

Developing a Quality Contractor Prequalification Program

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As companies continue to outsource to contractors, the need to manage risks and potential liability resulting from work injuries on the part of these contractors also increases. The most effective way for companies to minimize their risk is to select safe contractors. This means that owners should award contracts only to contractors who have demonstrated that they can work “safely.”

What are the issues?

A company’s individual needs must be assessed to begin building the program. Specifically, a company should consider several factors upon establishing a contractor management tool. These would include:

- The need for hiring safe contractors
- Cost/Time-for both the company and the contractors
- Minimize accidents and lawsuits

Ask yourself these questions

As a brainstorming exercise please take some time and ask yourself each of the questions below about your current contractor management process. This will assist you in assessing possible needs or areas that can be approved upon.

- Do we have contractors working for our company with either incomplete or no qualification at all?
- Do we award our contracts solely by the “low bidder?” There are many companies that choose their contractors by using this method. While it may initially appear as a cost savings it is not always the case. One jobsite injury could end up costing substantially more than the savings initially secured for the project.
- Does part of our qualification process include an office audit to verify implementation? This portion of the qualification process can be important in assessing whether contractors are actually implementing their programs.
- Is our qualification process effectively preventing incidents? It is important to be able to track injuries and incidents that have occurred with your contractors so that you may have metrics to evaluate how you and the contractors are doing.

- Do we have a program in place for re-evaluation of the contractors? Keep in mind that when you establish your program that you look down the road on how you will reevaluate the contractors and monitor their progress. Each year contractors have new OSHA statistics to provide you, new EMR and may have had other company changes or occurrences that you will want to be aware of.
- Do we consistently update our audit program to meet all regulatory needs? i.e. Environmental. Since there may be numerous different aspects and exposures to working for you, it may be necessary to build in those risks into your evaluation process and have a process for keeping these updated.

What are the steps?

First and foremost the best way of getting off on the right foot in establishing your program is to communicate safety expectations before awarding the contract. The time to let your contractors know what your expectations are is not after they are working for you. They need to understand that your company has specific safety requirements in order to work for you and if they are not abided by then it will threaten a continued business relationship.

Quite often we hear of companies only evaluating their contractors by gathering a questionnaire with objective criteria (OSHA logs, emr) and forgetting there is much more to the equation. Make sure you gather subjective criteria as well in making your decision.

Probably the most overlooked portion of the qualification process is verifying that the contractor is implementing their programs and procedures. This usually isn't generally overlooked due to lack of importance, but rather lack of time and resources. This however may be the portion that is most telling about the contractors and will really make your star contractors shine and your mediocre contractors stand out.

Just because you "prequalified" your contractors does that mean your work is done now? Absolutely not! It is important to continue auditing and monitoring the work while it is being performed. Field audits are a great way to evaluate how well the contractors training is getting to the "frontline" employees. It is during this stage that you can see how the contractor performs their work and how safe they get it completed.

Establish a re-evaluation program for your contractors is something to consider. Maybe you just want to review updates each year, but what about another office audit to check training records, or how about evaluating what the contractor does in the field. These are both items that you will want to be consistent with in creating your program.

What are the guidelines?

Selecting safe contractors requires establishing a detailed contractor questionnaire. Items that should be included are:

- Contractors license and regulatory citations
- Past work experience (including references)
- How long has the contractor been in business
- Financial Stability (D&B rating, work history, bankruptcies, etc.)
- Insurance coverage (coverage for their sub's)
- Relevant safety statistics and programs
- Regulatory fines or citations
- Services they can provide

A thorough contractor prequalification process can be utilized by several different groups within your organization. Not only the safety group, but also the procurement group, engineering group and risk management group will benefit from a pool of qualified contractors. Guidelines for qualification should be tailored to the needs of the groups who will be using the tool.

For example, the procurement group will be more interested in the past work experience, including references and the financial stability of the firm, and the safety group will be more interested in the regulatory issues.

If representatives from Risk Management are involved (sometimes this is done by the procurement group or others who wear many hats), the relevant data gathered should include a copy of the insurance certificate. It is useful to document in a database the existence of the policy, the type of coverage indicated in the policy, the expiration date, who is named as the additional insured and finally whether the certificate includes a waiver of subrogation. Additionally, for your preferred vendors, following up with the vendors when they renew their policy is needed.

Managing insurance certificates is time consuming but necessary to reduce the exposure that a plant has of uninsured contractors onsite. Protecting the assets along with injury coverage alone justifies the expense of comprehensively ensuring your contractors are living up to their insurance requirements. Having contractors sign in their terms and conditions that they understand what the requirements are and agree to abide by them is not enough. Many vendors are small, and one accident will bankrupt them without proper liability coverage. If a small, uninsured contractor has a significant accident, whether involving property damage or injury, the owner/operator may have financial responsibility.

Review/verify the information obtained?

Once you have gathered all of this information now what do we do with it. Well, if you are like many companies this questionnaire is gathered as a hard copy and you keep these in a cabinet somewhere. Ideally, a process to perform a detailed review of the qualification form is the best practice. When reviewing the prequalification form it is important to not only review, but verify the information provided to your company.

- Look for inconsistencies- Does the contractor truly qualify for not maintaining Osha logs (10 or under employees)- look at man-hours,
- Check references- Just as if you were hiring an employee it is a good idea to call the contractors references. How was their safety, did they finish on time?, within budget?, etc.
- Verify contractors license status- If the contractor has a contractor's license it is recommended that you verify that the license number corresponds with the correct company name and also the services performed.
- Verify EMR- Reviewing expected losses as compared to actual losses is a good indicator of the injuries that the contractor is having. Additionally, a letter from the contractor's insurance carrier advising/confirming what the companies EMR has been for the past 3 years also helps in verifying correct data.
- OSHA 300 logs- OSHA logs are a bit more difficult to verify since they are self reporting, although you can review that they contractor is completing the forms properly. Over reporting is a big problem with contractors and they do not realize that "first aids" do not need to be documented on an OSHA log. This part of the qualification process may require quite a bit of

hand holding of your contractors as many of them struggle with understanding what is required of them.

➤ Review the contractors safety program

Reviewing the contractor's safety program would be considered the first part of the actual audit. This is where you compare what type of work the contractor performs and verify that the essential programs are addressed in their manual. Keep in mind some states require specific items be listed in the manual or that the contractor maintain an IIPP (Injury Illness Prevention Program).

Once you have identified that the essential programs are in the safety manual then the more difficult part of making sure these programs are adequate should take place. If your company does not have a safety professional that can do this or maybe doesn't have time to do this you may not get to this part of the process unless you outsource your qualification process. It is recommended that contractors review/update their manual at least every 3 years as regulations can change and/or the need for company polices that need integration into the manual should take place.

Something else to keep in mind when reviewing the safety program of the contractor is whether the policies are specific to the contractor. In this day and age of obtaining safety manuals over the internet contractors sometimes download a manual yet do not incorporate their company's specific information or policies. If the manual is not personalized it is probably a good indication that it is not being implemented either.

➤ Office audit of the safety program

The office audit is in the words of Jerry McGuire where a contractor can, "show me the money". During an office audit you are looking for real substance behind the safety program. Is the safety culture truly a part of the company?

Here is where you are looking to see that the contractor is taking that nice safety manual off the shelf and implementing the programs for the company. Do they have inspection logs for their harnesses? Do they inspect their forklifts and cranes? How about training records? If required to use respirators do they have fit test and PFT (pulmonary function) records? These are just a few of the many items you can look for when meeting with a contractor. Again, if you do not have the time for this and do not outsource your program, you could always have the contractor mail in this information to you.

What is the Commitment?

One of the most important steps to this process is the enforcement of the policy. We are often amazed to see how many companies develop a wonderful prequalification process, but when it comes down to it, they allow unqualified contractors into their facility. While sometimes disaster strikes or great need arises to grant waivers, it is important to stand by the policy. There can be a formal waiver process, but it needs to be the exception, not the rule. Typically, fewer than 5% of contractors should be granted waivers, and waivers need to be signed by upper management. Having upper management as the gatekeepers for waivers helps enforce the policy in general, because it keeps employees and stakeholders from sticking their neck out to bring in a contractor.

An owner/operator we recently visited had a new slogan for their upcoming turnaround/shutdown:

No Audit = No Contract and No Contract = No Work

This is a good example of a simple slogan that both contractors and operator employees can understand. We encourage all owner/operators to come up with a mantra that communicates either the vision or the program, the enforcement of it, depending on the need of the facility. It may be that your facility needs to emphasize the improved safety culture of the program, or it may be the enforcement. This can be tailored to your organization.

What is the payoff?

A robust selection process will greatly reduce the safety risk of the company, which translates into world-class performance and hard-dollar savings. It also means lower project costs, lower contracting costs, improved cycle times and a competitive advantage in the marketplace.

While a prequalification process' impact on operations is hard to measure, it is a long-term investment of time and resources for the parties. Often the operations team may put up some initial resistance to "a layer of red tape" in bringing contractors onsite, as a director of the program, we need to sell it to them. They can be shown through case studies that once the prequalification process is in place, the program moves smoothly. Contractors often talk to each other, and your organization will be known as one that actually verifies whether the contractor is following up with what they sign up for when they agree to do work for you.

One thing to keep in mind is that this is a safety-driven program with a worker-benefit. Sometimes this needs to be reminded to both owner/operators and contractors – to refocus, perhaps in a monthly contractor safety meeting. There is great value knowing that people are not injured and are not suffering, and families are not disrupted. Contractor Safety is good business and it's the right thing to do!