

# Sub-Vendor Compliance Solution

Our client is a multi-national insurance corporation with more than 60,000 employees globally. It operates in more than 130 countries and is a provider of property casualty insurance, life insurance, retirement services, and mortgage insurance.



## The Challenge

Like most large corporations today, our client engaged with two types of workers: direct employees or indirect contract workers. The indirect contract worker was either working independently or through a third party organization that represented the individual.

Our client discovered potential financial and legal risks to its business both with indirect contract workers as well as sub-vendors:

- First, the client held contracts with multiple indirect contract workers who possessed specific financial industry subject matter expertise that required ongoing compliance to federal, state, and local laws. The client required ongoing compliance of these contract workers in order to substantiate that these individuals were not direct employees.
- Second, our client found that they were engaging a substantial number of indirect workers who were represented by third party sub-vendors. Each of these sub-vendor represented 1 to 3 indirect workers, which made insurance of various federal, state, and local laws challenging for our client. Various departments such as Legal, Procurement, Finance, and Human Resources also voiced their concerns regarding associated risks with this kind of workforce arrangement.

Due to these concerns, our client wanted to initiate a preferred vendor program that significantly reduced the number of business vendors and ensured their compliance with legal procedures. While this would streamline the process, it would also lead to business disruption by removing 60 vendors representing 150 contract workers. The client could not afford to lose the talent represented by these vendors, yet could not retain them at the risk of their non-compliance with federal, state, and local laws.

## The Solution

HireGenics proposed to act as a centralized point of contact for select vendors to address client concerns of maintaining valued resources while reducing the vendor list. Now, the client could not only retain resources but could also identify all spend managed by HireGenics as diversity spend.

HireGenics delivered the following solution:

- Provided centralized services for the select pool of vendors
  - Ensured client would not lose subject matter experts
  - Standardized onboarding / offboarding procedures
  - Coordinated and improved communication process with vendors and workers

## The Challenge

High financial and legal risk associated with indirect workers and sub-vendors

## Client Requirement

Reduce number of vendors, streamline processes, and ensure compliance

## The Solution

Converted sub-vendors and contract workers to HireGenics and acted as a centralized point of contact

## Result

Proper IC classification and more than \$65,000 in cost savings over 6 months for the client

- Standardized pay cycles for contract labor
- Streamlined invoicing
- Controlled cost and leveraged spend
- Provided vendors and contractors with a self-service portal to manage worker / vendor onboarding, time entry / approval, invoicing, and payment management services
- Developed a 30 day phased implementation plan to convert 60 sub-vendors and hundreds of payrollees to HireGenics with no disruption of daily business
- Transitioned and ensured compliance classification of all sub-vendors and contract workers
  - Agent of Record (W-9)
    - Each individual or sub-vendor was screened for W-9 compliance
    - Ensured each W-9 carried appropriate levels of business insurance
    - Acted as Employer of Record for sub-vendors or contractors who did not fit the IC category and needed to be classified as W-2
  - Employer of Record (W-2)
    - Included all federal, state, and local taxes
    - Each worker was screened for I-9 compliance e-verification
    - Established clear lines as to who employs the individual by coordinating and improving communication process with workers and making them feel like employees of the firm
    - Provided standardized benefits to consultant at a lower price point
  - Created "Audit Defense / Compliance File" for each worker
- Conducted regular updates to ensure all documents are up-to-date
- Provided payrolling through a certified diversity company
- Synchronized payrolling implementation across all operating units

Area of Risk	Implication for the Client
Joint Employment Claims	Determination by Department of Labor (DOL) that worker is an employee of the client <b>Consequences: Back wages, benefits, fines</b>
Co-Employment Claims	Determination by the Internal Revenue Service (IRS) that worker is an employee of the client <b>Consequences: Back wages, benefits, fines</b>
Lack of Proper Business Liability Insurance	The client became primary insured in claims for workers' compensation, liability, errors and omissions, fidelity bond issues, etc.
Non-Payment of Taxes (FUTA and SUTA, etc.)	The client was liable for back taxes, fines, and substantial brand tarnish
Failure to Comply with Fair Labor Standards Act (FLSA) Regulations	The client was exposed to sweeping audits by the DOL resulting in fines, back wages, penalties, debarment from government contracts, and in some states, imprisonment
Failure to Comply with Family Medical Leave Act (FMLA) Regulation	The client was exposed to providing all benefits entitled under FMLA to the contract workers

Basic Facts Given at Start of Engagement	
Program Type	Employer of Record (retirees, former employees, and internal manager referrals), IC compliance, non-prime vendor access management
Approximate Headcount	500
Approximate Annual Spend	\$50,000,000
Phased Implementation	Phase 1 – Convert 300 W-2s 30 days Phase 2 – Convert 200 ICs and 60 Non-Prime Vendors
Categories	IT Professional, Clerical/Admin, Accounting & Finance, Creative/Design, Medical & Healthcare, Human Resources, Customer Service, Legal, Procurement, Insurance Services
Approximate Number of Hiring Managers	390 percent
M/WBE Suppliers / Spend Percent	100 percent diversity Asian American
Locations	35 locations across the U.S. including CA, NY, MI, etc.
MSP	Yes
VMS	Fieldglass
IC Compliance Payroll Software	HGComply – proprietary software from HireGenics, System of Record

- Interfaced with VMS to ensure VMS is the system of record
- Simplified invoicing with 100 percent accuracy

**| The Result**

The client estimated approximately 540 contract workers before implementation. During the investigation phase of implementation,

HireGenics discovered an additional 200 workers bringing the total count to 740 contract workers. Of this 740, 240 contract workers identified themselves as independent contractors. Upon determination for each of these contract workers, HireGenics discovered that only 200 contract workers were properly classified as independent contractors. The 40

workers who didn't qualify were offered a chance to complete the necessary steps towards achieving independent contractor status or to be converted to a HireGenics W-2 worker.

HireGenics was able to meet all client objectives well within the stated time period. In fact, the engagement has been so successful that the client is planning on expanding our scope and responsibilities.

Determination Factor	Results
Determination Population: 741	Originally estimated at 540, HireGenics discovered additional indirect contract workers during implementation. Documented, compliant processes consistently used in each determination
Workers Adjudicated as ICs: 240	Although 240 claimed to be ICs, only 200 were found to be in compliance. The remaining 40 were converted to HireGenics W-2s. Comprehensive "Defense File" instantiated in HGComply to assure successful audit
Workers Adjudicated as W-2s: 541	Originally estimated at 300, HireGenics discovered additional W-2s during implementation including non-compliant ICs who were subsequently converted to W-2s. All workers documented as W-2 employees of HireGenics had rights to participate in HireGenics' benefits. All employees were covered under HireGenics' business insurance, including workers' compensation, crime bond, and errors & omissions insurance
Workers Evaluated Related to I-9 Compliance: 541	All W-2 workers processed and deemed compliant through E-Verify. "Defense File" instantiated
Determination Performed Related to Exempt / Non-Exempt: 541	150 workers determined as exempt. "Defense File" instantiated
6 Months Cost Savings	In excess of \$650,000

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**About HireGenics, Inc.**

HireGenics is a recognized thought leader in the design, implementation, and delivery of client-focused contingent workforce management solutions. Our core solutions include Payrolling Solution, IC Compliance Solution, Direct Sourcing Solution - HG Direct, MSP 2.0. HireGenics' contingent workforce solutions are centered on creating the most streamlined access to quality talent. Our solutions incorporate risk mitigation, process improvement, high touch program management, and incorporation of new talent channels.

Headquartered in Atlanta, USA, HireGenics' mission is to provide a comprehensive, multi-channel talent strategy designed to add value and create a competitive advantage in the talent marketplace. [www.hiregenics.com](http://www.hiregenics.com)