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INDEPENDENT CONTRACTORS

6 Steps for Managing Independent Contractors

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By Roberta Katz

No nonprofit executive would hire staff without performing background checks, obtaining regulatory forms and documents, confirming in writing the agreed upon salary and job specifications and submitting accurate payment information to your payroll processor.

If your organization numerous programs that are funded for limited time periods and budgets, you might decide to retain the services of independent contractors, instead of hiring employees. Once you have determined that the individual qualifies as an independent contractor under Internal Revenue Service (IRS) guidelines, here are six steps that should be followed.

Step #1 — Request to Hire.

A Request to Hire Form should be completed and signed by the requestor and approved in accordance with the organization's approval policy. The form should include: Job title; Department and/or Program; Position status (e.g. full-time; part-time); Start date; Months per year and hours per week; Proposed salary rate; New or replacement position; and, Budgeted position (Y/N)

The approved form should then be sent to the Budget Director for review and approval and subsequently forwarded to the Human Resources Department.

Step #2 — Vetting Process and Database

The Human Resources Department should perform comprehensive vetting procedures for all potential candidates and approve the Request to Hire Form when the process is completed. A database of all approved independent contractors should be maintained by the Human Resources Department or other designated department within the organization (e.g. Compliance). This database should be updated regularly and accessible to the Finance Department for reference only.

Step #3 — Independent Contractor Agreement

An agreement should be prepared and signed by both the Human Resources Department and the independent contractor and should include:

- > Parties to the contract; relationship; responsibilities
- > Contract period
- > Scope of services
- > Timeline and deadlines
- > Billing rate and terms
- > Conditions for termination

The fully-executed agreement should be maintained by the Human Resources Department with a copy accessible by the Finance Department. If the Accounts Payable software module used by the Finance Departments to process payments has the capability of attaching scanned documents to a payee's profile, the executed agreement should be attached for easy reference (see Step #6).

Step #4 — Form W-9- Request for Taxpayer Identification Number and Certification

The Finance Department should obtain a completed and signed Form W-9 from every independent contractor. The name, address and Taxpayer Identification Number reported on the Form W-9 should agree to their profile in the Accounts Payable software module in order to generate accurate 1099's at year-end. Most Accounts Payable modules have a "check the box" feature for 1099 recipients.

This should be activated in order to facilitate the processing of 1099s. If the software module has the ability to attach scanned documents to the payee's profile, the Form W-9 should be attached. (see Step #6).

Step #5 — Invoice Submission and Approval

All independent contractors should prepare an invoice for services performed in accordance with the provisions stated in the Independent Contractor Agreement. The invoice should include:

- > Date of invoice
- > Invoice number
- > Name, address and TIN of the individual or entity
- > Services performed
- > Hourly rate; number of hours billed; total due
- > Fixed rate (if applicable)

The invoice should be approved by an authorized individual in accordance with the organization's approval policy.

Step #6 — Invoice Payment

All approved invoices should be submitted to the Accounts Payable Department for payment. A separate e-mail address can be set up and distributed to be used for submission of all invoices. Outside companies can also be used to manage the receipt of invoices. Invoices should not

be paid unless a completed and signed Form W-9 (see Step #4) and an executed Independent Contractor Agreement (see Step #3) have been reviewed by the Accounts Payable Department and compared to the information on the invoice submitted for payment.

Establishing, implementing and documenting a formal process for managing independent contractors is essential in order to comply with government regulations, prevent fraud, safeguard financial assets and ensure the safety and security of all individuals within the organization. The coordination between all departments, Human Resources, Finance, Budget and Program, sharing responsibility for carrying out this process is essential for maintaining the internal controls needed to build an efficient and transparent organization.

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