



TO: Members of the Insurance Compact Commission

FROM: Members of the Insurance Compact Audit Committee

DATE: August 12, 2022

SUBJECT: Selection of the Independent Audit Firm for the Commission's Financial Audit and Tax Preparation

The Office of the Interstate Insurance Product Regulation Commission (Compact) worked with the National Association of Insurance Commissioners (NAIC) and the National Insurance Producer Registry (NIPR) to conduct a request for proposal (RFP) for its independent audit and tax services. Based on the responses to the RFP and interviews with selected responding firms, the Compact Office forwarded its recommendation to the Audit Committee on August 3, 2022.

Pursuant to Article IX, Section 5 of the Compact Bylaws, the Audit Committee shall be directly responsible for the appointment, compensation, and oversight of the independent certified public accountant employed to conduct the audit required by Article XII Section 6 of the Compact statute. This Bylaw provision further provides the Audit Committee shall select an auditor at a meeting that is open to the public.

During the joint in-person meeting of the Management Committee and Commission on Friday, August 12th, the Audit Committee plans to consider the Compact Office's recommendation to select the audit firm of RubinBrown LLP (RubinBrown) for independent audit and tax services for the 2022 audit year and the four years thereafter.

Since its inception in 2007, the Compact has utilized the same audit firm as the NAIC and NIPR to conduct a separate and independent audit of the Compact's financial statement and records. The NAIC Finance Division provides services to the Compact pursuant to a Services Agreement in which the NAIC provides financial services, including the preparation of financial statements, retention of financial records and oversight of internal controls, and support of the annual independent audit process.

It is the practice of the Audit Committee to bid audit services at least every five years. For the period 2007 through 2011, Mayer, Hoffman, McCann (now known as CBIZ MHM) performed the independent audit of the Compact's financial statements. For audit years 2012 through 2016, RSM US (formerly McGladrey or RSM McGladrey) audited the Compact's financial statements. After a bid process, the Audit Committee selected another audit team from RSM US for the period 2017 – 2021.

As during the previous bid process in 2017, the Compact Office requested bidders responding to the RFP to provide a bid for conducting the Compact's audit as part of conducting the separate and independent audits of all three organizations – Compact, NAIC, and NIPR – and a stand-alone bid for conducting the audit services of the Compact without services requested for the

NAIC and NIPR. The reason two separate bids were requested was to perform due diligence on the difference in cost and services with respect to having an audit firm different from the audit firm used by NAIC and/or NIPR.

The RFP was sent to nine audit firms with offices in the Kansas City area.¹ Four audit firms responded and three were asked to interview with the lead staff at NAIC, NIPR, and the Compact.² The Commission’s Executive Director was involved in this process on behalf of the Compact.

All audit firms had strong reputations and credentials in the not-for-profit sector, as well as the technology to facilitate the audit process. The most determinative factors for the Compact were cost and interpersonal qualities of the audit team as the audit team is required to work closely with the NAIC and Compact Office and interact on a fairly regular basis with members of the Audit Committee.

RubinBrown received the highest combined score across the selection matrix used by the internal selection team. Based on the proposal from RubinBrown, the Compact Office plans to budget no more than \$16,500 in the 2022 Annual Budget which includes performance of the annual audit and the preparation of the IRS Form 1120. Below are the rankings based simply on the estimated fees quoted for the Commission for the firms with RubinBrown being denoted as Firm A.

Firm	Bid with NAIC & NIPR work	Bid w/o NAIC & NIPR work	Percentage Difference between a firm’s bids
Firm A	Lowest Bid	94% more than lowest bid	94%
Firm B	6% more than lowest bid	Would not bid on standalone	N/A
Firm C	31% more than lowest bid	31% more than lowest bid	0%

The Compact Office recommends the Compact continue to utilize the same firm that its service organization, the NAIC, is utilizing for its audit services. Both the Audit Committee and the Compact Office can attest to the independent nature of the auditor and the audit process over the past 15 years. Through the current bid process, it is evident the Commission benefits tremendously in terms of cost by taking advantage of the economies of scale and efficiencies with having the same auditor perform the independent audits. Also, the timing of the audit would be later in the year as the NAIC Finance Division would be engaging with the audit firm for NAIC and NIPR and would not have resources to devote to working with a second audit firm during the last and first quarter of each year.

¹ The RFP was not sent to RSM based on direction from the audit committees to select another firm for the next five-year period.

² The firm not selected for interview was due to bid being significantly higher than other bids and non-local nature of audit team.

Each of the audit firms confirmed during the interview process what the Audit Committee has long surmised, that is, much of the cost of an audit involves understanding and documenting the financial system, processes, practices and internal controls of an organization. Because the audit process is extensively prescribed by the American Institute of Certified Public Accountants, an audit firm not doing the NAIC and/or NIPR work would work through the same procedures and questions with the same people in the NAIC Finance Division as the audit firm performing the NAIC audit. As stated previously, the Commission benefits tremendously from the numerous services provided by the NAIC, which enables the Compact Office to focus its operations on its core mission. Not only would a separate audit firm be an additional and substantial cost for the Compact, it would be a drain on the resources of the NAIC that support the financial functions of the Compact and provide support to the auditors during the audit process.

For the above reasons, the Audit Committee at the upcoming meeting on August 12th intends to consider a motion to select RubinBrown as the audit firm for the Compact to perform its 2022 independent audit and the four years thereafter. The initial term of the relationship would provide for three years, with an option to extend the relationship for two additional one-year periods without going back to bid.