Outsourcing & Vendor Due Diligence Matrix

Selecting Vendors or Outsourcing Providers (collectively Outside Service Providers) is a bespoke process. Therefore, every adviser must engage in holistic due diligence based on the facts and circumstances of each Outside Service Provider. Each set of due diligence questions will need to be tailored to the situation, and the firm should take steps to develop a reasonable risk-based approach. This process should be repeated each year to re-evaluate the Outside Service Provider against the OKS and due diligence questions. The matrix below will help you create a framework to build upon for clarity of purpose, identification of critical risks, and identify key stakeholders in the process. Expand each Activity to suite the desired depth of due diligence based on the type of outside service provider.

	Activity	Operations / Trading	HR	Marketing	Business Dev.	IT / Info. Sec.	Legal / Compliance	Owner	Completion date
1	Clearly define Objectives & Key Results (OKR): What do you want to achieve by outsourcing the business function, or what business challenges are we trying to solve?								
1.1	Define Business Approach: Seek a business partner capable of reaching our OKR (How?) Conduct research and identify the top 3 service providers in the industry, space, field, etc. Poll other firms in your peer group, and reach out to trade groups like the IAA, and qualified custodians.								
1.2	Why are we outsourcing or seeking a vendor solution?: Define the value in Outsourcing or Vendor use case: Limited internal staff, economies of scale, build vs. buy, highest and best use of time. (Allocation of resources)								
2	Covered Functions: (1) is necessary to provide advisory services in compliance with the Federal securities laws, and (2) if not performed or performed negligently. Evaluate weather the product of service provides comprehensive solutions. Are there any gaps?								
3	Collect basic information: about the company, its leadership, and its history. Understand service levels and team structure related to the delivery of services and products.								
4	Financial Stability Review: Resources necessary for continuity and delivery of services.								
5	Reputational Risk: Historical issues, protocol for notifications of disruptions.								
6	Operational Risks: Outsourcing of internal functions, employees, use of third-party software, capacity constraints, adequate human resources, and technical expertise of employees. Records location data at rest or physical data. How are products/services delivered and supported? Order of operations for terminations.								
7	Legal & Compliance Risks: Current or pending litigation: Books and records retention & retrievability. Do any conflicts of interests exist? Is the service provider subject to any of the securities laws, Commodity Exchange Act, or other federal functional regulations?								
8	Insurance, Licensing, and Bonding: Adequate coverage relative to the risks to the client and adviser.								

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9	Information Security Technology Review: History of CyberSecurity issues, Pen Test, Disaster Recovery, and data types and location.								
10	Policy Review: Review of service provider policies, procedures and governance model.								