

The following best practices are designed to inform your risk management strategy. They are not a substitute for a tailored strategy reviewed by your risk management, pre-construction, and operations leaders, along with business partners (brokers, attorneys, consultants, etc.). While these practices have proven helpful, not all will apply to every situation. Each contractor must independently determine what is relevant and appropriate for their specific circumstances.

## ✓ Create a Fair, Objective System

- Generate a short list of firms that are qualified to bid on a project to:
  - 1. Mitigate the risk of subcontractor default.
  - 2. Increase the chance of on-time, on-budget delivery of the project that meets the expectations of the owner.

#### ✓ Financial Review

- Assess financialacoolnodilienr(steateennt@intaprociphrations), cash flow, over/flow,ewbii∢e)-3rr-3rr-3rr-3r-3c)c)1 (v
  - 1. As a best practice, liquidity, consistency in past performance, and major changes to business structure/strategy are paramount considerations.
- Review the corporate structure and understand which entity you are contracting with and its financial condition.
- If a consolidated financial statement is provided, consider requiring a parent or related entity guarantee.

### ✓ Insurance and Bonding

- Review available insurance coverage, including cyber insurance/security.
- Review and understand their bonding capacity and how much capacity is available at the time of contracting. Is their surety financially sound?

### ✓ Office Visits and Key Personnel Meetings

Visit the subcontractor's office and meet key management personnel.

#### ✓ Reference Checks

- Conduct thorough reference checks (contractors, suppliers, bank, surety).
- Request notification of a change in executive team or ownership of the company.

### ✓ Company History

Understand the company's history, including years in business, litigation experience



 Conduct a public records search to assess whether there are any outstanding tax liens or other litigation matters.

# ✓ Current Projects and Resource Availability

- Review current projects under contract or in the pipeline to understand capacity.
- Analyze volume for the last three years to understand capacity.
- Understand workforce size and any recent appreciable changes.
- Assess the availability of resources (labor, equipment).
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- Require trade partners to maintain prequalification status.
- Include specific provisions in the subcontract to assist the project team's compliance with the risk mitigation plan for the trade contractor.

## ✓ Project Management

- Include milestone dates in the subcontract agreement (e.g., pre-construction items like submittals) to monitor subcontractor progress.
- Inquire and enforce crew # onsite include within subcontract expected crew size and duration to complete scope of work. This will help GC and subcontractor to begin determining worker needs and shortfalls.
- Include expected lead times for materials in the subcontract. GC can then flag the submittals to ensure that the materials are ordered in time for scheduled installation.

#### ✓ Contract Adherence

- Honor and enforce your contracts.
- Pace payments and progress.
- Be careful about "helping out."

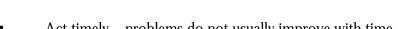
## ✓ Financial Vigilance

- Monitor for overbilling and do not overpay to assist with cash flow.
- Ensure that penal sums of bonds are increased if contract value increases.
- Obtain surety consent to payments and change orders.
- Be vigilant: watch for early warning signals of financial distress.
- Ask questions/communicate.
- Beware of "robbing Peter to pay Paul."

#### **✓** Termination and Resolution

- If a parting of ways is necessary, consider "kinder and gentler" options, e.g., negotiated resolution, deductive change order, or termination for convenience.
- If termination is necessary, act promptly

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- Act timely problems do not usually improve with time.
- Exercise contractual remedies.

#### ✓ Communication and Documentation

- Maintain a continuous feedback loop between pre-qualification, pre-construction, risk management, and operations resources. If one link in the chain sees early warning signals of distress, alert everyone else in the chain and manage accordingly.
- Document all costs associated with the replacement or supplementation of a subcontractor for support of an SDI (subcontractor default insurance) or surety claim; set up separate cost codes to track expenses.

# **Attendance and Quality Control**

- Monitor daily attendance to track actual people showing up against the schedule to identify potential financial distress.
- Conduct early safety orientations to verify if the crew size showing up for safety orientation matches the expected crew size per the subcontract.
- Utilize in-place mockups to ensure qualified labor, quality control (QC), and proper installation methods.