



REQUEST FOR PROPOSAL AUDITING SERVICES

I. INTRODUCTION

NLC Mutual Insurance Company (the “Company”) requests proposals from public accounting firms with particular expertise in the area of alternative risk transfer mechanisms to provide professional auditing services to the Company for the fiscal year ending 2020. The Company’s fiscal year ends December 31st and the current audit firm is RSM US LLP.

II. BACKGROUND

The Company was incorporated in the State of Tennessee on August 12, 1986, The Company re-domesticated – via merger – to Vermont at the end of 1996. It maintains its administrative offices in Washington, D.C.

The Company is owned exclusive by state municipal league sponsored self-insurance pooling organizations that are members of the National League of Cities Risk Information Sharing Consortium (a voluntary, non-profit association formed March 1, 1982, to promote the interests of these pools, together with those of other such municipal league sponsored pools that are not members of the Company). The National League of Cities, a 501 (c) (4) corporation, incorporated under the laws of the State of Illinois, has been operating as the management firm for the insurance company since inception. Due to this management arrangement, the Company has no direct employees, and all staff of the Company are employees of the National League of Cities.

As of December 31, 2018, the Company maintained total statutory assets of \$357.8 million and total surplus of \$152.8 million. 2018 gross premium earned was approximate \$20.2 million and net premiums earned were \$14.6 million after deducting reinsurance ceded.

III. SUMMARY OF OPERATIONS

The organization of the Company was underwritten by state municipal league sponsored risk-sharing pools interested in providing a stable reinsurance environment for casualty and property pooling programs of municipalities and other public entities operated and/or sanctioned by state municipal leagues.

1. Objectives

The specific objectives of the Company are to:

- Create a permanent and stable mechanism that will provide reinsurance coverage for statewide municipal league-operated or sanctioned pools;
- Serve as an information exchange and voluntary training system for participating state league pools and/or a source of technical expertise for leagues moving into the risk management business for the first time;
- Establish a corporate body, representing all of its participants, to develop and help implement suggested policies for tort, insurance and related laws and administrative regulations for use by state leagues and the National League of Cities.

2. Organization

The Company is a mutual insurance company under the corporate and captive insurance laws of the State of Vermont. Income of the Company is non-taxable under Section 115 of the Internal Revenue Code, as confirmed in a May 1990 Private Letter Ruling issued by the IRS.

The Company is governed by a Board of Directors comprised of a representative from each state league sponsored pool (one member per state) who are buying or have bought excess reinsurance coverage from the Company. Officers include a President, Vice Presidents, a Secretary, and a Treasurer.

The following committees augment the operations of the Board:

- Executive/Audit Committee
- Claims Management & Loss Control Committee
- Investment Committee
- Underwriting Committee

The day-to-day operations are conducted by NLC staff contracted to the Company as well as other key service provider agreements:

- General Administration and Oversight – NLC under contract to the Company
- Claims Management Services – Northshore International Insurance Services
- Management Information System – RE Systems Group, Inc.
- Reinsurance Brokerage – Guy Carpenter
- Accounting and regulatory reporting - AIG Captive Management
- Investment Advisory Services – Strategic Asset Alliance
- Fixed Income Investment Management Services – Asset Allocation & Management
- General Counsel – Primmer Piper Eggleston & Cramer
- Independent Actuarial Services – Willis Towers Watson
- Independent Auditor – RSM US LLP

3. Coverages to Participating Pools

The Company writes reinsurance coverage for liability, workers compensation, and property. The Company reinsured aggregate liability coverage prior to 2006, and on a very limited basis since then. The Company also reinsured aggregate workers compensation coverage prior to 2005.

IV. SCOPE OF SERVICES

The Company views the engagement of an accounting firm as an ongoing professional relationship in which the firm is expected to provide consultation services, as well as traditional auditing services.

The selected accounting firm is expected to:

- A. Perform a financial audit of the Company in accordance with generally accepted auditing standards and present financial statements in conformity with generally accepted accounting principles **as well as** statutory accounting practices prescribed and/or permitted by the company's state of domicile. This includes issuing two full reports and the standard communications required by Vermont captive regulations.
- B. Review the system of internal controls and operating procedures and prepare a written advisory letter on material weaknesses, if any, and such recommendations as the auditors feel appropriate to enhance the financial management of the Company. This also includes issuing board communications required by Vermont captive regulations.
- C. Agree to make available its working papers upon request by the Company in order to satisfy state regulatory examination requirements imposed on the Company. As an association captive in Vermont, the frequency of state examination is one every three to five years.
- D. Present the final audit report and findings in person to the Company's Board of Directors.
- E. Availability throughout the year to provide guidance on financial accounting and reporting issues, particularly related to changes in accounting standards.

V. PROPOSAL CONTENT

In order to simplify the evaluation process and obtain maximum comparability, the Company requires that all responses to the RFP be organized in the manner and format described below:

A. Executive Summary

Describe your understanding of the work to be performed, your firm's ability to perform the work within the time frame provided, and why your firm is the best suited to meet the Company's needs.

B. Professional Experience

Describe how and why your firm is different from other firms being considered. This should include an explanation of the firm's philosophy, size, structure, and qualifications with serving captive insurance companies with a similar size and operations. Please also include any recent mergers or ownership changes impacting your firm within the past five years.

C. Team Qualifications

Identify the specific partners, managers, and in-charge staff who will be assigned to this engagement if you are successful in your bid. Provide their bios specifying relevant experience to the type of services requested. Also discuss commitments you make to staff continuity, including your staff turnover experience in the last three years.

Discuss the firm's independence with respect to the Company.

Confirm any engagement partner assigned is on the State of Vermont approved list for captive audits or would be eligible to become so.

D. Audit Approach

Describe how your firm will approach the proposed services, including the use of affiliates or staff from other locations, and the type of assistance that will be required from the Company's staff. Also discuss the firm's use of technology and IT security. Finally, discuss the communication process used by the firm to discuss issues with management and the Audit Committee or Board.

E. Fees

Please provide a fee proposal for the services to be provided. It is the Company's practice for management to negotiate a fee for services each year prior to such services being rendered. Given that the time required in the first year may be more substantial than subsequent years, please feel free to include an estimate of fees for subsequent years if there is a significant differential in cost from year one as well as provide any proposals for multi-year fee arrangements.

In your firm's response please explain whether any travel or other costs would be in addition to your above estimate and whether fee proposals include periodic provision of work papers to Vermont Department of Financial Regulation examination staff.

F. Client References

Include an example list of relevant clients the firm has served within the past three years and furnish the names and telephone numbers of at least three references whom we may contact.

G. Engagement

Please include in your firm's response an engagement letter with proposed terms of the audit work. The provisions of the engagement letter should be consistent with regulatory requirements for audits performed under statutory accounting principles.

Please include a description of E&O coverage your firm carries, if your firm has had an E&O claim in the past 5 years, and a brief summary of those claims.

H. Additional Information

Please provide any additional information, not specifically requested, but which you believe would be useful in evaluating your proposal.

VI. TIMELINES

Proposal process:

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| Requests for proposal sent to firms | February 21st, 2020 |
| Questions or requests for additional information due to the Company | By March 6 th , 2020 5:00 P.M. Eastern |
| The Company will answer questions providing identical follow up information to all participants | By March 20 th , 2020 5:00 P.M. Eastern |
| Copies of written proposals due to the Company | By April 3 rd , 2020 5:00 P.M. Eastern |
| The Company's Staff reviews proposals to select finalists | April 6 – 17, 2020 |
| Management contacts finalists to schedule presentations | April 20 – May 1 st , 2020 |
| Finalists make presentations to the Company's Staff | Week of May 11 th or 18 th , exact time TBD above |
| The Company's Staff makes recommendation to Audit Committee | Week of May 25 th – or June 1 st , 2020 |
| CPA firm selected by Audit Committee during regular scheduled board meeting and notified soon after | July of 2020 |

Proposed Audit process (to be finalized with audit firm):

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| Audit Planning | From Selection to November 2020 |
| Provide list of document requests (PBC list) | November 2020 |
| Meet with the Audit Committee to discuss the audit plan – part of regular scheduled board meeting | December 2020 |
| Fieldwork | March & April 2021 |
| Financial statement reports drafted for review | March 2021 |
| Presentation of draft audit report and comments to the audit committee | April 2021 |
| Issue final audit report | By end of April 2021 |
| Presentation of final audit report to Board | TBD – May or July 2021 |

VII. CONFIDENTIALITY

By accepting this RFP, you agree that all information presented in or accompanying this RFP, including copies of previous audit reports and information disclosed by the Company during the selection process, shall be kept strictly confidential. Information must not be released to external parties without the express written consent of the Company.

All responses and other materials submitted in response to this RFP will become the property of the Company. The Company assumes no obligation and shall incur no liability regarding confidentiality of all or any portion of a response or any other material submitted in response to this RFP unless expressly agreed in writing to protect specifically identified information.

VIII. RESPONSES

Expenses incurred in the preparation of proposals in response to this RFP, including any travel for presentation, are your sole responsibility and not that of the Company.

While price is an important factor, the Company will evaluate proposals on price and the following criteria:

- Prior experience auditing similar organizations
- Qualifications of staff to be assigned to the engagement
- CPA firm's understanding of work to be performed
- Input received from provided references or other parties familiar with the firm's work
- Completeness and timeliness of the proposal

Proposals from responding audit firms are to be delivered in PDF format no later than April 3rd, 2020 5:00 P.M. Eastern to:

David White
david.white@aig.com

All inquiries concerning this request should be directed to David White at the addresses detailed above. You may also contact him by telephone at (802) 419-1211.