



## Risk Control

# Subcontractor Prequalification

Prequalification is an information gathering and assessment process about interested subcontractors capability, resources, management processes, and performance to determine that contractor's capacity to complete a job, by considering experience and 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 a consistent adherence to procedures will assist the hiring contractor determine a subcontractor's suitability for partnership on current and future construction projects.

When establishing a prequalification form or application, the hiring contractor should consider the following types of information:

### General Information

- Company ownership & management – determine if there is a stable ownership and management team in place. Require a list of all owners, officers, partners, or individuals authorized to represent or conduct business for, or sign legal documents for the firm.
  - How many years has the contractor 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)
  - What experience and qualifications do key personnel have in the particular project scope?
- 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 DBE participation.
  - Is the subcontractor certified as a Disadvantaged Business Enterprise (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 relating to the current project.
  - 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 – construction industry has struggled to attract a new and younger workforce as the global and broadening economy continues to offer many 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 have the requisite skills, understands the local laws and codes, 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 performing 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.

Does the subcontractor conduct additional safety and health training for supervisors, foreman and project managers?  
Does the subcontractor retain records of safety training?

### Safety Information

- OSHA 300 logs and OSHA 300A summaries – OSHA's 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 contained 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 of Transferred (DART)** - Number of OSHA Recordable injuries and illnesses that resulted in Days Away; Restricted; 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 subcontractors claim history and safety record as compared to related businesses within 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 potential 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 its 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.  
US Department of Labor - Occupational Safety and Health Administration (OSHA) Establishment Search can assist find enforcement inspections by the name of the establishment.
- 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 program?  
Does the subcontractor include employee involvement in safety?  
How safety is communicated to subcontractor's employees?  
What is the frequency of toolbox talks?  
Does the subcontractor have new employee orientation training?

- Quality Management Program (QA/QC) - Project specifications generally spell out quality standards and become part of the contract with project owners. 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 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 Form W-9 includes the subcontractors Taxpayer Identification Number (TIN) and can be compared with licenses collected and certificates of insurance for further verification.
- Financial history - Review of financial statements, preferably audited statement can help identify payment practices including slow payments, defaulted or lien activity. Minimum of 3-5 years of statements.  
Information to review can include:
  - Current year revenues
  - Working capital
  - Total and current assets
  - Net equity
  - Current liabilities
  - Average monthly billingsAny history of bankruptcy, closed business, defaulted or failed to complete a project?
- Active litigations cases – search your Secretary of State's website or State Labor & Industry sites.
- Litigation history – determine if there have been any historical Labor law violation, any judgements filed against the company or any 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 and be on the surety's letterhead and should be 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 to not 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** – 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.  
Financial Institution and Surety references should be obtained.

Improving future performance includes continuous learning from prior projects. Post-project reviews are one way to progress 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.

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