



Risk Control

Subcontractor Prequalification

Prequalification is an information-gathering and assessment process that reviews a subcontractor's capability, resources, management processes, performance and capacity to complete a job by identifying signs of safety and financial risk.

The process generally begins with a prequalification form or application developed by those responsible for hiring additional subcontractors. Utilizing an established process and consistently adhering to procedures will help the hiring contractor determine if a subcontractor is suitable for current and future construction projects.

When developing a prequalification form or application, the hiring contractor should consider the following:

General Information

- Company ownership and management – Determine if there is a stable ownership and management team in place. Require a list of all owners, officers, partners, and individuals authorized to represent or conduct business or sign legal documents for the firm.
 - How many years has the subcontractor been in business?
 - What experience and qualifications does the leadership team have in the particular project scope?
- Key personnel – Employees responsible for carrying out the work on a project are considered key personnel (Project Managers, Superintendents).
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- Verification of insurance – Every subcontractor should provide a certificate of insurance with current policy limit requirements discussed through your legal counsel or insurance advisor.
 - Does the insurance lapse before the end of the project warranty period?
 - Are there any exclusions for residential (condominium, apartments, multi-family) projects or mold?
- Disadvantaged business status – Some federal, state and local municipalities have established contract requirements with specified Disadvantaged Business Enterprise (DBE) participation.
 - Is the subcontractor certified as a DBE?
Secure certification number.
- Project experience – Every project has unique characteristics and requirements. Each firm should be required to furnish a history under the current management documenting experience with projects of similar size, scope or complexity.
 - Secure information pertaining to contract types and size, project owners, completion dates.
- Current project portfolio – Obtain a work in progress (WIP) list to include size and scope of operations.
 - What is their current backlog?
- Staffing capabilities – The construction industry has struggled to attract a new and younger workforce as the global and broadening economy continues to offer new industries.
 - Does the subcontractor have a set staff or will they hire and assemble workers for each project?
- Licensing – Hiring licensed contractors provides the minimal assurance that the contractor offering the services has the requisite skills to complete the project, understands the local laws and codes, and knows the basics of administering a contracting business.
 - Collect copies of valid and current state contractor licenses for the type of work and jurisdiction.
- List of subcontractors/suppliers – Construction projects can be highly complex, requiring a wide range of specialized skill sets. Hiring contractors who perform prequalification should also qualify subcontractors of subcontractors to review their qualifications and experience. These additional subcontractors can create

issues surrounding scheduling, safety, quality, labor and contract requirements.

Safety Information

- OSHA 300 logs and OSHA 300A summaries – Occupational Safety and Health Administration's (OSHA) recordkeeping regulations require employers with 10 or more full-time employees to record the recordable injuries and illnesses of employees they supervise on a day-to-day basis. These documents should be reviewed to identify potential safety-related concerns. Information can be used to determine TRIR and DART rates:
 - **Total Recordable Incident Rate (TRIR)** – Number of OSHA recordable injuries and illnesses X 200,000 / employee total hours worked = Total Case Incident Rate.
 - **Days Away, Restricted or Transferred (DART)** – Number of OSHA recordable injuries and illnesses that resulted in days away, restricted or transferred X 200,000 / employee hours worked = Days Away Restricted Transferred Rate.
 - U.S. Bureau of Labor Statistics – Employer-Reported Workplace Injury and Illness offers industry incident rates for comparison.
- Experience Modification Rate (3 year) – This number represents a subcontractor's claim history and safety record compared to related businesses in the same industry. If an EMR is greater than 1.00, it is important for the hiring contractor to understand the potential risks associated with the subcontractor.
 - Collect 3 years of EMR rates.
- Citations issued – As the controlling employer, general contractors can be held responsible for the actions of subcontractors on multi-employer sites. Responsibilities under the Multi-Employer policy depend on the employer's role, not job title. If the employer meets the criteria of a creating, controlling, exposing or correcting employer, or any combination of them, it has safety and health obligations under OSHA's regulations.
 - U.S. Department of Labor – OSHA Establishment Search can assist and find enforcement inspections by establishment name.
- Safety Program (ex. ISNetworld, Avetta, etc.) – Safety and health programs should be collected and evaluated.
 - Does the contractor perform an annual evaluation and improvement of safety and health programs?
 - How is safety communicated to the subcontractor's employees?
 - What is the frequency of toolbox talks?
 - Does the subcontractor have new employee orientation training?
 - Does the subcontractor conduct additional safety and health training for supervisors, foreman and project managers?
 - Does the subcontractor retain records of safety training?

- Quality Management Program (QA/QC) – Project specifications generally spell out quality standards and become part of the contract. Quality Management Programs developed for clarifying standards and requirements, establishing means and methods for managing the process, and defining responsibilities and accountabilities should be collected and reviewed. These programs should include site-specific quality control plans and a quality assurance process to be performed and documented by the subcontractor.
 - Does the subcontractor have someone responsible for quality?
 - How is quality assurance documented?
 - Does the Quality Management Program include Water Intrusion Management?
 - Is there 100% inspection and verification of materials?
- Substance Testing Program – Construction work is physically demanding and stressful, potentially leading to substance abuse.
 - Does the subcontractor have a written Substance Abuse Policy to include pre-employment/pre-placement, post-accident and random testing?

Financial Information

- Dun & Bradstreet or Federal Tax ID number – A W-9 form includes the subcontractor's Taxpayer Identification Number (TIN) and can be compared with licenses collected and certificates of insurance for further verification.
- Financial history – A review of financial statements, preferably audited statements, can help identify payment practices including slow payments and defaulted or lien activity. Collect a minimum of 3-5 years of statements. Information should include:
 - Current year revenues
 - Working capital
 - Total and current assets
 - Net equity
 - Current liabilities
 - Average monthly billings
 - History of bankruptcy, closed business, defaulted project or failure to complete a project
- Active litigation – Search your Secretary of State's website or State Labor & Industry sites.
- Litigation history – Determine if there have been any historical labor law violations, judgements filed against the company, or contract default or contract termination history.

Surety and Bonding

- General contractors should consider obtaining subcontractor bonds to minimize potential downside on projects. Subcontractors have a significant impact on the profitability of projects. A surety company has already prequalified the contractor, underwriting important factors such as financial strength, experience, profitability, and track record of delivering projects on time and within budget. Bonding your subcontractors provides protection against project delays and mechanics' liens.
- In evaluating subcontractors, obtain a general reference letter from the subcontractor's surety or agent detailing the strength of the surety relationship, including information such as single job and aggregate bonding capacity, largest job completed and largest project that would be considered. The letter should be made out to the general contractor on the surety's letterhead and requested on an annual basis. Rates should also be determined in order to ascertain the cost of the bond.
- Obtaining an annual copy of a subcontractor's financial statement is an important prequalification strategy that should be considered, especially if the decision has been made not to bond the subcontractor. The statement will reference key components such as profitability, asset base (including equipment levels), net worth, working capital and cash flow.

Reference

- References – For general contractors, suppliers and A&E firms, require contacts to validate company's quality, dependability and creditworthiness.
 - Secure multiple references from each of the above entities.
 - Obtain financial institution and surety references.

Improving future performance includes continuous learning from prior projects. Post-project reviews are one way to assess the construction process and future projects. Developing a post-job evaluation process to requalify a subcontractor after the work is completed and evaluating the subcontractor's safety performance, customer service and quality of work will help you assemble the best team on future jobs.

Additional Resources

- [Why Every Contractor Needs to Prequalify their Subs](#)
- [OSHA - Rules of Construction](#)
- [OSHA - Definition of Multi-Employer Worksite](#)

To learn more about managing your risk and increasing efficiency, visit cna.com/riskcontrol.