



Subcontractor Prequalification Implementation Guide

A Practical Framework for General Contractors

Building Stronger Partnerships Through Financial Discipline and Mutual Respect

Section 1: Program Philosophy and Purpose

Subcontractor prequalification is one of the most impactful risk management tools available to a general contractor, yet it is frequently underdeveloped, inconsistently applied, or absent entirely. This guide exists to change that.

The DSP Insurance Services Subcontractor Prequalification Program is built on a foundational belief: that vetting a subcontractor is not a gatekeeping exercise, but an act of partnership. A general contractor who truly understands the financial health, operational capacity, and professional character of their subcontractor base is better positioned to protect both their own business and the businesses of the trade partners who depend on them.

The Three Pillars

This program is organized around three core evaluation pillars:

<p>01</p> <p>Financial Strength</p> <p><i>Liquidity, solvency, and the ability to perform without financial distress mid-project.</i></p>	<p>02</p> <p>Operational Capacity</p> <p><i>Workforce depth, equipment, bonding, and the ability to manage scope of work at scale.</i></p>	<p>03</p> <p>Relationship Health</p> <p><i>Track record, communication, safety culture, and how a subcontractor conducts business.</i></p>
---	--	--

What This Program Is and Is Not

- It IS a structured, repeatable process that reduces subcontractor-related risk.
- It IS a pathway for subcontractors to demonstrate their capabilities and grow their relationship with a GC.
- It IS a communication tool that signals to the market that your firm is a disciplined, serious operator.
- It is NOT a mechanism to exclude small or emerging firms. Tier 1 and Tier 2 requirements are deliberately accessible.
- It is NOT a one-size-fits-all gate. Risk appetite calibration in Section VIII ensures the program fits your firm.

NOTE

This program is designed to be implemented incrementally. A GC can begin with Sections II and III and expand over time. Perfect should not be the enemy of good.

Section 2: Exposure Tier Classification

The foundation of this program is segmenting subcontractors by annual exposure, defined as the aggregate value of work awarded or anticipated across all active and upcoming projects within a rolling 12-month period. Tier classification drives document requirements, scoring rigor, and approval authority.

Tier Structure

Tier	Annual Exposure	Classification	Typical Subcontractor Profile
1	< \$250K	Low	Single small-scope trade, specialty vendor, first-time engagement
2	\$250K to \$1M	Moderate	Established trade partner, recurring use, moderate scope
3	\$1M to \$5M	Elevated	Significant scope, likely on multiple active projects, key trade position
4	> \$5M	High	Major trade partner, critical path scope, sole-source or primary vendor

TIP

Calibrate tier thresholds to your firm's size. A reasonable rule of thumb: Tier 4 begins at approximately 1% of the GC's annual revenue. A \$25M GC may set Tier 4 at \$250K. A \$300M GC may set it at \$3M.

Exposure Modifiers: When to Elevate a Tier

The following conditions should automatically elevate a subcontractor's effective tier, even if raw dollar exposure falls below the threshold:

- Sole-source or no-backup subcontractor in a critical trade
- Work in a geographic market where the GC has limited oversight capacity
- Life-safety or envelope work including roofing, structural, fire protection, and MEP systems
- New subcontractor with no prior relationship history with the GC
- Simultaneous presence on three or more active GC projects
- Subcontractor scope represents more than 25% of the overall project contract value
- Any prior performance, quality, or payment concern on record

Tier elevation decisions should be documented and noted in the subcontractor's prequalification file.

Section 3: Document Requirements by Tier

Document requirements scale with exposure. This prevents unnecessary burden on smaller trade partners while ensuring rigorous diligence where the stakes are highest.

Tier 1: Low Exposure (< \$250K)

Required Documents

- Completed prequalification questionnaire (abbreviated form)
- Certificate of Insurance confirming required coverages
- State contractor's license verification
- W-9 and vendor setup documentation
- Two professional references from prior project experience

Tier 2: Moderate Exposure (\$250K to \$1M)

All Tier 1 Requirements, Plus:

- Most recent fiscal year-end financial statements (compiled acceptable)
- Current WIP Schedule if subcontractor is carrying multiple active projects
- OSHA 300 Log from the prior year
- Experience Modification Rate (EMR): current certificate and 3-year trend
- Bonding capacity letter from surety agent (not required, but strongly recommended)
- Three professional references, at least one from a general contractor

Tier 3: Elevated Exposure (\$1M to \$5M)

All Tier 2 Requirements, Plus:

- Two to three years of reviewed or audited financial statements
- Current WIP Schedule with aging detail and over/under billing disclosure
- Bank line of credit confirmation or letter of availability
- Surety letter confirming single-job and aggregate bonding capacity
- Disclosure of largest completed project and largest project currently in progress
- Key personnel resumes and organizational chart
- Litigation and claim history disclosure covering the prior three years
- Five professional references, GC-specific preferred

Tier 4: High Exposure (> \$5M)

All Tier 3 Requirements, Plus:

- Three years of audited financial statements, minimum
- Detailed WIP Schedule including over/under billing analysis by project
- Performance and payment bond required, or documented CFO exception
- Bank reference letter confirming credit relationship and standing
- Surety reference confirming active relationship and capacity
- Sub-sub and material supplier management plan
- Project-specific staffing and equipment plan
- Insurance review conducted by GC's broker covering limits, umbrella adequacy, and professional liability where applicable
- On-site visit or formal interview strongly recommended for new subcontractors

IMPORTANT

Financial statements at Tier 3 and Tier 4 should be reviewed by someone with surety underwriting or construction accounting experience. Gross revenue and net income alone are insufficient. Working capital, overbilling position, and equity trend are the critical data points.

Section 4: Quantitative Evaluation Criteria

Quantitative scoring provides the objective backbone of the prequalification decision. These metrics are derived from financial statements, insurance documents, and WIP data collected during the application process.

Financial Health Metrics

Metric	What It Measures	Weight	Minimum Threshold
Current Ratio	Short-term liquidity: current assets vs. current liabilities	High	1.10x or higher
Working Capital	Absolute liquidity cushion available to fund operations	High	Scaled to project size
Debt-to-Equity	Leverage and financial risk exposure	Medium	Below 3.0x preferred
Equity Trend (YOY)	Growth or erosion of net worth year over year	High	Positive trend preferred
Revenue Trend	Growth stability and business trajectory	Medium	Consistent or growing
WIP to Backlog Ratio	Overbooking risk relative to capacity	High	Flag if backlog exceeds 2x prior revenue
Over/Under Billing	Cash flow management and billing discipline	High	Significant underbilling is a risk flag
Gross Margin %	Profitability health and pricing discipline	Medium	Consistent with trade norms

Insurance and Bonding Metrics

- EMR Trend (3-year): Flag if current EMR exceeds 1.0; escalate review if EMR exceeds 1.2
- Single-job bonding limit vs. proposed contract value: must demonstrate adequate headroom
- Aggregate bonding capacity vs. total WIP exposure across all projects
- Insurance limits adequacy relative to scope, confirmed by GC's broker at Tier 4

Operational Metrics

- Years in business: weight longevity, but do not penalize newer firms with strong financials
- Largest completed project as a percentage of proposed contract value
- Number of projects currently in progress: assess capacity absorption
- Geographic reach relative to project location: flag significant distance from home market
- Workforce headcount and relevant trade certification rates

Section 5: Qualitative Evaluation Criteria

Quantitative metrics tell you what a subcontractor's balance sheet looks like. Qualitative criteria tell you how they operate, communicate, and conduct themselves. Both are essential to a complete prequalification picture.

For Existing Subcontractors: Relationship History

Schedule and Quality Performance

- Did the subcontractor consistently meet project milestones?
- What was the punchlist volume and frequency of rework events?
- Were deficiencies resolved promptly and without dispute?

Communication and Collaboration

- Responsiveness to field questions and PM communications
- RFI discipline: timely, clear, and solution-oriented
- Proactive escalation of issues before they became problems
- Participation in project meetings and preconstruction planning

Financial Conduct Toward Their Partners

- Lien waiver performance: did they submit timely conditional and unconditional waivers?
- Evidence of payment to their sub-subcontractors and material suppliers
- Absence of supplier complaints, threatened liens, or joint check requests

Contract Compliance

- Insurance renewals submitted proactively and on time
- Notice provisions followed per contract terms
- Change order patterns: frequency, documentation quality, and dispute rate

For New Subcontractors: Reference-Based Assessment

References should be contacted directly, not accepted in writing only. The following questions are recommended:

- Did this subcontractor complete their scope on time and within budget?
- How did they handle unforeseen conditions or scope changes?
- Would you use them again on a similar project, and why?
- Did you receive any supplier or sub-sub complaints on their projects?
- How would you rate their safety culture and field supervision?

NOTE

Reference quality matters as much as reference count. A GC reference who managed the subcontractor in the field carries more weight than an owner reference who only reviewed invoices.

Cultural and Partnership Factors

Transparency During the Process

- Was the subcontractor forthcoming in disclosing litigation history, financial challenges, or ownership changes?
- Did they complete the prequalification questionnaire thoroughly and without requiring repeated follow-up?

Safety Culture Beyond the EMR

- Does the subcontractor maintain a written safety program?
- Is there a dedicated safety officer or designated field safety lead?
- What is their approach to toolbox talks, incident reporting, and near-miss tracking?

Workforce Development

- Investment in training, apprenticeship, and trade certification
- Workforce retention and consistency of key field personnel across projects

Section 6: Scoring Framework and Approval Thresholds

The composite prequalification score combines quantitative and qualitative inputs into a single rating that drives approval decisions. The recommended weighting is 60% quantitative and 40% qualitative, producing a 100-point scale.

Score Ranges and Disposition

Score	Status	Approval	Conditions
85 to 100	Preferred	Approved, no restrictions	None
70 to 84	Approved	Approved with standard monitoring	Annual renewal, standard COI tracking
55 to 69	Conditional	Approved with conditions	Bond may be required; enhanced monitoring applies
40 to 54	Probationary	PM and Specialist sign-off required	Elevated scrutiny; limited scope; progress check-ins
Below 40	Declined	Not approved	Re-application eligible after 12 months

Conditions Available for Conditional or Probationary Approvals

The following conditions can be applied in lieu of outright decline, where the GC has sufficient relationship history or project need:

- Performance and payment bond required regardless of tier threshold
- Joint check agreements with primary material suppliers
- Enhanced lien waiver requirements on every draw cycle
- Monthly financial check-ins or WIP updates submitted to the prequalification specialist
- On-site monitoring visits at defined project milestones
- Scope limitation: subcontractor approved for a reduced contract value on a single project

PERSPECTIVE

Conditional approval with documented conditions is often a better outcome than decline. It preserves the relationship, protects the GC, and gives the subcontractor a path forward.

Section 7: Approval Authority Matrix

Approval authority should scale with risk. The matrix below assigns sign-off responsibility based on tier and composite score. This ensures decisions are made by personnel with the appropriate level of financial and project management context.

Tier	Score 70 or Above	Score 55 to 69	Score Below 55
1	Prequalification Specialist	Specialist and PM	Specialist and PM
2	Specialist and PM	Specialist and PM	PM and CFO
3	Specialist and PM	PM and CFO	PM, CFO, and Exception Committee
4	PM and CFO	CFO and Exception Committee	Declined or Exception Only

The Exception Committee is defined as the CFO, a Senior Project Manager, and Legal counsel where applicable. This body convenes only for Tier 3 low-score and Tier 4 elevated risk situations and documents its rationale in writing.

KEY POINT

Even in organizations without a dedicated prequalification specialist, designate a consistent point of ownership, whether that is the CFO, a senior PM, or an outside advisor. Inconsistent ownership is the leading cause of program breakdown.

Section 8: Risk Appetite Calibration

No two general contractors carry the same risk profile. This section provides a framework for calibrating the program to your firm's specific risk appetite, size, bonding position, and market context.

Building Your Risk Appetite Statement

Before implementing the program, leadership should align on a written Risk Appetite Statement that addresses the following:

- What is the maximum single-subcontractor exposure we are willing to carry without a bond?
- What is our tolerance for working with subcontractors who have scored below 70?
- At what point does a subcontractor's aggregate exposure trigger CFO involvement?
- How do we treat long-standing subcontractors with strong qualitative records but weaker recent financials?

Factors That Argue for a Tighter Program

- GC is bonded on most projects: subcontractor failures create direct bond exposure
- Operations in markets with limited subcontractor depth and fewer backup options
- Rapid growth phase with a high volume of new, unproven subcontractor relationships
- Recent history of subcontractor default, lien claims, or performance failures
- Surety-driven requirements tied to the GC's own bond program

Factors That Support a More Permissive Program

- Deep, long-standing subcontractor relationships that dominate the active roster
- GC self-performs key trades, limiting exposure concentration in any one sub
- Projects are consistently small in scale with limited cascading risk
- GC maintains strong cash reserves and has demonstrated ability to absorb subcontractor disruption

Geographic Proximity Considerations

Subcontractor Type	Adjustments	Rationale
Local and Regional	Qualitative scores may be weighted more favorably; reference depth is typically strong	Easier oversight, known reputation, accessible in the event of performance issues
Out-of-Area or Traveling	Weight financial metrics more heavily; require dedicated staffing and equipment plans	Limited oversight capacity, unfamiliar with local conditions, reduced accountability levers
First-Time in Market	Auto-elevate one tier; require surety letter regardless of exposure level	Unknown performance in local market; subcontractor may underestimate local conditions or logistics costs

Section 9: Ongoing Monitoring and Exposure Escalation

Prequalification is not a one-time event. A subcontractor's financial condition, capacity, and performance can change materially between application and project completion. This section establishes the monitoring framework that keeps the program current.

Annual Renewal Requirements by Tier

Tier	Renewal Cycle	Mid-Cycle Trigger	Key Update Documents
1	Every 2 years	Exposure increase to Tier 2	Updated questionnaire, COI, license verification
2	Annual	Exposure increase or performance flag	Financial statements, WIP, EMR certificate, COI
3	Annual	New project award; performance issue	Full financial package, WIP with aging, surety letter
4	Annual plus mid-year	Any material change in scope or concern	Audited financials, WIP, surety confirmation, bank reference

Triggered Re-Review Events

The following events should immediately trigger an out-of-cycle review, regardless of when the subcontractor last renewed:

- A new project award that would push aggregate exposure into the next tier
- PM reports a schedule, quality, or payment-to-sub-sub concern
- A lien claim filed against the subcontractor by a supplier or lower-tier sub
- News, public record, or market intelligence indicating financial distress
- Ownership change, key personnel departure, or company restructuring
- State license suspension, revocation, or disciplinary action
- EMR spike on annual certificate renewal
- Surety relationship terminated or bonding capacity meaningfully reduced

Monitoring Tools and Infrastructure

Exposure Dashboard

Maintain a running view of active contract value by subcontractor across all open projects. This dashboard should be reviewed by the prequalification specialist at least monthly and flag any subcontractor approaching a tier threshold.

COI Expiration Calendar

Track certificate of insurance expiration dates for all active subcontractors. Build in a 30-day advance alert to allow time for renewal before project work is impacted.

Quarterly PM Check-In

For all Tier 3 and Tier 4 subcontractors with active scopes, the assigned PM should complete a brief qualitative check-in form and submit it to the prequalification specialist. This form should address schedule compliance, communication quality, safety incidents, and any supplier payment concerns.

Lien Waiver Tracking

Track conditional and unconditional lien waivers by project and draw period. Delayed or missing waivers from a subcontractor are an early warning sign of cash flow stress and should trigger a check-in with the prequalification specialist.

Section 10: Protecting Your Subcontractor Base

The GC's Commitment to Partnership

Prequalification is a two-way street. A GC that demands financial transparency and operational accountability from its subcontractors must, in turn, demonstrate that it is a trustworthy, fair, and financially disciplined partner. This section is the GC's commitment in writing.

Contract Terms That Protect Both Parties

- Standardized subcontract templates that are fair, clearly written, and reviewed by legal counsel
- Transparent flow-down provisions: the subcontractor knows exactly what they are taking on before they sign
- Clearly defined scope of work to reduce change order disputes at the source
- Dispute resolution mechanisms that do not require litigation as a first resort, including mediation provisions
- Pay-when-paid vs. pay-if-paid language disclosed and explained upfront

Payment Cycle Commitments

The payment cycle is where a GC's integrity is most visibly demonstrated. Subcontractors who carry projects on thin working capital are especially vulnerable to slow-pay practices.

- Define and commit to a specific pay cycle (e.g., payment within 7 business days of GC receipt from owner)
- Do not use pay-if-paid as a mechanism to transfer owner payment risk onto subcontractors without disclosure
- Make joint checks available for major material suppliers where subcontractor cash flow is a known concern
- Process lien waivers efficiently and do not withhold payment pending waiver when waiver is conditioned on payment
- Pay retainage promptly upon substantial completion of the subcontractor's scope, independent of overall project retainage release

Communication and Transparency

- Assign a dedicated PM contact for each subcontractor and eliminate organizational ambiguity
- Invite subcontractors into preconstruction planning relevant to their scope
- Provide advance notice of schedule changes that affect subcontractor mobilization or material ordering
- Communicate scope changes in writing before directing work, not after
- Conduct annual subcontractor feedback surveys and publish how the GC has responded to that feedback

Preferred Subcontractor Status and Growth Pathways

- Communicate preferred subcontractor criteria transparently, not as a black box
- Tier advancement is a growth pathway, not just a gatekeeping mechanism
- Provide guidance to subcontractors who want to improve their score or reach a higher tier
- Reward strong performers with early-stage bidding access, extended relationships, and referrals

**DSP
PERSPECTIVE**

The subcontractors who build your projects are your most important supply chain partners. A prequalification program that treats them with respect and reciprocity will produce a deeper, more loyal, and more capable subcontractor base over time.

Section 11: Implementation Roadmap

This program is designed to be implemented in phases. A GC can begin with the tier structure and document requirements in months one and two, and layer in the monitoring infrastructure and scoring framework over time. Incremental adoption is far more effective than attempting a full launch on day one.

Phase	Name	Key Activities	Timeline
1	Foundation	Adopt tier structure; calibrate thresholds to firm size; build abbreviated and full questionnaire forms; draft approval authority matrix	Month 1 to 2
2	Roster Audit	Gather financial data on existing active subcontractors; classify into tiers; identify critical gaps such as missing COIs and no financials on file	Month 2 to 4
3	Rollout	Communicate program to the subcontractor base; begin formal prequalification process for new awards; onboard existing subs by tier	Month 4 to 6
4	Monitoring	Launch exposure dashboard; COI expiration tracking; PM check-in cadence for Tier 3 and Tier 4 subcontractors	Month 6 and beyond
5	Refinement	Annual program review: recalibrate tier thresholds, scoring weights, and document requirements based on first-year experience	Year 1 Anniversary

Quick-Start Checklist

For GCs beginning implementation today, prioritize these five actions:

1. Define your tier thresholds based on annual revenue and risk appetite.
2. Build or adopt the abbreviated (Tier 1 and 2) and full (Tier 3 and 4) prequalification questionnaires.
3. Classify your active subcontractor roster and identify which subs need immediate document collection.
4. Assign ownership: who is the prequalification specialist or point of contact for your firm?
5. Draft your Risk Appetite Statement and get alignment from ownership, the CFO, and senior PMs.

About DSP Insurance Services

DSP Insurance Services has been helping businesses manage risk for more than 40 years. Headquartered in Schaumburg, Illinois, our team brings deep expertise in construction insurance, surety bonds, safety consulting, and risk management to clients across the country and around the globe.

This guide was developed to be practical, scalable, and immediately applicable. If your firm would benefit from a facilitated implementation, a custom program calibration, or ongoing prequalification support, we welcome the conversation.



Damien Strohmier | Surety Bond, Producer
C: 812-584-4188 | F: 847-934-6180
dstrohmier@dspins.com
www.dspins.com | 

Building Stronger Partnerships Through Financial Discipline and Mutual Respect