAs outlined in the written agreement or contract with the vendor.)</td>
</tr>
</tbody>
</table>

List the records you anticipate reviewing while on-site
**Section 3 On-site Audit Interview** (In addition to the question below, identify the purpose for your visit and the records you anticipate reviewing)

<table>
<thead>
<tr>
<th>Audit interview (with a principal or other key contact at the vendor)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Name</strong></td>
</tr>
</tbody>
</table>

**Services & Staffing:**

Ask vendor to describe the activities they conduct for your firm (i.e. do they match your expectations and the written contract?)

- Is the vendor handling any activities for the firm that are outside of the scope of its contract/agreement?
- How many of the vendor’s staff conduct activities for the firm?
- How many staff in total does the vendor have assigned to similar activities?
- Are subcontractors used for any of the firm’s activities?
- Does the vendor anticipate reorganizing any staff that conduct activities for the firm?
- Are all services for the firm handled at this location? If no, where are other activities conducted?
- Are there written job descriptions that define responsibilities for the individuals conducting activities for the firm?
- Does the vendor have change management controls in place to ensure any changes in procedures are documented and approved?
- What qualifications are required of staff that conduct activities for the firm?
- Is there a written training program for new staff?
- Is completed training reviewed and evaluated?
### Records:

Area all records related to The firm activities archived (or readily accessible) from this location? If no, where are records archived?

How long does the vendor retain records related to its activities for the firm?

Has the vendor received any requests from anyone other than the firm for records related to its activities for the firm? (e.g. state examiner). If yes, note who, when, what was requested.

### Other:

Is the vendor aware of any pending matters that may affect its ability to conduct activities for The firm in the next 18 months?

Has the vendor had any security breaches – physical or electronic – in the past 18 months? If yes, describe:

### Additional Interview Notes:
Based on the firm’s sampling criteria and the services provided by this vendor, conduct an independent assessment of whether the vendor is meeting their SLAs for timeliness and quality control. Include additional documents as needed to support your review. Redact any customer PII from your notes.
Based on your pre-audit planning in Section 2 of this document, note the records you reviewed while on-site and describe any concerns you had regarding the 1) availability of the records, 2) the content of the records or 3) your ability to review the records in a timely manner.

Section 6 | Certification

I certify that I visited this vendor on the dates indicated and that the information contained herein is correct to the best of my knowledge.

Signature

Date

Printed Name

Email

Phone Number
Vendor Management Considerations

Do you have a comprehensive, current list of your vendors and who manages and/or supervises (as needed) each relationship?

Is the vendor:
1. Performing services under a written agreement or contract with your firm?
2. In direct contact with consumers or customers? (e.g. answering questions from customers)
3. Making substantive decisions or otherwise using discretion in their work for you?

Have you done a risk assessment of each vendor? Risk considerations include but are not limited to:
- Contractual Risk
  - Contract should contain a thorough description of services to be provided by the vendor including what services the vendor cannot or will not provide, to enable clear expectations for both the vendor and your firm.
- Strategic Fit and Business Value Risk
  - Ensure the vendor’s ongoing alignment with your firm’s needs and strategy.
- Business Continuity Risk
  - Assess the possibility of service disruptions due to factors within the vendor’s scope of control.
- Physical Security Risk
  - Assess the vendor’s approach to granting and managing physical access to the vendor’s location(s) of operations and your firm’s assets.
- Information Security Risk
  - Assess the vendor’s processes for ensuring the confidentiality, integrity and availability of your firm’s data, issuance of breach notifications etc.
- Technology Risk
  - Assess the viability of tools and systems used by the vendor.
- Financial and Credit Risk
  - Consider the vendor’s ability to provide services to your firm if they suffer financial distress.
- Risk of Insufficient Insurance Coverage
  - Consider the vendor’s insurance coverage and/or coverage under your insurance.
- Legal or Regulatory Risk
  - Assess the vendor’s ability to comply with applicable laws and regulations.
- Reputation Risk
  - Assess the impact of a significant reputational event involving the vendor.
- Concentration Risk
  - Understand and possibly limit and/or reduce exposure to a single vendor.
- Termination Risk
  - Assess the risk of contract termination whether initiated by your firm or the vendor.

Vendor Supervision & Monitoring Considerations:
Policies and procedures may take into account general considerations such as:
- Compliance with the written contract
- Operations
- Management
- Regulatory or Litigation Issues
- Complaint Handling & Volume
- Information Security Procedures
- Privacy Breaches
- Staffing/Resources
- Books and Records
- Annual Questionnaire Responses
- Onsite Audit Findings
- Quality or Timeliness Concerns
Policies and procedures may also include targeted review activities specific to a vendor’s contracted services, including but not limited to:

- Prior concerns or audit findings
- Changes in your firm’s related procedures
- Background or other required checks of personnel
- Compliance with established regulations or guidelines
- Compliance with contracted or published response and turnaround times (SLAs)
- Accuracy of monetary calculations (as applicable) related to the contracted service(s)
- Accuracy of time stamps
- Accuracy of written process documentation

Reviews should be of a frequency adequate to determine that the contracted services are being delivered by the vendor in a competent and compliant manner. As deemed appropriate, reviews of vendors may include:

- Information gleaned from reports from the vendor, such as an SSAE16 Audit Report on Controls (or equivalent).
- Onsite audits (see sample template)
- Periodic questionnaires (see sample questionnaire)

Other considerations for vendor management include:

- Does assigned staff have adequate experience to supervise the vendor?
- Are monitoring activities following a set schedule?
- What documentation should be retained as evidence of reviews?