

[name of organization]

THIRD PARTY CONTRACTS

From time to time [name of organization] will need assistance to address business issues from third parties. It is the policy of [name of organization] that the use of outside vendors will be prudent, restrained, and carefully monitored. Significant consideration will be given to the cost associated with the retention of any outside vendor. The following procedures should be followed when any outside vendor is to be utilized by the Company for the provision of services.

Section 1. “Responsible Party” means:

1. With regard to the purchase of external services which cost \$750,000 or more in a year, the chairman of the board or his/her designee.
2. With regard to all external services which cost between \$250,000 and \$750,000 in a year, the chief executive officer.
3. With regard to all external services which cost between \$100,000 and \$250,000 in a year, a [designated officer or director].
4. With regard to all external services which cost less than \$100,000 in a year, a [designated officer, director or employee].

Section 2. Determination of Need for External Services or Products.

Prior to seeking assistance from a third party vendor which is expected to cost more than \$5,000 per year, the “Responsible Party” shall document in writing the need for such assistance. The Responsible Party shall describe:

1. The business issue which needs to be addressed on behalf of [name of organization].
2. Efforts to determine if an employee can provide the service.
3. A good faith estimate of the cost to acquire such services from a third party vendor.
4. Whether funds are budgeted to retain a third party vendor.
5. The need, if it exists, for timely delivery of services which can only be met by a third party vendor.
6. A list of the likely vendors who are able to provide the service to [name of organization] in a timely and economical fashion.

7. Attempts to obtain recommendations from others with regard to prospective vendors who could provide the service sought.

Section 3. Interviewing Potential Vendors.

Prior to meeting with prospective vendors, the Responsible Party shall:

1. Thoroughly research the need for the service to be obtained so that the Responsible Party can discuss the scope of the contract with prospective vendors.
2. Give to each prospective vendor a written document that defines the scope of the project and the expectations of [name of organization]. This document can be in the form of a Request for Proposals (RFP) that explains [name of organization]'s objectives and needs.

Section 4. Creating An RFP.

A. An RFP should be created on all contracts involving more than \$50,000 per year of services, unless the chairman of the board or his designee determines that an RFP is not necessary. The RFP should be very specific about the services that are required. A specification sheet should anticipate the questions that may be asked by a prospective vendor. The RFP should include the following information:

1. Identify [name of organization].
2. Identify the purpose of the services being requested.
3. Specify what the successful proposal should include as to timeliness, scope of work, expertise and similar information.
4. Indicate a deadline by which submissions must be received.
5. Identify the name and address of the person to whom proposals should be sent.
6. Describe how the services should be provided, including a project timetable and end date.
7. Prospective vendors should identify account management capability, performance guarantee, complaint resolution procedure, technology, confidentiality and liability programs, their organizational structure, the staffing to be provided for the project, and verify its compliance with the Americans with Disabilities Act.

8. The Responsible Party should determine who will receive the RFP. It may be necessary to purchase a mailing list. The RFP may be distributed by mail, e-mail or fax.

B. At the initial meeting, the Responsible Party shall:

1. Obtain from each prospective vendor a list of prior clients for which the vendor provided similar services. Advise the prospective vendor that you will be contacting the references.
2. Obtain an estimate as to the cost to resolve the problem and as to the manner in which the prospective vendor will bill fees and expenses.
3. Request a list of all of the material information and assistance the prospective vendor will provide [name of organization], stating the time frame in which the materials or service will be provided.
4. Discuss and determine whether the prospective vendor will propose a solution that is so unique that only that vendor can provide maintenance as to the service. [name of organization] prefers that the service be such that other vendors can be utilized for maintenance of the service.
5. Obtain from the prospective vendor an estimate as to how long it will take to complete the contract.
6. Request a separate cost estimate for each step or component of the proposed service.
7. Insist on meeting and interviewing the individual(s) who will perform the actual work.
8. Inquire and obtain copies of the curriculum vitae and credentials of the individual(s) who will provide the service.
9. Inquire as to the experience of the prospective vendor as to the service requested by [name of organization].
10. Determine the ownership of the product that is built or sold after the time of the delivery to [name of organization].
12. Inquire as to whether the prospective vendor will guarantee its work, and if so, for how long.
13. Advise the prospective vendor as to the deadline for bids.

Section 5. Receipt of Proposals.

Keep a log of the date and time each proposal was received. Review each proposal with other members of [name of organization] who are knowledgeable about the needs of the organization and the need for the requested services. Where possible, the use of a uniform rating sheet should be utilized in evaluating the proposals of prospective vendors.

Section 6. Selecting a Vendor.

Prior to selecting a third party vendor, the Responsible Party shall:

1. Determine whether there is any question concerning the financial performance, stability and reputation of the prospective vendor.
2. Review each written proposal to confirm that it is consistent with the Responsible Party's recollections of what was represented by the vendor at the initial meeting.
3. Determine that the proposal by the prospective vendor is clearly superior to other bids.
4. If the cost of the prospective vendor is higher than other bids, document the reason for choosing a higher bid price for the contract.
5. Prior to entering into a contract with a vendor, check the references and credentials of the prospective vendor.

Section 7. The Contract.

Prior to executing a contract with the vendor, the Responsible Party shall:

1. Ensure that an [name of organization] attorney reviews the contract if it involves over \$50,000 per year in fees for services.
2. Contact other prospective vendors by mail, advising them that another vendor won the bid.

Section 8. Monitoring Performance.

The Responsible Party or Designee shall monitor the performance of the vendor in performing the services or delivering the product. The Responsible Party shall:

1. Monitor progress closely.

2. Demand complete and accurate invoicing and bills from the vendor.
3. To the extent possible, incorporate the methods, techniques and solutions used by the vendor into [name of organization]'s internal processes in order to avoid the same or similar need for a third party vendor in the future.
4. If the contract is undertaken on a payment-by-time basis, a detailed explanation of the hours that are worked by each employee of the vendor, including the dates performed, the number of hours performed by each employee, the type of work performed by each employee by quarter hour, and a detailed description of the expenses. Copies of expense receipts shall be attached to any bill or invoice which requests reimbursement for expenses paid by the vendor.
5. Travel and other similar expenses of the vendor will only be reimbursed in accordance with the Company's Travel and Other Expense Reimbursement Policy.

Document originated in the Office of the Minn. Attorney Gen., Third Party Contracts (2002),
<http://www.ag.state.mn.us/pdf/charities/3PartyContractsPolicy.pdf>.