

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



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

**Report Number 2014-06**

**April 30, 2014**



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**NORTH CAROLINA GENERAL ASSEMBLY**  
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*John W. Turcotte*  
Director

April 30, 2014

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Representative Julia Howard, Co-Chair, Joint Legislative Program Evaluation Oversight Committee

North Carolina General Assembly  
Legislative Building  
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Honorable Co-Chairs:

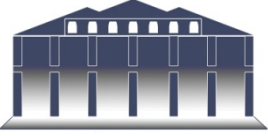
The 2013–15 Program Evaluation Division work plan directed the division to review state-administered funds related to fire, rescue, and emergency management services departments, including the eligibility criteria for these funds, benefits received, and oversight of funds. The fourth report in this series examines grants to local volunteer fire, rescue, and EMS departments through the Volunteer Fire Department Fund and Volunteer Rescue/EMS Fund.

I am pleased to report that the Department of Insurance cooperated with us fully and was 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

April 2014

Report No. 2014-06

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

### Summary

**As directed by the North Carolina General Assembly's Joint Legislative Program Evaluation Oversight Committee, this evaluation examines the Volunteer Fire Department Fund and Volunteer Rescue/EMS Fund.** The Volunteer Fire Department Fund provides up to \$30,000 in matching grants for fire departments to purchase equipment and make capital improvements. The Volunteer Rescue/EMS Fund provides up to \$25,000 in matching grants for rescue departments to purchase equipment and make capital improvements. For the 2013 grant cycle, the Department of Insurance awarded \$9.3 million to 658 fire departments and \$1.5 million to 112 rescue departments.

**The Department of Insurance's failure to compare actual to projected receipts for both grant programs has resulted in a \$8 million surplus in the Volunteer Fire Department Fund.** As of July 1, 2013, the Volunteer Fire Department Fund had a balance of \$18.4 million. After accounting for actual and projected disbursements, the Program Evaluation Division determined the fund will have a surplus of \$8 million as of June 30, 2014.

**The Department of Insurance's oversight of the grant award and distribution process could be improved.** Regarding the grant award process, the Department of Insurance lacks formal documentation specifying how the points that determine grant awards are assigned, erroneously assigned points to fire departments, and lacks a standardized method for determining the populations served by fire departments. Regarding the grant distribution process, the Department of Insurance lacks a standardized process for auditing grant purchases and does not have a policy for disposition of grant equipment in the event of a department's dissolution.

#### **Based on these findings, the General Assembly should**

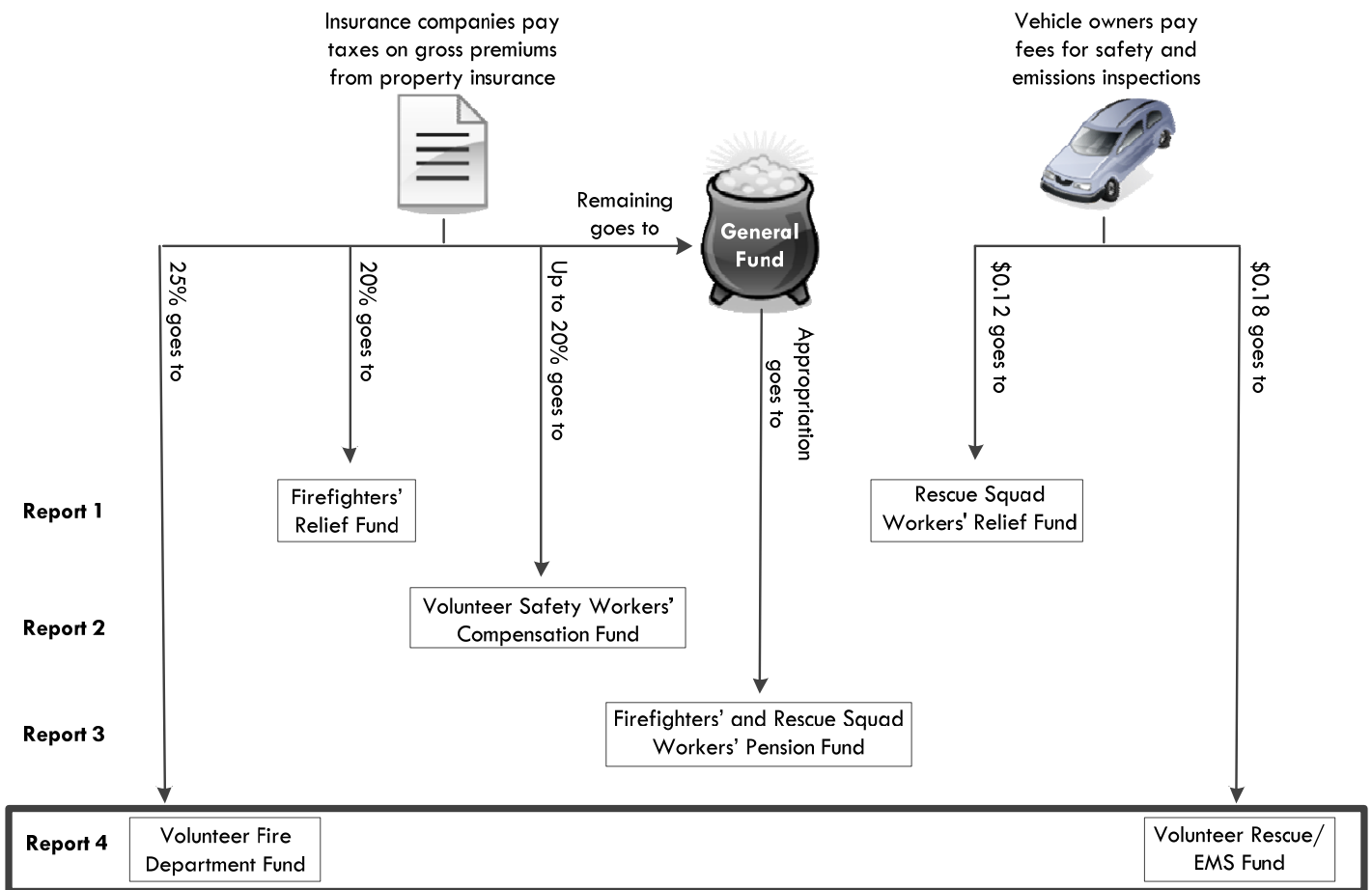
- determine how to apply the \$8 million surplus in the Volunteer Fire Department Fund (if the General Assembly required the Department of Insurance to base grant disbursements on projected as opposed to actual receipts, the surplus would be \$17.3 million);
- direct the Department of Insurance to compare actual and projected receipts each year for both grant programs;
- direct the Department of Insurance to improve its oversight of both grant programs;
- amend statute to make fire department rating, as opposed to population served, a criterion for eligibility; and
- amend statute to require dissolved departments that received grant equipment less than five years ago to transfer that equipment to nearby departments.

# Purpose and Scope

This evaluation was directed by the Joint Legislative Program Evaluation Oversight Committee through its 2013–15 Work Plan. This report, the fourth of a four-part series on state-administered funds related to fire, rescue, and emergency medical services, examines grants to local volunteer fire, rescue, and EMS departments through the Volunteer Fire Department Fund and Volunteer Rescue/EMS Fund. The first three reports examined the Firefighters’ Relief Fund and Rescue Squad Workers’ Relief Fund; the Workers’ Compensation Fund for Volunteer Safety Workers; and the Firefighters’ and Rescue Squad Workers’ Pension Fund.

As shown in Exhibit 1, the common thread linking the six funds is their shared funding sources. Funding for the Volunteer Fire Department Fund comes from taxes insurance companies pay on property insurance premiums;<sup>1</sup> 25% of those taxes go to the fund. Funding for the Volunteer Rescue/EMS Fund comes from fees paid for vehicle safety and emissions inspections;<sup>2</sup> \$0.18 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, and 105.228.5(d)(3) and Session Law 2013-360.

<sup>1</sup> 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)).

<sup>2</sup> 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;
- surveys of local fire, rescue, and EMS departments; and
- site visits to the 10 departments providing both fire and rescue services that received the largest amount of total grant money in 2012 from the Volunteer Fire Department Fund and Volunteer Rescue/EMS Fund.

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## Background

Although fire, rescue, and emergency medical services (EMS) are provided at the local level, the State has funded equipment and capital improvements for volunteer departments providing these services.

### **Volunteer Fire Department Fund**

In 1987, the General Assembly created the Volunteer Fire Department Fund to provide matching grants to volunteer fire departments.<sup>3</sup> Homeowners' insurance premiums are dependent on the level of fire protection services available, which is determined partly by the rating of the nearest fire department. One purpose of the fund is to reduce homeowners' insurance premiums by helping fire departments acquire equipment that will improve their ratings.

Fire departments can receive grants up to \$30,000 and must match grants on a dollar-for-dollar basis. Grant money can be used to

- purchase equipment;
- pay highway use taxes on those equipment purchases; and
- make capital expenditures necessary to provide fire protection services.

To be eligible for grants, a fire department must

- serve a population of 12,000 or less;
- consist of volunteer personnel, with the exception of up to six full-time equivalent paid positions; and
- be rated by the Department of Insurance.<sup>4</sup>

Funding for the Volunteer Fire Department Fund comes from 25% of the taxes insurance companies pay on property insurance premiums. Up to 1% of the fund may be used by the Department of Insurance to administer the fund.<sup>5</sup>

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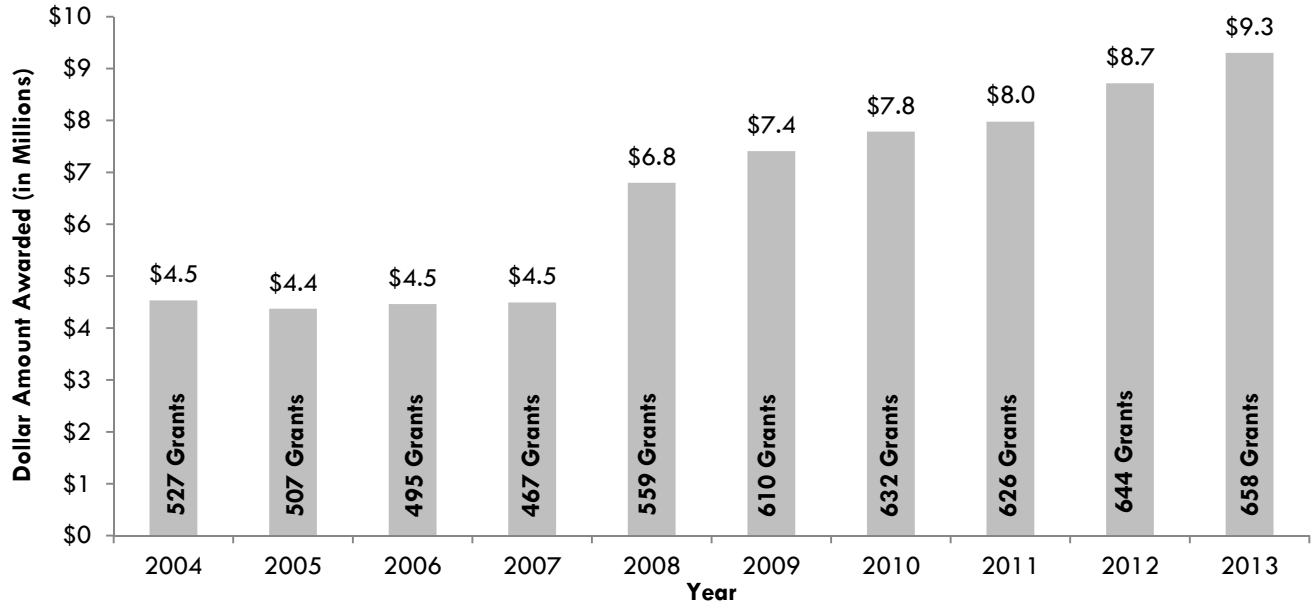
<sup>3</sup> N.C. Gen. Stat. § 58-87-1.

<sup>4</sup> The Department of Insurance conducts inspections to rate fire departments. Ratings are based on receiving and handling of fire alarms; equipment, operations, and training; and water supply. Ratings range from 1 to 10; 10 is unprotected, 9S is protected and required to be eligible for grant funds, and 1-8 also are protected, with 1 being the optimal rating.

<sup>5</sup> Prior to the 2013 Appropriations Act, the Department of Insurance could retain up to 2% to administer the fund.

Since 2004, more than \$65.9 million in grant money has been awarded to fire departments across the State. Exhibit 2 shows the number of fire departments awarded grants in each of the last 10 years and the total yearly amount of those awards. In 2013, 658 volunteer fire departments (98% of those that applied and qualified) were awarded grants totaling \$9.3 million.

Exhibit 2: Grants Awarded to Volunteer Fire Departments, 2004–2013

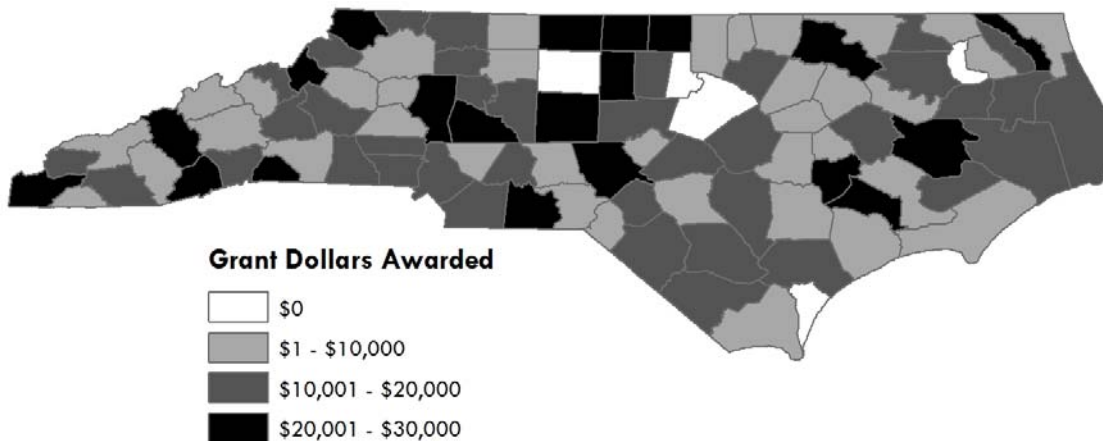


Note: Session Law 2007-250 made several legislative changes to the program effective January 1, 2008, including increasing the maximum grant award and broadening eligibility criteria.

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

On average, grant recipients in 2013 served a population of 3,660. According to statute, the Department of Insurance must, to the extent possible, award grants to departments from all parts of the State based upon need. Exhibit 3 shows where 2013 grant dollars were awarded.

Exhibit 3: Distribution of 2013 Grant Awards from the Volunteer Fire Department Fund



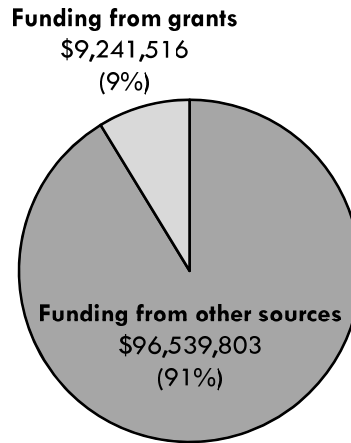
Note: The five counties with \$0 grant dollars awarded had no fire departments that applied for grants in 2013.

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

As shown in Exhibit 4, grant money comprised 9% of total funding for fire departments receiving grant awards in 2013. That year, 42% of grant requests were for miscellaneous equipment, 36% were for protective gear, and 22% were for vehicles/capital improvements.

**Exhibit 4**

Grants Comprised 9% of Total Funding for Fire Departments Receiving Grants in 2013



**Funding from all sources = \$105,781,319**

Note: Funding from grants does not equal \$9.3 million because two departments that did not have total funding information were excluded from calculations for this exhibit. The majority (86%) of funding from other sources comes from counties.

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

**Volunteer Rescue/EMS Fund**

In 1987, the General Assembly created the Volunteer Rescue/EMS Fund to provide grants to volunteer rescue departments providing rescue, EMS, or both rescue and EMS services.<sup>6</sup>

Rescue departments with cash assets exceeding \$1,000 can receive grants up to \$25,000 and must match grants on a dollar-for-dollar basis. Rescue departments with cash assets of \$1,000 or less can receive grants up to \$3,000 with no match required. Grant money can be used to

- purchase equipment and
- make capital expenditures.

To be eligible for grants, a rescue department must

- consist of volunteer personnel, with the exception of up to 10 full-time equivalent paid positions, and
- be recognized by the Department of Insurance as a provider of rescue, EMS, or both rescue and EMS services.<sup>7</sup>

<sup>6</sup> N.C. Gen. Stat. § 58-87-5. For the purpose of this statute, a rescue department means a group of individuals who are not necessarily trained in EMS, firefighting, or law enforcement but who expose themselves to external, nonmedical, and nonpatient-related peril to move individuals facing the same type of peril to areas of relative safety.

<sup>7</sup> A department that provides only EMS is eligible for grant funding only after all eligible rescue or rescue and EMS departments have been funded.



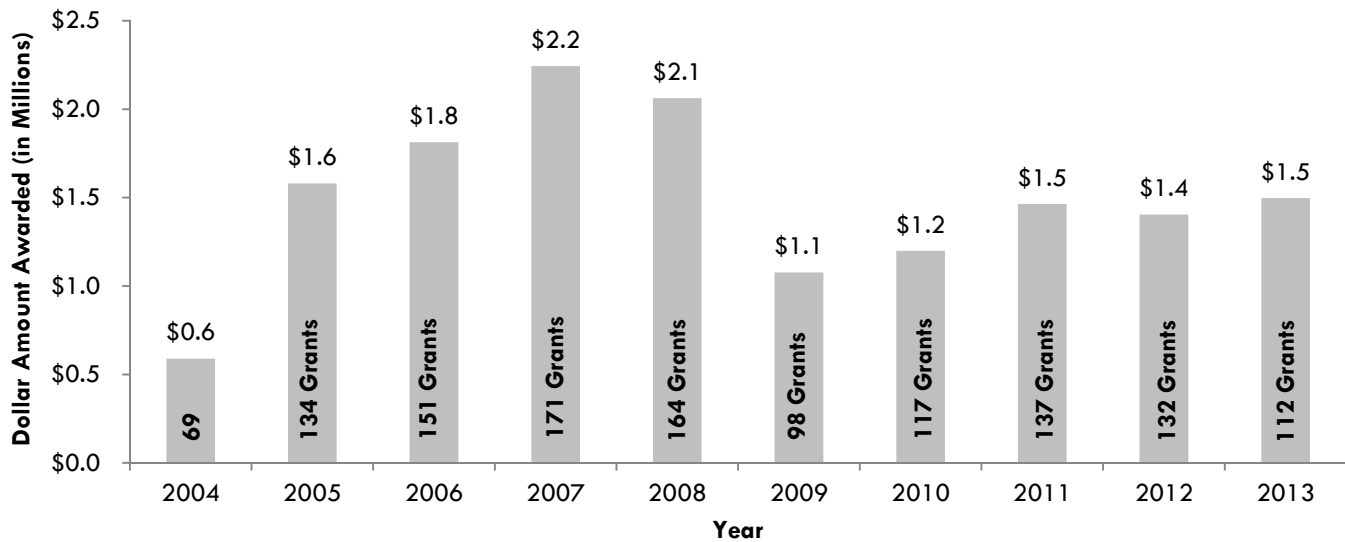
To be recognized as a provider by the Department of Insurance,

- a department must be recognized as a provider by its county;
- a rescue department must meet the eligibility criteria of the North Carolina Association of Rescue & Emergency Medical Services, Inc. (NCAREMS);<sup>8</sup>
- an EMS department must meet the eligibility criteria of the North Carolina Office of Emergency Medical Services (OEMS); and
- a rescue and EMS department must meet the eligibility criteria of NCAREMS and OEMS.<sup>9</sup>

Funding for the Volunteer Rescue/EMS Fund comes from \$0.18 of the fees vehicles owners pay for vehicle safety and emissions inspections. Up to 2% of the fund may be used by the Department of Insurance to administer the fund and up to 4% of the fund may be used for additional staff and resources for the North Carolina Fire and Rescue Commission.

Since 2004, almost \$15 million in grant money has been awarded to rescue departments across the State. Exhibit 5 shows the number of rescue departments awarded grants in each of the last 10 years and the total yearly amount of those awards. In 2013, 112 volunteer rescue departments (73% of those that applied and qualified) were awarded grants totaling \$1.5 million.

**Exhibit 5: Grants Awarded to Volunteer Rescue Departments, 2004–2013**



Note: Session Law 2005-283 made several legislative changes to the program effective October 1, 2005, including increasing the maximum grant award and broadening eligibility criteria. The Department of Insurance does not have an explanation for the drop in grant awards in 2009.

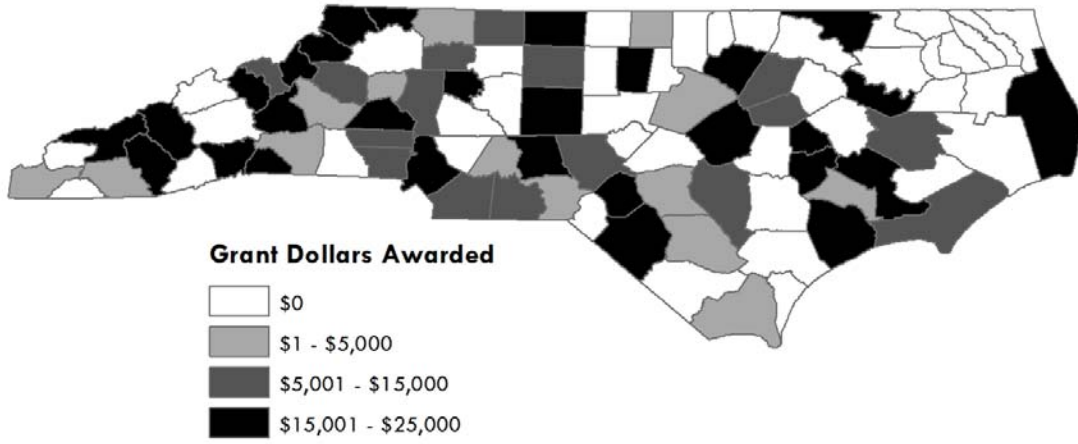
Source: Program Evaluation Division based on data from the Department of Insurance.

According to statute, the Department of Insurance must, to the extent possible, award grants to departments from all parts of the State based upon need. Exhibit 6 shows where 2013 grant dollars were awarded.

<sup>8</sup> Although rescue departments must meet NCAREMS’s membership criteria, they do not have to be actual members of the association.

<sup>9</sup> To receive a grant for advanced life support equipment, a rescue and EMS department or EMS department must be certified by OEMS to provide those services.

### Exhibit 6: Distribution of 2013 Grant Awards from the Volunteer Rescue/EMS Fund



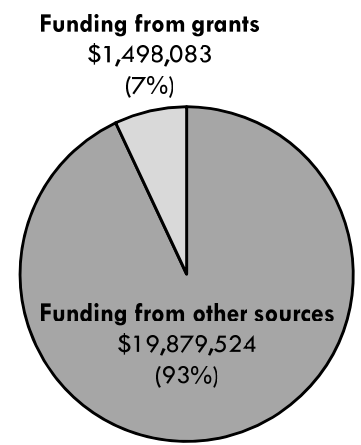
Note: Thirty-five of the 41 counties with \$0 grant dollars awarded had no rescue departments that applied for grants in 2013. Other counties with \$0 grant dollars awarded either had no rescue departments eligible for grants or no rescue departments that scored well enough to receive grants.

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

As shown in Exhibit 7, grant money comprised 7% of total funding for rescue departments receiving grant awards in 2013. That year, 45% of grant requests were for miscellaneous equipment, 24% were for protective gear, and 31% were for vehicles/capital improvements.

### Exhibit 7

Grants Comprised 7% of Total Funding for Rescue Departments Receiving Grants in 2013



**Funding from all sources = \$21,377,607**

Note: The majority (81%) of funding from other sources comes from counties.

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

In 2013, the Department of Insurance conducted an internal audit of the Volunteer Fire Department Fund. The audit found some issues, and the Office of State Fire Marshal took action to address the audit recommendations. The Department of Insurance had scheduled an internal audit of the Volunteer Rescue/EMS Fund for 2014 but deferred the audit when the Program Evaluation Division was directed to evaluate the two funds. During the 2013 Session, the General Assembly reduced the percentage of the premium tax going to the Volunteer Fire Department Fund from 30% to 25%. This evaluation examines the potential impact of that reduction along with the Department of Insurance's administration of the Volunteer Fire Department Fund and the Volunteer Rescue/EMS Fund.

# Findings

**Finding 1. The Department of Insurance’s failure to compare actual to projected receipts for both grant programs has resulted in a \$8 million surplus in the Volunteer Fire Department Fund.**

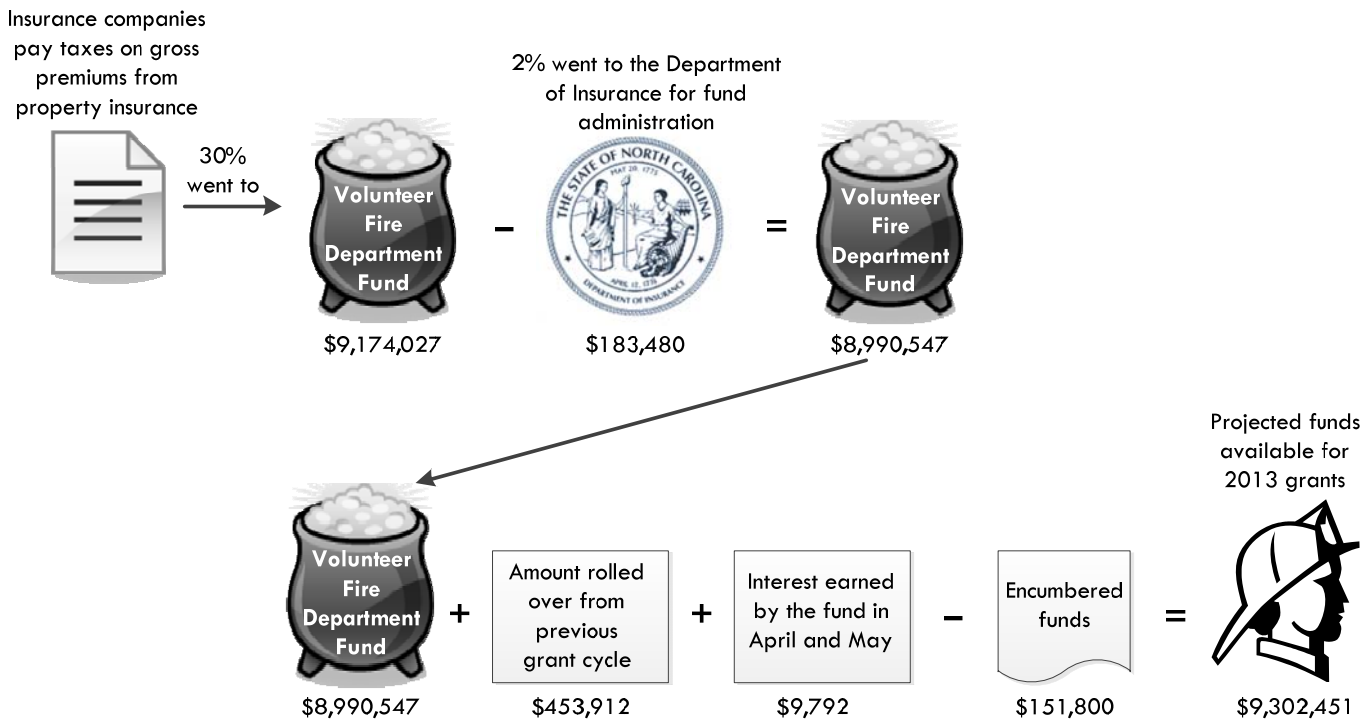
## Volunteer Fire Department Fund

The General Assembly created the Volunteer Fire Department Fund as an interest-bearing, nonreverting fund in the Department of Insurance. Around May 1 of each year, the Department of Insurance determines how much grant money it will award on May 15. As shown in Exhibit 8, the main factors in the department’s determination are

- the amount of insurance premium tax proceeds earmarked for the fund from the most recent fiscal year, which amounted to \$9 million for Fiscal Year 2012–13, and
- the amount of grant money rolled over from the previous grant cycle, which amounted to \$453,912 from 2012 rolling over to 2013.

For the 2013 grant cycle, the Department of Insurance determined it should award \$9.3 million in grants.

**Exhibit 8: Department of Insurance Decided to Award \$9.3 Million in Fire Grants in 2013**



Note: Effective July 1, 2013, Session Law 2013-360 reduced the percentage of the premium tax going to the Volunteer Fire Department Fund from 30% to 25% and reduced the amount the Department of Insurance could retain for administration of the fund from 2% to 1%. Encumbered funds include \$91,800 in grants remaining to be paid to 2011 and 2012 grant recipients and \$60,000 for the Department of Insurance’s estimated error cushion for the fund. The department estimated the fund would earn \$9,992 in interest in April and May, but the department retained 2% of that amount such that \$9,792 went toward 2013 grants.

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

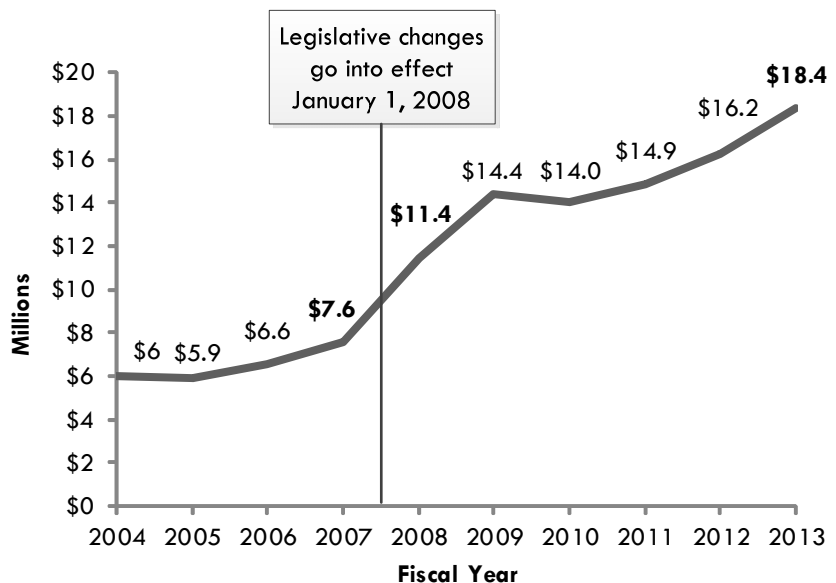
**The Department of Insurance anticipated 2008 legislative changes were revenue neutral, but the Volunteer Fire Department Fund balance has more than doubled since the changes went into effect.** Session Law 2007-250 made the following legislative changes, effective January 1, 2008:

- the 1.33% tax on fire and lightning insurance premiums, which funded the grant program, was changed to a 0.74% tax on property insurance premiums;<sup>10</sup>
- the percentage of insurance premium tax proceeds directed to the Volunteer Fire Department Fund increased from 20% to 30%;
- the maximum amount of matching grant awards increased from \$20,000 to \$30,000;
- the eligibility criteria for population served increased from 6,000 to 12,000; and
- the eligibility criteria regarding the maximum number of paid firefighters increased from three to six.

According to the Department of Insurance, department staff understood the overall financial impact of these legislative changes to be revenue neutral, and they determined how much grant money to award with this understanding in mind. However, the Program Evaluation Division determined these legislative changes were, in fact, revenue positive. Exhibit 9 shows the Volunteer Fire Department Fund’s balance during each of the last 10 years. The legislative changes went into effect on January 1, 2008, and the fund’s balance jumped from \$7.6 million on June 30, 2007 to \$11.4 million on June 30, 2008. The fund’s balance has continued to grow to \$18.4 million as of June 30, 2013.

**Exhibit 9**

Volunteer Fire Department Fund Balance Has More Than Doubled Since Legislative Changes Went Into Effect, Fiscal Years 2004–2013



Note: The fund balance is as of June 30 for each fiscal year.

Source: Program Evaluation Division based on data from the North Carolina Accounting System and N.C. Sess. Laws 2006-196 and 2007-250.

<sup>10</sup> Session Law 2006-196 originally instated a 0.85% tax on property insurance premiums, but Session Law 2007-250 reduced the tax rate to 0.74%.

**The Department of Insurance's failure to compare actual receipts with projected receipts means less grant money was awarded to volunteer fire departments than could have been awarded.** According to the U.S. Government Accountability Office, financial and program managers should continually compare actual financial, budgetary, and operational performance to expected results. Since the legislative changes affecting the Volunteer Fire Department Fund went into effect in January 2008, the Department of Insurance has not compared actual receipts with the projected receipts they use to determine how much to award in grants each year. Exhibit 10 shows the gaps between the gross premium taxes received plus interest, the amounts the department projected as available for grant awards, and the amounts the department paid out in grants.

Department of Insurance staff would have realized the Volunteer Fire Department Fund could afford to make more awards had they been comparing actual to projected receipts. The Program Evaluation Division surveyed fire, rescue, and EMS departments to determine how important the grants are to departments; the survey yielded a response rate of 29%.<sup>11</sup> Of the responding departments that received fire grants in 2012, 95% stated that grants effectively assist departments with equipment and capital improvements.<sup>12</sup> Several departments who responded to the survey remarked on their departments' dependence on grant money and requested the continuation of the grant program.

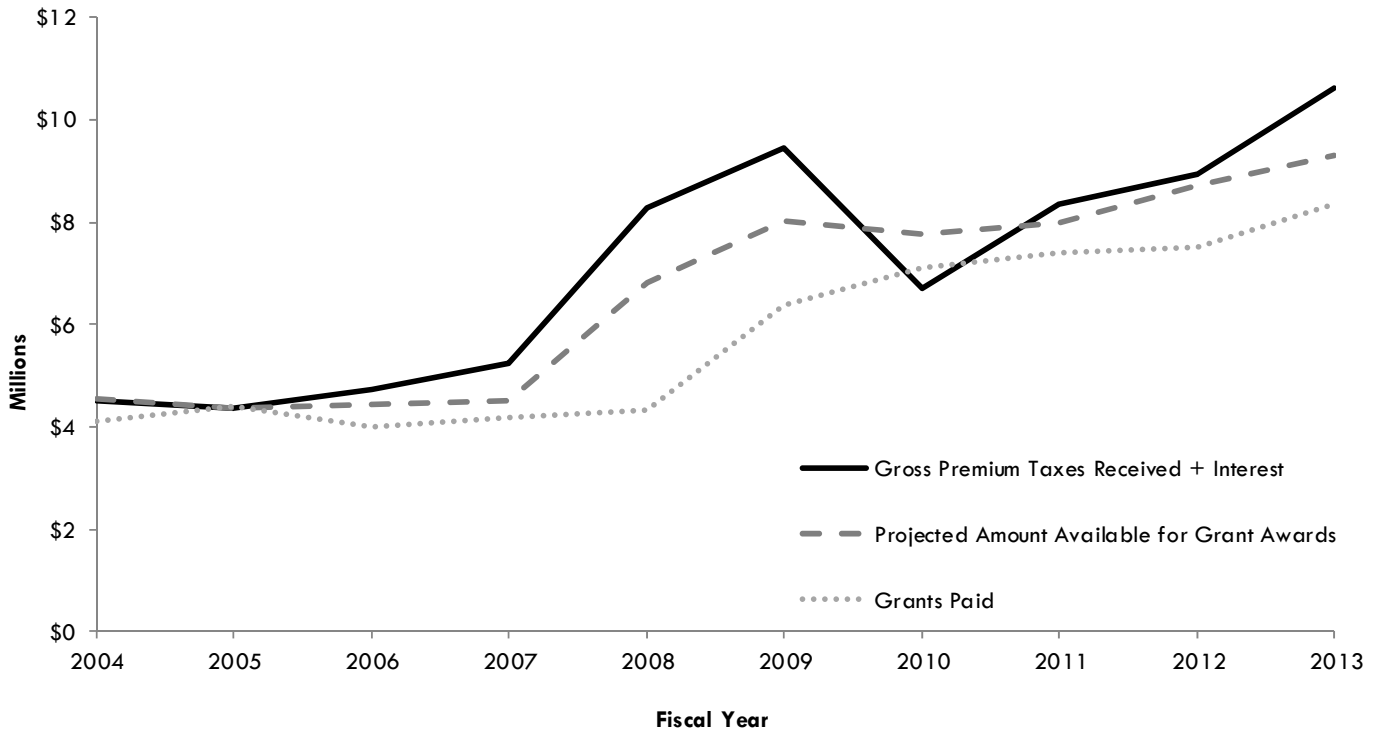
- “The funding through the grant program has been the only way for us to operate over the last 10 years.”
- “With the ever changing economy, these grants help small departments like ours to continue outfitting our personnel with safe and affordable equipment so we make sure everyone goes home.”
- “This program is a lifeline for small rural departments. It allows us to provide services to our citizens that our tax bases won't allow and makes us all safer.”

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<sup>11</sup> Based on email addresses provided by the Department of Insurance, the Program Evaluation Division sent the survey to the chiefs of 1,511 fire, rescue, and EMS departments throughout the State.

<sup>12</sup> Of the responding departments that received rescue grants in 2012, 73% said that grants effectively assist departments with equipment and capital improvements.

**Exhibit 10: Department of Insurance Did Not Compare Projected to Actual Receipts for Fire Grants**



Fiscal Year	A. Beginning Balance	B. Gross Premium Taxes Received + Interest	C. Total Funds Available (A+B)	D. Grants Paid + Other Minor Expenses	Ending Balance (C-D)	E. Projected Amount Available for Grant Awards	F. Actual Amount Available for Grant Awards (B)	Projected Availability Over (Under) Actual Availability (E-F)
2004	\$5,653,194	\$4,510,536	\$10,163,730	\$4,143,427	\$6,020,302	\$4,539,547	\$4,510,536	\$29,011
2005	6,020,302	4,366,870	10,387,173	4,445,588	5,941,585	4,369,976	4,366,870	3,106
2006	5,941,585	4,719,473	10,661,058	4,063,853	6,597,205	4,443,507	4,719,473	(275,966)
2007	6,597,205	5,229,138	11,826,343	4,259,505	7,566,839	4,494,263	5,229,138	(734,875)
2008	7,566,839	8,268,158	15,834,997	4,399,018	11,435,980	6,798,151	8,268,158	(1,470,007)
2009	11,435,980	9,433,532	20,869,511	6,435,101	14,434,410	8,026,806	9,433,532	(1,406,726)
2010	14,434,410	6,707,908	21,142,319	7,161,996	13,980,323	7,762,878	6,707,908	1,054,970
2011	13,980,323	8,334,906	22,315,229	7,458,614	14,856,615	7,978,613	8,334,906	(356,293)
2012	14,856,615	8,925,520	23,782,134	7,586,115	16,196,020	8,717,567	8,925,520	(207,953)
2013	16,196,020	10,605,639	26,801,659	8,443,264	18,358,395	9,302,451	10,605,639	(1,303,188)

Source: Program Evaluation Division based on data from the North Carolina Accounting System and Department of Insurance.

The Program Evaluation Division's comparison of actual to projected receipts also revealed issues with the Department of Insurance's projections.

- Because grants are awarded on May 15, the department uses actual revenue collections for the first three quarters of the fiscal year but has to rely on projections for the last quarter. For the 2013 grant cycle, the Department of Revenue's projections for the last quarter amounted to \$4.2 million. However, actual receipts for the last quarter amounted to \$5.6 million—a difference of \$1.4 million. If grants were instead awarded on August 15, the department could use actual revenue collections.
- In determining how much to award in grant funds, the department considers the estimated interest earned by the fund in April and May, which amounted to \$9,992 in 2013. However, the department should also be incorporating the interest earned by the fund for the other 10 months (June through March) of the grant cycle, which amounted to \$55,620 for the 2013 cycle, for a total of \$65,612.

**The Program Evaluation Division estimates the Volunteer Fire Department Fund will have \$8 million in surplus cash going into the 2014 grant cycle.** As shown in Exhibit 11, the Volunteer Fire Department Fund had a balance of \$18.4 million as of July 1, 2013. After accounting for actual and projected receipts and disbursements, including the Department of Insurance's projection that it will award \$9.3 million in grants for the 2014 cycle, the Volunteer Fire Department Fund will have a cash surplus of \$8 million as of June 30, 2014.

**Exhibit 11**

Volunteer Fire Department Fund Balance Estimated to Have a Cash Surplus of \$8 Million as of June 30, 2014

Description	Amount
Fund balance as of July 1, 2013	\$ 18,358,395
Actual and projected cash receipts for FY 2013–14	
Insurance premium tax revenue	7,552,357
Interest	63,187
Subtotal amount available for grant awards	25,973,939
Actual and projected cash disbursements for FY 2013–14	
Amount paid to 2013 grant recipients	(8,551,198)
Administrative expenses	(73,675)
Fund balance as of June 30, 2014	17,349,066
Projected amount to be awarded on May 15, 2014, to 2014 grant recipients	(9,300,000)
<b>Surplus fund balance as of June 30, 2014</b>	<b>\$ 8,049,066</b>

Source: Program Evaluation Division based on data from the North Carolina Accounting System and the Department of Insurance.

The General Assembly has several options to apply the one-time \$8 million surplus in the Volunteer Fire Department Fund.

- **Increase grants to volunteer fire departments.** Upon learning of the fund's surplus, the Department of Insurance wants to use the surplus to increase the number of grants awarded and the dollar amounts of grants. The department suggests the program be modified by increasing the maximum amount of matching grant awards from \$30,000 to \$50,000 and increasing the match ratio from 50:50 to 75:25 for departments with greater financial need. These changes would allow fire departments to procure equipment of higher cost than previously possible and to make more significant capital expenditures to better provide fire protection services and serve the needs of their communities. These program modifications would require statutory changes.
- **Transfer funds to another program supported by the insurance premium tax.** The Volunteer Fire Department Fund is categorized as a special fund, which means the General Assembly can transfer money out of the fund. Each year, 25% of the property insurance premium tax goes to the Volunteer Fire Department Fund, 20% goes to the Firefighters' Relief Fund, up to 20% goes to the Volunteer Safety Workers' Compensation Fund, and the remainder goes to the General Fund, which helps fund the Firefighters' and Rescue Squad Workers' Pension Fund. The General Assembly could make a one-time transfer of \$8 million to one of these other funds that also benefit the fire protection community.
  - In the second report in this series, the Program Evaluation Division found that, without an infusion of revenue, the Volunteer Safety Workers' Compensation Fund will deplete its assets in Fiscal Year 2020–21.<sup>13</sup>
  - In the third report in this series, the Program Evaluation Division found the State's annual required contribution is projected to exceed the amount of insurance premium tax proceeds going to the General Fund, which funds the Firefighters' and Rescue Squad Workers' Pension Fund.<sup>14</sup>
  - The third report in this series discusses the Department of State Treasurer's desire for the General Assembly to remove the prohibition against in-service distributions to members of the Firefighters' and Rescue Squad Workers' Pension Fund, a change estimated to cost \$1.4 million for Fiscal Year 2013–14.
- **Transfer funds to the General Fund.** Because the Volunteer Fire Department Fund is categorized as a special fund, the General Assembly can transfer money out of the fund. During the budget

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<sup>13</sup> Program Evaluation Division. (2014, February). Revenue and cost trends indicate deficit in Volunteer Safety Workers' Compensation Fund in FY 2020–21. Report to the Joint Legislative Program Evaluation Oversight Committee. Raleigh, NC: General Assembly.

<sup>14</sup> Program Evaluation Division. (2014, March). Department of State Treasurer should strengthen its oversight of the Firefighters' and Rescue Squad Workers' Pension Fund. Report to the Joint Legislative Program Evaluation Oversight Committee. Raleigh, NC: General Assembly.



process, the General Assembly could determine the \$8 million should be used to support a state-funded program unrelated to the Volunteer Fire Department Fund.

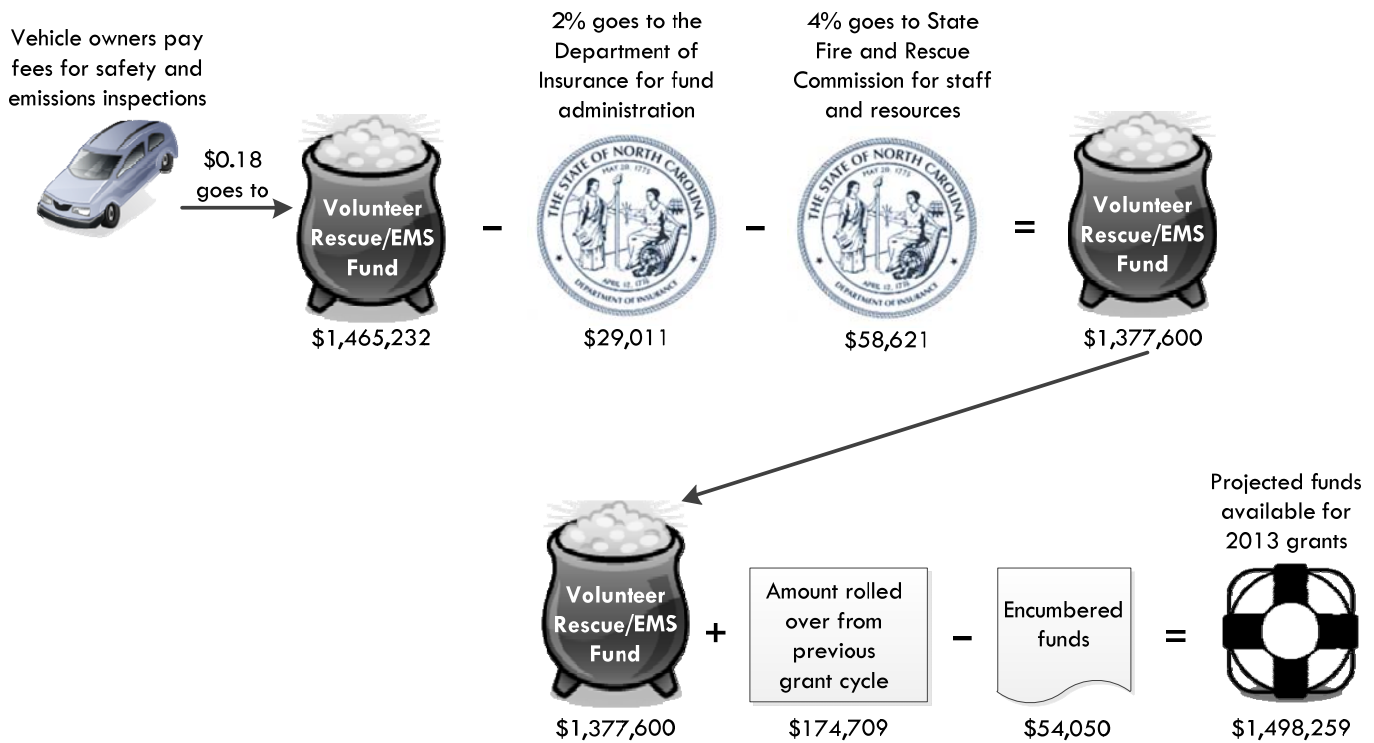
### Volunteer Rescue/EMS Fund

The General Assembly created the Volunteer Rescue/EMS Fund as an interest-bearing, nonreverting fund in the Department of Insurance. Around December 1 of each year, the Department of Insurance determines how much grant money it will award on December 15. As shown in Exhibit 12, the main factors in the department’s determination are

- the amount of vehicle safety and emissions inspection fees earmarked for the fund from the most recent calendar year, which amounted to \$1.4 million for 2013, and
- the amount of grant money rolled over from the previous grant cycle, which amounted to \$174,709 in 2012 rolling over to 2013.

For the 2013 grant cycle, the Department of Insurance determined it should award \$1.5 million in grants.

**Exhibit 12: Department of Insurance Decided to Award \$1.5 Million in Rescue Grants in 2013**



Note: Encumbered funds include \$4,050 in a grant remaining to be paid to a 2012 grant recipient and \$50,000 for the Department of Insurance’s estimated error cushion for the fund.

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

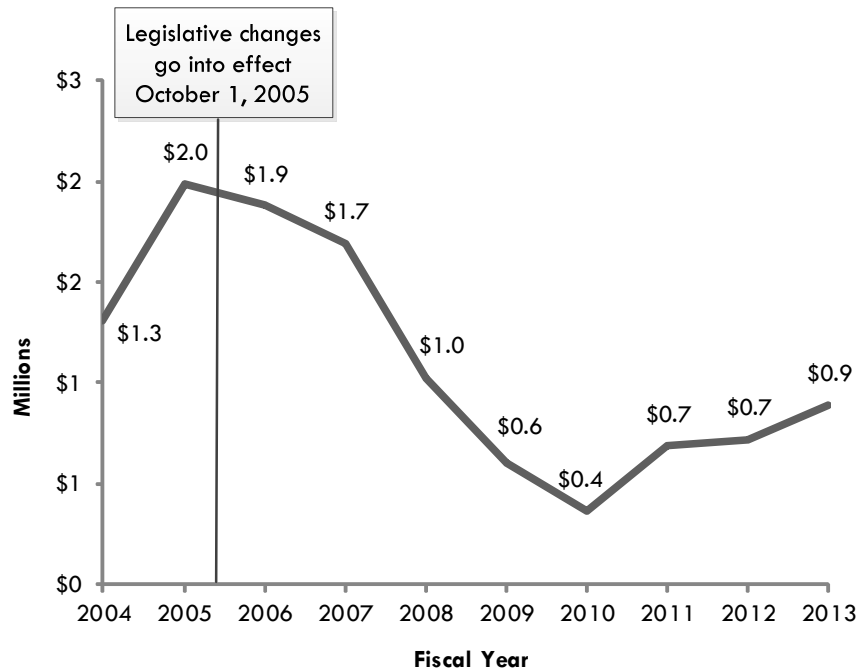
**Legislative changes in 2005 that increased award amounts and broadened eligibility criteria have contributed to the decline of the Volunteer Rescue/EMS Fund’s balance.** Session Law 2005-283 made the following legislative changes, effective October 1, 2005:

- the maximum amount of matching grant awards increased from \$15,000 to \$25,000;
- the eligibility criteria regarding the maximum number of paid personnel increased from 3 to 10; and
- the eligibility criteria expanded to include departments that provide EMS only.

Exhibit 13 shows the Volunteer Rescue/EMS Fund balance during each of the last 10 years. The fund’s balance declined starting in 2005 through the recession. As of June 30, 2013, the balance was back up to \$0.9 million.

**Exhibit 13**

Volunteer Rescue/EMS Fund Balance, Fiscal Years 2004–2013

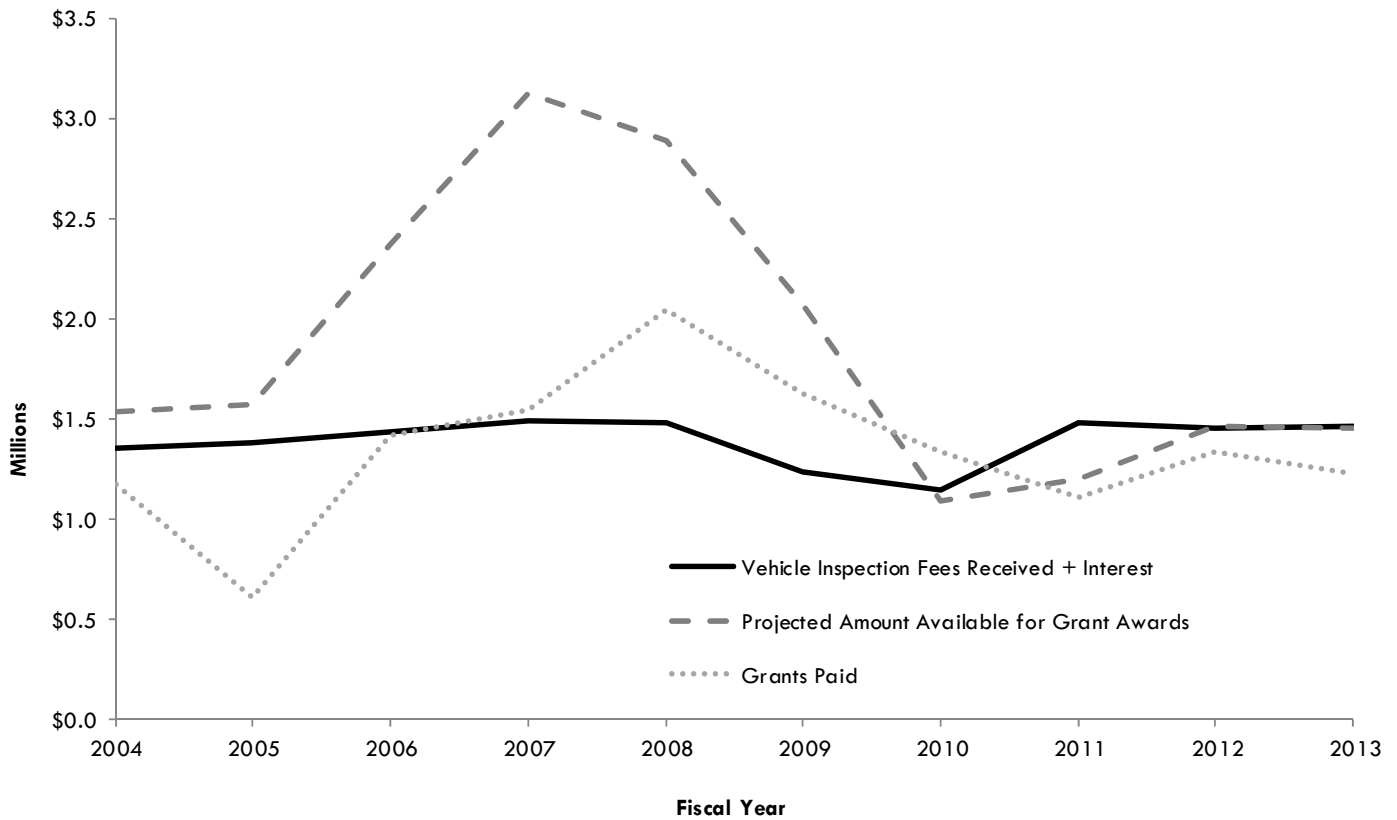


Note: The fund balance is as of June 30 for each fiscal year.

Source: Program Evaluation Division based on data from the North Carolina Accounting System and N.C. Sess. Law 2005-283.

**Because the Department of Insurance did not compare actual to projected receipts, the Volunteer Rescue/EMS Fund balance has experienced volatility.** Exhibit 14 shows the gaps between the vehicle inspection fees received plus interest, the amounts the department projected as available for grant awards, and the amounts the department paid out in grants. Had department staff been comparing these amounts, they could have made efforts to reduce the gap between the inspection fees received and the amount available for grant awards. Instead, the department received \$1.4 million in vehicle inspection fees in Fiscal Year 2004–05, but only awarded \$588,905 in grants on December 15, 2004. In contrast, between Fiscal Years 2005–06 and 2009–10, the department received less money from vehicle inspection fees than it paid in grants. Recently, the department’s awards have aligned more closely with the amount of fees received.

**Exhibit 14: Department of Insurance Did Not Compare Projected to Actual Receipts for Rescue Grants**



Note: Because the Department of Insurance awards Volunteer Rescue/EMS Fund grants halfway through the fiscal year (on December 15), Grants Awarded amounts were shifted forward six months to align with Grants Paid amounts for each fiscal year.

Fiscal Year	A. Beginning Balance	B. Vehicle Inspection Fees Received + Interest	C. Total Funds Available (A+B)	D. Grants Paid + Other Minor Expenses	Ending Balance (C-D)	E. Projected Amount Available for Grant Awards	F. Actual Amount Available for Grant Awards (B)	Projected Availability Over (Under) Actual Availability (E-F)
2004	\$1,164,410	\$1,353,356	\$2,517,766	\$1,211,098	\$1,306,668	\$1,536,666	\$1,353,356	\$183,310
2005	1,306,668	1,386,893	2,693,561	703,729	1,989,832	1,570,526	1,386,893	183,633
2006	1,989,832	1,437,118	3,426,950	1,548,217	1,878,733	2,378,602	1,437,118	941,484
2007	1,878,733	1,491,455	3,370,188	1,676,073	1,694,115	3,130,975	1,491,455	1,639,520
2008	1,694,115	1,482,460	3,176,575	2,156,297	1,020,278	2,896,255	1,482,460	1,413,795
2009	1,020,278	1,236,382	2,256,660	1,657,519	599,141	2,078,293	1,236,382	841,911
2010	599,141	1,142,682	1,741,822	1,382,019	359,804	1,088,829	1,142,682	(53,853)
2011	359,804	1,478,984	1,838,788	1,150,653	688,135	1,200,176	1,478,984	(278,808)
2012	688,135	1,453,464	2,141,598	1,420,290	721,308	1,460,764	1,453,464	7,301
2013	721,308	1,464,471	2,185,780	1,292,085	893,695	1,455,132	1,464,471	(9,340)

Source: Program Evaluation Division based on data from the North Carolina Accounting System and Department of Insurance.

In summary, for the 2013 grant cycle, the Department of Insurance considered several factors to determine it should award \$9.3 million in grants from the Volunteer Fire Department Fund and \$1.5 million in grants from the Volunteer Rescue/EMS Fund. However, the department did not compare actual and projected receipts for each fund. As a result, the Volunteer Fire Department Fund has a \$8 million surplus going into the 2014 grant cycle. The General Assembly has several options for how it can apply this surplus. The Volunteer Rescue/EMS Fund experienced volatility but grant awards recently have aligned more closely with the amount of vehicle inspection fees received.

**Finding 2. Regarding the grant awarding process, the Department of Insurance lacks formal documentation specifying how the points that determine grant awards are assigned, erroneously assigned points to certain fire departments, and lacks a standardized method for determining the populations served by fire departments.**

In order to receive grant awards from the Volunteer Fire Department Fund and Volunteer Rescue/EMS Fund, fire and rescue departments must submit an online application and provide supplemental information that indicates their need for grant money.<sup>15</sup> A computer program designed by the Department of Insurance's information technology staff assigns scores using a non-subjective point system based on several criteria. The fewer points a department receives, the more likely it will be to receive a grant award.

- **Number of volunteer and paid positions.** Volunteers are not assigned points, whereas paid personnel and salaries are assigned points.
- **Financial status.** Departments with less total funding from county and city funding, fundraisers, and donations are assigned fewer points.
- **Per capita income.** A multiplier is applied to each department.
- **Number and age of vehicles.** Older vehicles are assigned a lower point value.
- **Type of requested equipment.** Requests for protective equipment, which is considered the first priority, receive the least points. Requests for miscellaneous equipment are assigned more points. Requests for vehicles and capital improvements, which are considered the third priority, receive the most points.
- **Population served (only applies to fire grants).** Lower populations are assigned a lower point value.

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<sup>15</sup> Fire and rescue departments must submit the following forms with their grant applications: a financial statement, a fund equipment list request, a verification of active current contract for fire or rescue/EMS services, and a verification of matching funds form, which requires the department chief and another city official to testify they have sufficient revenue to match their request for grant funds. Departments sign a statement that they are providing accurate information. In addition, the Department of Insurance looks at departments' applications from prior years to verify the consistency of county or municipal fund reports and equipment requests. The Department of Insurance reported that in 2012 two departments provided inaccurate information about matching funds. As a result, these departments lost their eligibility for grant funds.

The computer program distributes the available grant money beginning with the applications with the lowest total score until the available grant funds are exhausted.<sup>16</sup>

**The Department of Insurance does not have formal documentation specifying how the points that determine grant awards are assigned.**

The Department of Insurance has determined exactly how many points to award for each application question and has designed a computer program to award those points. However, as shown in Exhibit 15, the department has no formal document that explains how points are awarded for each application question. For the Program Evaluation Division to validate the formulas used by the Department of Insurance in determining grant awards, the Program Evaluation Division had to make several assumptions and ask numerous questions regarding the exact methodology used to assign points.

**Exhibit 15**

Department of Insurance’s Grant Application Process is Standardized but Documentation and Information Verification Could be Strengthened

Department of Insurance’s Oversight of Grant Award Process	Fire	Rescue / EMS
Standardized application process is used	✓	✓
Clear criteria for grant awards exist	✓	✓
Clear criteria for grant awards are documented		
Scoring is applied non-subjectively by a computer program	✓	✓
Accuracy of computer program calculations is verified		
Verification of matching funds form is required	✓	✓
Population verification form is required	✓	✓
Accuracy of population data is verified		N/A

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

Although it makes sense that the Department of Insurance would not want to share a document that explains exactly how points are awarded with fire and rescue departments that might then alter their application responses to receive more points, it is a best practice for a managing department to internally develop and maintain such a document. This document would explain the Department of Insurance’s logic for assigning certain point values and enable the department to verify the accuracy of the points awarded by the computer program.

**Volunteer Fire Department Fund**

**When calculating the 2013 grants from the Volunteer Fire Department Fund, the Department of Insurance erroneously assigned more points to departments with paid personnel than it should have assigned.** During the Program Evaluation Division’s review of how points were assigned to

<sup>16</sup> Once there is not enough money to satisfy a fire department’s grant request completely, the computer program skips to the grant request of the next department that can be funded completely. As a result, in 2013, even though the two departments that were next in line for grant money had the same amount of points, the department that asked for less grant money was automatically chosen by the computer program. Then, the computer program skipped ahead past nine departments to a department with a grant request that could be completely funded with the remaining grant funds.

fire departments during the 2013 grant cycle, the division discovered fire departments with paid personnel received two more points than they should have received.<sup>17</sup>

When the Program Evaluation Division informed the Department of Insurance of this issue, the department verified the problem and determined it was the result of a clerical error. When the grant application was first designed, it asked departments to enter the number of paid personnel. At some point, this question was replaced with a checkbox for departments to report that they had paid personnel. Because the old question was not removed from the online application, the points from both the new and old question were erroneously incorporated into the scores for fire departments with paid personnel.

This scoring error affected 185 of the 671 fire departments whose applications qualified for grant consideration, or 28%. When the Program Evaluation Division re-calculated the points correctly, departments' point rankings were affected but not which departments were above or below the cutoff line for receiving grants. However, this type of error could affect award results in the future if not remedied. The Department of Insurance has taken action to fix this issue.

**On the grant application for the Volunteer Fire Department Fund, the Department of Insurance relies on fire departments to report the populations they serve and does not verify the accuracy of those reports.** N.C. Gen. Stat. § 58-87-1(b)(1) requires the Department of Insurance to use the most recent annual population estimates certified by the State Budget Officer to determine the population served by fire departments. However, population data produced by the state demographer and certified by the Office of State Budget and Management (OSBM) are only produced at the county and municipal level and not at the fire district level. It is difficult to determine the population of fire districts because they might encompass sections of several counties, contain parts of municipalities and unincorporated areas, or be located in a small section of a county. Moreover, one department might serve more than one fire district. Therefore, the Department of Insurance cannot rely on the OSBM population data identified by statute to determine the populations served by fire departments.

Instead, the Department of Insurance relies on fire departments to accurately report the populations they serve, but the Department of Insurance does not verify the accuracy of the population data reported by fire departments on their grant applications. Although fire departments are required to submit a population verification form certified by a county official as part of their grant application, the Department of Insurance has not required fire departments to use the same data sources or methodology to calculate the populations they serve. Population data can vary significantly depending on the methodology and sources used to obtain them. For example, the population figures submitted by fire departments on their 2012 grant applications did not match the population

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<sup>17</sup> The Program Evaluation Division also reviewed how points were assigned to rescue departments during the 2013 grant cycle and did not find any errors.

data collected by the Department of Insurance's Inspections Unit from 2007 to 2013 for 81% of fire departments.

During the course of this evaluation, the Department of Insurance proposed replacing the current population criteria as set forth in statute with the use of the Insurance Service Office (ISO) Community Mitigation Manual's Fire Suppression Rating Schedule. Fire districts receive ISO ratings based on 1) receiving and handling of fire alarms, 2) fire departments, which includes equipment, operations, and training, and 3) water supply. Fire districts are assigned a public protection class of 1-10; 10 is unprotected, 9S is protected and is currently required to be eligible for grant funds, and 1-8 also are protected, with 1 being the optimal rating.

The Department of Insurance suggests fire departments that serve fire districts with ISO ratings between 5 and 9, rather than those that serve a population of 12,000 or less, should be eligible for grants. The Department of Insurance believes this change would meet the intent of statute because it would still focus grant funds on regions of the State that have the fewest resources. Municipal fire districts with paid fire departments and good water systems typically have the lowest ISO ratings, between 1 and 4, whereas rural fire districts with volunteer departments and poor water systems typically have ratings between 5 and 9. Of the 1,539 fire districts in North Carolina, 1,345 have an ISO rating between 5 and 9. Of the fire departments that received grants in 2013, all but five would qualify under the requirement that they serve a fire district with an ISO rating between 5 and 9.

In summary, the Department of Insurance requires fire and rescue departments to include several types of information on their grant applications, which are then scored based on several criteria. However, the Department of Insurance does not have formal documentation that explains how the points that determine grant awards are assigned. The Program Evaluation Division discovered the Department of Insurance was mistakenly assigning more points to fire departments with paid personnel than it intended to assign, and the department is taking steps to fix this issue. The Department of Insurance has suggested that ISO ratings be used to determine fire departments' eligibility for grants instead of population data because departments use different methodologies and data sources to determine their populations, which results in inconsistent reporting.

**Finding 3. Regarding the grant disbursement process, the Department of Insurance lacks a standardized process for auditing purchases made with grants from both grant programs and does not have a policy for disposition of grant equipment in the event of a department's dissolution.**

As shown in Exhibit 16, the Department of Insurance provides oversight of the grant disbursement process through several mechanisms.

- **Invoices required to receive grant checks.** Before the Department of Insurance's Controller's Office sends checks to grant recipients, fire and rescue departments are required to turn in the original invoices for equipment purchased with the grant funds. The

Department of Insurance awards grants from the Volunteer Fire Department Fund on May 15 of each year and from the Volunteer Rescue/EMS Fund on December 15 of each year. To receive their matching grant funds, departments must purchase equipment after the date awards are announced and submit invoices no later than September 30 for fire grants and April 30 for rescue grants.<sup>18</sup> The Department of Insurance verifies the dates and vendors on the receipts.<sup>19</sup> The Program Evaluation Division verified the accuracy of a sample of invoices turned in by the 10 departments that received the largest amount of fire and rescue grants collectively in 2012. The division checked the vendor names and vendor addresses, as well as the items purchased and the dates they were purchased. All items on each invoice met the established guidelines.

- **Serial numbers required to receive grant checks.** Fire and rescue departments are required to provide the serial numbers of any equipment so marked when they submit their invoices to the Department of Insurance or online, if they are not listed on the invoices.
- **Forms required to receive grant checks.** On the Agreement of Payment form, fire and rescue departments indicate they understand the conditions of receiving grant money, which includes the condition that purchases made with grant money must be available for inspection for five years. On the Building Certificate of Occupancy form, a building authority attests that the improvements have been made and maintained according to building and/or zoning requirements.<sup>20</sup>
- **Forms required after grant checks are received.** After departments have received their grant fund checks, they must submit several forms to the Department of Insurance's Controller's Office: a State Grant Compliance Report, a Program Activities and Accomplishments Report, and a State Grant Certification Sworn Statement. A department is placed on the State Auditor's "suspend funding" report until the Controller's Office receives these reports.

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<sup>18</sup> Invoice extensions are given to fire and rescue departments for protective clothing, vehicles, and capital improvements, as long as a letter requesting the extension is received by the Department of Insurance by the regular invoice deadline.

<sup>19</sup> In the last five years, the Department of Insurance's Criminal Investigations Unit and the County District Attorney investigated one fire department after the Department of Insurance questioned the validity of the invoices it submitted. In 2013, the fire chief of that department was indicted on embezzlement charges. The fire department, however, was not penalized. The grant was paid to the fire department for a building that was being constructed because the building was completed and a Certificate of Occupancy was issued.

<sup>20</sup> Fire and rescue departments are required to submit additional forms before they receive grant checks. On the Conflict of Interest Statement form, departments indicate they are in compliance with the conflict of interest requirements in the distribution of grant funds and have made all department personnel aware of the requirements. On the State Grant Certification - No Overdue Tax Debts form, the department chief and a second authorizing official must swear that the department does not have any overdue tax debts. N.C. Gen. Stat. § 105-243.1 defines an overdue tax debt as any part of a tax debt that remains unpaid 90 days or more after the notice of initial assessment was mailed to the taxpayer.



**Exhibit 16**

Department of Insurance’s Oversight of Equipment Purchased and Capital Improvements Made with Grant Funds

Department of Insurance’s Oversight of Grant Distribution Process	Fire	Rescue / EMS
Requires and verifies invoices of equipment purchased	✓	✓
Requires departments to report serial numbers for equipment	✓	✓
Requires Agreement of Payment form, which explains equipment must be kept for five years and may be inspected	✓	✓
Requires Building Certificate of Occupancy form, which mandates buildings meet construction and zoning codes	✓	✓
Informally audits grant purchases	✓	
Formally audits grant purchases		

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

**Volunteer Fire Department Fund**

**Although the Department of Insurance has periodically checked the purchases made with grants from the Volunteer Fire Department Fund, the department lacks a formal process for auditing grant recipients.**

Every three to five years, the Department of Insurance’s Inspection Unit conducts inspections to certify and rank fire departments unrelated to the department’s grant fund programs. While on these visits, the inspectors sometimes check to see if departments can account for the grant funds they received by showing inspectors the serial numbers of the equipment purchased and the capital improvements made with grant funds. Although some items that departments purchase with grant funds do not have serial numbers, the inspector can check the inventory list of equipment. The inspectors understand that some equipment, like pagers and radios, will not be available for inspection during site visits because it is out with firefighters.

If the Department of Insurance’s Inspections Unit finds a problem with the verification of grant equipment at a fire department, it reports back to the department’s grant program. The grant program investigates the report and determines if it warrants further action by the department’s Criminal Investigations Unit. The Criminal Investigations Unit determines if the fire department must pay back its grant money.

The Program Evaluation Division conducted site visits to the 10 departments that received the largest amount of fire and rescue grants collectively in 2012 to verify that equipment purchased with grant funds was on site.<sup>21</sup> If the equipment had a serial number, the division checked to see if the serial number matched what was reported. If the equipment did not have a serial number, the division counted the inventory to see if it matched what was reported. The Program Evaluation Division identified 1,793 items for inspection, some of which could not be checked because they were out with

<sup>21</sup> Although Cramerton Fire Department in Gaston County was among the top 10 grant recipients, the Program Evaluation Division was not able to visit the department because its building was inaccessible due to recent flood damage. Accordingly, the division visited the next largest grant recipient, Newton Grove Fire and Rescue, Inc.

personnel and trucks. The division was able to check 905 items and located 901 of them, for a 99.6% matching rate.<sup>22</sup>

### **Volunteer Rescue/EMS Fund**

**The Department of Insurance does not inspect rescue or EMS departments and, as a result, does not periodically check the purchases made with grants from the Volunteer Rescue/EMS Fund.** The North Carolina Association of Rescue and Emergency Medical Services, Inc. (NCAREMS) certifies rescue departments. NCAREMS does not conduct audits of rescue departments to verify accurate reporting of equipment purchased with grant money. The Office of Emergency Medical Services (OEMS), which is part of the North Carolina Division of Health Service Regulation under the Department of Health and Human Services, is responsible for certifying and inspecting EMS departments. OEMS does not conduct audits of EMS departments to verify accurate reporting of equipment purchased with grant money.

Because the Department of Insurance does not certify or inspect rescue and EMS departments, the Department of Insurance does not conduct site visits of these departments.<sup>23</sup> If the Department of Insurance is inspecting a joint fire and rescue department, it might audit some of the rescue equipment that has been purchased with grant funds.

**During the course of this evaluation, the Department of Insurance stated it would like to develop a formalized audit process for the Volunteer Fire Department Fund and the Volunteer Rescue/EMS Fund.** State law already gives the Office of the State Fire Marshal and other employees of the Department of Insurance the authority to conduct on-site examinations of fire, rescue, and EMS departments to check the equipment purchased with grant funds.<sup>24</sup> The Department of Insurance's 2013 internal audit of the Volunteer Fire Department Fund identified the need for periodic reviews to confirm the existence of items purchased with grant funds. The internal audit recommended the Department of Insurance consider the feasibility of conducting periodic examinations and using independent resources to conduct reviews.

The Department of Insurance stated that it would like to develop a formalized audit process for both grant programs that would operate on a three-year cycle. As the administrator of both the Volunteer Fire Department Fund and the Volunteer Rescue/EMS Fund, the Department of Insurance is in a better position than either NCAREMS or OEMS to audit purchases made with grants from the Volunteer Rescue/EMS Fund. The Department of Insurance estimates that it would have to hire two additional staff to audit grant recipients, which would cost \$150,000 in salaries, benefits, and vehicles.

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<sup>22</sup> The four items that did not match were hand lights that the department's assistant chief could not locate.

<sup>23</sup> The Department of Insurance does not inspect rescue and EMS departments because these departments' ratings do not affect insurance rates and its inspectors do not have the type of expertise needed to inspect rescue and EMS equipment.

<sup>24</sup> N.C. Gen. Stat. § 58-87-7.

**The Department of Insurance believes fire and rescue departments could benefit even more from grant money if dissolved departments were required to transfer their equipment to another department in the county.** The Agreement of Payment form requires grantees to keep equipment purchased with grant money for at least five years. However, it does not stipulate what departments should do if they dissolve before the end of that five-year time period.

The Department of Insurance has drafted language that could be added to the Agreement of Payment form to specify what a department should do with its grant equipment if the department dissolves. The Department of Insurance is in favor of a regulation to require departments that dissolve to transfer equipment bought with grant funds in the last five years to a department that will cover the district or area previously serviced by the dissolved department.

In summary, although the Department of Insurance requires departments to submit equipment invoices and several forms before issuing their grant fund checks, there is no formal audit process in place to confirm that departments have used grant money to purchase the equipment described and make the capital improvements reported. The Department of Insurance stated it would like to develop a formalized grant equipment audit process that would operate on a three-year cycle. In addition, the Department of Insurance would like to add language to the Agreement of Payment form that requires a dissolving department to give the equipment it bought with grant funds to another department in its district.

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## Recommendations

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### **Recommendation 1. The General Assembly should determine how to apply the \$8 million surplus in the Volunteer Fire Department Fund.**

As discussed in Finding 1, there is a \$8 million surplus in the Volunteer Fire Department Fund. If the General Assembly takes no action, the surplus will likely remain. Although the 2013 Appropriations Act reduced the percentage of the premium tax going to the Volunteer Fire Department Fund from 30% to 25%, the fact that 98% of fire departments that applied and qualified for grants in 2013 were awarded funding suggests there is not enough demand to spend down the surplus if the Department of Insurance simply applies the surplus to the amount of grant money it awards in 2014 and going forward.

The General Assembly should determine how to apply the surplus funds. The Program Evaluation Division identified several options in Finding 1, and Exhibit 17 presents the implications of each option.

## Exhibit 17: General Assembly's Options for Applying \$8 Million Surplus in Fire Grants Program

Options	Implications
<b>Increase grants to volunteer fire departments</b>	
<p><b>Option 1a.</b> Increase maximum amount of matching grant awards from \$30,000 to \$50,000 (a 67% increase)</p>	<p>This change would spend the \$8 million surplus in 1.25 to 7 years. After that point, fewer fire departments would receive grants because of larger award amounts (unless statute is changed back).</p> <ul style="list-style-type: none"> <li>• <b>Surplus lasts 1.25 years.</b> Assuming all departments received 67% more grant money in 2013, this change would have cost the program an additional \$6.2 million, which would spend the \$8 million surplus in 1.25 years.</li> <li>• <b>Surplus lasts seven years.</b> Assuming only the departments that received \$30,000 in 2013 received the new maximum of \$50,000, this change would have cost the program an additional \$1.1 million, which would spend the \$8 million surplus in seven years.</li> </ul>
<p><b>Option 1b.</b> Increase the Department of Insurance's match ratio from 50:50 to 75:25 for departments with greater financial need, making \$45,000 the maximum amount awarded by the Department of Insurance to these departments</p>	<p>This change would spend the \$8 million surplus in two to eight years. After that point, fewer fire departments would receive grants because of larger award amounts (unless statute is changed back).</p> <ul style="list-style-type: none"> <li>• <b>Surplus lasts two years.</b> Assuming departments with less than \$100,000 in funding from other sources (e.g., county, city) received a 75:25 match in 2013, this change would have cost the program an additional \$4.1 million, which would spend the \$8 million surplus in two years.</li> <li>• <b>Surplus lasts eight years.</b> Assuming departments with less than \$50,000 in funding from other sources (e.g., county, city) received a 75:25 match in 2013, this change would have cost the program an additional \$1 million, which would spend the \$8 million surplus in eight years.</li> </ul>
<b>Transfer funds to another program supported by the insurance premium tax that benefits the fire protection community</b>	
<p><b>Option 2.</b> Transfer \$8 million to the Volunteer Safety Workers' Compensation Fund</p>	<p>This transfer would spend the \$8 million surplus in one year and delay depletion of the Volunteer Safety Workers' Compensation Fund's assets from Fiscal Year 2020–21 to Fiscal Year 2022–23, assuming all other variables are held constant. If investment returns are robust or the \$8 million transfer is paired with a member premium increase, total assets could remain positive for a longer period of time.</p>
<p><b>Option 3a.</b> Transfer \$8 million to the Firefighters' and Rescue Squad Workers' Pension Fund for the State's annual required contribution</p>	<p>This transfer would spend the \$8 million surplus by covering the projected gap between the amount of insurance premium tax proceeds going to the General Fund and the State's annual required contribution for almost four years. The projected gap is \$4.1 million for Fiscal Year 2013–14, \$1.6 million for Fiscal Year 2014–15, \$1.4 million for Fiscal Year 2015–16, and \$1.2 million for Fiscal Year 2016–17.</p>
<p><b>Option 3b.</b> Transfer \$8 million to the Firefighters' and Rescue Squad Workers' Pension Fund for in-service distributions</p>	<p>This transfer would spend the \$8 million surplus by covering the estimated \$1.4 million annual cost of removing the prohibition against in-service distributions for 5.5 years.</p>
<p><b>Option 4. Transfer funds to the General Fund</b></p>	<p>This transfer would spend the \$8 million surplus in one year and allow the General Assembly to redirect this money to another state-supported program.</p>

Source: Program Evaluation Division.

**The General Assembly should consider requiring the Department of Insurance to rely on projected receipts, which would increase the available surplus from \$8 million to the fund's \$17.3 million balance.** The Department of Insurance's reliance on actual (or historical) instead of projected (or future) receipts is a conservative strategy that differs from approaches of other state grant programs relying on special funds. Other agencies budget their disbursements based on projected receipts. The Volunteer Fire Department Fund surplus would be much higher were the General Assembly to require the Department of Insurance to convert to a system of matching grant disbursements to projected receipts beginning June 30, 2014. The fund's balance as of June 30, 2014, will be \$17.3 million (see Exhibit 11), which could all be considered surplus, if grant disbursements were based on projected receipts going forward. As such, the Department of Insurance could disburse \$8 million in grants in 2014 because that amount is projected for receipts for Fiscal Year 2014–15.

**Recommendation 2. The General Assembly should direct the Department of Insurance to compare actual and projected receipts each year for both grant programs.**

As discussed in Finding 1, the Department of Insurance is not comparing actual receipts with the projected receipts they use to determine how much to award in grants each year. The General Assembly should direct the Department of Insurance to begin comparing these receipts to ensure proper financial management of the grant programs.

Each year before the department determines how much to award in grants, it should document the following amounts:

- fund balance at the beginning of the grant cycle,
- cash receipts throughout the grant cycle,
- cash disbursements throughout the grant cycle, and
- fund balance at the end of the grant cycle.

Tracking each of these amounts will tell the Department how much each grant program can afford to award during the next grant cycle. The document should look back at least five years so trends can be tracked.

The Department of Insurance should include this documentation for both the Volunteer Fire Department Fund and Volunteer Rescue/EMS Fund as part of the written report it already submits to the General Assembly pursuant to N.C. Gen. Stat. § 58-87-1(c).<sup>25</sup> This document will indicate if a large surplus is beginning to accumulate, and the General Assembly may take action accordingly.

To allow the Department of Insurance to base the amount awarded for fire grants on actual revenue collections rather than projections for the last quarter of the fiscal year, the General Assembly should change the current May 15 deadline for award announcements to on or about August 15. Changing this deadline has implications for the timing of rescue grants as well. As a result, the current December 15 deadline for the Volunteer Rescue/EMS Fund should be changed to on or about March 15.

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<sup>25</sup> The Commissioner of Insurance must submit a written report to the General Assembly within 60 days of awarding Volunteer Fire Department Fund grants including the amount of each grant and the name of the recipient.

**Recommendation 3. The General Assembly should direct the Department of Insurance to improve its oversight of both grant programs.**

As discussed in Finding 2, the Department of Insurance does not have formal documentation specifying how the points that determine grant awards are assigned for either the Volunteer Fire Department Fund or the Volunteer Rescue/EMS Fund. The Department of Insurance should develop an internal document that lists each application question and explains how points are assigned for each question. It should include an explanation of the logic for assigning certain point values. In addition, the document should include the methodology and formulas used to calculate the total points for each department.

As discussed in Finding 3, the Department of Insurance does not have a formal policy in place for conducting audits of the purchases made with grants from the Volunteer Fire Department Fund or the Volunteer Rescue/EMS Fund. The Department of Insurance should develop a policy for auditing fire and rescue/EMS departments and implement it no later than July 1, 2015.

The Department of Insurance should calculate the cost of auditing the grant programs and identify the most appropriate funding source. The 2013 Appropriations Act reduced the percentage of the taxes collected on gross property insurance premiums that DOI retains to administer the Volunteer Fire Department Fund from 2% to 1%. The General Assembly may want to consider returning the department's funding to 2%.

By January 1, 2015, the Department of Insurance should report to the House and Senate appropriations subcommittees on general government on its policy for auditing purchases made with grants from the Volunteer Fire Department Fund and Volunteer Rescue/EMS Fund. The Department of Insurance also should publish its grant auditing policy on its website.

**Recommendation 4. The General Assembly should amend N.C. Gen. Stat. § 58-87-1(b) to make fire department rating, as opposed to population served, a criterion for eligibility for the Volunteer Fire Department Fund.**

As discussed in Finding 2, N.C. Gen. Stat. § 58-87-1(b)(1) requires the Department of Insurance to use the most recent annual population estimates certified by the State Budget Officer to determine the population served by fire departments. However, these population estimates are produced at the county and municipal level rather than the fire district level. As a result, the Department of Insurance has relied on fire departments to accurately report the populations they serve but has not been requiring fire departments to use the same methodology or data sources to do so.

State law should be amended to replace the current population served criterion with fire department ratings as determined by the Insurance Service Office (ISO) Community Mitigation Manual's Fire Suppression Rating Schedule. As recommended by the Department of Insurance, fire departments should be eligible for grants if their fire district has an ISO rating between 5 and 9 rather than if they serve a population of 12,000

or less. In the event that a fire department covers two or more fire districts with different ISO ratings, the fire department should be eligible for grants if any of its ISO ratings are between 5 and 10.<sup>26</sup>

**Recommendation 5. The General Assembly should amend N.C. Gen. Stat. § 58-87-7 to require dissolved departments that received grant equipment less than five years ago to transfer that equipment to nearby departments.**

As discussed in Finding 3, no policy exists regarding what happens to the equipment purchased with grants if a department dissolves. The General Assembly should amend N.C. Gen. Stat. § 58-87-7 to include a provision specifying that if a grant recipient shall cease to exist within five years of the date of the grant award, the department shall transfer any and all equipment purchased with such grant funds to the department that shall assume responsibility for providing service to the grant recipient's former service area, as determined by the Department of Insurance in consultation with the appropriate county authority.

The Department of Insurance should take the following actions to implement this change:

- establish specific guidelines about which department shall receive the equipment of the dissolved department and under what circumstances;
- add language to the Agreement of Payment form departments must fill out as part of the grant application process to ensure that departments understand what will happen to grant equipment purchased in the last five years in the event of dissolution; and
- provide fire and rescue departments that receive grant equipment from dissolved departments with transfer of equipment forms.

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## 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. Their responses are provided following the report.

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## Program Evaluation Division Contact and Acknowledgments

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

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<sup>26</sup> Although a fire department that solely serves a fire district with a 10 rating is unprotected and not eligible for grants from the Volunteer Fire Department Fund, a fire department that serves multiple fire districts should not be ineligible for grants because one of the fire districts it serves has a 10 rating.

April 23, 2014

John W. Turcotte, Director  
Program Evaluation Division  
NC General Assembly  
300 N. Salisbury Street, Suite 100  
Raleigh, NC 27603-1406

Dear Mr. Turcotte:

The North Carolina Department of Insurance appreciates the opportunity to review and respond to the Program Evaluation Division draft report 2013-06, an evaluation of the Volunteer Fire Department Fund and Volunteer Rescue/EMS Fund. Please accept this letter as the Department's formal response to the draft report.

The program evaluation team, led by Kiernan McGorty, worked directly with Department staff to conduct a thorough examination of the funds in question, producing findings and recommendations relating to fund operations. The examination process leading up to this report proved to be valuable to the Department, helping to identify areas for improvement and increased efficiency in fund operations, many of which have already been implemented by the Department.

*The Department concurs with the report findings, as follows:*

**The Department of Insurance's failure to compare actual to projected receipts for both grant programs has resulted in a \$8 million surplus in the Volunteer Fire Department Fund.** The Volunteer Fire Department Fund has historically issued grants in number and amount based largely on historic experience and trends. As noted in Exhibit 9 of the report, Session Laws 2006-196 and 2007-250 altered many variables affecting the funding mechanism, effective 2008, in a way that was anticipated to be revenue neutral. With this assumption in mind, the Department failed to adequately monitor actual receipts or modify grant distribution in accordance with the new funding amounts. The Department has replaced personnel and implemented revised oversight requirements and practices within both the Office of State Fire Marshal and the Department's Controller's Office to ensure that direct monitoring of actual fund balances is performed on a real-time basis and that fund operations are no longer conducted based on historical trend.

**The Department of Insurance's oversight of the grant award and distribution process could be improved.** As noted above, the Department has replaced personnel and implemented revised oversight requirements and practices within both the Office of State Fire Marshal and the Department's Controller's Office to ensure that direct monitoring of actual fund balances is performed on a real-time basis and that fund operations are no longer conducted based on historical trend.

*The Department's comments on the report recommendations are as follows:*

**Recommendation 1. The General Assembly should determine how to apply the \$8 million surplus in the Volunteer Fire Department Fund.** The Department believes that both the ongoing resource



needs of volunteer fire departments across the State and the legislative intent behind the authorizing statutes support disbursement of the existing surplus fund to help improve the ratings of grant recipient fire departments, which in turn should reduce homeowners' insurance premiums in the fire districts served by the grant recipient departments. Implementation of recommendation 1b (modify grant match ratio from 50:50 to 75:25 for departments with greater financial need) would provide the greatest assistance to those departments with the most severe resource needs. Allowing departments with limited resources to receive these increased match amounts would enable them to acquire needed equipment and improve their rating more quickly than is currently the case, which should then lead to a more rapid and significant reduction in homeowners' premiums for residents living in the fire districts of the grant recipient departments.

**Recommendation 2. The General Assembly should direct the Department of Insurance to compare actual and projected receipts each year for both grant programs.** The Department agrees with this recommendation and has already implemented staffing and operational changes to ensure that this is the case. The Department's Controller's Office will now be directly, proactively involved in determining availability of funds for distribution of grant awards and will ensure that all recommendations are based on documented analyses of both current receipts, projected revenues and unexpended prior year fund balances. The Department will actively monitor Department of Revenue projections of the Volunteer Fire Grant funding stream and communicate to legislative staff any changes in funding from the time of issuance of this report and any ensuing action undertaken by the General Assembly.

**Recommendation 3. The General Assembly should direct the Department of Insurance to improve its oversight of both grant programs.** The Department agrees with this recommendation and has already implemented staffing and operational changes to ensure that this is the case. The Department also supports the Program Evaluation Division suggestion of returning Volunteer Fire Department Fund administration funding levels to the pre-2013 amount of 2% of taxes collected on gross property insurance premiums, to ensure that adequate resources are available to perform responsible oversight and auditing activities of the funds in question.

**Recommendation 4. The General Assembly should amend N.C.Gen.Stat. § 58-87-1(b) to make fire department rating, as opposed to population served, a criterion for eligibility for the Volunteer Fire Department Fund.** The Department agrees that the use of population as an eligibility criterion is not a preferred eligibility measure and should either be deleted entirely or substituted with a different, more reliable measure that will maintain the program goal of focusing grant awards on the State's more resource-poor, largely rural fire departments. While fire department ratings are certainly a reliable, standardized measure of fire department resources and capabilities, continued discussion with volunteer fire department stakeholders indicates that a preferable eligibility criterion may be the requirement that grant applicant departments currently contain rural districts within their service areas. The Department stands ready to provide assistance to legislative staff in identifying and understanding the fire department rating schemes, rural district classifications, and potential impacts of inclusion of these as eligibility criterion.

**Recommendation 5. The General Assembly should amend N.C.Gen.Stat. §§ 58-87-1 and 58-87-5 to require dissolved departments that received grant equipment less than five years ago to transfer that equipment to nearby departments.** The Department agrees with this recommendation and has drafted modified language to accomplish this to be included in the related 'Agreement of Payment Form' that is signed by the authorized representatives of grant recipient departments as a precondition for their receipt of awarded grant funds. The Department has also prepared language and supplemental information on a related matter that would allow for grant funds to be used by fire departments to put into service

property acquired from the Department of Defense through the Firefighter Property (FFP) and Federal Excess Property (FEPP) programs. This additional use of grant funds would provide economic leverage and improved access to needed equipment for the resource-poor rural fire departments.

We are grateful to you and the staff of the Program Evaluation Division of the General Assembly for the professionalism and proficiency you have shown throughout this process. The examination and the resulting report produced by your staff have provided the Department with a valuable opportunity to improve upon existing practices to ensure that the grant programs in question can provide the greatest assistance to the volunteer fire departments and volunteer rescue/ EMS departments providing such a vital service to communities with the least abundant resources throughout our State.

Yours very truly,

A handwritten signature in blue ink that reads "Wayne Goodwin". The signature is fluid and cursive, with a long horizontal stroke at the end.

Wayne Goodwin  
NC Commissioner of Insurance



North Carolina State Firemen's Association

May 20, 2014

NCSFA Officers

*Tommy Cole  
President*

*Chief John Grimes  
1<sup>st</sup> Vice President*

*Chief Kevin Gordon  
2<sup>nd</sup> Vice President*

*Chief Brian Cox  
Piedmont Director*

*Deputy Chief  
Barry Overman  
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*Chief Anthony Penland  
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Conference Manager*

*Amy McCall  
Accounting  
Administrator*

*Sandie Houck  
Administrative  
Assistant*

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 comments on the Study of the North Carolina Volunteer Fire Department and Volunteer Rescue/EMS Funds by the Program Evaluation Division. It would appear from most of the findings in the report that the Department of Insurance is supportive of actions to address many of the concerns of the report in a reasonable manner. The North Carolina State Firemen's Association (NCSFA) is interested in insuring that the Volunteer Fire Department Fund remains available to assist primarily volunteer fire departments in securing needed equipment and capital needs. We also want to insure that the available monies are given to the most needy departments in a fair manner, and that administrative and reporting requirements are the least burdensome possible for volunteer departments with minimal staff.

It is important to note that the original intent of the Volunteer Fire Department Fund was an act to improve rural fire insurance rates. It was hoped that the grant funds would allow the departments to purchase necessary equipment, spend more time training and less time fund raising, and in addition to providing fire protection, assist their community by reducing insurance rates. It is also important to remember that by definition, the grants are to be distributed to primarily volunteer departments. With that in mind, it is important that the administrative processes required to submit an application and adhere to grant policies are kept to the minimum required to be effective and financially prudent. We would like to provide several comments and suggestions on the recommendations.

In Recommendation #1 the report provides several options for disbursement of the surplus grant funds of \$8 Million dollars. The NCSFA would prefer Option 1b, which reduces the match required by volunteer fire departments. Currently departments with fewer resources rarely have the matching funds to apply for the full \$30,000 grant. Changing the matching formula from 50:50 to 25:75 would allow departments to triple their investment. While this could be combined with Option 1a, which increases the grant amount to \$50,000, increasing the cap alone does little for the departments who are currently struggling to match the current grant amount. If it is determined that the spending rate increase under Option 1b would be insufficient to take care of the surplus, as a second possibility we would suggest Option 3a, which transfers the surplus to the Firefighters and Rescue Workers Pension Fund.

Mr. John W. Turcotte

November 12, 2013

Page 2

This would benefit all firefighters across the state in an equal fashion. Our third choice would be Option 2, which transfers the surplus to the Volunteer Safety Workers Compensation Fund. We would oppose the use of Option 4, which transfers the money for non-fire service related programs. Millions of dollars are saved in insurance premiums for citizens because of high levels of fire protection, and millions of dollars of loss are prevented each year which benefits the insurance industry. This is the purpose of the Gross Premium Tax (GPT), and we believe it should stay in fire service programs.

In Recommendation # 3 it is suggested the Department of Insurance should expand its audit process for the grant funds. We would question whether the additional drain on resources at the Office of State Fire Marshal, the potential expense of \$150,000, not to mention the additional burden on volunteer fire departments and their time is justified based on findings of the report. There are a minimal number of inappropriate experiences in the program, and even the report indicated that PED's audit produced a 99.6% finding rate of equipment, with only 4 missing hand lights that may have been assigned to volunteers. Much of this equipment (such as safety gear, flash lights, radios and pagers) are issued to volunteers who must leave their jobs or homes for an emergency call. To ask them to bring their equipment in on a specific date just for an audit, when in truth there is no indication of fraudulent behavior on any scale in the program, seems extreme. The equipment is already reviewed on a three to five year basis during rating inspections, and an indication of missing items of significance would already bring a deeper investigation. Departments already submit original invoices to get the funding, and there are already multiple opportunities for any unlikely fraud to be detected to consider the additional cost and inconvenience of additional audits. We would support the increase in administrative funding for DOI to the original 2% to provide for better procedural and development processes, review of applications, and advertisement/promotion of the program. We do not see the justification for expanding the audit program.

In Recommendation #4, we would oppose the utilization of fire department rating, as opposed to population served, as a criterion for eligibility in the grant program. This could inhibit some from improving their rating, and it would also make it more difficult for departments to keep their better rating, and replace necessary equipment required for maintaining the improved insurance ratings. It would also go against one founding intent of the program, to encourage the improvement of rural insurance rates. We would suggest that neither the population nor insurance rating criterion is necessary. The current limitations of being a rated department, limits on number of paid personnel, and the DOI selection and award criteria based on greatest need already limit the grant eligibility to primarily volunteer departments. Restricting it further may eliminate departments who have worked hard for a better rating from eligibility.

Mr. John W. Turcotte

November 12, 2013

Page 3

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 use of the Gross Premium Tax. 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 style with a long, sweeping flourish extending to the right.

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.

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Website: [www.ncarems.org](http://www.ncarems.org)

April 23, 2014

Kiernan McGorty, JD, PhD  
Principal Program Evaluator  
Program Evaluation Division  
NC General Assembly  
100K Legislative Office Building  
Raleigh, NC 27603-5925

First we would like to thank the Program Evaluation for the opportunity to comment on Improved Oversight of Volunteer Fire Departments Fund and Volunteer Rescue/EMS Fund. We will in most part restrict our comments to the Volunteer Rescue/EMS Fund.

Page 17 & 18 Finding 1.

We feel that DOI should maintain the security of the point system and not be public knowledge.

Page 23 & 24 Volunteer/EMS Fund

We would be glad to assist in inspection of the equipment receive on the grant if we are furnish the necessary information to the equipment audit and reimbursed for the actual expense to perform the audit. Would be mostly mileage. We inspected the department for the equipment that is required for the standard they are certified and performing. The equipment grant inspection could be piggy-backed with the inspection for the standard inspection.

Page 25 Exhibit 17:

Option 3b would be a good use and would help a lot of our emergency services personnel.

Page 26 & 27 Recommendation 2.

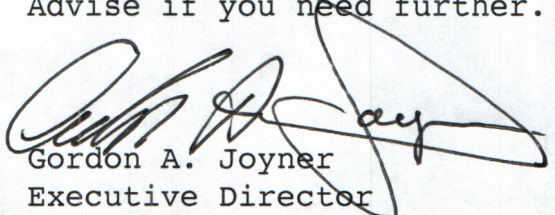
We see no problems with changing the dates.

Page 28 Recommendations 5.

IRS has rules and regulation on the dissolution of departments as to their assets. Any specialized equipment should go to departments that meets the standard for personnel and the use of the specialized equipment. Not necessary to a department in the same county.

We feel the fund have been very positive in assuring the public all across the state that no matter where emergency services are needed there will be a response from trained personnel and with the necessary equipment to provide them with the services they may require.

Advise if you need further.



Gordon A. Joyner  
Executive Director