



Auditor of Public Accounts
Mike Harmon

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Auditor Harmon: Exam of Kentucky's Largest Workers Compensation Insurance Provider Identifies Issues with Procurement, Contract Reporting

Special examination of Kentucky Employers' Mutual Insurance Company details 10 findings

FRANKFORT, Ky. (April 16, 2019) – Today, Kentucky Auditor Mike Harmon announced the results of a special examination by his office of the Kentucky Employers' Mutual Insurance (KEMI) Company. KEMI is the largest provider of workers' compensation insurance in the Commonwealth, and is the state-created insurer of last resort for workers' compensation. The examination identified issues including lapses in the reporting of personal service contracts, lack of policyholder representation on KEMI's board, and areas for improvement in procurement, operations and policies. The problems found in the examination led to 10 findings in the report.

"One of the biggest concerns our auditors discovered relates to KEMI's purchase of land for a new office location near I-75 and Newtown Pike in Lexington, in which a real estate broker was paid an additional \$38,825 above the original agreement," said Auditor Harmon. "This is just one of several issues identified among the 10 findings in our special examination of KEMI regarding accountability and transparency relating to expenditures."

Auditor Harmon's examination details how there is no clearly defined role or guidance for KEMI's board and its six committees, confusion over the role of both the board and KEMI's manager, which included the agency's manager terminating its actuary without approval by the board. In addition, the report also details the following:

- KEMI has increased its small purchase authority, which was \$10,000 in 1998, to \$50,000 by 2014. That allowed KEMI to pay a real estate broker more than \$48,000 in a non-competitive agreement without proper oversight. The competitive bidding threshold of \$50,000 is \$10,000 higher than that of the Finance and Administration Cabinet, which is the main purchasing agency for Kentucky State Government. In addition, KEMI policy

permits it to use “extension contracts” as no-bid agreements with vendors already doing business with the organization.

- Inaccurate or inconsistent reporting by KEMI of all personal service contracts to the Government Contract Review Committee. A review by the organization’s internal auditor found that 10 personal service contracts were not submitted to the LRC and the committee for approval in 2017, and another 16 required review to determine if a personal services contract filing with the committee was needed.
- A lack of representation of policyholders on the KEMI board. Currently, there is no requirement that board members be policyholders. In comparison, neighboring Missouri’s workers’ comp insurance board is elected by policyholders, with their governor approving three of the board’s five members.

“KEMI has more than 23,000 members in all 120 counties, yet these policyholders have little to no say on their board,” Auditor Harmon said. “It’s why I’m recommending the General Assembly require that four of KEMI’s board be elected by policyholders, and increase their board membership by one. As for the remaining findings in our exam, it is my hope KEMI’s management and board will implement the recommendations in our report, which will improve transparency and oversight of their operations.”

The full report can be found on the [auditor’s website](#).

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