

Improved Oversight of Volunteer Fire Department Fund and Volunteer Rescue/EMS Fund Needed; \$8 Million Surplus Found

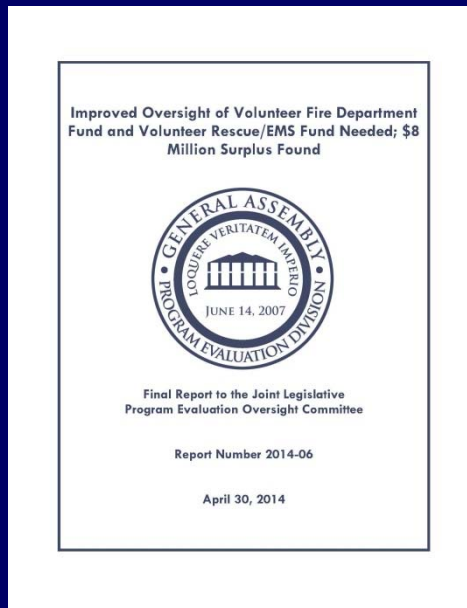
A presentation to the
Joint Legislative Program Evaluation Oversight Committee

April 30, 2014

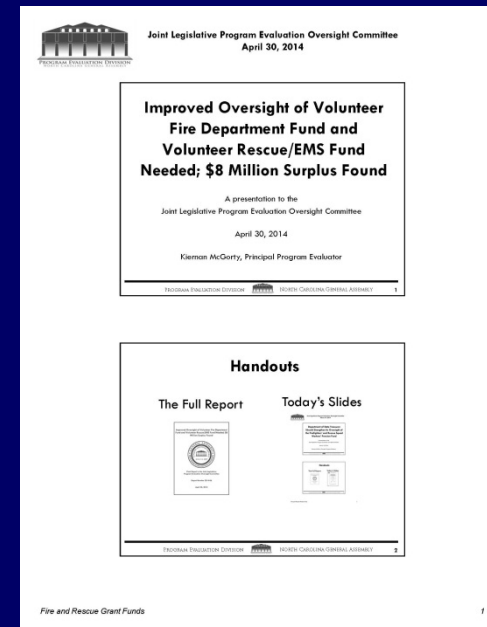
Kiernan McGorty, Principal Program Evaluator

Handouts

The Full Report



Today's Slides



Study Direction

- 2013–15 JLPEOC work plan directed PED to examine six state-administered funds related to fire, rescue, and emergency medical services
- 4th report in four-part series evaluates
 - Volunteer Fire Department Fund
 - Volunteer Rescue/EMS Fund



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Evaluation Team

Kiernan McGorty, Evaluation Lead

Jim Horne, Senior Program Evaluator

Meg Kunde, Program Evaluator

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Evaluation

- Stakeholder: Department of Insurance (DOI)
- Research Questions
 - What are the eligibility criteria and benefits of the Funds?
 - What is the financial status of the Funds?
 - How are the Funds administered, and what are the oversight mechanisms for the Funds?

Overview: Findings

1. DOI's failure to compare actual to projected receipts has resulted in a \$8 million surplus
2. DOI lacks formal documentation specifying how points are assigned, erroneously assigned points, and lacks a standardized method for determining population served
3. DOI lacks a standardized process for auditing grant purchases and a policy for disposal of grant equipment if a department dissolves

Overview: Recommendations

- General Assembly should
 - determine how to apply the \$8 million surplus in the Volunteer Fire Department Fund
 - direct DOI to compare actual and projected receipts each year and to improve its oversight of both grant programs
 - amend state law to make fire department rating a criterion for eligibility and require dissolved departments to transfer grant equipment to nearby departments

Background





Volunteer Fire Department Fund

- **Purpose:** Fire departments can receive matching grants up to \$30,000 to
 - purchase equipment
 - make capital expenditures
- **Eligibility:** Fire departments must
 - serve a population of 12,000 or less
 - consist of volunteer personnel, with the exception of up to 6 FTE paid positions
 - be rated by the Department of Insurance

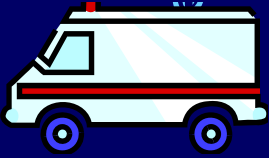
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Volunteer Fire Department Fund

- **Funding Source:** 25% of the taxes insurance companies pay on property insurance premiums
- **Administration:** DOI retains 1% to oversee program
- **2013 Amount Awarded:** \$9.3 million to 658 fire departments (98% of qualified departments)

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Volunteer Rescue/EMS Fund

- **Purpose:** Rescue departments with cash assets exceeding \$1,000 can receive matching grants up to \$25,000, and departments with \$1,000 or less can receive non-matching grants up to \$3,000 to
 - purchase equipment
 - make capital expenditures
- **Eligibility:** Rescue departments must
 - consist of volunteer personnel, with the exception of up to 10 FTE paid positions
 - be recognized by the Department of Insurance as a rescue or EMS provider

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Volunteer Rescue/EMS Fund

- **Funding Source:** \$0.18 of the fees vehicle owners pay for vehicle safety and emissions inspections
- **Administration:** DOI retains 2% to oversee program
- **2013 Amount Awarded:** \$1.5 million to 112 rescue departments (73% of qualified departments)

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Findings



Finding 1.

DOL's failure to compare actual to projected receipts for both grant programs has resulted in a \$8 million surplus in the Volunteer Fire Department Fund



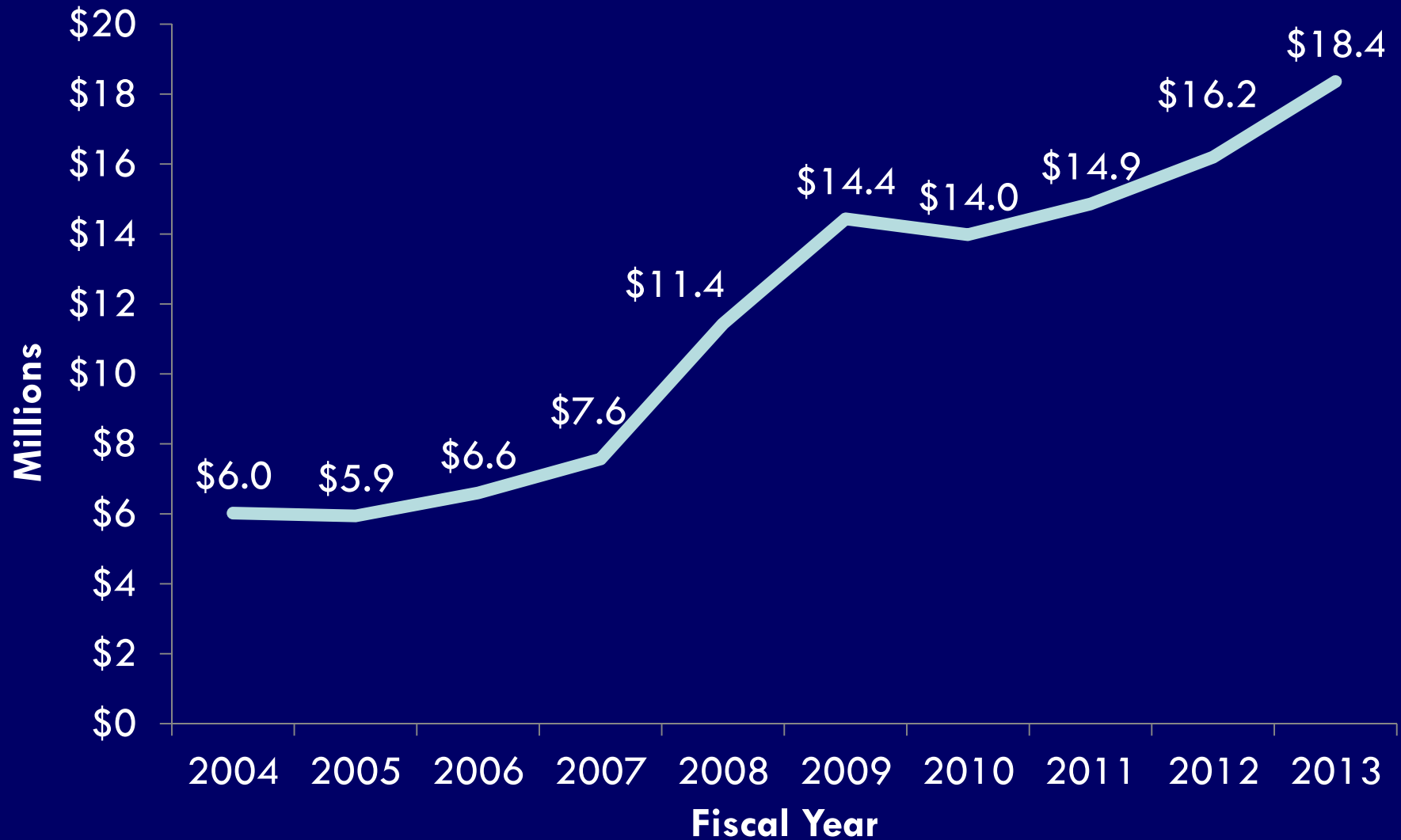
Volunteer Fire Department Fund

- Interest-bearing, nonreverting fund
- DOI determines how much to award in grants based on
 - Insurance premium tax proceeds
 - Amount rolled over from previous grant cycle
- DOI has not compared actual receipts with the projected receipts they use to determine how much to award each year

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Fire Grant Balance Is \$18.4 Million





Fire Grant Has \$8 Million Surplus

Description	Amount
Fund balance as of July 1, 2013	\$ 18,358,395
Actual & projected cash receipts for FY 13–14	
Insurance premium tax revenue	7,552,357
Interest	63,187
Subtotal amount available for grant awards	25,973,939
Actual & projected cash disbursements for FY 13–14	
Amount paid to 2013 grant recipients	(8,551,198)
Administrative expenses	(73,675)
Fund balance as of June 30, 2014	17,349,066
Projected amount awarded to 2014 grant recipients	(9,300,000)
Surplus fund balance as of June 30, 2014	\$ 8,049,066

Finding 2.

DOI lacks formal documentation specifying how points are assigned, erroneously assigned points, and lacks a standardized method for determining population served

No Documentation Specifying How Points Are Assigned

- Computer program assigns points based on several criteria, including
 - financial status
 - number of volunteers
 - equipment requested
- No formal document that explains how points are awarded

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Erroneous Points Assigned to Certain Fire Departments

- Fire departments with paid personnel received two more points than they should have received
- Clerical error due to counting points from an old question
 - Error did not affect any grant awards in 2013
- DOI has taken action to fix this issue

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No Standardized Method to Determine Population Served

- Fire departments self report population
- No standardized data source or methodology for determining population
- There is a standardized fire department rating system that indicates each department's amount of resources

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Finding 3.

DOI lacks a standardized process for auditing grant purchases and a policy for disposal of grant equipment if a department dissolves

No Standardized Process for Auditing Grant Purchases

- **Fire grants:** Because DOI inspects fire departments to rate them, DOI periodically verifies grant equipment is on site, but no formal audit process exists
- **Rescue grants:** Because DOI does not inspect rescue departments, grant equipment is not audited

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No Policy for Disposal of Grant Equipment if Department Dissolves

- Departments required to keep grant equipment for five years
- No policy stipulates what should be done with equipment if a department dissolves before end of five-year time period

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Recommendations



Recommendation 1.

The General Assembly should determine how to apply the \$8 million surplus in the Volunteer Fire Department Fund



Options for \$8 Million Surplus

Option	Cost	Years Until Surplus Spent
Option 1a. Increase maximum amount of matching grant awards from \$30,000 to \$50,000	\$1.1 to \$6.2 million per year (depending on how many departments request more \$)	1.25 to 7 years
Option 1b. Increase match ratio from 50:50 to 75:25 for departments with greater financial need	\$1 to \$4.1 million per year (depending on definition of greater financial need)	2 to 8 years
Option 2. Transfer to Workers' Comp	\$8 million	1 year
Option 3a. Transfer to Pension Fund for annual required contribution	\$4.1 million for FY 2014, \$1.6 million for FY 2015, \$1.4 million for FY 2016, \$1.2 million for FY 2017	Almost 4 years
Option 3b. Transfer to Pension Fund for in-service distributions	\$1.4 million per year	5.5 years
Option 4. Transfer to General Fund	\$8 million	1 year



Reliance on Projected Receipts Increases Surplus to \$17.3 Million

Description	Amount
Fund balance as of June 30, 2014	17,349,066
Projected amount awarded to 2014 grant recipients	(9,300,000)
Surplus fund balance as of June 30, 2014	\$ 8,049,066

- Other agencies budget their disbursements based on projected receipts
- \$17.3 million could all be considered surplus if grant disbursements were based on projected receipts going forward

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Recommendation 2.

The General Assembly should direct DOI to compare actual and projected receipts for both grant programs

Recommendation 3.

The General Assembly should direct DOI to improve its oversight of both grant programs

Improve Oversight

- Create an internal document specifying how the points that determine grant awards are assigned
- Develop a policy for auditing the grant purchases made by fire and rescue departments and implement it no later than July 1, 2015

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Recommendation 4.

The General Assembly should amend state law to make fire department rating a criterion for eligibility for the Volunteer Fire Department Fund

Recommendation 5.

The General Assembly should amend state law to require dissolved departments to transfer grant equipment to nearby departments

Summary: Findings

1. DOI's failure to compare actual to projected receipts has resulted in a \$8 million surplus
2. DOI lacks formal documentation specifying how points are assigned, erroneously assigned points, and lacks a standardized method for determining population served
3. DOI lacks a standardized process for auditing grant purchases and a policy for disposal of grant equipment if a department dissolves

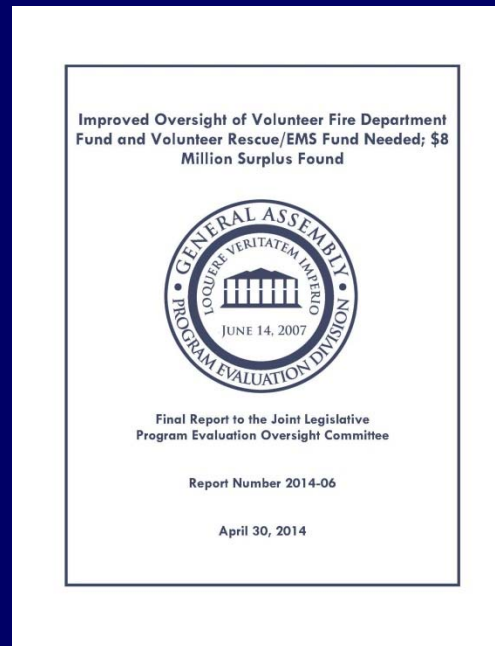
Summary: Recommendations

- General Assembly should
 - determine how to apply the \$8 million surplus in the Volunteer Fire Department Fund
 - direct the Department of Insurance to compare actual and projected receipts each year and to improve its oversight of both grant programs
 - amend state law to make fire department rating a criterion for eligibility and require dissolved departments to transfer grant equipment to nearby departments

Legislative Options

- Accept the report
- Refer it to any appropriate committees
- Instruct staff to draft legislation based on the report's recommendations

**Report available online at
www.ncleg.net/PED/Reports/reports.html**



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