

**Local Boards and Associations Administer
Firefighters' and Rescue Squad Workers' Relief
Funds with Limited State Oversight**



**Final Report to the Joint Legislative
Program Evaluation Oversight Committee**

Report Number 2013-06

November 20, 2013



Program Evaluation Division
North Carolina General Assembly
Legislative Office Building, Suite 100
300 North Salisbury Street
Raleigh, NC 27603-5925
919-301-1404
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NORTH CAROLINA GENERAL ASSEMBLY
Legislative Services Office

George R. Hall, Legislative Services Officer

Program Evaluation Division
300 N. Salisbury Street, Suite 100
Raleigh, NC 27603-5925
Tel. 919-301-1404 Fax 919-301-1406

John W. Turcotte
Director

November 20, 2013

Senator Fletcher L. Hartsell, Jr., Co-Chair, Joint Legislative Program Evaluation Oversight Committee
Representative Julia Howard, Co-Chair, Joint Legislative Program Evaluation Oversight Committee

North Carolina General Assembly
Legislative Building
16 West Jones Street
Raleigh, NC 27601

Honorable Co-Chairs:

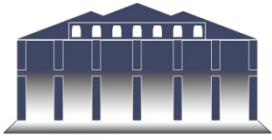
The 2013–15 Program Evaluation Division work plan directed the division to review state-administered funds related to fire, rescue, and emergency management services departments, including the eligibility criteria for these funds, benefits received, and oversight of funds. The first report in this series examines benefits to individuals through the Firefighters' Relief Fund and the Rescue Squad Workers' Relief Fund.

I am pleased to report that the Department of Insurance, North Carolina State Firemen's Association, and North Carolina Association of Rescue and Emergency Medical Services, Inc. cooperated with us fully and were at all times courteous to our evaluators during the evaluation.

Sincerely,

A handwritten signature in black ink, appearing to read "John W. Turcotte".

John W. Turcotte
Director



PROGRAM EVALUATION DIVISION

NORTH CAROLINA GENERAL ASSEMBLY

November 2013

Report No. 2013-06

Local Boards and Associations Administer Firefighters' and Rescue Squad Workers' Relief Funds with Limited State Oversight

Summary

As directed by the North Carolina General Assembly's Joint Legislative Program Evaluation Oversight Committee, this evaluation examines the Firefighters' Relief Fund and Rescue Squad Workers' Relief Fund. The Firefighters' Relief Fund has a statewide component administered by the non-profit North Carolina State Firemen's Association (NCSFA) and a local component administered by over 1,000 local boards with oversight from NCSFA. The Rescue Squad Workers' Relief Fund is administered statewide by the non-profit North Carolina Association of Rescue and Emergency Medical Services, Inc. (NCAREMS). The Department of Insurance has administrative responsibilities regarding each fund.

Relief fund money is not being spent at the rate intended by the General Assembly, has been spent on non-permitted uses, and is being invested without regulation. More than half of local firefighters' relief fund boards did not spend any of their relief fund money in Fiscal Year 2011-12; collectively, local boards have a relief fund balance of \$67.1 million. For the Rescue Squad Workers' Relief Fund, the fund balance has more than doubled in the last 10 years and now exceeds \$6 million. NCAREMS misspent \$1.9 million of relief fund money to finance its new office facility. Lack of specific statutory regulations regarding how relief fund money can be invested puts relief funds at risk.

Lack of oversight puts the relief funds at risk of misuse. The Department of Insurance does not require adequate reporting from the associations to ensure accountability. Lack of a centralized database weakens the department's oversight ability and causes administrative inefficiencies and communication challenges. NCSFA does not provide clear guidelines to local boards, have written criteria for its benefit decisions, or track local board expenditures at an itemized level.

Administration of relief funds could be more efficient. Electronic transfer would be a more efficient and safer way for the Department of Insurance to distribute relief fund money. Efficiencies can be realized by pooling resources and centralizing fund administration duties under the department.

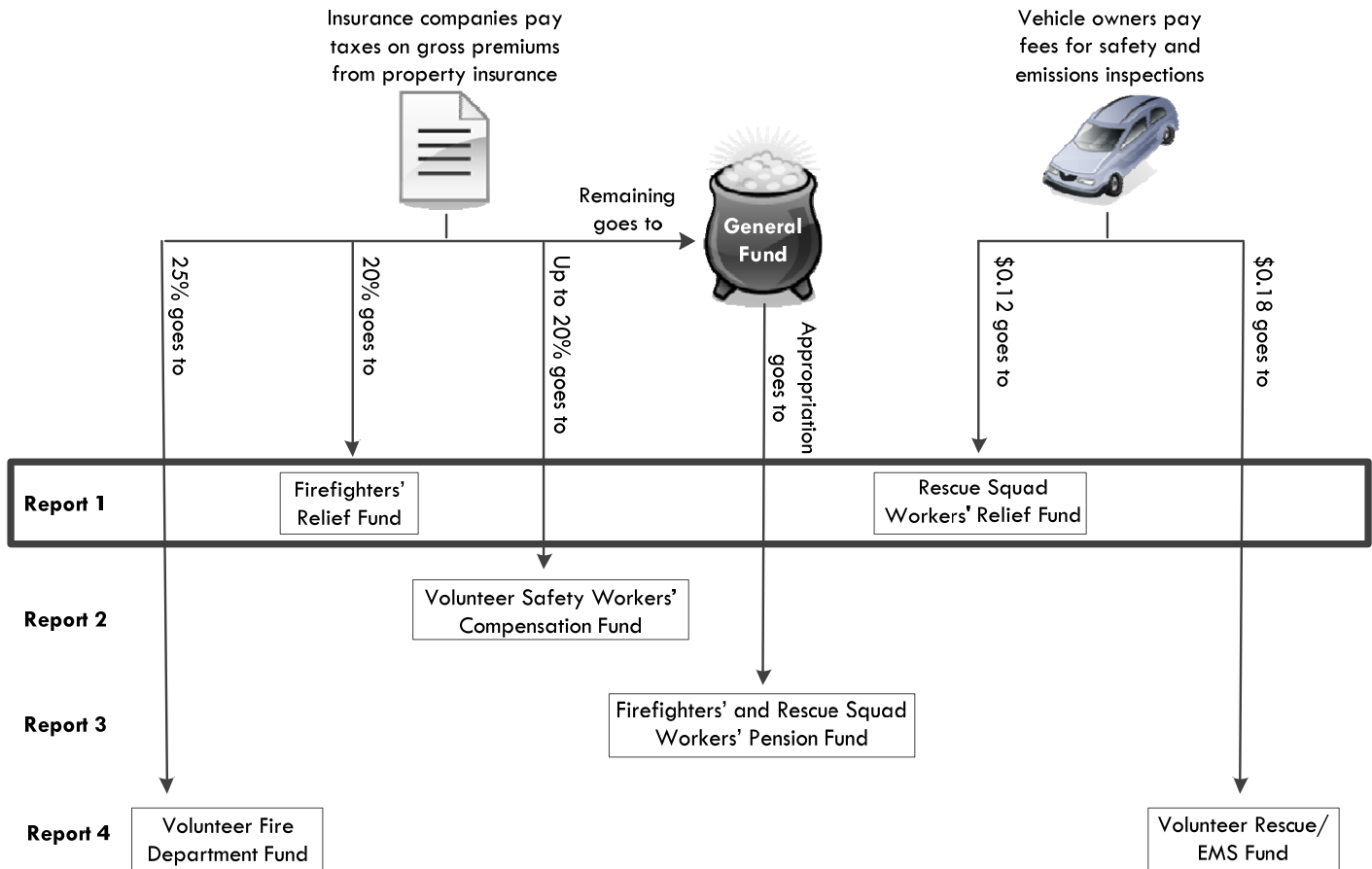
To address these findings, the General Assembly should choose to

- consolidate the State and local firefighters' relief funds and make administration of the consolidated fund and the Rescue Squad Workers' Relief Fund the responsibility of the Department of Insurance; or
- improve oversight of the State and local firefighters' relief funds and the Rescue Squad Workers' Relief Fund under their current administrative structures.

Purpose and Scope

This evaluation was directed by the Joint Legislative Program Evaluation Oversight Committee through its 2013–15 Work Plan. This report, the first of a four-part series on state-administered funds related to fire, rescue, and emergency medical services, examines the Firefighters’ Relief Fund and Rescue Squad Workers’ Relief Fund. The second report will examine the Workers’ Compensation Fund for Volunteer Safety Workers. The third report will examine the Firemen’s and Rescue Squad Workers’ Pension Fund. The fourth report will examine grants to local volunteer fire, rescue, and EMS departments through the Volunteer Fire Department Fund and Volunteer Rescue/EMS Fund. As shown in Exhibit 1, the common thread linking the six funds is shared funding sources. Funding for the Firefighters’ Relief Fund comes from taxes paid on property insurance premiums;¹ 20% of those taxes go to the fund. Funding for the Rescue Squad Workers’ Relief Fund comes from fees paid for vehicle safety and emissions inspections;² \$0.12 of each inspection fee goes to the fund.

Exhibit 1: Sources of Funding for State-Administered Funds Related to Fire, Rescue, and EMS



Notes: Prior to the 2013 Appropriations Act, 30% of the premium tax went to the Volunteer Fire Department Fund, 25% went to the Firefighters’ Relief Fund, and none went to the Volunteer Safety Workers’ Compensation Fund.

Source: Program Evaluation Division based on N.C. Gen Stat. §§ 20-183.7(c), 58-86-20, 105.228.5(d)(3) and Session Law 2013-360.

¹ The tax on gross property insurance premiums is 0.74% of 10% of the gross premiums for automobile physical damage coverage and 0.74% of 100% of the gross premiums for all other property coverage (N.C. Gen. Stat. § 105.228.5(d)(3)). Prior to January 1, 2008, the Firefighters’ Relief Fund was funded from a portion of the gross premiums tax on fire and lighting insurance (N.C. Sess. Laws, 2006-196).

² The cost of safety-only inspections is \$13.60, and the cost of safety and emissions inspections is \$30 (N.C. Gen. Stat. § 20-183.7(a)).

Three research questions guided this evaluation:

1. What are the eligibility criteria and benefits of the funds?
2. What is the financial status of the funds?
3. How are the funds administered, and what are the oversight mechanisms for the funds?

The Program Evaluation Division collected data from several sources, including

- interviews with and data queries of the Department of Insurance, North Carolina State Firemen's Association, North Carolina Association of Rescue and Emergency Medical Services, Inc., Department of State Treasurer, and Forsyth and Wayne Counties' consolidated boards;
- survey of local firefighters' relief fund boards of trustees; and
- site visits to 10 stations that provide fire and rescue services.

Background

Although fire, rescue, and emergency medical services (EMS) are paid for at the local level, historically the State has funded benefits for the paid and volunteer personnel providing these services.³ Under the Law-Enforcement Officers', Firemen's, Rescue Squad Workers' and Civil Air Patrol Members' Death Benefits Act, the State pays \$50,000 to the families of firefighters or rescue squad workers killed in the line of duty.⁴ The State also covers in-state college and university tuition costs for the children of firefighters or rescue squad workers killed in the line of duty and for the spouse and children of firefighters or rescue squad workers permanently and totally disabled from a line-of-duty injury.⁵

In addition to the benefits described above, the State financially assists firefighters and rescue personnel in a variety of ways through the two funds that are the subject of this report—the Firefighters' Relief Fund and the Rescue Squad Workers' Relief Fund. Exhibit 2 shows the permitted uses of the relief funds.

³ These personnel include approximately 50,000 firefighters affiliated with 1,300 departments and 33,000 rescue and EMS personnel affiliated with 600 departments.

⁴ N.C. Gen. Stat. § 143-166.3. In addition, the federal government pays \$333,605 to the survivors of firefighters and first responders killed in the line of duty and provides disability benefits to those catastrophically injured in the line of duty through its Public Safety Officers' Benefits Program.

⁵ N.C. Gen. Stat. § 115B-2.

Exhibit 2

Permitted Uses of Relief Funds

	Firefighters' Relief Fund		Rescue Squad Workers' Relief Fund
	Administered by local boards	Administered by NCSFA	
Financial assistance to personnel injured in the line of duty	✓	✓	✓
Financial assistance to dependents of personnel killed in the line of duty	✓	✓	✓
Financial assistance to destitute personnel with five years of service	✓		
Financial assistance with Firemen's Fraternal Insurance Fund premiums	✓ (if unable to pay due to disability)	✓ (if over age 65)	
Supplemental retirement, workers' compensation, and other insurance and pension protection	✓	✓ (only accidental death and dismemberment insurance)	
Educational benefits	✓ (to personnel and their dependents)	✓ (to personnel and their dependents)	✓ (to children of personnel)

Notes: Local bills may allow additional uses of local firefighters' relief fund money. For the State Firefighters' Relief Fund, financial assistance for line-of-duty injury and death are permitted only after local funds have been exhausted. For the Rescue Squad Workers' Relief Fund, the board is allowed to approve additional benefits.

Source: Program Evaluation Division based on N.C. Gen. Stat. §§ 58-84-35, 85-1, 88-5.

Firefighters' Relief Fund

State Firefighters' Relief Fund. In 1891, the General Assembly created a program to provide state funding for statewide administration of relief funds, which will hereafter be referred to as the State Firefighters' Relief Fund. The General Assembly appropriated funds to the North Carolina State Firemen's Association (NCSFA) to distribute to firefighters injured in the line of duty and to dependents of firefighters killed in the line of duty. NCSFA is a 501(c)(5) non-profit that was incorporated by the General Assembly in 1889.

Local firefighters' relief funds. In 1907, the General Assembly created a second program to provide state funding for locally administered relief funds, which will hereafter be referred to as local firefighters' relief funds. In order to fund the local relief funds, the General Assembly taxed a portion of insurers' premiums from fire and lightning insurance.⁶

⁶ Pursuant to Session Law 2006-196, the source of funding for the Firefighters' Relief Fund after January 1, 2008 was changed to taxes paid by insurance companies on their gross property insurance premiums.

Local boards of trustees, whose appointments were outlined in statute,⁷ were tasked with distributing the funds to provide financial assistance to firefighters injured in the line of duty, to dependents of firefighters killed in the line of duty, and to destitute firefighters. Local boards reported their spending to NCSFA. Subsequently, NCSFA reported local board spending to the State Insurance Commissioner, who also acts as the State Fire Marshal.

Expanded uses of relief fund money. When workers' compensation benefits became prevalent in the 1950s, demand for the relief funds decreased. As fund balances increased, local bills were introduced into the General Assembly to allow a portion of local fund balances to be used for additional purposes. Currently, 54 counties or municipalities in North Carolina have relief funds governed by local bills, which are pieces of legislation that do not apply statewide. Local bills may add restrictions to the statutorily permissible uses of relief funds.⁸ Local bills also may specify additional uses for funds.⁹ In 1985, the General Assembly amended N.C. Gen. Stat. § 58-84-35 to allow all counties and municipalities to use their local funds for supplemental retirement, workers' compensation, other insurance and pension protection, and educational benefits.

Administration and eligibility. As shown in Exhibit 3, firefighters may receive benefits from two sources: the State Firefighters' Relief Fund, which is administered by NCSFA, and from local firefighters' relief funds, which are administered by local boards. The 2013 Appropriations Act reduced the percentage of taxes collected on gross property insurance premiums that the Department of Insurance retains to administer the funds from 2% to 1%. NCSFA continues to receive 3% of the premium taxes for general purposes.^{10,11}

To be eligible for benefits provided through the State Firefighters' Relief Fund, a firefighter must be affiliated with a fire department that is a member of NCSFA. To be a member of NCSFA, a fire department must submit a roster with all firefighters listed and pay \$20 annually per firefighter.¹²

⁷ Pursuant to N.C. Gen. Stat. § 58-84-30, the board is composed of five members, two of whom are elected by the members of the local fire department, two of whom are elected by the mayor and board of aldermen or other local governing body, and one of whom is named by the Commissioner of Insurance. If the fire department chief is not named to the board, then he or she serves as an ex officio member without voting privileges.

⁸ For example, 35 of the 54 local bills require local boards to have a minimum balance, ranging from \$3,000 to \$85,000, and to transfer the remainder to a supplemental retirement fund.

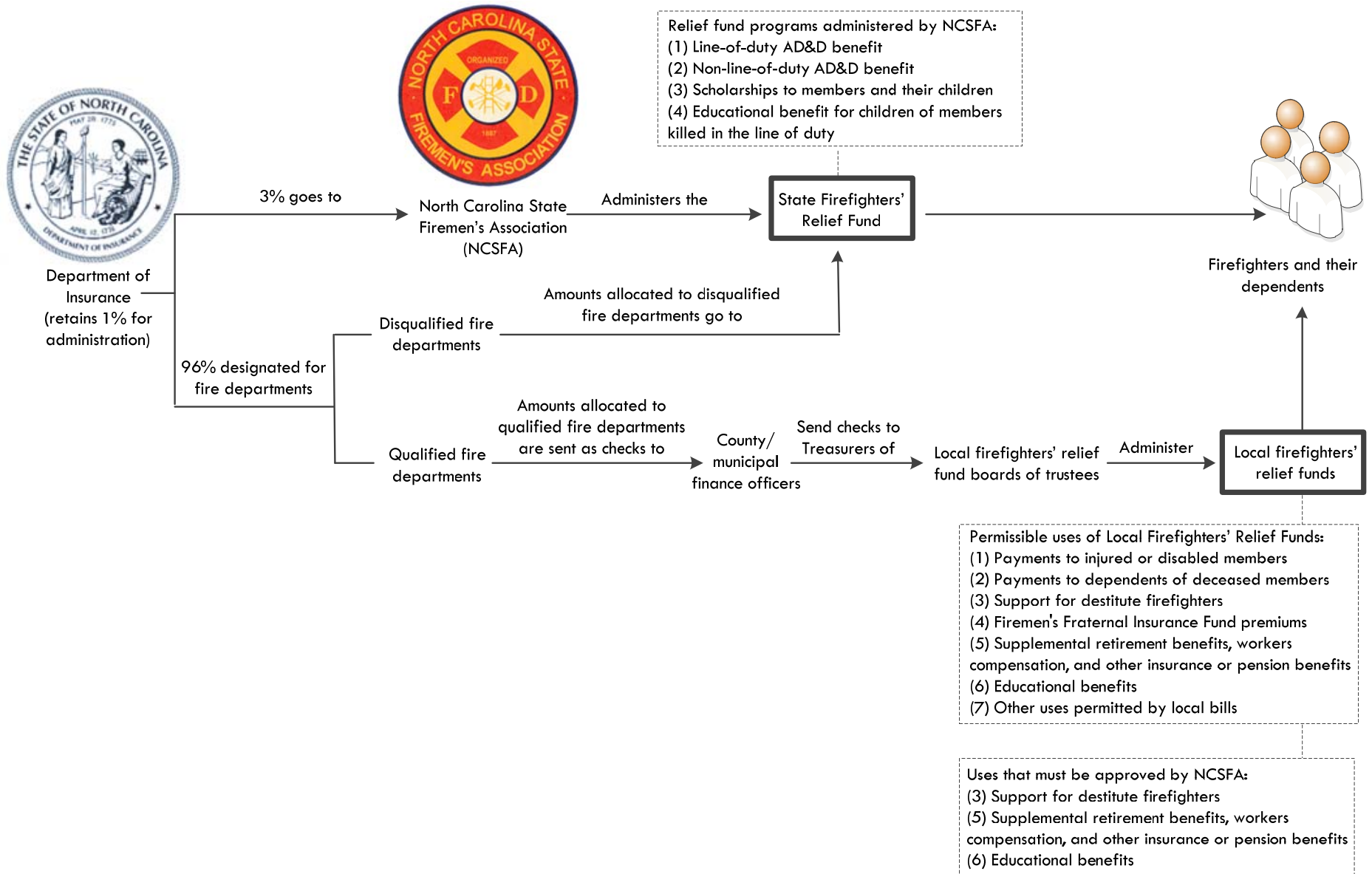
⁹ For example, local bills gave the Wadesboro Department permission to construct a meeting hall with relief funds and allowed Windsor to use relief funds for a one-time purchase of equipment.

¹⁰ NCSFA must pay one-sixth of its 3% to the North Carolina State Volunteer Firemen's Association, which was chartered in 1891 as a separate association because of segregation. As of September 2011, the association had 34 members, all over 80 years old. As of June 2012, the association had a balance of \$270,421.

¹¹ In Fiscal Year 2012–13, revenue from the State Firefighters' Relief Fund (\$813,594) accounted for 33% of the NCSFA's total revenue (\$2.5 million). NCSFA has five staff members.

¹² Based on N.C. Gen. Stat. § 58-86-25, to be on a fire department roster, NCSFA requires that individuals either be actively engaged in the delivery of fire or rescue services and receive a minimum of 36 hours of annual training or be retired from the delivery of fire or rescue services.

Exhibit 3: Process of Distributing Firefighters' Relief Fund Money to Firefighters



Notes: The 2013 Appropriations Act reduced the percentage of the taxes collected on gross property insurance premiums that the Department of Insurance retains to administer the Firefighters' Relief Fund from 2% to 1%. AD&D stands for accidental death and dismemberment.

Source: Program Evaluation Division based on N.C. Gen Stat. §§58-84 and 58-85, Session Law 2013-360, and information provided by the Department of Insurance and the NCSFA.

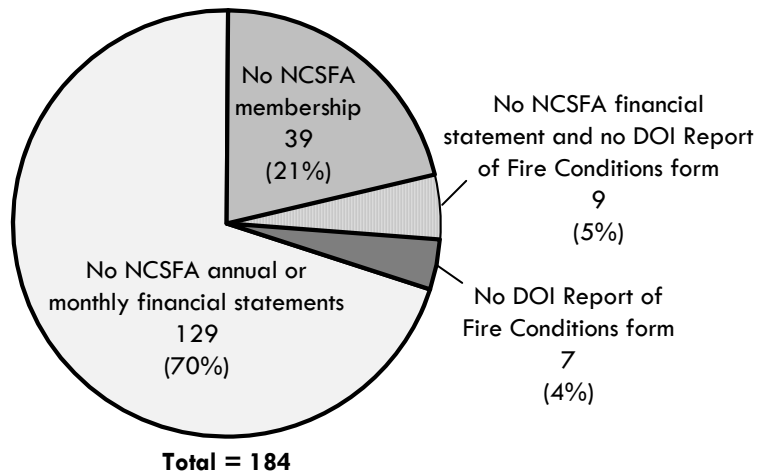
To be eligible for benefits provided through local firefighters' relief funds, a firefighter must be affiliated with a department that qualifies for its distribution of the funds. To qualify, a fire department must

- be rated by the Department of Insurance;¹³
- submit an annual Report of Fire Conditions Form to the Department of Insurance, which includes the names of the five-member board of trustees for the local relief fund;¹⁴
- be a member of NCSFA; and
- submit an annual financial report as well as monthly bank statements to NCSFA.¹⁵

Allocation of relief fund money. The basis for each fire department's allotment of local firefighters' relief fund money is based on county population and property tax value.¹⁶ The amount allocated to fire departments in Fiscal Year 2012–13 ranged from \$93 to the Fairfield Mountains Volunteer Fire Department to \$562,688 to the Charlotte Fire Department. The Department of Insurance is responsible for sending local firefighters' relief fund money to the local boards of fire departments that qualify for their allotment. The department sends local relief fund checks to county or municipal officers to distribute to the treasurers of local boards.

The portion of local firefighters' relief fund money that would have gone to fire departments had they qualified that year instead goes to the State Firefighters' Relief Fund. In Fiscal Year 2012–13, 15% of fire departments (184 out of 1,252) did not qualify for local relief fund money. As shown in Exhibit 4, the most common reason was failure to submit an annual financial report or monthly bank statements to NCSFA.

Exhibit 4
Reasons Fire Departments Were Disqualified from Local Firefighters' Relief Fund Money, Fiscal Year 2012–13



Source: Program Evaluation Division based on data from DOI and NCSFA.

¹³ Ratings are based on the North Carolina Response Rating System, which has three components: 1) receiving and handling of fire alarm calls, 2) equipment, operations, and training, and 3) water supply.

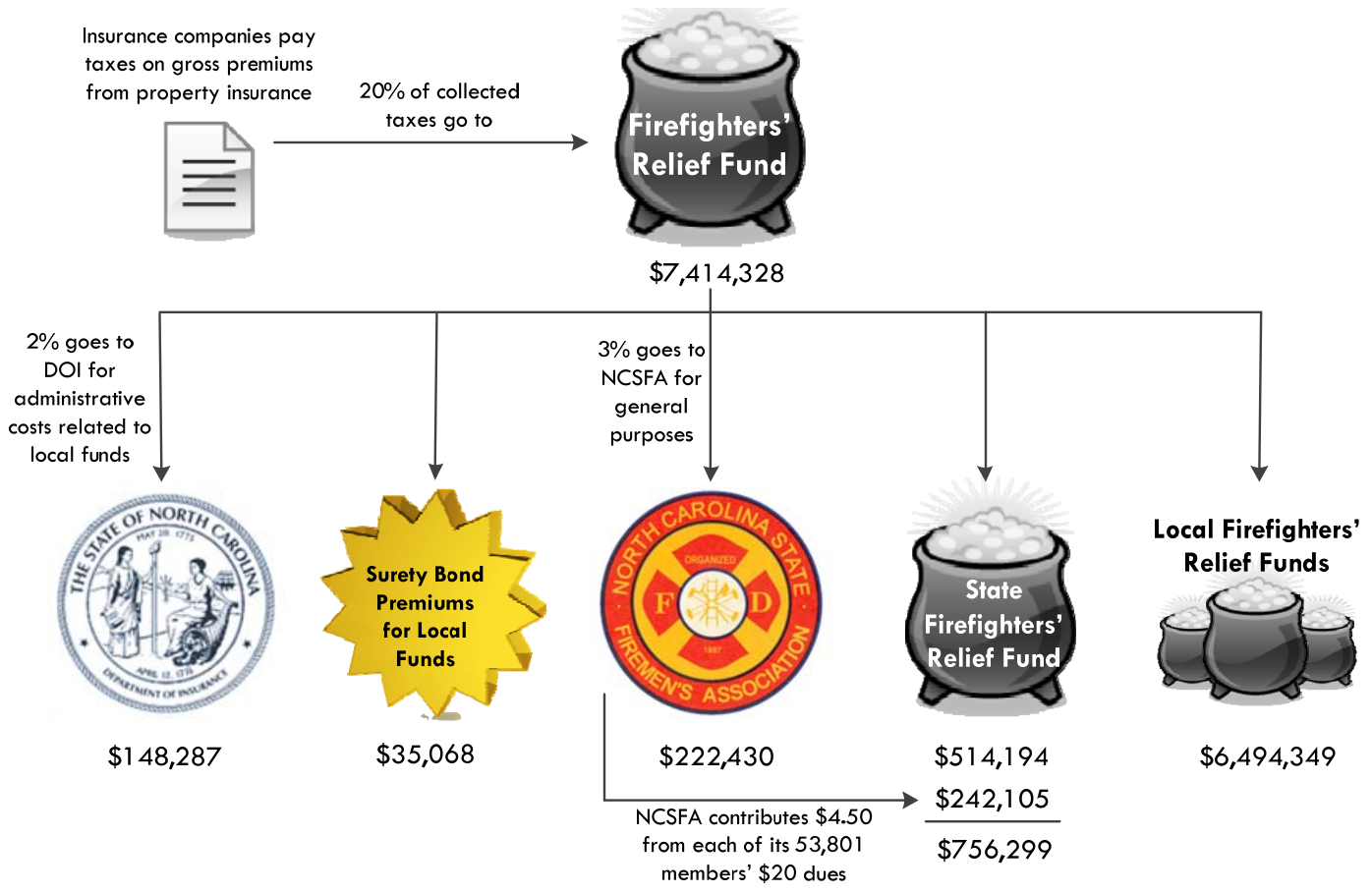
¹⁴ At one time, the Report of Fire Conditions form included information on fire equipment and training, but it now only includes contact information for the board of trustees.

¹⁵ NCSFA began requiring monthly bank statements in Fiscal Year 2011–12.

¹⁶ Pursuant to N.C. Gen. Stat. § 58-84-25(b), if the amount of allocable tax proceeds in the current year is different from the amount allocated the previous year, the amount allocated to each county is the difference multiplied by a fraction, the numerator of which is the county population and the denominator of which is the state population. Pursuant to N.C. Gen. Stat. § 58-84-25(c), the amount allocated to each fire department is equal to the amount allocated to the county multiplied by a fraction, the numerator of which is the tax value of property in the fire department's district and the denominator of which is the tax value of all property in the county's fire department districts.

As shown in Exhibit 5, the Department of Insurance distributed \$6.5 million as local firefighters’ relief fund money to the local boards of qualified fire departments in Fiscal Year 2012–13. The portion that would have gone to disqualified fire departments (\$514,194) went to the State Firefighters’ Relief Fund, which is managed by NCSFA. In addition, NCSFA contributed \$4.50 from each of its 53,801 members’ \$20 dues (\$242,105) to the State Firefighters’ Relief Fund, bringing its total available funding up to \$756,299.

Exhibit 5: Distribution of Firefighters’ Relief Fund, Fiscal Year 2012–13



Notes: The 2013 Appropriations Act reduced the percentage of the taxes collected on gross property insurance premiums that the Department of Insurance retains to administer the Firefighters’ Relief Fund from 2% to 1%. Pursuant to NC. Gen. Stat. § 58-84-30, the treasurer of each local board of trustees must give a good and sufficient surety bond in a sum equal to the amount of money in the board’s possession, and surety bond premiums may be deducted before distribution is made to local relief fund boards.

Source: Program Evaluation Division based on N.C. Gen Stat. §§105.228.5(d)(3) and 58-84-25, Session Law 2013-360, Section 20.2.(a), and data provided by the Department of Insurance and NCSFA.

Rescue Squad Workers' Relief Fund

The General Assembly created the Rescue Squad Workers' Relief Fund in 1987. The North Carolina Association of Rescue and Emergency Medical Services, Inc. (NCAREMS) was tasked with disbursing the funds for the purposes displayed in Exhibit 2. NCAREMS is a 501(c)(3) non-profit that was incorporated in 1957.

Pursuant to N.C. Gen. Stat. § 58-88-10, to be eligible for benefits provided through the Rescue Squad Workers' Relief Fund, rescue and EMS workers must

- be eligible for NCAREMS membership;¹⁷
- have attended 36 hours of training and meetings in the last calendar year; and
- be affiliated with a rescue squad or EMS service that filed a roster certifying to NCAREMS that all eligible members met the above requirements.

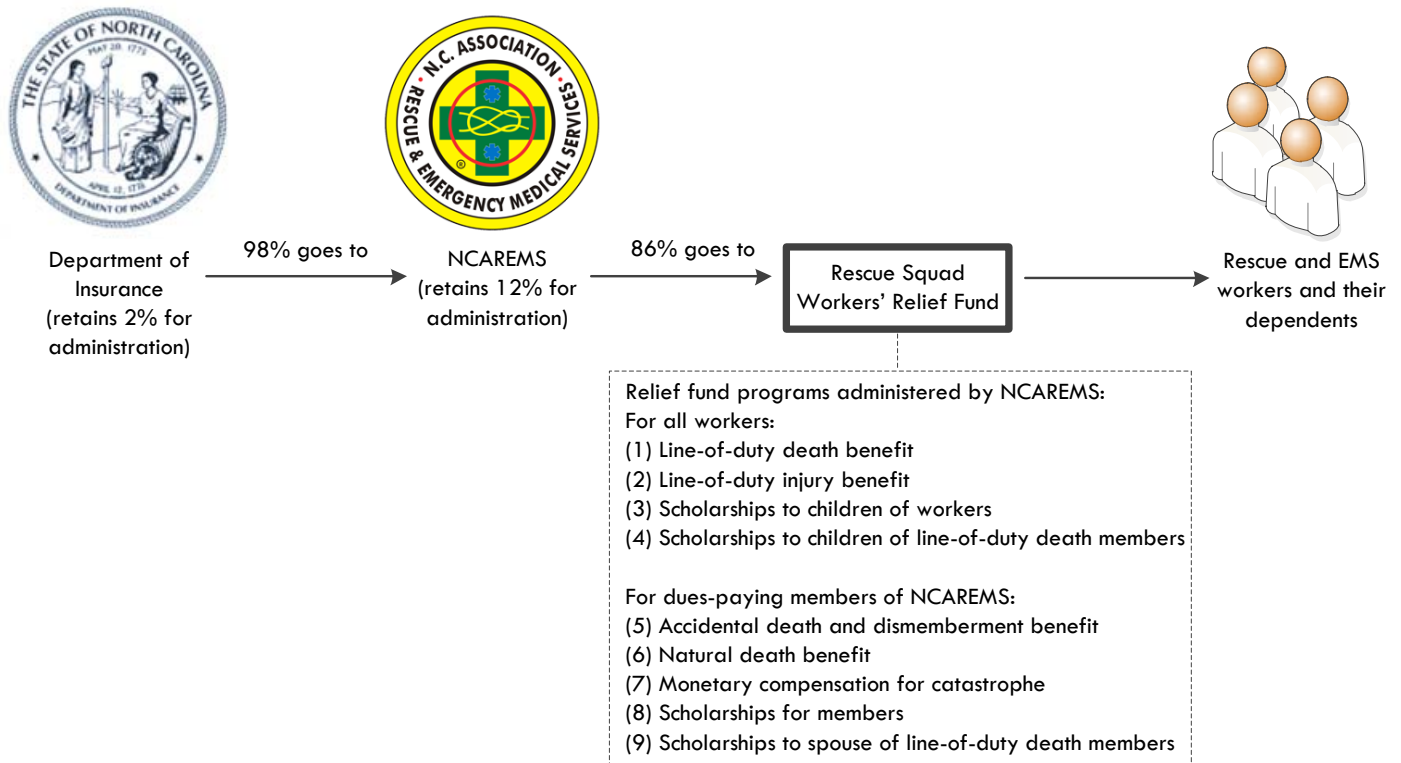
As shown in Exhibit 6, rescue and EMS workers receive relief fund benefits through programs administered by NCAREMS. Since its inception, the fund has provided a total of \$8.3 million in benefits to rescue and EMS workers and their families. The Department of Insurance retains 2% for its administrative costs related to the fund, and NCAREMS retains 12% for its administrative costs.¹⁸ In 2012, \$791,899 was distributed to NCAREMS for relief fund benefits (see Exhibit 7).

All eligible rescue and EMS workers can receive relief fund money for the permissible uses described in N.C. Gen. Stat. § 58-88-5. The statute also permits the relief fund board of trustees to approve additional benefits for association members. The board has approved the following additional benefits for dues-paying members: accidental death and dismemberment insurance, natural death benefit, catastrophe compensation, and educational benefits to members and spouses of line-of-duty death members. Membership dues for 2013 were \$12.

¹⁷ According to NCAREMS bylaws, to be eligible for NCAREMS membership, a rescue or EMS worker must be on the roster of a squad that meets the following criteria: is a nonprofit with a corporate charter describing what services it provides; has authority to operate from a local government; has a minimum of eight members with the minimum certifications required for the NCAREMS-recognized services it provides; has the minimum equipment required for the NCAREMS-recognized services it provides; offers a minimum of 36 hours of training each year; and files a certified roster by January 15 each year.

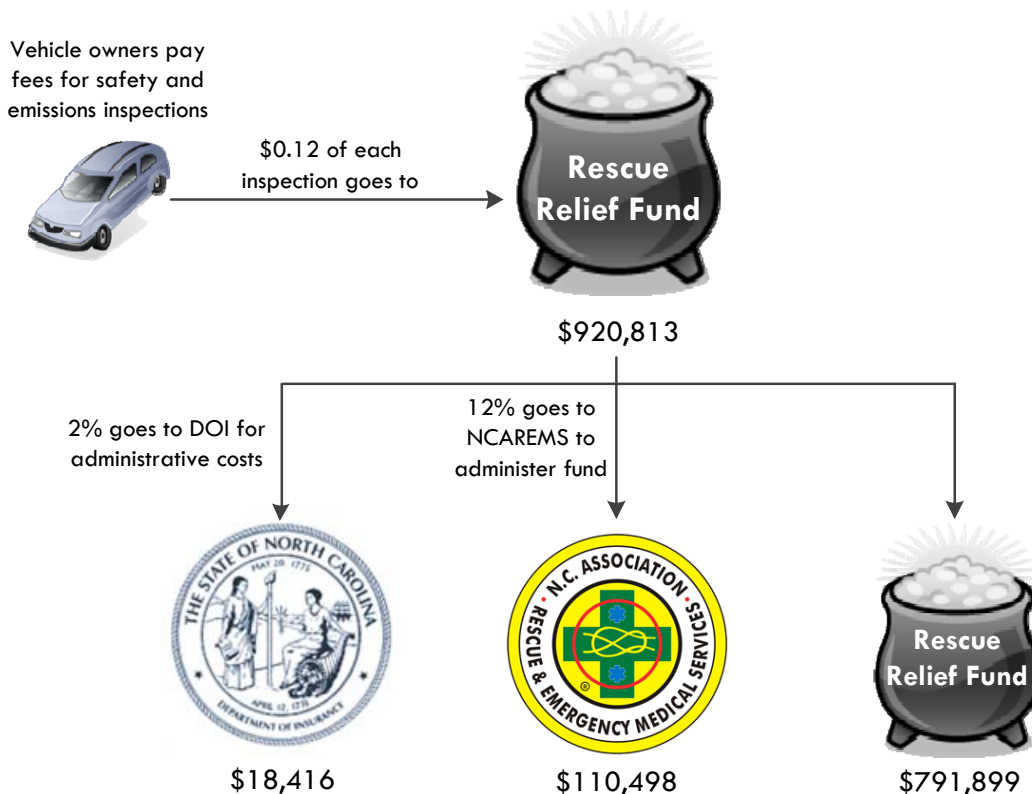
¹⁸ Between October 1, 2011 and September 30, 2012, revenue from the Rescue Squad Workers' Relief Fund, which included \$785,639 from vehicle inspection fees and \$374,264 from investment earnings, accounted for 45% of NCAREMS's total revenue (\$2.6 million). NCAREMS has four staff members.

Exhibit 6: Process of Distributing Rescue Squad Workers' Relief Fund Money to Rescue Personnel



Source: Program Evaluation Division based on N.C. Gen Stat. §58-88-30 and information provided by NCAREMS.

Exhibit 7: Distribution of Rescue Squad Workers' Relief Fund in Calendar Year 2012



Source: Program Evaluation Division based on data provided by the Department of Insurance.

In summary, the relief funds for firefighters and rescue personnel are a local benefit funded with state dollars. The State and local firefighters' relief funds, which were created more than a century ago, and the Rescue Squad Workers' Relief Fund, which was created a quarter-century ago, have remained virtually unchanged since their inceptions. The funds are administered by associations and local boards, and vary in their emphasis on state versus local administration. As a result, there have been questions about the adequacy of state oversight. In addition, the complex nature of earmarking taxes and fees for a broad array of relief fund uses has raised questions about how the funds are spent. This evaluation provides the General Assembly with its first in-depth examination of the structure of the funds, the expenditures of the funds, and the oversight provided by the Department of Insurance and the associations.

Findings

Finding 1. Relief fund money is not being spent by local boards or NCAREMS at the rate intended by the General Assembly, has been spent on non-permitted uses, and is being invested without regulation.

The General Assembly intended for the relief funds to be spent to benefit firefighters and rescue personnel and their families. According to North Carolina State Firemen's Association (NCSFA) staff, "The money was meant to be spent. Help the people. Recruitment and retention is a problem, and these benefits are intended to attract and keep people." However, the local firefighters' relief funds and Rescue Squad Workers' Relief Fund are accumulating large balances because the funds are not being spent each year.¹⁹ Also, having large amounts of available funds requires better investment management and increases the chances of imprudent activity. Although the amount of money going to the relief funds will decrease based on recent legislation,²⁰ the underlying problem remains of local boards and associations not knowing how much of the funds to spend versus save.

For the local firefighters' relief funds, local boards are saving rather than spending their relief funds.

- Local boards did not distribute 41% of the money allocated to them in Fiscal Year 2011–12 (see left pie in Exhibit 8).
- More than half of local boards (61%) did not distribute any funds at all in Fiscal Year 2011–12 (see right pie in Exhibit 8). Of the boards that made distributions, they spent, on average, \$10,398 in total and \$211 per firefighter in Fiscal Year 2011–12.

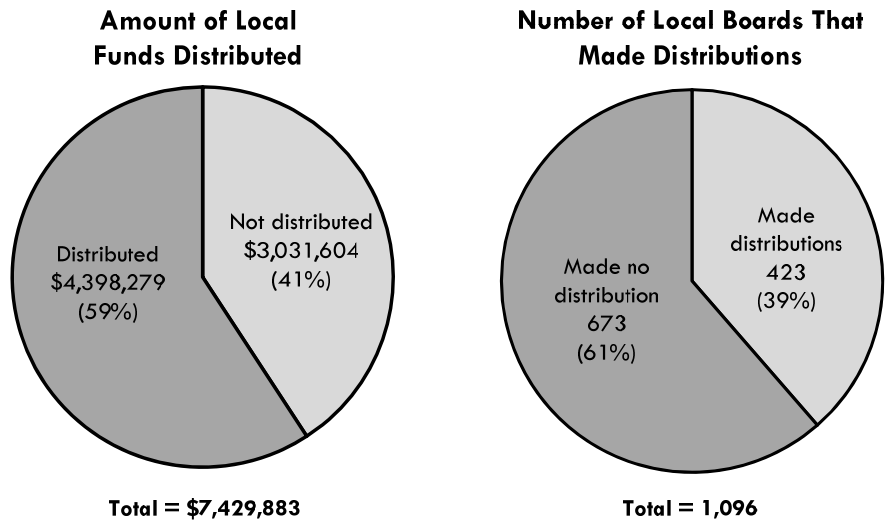
¹⁹ As of June 2013, the State Firefighters' Relief Fund had a cumulative balance of \$4.6 million. However, a review of audits dating back to 2005 reveals that the Executive Board of NCSFA has been spending relief fund money on statewide benefits in an amount that actually exceeds the amount of money that disqualified fire departments forfeit annually. NCSFA pays for these benefits by supplementing the State Firefighters' Relief Fund with \$4.50 from each of their members' \$20 dues.

²⁰ The 2013 Appropriations Act reduced the percentage of the property insurance premiums tax that goes to the Firefighters' Relief Fund from 25% to 20%. Session Law 2012-199 exempts vehicles of the three newest model years and with fewer than 70,000 miles from emissions inspections. This change reduces the number of vehicles inspected and consequently reduces the amount of fees collected for those inspections.

- Local boards have accumulated a total balance of \$67.1 million and spent, on average, 7% of their relief fund cumulative balances each year (see Exhibit 9). Local boards had an average balance of \$61,418 in Fiscal Year 2011–12.²¹

Exhibit 8

More Than Half of Local Boards Did Not Spend Any of Their Local Firefighters' Relief Fund Money in Fiscal Year 2011–12



Notes: The total amount of local funds distributed is based on Fiscal Year 2011–12 and therefore does not match data shown in Exhibit 5, which is based on Fiscal Year 2012–13.

Source: Program Evaluation Division based on data from NCSFA.

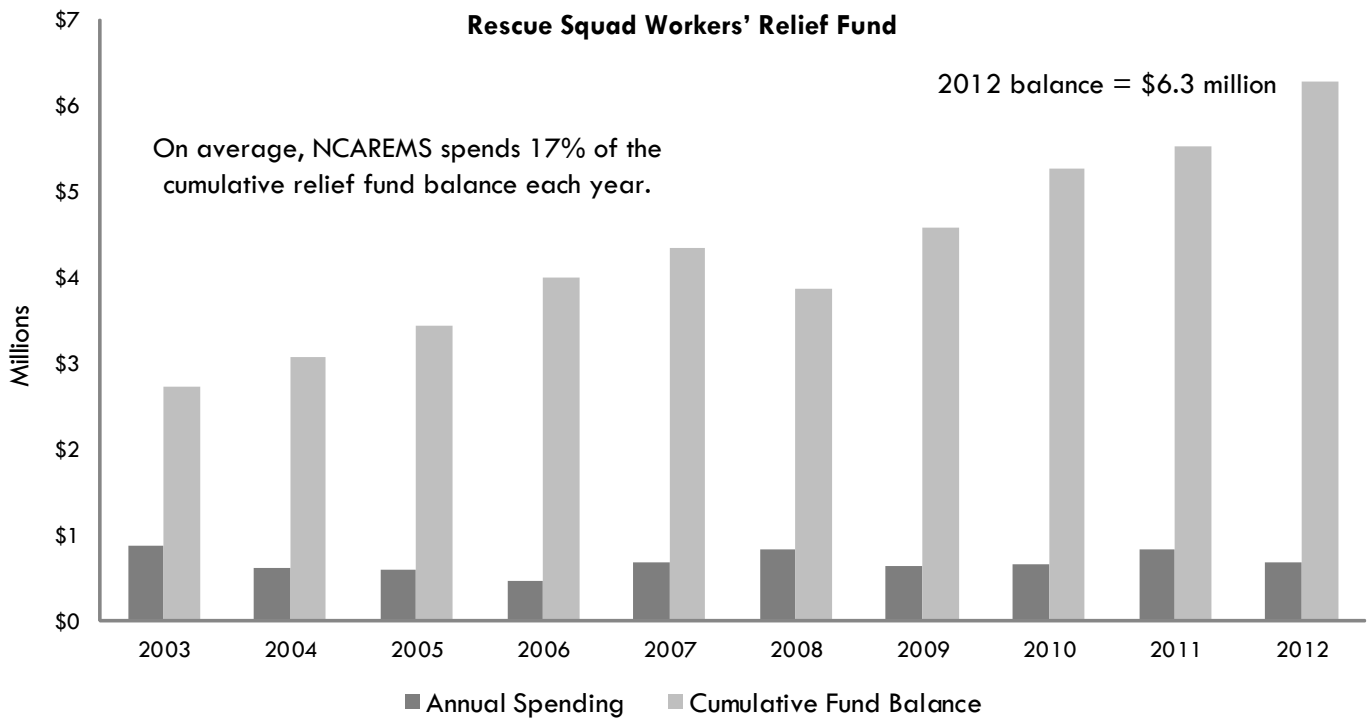
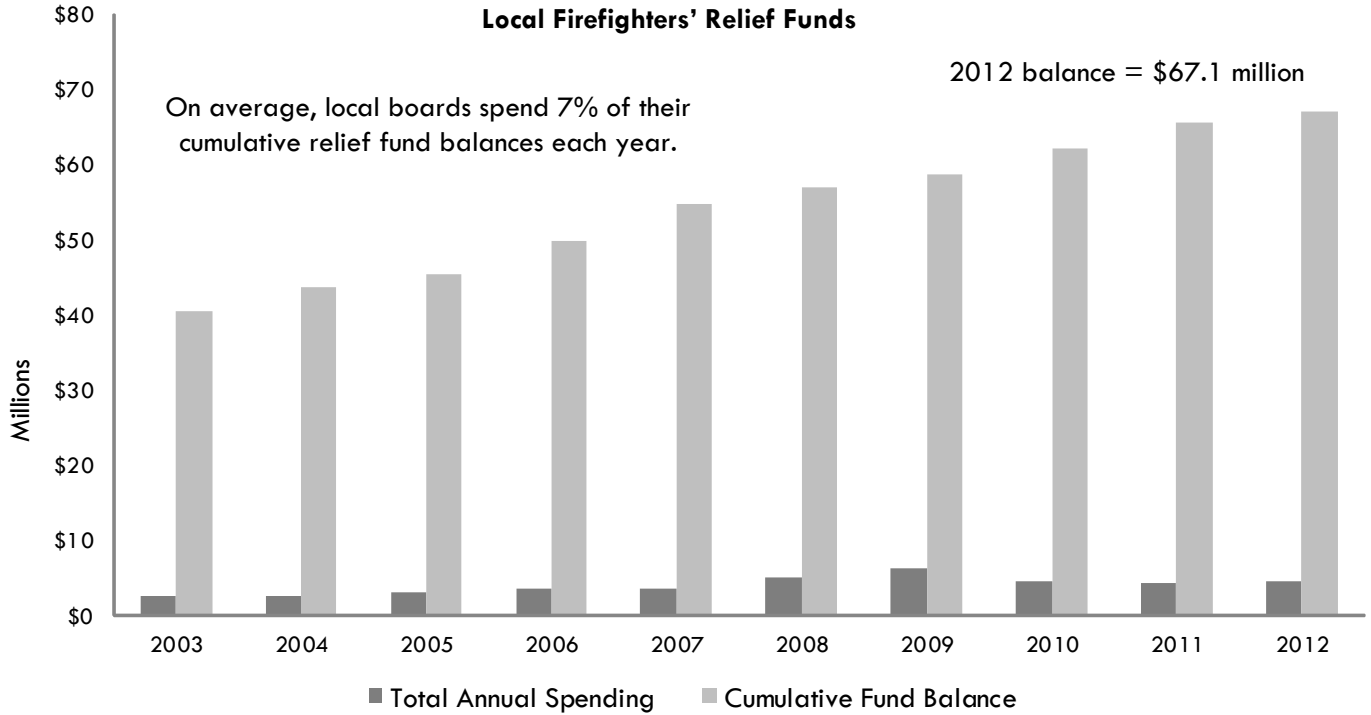
For the Rescue Squad Workers' Relief Fund, the fund balance has more than doubled in the last 10 years and now exceeds \$6 million. On average, NCAREMS is spending 17% of the relief fund cumulative balance each year (see Exhibit 9). If the fund was expected to be self-sustaining, this rate of saving would be necessary. However, the General Assembly directs that \$0.12 of every vehicle inspection fee go to the Rescue Squad Workers' Relief Fund (which amounted to \$920,813 in Calendar Year 2012), with the intent that those fees are spent to benefit rescue and EMS personnel.

Pursuant to N.C. Gen Stat. § 58-88-5, no expenditures of relief fund money can be made unless the fund's board certifies that the expenditures will not render the fund "actuarially unsound." However, the statute does not define "actuarially unsound."²² The board passed administrative rules regarding benefit determinations and has an investment policy, but day-to-day decisions are made by NCAREMS staff. When the Program Evaluation Division asked NCAREMS staff how they decide how much of the fund to spend versus save each year, they responded that their philosophy is to not spend more money in a year than the amount received that year because they have to retain a sufficient balance in case of a catastrophe.

²¹ The distribution of these balances is unequal across local boards. Of the 648 local boards, 59% have relief funds with \$30,000 or less in assets, whereas 11 funds have \$500,000 or more in assets. This distribution corresponds roughly with population density because the funds are distributed based on population and property tax value.

²² Other states have defined "actuarially sound" as sufficient funding and insurance to pay for those losses and their related costs which are known or are projected from analyses of claims, loss experience, and risk factors.

Exhibit 9: Relief Funds are Accumulating Large Balances, 2003–2012



Notes: The funds are plotted separately with different scales because local firefighters' relief funds receive in total more than eight times the amount annually that the Rescue Squad Workers' Relief Fund receives. Figures for the local firefighters' relief funds are based on the state fiscal year (July 1 to June 30), whereas figures for the Rescue Squad Workers' Relief Fund are based on NCAREMS's fiscal year (October 1 to September 30).

Source: Program Evaluation Division based on data provided by NCSFA and NCAREMS.

Local firefighters' relief fund balances have been carried forward year to year because of unclear spending guidelines, a catastrophe mentality, and local bill spending restrictions.

Unclear spending guidelines. In 1985, the General Assembly began allowing local relief funds to be used for supplemental retirement, workers' compensation, other insurance and pension protection, and educational benefits. It mandated that local boards could not spend funds for those purposes unless NCSFA certified that such expenditures would not render their funds "actuarially unsound" for the purpose of providing financial assistance in the event of a line-of-duty death or injury. The statute did not define "actuarially unsound." The Executive Board of NCSFA established as a guideline that an adequate level of funding would be the local fund balance in 1985 or \$10,000, whichever was greater.

This guideline has remained in place since 1985, but ultimately the determination of actuarial soundness rests with the Executive Director of NCSFA. When the Program Evaluation Division asked NCSFA staff how they determine if a fund is actuarially sound, they reported that it depended on many factors, including how much money has been requested, how often the board uses its funds, and how long it would take the fund to recover from a catastrophe. NCSFA did not have any written criteria for determining whether a fund is actuarially sound.

The Program Evaluation Division surveyed local boards of trustees about a variety of issues; the survey yielded a response rate of 36%.²³ When asked how much money their board thinks it needs to be financially sound, 72% of survey respondents stated that they were unsure. The majority (71%) said they would feel more comfortable spending relief fund money if the State were to establish spending guidelines.

Catastrophe mentality. The idea that relief funds must be saved in case of a catastrophe is another cause of large balances being carried forward from year to year rather than money consistently being spent to benefit firefighters and rescue personnel. The Program Evaluation Division's survey asked local boards why they did not distribute their relief fund money. One survey option allowed local boards to specify that they are saving money for a specific benefit like establishing a supplemental retirement or scholarship program; 30% of survey respondents reported saving for this purpose. However, the majority of respondents (88%) reported their board carries a fund balance from year to year to be able to respond to a catastrophe, such as several line-of-duty deaths or injuries.²⁴ No clear definition of catastrophe exists, but in the State's history, there have been three occurrences of four firefighters dying in the line of duty in the same incident.²⁵

²³ Based on email addresses provided by NCSFA and the Department of Insurance, the Program Evaluation Division sent the survey to the treasurers of local boards of trustees; when treasurer email addresses were not available, the survey was sent to fire chiefs, who either serve as appointed board members or as ex officio board members.

²⁴ The percentages reported do not add up to 100% because boards could check all the reasons that applied to them.

²⁵ In 1979, four members of the Shelby Fire Department were killed when a building exploded while they were fighting a fire in a clothing store. In 1982, four members of the National Spinning Company textile plant fire brigade in Washington were overcome by smoke while fighting a fire. In 2012, four members of the North Carolina Air National Guard 145th Airlift Wing from Charlotte were killed when a tanker crashed in South Dakota on its way to fighting a forest fire.

Alternatives exist to relying solely on existing relief fund money in the event of these types of catastrophes.

- **Special relief funds.** When catastrophes have happened in other states, special relief funds supported by private donations have been created to respond to the needs brought about by that particular event. For example, special relief funds were created when 19 firefighters died in Arizona wildfires in 2013 and when 9 firefighters died in a Charleston, SC store fire in 2007. In response to the tragedies of September 11, 2001, NCSFA raised over \$400,000 in donations for the families of firefighters killed in the World Trade Center.
- **State Firefighters' Relief Fund.** N.C. Gen. Stat. § 58-84-40 already recognizes there may be special circumstances that require more funding than local boards possess. The statute allows money from the State Firefighters' Relief Fund to be used to assist a local board in providing relief to injured firefighters and their dependents or survivors if the local relief fund has insufficient funds. Because the State Firefighters' Relief Fund has a cumulative balance of \$4.6 million, it is well-positioned to come to a local board's aid in the event of a catastrophe. If the fund were depleted for this purpose, however, NCSFA may have to discontinue the current benefits offered through the State Firefighters' Relief Fund.
- **Other state and federal benefits.** North Carolina firefighters and rescue personnel have federal and state resources to draw upon besides relief funds in the event of a catastrophe. Through the Public Safety Officers' Benefits Program, the federal government pays \$333,605 to the survivors of firefighters and first responders killed in the line of duty and provides disability benefits to those catastrophically injured in the line of duty. Through the Law-Enforcement Officers', Firemen's, Rescue Squad Workers' and Civil Air Patrol Members' Death Benefits Act, the State pays an additional \$50,000 to the spouse or dependents of firefighters or rescue squad workers killed in the line of duty.
- **Reinsurance.** Reinsurance is a product available to insurers to protect themselves in case of a catastrophe. Reinsurance is insurance purchased by insurers from other insurers to limit the total loss an insurer would experience in case of a disaster.

Local bills. Another reason some local funds have large balances is because of local bills. Local bills are pieces of legislation that do not apply statewide. Of the 54 local bills related to the relief funds, seven stipulate that departments distribute only investment earnings, not the principal sum distributed to them; one additional bill requires that 20% of all income to the relief fund be retained. The eight jurisdictions governed by these local bills have total fund balances of approximately \$2 million.

An additional 35 local bills set minimum fund balance thresholds, meaning the fund must contain a certain sum of money, and require that any additional funds are transferred to a separate retirement benefit account. The 35 jurisdictions governed by these local bills are collectively required to retain \$687,000, or an average of almost \$20,000, before spending any of their relief funds. These local bill provisions have resulted in some small departments, notably Asheboro, Greenville, and Smithfield, having large fund balances.

In general, relief funds have been spent on permissible uses. Exhibit 10 shows the permissible categories in which local boards, NCSFA, and NCAREMS are spending their relief funds. Local boards spent \$4.4 million of their relief fund money in Fiscal Year 2011–12.²⁶ Half of that amount was spent on supplemental retirement benefits,²⁷ 22% was spent on payments to members injured or killed in the line of duty or members who were destitute, and 20% was spent on insurance premiums for benefit programs such as accidental death and dismemberment coverage (AD&D).

NCSFA spent \$823,123 of State Firefighters' Relief Fund money in Fiscal Year 2012–13.

- NCSFA spent 71% of those monies on insurance premiums for a line-of-duty AD&D benefit (with individual coverage up to \$65,000) and a non-line-of-duty AD&D benefit (with individual coverage up to \$10,000).
- NCSFA spent 29% of State Firefighters' Relief Fund money on educational benefits. NCSFA awards competitive scholarships to members and their children.²⁸ In addition, a small portion was spent on the education of dependent children of NCSFA members killed in the line of duty.

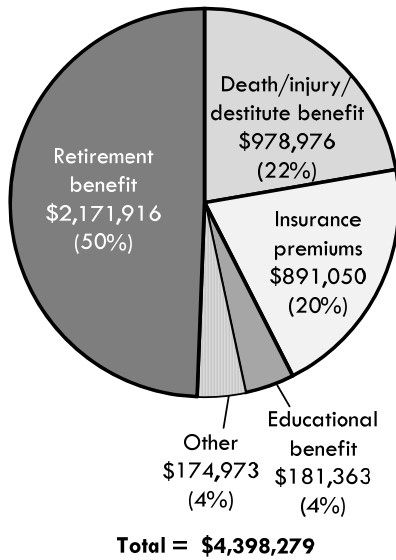
²⁶ More recent data is not available because local boards are not required to submit spending from the previous fiscal year until October 31, and NCSFA has until January 1 to certify to the Department of Insurance that local boards have satisfied this requirement.

²⁷ The structure of local board's supplemental retirement programs depends on the size of the fire department, the funds available, and whether the board is subject to a local bill. The majority of boards provide a specified benefit payable monthly for the rest of the firefighter's life based on reaching a number of years of service; others vary the benefit amount based on the total number of years of service. There may be a few boards that use a third party to administer their supplemental retirement benefit, but the majority administer their programs through the local board, a subcommittee of the local board, or a retirement board. All local boards must get their supplemental retirement program approved by NCSFA, and NCSFA ensures long-term funding is available and the benefit formula is equitable. For example, NCSFA would expect a local board with 45 members to have at least \$32,000 in its fund before it began offering a \$50 monthly benefit to members with 20 years of service.

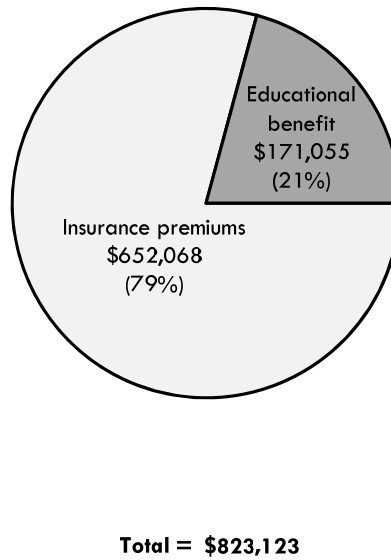
²⁸ In Fiscal Year 2012–13, NCSFA awarded \$157,500 in competitive scholarships. NCSFA divides fire departments across the state into three regions. In each region, two \$6,000 scholarships for bachelor's degrees from in-state, four-year schools and two \$1,750 scholarships for bachelor's degrees from in-state, two-year schools are awarded to graduating seniors, volunteer firefighters, and career firefighters. A \$6,000 scholarship is awarded to one firefighter in each region for a master's degree from an in-state school.

Exhibit 10: Expenditure of Relief Funds on Permissible Uses of Relief Fund Monies

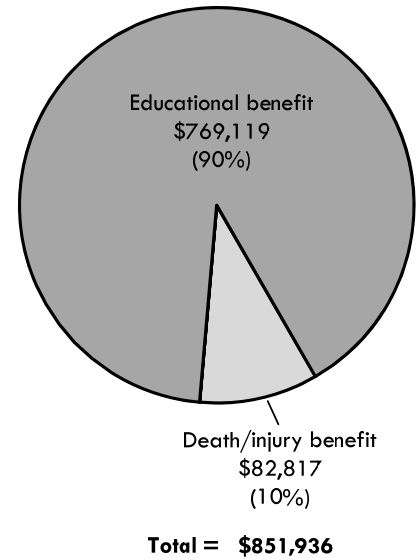
Local Firefighters' Relief Funds



State Firefighters' Relief Fund



Rescue Squad Workers' Relief Fund



Notes: Local firefighters' relief fund data is from Fiscal Year 2011–12, State Firefighters' Relief Fund data is from Fiscal Year 2012–13, and Rescue Squad Workers' Relief Fund data is from Calendar Year 2012.

Source: Program Evaluation Division based on data provided by NCSFA and NCAREMS.

NCAREMS spent \$851,936 of Rescue Squad Workers' Relief Fund money in Calendar Year 2012.

- NCAREMS spent 90% of relief fund money on educational benefits in Calendar Year 2012. NCAREMS awards competitive scholarships to the children of rescue or EMS workers and to dues-paying members of the association.²⁹ In addition, children of rescue or EMS workers who died in the line of duty and spouses of dues-paying members who died in the line of duty may receive scholarships.³⁰
- NCAREMS spent the remaining 10% on death and injury benefits. Rescue and EMS workers are eligible for \$100,000 if they die in the line of duty and 10% of their weekly salary if they are injured in the line of duty.³¹ Dues-paying members are eligible for a non-line-of-duty AD&D benefit (with individual coverage up to \$20,000) and a natural death benefit (\$1,000).

²⁹ NCAREMS divides rescue and EMS squads across the state into 15 regions and guarantees at least one recipient in each of its five scholarship categories will be from each region, as long as someone from that region applies. NCAREMS awards \$660,000 annually to the children of rescue or EMS workers, awarding 30 \$12,000 scholarships for in-state, four-year schools, 30 \$8,000 scholarships for two-year schools with transfers to four-year schools, and 30 \$2,000 scholarships for in-state, two-year schools. NCAREMS awards \$188,000 annually to dues-paying members of the association, awarding 30 \$4,000 scholarships for in-state, four-year schools and 30 \$2,000 scholarships for in-state, two-year schools.

³⁰ Surviving family members can choose between \$12,000 scholarships for in-state, four-year schools and \$2,000 scholarships for in-state, two-year schools.

³¹ At the time of this report, 12 potential line-of-duty deaths were under review, which could amount to \$1.2 million in death benefits.

NCAREMS misspent \$1.9 million of Rescue Squad Workers' Relief Fund money to purchase its new office facility. The Program Evaluation Division's review of NCAREMS's annual audits found that, in 2009, NCAREMS borrowed \$1.9 million from the relief fund to purchase land and construct a new office building with rental space (see Exhibit 11 for a front and aerial view of the building).³² The \$1.9 million loan was an internal transaction transferring money from the relief fund to the association's general fund; in other words, the association obtained a loan from itself. The terms of the loan include an annual interest rate of 3.5%, resulting in annual interest payments of \$66,930, and the condition that interest-only payments be made until the rental space portion of the new building is occupied. Nowhere in N.C. Gen. Stat. § 58-88-5's restricted list of permissible relief fund uses do real estate loans, or loans of any kind, appear. Therefore, NCAREMS loaning itself \$1.9 million from the Rescue Squad Workers' Relief Fund for its office facility was a misuse of relief fund money.

Furthermore, the loan was not obtained through an arm's length transaction,³³ making it difficult to determine whether the price, terms of repayment, and other conditions were fair. Elements of the loan that could be called into question because it was not an arm's length transaction include

- no title search of the land was rendered;³⁴
- the loan's interest rate was changed from 5% to 3.5%;
- purchase of the building was rolled into one loan with the previously purchased land;
- the repayment terms were changed from annual payments including interest to interest only payments until the spaces available for lease in the NCAREMS building are rented to tenants (none of the approximately 9,600 square feet of available rental space was occupied at the time of this report);
- the pressure to sell the old building was reduced, with the old building being sold in 2012 after the new building had been completed and occupied in 2009.

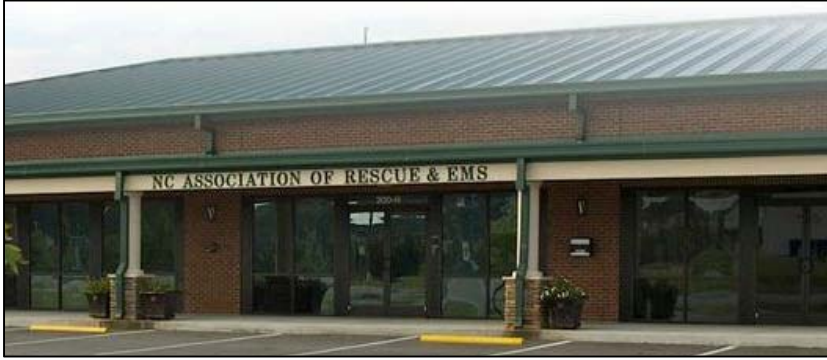
In addition to being a misuse of funds, the \$1.9 million loan to NCAREMS for its office building is a poor investment of relief fund money. The NCAREMS board's policy states that the primary goal of investment accounts is to provide a steady income stream, and that a secondary goal is growth to help mitigate the effects of inflation. The \$1.9 million loan is only generating a 3.5% rate of return, whereas the Executive Director told Program Evaluation Division staff that he invests in stocks and bonds likely to generate a 6 to 7% rate of return. Furthermore, property investments are not as easily converted to cash as stocks and bonds.

³² The 2006 audit noted that NCAREMS borrowed \$300,000 from the relief fund to purchase land on which a new office building would be built. The 2008 audit noted NCAREMS borrowed \$1.3 million for the construction of the new office building, but the building was not complete. The true cost of the building is reflected in the 2009 audit.

³³ An arm's length transaction is an agreement made by two parties acting freely and independently of each other; the parties do not have some special relationship, and neither party is subject to any pressure or duress from the other party.

³⁴ A requirement for a title examination is usually triggered by financing. If the attorney who is representing the buyer must certify title to a lender, a title examination is required. However, any prudent buyer of real estate should have a comprehensive title examination performed to make certain the seller owns the property and that there are no outstanding taxes, claims, liens, or other encumbrances.

Exhibit 11: NCAREMS Loaned Itself \$1.9 Million in Relief Fund Money to Purchase Office Facility



Source: Program Evaluation Division based on photographs from NCAREMS and Google.

The Program Evaluation Division discovered several examples of misuse of local firefighters' relief fund money. From the distributions reported by local boards as "other" spending on NCSFA's annual financial statement form, the Program Evaluation Division examined the 27 largest "other" distributions. Of the 27 largest "other" distributions, 23 entries represented either incorrect information or instances in which the entry should have been recorded in another use category. In at least two instances in Fiscal Year 2011–12, local boards were allowed to use relief funds for annual staff physicals. Relief funds also were used by at least two departments to pay for pension fund contributions for firefighters who were not up to date on their member contributions. Other questionable expenses include bank fees, administrative costs, and investment charges. Some of these local boards received approval from NCSFA to use the funds for these purposes despite the fact that they are not permissible uses according to statute. Because the Program Evaluation Division only examined the 27 largest distributions reported as "other" spending, there may be additional instances of improper relief fund spending and recording.

Currently, there are no specific statutory regulations for how relief fund money can be invested. State money is being distributed to associations and local boards to administer their relief fund programs, and these non-state entities are investing state money.

- **Investments of relief funds by local boards.** In the Program Evaluation Division's survey of local boards, almost half of respondents reported that their boards keep at least 90% of their relief fund money in either a checking or savings account. Seven percent of boards reported they invest a portion of their fund in stocks or bonds.
- **Investments of relief funds by NCSFA.** NCSFA primarily invests State Firefighters' Relief Fund money in common stocks and invests the remainder of the fund in government and corporate bonds. In Fiscal Year 2012–13, NCSFA spent \$16,541 on investment advisory fees and had interest gains on investments of 10%, or \$399,070.

- **Investments of relief funds by NCAREMS.** NCAREMS invests the Rescue Squad Workers' Relief Fund in stocks and bonds. The NCAREMS board has an investment policy, and the NCAREMS board has delegated investment management to the association's Executive Director, who does not have a background in that area. Although NCAREMS does not pay up-front investment advisory fees, it makes transactions through a financial advisor at a Wells Fargo in Goldsboro, and some of the relief fund's 100 different investments are with Wells Fargo.

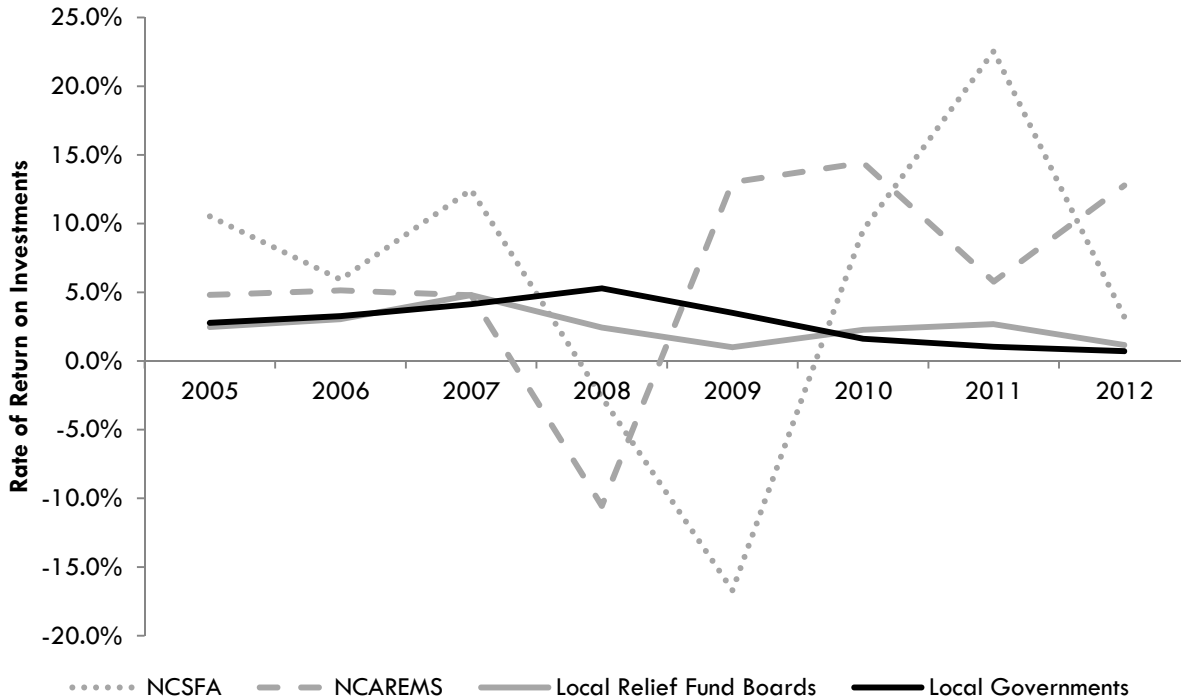
The state money being distributed to associations and local boards is being invested without specific regulation. In general, relief fund investment is subject to North Carolina's Uniform Trust Code and Uniform Prudent Management of Institutional Funds Act,³⁵ but none of the statutes governing the relief funds regulate how the funds can be invested. However, a mechanism already exists to regulate the investment of idle funds by local governments. N.C. Gen. Stat § 159-30 provides the following types of investment guidelines for local governments:

- The investment program must be managed such that investments and deposits can be converted into cash when needed.
- Monies may be deposited at interest in any bank, savings and loan association, or trust company in this State in the form of certificates of deposit.
- Monies may be invested in certain securities outlined in the statute. According to the Department of State Treasurer, equity securities including common stock and corporate bonds are not eligible investments pursuant to N.C. Gen. Stat § 159-30.

Regulating how relief funds can be invested would reduce the risk that the associations and local boards can take with state money. Exhibit 12 illustrates the volatility of the relief fund investments as compared to the volatility of local government investments since 2005.

³⁵ These laws require investors to manage funds with a duty of loyalty, in good faith, and with the care an ordinarily prudent person in a like position would exercise under similar circumstances.

Exhibit 12: Relief Fund Money Is at a Greater Risk than Local Government Investments, Which Are Regulated by N.C. Gen. Stat § 159-30



Source: Program Evaluation Division based on data from the Comprehensive Annual Financial Report, NCSFA, and NCAREMS.

In summary, although the General Assembly intended that relief funds be spent to benefit firefighters and rescue personnel, the funds have accumulated, resulting in large balances. Balances have been carried forward year to year because of unclear spending guidelines, the idea that funds must be saved in case of a catastrophe, and some local bill stipulations that boards can distribute only investment earnings or must retain minimum fund balance thresholds. Furthermore, there are no specific statutory guidelines for how funds can be invested. In some cases, funds have been spent on non-permitted uses such as NCAREMS loaning itself \$1.9 million of Rescue Squad Workers' Relief Fund money to purchase a new office facility.

Finding 2. The Department of Insurance’s failure to require adequate information from the associations, NCSFA’s lack of oversight of local boards, and the lack of coordination between department and association databases puts relief funds at risk for misuse.

The Department of Insurance does not require adequate reporting from the associations concerning the relief funds. The Department of Insurance is responsible for distributing local firefighters’ relief fund money to local boards. Department administrators have stated, “We just cut the checks” and, “After we cut the checks, there is a huge disconnect.” Pursuant to N.C. Gen. Stat. § 58-84-40, the North Carolina State Firemen’s Association (NCSFA) must annually certify on a form prescribed by the Department of

Insurance that each local board has kept a correct account of all relief funds it has received and disbursed.

The Department of Insurance has decided that a yes/no list of the fire departments that have met financial and membership qualifications and an Excel spreadsheet with total receipts, total disbursements, and ending balances satisfies this requirement. This information is not adequate for the Department of Insurance to independently verify if local boards have kept a correct account of relief funds, which is necessary for the department to fulfill its other major responsibility. The department's other major responsibility is to withhold further payments to any boards suspected of willfully misappropriating their funds or disbursing their funds for non-permitted uses until the matter has been fully investigated by NCSFA to the satisfaction of the department. A higher level of accountability could be achieved by creating a form that requires NCSFA to report how much relief fund money each board spent on particular purposes, data which NCSFA is already collecting.

The Department of Insurance also does not require adequate information from the North Carolina Association of Rescue and Emergency Medical Services, Inc. (NCAREMS) concerning the Rescue Squad Workers' Relief Fund. Although department representatives have attended NCAREMS's semi-annual board meetings, they stated they had little knowledge of relief fund activities. Pursuant to N.C. Gen. Stat. § 58-88-15, NCAREMS must annually file a report on relief fund monies received and disbursed in a form prescribed by the Department of Insurance.

The department has decided the association's annual financial audit satisfies this requirement. Yet the department failed to notice that every audit since 2006 reports relief funds were used as a loan to purchase land and an office building, which the Program Evaluation Division determined was an improper use. A higher level of accountability could be achieved by requiring NCAREMS to report how much relief fund money went to individuals affiliated with each rescue department and for what purposes, data which NCAREMS is already collecting.

The Department of Insurance's rationale for not providing adequate oversight to the associations is that it has "no authority" over them. Although the statutes do not give the department authority over the associations, the statutes require the associations to report to the department in a format of the department's choosing. The current formats employed by the department do not make the associations accountable to the State. The Department of Insurance has failed to exercise its authority within the scope of the law.

Inadequate oversight by NCSFA over local boards puts relief fund money at risk. Pursuant to N.C. Gen. Stat. § 58-84-25, 3% of the taxes collected on gross property insurance premiums are paid to NCSFA. NCSFA reported about half of its staff's time is spent on administering the relief funds. As shown in Exhibit 13, the Program Evaluation Division found several areas where NCSFA's oversight of local boards is inadequate.

Exhibit 13

NCSFA's Oversight of Local Boards is Inadequate

NCSFA Oversight Activity	Implementation Status
Providing clear information on how local boards can spend their funds	◐
Providing clear information on when local boards must seek NCSFA's approval for spending their funds	◐
Having written criteria to guide NCSFA's approval/denial determinations	○
Collecting annual and monthly financial data	●
Collecting itemized financial data	◐
Tracking itemized financial data	○
Tracking local bill activity	○
Performing quality assurance of financial data submitted by local boards	◐
Investigating questionable local board activity	◐
Reporting questionable local board activity to the Department of Insurance's Criminal Investigations Unit	○

● = Fully implemented; ◐ = Partially implemented; ○ = Not implemented

Source: Program Evaluation Division based on data from NCSFA and survey of local boards.

Lack of clear information. NCSFA does not have a handbook on relief fund benefits. In the Program Evaluation Division's survey, 31% of boards reported they carry a balance because not enough firefighters apply for benefits, and 17% revealed their board is not familiar with all the ways it can use its relief fund money. In the survey, respondents requested that NCSFA provide clearer information on fund requirements. For instance, one respondent noted it would be helpful if there was a book of guidelines or recommendations. Another respondent stated, "I would like to see a better definition of what is covered and what is not. One of the main reasons for lack of use by my department is misunderstanding of the rules and guidelines, as well as the requirement of the limit to maintain in order to be eligible for use."

In the 1980s, the General Assembly directed NCSFA to approve local boards' spending of relief fund money on certain uses. As previously mentioned, starting in 1985 NCSFA was tasked with certifying that local boards' relief funds would not become actuarially unsound if they spent their money on supplemental retirement, workers' compensation, other insurance and pension protection, and educational benefits. Beginning in 1987, local boards had to obtain NCSFA's approval to provide financial assistance to destitute firefighters with at least five years of service. When the Program Evaluation Division interviewed NCSFA staff about the uses for which they require boards to seek permission, their answer corresponded with their statutory authority.

However, NCSFA's website is misleading as to when local boards must seek NCSFA's approval to spend their funds. Pursuant to N.C. Gen. Stat. § 58-84-35, local boards do not need NCSFA's approval to spend their funds on financial assistance to personnel injured in the line of duty, to dependents of personnel killed in the line of duty, or to personnel unable to

pay Firemen's Fraternal Insurance Fund premiums due to disability. However, in response to the frequently asked question, "Do we always have to ask permission to take out money in our relief fund?", NCSFA's website states, "Yes. . . Any funds dispursed [sic] from the Relief Fund Account by a department without express permission from NCSFA will be reported as misused [sic] funds and the department will forfeit the next payment due to them" (underline in original).³⁶ The Program Evaluation Division's survey of local boards found that nearly half believed they need to seek NCSFA's approval for these uses.

NCSFA's website is also misleading regarding eligibility for relief fund money. Pursuant to N.C. Gen. Stat. § 58-84-35, the only use that requires five years of service is financial assistance to destitute personnel. However, in response to the website's frequently asked question, "Am I eligible to get help from my department's relief fund money?", NCSFA's website states, "Possibly. You must have at least 5 years of service within that department and be a member in good standing." Results from the Program Evaluation Division's survey suggest local boards are misinformed, with over a quarter of boards believing firefighters need five years of service for relief fund benefits besides financial assistance to destitute firefighters.

Lack of written criteria. Local boards must submit their requests for relief funds to NCSFA in writing. In turn, NCSFA sends a written letter of approval or denial, which contains the rationale in cases of a denial, to the local board. Yet NCSFA does not have written procedures for how benefit determinations are made. When the Program Evaluation Division asked NCSFA administrators what criteria they use to make benefit determinations, they explained that a request for financial assistance for an allegedly destitute firefighter may be denied because the firefighter does not have enough years of service or is not destitute, which they define as the inability to pay for food or medical care or the loss of a car or house without assistance from the relief fund. The request also may be denied because the relief fund does not have enough money to support the request and be considered actuarially sound.

However, when the Program Evaluation Division asked for written criteria, NCSFA staff stated, "Every case is different. You can't write these things out." NCSFA staff explained they knew it sounded like they were making decisions subjectively, but they had at least 50 years of collective experience in the fire protection service. The absence of formal approval and denial procedures, including definitions of "actuarially sound" and "destitute," has the potential to result in a lack of transparency and consistency between benefit determinations. Moreover, when there is turnover in NCSFA staff, there needs to be clear criteria against which new staff can evaluate requests.

Lack of tracking data. In addition to not having written criteria for benefit determinations, NCSFA is not adequately tracking the requests it approves and denies. NCSFA keeps copies of local board requests and NCSFA's determination letters in more than 1,400 individual files. NCSFA estimated

³⁶ In response to a different question, the website states, "Before using it for anything other than an expense directly related to a Line of Duty Death, you must send your request in writing to our office for approval." This answer is more consistent with the statute but still not correct. Retrieved September 10, 2013, from <http://www.ncsfa.com/index.php/frequently-asked-questions>.

for the Program Evaluation Division that it denies 1 out of 10 requests. The consistent treatment of requests depends on accurate tracking of the nature of requests, their approval or denial, and the rationale for denials.

From the inception of the program for local firefighters' relief funds in 1907, local boards have been required to report their spending to NCSFA. Pursuant to N.C. Gen. Stat. § 58-84-40, local boards must certify by October 31 each year the balance of their local fund and provide a full accounting of the previous year's expenditures on a form prescribed by NCSFA. To increase accountability, in Fiscal Year 2012–13 NCSFA started requiring that local boards submit monthly bank statements and a copy of all written checks if they do not appear electronically on the monthly bank statement.

However, NCSFA's annual form collapses spending into categories that are too broad to adequately track expenditures by permitted uses. Boards simply report one amount ("Payments to Members") for four different statutorily permitted uses: financial assistance to personnel injured in the line of duty, dependents of personnel killed in the line of duty, destitute personnel with five years of service, and personnel unable to pay their Firemen's Fraternal Insurance Fund premiums. As a result, NCSFA does not know how much local boards spent on each of these categories without going back to individual department paper files.

Lack of tracking local bills. When the Program Evaluation Division asked for a list of local bills that affect how local boards can spend their relief funds, NCSFA did not have one. NCSFA staff reported that they have never felt they had the authority to deal with local bills, because they were not consulted when the bills were introduced, amended, or passed by the General Assembly. NCSFA explained that depending on how the local bill is written, local boards governed by it may not have to seek NCSFA's approval for spending their funds. Regardless, NCSFA would need to track local bills to know which local boards are subject to them and to understand the annual financial statements of these boards. Yet expenditures permitted by local bills did not have a space on the annual form until the Program Evaluation Division mentioned it to NCSFA.

In addition, failure to track local bills means NCSFA is not well-positioned to serve its members that are subject to them. In response to the Program Evaluation Division's survey question about whether their relief funds were governed by a local bill, 47% of the survey respondents subject to local bills answered the question incorrectly. Among the few respondents who answered the initial question correctly, even fewer were able to articulate the provisions of their local bill. One reason for the misunderstanding may be because 48 of the 54 local bills were originally passed before 1985.

Lack of quality assurance. In the Program Evaluation Division's review of 10 years of financial statement data, several fundamental errors were discovered that either NCSFA failed to detect or had made while entering the data, such as the ending balance for one year not matching the starting balance for the next year. At the request of the Program Evaluation Division, NCSFA was able to reduce the percentage of expenditures categorized as "Other" in Fiscal Year 2011–12 from 19% to 4% by going back to local boards' individual files and correctly attributing the expense

to a recognized category. Local boards can now fill out NCSFA's annual form online, which reduces the chances of NCSFA making future data entry errors.

Lack of investigation. Pursuant to N.C. Gen. Stat. § 58-84-40, future relief fund payments must be withheld from any local board suspected of willfully misappropriating or disbursing funds for non-permitted uses until the matter has been fully investigated by NCSFA. NCSFA staff stated they work with local boards on a weekly basis on benefit determinations and they often catch simple unintended mistakes. They also catch some inconsistencies when they review annual financial statements but stated that most of these inconsistencies turn out to be inadvertent mistakes as well.

At the time of this evaluation, NCSFA had not conducted any audits of local relief funds nor had it ever reported suspicious activity to the Department of Insurance for further review. Beginning in 2013, NCSFA started contracting with an audit firm to do a third-party review of monthly bank statements against annual financial statements. This review will entail a quick financial review by a third party for inconsistencies but will not be a complete audit of each fund. A full audit of many of the local relief funds is not practical because an audit would cost more than the total accumulated funds that are entrusted to the local board.

Lack of reporting questionable board activity. To date, the Department of Insurance has not received any reporting from NCSFA regarding misappropriation of funds. Within the department, the Criminal Investigations Division is responsible for investigating crimes involving insurance fraud. The division must rely on referrals for investigations, which come from different sources such as self-reports from fire departments or reports from neighboring fire departments. The division told the Program Evaluation Division that it should have received several referrals from NCSFA, but to date it has received none.

When the Criminal Investigations Division investigates a local relief fund board, it needs information from NCSFA. According to the division, on several occasions, requested information was incomplete and/or inaccurate. The division has received reports in which amounts do not match department records as well as reports that have accounting errors. Furthermore, the division has requested specific information related to fire departments that was never provided. Because of the difficulty the division has had in obtaining this requested information from NCSFA, it has had to write search warrants and court orders to financial institutions in order to obtain the material. This process has resulted in the division having to reimburse these financial institutions for that research.

Criminal Investigations Division staff warned, "These fire departments have a lot of money sitting there. If it just sits there, it opens itself up to fraud. It's human nature." There were three confirmed cases of misuse of local firefighters' relief funds in 2012:

- A husband and wife have been charged with fabricating annual financial statements to NCSFA and embezzling \$109,011 from the Bryson City Fire Department.

- The treasurer of the local board for the North Topsail Beach Fire Department has been charged with embezzling \$61,000.
- A disbursement was made to an ineligible firefighter with the Marion Fire Department. Because the local board returned the money to the account when confronted, no charges were filed.

At the time this report was released, there were two additional open cases, the details of which could not be shared because the cases are under investigation.³⁷

Lack of a centralized database between the Department of Insurance and the associations hinders the department's oversight ability. The Department of Insurance, NCSFA, and NCAREMS each have their own databases, and use their data for different purposes. As a result, the Program Evaluation Division encountered several issues in trying to match data across the entities. Different unique identifiers are assigned to departments by the associations and the Department of Insurance, preventing departments from being linked across databases. Also, there are no naming conventions for departments. For example, there are instances where one database spells out the word "department" while the other one abbreviates it, and vice versa, preventing software programs from identifying the match.

As a result of these inconsistencies, the Program Evaluation Division had to manually review department data. The Program Evaluation Division was able to match 1,217 fire departments across the Department of Insurance and NCSFA's databases and 480 rescue/EMS departments across the Department of Insurance and NCAREMS's databases.

However, the Program Evaluation Division found several departments listed in one database and completely absent from the other database. After consulting with the Department of Insurance and associations, the Program Evaluation Division was left with the following database discrepancies:

- The Department of Insurance had 28 fire departments not listed by NCSFA, and NCSFA had 39 departments not listed by the department.
- The Department of Insurance had 135 rescue departments not listed by NCAREMS, and NCAREMS had 142 departments not listed by NCAREMS.

Accountability, consistency, and transparency are threatened by the associations having their own databases that vary considerably from the Department of Insurance's database. This lack of coordination increases the chances that a department could be overlooked.

One barrier to better oversight of local firefighters' relief funds by the Department of Insurance could be funding. As previously mentioned, the 2013 Appropriations Act reduced the percentage of the taxes collected on gross property insurance premiums that the Department of Insurance retains to administer the Firefighters' Relief Fund from 2% to 1%. In Fiscal Year

³⁷ The Criminal Investigations Division has never conducted an investigation of Rescue Squad Workers' Relief Fund misuse.

2012–13, the department received \$148,287 for administrative costs related to local funds. The department used the funds, along with funds from other sources,³⁸ to support 2.5 full-time equivalent positions and program expenses. For Fiscal Year 2013–14, the department will have less than half of that amount because the 2013 Appropriations Act also reduced the percentage of the property insurance premiums tax that goes to the Firefighters' Relief Fund from 25% to 20%.

In summary, the relief funds are at risk because of the Department of Insurance's failure to require adequate information from NCSFA and NCAREMS, NCSFA's lack of oversight of local boards, and the lack of coordination between department and association databases. The Department of Insurance has certain statutory duties related to the relief funds but does not require adequate information from the associations to effectively perform its duties. Similarly, NCSFA's oversight of the local boards' use of relief funds suffers from a lack of clear information regarding when local boards must seek NCSFA's approval to spend their funds and who is eligible to receive the funds. Moreover, NCSFA does not have written procedures for how benefit determinations are made, does not adequately track the requests it approves and denies, does not track how local bills affect the spending of relief funds, and has not effectively fulfilled its quality assurance and investigative responsibilities. Finally, the fact that the databases kept by the Department of Insurance and the associations do not match undermines accountability and transparency.

Finding 3. Accountability, efficiency, and equity could be gained by using electronic transfer for all of the relief funds, consolidating the State and local firefighters' relief funds, and transferring administration of all of the relief funds to the Department of Insurance.

The Department of Insurance is mailing relief fund money to the associations and to local boards. The Department of Insurance currently mails the State Firefighters' Relief Fund check to the North Carolina State Firemen's Association (NCSFA), local firefighters' relief fund checks to local boards, and the Rescue Squad Workers' Relief Fund check to the North Carolina Association of Rescue and Emergency Medical Services, Inc. (NCAREMS). Transferring these funds electronically would be safer and faster. The drawbacks of mailing checks are exacerbated in the case of local firefighters' relief funds. The Department of Insurance mails checks to county or municipal financial officers, who then have to mail the checks to the local boards' treasurers. According to NCSFA, it sometimes takes six months for local boards to get their relief fund money. The Department of Insurance may not want to electronically transfer relief funds directly to local board accounts due to high turnover rates among board members; however, mechanisms are already in place to electronically transfer funds to local governments, which would save one step.

³⁸ These positions within the department's Office of State Fire Marshal's Prevention, Program, and Grants Section were also supported by the \$18,416 the department received for administrative costs related to the Rescue Squad Workers' Relief Fund and another \$29,209 the department received for administrative costs related to the Volunteer Rescue/EMS Fund (pursuant to N.C. Gen. Stat. § 58-87-5).

NCAREMS has realized efficiencies for the Rescue Squad Workers' Relief Fund by pooling its resources. Firefighters and rescue personnel are at a higher risk for occupational injury and death than other workers. Group policies for insurance benefits can be an effective way to manage costs associated with the risks faced by workers in this field. Instead of distributing the money to individual rescue and EMS departments, the Executive Committee of NCAREMS has retained Rescue Squad Workers' Relief Fund money at the state level and made benefits available to all rescue and EMS workers statewide. Dues-paying members of the association are eligible for additional benefits, some of which are funded with Rescue Squad Workers' Relief Fund money.

The model for the Rescue Squad Workers' Relief Fund favors pooling resources. According to NCAREMS, the rationale for its statewide model is that if it split up the funds amongst the 600 rescue and EMS squads, the amounts would be too small to have a meaningful impact. Instead, the benefit of the NCAREMS model is that it can pool the funds and make a concerted effort to distribute the funds statewide. NCAREMS spends the majority of the Rescue Squad Workers' Relief Fund on educational benefits. It has divided the State into 15 regions and guarantees at least one recipient in each of its five scholarship categories will be from each region, as long as someone from that region applies.

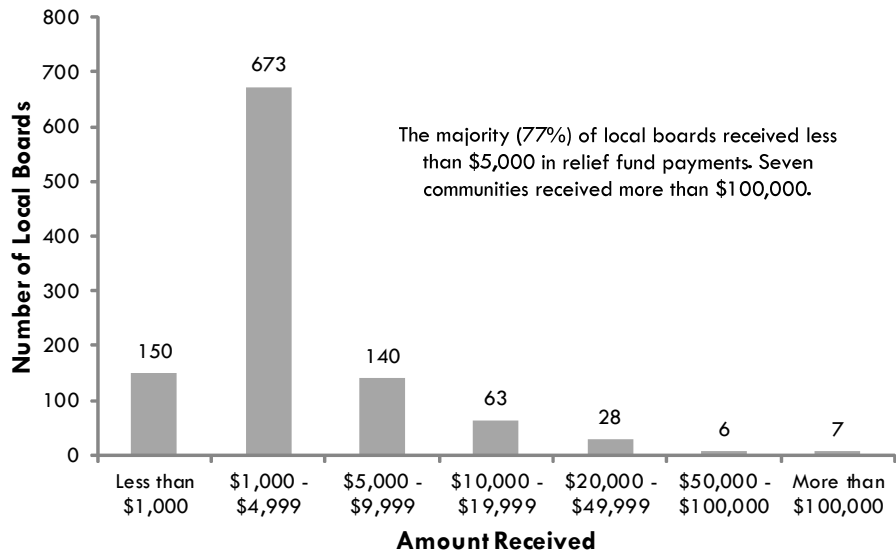
The Firefighters' Relief Fund favors local control over pooling resources.

The relief funds for firefighters have a statewide component in the State Firefighters' Relief Fund, which is administered by NCSFA, and a local component in the local firefighters' relief funds, which are administered by over 1,000 local boards with oversight from NCSFA. Similar to NCAREMS, NCSFA uses the state fund to provide benefits statewide to firefighters affiliated with fire departments that are members of NCSFA (i.e., AD&D and educational benefits). The local relief funds, however, receive the majority of relief money (\$6.5 million in Fiscal Year 2013–14) as compared to the state fund (\$514,194). According to NCSFA, the rationale for the existence of the local relief funds is that decisions made at the local level are made by people who better know their own needs.

Local boards have the choice of using local fund money to provide several different types of benefits (e.g., AD&D, supplemental retirement). Under this model, firefighters have different benefits depending on where they serve. Local boards are limited in the amount of benefits their relief funds can support. As shown in Exhibit 14, the majority of local boards received less than \$5,000 in relief fund money in Fiscal Year 2012–13.

Exhibit 14

Majority of Local Boards Receive Less Than \$5,000 Annually, Fiscal Year 2012–13



Source: Program Evaluation Division based on data from the Department of Insurance.

Two counties have realized efficiencies by combining their local relief funds and forming consolidated boards. In 1969, 18 local boards in Forsyth County formed a consolidated board in order to provide equal and better benefits at lower costs. According to current board members, “It was a matter of the haves helping the have-nots, like Robin Hood.” The two local boards representing the largest fire districts in Forsyth County—Winston-Salem and Kernersville—decided not to join the consolidated board. In 1989, 27 local boards in Wayne County formed a consolidated board in order to provide more benefits and to save enough to provide a supplemental retirement benefit. Three local boards—Mount Olive, Goldsboro, and Pleasant Grove—decided not to join the consolidated board. It should be noted that although Forsyth and Wayne County are referred to as having consolidated local boards, total consolidation of all the boards in the counties has not occurred.

According to board members of the Forsyth and Wayne County boards, consolidated boards provide the following advantages:

- Fire departments are able to pool their resources, and together they can afford benefits that they could not afford by themselves.
- With pooled capital, a larger return is generated through investments.
- Consolidated boards provide equal benefits to all firefighters.
- Typically, boards are plagued by high turnover, but with consolidated boards there are fewer people who need working knowledge of the process.
- Consolidated boards have better oversight from trustees because they realize the importance of their responsibilities when representing hundreds of firefighters as opposed to dozens.
- Consolidated boards submit one annual financial statement, which means less paperwork for NCSFA to handle.

The NCSFA Board does not have an opinion on the consolidation of local funds and believes combining local funds should be a local decision. According to NCSFA staff, the consolidated Wayne and Forsyth County

boards have seemed to work well. NCSFA is currently working with Yadkin County to form a consolidated board. Nevertheless, NCSFA staff stated consolidated boards have the following disadvantages:

- A firefighter in a department that runs 80 calls a year and has fewer training requirements because of less density would get the same benefits as a firefighter from a department that runs 1,800 calls a year and has to meet extensive training requirements.
- Consolidated boards take decision-making further away from where the money was collected.
- Departments making active use of their funds may find those uses restricted by a more conservative county board.

According to NCSFA staff, any move at the state level to require combined funds may be met with resistance by local communities.

Efficiencies will be realized from consolidating the Firefighters' Relief Fund at the state level. Currently, NCSFA chooses what benefits to offer at the state level and local boards choose what benefits to offer at the local level. If the state and local relief funds were consolidated and administered by one entity—either NCSFA or the Department of Insurance—several efficiencies could be gained.

- **Better benefits.** Currently, the permissible uses of the State and local firefighters' relief funds are similar, and as a result firefighters may end up with duplicative benefits. For example, NCSFA provides AD&D coverage from the state relief fund, yet a number of local boards also offer AD&D coverage through their local relief funds. Consolidation would promote a holistic approach to determining what benefit package is best suited to North Carolina firefighters.
- **Lower premiums.** A consolidated fund would benefit from economies of scale in terms of increasing the pool of benefit participants. Instead of local boards negotiating benefits for 9 to 1,152 firefighters, one entity would be able to leverage the 44,626 eligible firefighters statewide to negotiate lower premium rates.
- **More coverage.** With unduplicated benefits and lower premiums, a consolidated fund may be able to offer benefits with more coverage (e.g., a \$500,000 AD&D policy as opposed to a \$65,000 one).
- **Less administrative burden.** Consolidation would provide economies of scale in terms of administration of benefits as well. Instead of over 1,000 local boards individually administering their benefits, one entity would have that responsibility. Firefighters and their dependents would also have to communicate with fewer administrators and vendors when they needed benefits.

Better benefits could be more equitably distributed and program administration could be more efficient and accountable if the Department of Insurance administered the relief fund programs.

Different stakeholders have different ideas on who is better equipped to manage the Firefighters' Relief Fund. NCSFA representatives believe the Department of Insurance already has too much involvement with fire relief funds and more responsibility should be shifted to the association. However, a state agency would be more accountable to the State for how it decides to spend the relief fund money collected by the State. The Program Evaluation Division asked the Department of State Treasurer if it should be the entity in charge of the Firefighters' Relief Fund, and staff stated that the State Treasurer is not set up to handle the type of oversight and fund administration that the relief funds would entail. The Department of Insurance, which already plays a central role in the administration of the relief funds, believes that it could handle more central authority if requested by the General Assembly and given appropriate resources.

Exhibit 15 shows the benefits of different structures for the Firefighters' Relief Fund.

The administration of the Rescue Squad Workers' Relief Fund is already consolidated under NCAREMS. However, as discussed in Finding 2, the State has limited oversight concerning how its relief fund monies are spent by NCAREMS. Similar to Option 4 in Exhibit 15, greater accountability could be achieved if administration of the Rescue Squad Workers' Relief Fund were transferred to the Department of Insurance.

Exhibit 15: Benefits of Different Firefighters' Relief Fund Structures

	Option 1 (current model): NCSFA administers state fund and local boards administer local funds	Option 2 NCSFA administers state fund and consolidated local boards administer local funds	Option 3 State and local funds combined and NCSFA administers combined fund	Option 4 State and local funds combined and DOI administers combined fund
Equitable benefits for firefighters across the state			✓	✓
Local boards decide how they spend their funds	✓	✓		
Local boards have the option to consolidate	✓			
Local boards pool their resources for better benefits for firefighters		✓		
The State pools its resources for better benefits for firefighters			✓	✓
Efficient administration of relief funds			✓	✓
Program administrator is more accountable to the State				✓

Notes: DOI stands for the Department of Insurance, and NCSFA stands for the North Carolina State Firemen's Association.

Source: Program Evaluation Division based on information from DOI, NCSFA, NCAREMS, and the two consolidated local relief boards.

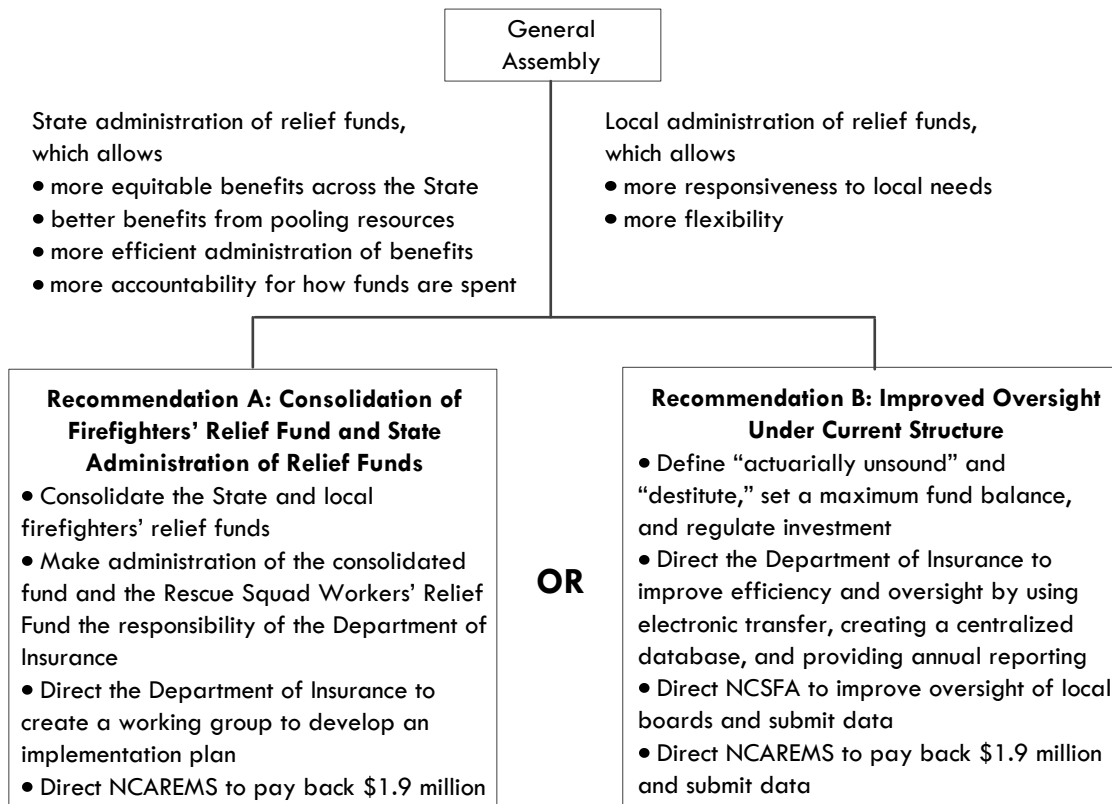
In summary, the administration of relief funds could be made more efficient. First, electronic transfer would be a more efficient and safer way for the Department of Insurance to distribute relief money to local boards, NCSFA, and NCAREMS. Second, efficiencies could be realized by pooling resources so benefits are available to workers statewide and by centralizing fund administration duties under the Department of Insurance. Although the Firefighters' Relief Fund favors local control over pooling resources, two counties have formed consolidated boards, which has enabled them to pool their resources and afford benefits not otherwise available to a single local board. Overall, efficiencies would be realized if the State and local firefighters' relief funds were consolidated at the state level and administered by the Department of Insurance. Similarly, even though administration of the Rescue Squad Workers' Relief Fund has already been consolidated under NCAREMS, the program would be more accountable to the State if administration of the fund were transferred to the Department of Insurance.

Recommendations

Relief funds for firefighters and rescue personnel are local benefits paid for with state dollars. As shown in Exhibit 16, the Program Evaluation Division’s recommendations for action depend on whether the General Assembly favors state or local administration of relief funds. In terms of the Firefighters’ Relief Fund, the advantage of state administration is more equitable benefits for all firefighters across the State, better benefits for firefighters from the pooling of resources, and more efficient administration. For both the Firefighters’ Relief Fund and Rescue Squad Workers’ Relief Fund, the advantage of state administration is more accountability for how state funds are spent. If the General Assembly favors state administration, the General Assembly should consider statewide consolidation under the administration of the Department of Insurance.³⁹ Recommendation A outlines the steps the General Assembly would have to take to implement this significant change in the way the relief funds are currently structured.

Alternatively, the General Assembly may favor local administration for the relief funds, choosing to uphold the current structure of having associations and local boards determine how funds are spent. Recommendation B enables the General Assembly to address the findings of this evaluation while leaving the current administrative structure in place.

Exhibit 16: Recommendation Options Depending on General Assembly’s Preference for State or Local Administration of Relief Funds



Source: Program Evaluation Division.

³⁹ The Program Evaluation Division considered other possible levels of consolidation of the Firefighters’ Relief Fund (see Exhibit 15) but determined that forcing local boards to consolidate would be ineffective and that NCSFA is not equipped to manage a consolidated fund based on the oversight issues identified in Finding 2.

Recommendation A. The General Assembly should consolidate the State and local firefighters' relief funds and make administration of the consolidated fund and the Rescue Squad Workers' Relief Fund the responsibility of the Department of Insurance.

A-1. Modify statutes. The General Assembly should modify or repeal the following statutes to restructure how the relief funds are administered.

- **Repeal Chapter 58, Article 85 to abolish the separate State Firefighters' Relief Fund.**
- **Repeal the 54 local bills regarding how local boards can spend their relief fund money.**
- **Modify Chapter 58, Article 84 to combine the State and local firefighters' relief funds and transfer administration of the combined fund to the Department of Insurance.** N.C. Gen. Stat. §§ 58-84-25(a) and 58-84-50 should be modified to credit the amount forfeited by nonmember fire departments to the combined relief fund, rather than to the North Carolina State Firemen's Association (NCSFA). Instead of utilizing local boards, N.C. Gen. Stat. § 58-84-30 should be modified to name the Executive Committee of NCSFA as the Board of Trustees for the fund. N.C. Gen. Stat. § 58-84-35 should be modified to give control of the funds to the Commissioner of Insurance, rather than to local boards. The Commissioner of Insurance, based on guidelines from the new board, should determine when to provide financial assistance to destitute firefighters and should certify that expenditures will not render the fund actuarially unsound. N.C. Gen. Stat. § 58-84-25(a) should be modified to provide the Commissioner of Insurance with 4% of the premium taxes received for administration of the fund, instead of the Commissioner receiving 1% and NCSFA receiving 3%. N.C. Gen. Stat. §§ 58-84-25(b)–(d) (allocation to fire departments), § 58-84-40 (accounting and reporting by local boards), 58-84-46 (counties certifying eligibility), 58-84-55 (no discrimination by local boards), and 58-84-60 (immunity for local board members) should be repealed. In modifying the statute, the General Assembly should consider whether it still wants to make eligibility for relief funds dependent on individuals being affiliated with a fire department that is a member of NCSFA, which is currently the case pursuant to N.C. Gen. Stat § 58-84-50.⁴⁰
- **Modify Chapter 58, Article 88 to transfer administration of the Rescue Squad Workers' Relief Fund to the Department of Insurance.** The Executive Committee of the North Carolina Association of Rescue and Emergency Medical Services, Inc. (NCAREMS) should remain the Board of Trustees of the Rescue Squad Workers' Relief Fund. N.C. Gen. Stat. § 58-88-5(c) should be modified to keep the fund revenue with the Commissioner of Insurance, rather than disbursing it to NCAREMS, and to have the Department of Insurance, rather than the board, certify that

⁴⁰ The statute could not simply be modified to make eligibility for relief funds dependent on eligibility for NCSFA membership, as is the case with the Rescue Squad Workers' Relief Fund, because NCSFA does not have individual members.

expenditures will not render the fund actuarially unsound. N.C. Gen. Stat. § 58-88-15 should be modified to instruct the Department of Insurance, rather than the board, to keep a correct account of relief fund monies. N.C. Gen. Stat. § 58-88-30 should be modified to provide the Commissioner of Insurance with 14% of the vehicle inspection fees received for administration of the fund, instead of the Commissioner receiving 2% and NCAREMS receiving 12%.

A-2. Require implementation plan. The General Assembly should direct the Department of Insurance to provide an implementation plan to the House and Senate appropriations subcommittees on general government by January 1, 2015.

- **Working group.** The Department of Insurance should bring together a working group to inform the implementation plan. Representatives from NCSFA, NCAREMS, the two consolidated local board counties, the Office of the State Auditor, and the Department of State Treasurer should be part of the working group.
- **Implementation schedule.** The implementation plan should describe what steps need to be taken and when they need to be taken in order for consolidation and transfer of administration to be completed by July 1, 2015.
- **Inventory all boards.** As part of the implementation plan, the working group should survey all local boards to determine what benefits they are currently offering and what steps would need to be taken to transfer or replace those benefits.
- **Determine statewide benefits.** As part of the implementation plan, the working group should determine what statewide benefits to offer firefighters and rescue personnel. The implementation plan should identify the vendors that can provide those benefits and estimate the premiums they will charge. To reduce the State's risk in the event of a catastrophe, the working group should consider whether some relief fund money should be used to purchase reinsurance; reinsurance is insurance purchased by an insurer from other insurers to limit the total loss it would experience in case of a disaster.

A-3. Require NCAREMS to pay back \$1.9 million. The General Assembly should direct NCAREMS to pay back the \$1.9 million in relief fund money it loaned itself to buy land and an office building. As discussed in Finding 1, the Program Evaluation Division determined buying land and building an office facility were not permitted uses of Rescue Squad Workers' Relief Fund money pursuant to N.C. Gen. Stat. § 58-88-5. The General Assembly should direct NCAREMS to secure a traditional bank loan for the \$1.9 million and to pay back the relief fund by July 1, 2014. If NCAREMS fails to pay back the \$1.9 million by the date specified, the General Assembly should direct the Attorney General to file a civil action for recovery.

Recommendation B. The General Assembly should improve oversight of the State and local firefighters' relief funds and the Rescue Squad Workers' Relief Fund under the current structure of how the funds are administered.

B-1. Modify statutes. The General Assembly should modify the following statutes to address the oversight issues discussed in this evaluation.

- **Modify Chapter 58, Article 84 to define “destitute” and regulate investment by local boards.** N.C. Gen. Stat. § 58-84-35 allows relief funds to be used for the financial assistance of a destitute firefighter. The statute should define “destitute” as the inability to pay for food or medical care or the loss of a car or house without assistance from the relief fund, which would codify NCSFA’s working definition of the term. Chapter 58, Article 84 should require that local boards invest idle funds in accordance with N.C. Gen. Stat. § 159-30. In modifying the statute, the General Assembly should consider whether it still wants to make eligibility for relief funds dependent on individuals being affiliated with a fire department that is a member of NCSFA, which is currently the case pursuant to N.C. Gen. Stat § 58-84-50.
- **Modify Chapter 58, Article 85 to regulate investment by NCSFA.** Chapter 58, Article 85 should require NCSFA to invest idle funds in accordance with N.C. Gen. Stat. § 159-30. In addition, the General Assembly should make a technical correction to N.C. Gen. Stat. § 58-85-1, allowing NCSFA to provide accidental death and dismemberment insurance to all members of NCSFA, not just members affiliated with fire departments that did not qualify for their local relief fund money; this technical correction would conform with practice. In modifying the statute, the General Assembly should consider whether it still wants to make eligibility for relief funds dependent on individuals being affiliated with a fire department that is a member of NCSFA, which is currently the case pursuant to N.C. Gen. Stat § 58-85-1.
- **Modify Chapter 58, Article 88 to regulate investment by NCAREMS.** Chapter 58, Article 88 should require that NCAREMS invest idle funds in accordance with N.C. Gen. Stat. § 159-30. Currently, the Executive Director invests the \$6.3 million balance of the Rescue Squad Workers’ Relief Fund. NCAREMS may want to invest through a professional service. In addition, the General Assembly should make a technical correction to N.C. Gen. Stat. § 58-88-5, modifying “The Commissioner of Insurance has exclusive control of the Fund and shall disburse revenue in the Fund to the Association only for the following purposes” to “The Association has exclusive control of the Fund and shall disburse revenue in the Fund only for the following purposes.” This technical correction would conform with practice. In modifying the statute, the General Assembly should consider whether it still wants to allow the relief fund’s board of trustees to make eligibility for certain benefits dependent on individuals being dues-paying members of

NCAREMS, which is currently the case pursuant to N.C. Gen. Stat. § 58-88-5.

B-2. Improve efficiency and oversight by Department of Insurance. The General Assembly should direct the Department of Insurance to improve its administration and oversight of the funds.

- **Electronic transfer.** The Department of Insurance should be directed to make disbursements to NCSFA and NCAREMS by electronic transfer. For local firefighters' relief funds, the department should be directed to make disbursements to county or municipal finance officers.
- **Centralized database.** The General Assembly should direct the Department of Insurance to create a database by January 1, 2015, into which NCSFA and NCAREMS will enter data. The database should require that the associations enter amounts spent on benefits. At a minimum, the database should track the following data on individuals: department affiliation, request date, reason for denial if applicable, amount of approved benefit, and date when benefit was provided. The database should enable the department to track how relief funds are being spent and report on relief fund activity.
- **Annual reporting.** The Department of Insurance should provide an annual report to the House and Senate appropriations subcommittees on general government, starting on July 1, 2015. For each local board, NCSFA, and NCAREMS, the report should detail the total amount of money disbursed, the amount of money spent for each of the statutorily permissible uses, and ending fund balances. The report also should describe any problems with data collection and quality and, if applicable, make recommendations on actions the General Assembly could take to resolve any data issues.
- **Adequate funding.** The department will need funding to create the database and provide annual reporting. The 2013 Appropriations Act reduced the percentage of the taxes collected on gross property insurance premiums that the Department of Insurance retains to administer the funds from 2% to 1%. The General Assembly should return the department's funding to 2% or appropriate other funds.

B-3. Improve oversight by NCSFA and require NCSFA to submit its audits and data. The General Assembly should direct NCSFA to improve its oversight of local boards.

- **Written materials.** NCSFA should create a handbook to describe the benefits provided through the State Firefighters' Relief Fund. The handbook should also describe the types of benefits that local boards can provide using their relief funds and the conditions under which local boards must seek NCSFA's approval to spend their funds. The benefit handbook should provide investment guidelines based on N.C. Gen. Stat. § 159-30. The benefit handbook also could assist local boards in determining how much of their relief funds to spend versus save. NCSFA should submit the handbook to

the Department of Insurance for approval. The benefit handbook should be posted to NCSFA's website and the Office of State Fire Marshal's website, and all local board members and fire department members should be directed to this resource. NCSFA's website content should be revised to conform with statutory language regarding when firefighters are eligible for relief fund money and when local boards must seek NCSFA's approval for relief fund spending. NCSFA should submit its website language to the Department of Insurance for approval.

- **Written criteria.** NCSFA should create written criteria for determining when to approve or deny local board requests for spending relief funds. The written criteria should be approved by the Department of Insurance and posted to NCSFA's website. NCSFA should establish written procedures for reporting misuse of funds to the Department of Insurance. The written procedures should be approved by the Department of Insurance and posted to NCSFA's website.
- **Reporting form.** NCSFA should revise the annual financial statement that local boards complete. The form should have separate line items for each statutorily permissible use in N.C. Gen. Stat. § 58-84-35, breaking out subsection (5)'s three uses (supplemental retirement, workers' compensation, and other insurance and pension protection). The form should have a separate line item for uses permitted by local bills. The form should not have an "other" category. NCSFA should submit its revised form to the Department of Insurance for approval.
- **Track local bills.** NCSFA should catalogue local bills, determining how they deviate from the general statutes. NCSFA should post the inventory to its website, track local bill activity, and update the inventory as necessary. NCSFA should survey boards in the 54 counties and municipalities that are governed by local bills to determine if the bills are still relevant and if they inhibit spending of relief funds. NCSFA should report the results of the survey and recommendations to repeal any of the existing local bills to the House and Senate appropriations subcommittees on general government by January 1, 2014.
- **Submit data to centralized database.** NCSFA must submit data to the Department of Insurance's database on a quarterly basis, starting on April 1, 2015. NCSFA will submit the following data on the State Firefighters' Relief Fund and each local board's relief fund: total amount of money received, total amount of money disbursed, the amount of money spent for each of the statutorily permissible uses, and ending fund balances.
- **Submit audit to the Department of Insurance and State Auditor.** NCSFA must submit its annual audit of the State Firefighters' Relief Fund to the Department of Insurance and the State Auditor, starting with the Fiscal Year 2013–14 audit.

B-4. Require NCAREMS to pay back \$1.9 million and to submit its audits and data. The General Assembly should direct NCAREMS to pay back the \$1.9 million in relief fund money it loaned itself to buy land and an office building. As discussed in Finding 1, the Program Evaluation Division determined that buying land and building an office facility were not permitted uses of Rescue Squad Workers' Relief Fund money pursuant to N.C. Gen. Stat. § 58-88-5. The General Assembly should direct NCAREMS to secure a traditional bank loan for the \$1.9 million and pay back the relief fund by July 1, 2014. If NCAREMS fails to pay back the \$1.9 million by the date specified, the General Assembly should direct the Attorney General to file a civil action for recovery.

In addition, the General Assembly should require NCAREMS to submit data to the Department of Insurance's database on a quarterly basis, starting on April 1, 2015. NCAREMS will submit the following data on the Rescue Squad Workers' Relief Fund: total amount of money received, total amount of money disbursed, amount of money spent for each of the statutorily permissible uses, and ending fund balance.

NCAREMS already submits its annual audit to the Department of Insurance, but the General Assembly should direct the association to submit the audit to the State Auditor, starting with its Fiscal Year 2013–14 audit.

B-5. Direct the Department of Insurance to define “actuarially unsound” to set a minimum balance threshold and also to set a maximum balance threshold. Currently, N.C. Gen. Stat. § 58-84-35 prohibits certain expenditures of relief funds unless NCSFA certifies that such expenditures will not render the local board's funds actuarially unsound, and N.C. Gen. Stat. § 58-88-5 prohibits expenditures that would make the Rescue Squad Workers' Relief Fund actuarially unsound. Neither statute defines “actuarially unsound.” In both statutes, the term “actuarially unsound” should be modified by the phrase “as defined by the Commissioner of Insurance.”

The Program Evaluation Division attempted to create a more concrete definition of “actuarially unsound” by examining department balances and adjusting for department membership.⁴¹ However, delineating a minimum balance threshold per member in statute would be too stagnant. The threshold would not automatically adjust for future changes in funding and membership and would need to be regularly updated by the General Assembly. For this reason, the Program Evaluation Division recommends that the General Assembly direct the Commissioner of Insurance, which has an actuary on staff, to determine guidelines for actuarially unsound balances.

⁴¹ Based on data for local firefighters' relief funds, the Program Evaluation Division considered recommending that “actuarially unsound” be defined as a cumulative balance of less than \$300 per member. Using this minimum balance threshold per member, a department with 20 members would need to keep a balance of \$6,000, whereas a larger department with 50 members would be required to keep \$15,000 in reserve. This per-member threshold would enable departments with fewer members to expend some of their relief funds, as opposed to the \$10,000 threshold set by the NCSFA Board. Based on data on the Rescue Squad Workers' Relief Fund, the Program Evaluation Division considered recommending that “actuarially unsound” be defined as a cumulative balance of less than \$30 per member.

The Program Evaluation Division also attempted to determine a maximum balance threshold per member.⁴² Again, delineating a maximum balance threshold per member in statute would be too stagnant. As a result, the Program Evaluation Division recommends that the General Assembly direct the Department of Insurance, which has an actuary on staff, to determine guidelines for maximum fund balances. Once the General Assembly receives the department's report, it might consider legislation that stipulates that if an allocation causes a local board's balance to surpass the maximum threshold, the allocation should revert to the General Fund rather than being distributed to the local board. It should be noted that the majority of boards would never meet this maximum balance threshold, and thus the threshold would not address the problem of boards saving rather than spending their relief funds.

The Department of Insurance should report the results of its initial actuarial analysis to the House and Senate appropriations subcommittees on general government by January 1, 2015. The report also should be sent to NCSFA and NCAREMS. After the initial report, the Department of Insurance should annually provide updated statements to NCSFA and NCAREMS that account for changes in funding and membership.

Agency Response

A draft of this report was submitted to the Department of Insurance, North Carolina State Firemen's Association, and North Carolina Association of Rescue and Emergency Medical Services, Inc. to review and respond. Their responses are provided following the report.

Program Evaluation Division Contact and Acknowledgments

For more information on this report, please contact the lead evaluator, Kiernan McGorty, at kiernan.mcgorty@ncleg.net.

Staff members who made key contributions to this report include Jim Horne, Meg Kunde, and Sara Nienow. John W. Turcotte is the director of the Program Evaluation Division.

⁴² Based on data on local firefighters' relief funds, a maximum balance threshold per member of \$5,000 would identify local boards with savings greater than about 95% of all boards. In Fiscal Year 2011–12, 56 departments had balances greater than \$5,000 per member, and the amount of their balances above the threshold totaled \$5.4 million. Based on data on the Rescue Squad Workers' Relief Fund, the Program Evaluation Division considered recommending a maximum balance threshold per member of \$125.

November 8, 2013

Mr. John Turcotte, Director
NC General Assembly Program Evaluation Division
Legislative Office Building, Suite 100
300 N. Salisbury Street
Raleigh, NC 27603-5925

RE: PED Evaluation of the North Carolina Firefighters' Relief Fund and
the Rescue Squad Workers' Relief Fund

Dear Mr. Turcotte,

The North Carolina Department of Insurance appreciates the opportunity to review and respond to the Program Evaluation Division report on the North Carolina Firefighters' Relief Fund (NCFRF) and the Rescue Squad Workers' Relief Fund.

The North Carolina Firefighters' Relief Fund and the Rescue Squad Workers' Relief Fund provides necessary and important benefits to the first responders that serve to protect the citizens of the state and their possessions. The great majority of firefighters who serve the state do so as volunteers. Of approximately 51,000 firefighters in the state 42,500 are volunteer and only 8,500 are paid. Good fire protection and service also means lower homeowner's insurance rates for North Carolina citizens.

We believe that given proper authority and resources the Department can successfully administer the responsibilities given it by the General Assembly. The PED report is correct that our administration funding was cut in half by the 2013 Appropriations Act. Decreased administrative funding will restrict our efforts.

We are grateful to you and the other staff of the Program Evaluation Division of the General Assembly for the professionalism and proficiency you have shown throughout this process.

Yours very truly,



Wayne Goodwin
NC Commissioner of Insurance

WG/kew



North Carolina State Firemen's Association

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*Sandie Houck
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Assistant*

November 12, 2013

Mr. John W. Turcotte
Director
Program Evaluation Division
300 N. Salisbury St. Suite 100
Raleigh, NC 27604

Dear Mr. Turcotte:

On behalf of the staff, Board of Directors, and 50,000 plus members of our Association we appreciate the opportunity to offer our observations and comments on the Study of the North Carolina Firefighter's Relief Fund by the Program Evaluation Division.

Since 1907 the NC State Firemen's Association (NCSFA) has been connected statutorily to the NC Firefighter's Relief Fund. In fact, the establishment of a fund for Line of Duty Deaths occurred in statute in 1891, which was provided to the NC State Firemen's Association for distribution. The NCSFA is a "Chartered" organization rather than a "Chartered" organization because its initial purpose was basically created by statute and tied to the management of the relief fund since 1907.

The Firefighter's Relief Fund was created by the General Assembly as a series of local funds, with oversight by the NCSFA. The proceeds were to be provided by a tax on fire and lightning insurance, and the distribution of those funds distributed where those taxes are earned, which is locally based on the local insurance value of fire protection. There are numerous benefactors of fire protection. First are the citizens in a community whose lives and property may depend on such protection, and another the community itself who may see economic growth and reduced insurance rates from quality fire protection. A huge benefactor of fire protection is the insurance industry, whose losses are substantially reduced from firefighting, salvage, and overhaul conducted by fire departments. That is the funding source for the NC Firefighter's Relief Fund.

The NCSFA believes that, according to original legislative intent, the Firefighter's Relief Fund is currently a series of local funds with state level support and oversight; funded by property insurance taxes from companies that benefit from fire protection; provided oversight at the state level by an organization whose leadership is elected from the fire service by the fire service; and whose local Boards have both State and Local governmental appointees as well as fire service representation locally. NCSFA believes improvements will occur as a result of this initial and complete study, but the current system follows original statutory intent and is not in need of replacement. The NCSFA believes it can correct the concerns addressed in this study with organizational changes, while maintaining the funds original intent. We appreciate the thorough work

provided by PED but take issue with certain findings and opinions. With respect to the report, we offer the following observations and comments:

1. Complexity of the Report

The title and tone of the report seems to suggest a program with no oversight and a fund being spent completely out of context with the legislative intent. It should be recognized that this is the first formal study of this program since 1907, and this study was very extensive. While numerous "perceived" problems were brought out in the report, in reality local departments have maintained their programs honestly and kept to the original intent. The lack of available data mentioned is a result of never being required or requested by anyone, rather than one of non-compliance. One primary issue is the conservative manner in which local funds have retained their monies rather than spend them. In truth, the original intent was for the fund to be managed locally, with oversight from the NCSFA. This is occurring. While some improvements have been and should be continually made, this is not a broken system that needs to be replaced by establishing or expanding a State administrative arm. Since this is the first full evaluation of the fund, the NCSFA should be given time to adjust necessary procedures to the findings and opinions offered in the report.

2. Money not Being Spent

One of the primary issues within the report deals with the accumulation, rather than spending of the Relief Fund monies. The NCSFA concludes that this very conservative nature is the result of more than simply a fear of catastrophes. Many funds lack the funding level to provide benefits continually, and as such, are saving to build enough reserve so that investments and annual receipts are sufficient to fund programs year to year. Each year additional local funds initiate a continuing benefit program after reaching a level that can fund them. Over half the local funds have less than \$25,000 in their accounts, which would need to be increased in most cases to provide continual fair and equitable benefits. Another percentage retains funds because local legislated bills require a specific balance. The NCSFA supports expanding the use of funds, but takes issue with the current structure being penalized for being conservative.

3. Unclear Guidelines

The report talks about unclear and unwritten guidelines, but doesn't show arguments that inconsistencies exist in approvals of usage. The NCSFA would agree that more written publications and procedures can help; however in a service as transitional as the fire service, there will always be new members to educate on the process and the majority of these are volunteer. In fact, the NCSFA and the Department of Insurance both work diligently in providing information on the program, even recently implementing a mandatory class that came out of a recommendation developed by a NCSFA forum. It is a difficult task. Defining two key terms, "actuarially sound" and "destitute", seems necessary according to the report, and the NCSFA would agree these would be helpful in administering the fund. The difficulty lies with defining these in a manner that would be equitable to the variations of funds across the State. The NCSFA would be supportive of defining these terms in a manner that would not remove the local decision on use of funds for established purposes.

4. NCSFA Reserves

The report records the reserves the NCSFA has within the State Relief Fund account, and seems to indicate it is well positioned to come to a local Board's aid in the event of a catastrophe. This may be true to an extent, but the potential exists where this would not be the case. In addition, the NCSFA is already contributing 23% of its member's dues to fund the Firefighter's Relief Fund programs such as Accident and Sickness Insurance as well as scholarships. Should the NCSFA have to expend resources in the event of a catastrophe, the continuation of existing programs would be interrupted. Yields from investments on the principal pays for a portion of the benefits.

5. NCSFA and Department of Insurance Working Relationships

The NCSFA and the Office of State Fire Marshal within the Department of Insurance have worked well over the years on the Relief Fund because of what was perceived as a clear separation of duties which appears to be supported by statute and original intent. The report suggests that the Department of Insurance should take more responsibility in developing requirements and provide more regulation. NCSFA believes the current proportion of authority is sufficient and improvement can be achieved under current statutory guidelines.

6. NCSFA and the State's Fire Service Would Oppose Recommendation "A"

The first option, or Recommendation "A": Consolidating the Fund into one State Fund under the Department of Insurance would be dramatically opposed by the NCSFA and local fire departments. Consolidating the Firefighter's Relief Fund with all local funds into one State fund controlled by the Department of Insurance flies in the face of the original legislation. It would interrupt established programs that exist locally and at the State level that have provided benefits which fire personnel have come to expect and has been used as a retention tool for volunteers.

7. NCSFA Would Support Recommendation "B" With Certain Exceptions

Recommendation "B": or improving oversight under the current structure is a workable plan with some modification and NCSFA agrees it could assist in improving the fund. Many of these changes are already underway and the NCSFA applauds the PED for providing this option.

On Recommendation "B" NCSFA specifically comments as exceptions:

In several places Recommendation "B" suggest the General Assembly consider whether it still wants to make eligibility for relief funds dependent on individuals being affiliated with a fire department that is a member of NCSFA which is currently required. NCSFA would strongly oppose a change of this nature. Beyond administering the fund, NCSFA uses 23% of its dues income to fund relief fund activities and monitors the eligibility of members. Being a member of NCSFA also allows the members to participate in decision making concerning the fund, supports it by use of dues, and adds a level of prevention to abuse of the fund.

Mr. John W. Turcotte

November 12, 2013

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Defining "destitute" and "actuarially sound" is a good idea, but NCSFA questions whether statute can be flexible enough for the variations of local funds. In addition, recommendations for these definitions should come from the expertise of NCSFA, not the Department of Insurance.

The NCSFA has been extremely successful in investments of the relief fund balance. Regulating investment guidelines may create more problems than solution, but these recommendations can be passed along as guidelines by NCSFA to local funds and used as a guide for NCSFA in investing state fund balances as well.

Funding a centralized database within DOI and requiring NCSFA to report more specific information to DOI creates an unnecessary burden on both NCSFA and a State Agency. The information collected by NCSFA is available to the State and housing this information within DOI accomplishes only another level of storage, as well as additional cost to both the State and the NCSFA.

Approval of NCSFA written materials, website information, written criteria, and forms by DOI is an unnecessary addition of administration and bureaucracy. Both agencies have worked together and shared information for decades. Putting a formal requirement for DOI approval takes the expertise decisions away from the association created by statute to manage this fund.

In addition to the recommendation in the report, NCSFA is working with local fund representatives and regional associations to develop any potential recommendations to encourage the expanded use of local funds based on the intent of the fund and provide any necessary recommendations for legislative changes. This could include encouraging the consolidation of local funds.

In conclusion, we appreciate the opportunity to comment on this report and look forward to working with the PED and General Assembly in continuing to improve the NC Firefighters Relief Fund. We are available to the PED staff at any time to provide additional information or to answer questions that may arise.

Sincerely,

A handwritten signature in black ink that reads "Tim Bradley". The signature is written in a cursive, flowing style.

Tim Bradley
Executive Director

CC: Board, North Carolina State Firemen's Association
Kiernan McGorty, Principal Evaluator



North Carolina Association of Rescue
and
Emergency Medical Services, Inc.

P.O. Box 1914

Goldsboro, North Carolina 27533-1914

Telephone: (919) 736-0506 • Fax: (919) 736-7759 • E-mail: ncarems@ncarems.org

Website: www.ncarems.org

November 12, 2013

Director John Turcotte
Program Evaluation Division
North Carolina General Assembly
300 N. Salisbury St, Suite 100
Raleigh, North Carolina 27603-5925

Dear Director Turcotte:

The NCAREMS Relief Fund Board of Directors appreciates the professional performance of the personnel who did the evaluation.

We feel we need to provide a break down of the funds as they were used since the fund was created.

Member Scholarships	2263	\$1,086,250.00	
Children Scholarships	3162	\$4,095,000.00	Acts Pay \$1,475,500.00
Compensation Monetary	1248	\$249,600.00	
LLOD Deaths	13	\$875,000.00	Acts Pay \$80,000.00 (Note 12 Pending not shown \$1,100,000.00)
Injury	308	\$134,277.74	
Non- Duty Natural	725	\$681,000.00	
Accidental Death	64	\$1,075,000.00	
Dismemberment	12	\$66,000.00	
Total	7795	\$8,262,127.74	

First Year 1989 we awarded 10, \$2000.00 four year college and 10, \$1000.00 scholarships two year college. Over the years the scholarships have been increased to \$8,000.00 four year college, \$10,000.00 four year college and \$12,000.00 four year college the \$2,000.00 was increase too.

We are now awarding 150 scholarships each year and each of the 15 areas are entitled to one \$12,000.00, one \$8,000.00 one \$2,000.00 children scholarships and one \$4,000.00 and one \$2,000.00 member scholarship. Once this is completed it then is awarded statewide.

At the time this report was prepared we had 371 active scholarships, this due to early graduations or student losing eligibility, this normally runs 420 children or members on scholarship.

The Board of Directors has plans to increase the amount of the scholarships and the number of scholarships to be awarded.

First year 1989 the duty death benefit was \$25,000. Over the years it was increase to \$50,000, \$75,000.00 and now is \$100,000.00.

We will be glad to provide a list by county, department, the individuals, the type of benefit and the amount of the benefit.

Our Relief Fund budget is \$1,115,900.00 and the current fiscal year budget includes \$285,000.00 in interest income.

The NCAREMS has the infrastructure, expertise and efficiency to to administer the relief fund. Our system checks the eligibility of anyone receiving benefits.

There are no statutes in place that direct how the money should be invested. At this present time we have 100 investments. We monitor CD rates and they offered .05 %, the stock market was very volatile, especially after the catastrophic financial crisis of the Lehman Brothers , with an A2 rating, and was the biggest bankruptcy ever, 639 billion in assets, and nothing we could find at that time would have paid the 3.5%. We had a source that offered to finance the NCAREMS Headquarters for 3.5%. The Board felt that we would pay interest so the interest would be guaranteed to go into the Relief Fund. The investment in the NCAREMS Headquarters was made as a direct investment. At that time the prime rate was 3.25, (and still at 3.25).

The investment in the NCAREMS Headquarters was in the opinion of the Board of Directors a good investment and still is a good investment with no risk of losing any of the original investment but a guarantee of receiving income from the investment to go into the Relief Fund. Every member on rosters filed with the NCAREMS has benefited from the more efficient services we are able to provide and building is completely self contained and can be used for a forward deployment of SERT operations in case of disasters or a local shelter if needed.

The NCAREMS Constitution and By-Laws requires the Treasurer be bonded for and amount of total involvement of the Association for the previous year plus 10%. The Treasurer has a security bond of nine million dollars.

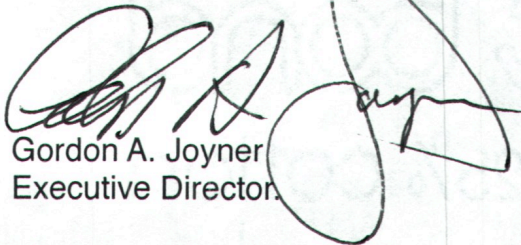
We will furnish any information the Department of Insurance request.

We have and do accept funds that are transmitted electronically.

We feel the administration should be left with the NCAREMS Board as in the statues.

We will certainly comply with any laws the General Assembly approves.

Advise if you need further.



Gordon A. Joyner
Executive Director.