

**UPMC  
POLICY AND PROCEDURE MANUAL**

**POLICY: HS-MM0314 \***  
**INDEX TITLE: Supply Chain Management**

**SUBJECT: Vendor Management**  
**DATE: July 31, 2008**

**I. POLICY/PURPOSE/SCOPE**

- A. It is the policy of the University of Pittsburgh Medical Center (UPMC) to effectively manage vendor relationships and associated risk to ensure that the vendor activity is conducted in a safe, ethical and sound manner and in compliance with applicable laws. This document is a general outline of UPMC's vendor management strategy supported by Supply Chain Management (SCM) and the vendor management processes that allows UPMC to operate in an organized and consistent manner. This policy applies to all corporations/entities of which UPMC is the sole member or shareholder or UPMC holds a controlling interest.
- B. For purposes of this policy, vendor relationships shall be defined as those parties that the System utilizes on an on-going basis to:
1. Perform functions on the System's behalf; i.e. UPMC contracts with vendors to perform functions of the System's operations rather than perform them internally.
  2. Provide products and services that the System does not originate but makes available to its customers; i.e. clinical products and services produced by third parties.
  3. Provide products or services to the System that it uses in the operation of its business.

**II. OBJECTIVE**

- A. Provide a framework for the vendor management program which is in compliance with Purchasing Policies; the Signing Authority for Commitment of Funds Policy; Information Services Policies; Contract Policy; Privacy Policies, Security Policies and the Vendor Access Policy.

- B. Major components of the vendor management framework include:
  - 1. Risk assessment
  - 2. Vendor classification
  - 3. Vendor due diligence
  - 4. Vendor engagement / sourcing
  - 5. Contract origination, management and administration
  - 6. Ongoing vendor monitoring
  - 7. Oversight, reporting and certification / validation of compliance
- C. Establish guidelines for consistency in vendor origination (selection) and includes on-going monitoring responsibilities and processes that continually validate the vendor relationship.
- D. Define vendor management roles and responsibilities for the following respective parties:
  - 1. Vendor Risk Management Committee
  - 2. Business Units (BU)
  - 3. Supply Chain Management
  - 4. Legal
  - 5. ISD
  - 6. Internal Audit
- E. Establish standard vendor management metrics and reporting, facilitating compliance with business requirements and regulatory guidelines.

### **III. VENDOR RISK ASSESSMENT/CLASSIFICATION**

- A. The risk associated with a proposed vendor relationship will be assessed when considering any new procurement or sourcing activity. This risk assessment should be conducted prior to identifying a specific vendor, or at least annually with existing vendors, and should take into consideration the following criteria:
  - 1. Alignment with UPMC's strategy and integration with overall strategic objectives
  - 2. Risks associated with the proposed activity, including:
    - i. Service risk
    - ii. Strategic risk
    - iii. Reputation risk
    - iv. Compliance risk
    - v. Transaction risk
    - vi. Legal risk
    - vii. Other risk

3. Internal expertise to evaluate and manage the relationship
4. Business Case or Cost Benefit Analysis
5. Vendor Classification. Vendors will be classified in three (3) categories, Level 1 to Level 3, based on specific criteria.

#### **IV. RESPONSIBILITIES**

##### **A. Business Units (BU)**

1. Each Business Unit is required to work with Supply Chain Management. Supply Chain Management is responsible for creating and implementing vendor management procedures that meet the standards of this policy.

##### **B. Risk Management**

1. The Vendor Risk Management Committee (VRMC) establishes the standards related to vendor risk management throughout the System and maintains this policy. The VRMC is responsible for reporting vendor risk exposure to Executive Management and the Board of Directors.

##### **C. Supply Chain Management**

1. Supply Chain Management coordinates and maintains the recommended standards and procedures relating to vendor due diligence and contract administration.
2. Where appropriate Supply Chain Management will work with the businesses to perform vendor due diligence, contract administration, ongoing monitoring and renewals, and other sourcing activities for third-party vendors.

##### **D. Legal**

1. The Legal Department is responsible for reviewing vendor contracts in accordance with this policy and the [Corporate Contract Service](#) Policy, HS-LE0003.

##### **E. Internal Audit**

1. Internal Audit provides independent testing and verification of operational risk management policies and procedures, including vendor management.

F. ISD

1. ISD is responsible for approving the acquisition of all Information Technology products and services. Please see UPMC Policy HS-IS0220 title "[Supplier Agreement Management: Acquisition Computer Software, Computer Hardware, Services and Other Information Technology Related Products](#)"

V. **VENDOR MANAGEMENT GUIDELINES**

A. Vendor Selection

1. A corporate sourcing strategy, lead by Supply Chain Management is to be utilized, which incorporates best-in-class sourcing practices that maximize value, minimize cost, and manage risk. These best practices are executed in partnership with the business owner, to implement a strategy that accommodates the unique requirements of each request. Business owners are to contact the appropriate Supply Chain representative at the onset of all projects that require a third party vendor selection.

B. Vendor Contract Management and Administration

1. Written contracts that outline the products, duties, obligations, and responsibilities of the parties involved, which may include service level agreements (SLA), must be appropriately negotiated and executed. Contracts are not required for Level 3 vendors, but as appropriate, are recommended, and may take the form of a purchase order. All contracts must adhere to the [Corporate Guidelines for Purchasing](#) Policy, HS-MM0300.

C. Contract Review

1. Contracts should be reviewed at periodic intervals based on the level of the vendor but no less than once a year to ensure the original terms and conditions are aligned with current practices. Contracts should be amended as needed, with approval from Legal to ensure alignment. Contracts containing automatic renewal clauses should be reviewed prior to the renewal date.
2. Renewal of existing contracts. The business owner and SCM are responsible for monitoring the expiration date of vendor contracts and working with areas of expertise as appropriate to determine renewal strategy. If a vendor relationship is to continue, the contract must be renewed or extended prior to the contract expiration date. A contract may be extended by mutual consent of UPMC and the vendor.

3. The business owner should pursue the appropriate contract renewal strategy with Supply Chain Management and appropriate areas of expertise well in advance of the contract renewal date. Sufficient time must be allowed for vendor selection, contract negotiation and integration.

**D. Entering into New Contracts**

1. Appropriate due diligence must be done before entering a contract with a new vendor relationship, or in some cases before engaging a current vendor relationship to provide a new product or service if the new vendor engagement level is higher than the existing vendor level and associated due diligence. Once the due diligence process has been completed and the vendor has been approved for usage, the contract management process for new and existing contracts would be the same.
2. There are two due diligence forms that can be utilized, based on the Vendor Level assigned. These forms can be found on the SCM Internal Website at <http://purchasing.infonet.upmc.com/>.
  - i. Level 1 - a detailed series of diverse questions, ranging from financial to operational.
  - ii. Level 2 - a less detailed set of questions.

**E. Ongoing Vendor Monitoring**

1. The business owner or assigned individual must monitor all vendors as to their activities and performance, engaging areas of expertise as appropriate. As with initial due diligence, ongoing monitoring efforts should reflect the degree of risk associated with the particular relationship.
2. Monitoring may include some or all of the following:
  - i. Issue periodic due diligence questionnaires
  - ii. Review and approve the due diligence questionnaire involving other areas of expertise as appropriate. Based on the results of the review, establish contingency plans as needed to include alternative vendors including:
    - a. Transition plan
    - b. Timeline for migration
    - c. Costs to migrate

3. Working with Risk Management, coordinate and finalize the security checklists as appropriate. Major components of the vendor management framework include:
  1. Document and follow up on performance problems in a timely manner.
  2. Maintain documents and records regarding contract compliance, revision, and dispute resolution.
4. Change in Control of the Vendor:
  1. If a vendor has a “Change of Control” (such as being sold or merged into another company), and because of a “Change in Control”, significantly changes strategic direction and/or mission, the business owner is responsible to engage areas of expertise and determine if new or revised due diligence is required.
5. Documentation must be retained in the Vendor Management Database and should incorporate:
  1. All versions of vendor contact/background information
  2. All versions of the due diligence performed
  3. All versions of the Risk Assessment performed (if applicable)
  4. Insurance Certificates as appropriate
  5. Source Code Escrow verification for software vendors as appropriate

**F. Exceptions**

1. All proposed exceptions to this policy must be submitted in writing to the Vendor Risk Management Committee.

**SIGNED:** James Szilagy  
Chief Supply Chain Officer

**ORIGINAL:** February 28, 2007

**APPROVALS:**

Policy Review Subcommittee: July 10, 2008

Executive Staff: July 31, 2008

**PRECEDE:** February 28, 2007

**SPONSOR:** Chief Supply Chain Officer

**\* This policy is intended to replace individual business unit policies covering the same subject matter. Business unit policies covering the same subject matter should be pulled from all manuals.**