



Express Memo

Express Risk Survey – Vendor Risk Assessment

#2022-05
Report Date: 02/28/2022

Background

According to the Institute of Internal Auditors, organizations leverage and rely increasingly more on third-party providers or vendors, as well as subservice or “fourth-party” providers, to conduct business activities. These relationships continue to expand and evolve, introducing numerous risks that must be continuously assessed and appropriately managed by the organization to achieve desired business objectives.

Because organizations and their customers can suffer adverse consequences as a result of the actions (or inaction) of their third party providers, knowledge of best practices in controlling third party relationships is paramount.

Objective/Scope/Methodology

The Express Risk Survey – Vendor Risk Assessment was created to assist management in identifying, assessing, and addressing risks related to third parties. This survey was distributed to all City departments for completion on January 26, 2022 and Internal Audit received all responses by February 9, 2022.¹

Once department directors completed the survey, Internal Audit provided a summary of the department’s self-assessment results with risk scores along with the Risks and Mitigation Measures Checklist. See Sample Departmental Report at Appendix C and Vendor Risks and Mitigation Measures Checklist at Appendix D.

Internal Audit has also summarized the survey results from all responding departments, which are included in this memo. The Detailed Methodology on risk scoring is in Appendix A and the Citywide Survey Results by Question is in Appendix B.

By the Numbers

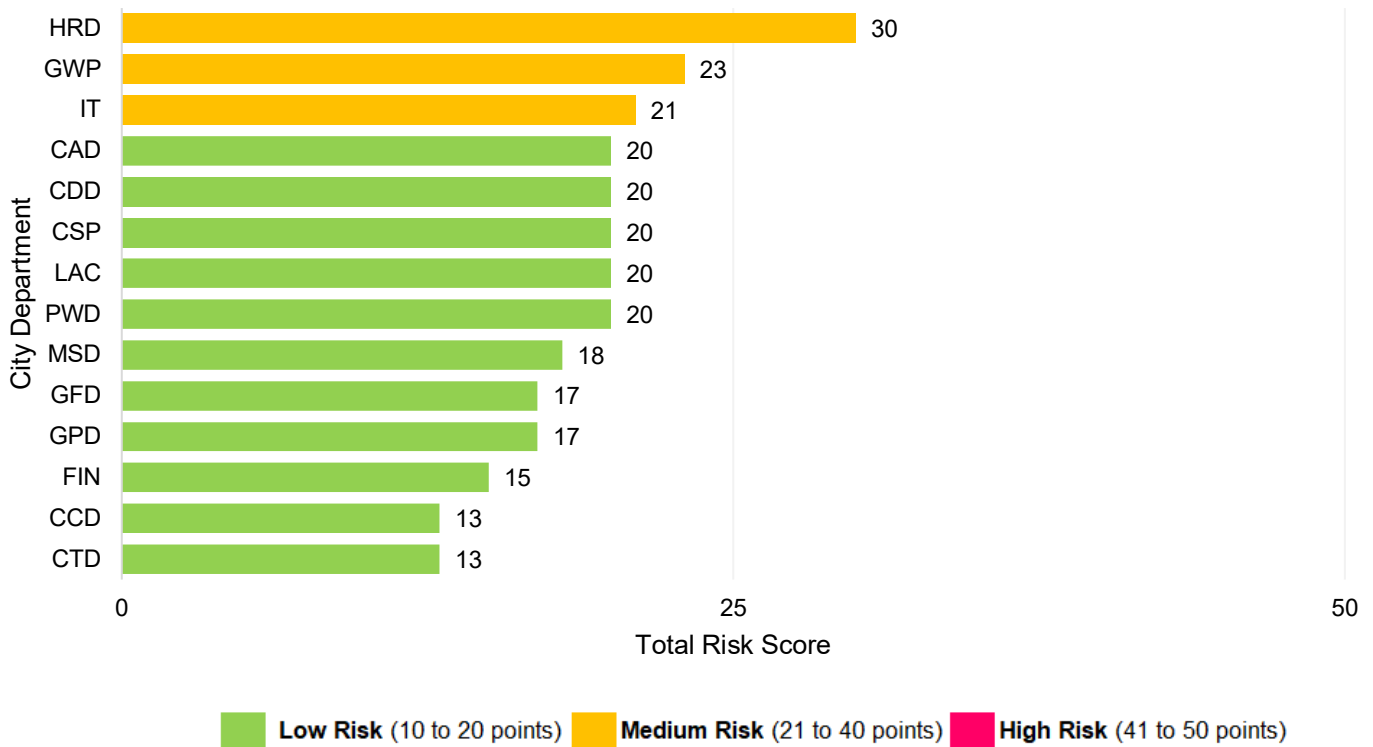
0	3	11
Departments with a “High” Risk Score	Departments with a “Medium” Risk Score	Departments with a “Low” Risk Score

¹ The new Finance & Information Technology Department has completed two surveys; one is under FIN and the other is under IT.

Risk Assessment Results – By Department

The Total Risk Score by Department chart below provides a comparative view of the risk assessment results amongst the 14 departments based upon their individual risk score. There are 11 departments that were categorized as low risk and three departments that were categorized as medium risk. The average risk score for all departments was 19 with the lowest being 13 and the highest 30.

Exhibit 1: Total Risk Score by Department



Risk Assessment Results – By Question

The table below summarizes the Citywide total risk assessment result by survey question.

Citywide Risk Score Legend: ■ Low (14-28) ■ Medium (29-56) ■ High (57-70)

Ref	Description*	Total Risk Score
1	Does your department consider any of the following to address strategic risks when establishing relationships with vendors?	38
2	Does your department consider any of the following to mitigate concentration risks and/or benefits (such as placing too much reliance on a single vendor or economies of scale) prior to establishing a procurement relationship?	25
3	Does your department perform any of the following to ensure business continuity in case an essential vendor's service is disrupted?	36
4	Does your department ensure that the City's Purchasing Policy is followed when using vendors?	28
5	Do contracts incorporate any of the following related to subcontracting activity?	28
6	Does your department perform any of the following to monitor contracts ?	29
7	Does your department review any of the following prior to approving invoices ?	18
8	Does your department perform any of the following when on/off-boarding a vendor ?	24
9	Does your department consider any of the following when executing revenue contracts (revenue contracts are established between City and vendor, where the vendor, either, collects revenues on behalf of the City, and/or shares a portion of their revenues with the City)?	18
10	Does your department perform any of the following when cooperative purchasing agreements are used (cooperative purchasing agreements are established [competitively bid] contracts that are available for government agencies to use, without the need to conduct their own solicitation)?	23

*For a detailed list of the controls for each question that respondents could select, see Appendix B or D.

These survey results will also be used for Internal Audit's ongoing risk assessment to identify potential areas for audit.

Recommendations and Action Plan

It is recommended that management address the higher risk areas with the appropriate mitigating controls, continue to assess the vendor related risks and take appropriate actions.

Distribution List

For Action	For Information
<ul style="list-style-type: none"> Aram Adjemian, City Clerk 	<ul style="list-style-type: none"> Roubik Golanian, City Manager
<ul style="list-style-type: none"> Jason Bradford, Director of Finance & Information Technology 	<ul style="list-style-type: none"> Audit Committee
<ul style="list-style-type: none"> Onnig Bulanikian, Director of Community Services & Parks 	<ul style="list-style-type: none"> City Council
<ul style="list-style-type: none"> Yazdan Emrani, Director of Public Works 	
<ul style="list-style-type: none"> Michael Garcia, City Attorney 	
<ul style="list-style-type: none"> Philip Lanzafame, Director of Community Development 	
<ul style="list-style-type: none"> Silvio Lanzas, Fire Chief and Deputy City Manager 	
<ul style="list-style-type: none"> Rafi Manoukian, City Treasurer 	
<ul style="list-style-type: none"> Aymee Martin, Interim Director of Human Resources 	
<ul style="list-style-type: none"> Carl Povilaitis, Police Chief 	
<ul style="list-style-type: none"> Gary Shaffer, Director of Library, Arts & Culture 	
<ul style="list-style-type: none"> John Takhtalian, Deputy City Manager 	
<ul style="list-style-type: none"> Mark Young, General Manager - GWP 	

For questions regarding the contents of this report, please contact the lead auditor, Ani Antanesyan, Internal Auditor, or Jessie Zhang, Internal Audit Manager at internalaudit@glendaleca.gov.

Appendix A: Detailed Methodology

Survey Questions Development

Internal Audit reviewed the City’s purchasing policy and performed best practice research in order to develop vendor risk related questions to include within a survey distributed to management. The survey was developed to identify key risks and mitigating controls that have been or should be established by management. The intent is to raise awareness of the multi-faceted vendor management processes, risks associated with these processes, and help management identify vendors that should be considered for a more in-depth audit.

Survey Risk Scoring

The survey consists of ten questions and each question has four mitigating controls. Respondents were asked to “Select all that apply”, or “Not applicable”/“No” if the risk area was not applicable to their department. Exhibit 2 provides a summary of the scoring of the questions based on how many of the four available controls were selected by respondents:

Exhibit 2: Risk Scoring Methodology for Each Survey Question

Risk Score	1	2	3	4	5
Controls Selected	<input checked="" type="checkbox"/> ...	<input checked="" type="checkbox"/> ...	<input checked="" type="checkbox"/> ...	<input checked="" type="checkbox"/> ...	<input type="checkbox"/> ...
	<input checked="" type="checkbox"/> ...	<input checked="" type="checkbox"/> ...	<input checked="" type="checkbox"/> ...	<input type="checkbox"/> ...	<input type="checkbox"/> ...
	<input checked="" type="checkbox"/> ...	<input checked="" type="checkbox"/> ...	<input type="checkbox"/> ...	<input type="checkbox"/> ...	<input type="checkbox"/> ...
	<input checked="" type="checkbox"/> ...	<input type="checkbox"/> ...	<input type="checkbox"/> ...	<input type="checkbox"/> ...	<input type="checkbox"/> ...

The lowest score available for each question is 1 or **lowest risk**, and the highest score available for each question is 5 or **highest risk**.

If the respondent selected “Not applicable” or “No” to a question, the department was assigned a low risk score of 1. If the department selected “Yes”, its score was dependent on number of controls selected in the subsequent question, and follows the scoring methodology described above for each question.

The *Citywide risk results by department* was determined based upon the lowest risk score of 10 and highest risk score of 50 based on the 10 questions of the survey. For instance, if a department received the lowest possible risk score of 1 on each of the 10 questions, their total risk score would be 10. Exhibit 3 on the next page shows the scoring methodology by department, which were used for the “By the Numbers” and “Risk Assessment Results – by Department” sections of the report.

The *Citywide risk results by question* was determined based upon the lowest risk score of 14 and highest risk score of 70. For instance, if all 14 departments received the lowest possible risk score of 1 on each question, the Citywide lowest score would be 14, and if all departments received the highest possible risk score of 5 for a question, the Citywide highest score for that question would be 70. Exhibit 3 on the next page shows the scoring methodology by question, which was used for the “Risk Assessment Results - by Question” section of the report.

Exhibit 3: Risk Scoring Methodology – by Department and by Question

Risk Level	By Department Risk Score	By Question Risk Score
Low	10 to 20 points	14 to 28 points
Medium	21 to 40 points	29 to 56 points
High	41 to 50 points	57 to 70 points

Survey Limitations

It should be noted that department responses were not verified by Internal Audit. This short survey should not be viewed as a comprehensive vendor risk assessment checklist.

Appendix B: Citywide Survey Results by Question

The matrix below represents the Citywide survey results by question.

Highly Used Control	Moderately Used Control	Rarely Used Control
9 or more departments	5 to 8 departments	1 to 4 departments

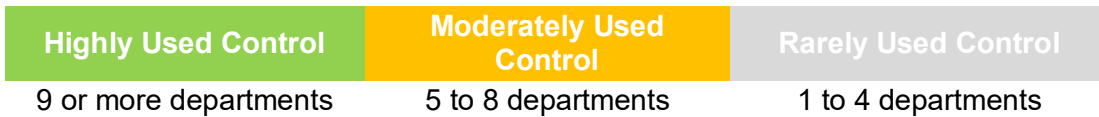
Ref	Question	Number of Departments													
		1	2	3	4	5	6	7	8	9	10	11	12	13	14
1	Does your department consider any of the following to address strategic risks when establishing relationships with vendors?														
	Your department carefully considers the risks of entering into relationship with vendors if they are newly launched or have emerging technologies.														
	Your department reviews the vendor's strategic goals.														
	The strategic goals of the vendor are in general alignment with the City's strategic goals for the services provided.														
	Your department periodically evaluates all outside relationships, such as with school districts or other agencies, and formalizes any relationships that are ad-hoc through an agreement, contract or memorandum of understanding, to reduce risk and to better enforce relationship obligations.														
	Risk area is not applicable.														
	Risk area applies, but no controls were selected.														
2	Does your department consider any of the following concentration risks and/or benefits prior to establishing a procurement relationship?														
	Risks related to placing too much reliance upon a single vendor to perform several mission critical and/or high-risk activities.														
	Risks of concentrating vendors in a specific geographic location.														
	Risks associated with multiple vendors relying on the same subcontractor to deliver services for the City.														
	Benefits associated with bundling many services/goods with a given vendor, such as price.														
	Risk area is not applicable.														
	Risk area applies, but no controls were selected.														

Appendix B: Citywide Survey Results by Question

Highly Used Control	Moderately Used Control	Rarely Used Control
9 or more departments	5 to 8 departments	1 to 4 departments

Ref	Question	Number of Departments													
		1	2	3	4	5	6	7	8	9	10	11	12	13	14
3	Does your department perform any of the following to ensure business continuity in case an essential vendor's service is disrupted?														
	All vendors that provide essential services for the department are identified.														
	In the event of an emergency, your department has a business continuity plan if essential vendors are no longer able to provide service, such as a replacement vendor.														
	Essential vendor has a business continuity plan in case of service disruption, and City or your department has requested a copy of the vendor's business continuity planning policy, or vendor has otherwise communicated their plan to the City.														
	Vendor's business continuity plan addresses the following three areas: planning for loss of personnel, facilities or services; planning with public entities such as emergency services; and communicating with essential vendors, clients, employees and the media.														
	Risk area is not applicable.														
	Risk area applies, but no controls were selected.														
4	Does your department ensure that the City's Purchasing Policy is followed when using vendors?														
	Prior to executing a construction contract, due diligence is performed by following the steps outlined in the Purchasing Policy 3-11 starting on page 32.														
	Prior to executing a professional services agreement, staff have the expertise or guidance to develop well-written and detailed request for proposals, including the components outlined in Purchasing Policy 3-11 starting on page 38.														
	Preference is given to local vendors for purchase of taxable goods and materials only, if all other significant considerations are equal.														
	Contracts are frequently monitored prior to term expiration or fund exhaustion and proper approvals are obtained for contract extension, and any change orders are requested timely.														
	Risk area is not applicable.														
	Risk area applies, but no controls were selected.														

Appendix B: Citywide Survey Results by Question



Ref	Question	Number of Departments													
		1	2	3	4	5	6	7	8	9	10	11	12	13	14
5	Do contracts incorporate any of the following related to subcontracting activity?														
	Vendor is required to certify that it has investigated the eligibility of its subcontractors and has determined that none is ineligible to perform the work that they are hired to do.														
	Periodically obtain third party vendor's own vendor management policy to identify their subcontracting controls.														
	All costs of the services performed, or the expenses incurred by the subcontractor are chargeable directly to vendor.														
	Vendor is responsible for the performance of its subcontractors as it would be if it had rendered the services itself.														
	Risk area is not applicable.														
	Risk area applies, but no controls were selected.														
6	Does your department perform any of the following to monitor contracts?														
	Each contract is monitored on an ongoing basis by a designated manager, who meets with vendor regularly to discuss contract compliance issues.														
	Actively monitor vendor performance and enforce contractual obligations, such as through liquidated damages, as needed.														
	Collect and review operational reports submitted by vendor. Routine reports may include performance reports, audits, financial reports, security reports, and business continuity testing reports.														
	Recommend vendors to be audited based on any identified risks and/or concerns.														
	Risk area is not applicable.														
	Risk area applies, but no controls were selected.														

Appendix B: Citywide Survey Results by Question



Ref	Question	Number of Departments													
		1	2	3	4	5	6	7	8	9	10	11	12	13	14
7	Does your department review any of the following prior to approving invoices?														
	The goods and services identified on the invoice have been received.														
	The price, sales tax, freight and any other variables that may be on the invoice are verified against purchase orders and/or contract.														
	The quantities ordered make sense, and/or staff have provided justification for the good/service ordered.														
	The invoice has not already been paid.														
	Risk area is not applicable.														
	Risk area applies, but no controls were selected.														
8	Does your department perform any of the following when on/off-boarding a vendor?														
	Require vendors to complete a Third Party Connectivity Request Form if they require access to City systems.														
	Annually, re-submit the Third-Party Connectivity Request Form for each vendor.														
	Ensure that vendor no longer has access to City network and/or facilities upon termination.														
	Ensure that any final payments are made by City to vendor and any applicable taxes, such as taxable possessory interest, are paid upon termination by vendor.														
	Risk area is not applicable.														
	Risk area applies, but no controls were selected.														
9	Does your department have revenue contracts?														
	Yes.														
	No.														

Appendix B: Citywide Survey Results by Question

Highly Used Control	Moderately Used Control	Rarely Used Control
9 or more departments	5 to 8 departments	1 to 4 departments

Ref	Question	Number of Departments													
		1	2	3	4	5	6	7	8	9	10	11	12	13	14
9a	Does your department consider any of the following when executing revenue contracts?														
	Fees are up-to-date and adjusted for CPI, as needed.														
	Vendors use a software system to collect fees, and revenues are reviewed for completeness and accuracy.														
	Vendor retains support for all expenses that are included as part of any profit sharing terms, and can provide them to the City upon request, such as receipts for purchases, or methodologies for workers' compensation rates.														
	The collection processes that may need to be carried out by vendor are clearly articulated, such as attempting collection and/or coordinating collection with the City's collection agency.														
	Risk area applies, but no controls were selected.														
10	Does your department use cooperative purchasing agreements?														
	Yes.														
	No.														
10a	Does your department perform any of the following when cooperative purchasing agreements are used?														
	To the extent practical, a price list must be attached to the annual purchasing contracts exceeding \$50,000.														
	Cooperative purchasing agreement in excess of \$50,000 is not used for any contract when pricing or pricing structure is vague or not publicly available.														
	Cooperative purchasing agreement is not used if the contract is for more than \$50,000 of construction projects, or maintenance of public works.														
	For a cooperative agreement to be eligible for use, the awarded contract must have resulted from a full and open competition.														
	Risk area applies, but no controls were selected.														

Appendix C: Sample Departmental Report

The snapshot below represents a sample department specific risk report provided to all survey respondents upon completion of the survey.



Express Risk Survey Vendor Risk Assessment

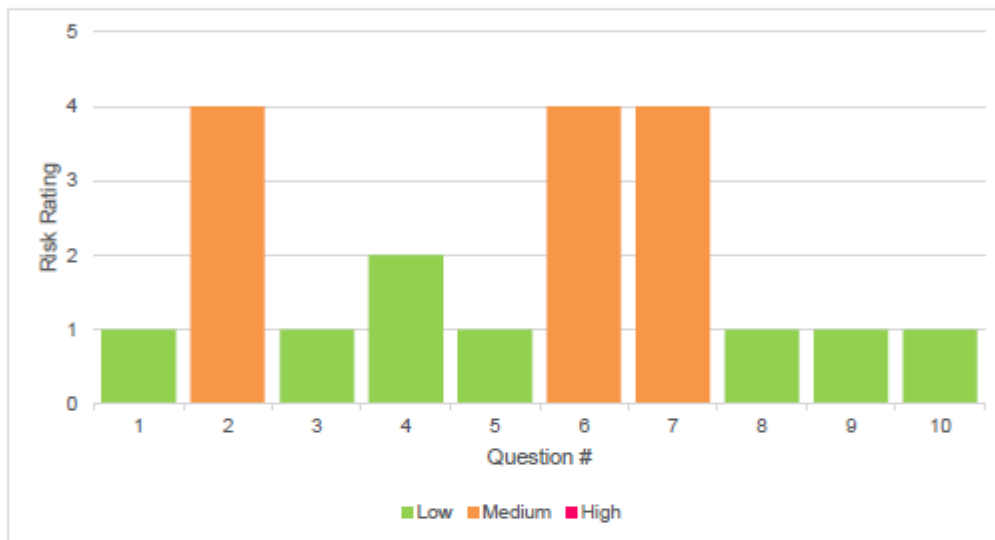
Internal Audit

Department: [REDACTED]

Date: February 9, 2022

Thank you very much for your participation in the Express Risk Survey - Vendor Risk Assessment. Below please find your risk score result visualization and your overall risk score.

Vendor Risk Assessment Survey Result



Overall Risk Score

Question	Low	Medium	High	Risk Score
1	1			1
2		4		4
3	1			1
4	2			2
5	1			1
6		4		4
7		4		4
8	1			1
9	1			1
10	1			1

Total Risk Score: 20
 Average Risk Score: 2.00
 Overall Risk Score: Low Risk

You may also click the link below to access the Risks and Mitigation Measures Checklist for your review and reference:

[Risks and Mitigation Measures Checklist](#)

Appendix D: Vendor Risks and Mitigation Measures Checklist

The Risks and Mitigation Measures Checklist was provided to all survey respondents upon completion of the survey.



City of Glendale | Internal Audit

Vendor Risks and Mitigation Measures Checklist

Ref	Question	Mitigating Factors
1	Does your department consider any of the following to address strategic risks when establishing relationships with vendors?	<ul style="list-style-type: none"> <input type="checkbox"/> Your department carefully considers the risks of entering into relationship with vendors if they are newly launched or have emerging technologies. <input type="checkbox"/> Your department reviews the vendor's strategic goals. <input type="checkbox"/> The strategic goals of the vendor are in general alignment with the City's strategic goals for the services provided. <input type="checkbox"/> Your department periodically evaluates all outside relationships, such as with school districts or other agencies, and formalizes any relationships that are ad-hoc through an agreement, contract or memorandum of understanding, to reduce risk and to better enforce relationship obligations. (For examples, see Item #3 of the Sewer Billing Audit Report and Item #1 of the Hoover, Toll and Keppel Recycled Water Project Audit Report)
2	Does your department consider any of the following to mitigate concentration risks and/or benefits (such as placing too much reliance on a single vendor or economies of scale) prior to establishing a procurement relationship?	<ul style="list-style-type: none"> <input type="checkbox"/> Risks related to placing too much reliance upon a single vendor to perform several mission critical and/or high-risk activities. <input type="checkbox"/> Risks of concentrating vendors in a specific geographic location. <input type="checkbox"/> Risks associated with multiple vendors relying on the same subcontractor to deliver services for the City. <input type="checkbox"/> Benefits associated with bundling many services/goods with a given vendor, such as price.
3	Does your department perform any of the following to ensure business continuity in case an essential vendor's service is disrupted?	<ul style="list-style-type: none"> <input type="checkbox"/> All vendors that provide essential services for the department are identified. <input type="checkbox"/> In the event of an emergency, your department has a business continuity plan if essential vendors are no longer able to provide service, such as a replacement vendor. <input type="checkbox"/> Essential vendor has a business continuity plan in case of service disruption, and City or your department has requested a copy of the vendor's business continuity planning policy, or vendor has otherwise communicated their plan to the City. <input type="checkbox"/> Vendor's business continuity plan addresses the following three areas: planning for loss of personnel, facilities or services; planning with public entities such as emergency services; and communicating with essential vendors, clients, employees and the media.
4	Does your department ensure that the City's Purchasing Policy is followed when using vendors?	<ul style="list-style-type: none"> <input type="checkbox"/> Prior to executing a construction contract, due diligence is performed by following the steps outlined in the Purchasing Policy 3-11 starting on page 32. <input type="checkbox"/> Prior to executing a professional services agreement, staff have the expertise or guidance to develop well-written and detailed specifications for request for proposals, including the components outlined in the Purchasing Policy 3-11 starting on page 38. <input type="checkbox"/> Preference is given to local vendors for purchase of taxable goods and materials only, if all other significant considerations are equal. <input type="checkbox"/> Contracts are frequently monitored prior to term expiration or fund exhaustion and proper approvals are obtained for contract extension, and any change orders are requested timely.

Appendix D: Vendor Risks and Mitigation Measures Checklist



City of Glendale | Internal Audit

Vendor Risks and Mitigation Measures Checklist

Ref	Question	Mitigating Factors
5	Do contracts incorporate any of the following related to subcontracting activity?	<ul style="list-style-type: none"> <input type="checkbox"/> Vendor is required to certify that it has investigated the eligibility of its subcontractors and has determined that none is ineligible to perform the work that they are hired to do. <input type="checkbox"/> Periodically obtain vendor's own vendor management policy to identify their subcontracting controls. <input type="checkbox"/> All costs of the services performed, or the expenses incurred by the subcontractor are chargeable directly to vendor. <input type="checkbox"/> Vendor is responsible for the performance of its subcontractors as it would be if it had rendered the services itself.
6	Does your department perform any of the following to monitor contracts?	<ul style="list-style-type: none"> <input type="checkbox"/> Each contract is monitored on an ongoing basis by a designated manager, who meets with vendor regularly to discuss contract compliance issues. <input type="checkbox"/> Actively monitor vendor performance and enforce contractual obligations, such as through liquidated damages, as needed. <input type="checkbox"/> Collect and review operational reports submitted by vendor. Routine reports may include performance reports, audits, financial reports, security reports, and business continuity testing reports. <input type="checkbox"/> Recommend vendors to be audited based on any identified risks and/or concerns.
7	Does your department review any of the following prior to approving invoices?	<ul style="list-style-type: none"> <input type="checkbox"/> The goods and services identified on the invoice have been received. <input type="checkbox"/> The price, sales tax, freight and any other variables that may be on the invoice are verified against purchase orders and/or contract. <input type="checkbox"/> The quantities ordered make sense, and/or staff have provided justification for the good/service ordered. <input type="checkbox"/> The invoice has not already been paid.
8	Does your department perform any of the following when on/off-boarding a vendor?	<ul style="list-style-type: none"> <input type="checkbox"/> Require vendors to complete a Third Party Connectivity Request Form if they require access to City systems. <input type="checkbox"/> Annually, re-submit the Third-Party Connectivity Request Form for each vendor. <input type="checkbox"/> Ensure that vendor no longer has access to City network and/or facilities upon termination. <input type="checkbox"/> Ensure that any final payments are made by City to vendor and any applicable taxes (for example, taxable possessory interest) are paid upon termination by vendor.
9	Does your department consider any of the following when executing revenue contracts? ¹	<ul style="list-style-type: none"> <input type="checkbox"/> Fees are up-to-date and adjusted for CPI, as needed. <input type="checkbox"/> Vendors use a software system to collect fees, and revenues are reviewed for completeness and accuracy. <input type="checkbox"/> Vendor retains support for all expenses that are included as part of any profit sharing terms, and can provide them to the City upon request, such as receipts for purchases, or methodologies for workers' compensation rates. <input type="checkbox"/> The collection processes that may need to be carried out by vendor are clearly articulated, such as attempting collection and/or coordinating collection with the City's collection agency.

¹ Revenue contracts are contracts between the City and a vendor where the vendor either collects revenues on behalf of the City, and/or shares a portion of their revenues with the City.

Appendix D: Vendor Risks and Mitigation Measures Checklist



City of Glendale | Internal Audit Vendor Risks and Mitigation Measures Checklist

Ref	Question	Mitigating Factors
10	Does your department perform any of the following when cooperative purchasing agreements are used? ²	<ul style="list-style-type: none"><input type="checkbox"/> To the extent practical, a price list must be attached to the annual purchasing contracts exceeding \$50,000.<input type="checkbox"/> Cooperative purchasing agreement in excess of \$50,000 is not used for any contract when pricing or pricing structure is vague or not publicly available.<input type="checkbox"/> Cooperative purchasing agreement is not used if the contract is for more than \$50,000 of construction projects, or maintenance of public works.<input type="checkbox"/> For a cooperative agreement to be eligible for use, the awarded contract must have resulted from a full and open competition.

² "Cooperative procurement" is defined by the Institute for Public Procurement as "the combining of requirements of two or more public procurement entities to leverage the benefits of volume purchases, delivery and supply chain advantages, best practices and the reduction of administrative time and expenses."