



VENDOR RISK MANAGEMENT

What Every Board Should Require Before a Contractor Starts Work

A practical guide to vendor qualification, insurance, competitive bidding, contracts, payment controls, emergency authority, and reducing contractor-related risk.

The lowest bid is not always the lowest risk.

A contractor can be inexpensive on paper and still expose the association to uninsured losses, poor workmanship, payment fraud, change-order disputes, incomplete work, or liability that ultimately becomes the association's problem.

Because Communities Deserve Better!

Community Association Management, Limited

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Vendor Risk Begins Before the Work Starts

Boards often focus on price, scope, and timing when selecting a contractor. Those questions matter, but they are only part of the decision. A vendor also creates insurance, contractual, operational, financial, and fraud exposure for the association.

The best vendor-management process is designed to answer a broader question: if something goes wrong, has the association done the work in advance to reduce the damage?

The standard

A qualified vendor should be properly licensed, properly insured, contractually accountable, independently verified for payment, and subject to the same approval controls whether the work is routine or part of a major project.

What this guide covers

- Vendor qualification, licensing, and written agreements
- Insurance requirements, additional-insured status, and lapse monitoring
- Competitive bidding and when three bids make sense
- Scope, contracts, indemnification, warranties, and change orders
- Vendor banking changes, invoice fraud, and payment verification
- Emergency work when waiting for a Board vote is not practical
- Affiliated maintenance companies and related-party transparency
- Performance tracking and questions every Board should ask before approving a contractor

1. Start With Qualification - Not With the Proposal

A polished proposal does not prove that a contractor is qualified to perform the work. Before price is compared, the Board should know whether the vendor is legally and operationally prepared to do the job.

Community vendor onboarding

Community requires vendors to provide applicable licenses and execute a standalone vendor agreement before they are approved. That agreement establishes the contractual requirements that apply to the vendor relationship, including risk-transfer and performance obligations.

Community Associations Institute similarly recommends verifying licenses, certificates, permits, and other qualifications before an association signs a contractor agreement.¹

Questions to ask before approval

- Does the vendor hold the licenses required for the work being performed?
- Is the legal business entity active and correctly identified in the contract?
- Has the vendor agreed in writing to the association's required contractual terms?
- Is the scope specific enough to determine whether the work was actually completed?
- Who will supervise the work and who is responsible for correcting deficiencies?

¹Community Associations Institute, "Doing It Right: Tips for Hiring HOA Contractors," HOAresources, accessed September 2026.

2. Insurance Is About Transfer of Risk

The purpose of requiring vendor insurance is not to collect a certificate for the file. It is to reduce the chance that a vendor-caused loss becomes the association's financial responsibility.

Community requires insurance appropriate to the work being performed and monitors coverage after the vendor is approved. Where appropriate, the association and Community are required to be named as additional insureds. Coverage expiration is monitored through automated and manual processes.

Community minimum vendor standards

Coverage	Minimum Standard	Typical Requirement
Commercial General Liability	\$1 million each occurrence / \$2 million aggregate	All non-institutional vendors
Automobile Liability	\$1 million each occurrence, or \$300,000 with umbrella coverage	Vendors using automobiles on association property
Workers' Compensation	Statutory limits	When required by law
Professional Liability	\$1 million per claim	Professional services, including architects, engineers, consultants, and testing services

What happens when coverage expires?

A vendor does not remain indefinitely approved simply because it was insured when first onboarded. When required insurance lapses, Community provides a 15-day cure period. If current evidence of insurance is not received, payment is stopped until compliant coverage is restored.

For construction and major maintenance work, CAI best-practice guidance also emphasizes monitoring insurance throughout the project, considering additional-insured endorsements, and maintaining evidence of coverage rather than treating insurance review as a one-time event.²

A certificate is not the control by itself.

The control is the process behind it: required limits, correct insured parties, additional-insured status where appropriate, expiration monitoring, and a defined consequence when coverage is no longer compliant.

3. Competitive Bidding Should Improve the Decision - Not Create Busywork

Competitive bidding is useful when it produces meaningful choices. It is less useful when the job is too small to attract qualified contractors or when the Board receives three prices for three materially different scopes.

Community typically seeks three competitive bids for work at approximately \$10,000 or more. Below that level, many qualified contractors will not spend the time estimating smaller work when the probability of receiving the job is limited. The practical goal is competition where competition adds value.

² Foundation for Community Association Research, Community Association Maintenance: Best Practices, 2023, sections addressing contractor licensing, insurance, additional-insured considerations, project oversight, and change orders.

Compare the same work

- Use a clear written scope so bidders price the same expected result
- Identify exclusions, allowances, alternates, and assumptions
- Compare insurance, qualifications, schedule, warranty, and supervision - not price alone
- Understand whether a low price depends on omitted work or a future change order
- Document the Board's decision when factors other than price drive the selection

The lowest bid can become the most expensive option.

An uninsured, underqualified, poorly scoped, or financially unstable contractor can create costs far beyond the difference between competing proposals.

4. The Contract Should Define Accountability Before the Project Begins

A good contract answers the questions that become difficult after work has started: exactly what is being done, how much it costs, when payment is due, what happens when the work is deficient, and who bears responsibility when something goes wrong.

Contract controls Boards should expect

- A defined scope of work and payment terms
- Required insurance and additional-insured provisions where appropriate
- Indemnification and risk-transfer provisions
- Applicable licensing and permit requirements
- Warranty obligations and responsibility for correcting deficient work
- Cancellation or termination terms
- Documentation requirements for changes to scope, price, or timing

Change orders deserve the same discipline

A project does not stop being controlled simply because the original contract has been approved. Change orders can materially increase cost or alter scope. Community subjects change orders to the same approval thresholds and authorization structure that apply to the underlying project.

5. Verify the Vendor Before You Verify the Invoice

A legitimate invoice can still send money to the wrong place if a criminal successfully changes the vendor's banking instructions. Business email compromise, fake remittance changes, duplicate invoices, shell companies, and altered payment instructions are now part of vendor risk management.

Community banking-change control

Changes to vendor banking information are handled by Community's Vendor Manager and independently verified using known contact information. An email requesting a banking change is not, by itself, treated as sufficient proof that the change is legitimate.

Fraud patterns Boards should understand

- A vendor email account is compromised and new ACH instructions are sent
- A fraudulent invoice closely resembles a legitimate vendor invoice
- The same invoice is submitted twice under slightly different documentation

- A change order inflates the project beyond the scope originally approved
- A shell or related company is substituted without the Board understanding who is actually performing the work

One email should never be able to redirect association money.

Payment controls should verify the vendor, the invoice, the approval, and the destination of the funds.

6. Emergencies Require Authority - Not the Absence of Controls

Some events do not wait for the next Board meeting. A water-main break, major leak, fire, storm damage, or other emergency may require immediate action to protect people, units, or association property.

Community management agreements define emergency authority so that necessary work can proceed when obtaining Board approval is not practical - including situations that occur in the middle of the night. The existence of emergency authority should not mean the absence of documentation. The work, reason for action, vendor, cost, and subsequent communication to the Board should still be documented.

Questions Boards should resolve before the emergency

- What qualifies as an emergency under the management agreement?
- What spending authority does management have without advance Board approval?
- Who is notified after emergency work is authorized?
- How are emergency invoices reviewed and approved?
- When is follow-up engineering, insurance, or legal review required?

7. Understand Affiliated-Vendor Relationships Before Signing the Management Agreement

Boards should understand when a management company has an affiliated maintenance company, whether use of that company is required, how project oversight works, and what role the management company retains when an outside trade contractor is selected.

Community's service model

Community Association Maintenance, LLC is Community's affiliated maintenance division and is the required provider for general maintenance within Community's management model. For project work, Community also serves as the general contractor even when another trade vendor is selected to perform the underlying work.

That structure should be understood as part of the management relationship before the association signs the agreement. The Board should still understand scope, price, approval authority, vendor qualifications, insurance, change orders, and performance expectations for the work being performed.

Questions to ask any management company with affiliated services

- Is use of the affiliated company optional or required?
- Which types of work are handled by the affiliate?
- Does the management company act as general contractor or construction manager for project work?
- How are prices, approvals, change orders, and project responsibilities documented?
- What financial relationship exists between the management company and the affiliated service provider?

8. Vendor Performance Should Be Managed After Selection

Vendor approval is the beginning of the relationship, not the end of the control process. Community tracks vendor performance, complaints, missed service expectations, and completion quality. A vendor that

repeatedly fails to perform should not remain on an approved list simply because its insurance certificate is current.

What ongoing oversight should include

- Performance against the written scope and schedule
- Quality concerns, callbacks, and unresolved deficiencies
- Insurance and licensing status
- Change-order frequency and cost growth
- Responsiveness and communication
- Completion documentation, warranties, and project closeout records

9. Questions Every Board Should Ask Before Approving a Contractor

- Is the vendor properly licensed for the work?
- Has the vendor signed the required written agreement?
- Does the vendor meet the association's insurance requirements?
- Are the association and management company named as additional insureds where appropriate?
- Who is monitoring insurance expiration and what happens if coverage lapses?
- Is the scope detailed enough to compare bids fairly?
- Were competitive bids obtained when the size and nature of the project justify them?
- If the lowest bidder is not selected, is the reason documented?
- How are change orders approved?
- How are vendor banking changes independently verified?
- Who confirms the work was completed before final payment?
- What emergency authority exists if waiting for Board approval could increase damage?
- Is an affiliated vendor involved, and is that relationship clearly understood?
- Who tracks vendor performance after the contract is awarded?

How Community Manages Vendor Risk

Community Association Management, Limited uses a vendor-management structure designed to reduce preventable financial and liability exposure while giving Boards clearer information for contractor decisions.

Our vendor-risk framework includes

- Dedicated Vendor Manager responsible for vendor onboarding and banking-change verification
- Applicable license verification and a required standalone vendor agreement
- Defined insurance minimums, additional-insured requirements where appropriate, and ongoing expiration monitoring
- A 15-day cure period for lapsed insurance followed by a payment stop until compliant coverage is restored
- Typically three competitive bids for work around \$10,000 or more when the market and project size support meaningful competition
- Change orders subject to the same approval discipline as the underlying project
- Documented emergency authority through the management agreement
- Ongoing vendor-performance tracking
- Integrated maintenance and project oversight through Community Association Maintenance, LLC and Community's general-contractor role for project work

Before approving the next contractor, ask one more question.

Is your management company protecting the association from both price risk and liability risk - or simply forwarding bids to the Board?

A Simple Vendor-Control Rhythm

The Board does not need to manage every contractor detail itself. It should expect a repeatable process that makes responsibility clear at each stage of the work.

Before Work Starts	While Work Is Underway	Before Final Payment
Verify license, insurance, agreement, scope, price, and approval authority	Monitor performance, schedule, insurance status, change orders, and emerging issues	Confirm completion, resolve deficiencies, collect warranties or closeout documents, and verify the approved payment

The value of a vendor-management system is consistency. The same core questions should be answered whether the job is a recurring landscape contract, a roof replacement, an emergency water repair, or a major capital project.

Ready to Review Your Vendor Controls?

Use this guide with your Board to evaluate how vendors are qualified, insured, selected, contracted, paid, monitored, and held accountable.

Visit communityassociationmanagement.com to learn more or request a conversation about your association's management needs.

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Educational Notice: This white paper is intended for general educational and risk-management discussion. It is not legal, tax, insurance, construction, or accounting advice. Vendor requirements should be evaluated in light of the association's governing documents, contracts, insurance program, project type, and applicable law.