**Kentucky Employers’ Mutual Insurance**

**Request for Proposals (RFP) No. 2024-102**

**Purpose:** **External Auditing Services**

The procurement by competitive negotiation is desired by Kentucky Employers’ Mutual Insurance (hereinafter “KEMI”) for External Auditing Services.

Responses must be submitted electronically, in a single PDF document limited to 100MB, via KEMI’s online procurement submission portal at: [www.kemi.com/rfp](http://www.kemi.com/rfp)

The online procurement submission portal utilizes a two-step process to upload responses. Vendors must complete the access request form by providing contact information and a valid email address.  An access link will be sent to the email address provided.  Vendors must then follow the access link to the proposal submission form.

Proposals must be submitted on or before: **12:00 PM Eastern Time on April 10, 2024**

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1. **RFP SPECIFICATIONS**
2. Purpose and Scope of Services
3. KEMI seeks proposals for external auditing services that meet the statutory requirements of: (1) performing an independent audit of, and expressing an opinion on, KEMI’s statutory basis financial statements and (2) issuing a report on KEMI’s internal control over financial reporting and on compliance with certain provisions of laws, regulations, contracts, and other matters. These services must be performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Letters of awareness and qualification must be provided annually in conjunction with these services.
4. KEMI is accepting bids from qualified independent certified public accounting firms to provide independent auditing services. Pursuant to KRS 342.823 the Auditor of Public Accounts must decline to perform the annual audit before KEMI may contract with an Independent Auditor. To date, the Auditor of Public Accounts has not elected to perform KEMI’s annual audit; however, they retain the right to review the independent certified public accountant’s working papers upon request.

Audit Scope, Standards, and Guides

KEMI prepares its financial statements using accounting practices prescribed or permitted by the Department of Insurance of the Commonwealth of Kentucky (the Department). Effective January 1, 2001, the Department adopted the National Association of Insurance Commissioners’ (“NAIC”) Accounting Practices and Procedures Manual as a component of prescribed or permitted practices. KEMI is to be audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. This engagement includes independent auditing services for the purpose of expressing an opinion on whether KEMI’s statutory basis financial statements fairly present KEMI’s admitted assets, liabilities, surplus, results of operations, and cash flows in conformity with accounting practices prescribed or permitted by the Department as described above. The engagement also includes the Firm’s consideration of KEMI’s internal control over financial reporting and of KEMI’s compliance with certain provisions of laws, regulations, contracts, and other matters.

Pursuant to the NAIC Annual Statement Instructions, the audit will require the Firm to subject KEMI’s loss and loss adjustment expense reserve data to testing procedures. KEMI’s appointed actuary relies on these testing procedures as part of the reserve certification process.

Duration of Engagement

KEMI anticipates a five (5) year relationship with the awarded Firm. The audit relationship will encompass the calendar year financial statement periods ending December 31, 2024 through December 31, 2028.

1. The Firm will be asked to meet with KEMI’s management, the Audit Finance and Investment Committee of KEMI’s Board of Directors (“AFI Committee”), and/or Board of Directors. The first meeting each year will occur in the fall wherein the Firm will present to management their scheduling and planning intentions for the current year under audit. At this time the Firm will be required to submit a formal written audit plan which will be reviewed by, and discussed with, management. At least one more meeting with management will occur immediately after the conclusion of the audit. In addition, the Firm will be asked to make presentations to the AFI Committee and/or Board of Directors as desired by KEMI.

Audit Timing and Report Completion Dates

Interim fieldwork and internal control/compliance testing will occur each year in the fall. Financial statement fieldwork will occur in January/February of the succeeding year. The required release date of all reports will be no later than March 31 of the succeeding year.

Required Audit Reports

The reports required for this engagement are as follows:

* Independent Auditor’s Report on Statutory Basis Financial Statements
* Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards
* Independent Auditor’s Letter of Awareness
* Independent Auditor’s Letter of Qualification
* Required communication to the Audit Committee of KEMI’s Board of Directors

All audit reports prepared pursuant to the contract shall be submitted to KEMI for final review prior to release. In the event the final reports submitted by the Firm are not acceptable, the Firm shall, at no cost to KEMI, take the necessary steps to prepare and submit corrected reports.

When the final reports submitted by the Firm are acceptable, the Firm shall provide twelve (12) bound copies of the Letters and Report to the AFI Committee, as well as twelve (12) bound copies of the Audit Report to KEMI’s Board of Directors. The Firm shall also provide one (1) bound copy of both the Audit Report and the Letters and Report to the Audit Committee directly to each of the Legislative Research Commission Committee Co-Chairs, to the Kentucky Attorney General and to the Kentucky Auditor of Public Accounts. The Firm must also provide additional bound copies as requested by KEMI.

Notice of Deficiencies

All material weaknesses in internal accounting control and material errors and irregularities identified during the course of the audit engagement shall be immediately directed to the attention of KEMI management, Board of Directors, and appropriate regulatory personnel. Any notice of possible irregularities directed to KEMI shall be directed to at least one level of management above that alleged or believed to be involved.

Audit Working Papers

The Firm shall maintain audit working papers in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. These working papers shall be subject to periodic review by KEMI during the course of the audit engagement. The Firm shall retain all audit working papers for a period of ten (10) years from the date of approval of the final reports, or until the Department has filed a Report of Examination covering the year under audit, whichever is later. The working papers shall be available to: (1) KEMI for purposes of review, inspection, and reproduction; (2) the Department upon request and after proper notification has been made to KEMI; and/or (3) any successor upon KEMI’s request. For the purpose of this RFP and any resultant contract, “audit working papers” shall include any time and budget summaries or similar records, planning documents, working paper review materials, and any other working papers maintained by the Firm and/or required to be maintained under auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Inspection of Time Records

KEMI may inspect the time records of the Firm and of any subcontractor to determine the validity of billings before invoices are approved for payment. Adequate time records shall be maintained by the Firm to support all billings. Such billing records must be retained for review for three years following final payment under the contract.

Notice to KEMI of Subcontractor Participation

If the Firm intends to utilize subcontractors for any services under the contract, the subcontractor’s proposal must be submitted to KEMI along with the Firm’s proposal. The identity and proposed terms of the subcontractors must be clearly set forth in the Firm and subcontractor proposals. At such time as any subcontract is entered into, originally executed copies of the subcontracts must be submitted to KEMI for each calendar year to be audited under the contract. Such subcontract shall, as a minimum, include:

* The name, address, telephone number, and qualifications of the subcontractor
* The number of hours of audit work to be performed by the subcontractor and the average hourly rate to be paid for each year to be audited under the subcontract
* The scope or nature of the audit work to be performed by the subcontractor for each year to be audited under the contract

Copies of the executed subcontracts shall be sent to Sarah Kosin at rfp@kemi.com.

In the event the subcontractor is, for any reason, unable to fulfill its obligations under the subcontract the Firm shall immediately notify KEMI in writing, setting forth the reason for the inability of the subcontractor to perform. The Firm must submit for KEMI’s approval a subcontract with another qualified replacement for the subcontractor. KEMI’s approval shall not be unreasonably withheld or delayed.

No payment is due or payable for audit work with respect to any year under the contract until a properly executed subcontract has been submitted to KEMI as set forth herein.

Assignment/Liability

No assignment of the contract shall be made without the written approval of KEMI. The Firm shall be and remain solely responsible to KEMI for the acts or faults of any subcontractor and/or the subcontractor’s officers, agents, or employees, each of whom shall, for this purpose, be deemed to be an agent or employee of the Firm to the extent of the subcontract. Each subcontractor shall jointly and severally agree that KEMI is not obligated to pay or to be liable for the payment of any sums due to subcontractors.

Resultant Contract

Any contract resulting from this RFP shall be awarded by KEMI and approved by KEMI’s Board of Directors.

1. Scoring

A committee will evaluate all responses to ascertain which Offeror(s) best meets KEMI’s business needs and requirements based on the selection criteria below:

|  |  |
| --- | --- |
|  | **Maximum Points Possible** |
| **Offeror Qualifications** | **50** |
| **Costs** | **45** |
| **Business Continuity Form** | **5** |
| **MAXIMUM POINTS POSSIBLE** | **100** |
| **Interviews/Discussions, if selected** | **100** |
| **MAXIMUM POINTS POSSIBLE****With Interviews/Discussions** | **200** |

1. Schedule of Events

The following schedule of events represents KEMI’s best estimate of the schedule that shall be followed. KEMI, in its sole discretion, may alter and/or amend this schedule at any time, including not conducting virtual interviews/discussions. Any adjustments to the schedule of events will be emailed to the prospective offeror’s contact on record with Sarah Kosin.

* RFP Publication Date – Wednesday, March 13, 2024
* Deadline for Inquiries – Wednesday, March 20, 2024
* KEMI Response to Inquiries – Wednesday, March 27, 2024
* Deadline for Submission of Proposals – Wednesday, April 10, 2024
* Virtual Interview/Discussions (Optional) – Monday, May 6, 2024 – Tuesday, May 7, 2024
* Estimated Contract Award – Monday, July 1, 2024
1. **PROPOSAL REQUIREMENTS**
2. **Offeror Qualifications**
	1. The business name, primary address, branch address, phone number~~s~~, website address if applicable, and the number of years the business has been operating under the above name.
	2. The name, title, business address, telephone number and email address of the individual who will be KEMI’s principal contact for all aspects of the contract.
	3. The name, title, business address, telephone number, and resume for each person you propose to have handling matters assigned by KEMI. Provide relevant information regarding their experience.
	4. Describe the Firm’s experience in providing the requested services to clients.
	5. Provide information regarding your participation in peer review and provide a copy of your most recent peer review report.
	6. Describe your Firm’s quality control program and how it ensures that KEMI will receive the highest quality professional service.
	7. Provide information regarding any litigation in which your Firm is a named defendant within the past ten (10) years. Please provide specific details regarding the nature of the allegations made against your firm in each instance of litigation.
	8. Provide information regarding any malpractice claims made against your firm within the past ten (10) years. Please provide specific details regarding the nature of the malpractice claim.
	9. Provide a list of all insurance enterprises, including insurance carriers, group self-insured funds, or individual self-insureds served by the proposed engagement team. Specifically identify workers’ compensation insurance clients. Indicate the types of services provided to each client as either audit, tax, consulting and/or actuarial.
	10. Provide the number of employees who have expertise in auditing statutory basis financial statements of mutual insurance companies and approximately what percentage of the Firm’s business is in the above referenced areas.
	11. Provide information regarding any other insurance enterprise, including insurance carriers, group self-insured funds, or individual self-insureds to which your firm is currently obligated, or is proposing, to provide audit services which will occur during the same time period as this engagement. Indicate whether any professionals included in your proposal are included in these other engagements or proposals and how your staffing will be impacted should you be the successful Firm on this or any other engagements being processed.
	12. Describe your Firm’s ability to comply with the NAIC Model Audit Rule.
	13. Describe how your Firm’s insurance practice complies with the NAIC audit partner rotation rule. Does this affect your proposal regarding audit partners assigned to this engagement? If so, provide all information required for these individuals.
	14. Describe your planned approach to auditing the liability for loss and loss adjustment expense reserves.
3. **Costs**
	1. Please provide the yearly fee for each year of the proposed five (5) year engagement. Fees must be shown as hourly rates for partners, managers, audit staff, and administrative staff and should include an indication of the estimated number of hours to be spent on an interim and planning activities during October through December and on final audit activities during January through March of each year. Any expenses for which the Firm expects to be reimbursed must be outlined in detail.
4. **Business Continuity Form**
	1. Complete the Business Continuity Form which is attached to this RFP and return it as a separate attachment with your response.
5. **References**
	1. Provide at least three (3) executive-level client references for which you have provided similar services as outlined in this RFP, preferably from the insurance industry. You must include the client’s name and address and the name and phone number of a contact person. You may also include other references such as other businesses or other resources with whom you are associated and who are capable of providing a relevant, specific assessment of your experience with workers’ compensation insurance carriers.

**III. INSTRUCTIONS**

**READ ALL INSTRUCTIONS CAREFULLY.**

**FAILURE TO DO SO WILL BE AT THE OFFEROR’S RISK.**

1. Proposals must set forth full, accurate, and complete information as required by this RFP. Failure to follow these requirements may be cause for rejection of the proposal.
2. KEMI is not liable for any expenses incurred in the preparation and presentation of the proposal.
3. The Offeror Form located in the addendum must be signed by the person submitting the proposal and must include the signee's printed or typed name, business address, email address, company website, telephone number, and date. This form must be submitted with your proposal.
4. The Sworn Statement Regarding Campaign Finance Laws Form located in the addendum must be signed, notarized, and submitted with your proposal.
5. The Mandatory Requirements Statement located in the addendum must be signed, attesting to compliance with KEMI’s mandatory requirements for this RFP, and returned with your proposal.
6. The Proposal Submission Checklist located in the addendum is included to ensure accurate and complete submissions.
7. Proposals must be submitted electronically via KEMI’s online submission portal as specified on the first page of this RFP. Unless stated otherwise in the RFP, it is **strongly preferred** that the entire proposal is submitted in a single PDF document. If separate attachments are also submitted, they must be clearly labeled and timely submitted. Please note that only a maximum of ten (10) attachments can be submitted through the online submission portal. No other method of correspondence will be accepted.
8. **The Proposal Deadline Date and Time are the date and time indicated on the first page of this RFP. The date and time that KEMI actually receives the proposal will determine whether the applicant has met the deadline for response.**
9. All inquiries concerning the form and method or specific services/products as well as requests for copies of the RFP must be made in writing to:

Sarah Kosin

rfp@kemi.com

Responses to inquiries will be shared with all potential Offerors having received a copy of this RFP from KEMI. Therefore, distribution of this RFP must be handled directly by KEMI. Any unauthorized contact with any KEMI staff other than as specified above may disqualify the Offeror from further consideration.

**IV. GENERAL INFORMATION**

A. Background

KEMI was created in 1994 by the Kentucky General Assembly to provide workers’ compensation insurance to Kentucky employers. KEMI is Kentucky’s largest writer of workers’ compensation insurance with its headquarters located in Lexington, Kentucky. For additional information about KEMI, please visit [www.kemi.com.](http://www.kemi.com.)

B. Discussions with Offeror

Discussions may be conducted with all responsible Offerors who submit proposals and are determined to be reasonably qualified and susceptible of being selected for award. Discussions may be for the purpose of clarification to assure full understanding of, and conformance to, the proposal requirements; however, Offerors will not be permitted to change their original proposal. Offeror should clearly understand that any verbal representations made or assumed to be made during any oral discussion held between Offeror and KEMI are not binding.

KEMI may require Offerors among the top scoring proposals to participate in a virtual interview. See aforementioned Schedule of Events. The principal contact for KEMI will be required to participate in the interview.

C. Proposal Modifications

Any changes, amendments or modifications to a proposal after it has been submitted must be made prior to the deadline for receipt of proposals, must be in writing, and must be submitted in the same manner as the original proposal.

Proposals or modifications received by KEMI after the exact hour and date specified shall not be considered.

F. Confidentiality

Matters relating to this RFP and any resulting contracts shall not be discussed with anyone other than KEMI staff without the prior written consent of KEMI. No opinions, reports, summaries, letters, or other documents prepared with respect to the RFP shall be released without approval of KEMI, except as required by state or federal law.

Except as required by law, information furnished by any Offeror in response to this RFP will not be disclosed by KEMI without the prior written consent of the Offeror.

G. Reservation of Rights

KEMI reserves the right to:

1. Reject any or all proposals and waive any requirement, informality, or condition of proposals.
2. Cancel the RFP and not award the RFP.
3. Prohibit sub-contractors of the Offeror from performing any of the Services outlined in this RFP without the prior written consent of KEMI.
4. Categorize Offeror as an independent contractor, denying any employee/employer relationship between KEMI and Offeror.
5. Approve the time and format of payment for the Offeror(s). KEMI will audit fees for reasonableness and accuracy.
6. Add items or services within the scope of the resultant contract if mutually agreeable by both the Offeror and KEMI.
7. Amend this RFP. Any amendment or information provided to a prospective Offeror will be provided to all prospective Offerors. If necessary, an RFP based on revised specifications will be issued as promptly as possible.
8. Perform services in-house, or to contract with another company to perform like services.
9. Require a contract with the winning Offeror(s). Contract negotiations will commence at the conclusion of the RFP process.
10. Type of Contract

Contracts entered into as a result of this RFP will be Personal Service Contracts pursuant to KEMI’s procurement policy, and a Personal Service Contract will be filed with the Commonwealth of Kentucky Legislative Government Contract Review Committee. The personal service contract template is available on the KEMI RFP Website.

1. Registration with the Kentucky Secretary of State

By responding to this RFP, the Offeror agrees and acknowledges that:

1. If the Offeror is a foreign entity as defined under Kentucky Revised Statute (KRS) 14A.1-070(10), and it is awarded a contract, it will ensure that it is properly registered with the Kentucky Secretary of State in accordance with KRS 14A.9-010 during the life of any contract awarded, or otherwise document the legal exemption which applies.
2. If the Offeror is a Kentucky entity as defined under KRS 14A.1-070(7), and it is awarded a contract, it will ensure that it is properly registered with the Kentucky Secretary of State in accordance with KRS Chapter 14A, or otherwise document the legal exemption which applies.

The aforementioned information shall be maintained during the life of any contract awarded and provided to KEMI upon request.

1. Protest

Any offeror who is aggrieved in connection with the solicitation or award of a contract may file a written protest to KEMI’s Internal Auditor within fourteen (14) calendar days after such aggrieved offeror knows or should have known of the facts giving rise to the protest.

 Patrick Simpson

 psimpson@kemi.com

**OFFEROR INFORMATION:**

***IMPORTANT*: SUBMISSION MUST CONTAIN ORIGINAL SIGNATURE**

Signed by:

Date:

Type or Print Name:

Company:

Address:

City: State: Zip:

Phone No. (Area Code)

Fax No. (Area Code)

Email Address:

Company Website:

Federal ID or SSN #

Type of ownership: Individual Sole Proprietorship

 Corporation Partnership

In addition to the principal contact listed above, please include below any additional contacts you would like to receive communication regarding the RFP. KEMI will only send communication regarding the RFP to the principal contact and the contact(s) listed below. The information includes, but is not limited to, KEMI’s responses to inquiries, status updates about the RFP, any modifications to the RFP, requests for interview scheduling, etc.

Contact Name(s) for RFP Communication:

Contact Email(s) for RFP Communication:

**Sworn Statement Regarding Campaign Finance Laws:**

**Pursuant to KRS 45A.110 and KRS 45A.115**

*This sworn statement regarding campaign finance laws must be signed and notarized and returned with your proposal.*

The undersigned hereby swears or affirms, under penalty prescribed by law for perjury, that neither he/she, individually, nor, to the best of his/her knowledge and belief, the corporation, partnership, or other business entity which he/she represents in connection with this procurement, has knowingly violated any provisions of the campaign finance laws of the Commonwealth of Kentucky, and that the award of a contract to him/her, individually, or to the corporation, partnership or other business entity which he/she represents, will not violate any campaign finance laws of the Commonwealth.

OFFEROR

(Signature)

(Title)

(Name of Company or Corporation)

State of )

 ) SS

County of )

The foregoing statement was acknowledged and sworn on before me this \_\_\_\_\_\_\_\_\_ day

of , \_\_\_\_\_\_\_.

 Notary Public

My Commission expires: .

**MANDATORY REQUIREMENTS:**

*IMPORTANT*: SUBMISSION MUST CONTAIN ORIGINAL SIGNATURE.

OFFERORS MUST MAKE AN AFFIRMATIVE STATEMENT THAT THE PROPOSED EXTERNAL AUDITING SERVICES MEET THE FOLLOWING REQUIREMENTS. THESE REQUIREMENTS ARE MANDATORY, AND NO SUBSTITUTIONS WILL BE PERMITTED.

* 1. Offeror Firms must be capable of performing the audit in accordance with requirements of the RFP;
	2. Offeror Firms must be an Independent Certified Public Accounting Firm;
	3. Offeror Firms must be an actively registered entity with the Kentucky Secretary of State, or must be willing to become a registered entity with the Kentucky Secretary of State by the time a contract is in place;
	4. Offeror Firms must possess expertise in auditing the statutory basis financial statements of mutual insurance companies prepared in accordance with the NAIC Accounting Practices and Procedures Manual and must possess at least five (5) years of experience with auditing such entities;
	5. Offeror Firms must be able to comply with the five (5) year partner rotation rule;
	6. Offeror Firms must meet the independence requirements of Government Auditing Standards issued by the Comptroller General of the United States;
	7. Offeror Firms must perform the audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial and compliance audits contained in Government Auditing Standards issued by the Comptroller General of the United States;
	8. Offeror Firms must, in performing the contract, comply with the requirements of AICPA Interpretation 501-3, “Failure to Follow Standards and/or Procedures or Other Requirements in Governmental Audits”;
	9. Offeror Firms must be in good standing with the state board of accountancy of the state in which their business is principally located. Offeror Firms must not have a record of substandard work and must not have any complaints or proposed disciplinary action pending with the state board of accountancy with which they are associated;
	10. Offeror Firms must specifically identify the staff personnel assigned to the audit engagement, along with a summary of their qualifications to audit the statutory basis financial statements of mutual insurance companies. Other professional staff shall be assigned to the audit engagement only with the express approval of KEMI;
	11. Personnel assigned to the engagement must maintain the minimum number of hours of continuing professional education directly related to government accounting as required in Government Auditing Standards issued by the Comptroller General of the United States; and
	12. Offeror’s response must be signed by an authorized representative of the Offeror with sufficient authority to bind the Offeror to a contract.

The undersigned hereby affirms the above statements are accurate, understanding that any violation of the validity of the above statements will result in the dismissal of Proposal.

OFFEROR

(Signature)

(Title)

(Name of Company or Corporation)

**PROPOSAL SUBMISSION CHECKLIST**

The vendor MUST include the following with the proposal submission.

If the items below are not submitted with the proposal submission,

KEMI will reject the proposal and the Offeror will be disqualified.

** SIGNED OFFEROR INFORMATION FORM**

** SIGNED AND NOTARIZED SWORN STATEMENT REGARDING CAMPAIGN FINANCE LAWS**

** SIGNED MANDATORY REQUIREMENTS STATEMENT**

** ORIGINAL COPY OF THE PROPOSAL**

**(prepared in accordance with the Specifications and Requirements described in this RFP)**