

A hand holding a small globe of the Earth against a green background. The globe is held between the thumb and index finger, showing the blue oceans and brown landmasses. The background is a soft, out-of-focus green.

# How Smart, Connected Due Diligence Systems are Transforming Third Party Risk Management

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P R E S E N T E D B Y

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# Agenda

- I. The Paradigm Shift in Third Party Risk Management Programs
- II. How Due Diligence Systems are Transforming Third Party Risk Management
- III. Case Study
- IV. Third Party Risk Management Solution Demo
- V. Q&A



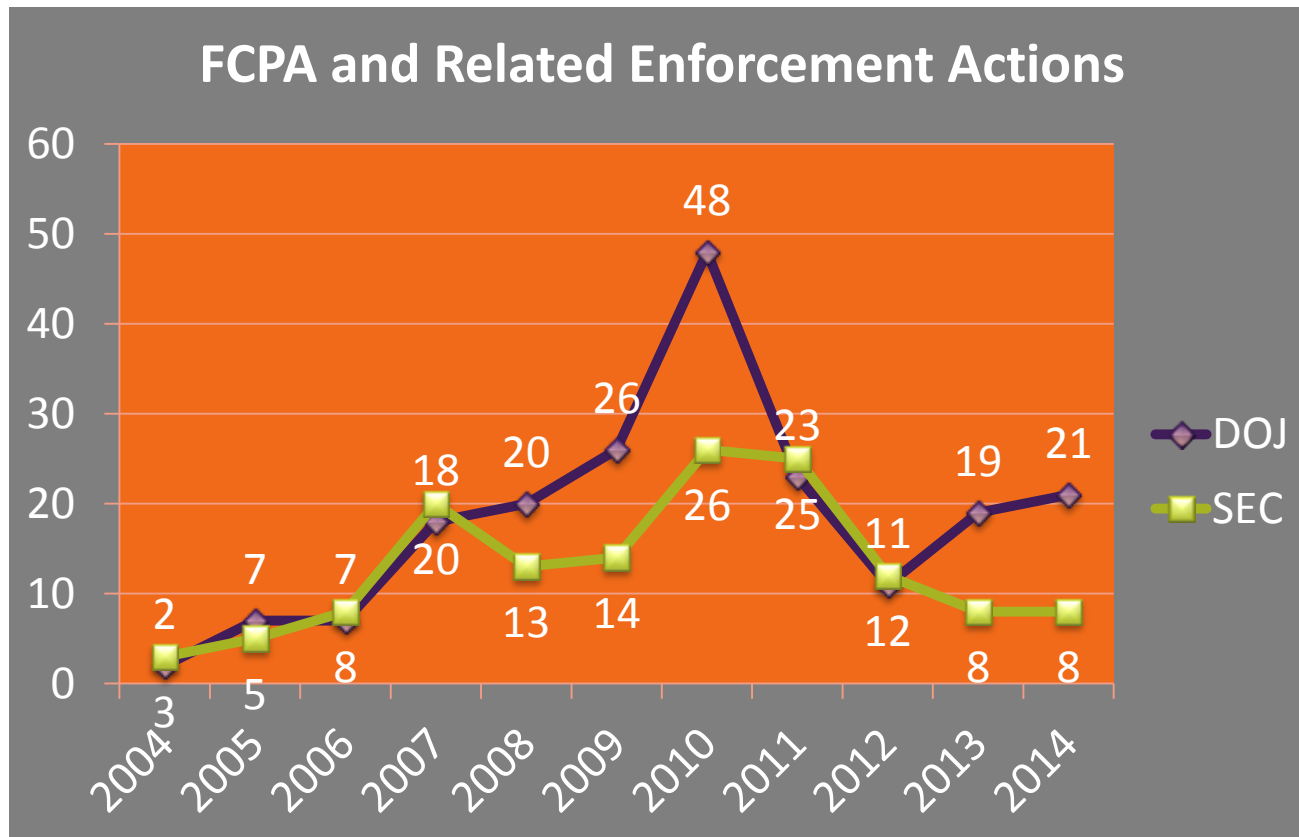
# Paradigm Shift for Third Party Risk Management

- Definition of “effectiveness” of a third party risk management program is changing.
- New, cost-effective due diligence systems are game-changers.
- What are the **essential elements** of an **effective** due diligence system?



# FCPA Enforcement Action Risk Remains High

FCPA enforcement actions are on the rise in the U.S. and globally. Effective third party risk management programs mitigate this risk.



# Importance of Third Party Risk Management Program in FCPA Cases

- DOJ and SEC Guidance in 2012 is keyed to “effective” compliance program definition from US Sentencing Guidelines.
- Guidance reiterates significant incentives to design and implement an “**effective**” compliance program—amount of fine, declination, DPA or NPA, or monitor-ship.
- “In appropriate circumstances, DOJ and SEC may decline to pursue charges against a company based on the company’s **effective** compliance program, or may otherwise seek to reward a company for its program, even when that program did not prevent the particular underlying FCPA violation that gave rise to the investigation.”



# Third Party Due Diligence is Integral for an Effective Overall Compliance Program

Third party due diligence is repeatedly mentioned as absolutely essential to an “effective” compliance program:

- Third party agent risk: “implementing an effective compliance program, which includes due diligence of any prospective foreign agents.” (pg 23)
- Charitable giving: “DOJ approved the proposed grant or donation based on due diligence measures and controls ... .” (pg 19)
- Documentation of due diligence: the SEC brought an administrative action where there was a “lack of documented due diligence” regarding a subsidiary. (pg 28)
- M&A: “DOJ and SEC encourage companies to conduct pre-acquisition due diligence ... .” (pg 28) and “appropriate due diligence, and implementation of an effective compliance program may decrease the likelihood of an enforcement action ... regarding post acquisition conduct... .” (pg 30)



# Essentials for Risk-Based Due Diligence

## Identify Risks Posed by a Third Party

- Internal business justification
- Third party questionnaires
- Compliance training and certification
- Government watch-lists
- Enhanced due diligence

To identify: red flags

## Mitigate that Risk

- Once red flags have been identified they need to be addressed
  - Follow up questions
  - Contract clauses
  - Representations and warranties
- Ongoing monitoring is essential to ongoing risk mitigation

**DEPENDENT ON GATHERING INFORMATION**



# How Information is Gathered and Managed is Changing Rapidly

## Internal Policies and Procedures

- Effective data and risk management
- Electronic questionnaires and forms
- Feedback through surveys and enhanced communication allows ability to monitor and improve program

## Third Party Forms

- Electronic forms simplify and speed up process
- Multiple rounds of question and answers possible

# How Information is Gathered and Managed is Changing Rapidly (continued)

## Investigative Services

- More information
- Faster

## Enhanced Due Diligence

- Can be used selectively
- Provides information quickly to allow for analysis

## Ongoing Monitoring

- Automatic
- Newly identified risks pushed toward you instead of having to be discovered

# The New Challenge: Managing Information

Effective risk identification requires gathering and analyzing more and more information.

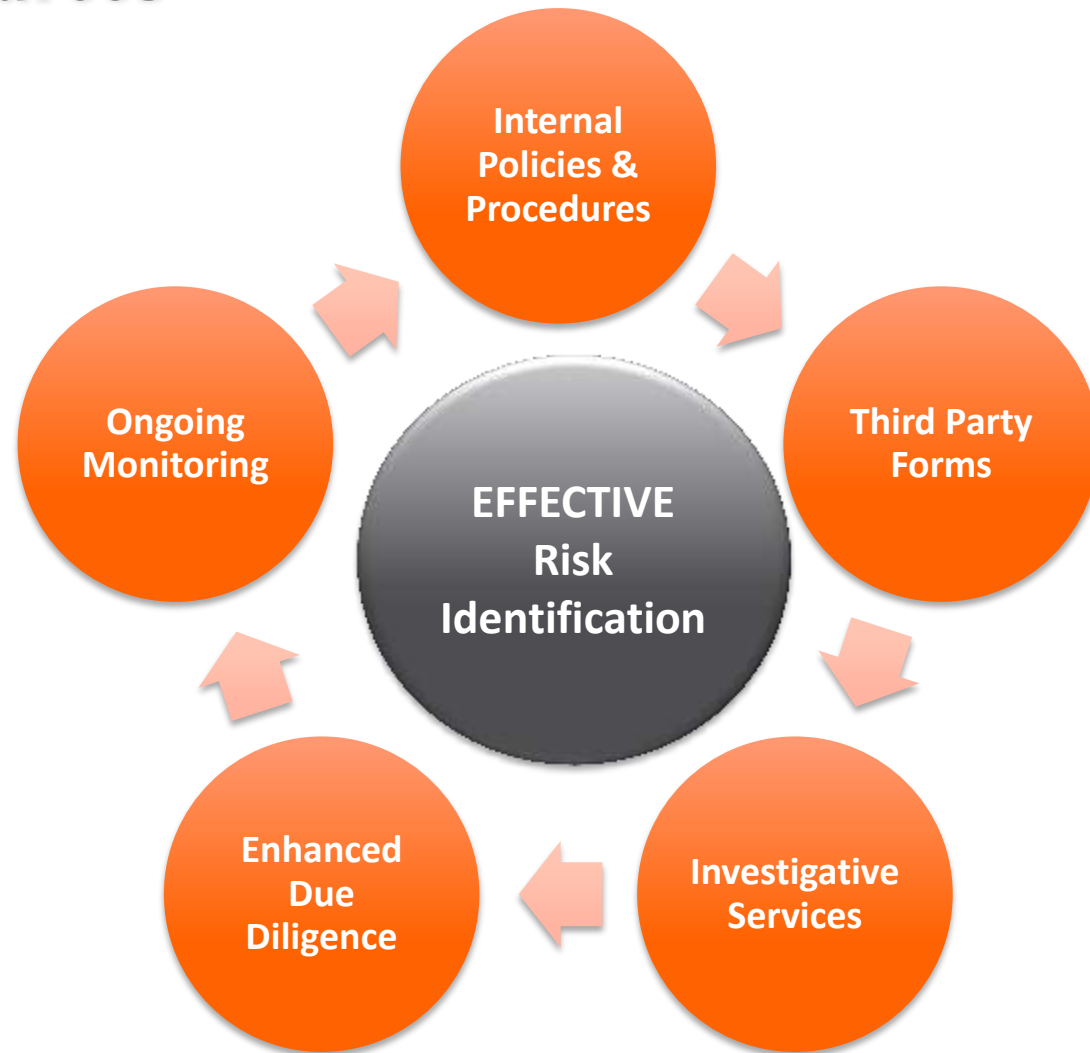
- Gathering information is time consuming!
- Analyzing information is time consuming!

**The future of effective risk identification lies in the ability to streamline and simplify the process.**



# Risk-Based Due Diligence Requires Targeting Resources

- Volumes of information gathered must be managed.
- Effective risk management requires identifying and targeting high risk areas.





# How Due Diligence Systems are Transforming Third Party Risk Management

# Are Due Diligence Systems Platforms the Future?

**Q.** A technological answer to a problem caused by technology?

**A.** Integrated third party due diligence systems provide a framework for risk based due diligence.

**EFFECTIVE  
Risk  
Identification**



# Integrated Third Party Due Diligence Systems Features

You should look for some or all of these features in a third party due diligence system:

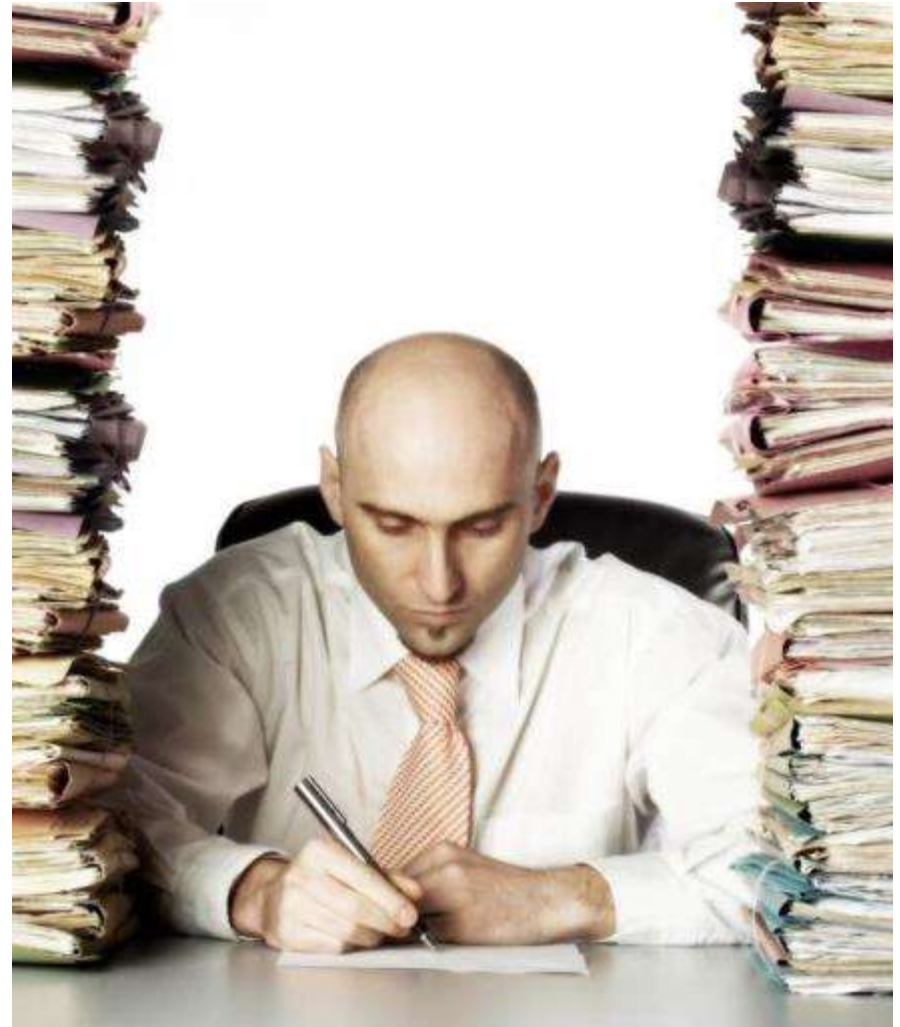
1. Dashboard access point
2. Automated, ongoing risk screening
3. Risk ranking algorithm and risk analysis
  - Automate risk management
  - Allow for enhanced due diligence only when needed
4. Align with your internal processes
5. Documentation requirement

It is time consuming to integrate a third party due diligence system with your internal processes. Take time to choose the right partner... DUE DILIGENCE STRIKES AGAIN!

# Key Due Diligence System Feature #1: Dashboard Access Point

A single access point for all due diligence workflow and reports.

- Should flag areas of concern that need your attention.
- Allow you to filter alerts based on your organizations needs to avoid wasting time on “false” alerts.





# Key Due Diligence System Feature #2: Automated, Ongoing Risk Screening

In the past you might have done a yearly due diligence update on vendors. Third party due diligence systems should automate this for you.

- Comprehensive screening gives you a snapshot of current circumstances.
- Ongoing monitoring automatically looks for changes and should notify you so you can update results and respond to changed circumstances.

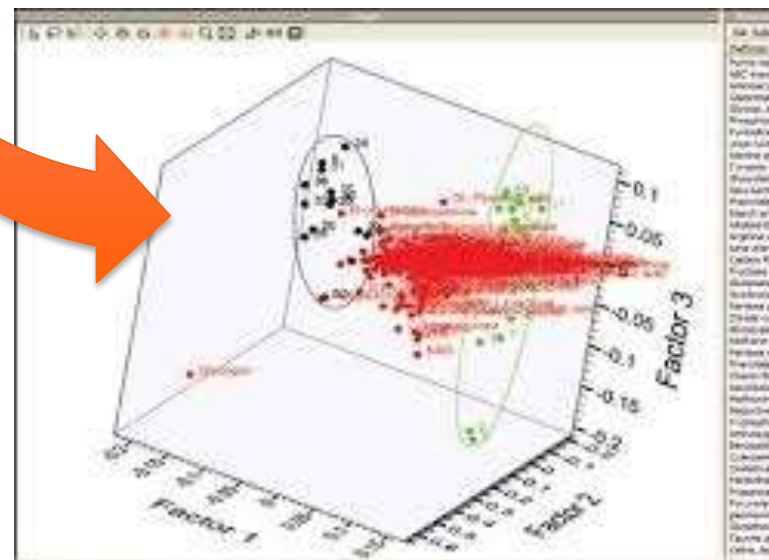


So you don't have  
to...

# Key Due Diligence System Feature #3: Risk Ranking Algorithm and Risk Analysis

Automated risk analysis with analyst-led due diligence offered as an option *only* when you *really* need it.

- Good risk ranking algorithms lower the total cost of ownership by helping you avoid false positives.
- Not all adverse information in a due diligence report warrants expensive analyst-led follow-up.



# Key Due Diligence System Feature #4: Align with Your Internal Processes

Customizable and able to align with your internal processes, policies and procedures—you are the customer!

Issues to address:

- Publication of materials in languages where your organization does business.
- Allows managers and employees to generate reports to streamline approval processes?
- Able to customize third party materials to reflect your business needs or unique circumstances?



# Key Due Diligence System Feature #5: Documentation Requirement

“If it isn’t written down, it didn’t happen.” - *Tom Fox*

- Documentation of each step is critical.
  - Information collected, analysis, reasoned decisions.
- Information should be organized so that it is easy to retrieve for all managers and employees who need access to the information.





# Case Study

# Meanwhile in the Real World...

- **Discovery:** Client recently discovered large bribery scheme being carried out with the use of third parties in a country that ranks high on the corruption index
  - Before, compliance was not a priority.
  - Now, internal investigation must take place that may lead to voluntary disclosure to government.
  - Surprise! Is the most common way a company finds out about corruption or bribery.
- **Current Status:** Processes and policies that were in place were discrete and managed by separate business functions
  - Compliance department had put basic policies into place (Code of Conduct, ABAC policy) —but no procedures to ensure they were followed.
    - **Example:** No approval required prior to engaging third party business partner. Due diligence policies were followed—some of the time.
    - **Example:** No communication between accounts payable that receives invoice and procurement that issues purchase order.
  - Realization that there was 1) no framework to hold the pieces together and 2) pieces were missing.

# Meanwhile in the Real World...

**Analysis:** First step was to take stock of current program.

- Data gathered from multiple business functions.
- Risk assessment was key to identify weaknesses and holes.

## Designing new policies, procedures and operations

- **Challenge:** Transitioning existing into new—maintain continuity.
- **Challenge:** Designating owners of procedures and making sure they communicated with each other.
- **Challenge:** Implementing so many new policies in coherent way.



# Meanwhile in the Real World...

- **Solution:** Integrated third party due diligence provider.
  - Allowed for single access point to provide compliance with oversight capability. Created clear portal for all users—centralized data collection.
  - Able to select complementary products needed (e.g. anonymous hotline, online training).
  - Lowered due diligence costs by reducing frequency of in-depth due diligence that was ordered (built-in risk analysis algorithm helped separate low vs. high risk red flags).
  - Simplification of documentation process unexpected, highly valued benefit.
- **Roadblocks:**
  - Pushback regarding ownership—managers hesitant to give up control.
  - Requirement to learn new software added complexity to training—made it seem like a “bigger deal.”



# Integrated Third Party Due Diligence Systems

For most businesses, and make due diligence much simpler and much more efficient—and cost effective.

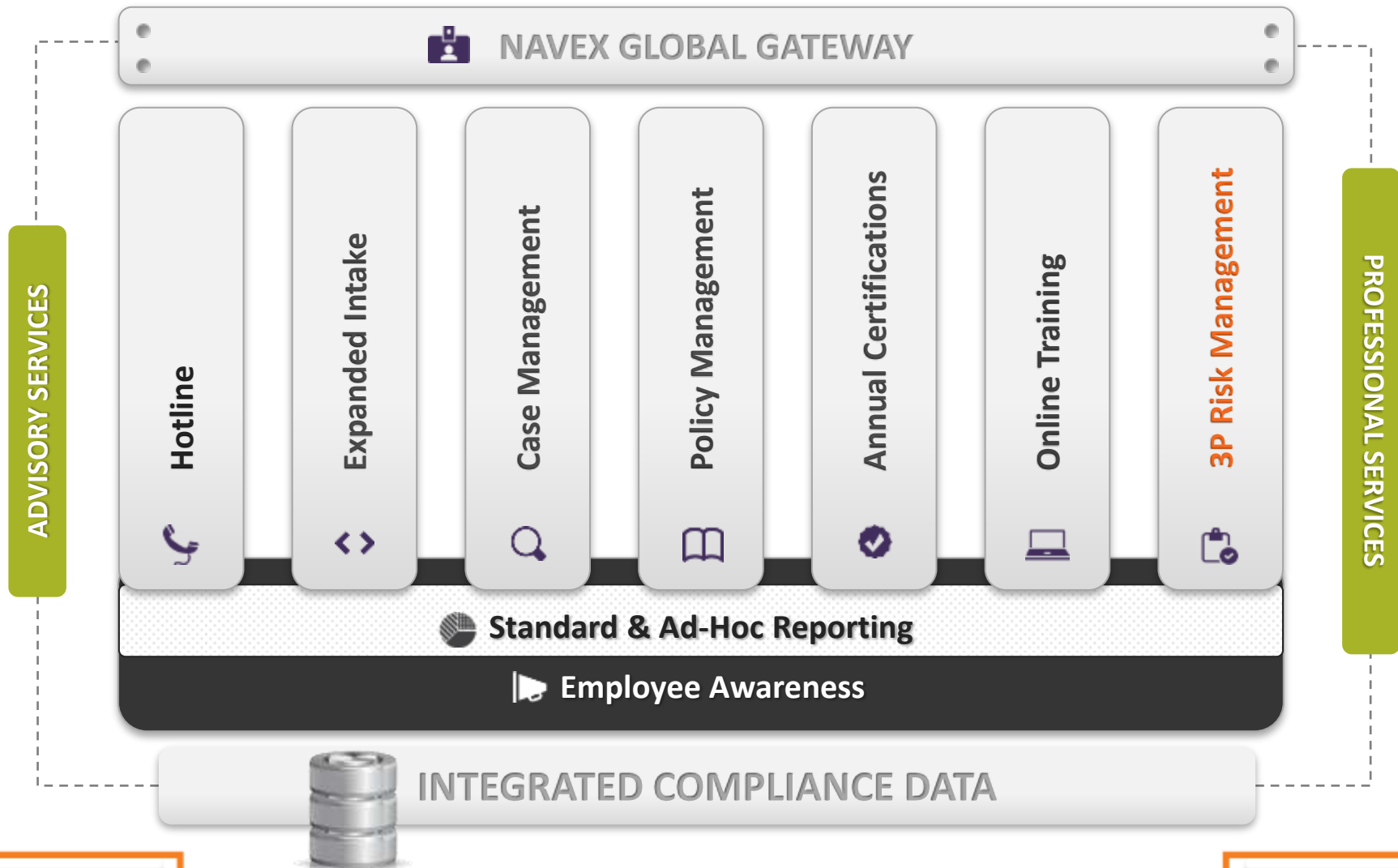




The NAVEX Global Solution:

# Third Party Risk Management

# Our Ethics & Compliance Ecosystem





**Pre-screen Assessment**

Based on the risk level identified, apply the appropriate level of due diligence



**Initial Screen w/ monitoring**

**Level One**

**Level One Plus**

**Level Two**

**Analyst Review and EDD**

Analyst Review and Enhanced Due Diligence (EDD) available for Level 1, Level 1 Plus and Level 2 reports

**Negative information screening and two years of monitoring on all organizations & persons**



### Pre-screen Assessment

### Initial Screen w/ monitoring

- ✓ Adverse media
- ✓ Sanctions list
- ✓ Watch list
- ✓ PEP list

### Level One

- ✓ Adverse media
- ✓ Sanctions list
- ✓ Watch list
- ✓ PEP list

Multiple Owner & Manager Names

### Level One Plus

Automated ownership & management questionnaire and screening

Customizable questions

### Level Two

Automated Financial Background Check

Analyst Review and EDD

Analyst Review and Enhanced Due Diligence (EDD) available for Level 1, Level 1 Plus and Level 2 reports

Negative information screening and two years of monitoring on all organizations & persons

# Product Demonstration



# In-Depth Online Demo: Tuesday, March 31

To better understand how NAVEX Global's Third Party Risk Management solution can support your organization's due diligence efforts, register now for an in-depth online demonstration.

**When:** March 31  
11:00 AM PT / 2 PM ET

**Duration:** 30 Minutes

[http://trust.navexglobal.com/Third-Party-Risk-Management-Demo\\_post-webinar.html](http://trust.navexglobal.com/Third-Party-Risk-Management-Demo_post-webinar.html)

# The Volkov Law Group



- Boutique law firm
- Michael Volkov and five associates
- Expertise in anti-corruption compliance, trade and regulatory compliance, training, enforcement defense and internal investigations
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# Additional Third Party Risk Management Program Resources from NAVEX Global

## Ethics & Compliance Matters™ Blog Articles:

- [Building Your Third Party Due Diligence Checklist: The Right Pieces, Processes and Presumptions](#)
- [Waking Up to Massive Third Party Risk Exposure: Critical Issues To Address](#)
- [More Than Due Diligence: Never-Ending Due Diligence](#)

## Whitepapers:

- [Checklist: Ten Components No Third Party Due Diligence Program Can Go Without](#)
- [A Prescriptive Guide to Third Party Risk Management](#)
- [Five Key Questions for Assessing Integrated Third Party Due Diligence Systems](#)

## Datasheets:

- [NAVEX Global's Third Party Risk Management](#)
- [NAVEX Global's Third Party Due Diligence Platform Report Descriptions](#)

# Thank You for Joining Us!

