

## Safeguards Pack: “Utilizing Outside Contractors”

Organizations often use outside contractors to perform work on their property. These contractors can include roofers, painters, lawn service companies, plumbers, remodelers, cleaning companies, electricians, HVAC service companies, security services, construction and other contractors. Along with the needed services these contractors provide, however, they also bring with them the risk of liability for the organization for property damage or personal injury that might occur while they’re at work.

So how should an organization protect itself when requesting the services of an outside contractor? The following are some practical considerations:

- 1. Obtain Multiple Bids.** It is generally a good idea to obtain several bids for a job before selecting a contractor. This is a matter of good stewardship, as the bid process helps the organization to determine whether it is paying a reasonable amount for the value it will be receiving in return. Obtaining multiple bids is important even when the proposed contractor is related to the organization.
- 2. Check References.** Before selecting a contractor, check with organizations where the contractor has performed work in the past. Also, consider checking online court and government records to learn what you can about the contractor’s history and to verify that he or she is appropriately licensed.
- 3. Have a Written Contract.** Once the contractor is selected, it is a good idea to have a written agreement that sets out the scope of the work, price for the job, payment terms, anticipated beginning and completion dates, and other terms such as permit obligations and fees, warranty information and dispute resolution. - To fully protect your organization, two clauses are especially important to include in the written contract: (1) a hold harmless or indemnity clause and (2) an insurance clause. The purpose of the hold harmless clause is to have the contractor agree to indemnify the organization for any injuries or damages that may occur while they are working on the project. The purpose of the insurance clause is to specify the types and limits of insurance coverage the contractor will carry and that they agree to name the organization as an additional insured on its insurance policies.
- 4. Make Sure They’re Insured.** When an outside contractor comes to perform work on your property, there’s no reason to put your organization’s insurance claims history – and potentially your insurance premiums – on the line. To transfer the risk, check that the contractor has appropriate insurance policies (including general liability, property damage, workers’ compensation, and excess or umbrella liability) and insurance limits that are at least equal to or greater than the organization’s insurance limits. Require them to name the organization as an additional insured on their insurance policies. A certificate of insurance that lists your organization as an additional insured (not just as a “certificate holder”) is evidence of insurance. Also, this should not be a “one-time” verification. Insurance policies are issued on a 12 month basis so, if you use the same contractor at a later date for another project, check the certificate you have on file and if it shows a policy expiration date that has already passed, obtain a new certificate verifying that they have a current policy in force.
- 5. If the contractor is not insured or, as sometimes happens, is a sole proprietor who does not carry workers’ compensation insurance, think twice before allowing any work to be performed. A contractor without insurance means that the organization will typically retain liability for the work, damage, or injuries that might occur while he or she is on the job.**

**5. Protect Yourself at the Finish.** Once the job is done, organizations can still be in a precarious position if they sign-off on the work and/or make final payment to the contractor. The danger here arises in two different situations: (1) where concerns remain over the quality or completeness of the work; or (2) where the contractor has failed to pay its suppliers or subcontractors for materials or labor supplied for the job. In the first situation, organizations lose leverage over getting the contractor to fully perform once they have made final payment. In the second situation, organizations are at risk for the suppliers or subcontractors coming back against the organization for payment. To protect themselves, organizations should consider discussing their situation with an attorney before making the final payment. Requiring the contractor to provide either a payment bond or lien waivers from subcontractors or suppliers can protect the organizations from what are called "mechanics liens."

### **When Protection is Particularly Needed**

Sometimes the question arises whether these protections – specifically the written contract with hold harmless/additional insurance language and obtaining proof of the organization's additional insured status – are needed in every single situation involving a contractor. Ideally, the answer is yes but, at a minimum, these protections are vital in three contractor situations:

1. Where the work is significant, such as new construction, renovation, or demolition;
2. Where the work is high risk, such as involving roofs, electrical systems, trees, scaffolds, ladders, etc.; and
3. Where the work is regularly undertaken on church premises, such as regular cleaning, lawn service, etc.

By making sure that the organization is properly protected in situations involving outside contractors, the organization is exercising good stewardship over the people, property, and finances entrusted to its care.

Please review the attached reference materials on this topic:

1. Sample Contract for Service-Repair Work
2. Sample Certificate of Insurance
3. Instructions for Reading and Understanding a Certificate of Insurance