



# ALABAMA MUNICIPAL INSURANCE CORPORATION MUNICIPAL WORKERS COMPENSATION FUND, INC.



## *Loss Control Division*

### **Risk Management Guidelines for Public Entities & Contractor Operations**

In the course of providing local government and services, public entities routinely depend upon relationships with contractors and subcontractors. During the formation of these relationships, agreements are made and frequently contracts are negotiated. In order to avoid, reduce, or transfer the risk of loss, public entities should establish the following risk management activities:

1. Do not depend upon verbal agreements. Contracts entered into by public entities should be in writing. To ensure that contracts are valid, the proper authority should sign and execute them.
2. At a minimum, each public entity should obtain an indemnity/hold harmless agreement with contractors or subcontractors. A contract specialty attorney should review the contents of the agreement. The public entity should require the contractor or subcontractor to notify the public entity in writing of any subcontracted operations or services. The public entity must inform the contractor that it is the contractor's responsibility to ensure that all subcontractors comply with the specified insurance requirements and contract specifications as stated by the public entity. Information on standard contracts is available from the American General Contractors Association (AGC) Online Institute. The website address is [agc.org](http://agc.org). Information regarding standard contracts is accessible through the Products and Benefits section of the AGC website under Publications.
3. All public entities should require certificates of insurance from all contractors and subcontractors. Depending upon the scope of the contract this could involve proof of the following:
  - Workers' Compensation and Employer's Liability
  - Comprehensive General Liability Insurance
  - Business Auto Liability Insurance
  - Builders Risk
  - Performance Bond

The certificates of insurance should be verified for coverage dates and limits of liability. Limits of liability should be established according to each line of coverage required for the contract. It is suggested that the public entity require limits to be as high as the public entity's limits but not less than \$1 million for Commercial General Liability and Auto coverage.

4. A public entity should be an additional named insured under the contractor and/or subcontractor's policies. The public entity should receive the certificates of insurance before performance of the contract. All insurance policies should include a provision

prohibiting cancellation of the policy except upon 30 days prior written notice to the public entity.

5. Before signing a contract for the work to be performed by the contractor, a public entity should ascertain that the contractor will adhere to safety and health requirements as specified by OSHA and other governing bodies. The contractors' interest, participation and level of involvement with safe work practices at the worksite should be evaluated. The public entity should know what controls the contractor has in place to prevent accidents and how they will respond in the event of an emergency. The contractor should take into consideration the safety and health of their employees and the public during the construction project for the public entities.

NOTE: This document is not intended to be legal advice. It does not identify all the issues surrounding the particular topic. Public agencies are encouraged to review their procedures with an expert or an attorney who is knowledgeable about the topic. Reliance on this information is at the sole risk of the user.