

Subguard[®] Program

Subcontractor Prequalification Guidebook



Goal of subcontractor prequalification

The purpose of this document is to provide an overview and sample of subcontractor prequalification procedures which may be considered for use by general contractors. All sample policies and procedures herein should serve as a guideline, which you can use to create your own policies and procedures. We trust you will customize these samples to reflect your own operations, and believe they may serve as a platform for this endeavor.



The goal of a prequalification process is to ensure that accurate, appropriate information is compiled and evaluated in a way which allows those responsible for selecting subcontractors to make sound business decisions regarding the utilization of subcontractors on a project. An effective subcontractor prequalification program addresses both the subcontractor's operational capabilities and overall financial strength. Utilizing an established prequalification process with a disciplined approach to assessing subcontractor data and formulating risk level will assist a general contractor in quickly and efficiently determining whether or not to include a subcontractor in future bidding opportunities. Ideally, an established subcontractor prequalification process will become part of an organization's corporate culture, similar to safety and quality management, as a tool of successful general contracting.

Establishing a subcontractor prequalification program

When establishing a prequalification program, a contractor should consider the following:

Requesting subcontractor prequalification data

1. Distribute Subcontractor Qualification Statement / Prequalification Form (see Appendix 1 for example).
2. Obtain audited subcontractor financial statements for a sufficient period to provide a thorough overview of the subcontractor's financial condition. Many general contractors will request a minimum of three years of financial statements.
3. Once a prequalification program has been established, every potential subcontractor bidding on projects should be required to comply with the program by submitting a completed prequalification package.
4. Collect updated subcontractor prequalification information annually and prior to any new bid and / or award.
5. Establish responsibility within the general contractor's organization for requesting, receiving and processing the subcontractor prequalification information to promote consistent program use.

Evaluating subcontractor prequalification data

1. Two important factors in evaluation of subcontractors are financial strength and "high risk" potential.
2. Consider developing criteria and a matrix for risk levels by reviewing and rating characteristics easily identifiable from the subcontractor prequalification questionnaire and in conjunction with project information.
 - a) Possible criteria include, but are not limited to, the following:
 - Relative dollar volume of subcontract (exceeding certain dollar value or percent of prime contract value)
 - Aggregate workload (exceeding certain dollar value or crew capacity)
 - Relative impact of subcontractor's failure to perform its primary subcontracted tasks on the overall project, i.e., it is on the critical path (foundation concrete, steel, framing / drywall, mechanical, electrical)
 - Availability of other subcontractor resources to perform this subcontractor's scope
 - Skill level for the tasks that are undertaken
 - Past performance
 - Prime contract terms, such as lump sum vs. time and material
 - Percentage of work subcontracted to a second-tier subcontractor and subsequent capabilities of the second-tier subcontractor
 - Financial condition, in particular current working capital vs. cash flow (Appendix 3 Subcontractor Prequalification Benchmarks lists some financial criteria and other factors which may be evaluated to help determine risk level)
 - Safety
 - b) Establish extent of financial investigation and background checks for each risk level:
 - At the very minimum, potential subcontractors meeting any of the high risk criteria identified by the general contractor should require full financial prequalification and due diligence; the scope of prequalification and due diligence may be reduced accordingly as risk rating decreases.





3. Consider the three “C’s” when evaluating subcontractors.

Character

- What is the reputation of the firm and the principals?
- Have they ever defaulted on a contract?
- Are they in litigation?
- Do they have a strong claims management program?

Capacity

- Do they have, or can they obtain, the necessary insurance?
- Has their subcontractor’s license ever been suspended or revoked?
- Do they have a history of successfully completing contracts similar to this one in terms of scope, size, complexity and geographical area?
- What their safety record?
- What is their current manpower and is it sufficient for the project under consideration?
- Ascertain the quantity and value of equipment owned / leased.
- Evaluate shop facilities capacity and maintenance practices.
- What is their quality record and QA / QC program?

Capital

- What is the quality and accuracy of the subcontractor’s financial statements?
- What is the strength of their balance sheet?
- Do they have sufficient equity and liquidity to support the work?
- Do they have a good credit / pay history?
- Do they have an established banking relationship and adequate line of credit?
- Have they been profitable over the past three years?
- Do they have a surety relationship?

4. Consider evaluating the subcontractor’s management characteristics and operational capabilities by considering these factors:

- Ability to successfully execute its business plan and to make sound decisions over a substantial period
- Continuity and stability of management and ownership
- Honesty, integrity and reputation of the principals
- Past work experience successfully completing contracts of similar scope, size and complexity in a timely, safe and qualified manner
- Key personnel

5. Consider evaluating the subcontractor’s financial condition and availability of adequate bank financing.

- a) Determine the following information about the subcontractor’s financial statements:
- Certified Public Accountant opinion – is this expressed in a cover letter and is it unqualified, qualified or a disclaimer?
 - Type of accounting method used to recognize revenues earned – cash basis, straight accrual basis, percentage of completion basis or completed contract basis?
 - Quality – is it based on Audit, Review or Compilation?

b) Perform financial review of subcontractor

6. Assign appropriate, responsible staff for evaluation of subcontractor’s character and capacity (typically project managers and superintendents) and for financial review (typically chief financial officer or other finance manager) to promote consistent evaluation of information.
7. Reevaluate subcontractor prequalification information annually, or at least prior to a new bid and / or award.

Establishing a subcontractor prequalification program continued

Scoring systems

1. Consider instituting a subcontractor rating / scoring / classification system incorporating:
 - a) Management characteristics
 - b) Financial position
 - c) Post-project evaluations
2. Establish criteria for numerical scoring (i.e., 1-100) or classification (i.e., gold-silver-bronze, A-B-C, etc.).
3. Establish minimum threshold score for qualifying subcontractors.
4. Establish risk mitigation plan for higher risk subcontractors (see risk mitigation considerations listed below in Summary of Prequalification Practices).

Creating, maintaining and accessing databases

1. Consider creating a secure relational database management system to facilitate these actions or needs:
 - Easy information retrieval
 - Comparative analysis for establishing qualified bidders lists
 - Accurate tracking and updating of current subcontractor qualification data
 - Efficient archiving of historical information
 - Limited access to confidential financial information
2. Make the database available in a secure manner to appropriate staff.
3. Link all procedures, forms and templates to the secure database for easy access.
4. Archive post-project evaluations in the secure database, linked to other subcontractor data.
5. Use the secure database to produce current list of qualified subcontractors with score / rank and single and aggregate contract limits.

Incorporating the prequalification process

1. The general contractor should incorporate the subcontractor prequalification program into project lifecycles and its corporate culture.
2. Communicate subcontractor status (score / rating, qualified or not qualified, etc.) to appropriate personnel on a regular basis.
3. **Preconstruction**
 - a) On negotiated projects, the general contractor may have the opportunity to utilize bids from and subsequently award work to prequalified subcontractors only.
 - b) For hard bids, the general contractor may first evaluate risk, and then strive to use prequalified subcontractors and require prequalification package submission from unknown low bidders prior to award.
 - c) The general contractor may prepare specific subcontractor risk mitigation strategy, if required.
4. **Project construction**
 - a) Implement subcontractor risk mitigation plan if required.
 - b) Communicate any new information / changes regarding the financial condition and performance of subcontractors to upper management and / or the risk manager.
 - c) Obtain updated prequalification information from each subcontractor on an annual basis.
5. **Project closeout**
 - a) Perform written post-project evaluations and enter them into the prequalification database.
 - b) Document subcontractor prequalification lessons learned.

Summary of prequalification practices

1. Executive management is a driving force in the implementation and roll-out of the subcontractor prequalification program, ensuring it becomes part of the organization's corporate culture
2. Use a comprehensive Subcontractor Qualification Statement
3. Strive for consistent evaluation of subcontractor data related to character, capacity, capital and safety
4. Establish evaluation criteria and scoring system for risk level
5. Develop written risk mitigation plans for higher risk subcontractors
 - Clearly designate who within the organization is responsible for granting exceptions to the prequalification program in the event non-qualifying subcontractors must be utilized, and include accepted rationale and the necessary documentation.
 - Implement measures and tools to mitigate risk, including but not limited to:
 - Requiring personal guarantees from the subcontractor's major shareholders.
 - Requiring guarantees from the subcontractor's parent companies.
 - Obtaining Irrevocable Letter of Credit for at least 50% value of the subcontract.
 - Using joint checking suppliers or sub-tier contractors and union benefit funds.
 - Increasing retainage held from each payment for work completed (greater than 10%).
 - Monitoring the subcontractor's payments to vendors, union benefit funds and lower tier subcontractors through phone solicitation.
 - Requiring conditional and unconditional lien waivers from vendors, union benefit funds and lower tier subcontractors.
 - Enhancing progress monitoring.
 - Employing additional safety monitoring.
 - Employing additional quality control requirements.
 - Effectively communicate any mitigation plan to project team / field staff.
 - Clearly designate who on the project team is responsible for confirming that additional risk mitigation plan tasks are performed.
 - Include the risk mitigation plan in the Subcontract Agreement if possible.
5. Follow-up monitoring and periodic re-assessment
 - Designate responsibility for, or systemic process to, confirm implementation of risk mitigation measures.
6. Database
 - Designate responsibility for the timely update of subcontractor prequalification information yearly or at least prior to bid time (non-qualified subcontractors are not on approved bidders' lists).
 - Identify subcontractors with specific elevated risk exposure and offer improvement assistance.
 - Ensure relational database is accessible in a secure manner to appropriate personnel.
7. Consistent adherence to procedures
 - Written Subcontractor Prequalification Procedures, which clearly designate responsibilities, are contained in the general contractor's corporate Project Management Manual and / or corporate Quality Management Manual.
 - The general contractor's personnel should consistently adhere to established procedures for subcontractor prequalification throughout the project lifecycle.

Appendix

1. Sample Subcontractor Qualification Statement / Prequalification Form
2. Reviewing Subcontractor Information
3. Subcontractor Prequalification Benchmarks
4. Reviewing the Surety Relationship
5. Sample Subcontractor Performance Rating Worksheet
6. Overview of D&B Business Reports
7. Outside Vendors Providing Prequalification Services

Appendix 1. Sample Subcontractor Qualification Statement / Prequalification Form



Subcontractor's Profile

Organization

Name of Company:

Address:

City:

State:

Zip:

Telephone No:

Fax Number:

Website:

Form of Business:

Corporation Subchapter-S Corporation Limited Liability Company (LLC) Partnership Proprietorship

Federal ID #:

Date Founded:

State of Formation:

Indicate if your business qualifies as:

DBE MBE SBE WBE

If Yes, Provide Certification Numbers:

1. Corporate Officers and / or Shareholders-Partners-Proprietor: Held %of
 Key-man Life Insurance

Amount	Name Beneficiary	Residence Address	Age	Position	Since	Ownership

2. Have there been any changes in the control or management of the company during the last five years? Yes No
 If yes, please explain fully in Additional Information Section.

3. Has your company or any of its principals or their spouses, or a company with which they were associated, ever failed in business, petitioned for bankruptcy, compromised with creditors, defaulted on a contract or caused a loss to a surety?
 If yes, please explain fully in Additional Information Section.

4. Key personnel (Principals, Estimators, Project Managers, Superintendents, Foremen, etc.); attach resume for each person:

5. Provide a list of all current employees that includes their names, positions, titles and respective years with the company or years of relevant experience.

6. If this questionnaire is being submitted for a specific project opportunity, attach a copy of the resumes of the proposed Project Executive, Senior Project Manager, Project Manager(s), Project Engineer(s), Superintendent(s) and Foremen.

7. Continuity – Completion of Work:
 a) Is there a buy-sell agreement in effect? Yes (attach a copy) No

b) Is the agreement funded by life insurance? Yes No
 If yes, enter amount of insurance: \$

c) Who are the parties to the buy-sell agreement? Give details if copy not provided to Contractor.

d) What arrangements have been made to assure that contracts are completed if the owners are not available?

8. Parent, Affiliate and / or Subsidiary Companies:

Indemnity	Has endorsed for full legal name	Location	Ownership	Operations	Available?	Obligation of:

Background and History

1. When did present management assume control?

2. Name of Predecessor

What happened to Predecessor?

3. Is this company, owners or officers of company, or related companies presently engaged in any litigation?
If yes, please explain fully in Additional Information Section.

Yes No

4. List below largest contracts completed under present management. Indicate type of contract (i.e., Fixed Price, Cost Plus, GMP, etc.).

Contract Price

Location

Owner

Architect or Engineer

When Started

When Completed

Amount of Loss

Project Manager

Surety

Verified: Yes No

5. Largest Project bid \$ _____ Description Year

6. Largest Project Under bid \$ _____ Description Year

7. Current Backlog \$ _____

Operation

1. In which geographic area do you normally work?

2. Do you ever work outside this area?
If yes, where and when?

Yes No

3. In which states are you licensed? (List states, types of licenses and license numbers).

4. Has a complaint ever been filed with a State License Board against your firm?
If yes, please describe.

Yes No

5. Has the license ever been denied or revoked?
If yes, please describe.

Yes No

6. What percentage of work is public?

%

What percentage of work is private?

%

How do you confirm financing on private work?

7. What percentage of your work is usually subcontracted to others?

%

a) Types of work usually subcontracted?

b) What type / trades of work is self-performed? (If more than one type / trade, identify all and corresponding present annual sales each).

8. Number of crews?

9. Is your operation: Union or Merit Shop ? If Union, provide union affiliations and contract expiration dates.

10. Do you have in-house Engineering and / or Fabrication capacity? Yes No
Fabrication Floor Area:

11. Have you or any related company purchased any equipment or other assets of any kind since your last fiscal year end? Yes No
If yes, please provide details in additional information section.

12. Do you currently have adequate plant and equipment to support your anticipated volume? Yes No
If no, what is needed? How will costs be financed?

13. Are any major equipment items leased? Yes No
If yes, please provide schedule of equipment, lessor and terms including options to purchase.

14. Do you have a full-time safety representative? Yes No
If yes, how many?

Corporate: Field:

15. Do you have a formal written Safety Manual / Program? Yes No

16. Do you require your subcontractors to have a formal written Safety Manual / Program? Yes No

17. Do you have a full time QA / QC representative? Yes No
If yes, how many?

Corporate: Field:

18. Do you have a formal written Quality Control Manual / Program? Yes No

Accounting

1. What is the name of your accounting firm?

Accounting firm type: CPA PA Other (Describe)

2. How many years has this firm prepared your financial statements?

3. Fiscal year end is _____ (for taxes).

Accounting Basis	% of Completion	Completed Contracts	Accrual Cash
For Financial Reporting	%		\$
For Tax Purposes	%		\$

5. Financial Statements are: Audit Review Compilation In-House

Fiscal

Interim

6. How frequently do you prepare? Semiannually Quarterly Monthly Interim Statements

Spread Sheets (job progress reports)

7. Does your office staff include a full-time accountant / bookkeeper? Yes No
What are his / her qualifications and experience?

8. Frequency which your company does the following: Weekly Monthly Other (Describe)

Internal cost accounting records to provide status reports

Updating costs to complete:

Labor

Material

Equipment

References

1. Banking Relations

Name of Facility	Endorsement by:	Line of Credit*	Expiration	Nature of Personal	Available?	Date	Security

a) Address Open Secured

b) Address Open Secured

*Please furnish bank letter setting forth lines of credit and name of loan officer to contact.

2. Surety Relations

Names of present surety:

How long with present surety:

Conditions imposed and / or restrictions:

Are there any disputes with owners, general contractors, subcontractors or supplier on any bonded job?
If yes, please explain fully in Additional Information Section. Yes No

Have you ever had a bond request denied or granted with conditions you considered unacceptable,
or had your bond credit terminated?
If yes, please explain. Yes No

List names of other sureties with whom you have dealt during the past five years and the reasons for change.

3. List five major suppliers

Name	Address	Telephone No.

4. List five general contractors with whom you have worked in the last three years.

Name	Address	Telephone No.

5. List three architects or engineers who have supervised your work during the last three years.

Name	Address	Telephone No.

6. Attorney

Name	Address	Telephone No.

7. For your Scope of Work, can you provide a Letter of Credit for 25% of the estimated Subcontract Value? Yes No

Insurance

List of insurance coverage in force.

Coverage	Yes	No	Limits / Expiration Date	Insurance Company
Company	<input type="checkbox"/>	<input type="checkbox"/>		
Property	<input type="checkbox"/>	<input type="checkbox"/>		
Equipment	<input type="checkbox"/>	<input type="checkbox"/>		
Builder's Risk	<input type="checkbox"/>	<input type="checkbox"/>		
Completed Operations	<input type="checkbox"/>	<input type="checkbox"/>		
Liability / GCL				
Is there a MOLD exclusion under the liability CGL policy?	<input type="checkbox"/>	<input type="checkbox"/>		
If yes, do you have MOLD coverage in another capacity?	<input type="checkbox"/>	<input type="checkbox"/>		
Umbrella	<input type="checkbox"/>	<input type="checkbox"/>		
Fidelity & Deposit	<input type="checkbox"/>	<input type="checkbox"/>		

1. Please list your firm's workers' compensation interstate experience modification rate for the **most recent three years** (If available, please attach a copy of your insurance agent's verification letter).

Year Experience Modification Rating

Year Experience Modification Rating

Year Experience Modification Rating

2. Has your firm had any OSHA fines or jobsite fatalities **within the last three years**? Yes No
If yes, list.
-

3. If you answered yes to the question above, please describe in detail in Additional Information Section.
-

4. Please provide lost time / no-lost time Recordable Incidents for the **most recent three years**.
-

5. Please attach copies of your OSHA No. 200 Log(s) for the **most recent three years**.
-

6. Does your company have an alcohol / drug free workplace policy, including pre-employment / random drug testing? Yes No
If yes, who is it administered by?
-

7. Does your firm conduct project safety meetings? Yes No
If yes, how often?
-

8. Does your firm conduct site safety inspections? Yes No
If yes, how often?
-

9. Any EPA (federal or state) violations **within the last three years**? Yes No
If yes, please describe.
-

Miscellaneous

1. Do you have any accounts receivable or retainage which are overdue or doubtful? Yes (describe) No

2. Do you have any claim or change orders outstanding which have not been approved? Yes (describe) No

3. Is your company or its principals acting as Guarantor, Indemnitor or Surety for others, or as endorser on their notes or accounts? Yes (describe) No

4. Are there any liens for labor or materials filed against your company, its officers or any company associated with them? Yes (describe) No

5. Are there any judgments, suits or claims outstanding against your company, its officers or any company associated with them? Yes (describe) No

6. Has your firm or any other organization with which your officers or owners were involved **during the past three years**, ever failed to complete any work awarded or been terminated for cause? Yes (describe) No

7. Are there any judgments, claims, arbitration proceedings or suits pending / outstanding against your firm or its officers or principals? Yes (describe) No

8. Has your firm filed any lawsuits or requested arbitration or mediation with regard to construction contracts **within the last three years**? Yes (describe) No

9. Has your firm or any other organization with which your officers or owners were involved **during the past three years**, ever been in bankruptcy or a voluntary or involuntary reorganization? Yes (describe) No

10. Has your surety ever finished one of your construction projects? Yes (describe) No

(If you have answered yes to any of the above questions, please provide a full explanation in the Additional Information Section)

Capacity

1. What size and type projects do you feel your company is best qualified to handle?

a) Type

Type

Type

b) Amount

Amount

Amount

2. What total program do you feel your current organization is qualified to undertake? (Dollar amount and number of projects)

3. Anticipated annual volume:

Current Year

3 Years From Now

Previous 3 Years

The following should be attached

1. Last five fiscal year-end Certified Financial Statements and any recent interim statements of applicant and all related companies, whether active or not.
2. Personal financial statements of all shareholders, partners or proprietor.
3. Current uncompleted and completed work schedule and uncompleted or completed work schedule as of latest fiscal year end if these schedules are not included with the above statements.
4. Letter from subcontractor's bank denoting credit line availability and covenants.

Additional information section

We want to be in a position to give you the best possible subcontractor opportunity, and therefore would appreciate any additional information which you feel will assist us in gaining a complete understanding of your company.

The undersigned company officer does hereby certify and confirm that the information presented herein is complete and factually correct.

Submitted by: (required to be an officer of the company)

Name: _____

Title: _____

Signature: _____

Date: _____

Appendix 2.

Reviewing Subcontractor Information

General Information – Obtain the name and history of the firm. Is it a Corporation, Subchapter-S Corporation, Limited Liability Company (LLC), Partnership or Proprietorship? When was the firm founded and in what state? How long it has been in business and under what names (of divisions or subsidiaries) does it operate? Determine the location of the subcontractor's headquarters and branch office(s). Is this subcontractor part of a larger parent corporation or part of a joint venture? Does it have a website? Is the firm certified as a DBE (Disadvantaged Business Enterprise), MBE (Minority Business Enterprise), SBE (Small Business Enterprise) or WBE (Women's Business Enterprise) and by what agency? If so, is the status current? What is the firm's Federal ID Number?

Organization – Secure the names, qualifications and resumes of the subcontractor's principal officers and owners. Has the subcontractor had a recent change in top management? Has the subcontractor, any of its principals or their spouses or a company with which they were associated, ever failed in business, petitioned for bankruptcy, compromised with creditors, defaulted on a contract or caused a loss to a surety? Is there a buy-sell agreement in effect? If so, who are the parties and is the agreement funded by life insurance? Is there a succession plan for key personnel within the company? What arrangements are made to assure contracts are completed if the owners are not available? Also, obtain resumes of key staff (i.e., project managers, project engineers and superintendents) most likely to handle future work awarded by the general contractor to this subcontractor. To what extent does ownership and / or management control and supervise individual projects? Determine the number of professional and administrative personnel working for the subcontractor. Does the subcontractor staff include a full-time accountant or just a bookkeeper?

Operations – Determine the subcontractor's areas of specialty or trade. Obtain a representative project or contract list of completed construction work for each trade or specialty. Also obtain trade subcontractor license number(s) in each of the states in which the subcontractor operates. Is the subcontractor's licensing current? Obtain details about any subcontractor licensing problems it may have had in the past. Have any of its licenses been suspended or revoked? Has a complaint ever been filed with a Contractor's State Licensing Board against this subcontractor?

Also, what percentage of the subcontractor's work is public or private? What percentage of the subcontractor's work is hard-bid or negotiated? What percentage is self-performed and what percentage is subcontracted? Identify lower tier subcontractors. What is the number of tradesmen and work crews typically employed? Where appropriate, determine how the subcontractor selects, manages and uses risk management tools for second-tier subcontractors and vendors to minimize the financial and operational impact resulting from non-performance.

Does this subcontractor perform work under any collective bargaining agreements, open shop, double-breasted and under what names? If the subcontractor is a unionized contractor, to which trade agreement(s) is it a signatory? Where appropriate, discuss the labor forecast for the coming year and ascertain when labor contracts are up for renewal. Is the subcontractor performing work in any new geographical area(s) or taking on new type(s) of construction work that you may not know about?

Evaluate the job costing and records management system the subcontractor uses. Also, evaluate how that system ties to the subcontractor's financial records system, is used to alert management to variances in job performance, to enable them to take appropriate steps to correct any issues before they become material and may adversely impact the subcontractor's financial position. How often are internal accounting reports (including cost to complete) updated? Also, do these systems provide archival information the subcontractor can use as a database for future bidding activity?

Where appropriate, evaluate the subcontractor's plans to purchase additional property, plants and equipment during the upcoming year, the reasons for such purchase(s) and how the purchases will be financed. The subcontractor's historical purchasing trends should also be evaluated. In a period of rising interest rates, bank lending volatility or volatility in the subcontractor's market conditions, the subcontractor's input becomes all the more important to explain how they will use the new asset(s) and, if necessary, dispose of excess equipment or other fixed assets to react to market conditions. Conduct visits to the subcontractor's offices, yards and fabrication shops. Assess the subcontractor's equipment, including availability (is it rented or owned)? Review the subcontractor's maintenance programs and procedures for owned and rented equipment.

Also, address the market conditions and price volatility for commodities a subcontractor may need to prosecute successfully for their work, including alternative sources for these commodities or long-range purchasing plans to stockpile and protect needed goods in times of shortages. Do they have firm price commitments from suppliers?

Capacity – Check the subcontractor's annual sales volume and projects completed for the past five years. Also, note the largest single year annual sales volume and completed projects' value. Has the subcontractor's work volume significantly changed? First, have the subcontractor's annual sales volumes been relatively stable, ideally, growing at a reasonable rate? Next, have the subcontractor's profits been relatively stable, ideally growing at a reasonable rate?

What is the projected annual sales volume for the current year? How much work does this subcontractor currently have on its books? How does it compare to prior years? Also, obtain a list of current contract backlog with completion percentages and completion dates. How fast will this backlog be worked off? How much additional work can this subcontractor take on based on prior year's work volume and its estimate of this year's work volume? How does the anticipated subcontract's scope, size and complexity compare to work previously performed? How does the anticipated subcontract's size compare to the largest contract ever completed by this subcontractor for others?

What is the projection for this subcontractor's market over the next few years? Is it growing, shrinking, flat or unknown? Is this subcontractor expanding into new areas of construction work or new geographical areas?

Experience – Do the owners or officers of the firm have greater than 10 years in the trade? Also, what is the experience level of management, project managers and superintendents? The quality of prior work experience is just as important as the number of years in the trade. Most general contractors typically negotiate for preferred project managers, superintendents or crews.

Have the subcontractor provide a description of the largest single construction contract ever completed. Also, have the subcontractor provide a list of all projects performed during the prior five years. Determine direct relevant project experience by both the subcontractor's project history and resumes of its staff. Has the subcontractor ever failed to complete a construction contract awarded to it? If so, what were the circumstances? Has an owner or general contractor ever defaulted or terminated the subcontractor for cause? If so, what were the circumstances? Has the subcontractor's surety ever finished any of its projects? If so, what were the circumstances?

Litigation – Are there any judgments, claims, arbitration proceedings or litigation pending / outstanding against the subcontractor or its officers or principals? Are there any judgments, claims, arbitration proceedings or litigation pending / outstanding against the subcontractor's officers or any company associated with them? Are there any liens for labor or materials filed against the subcontractor, its officers or any company associated with them? Has the subcontractor filed any lawsuits or requested arbitration or mediation with regard to construction contracts within the last five years? Is there any claim activity involving the subcontractor's surety? Also, check the material found in the Certified Financial Statement footnotes or the D&B Comprehensive and / or BIR report.

References – Bank, credit supplier, general contractor: Request a minimum of six references (each) of clients or general contractors, design professionals and vendors / suppliers that the subcontractor has worked with during the last five years. Does this subcontractor have a line of credit (LOC) at a bank? What is the LOC limit? How is it secured? What percentage has been committed? Consider requesting a letter from the subcontractor's banking officer to confirm this information. Evaluate and address the subcontractor's bank relationship, as well as other debt financing arrangements, specifically focusing on length of the relationship, loan limits, pricing, terms, guarantees, loan covenants, default provisions and other terms and conditions that may impact the subcontractor's operations. Any recent change in bank relationship or amounts of credit available, or terms and conditions, should be explored to evaluate how they may affect the creditworthiness of the subcontractor.

Sample reference follow-up questions for owners, architects and general contractors:

- Would you work with this subcontractor again?
- Was the prior construction contract completed on time, on budget and in accordance with plans and specifications?
- Were there excessive change orders or claims on any of this subcontractor's prior construction contracts?
- How would you describe this subcontractor's attitude toward safety and compliance with OSHA regulations?
- How would you describe this subcontractor's administrative systems?
- Were pay estimates submitted in a timely and accurate manner?
- Were daily reports submitted in a timely manner?
- Were shop drawings and submittals provided in a timely and accurate manner?
- How did the subcontractor respond to punchlist and warranty issues?

Insurance – Most general contractors require a letter from the subcontractor's insurance broker or an original (i.e., not a copy) Accord Form Certificate of Insurance. Request the subcontractor order an insurance certificate from its insurance broker to be forwarded directly from the broker to your office. This minimizes the chances that the certificate could be "doctored." How do these limits and coverage compare to your company's minimum insurance requirements for the type of work that this subcontractor is qualified to perform? The certificate should stipulate the single occurrence and combined limits of the following coverage:

- Commercial General Liability (ensure satisfactory completion and continuing operation provisions)
- Workers' Compensation (ensure the subcontractor is maintaining the statutory limits for the state(s) in which their work is to be performed)
- Auto Liability (ensure the bodily injury and property damage sub-limits are within your firm's requirements)
- Employers Liability
- Excess or Umbrella Liability
- Professional Liability (in the event subcontractor is to provide design services as part of their scope of work)

The minimum limits of insurance described within a policy should not be deemed a limitation of the contractor's covenant to indemnify. When evaluating a subcontractor's certificate of insurance, a general contractor should consider the following:

- Is the insurance tendered by a U.S.-domiciled firm that is licensed to conduct business in the state for which the work is to be performed and rated A.M. Best (A-) or better?
- Does the policy coverage lapse before the end of the project warranty period?
- Does the insurance certificate identify the general contractor, designer and owner as additional insured?
- Can the insurance covered by the certificate be cancelled or materially altered, except after thirty days written notice? Does the certificate contain "endeavor to" or similar phrases such as "failure to do so shall create no obligation or liability of any kind on the insured, its agents or representatives"?
- Does the insurance coverage apply to all subcontractors and / or sub-consultants?
- Is the insurance primary and non-contributory to the work being performed?
- Does the certificate declare exclusions for residential, condominium, multifamily or apartment projects?

Safety – When evaluating a subcontractor's safety program, a general contractor may consider the following:

- Does the subcontractor have a documented safety program?
- Has the subcontractor submitted a copy of the documented safety program?
- Does the subcontractor have dedicated safety personnel?

- Does the subcontractor conduct project safety meetings? If so, how often?
- Does the subcontractor conduct project safety inspections? If so, how often?
- Does the subcontractor have drug-free workplace program, including pre-employment and random testing?
- Has the subcontractor ever received any fines or citations from OSHA?
- Has the subcontractor ever experienced any worker fatalities?
- Has the subcontractor ever received any fines or citations from the EPA, state regulatory authority or any local government agencies?

Additionally, a general contractor may request a copy of the subcontractor's OSHA 300 Logs and OSHA 300A Summaries. From this information, the following computations can be evaluated:

- Experience Modification Rate (EMR) – This rate is assigned by the commercial liability carrier. Is it less than or equal to 1.00?
- Incidence Recordable Rate (IRR) = (Number of injuries and / or illnesses) x 200,000 / (Total hours worked by all employees). Is it less than 4.00?
- Lost Day Case Rate (LDCR) = (Number of lost day cases) x 200,000 / (Total hours worked by all employees). Is it less than 0.80?

Quality Assurance / Quality Control – When evaluating a Quality Assurance / Quality Control Program, a general contractor may consider the following:

- Does the subcontractor have a written quality control program? If so, request a copy.
- Does the subcontractor have a full-time quality control director?
- Does the subcontractor have an apprenticeship-training program?
- Does the subcontractor have a tradesmen-training program?
- What other types of training programs does the subcontractor require of its employees?
- Does the subcontractor retain a third-party inspection and testing consultant?
- Does the subcontractor develop and use preconstruction / constructability plans?
- Does the subcontractor erect sample panels and / or mock-ups?
- Have inspection checklists been developed?
- How does the subcontractor monitor delivery and sources of materials?
- What type of effort does the subcontractor extend to protecting stored materials onsite and offsite?
- Does the subcontractor perform its own winter weather protection of installed and stored materials?

Appendix 3.

Subcontractor Prequalification Benchmarks

Listed below are some benchmark factors which may be considered when assessing subcontractors’ financial viability for a new project. This sample list includes common financial indicators, as well as other benchmarks to consider during subcontractor prequalification.

Criteria

Financial statement	CPA – Audit quality, unqualified	CPA – Review quality, unqualified	CPA – Audit or review with qualifications or draft version
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Liquidity Ratios

Liquidity Ratio (Current Ratio) = $[Current\ Assets / Current\ Liabilities]$

Liquidity Ratio (Quick Ratio) = $[Cash + Investments + Accounts\ Receivable] / [Current\ Liabilities]$

Liquidity Ratio (Days in Cash Ratio) = $[Cash / Revenue] * 365\ days$

Liquidity Ratio (Working Capital Turnover Ratio) = $[Revenue / Working\ Capital]$
 *A measure of efficient use of working capital: Exceptionally low may indicate inefficiency.

Profitability Ratios

Profitability Ratio (Asset Turnover Ratio) = $[Revenue / Total\ Assets]$

Profitability Ratio (Return on Assets Ratio) = $[Net\ Income / Total\ Assets]$

Profitability Ratio (Return on Equity Ratio) = $[Net\ Income / Equity]$

Profitability Ratio (Earnings to Revenue Ratio) = $[Net\ Income / Revenue]$

Turnover Ratios

Accounts Receivable Turnover Ratio (Duration in Accounts Receivable) = $[Accounts\ Receivables / Revenues] * 52\ weeks$

Accounts Payable Turnover Ratio (Duration in Accounts Payable) = $[Accounts\ Payable / Revenues] * 52\ weeks$

Coverage Ratios

$[\text{Earnings before Annual Interest Expense and Taxes} / \text{Depreciation}] / [\text{Interest Expense}]$

*A measure of ability to service debt: High ratio indicates a company has little difficulty in repaying a loan.

$[\text{Earnings before Annual Interest Expense and taxes/depreciation}] / [\text{Total Debt}]$

*A measure of ability to service debt: Lower ratios preferable.

Debt / Equity

Other Factors

Operating Cash Flow	Positive for the last 3 years	Positive for 2 out of the last 3 years	Positive for 1 out of the last 3 years
Operating Profit	Positive for the last 3 years	Positive for 2 out of the last 3 years	Positive for 1 out of the last 3 years
D&B Paydex	Greater than upper quartile	Within industry median or prompt	Within industry lower quartile or slow 15
Claims (include pending legal suits as well)	None	No significant	Occasional disputes and / or disputes of significant monetary values
Finance	Unsecured bank LOC; debt to equity better than industry median; net invested	Unsecured bank LOC; debt to equity better than industry median; 50% of LOC available	Secured bank LOC; debt to equity within industry norms
Staffing	Subcontractor foreman / lead-person should have experience with the type and size of project being bid. Additionally, ensure project team identified at the outset of the project will be assigned throughout the project duration.		
Organizational Capacity	Current work program is less than: 3 year average annual volume; largest prior year backlog; largest job completed.		

Appendix 4. Reviewing the Surety Relationship

How long has the subcontractor been with its present surety?

Who was / were the subcontractor's previous surety(s) during the past five years and what are the reasons for change?

Are there any current or previous disputes or claims with owners, general contractors, subcontractors or suppliers on any bonded projects?
Yes (describe) No

Has the subcontractor's surety ever completed a project? Yes (describe) No

Has the subcontractor ever had a bond request denied or granted with conditions considered unacceptable? Yes (describe) No

Has the subcontractor ever had its bond credit terminated? Yes (describe) No

Appendix 5.

Sample Subcontractor Performance Rating Worksheet

Project name: _____

Subcontractor name: _____

Scale: (4) excellent (3) good (2) fair (1) poor (0) unacceptable

4

3

2

1

0

Subcontractor's office performance

1. Subcontract agreement processing timeliness

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2. Submittal processing accuracy

3. Submittal processing timeliness

--	--	--	--	--	--

4. Billings accuracy

5. Billings timeliness

--	--	--	--	--	--

6. Accessibility - response to phone / fax, etc.

7. Change orders accuracy

--	--	--	--	--	--

8. Change orders pricing

9. Understanding of scope

--	--	--	--	--	--

Subcontractor's field performance

Field Supervision

--	--	--	--	--	--

10. Attendance at meetings

11. Ability to supervise own crews and sub-subs

--	--	--	--	--	--

12. Understanding schedule

13. Proactive

--	--	--	--	--	--

14. Attention to cleanup

15. Understanding of scope

--	--	--	--	--	--

Scale: (4) excellent (3) good (2) fair (1) poor (0) unacceptable

4 3 2 1 0

Subcontractor's field performance (continued)

Manpower

16. Adequate forces at all times

17. Satisfactory workmanship

18. Satisfactory personnel

Planning and scheduling

19. Input to schedule

20. Met milestones

Quality

21. Magnitude of defective work

22. Responsiveness in correcting deficiencies

Safety

23. Proactive safety culture – Worker

24. Proactive safety culture – Field Supervisor

25. Proactive safety culture – Project Manager

Totals

Grand total (maximum score = 100)

Completed by: _____

Title: _____

Date: _____

Appendix 6.

Dunn & Bradstreet Comprehensive and Business Information Reports

A general contractor may choose to obtain a Dunn & Bradstreet (D&B) Comprehensive and Business Information Report for a subcontractor undergoing prequalification.

The Comprehensive Report provides detailed credit information and payment history and summary information on profitability, debts, assets and corporate relationships. It also provides an overview of a company's operational history (including industries and areas of operation), a credit limit recommendation, a D&B Rating and D&B Paydex Score. The D&B Rating assesses a firm's size and composite credit appraisal, based on information in a company's interim or fiscal balance sheet, and an overall evaluation of the firm's creditworthiness. The D&B Paydex Score provides highest-grade credits extended to subcontractor by customary vendors / suppliers. A Paydex Score of not less than 50, which is defined to be "slow to 30 days after payment terms," is commonly used as a threshold by general contractors.

The Business Information Report provides an overall profile of a company, including financial information, payment history and trends, history of a business, ownership details, operational information, and details on related firms and special events (such as business moves, fires and other disasters, and quarterly performance).

Appendix 7.

Outside Vendors Providing Prequalification Services

There are a number of third party vendors that provide assistance with the prequalification of construction subcontractors. These vendors provide a varying range of products and services such as:

- Web-based platforms used to collect and store subcontractor prequalification information. Depending upon the service provider, data entry is performed by either by the customer, subcontractor or vendor. In some cases, the platform can automatically calculate financial ratios.
- Third-party collection and verification of documents, such as insurance certificates, bonds and financial statements.
- Financial analysis and rating utilizing standard ratios.
- Proprietary financial analysis and rating utilizing proprietary calculations.
- Calculation of single project limit and aggregate program limit.
- Detailed prequalification reports that include most of the items listed above.

Some vendors provide more than one of the items noted above as part of their service. Typically, the vendors will provide their respective service for a specific subcontractor at least annually. Depending on the vendor, payment for the service will be the responsibility of the construction manager / general contractor or the subcontractor.

Please note that the services provided by these vendors are only a component of an overall prequalification process as described in this guidance document.

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Risk Engineering
1299 Zurich Way
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