

An Evaluation:

Volunteer Fire Fighter and Emergency Medical Technician Service Award Program

Department of Administration

December 2005

Report Highlights ■

The program is funded by municipalities and with GPR.

Investment options were not clearly understood when vendors were selected in 2001.

Current investment options could limit the board's flexibility to change vendors in 2006.

The board requires immediate assistance with its 2006 vendor-selection process.

The Volunteer Fire Fighter and Emergency Medical Technician Service Award Program—commonly referred to as the length-of-service award program—was created under 1999 Wisconsin Act 105 to assist the fire and ambulance departments of smaller municipalities in recruiting and retaining volunteer staff. The program offers tax-deferred retirement benefits to volunteer firefighters and emergency medical technicians who meet the eligibility requirements established by their departments. Funding is provided by municipalities and the State.

As of September 1, 2005, 5,388 eligible volunteers were enrolled in the program by 182 public or private fire departments or ambulance services. The program had assets of \$10.3 million, including \$4.0 million funded with general purpose revenue (GPR).

An eight-member board appointed by the Governor and attached to the Department of Administration (DOA) for administrative purposes provides general program oversight but contracts with private vendors for account administration. 1999 Wisconsin Act 105 included a statutory provision requiring the Legislative Audit Bureau to complete an evaluation of the program no later than February 2006. To review operations and evaluate the program's performance, we:

- reviewed documents related to the board's initial request-for-proposals process;
- analyzed investment plan documents and fee structures, as well as program expenditures and changes in program assets; and
- interviewed board members and DOA staff, local officials and volunteers, interest groups, and program vendors.

Key Facts and Findings

As of September 1, 2005, 5,388 volunteers were enrolled in the program through 182 participating departments.

Municipalities have contributed \$6.3 million on behalf of departments.

In 2004, three departments lost a total of \$119,000 because one vendor's contract was not extended.

Since 2002, participating departments have received \$4.0 million in GPR matching funds.

Vendors were paid \$601,600 for program administration from 2001 through 2004.

Through December 2004, program benefit payments on behalf of 68 participants totaled \$255,200.

Participation and Funding

Among the 860 fire departments operating in Wisconsin in 2005, 703 operate exclusively with volunteers, while another 102 use a combination of volunteers and paid staff. Volunteer staffing information is not available for Wisconsin's 734 ambulance services.

During the length-of-service award program's first five years, participation increased from 85 emergency services departments in 2001 to 182 as of September 1, 2005. During the same period, individual enrollments increased from 2,420 to 5,388, or 122.6 percent. In the future, individual enrollments are expected to increase more modestly because fewer departments are expected to enter the program.

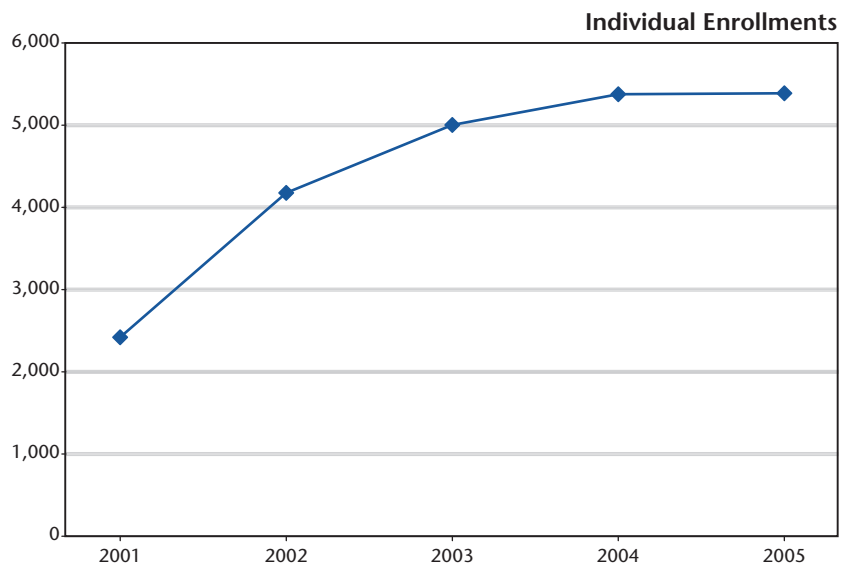
Participating emergency services departments establish eligibility rules, and municipalities determine the amount they will contribute to

each eligible volunteer's account on behalf of participating departments. Most municipalities contribute the maximum amount the State will match, which is specified in s. 16.25(3)(d), Wis. Stats., and was \$274 per eligible volunteer in July 2005.

However, local government contributions can vary widely. For example, in 2004 they averaged \$100 per volunteer in the Town of Mercer and the City of Montello, but \$1,114 per volunteer in the Town of St. Germain. Statutes limit state matching funds for the program to \$2.0 million annually.

Vendor Selection

Municipalities are responsible for making final investment decisions under the program, but under ch. VFF-EMT 1, Wis. Adm. Code, the board is required to select vendors and review investment



plan options and fee disclosures. In August and September 2001, the board signed three-year contracts for account management with vendors that were selected in a competitive bidding process. From 2001 through 2004, these vendors were paid a total of \$601,600 for program administration.

In 2004 and 2005, the board extended its contracts with two vendors, but not with a third. Its primary justification was concern about the types of investment options provided by the third vendor and the vendor's failure to meet reporting requirements. However, the investments available through the vendor had not changed significantly since its selection in 2001.

Because the board did not extend one of its initial contracts, departments enrolled with that vendor were required to select a different vendor or discontinue participation in the program.

As a result, departments serving three municipalities that had purchased life insurance policies—the Village of Suamico, the Town of Townsend, and the Village of Athens—forfeited a combined total of \$119,000 paid for nontransferable policies, which was nearly all of their program contributions. The Village of Kimberly forfeited \$22,200 when it discontinued its investment plan with the third vendor before the board made its decision to not extend the vendor's contract.

In the future, 117 of the 182 departments participating in the program

could face financial losses if they choose or are required to transfer annuity investments purchased through one of the two remaining vendors. Fees related to such transfers may limit the board's flexibility in negotiating new vendor contracts in 2006, when current contracts expire. The board plans to issue a request for proposals in February and to enter into new multi-year contracts with vendors at the end of June 2006.

Future Considerations

Available investment options are complex, and participating municipalities and emergency services departments generally do not have either the time or the expertise to monitor investment performance. Therefore, the program's board plays an important role in ensuring program success by selecting vendors and by:

- determining whether vendors' materials clearly describe available investment options and their costs before the materials are distributed to participating departments;
- ensuring that departments understand the full costs of available investment options by annually reviewing vendors' disclosures of all direct and indirect fees and other costs of investment; and
- reviewing the performance of all investment options to ensure that earnings expectations are met.

While the initial contracting process met all legal requirements, the process was not effective because it did little to simplify vendor selection for participating emergency services departments. Furthermore, it did not ensure that all investment options were best suited for the length-of-service award program before making them available to participating departments.

It should be noted that while the board's primary responsibilities are related to complex financial decision-making, seven of its eight members are not required to have expertise in this area. Instead, they are required to be volunteer firefighters, volunteer emergency medical technicians, and representatives of municipalities that use volunteer firefighters.

The eighth board member is required to be an individual with financial planning experience. However, the subcommittee that evaluated vendor proposals in 2001 was not required to and did not include this board member.

Currently, limited administrative support is available to the program through DOA, which has 0.1 full-time equivalent position to provide staff support to the board. Because DOA's responsibilities as a state agency relate to budgeting, centralized purchasing, and managing capital projects, its staff generally are not expected to analyze benefit or investment programs.

The Department of Employee Trust Funds (ETF), which administers the Wisconsin Retirement System, does

employ staff with expertise in those areas. When 1999 Assembly Bill 187 was introduced to create the length-of-service award program, the program was to be attached to ETF for administrative purposes. However, ETF officials expressed concern about the adequacy of available funding to support program administration, and the board was instead attached to DOA.

We believe that the board requires immediate assistance with its 2006 vendor-selection process in order to ensure needed program changes are effectively addressed. Given the range and complexity of improvements needed, our report includes recommendations for the board to obtain ETF assistance and adequate independent financial expertise before it begins its new request-for-proposals process.

Recommendations

Our report includes recommendations that the board:

- ☑ determine whether it will need to extend current vendor contracts to ensure it has obtained adequate financial expertise before moving forward with its next request-for-proposals process (p. 29); and
- ☑ improve its annual reporting to the Legislature (p. 31).

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We also recommend that DOA:

- ☑ work with ETF to develop an interagency agreement that will make ETF staff available to assist the board during its next request-for-proposals process (p. 29); and
- ☑ report to the Joint Legislative Audit Committee by March 31, 2006, with a plan for conducting a request-for-proposals process that addresses concerns raised in this audit (p. 29).

Finally, we recommend that the Legislature:

- ☑ revise board membership requirements to enhance financial expertise, and change the due date for the board's annual report (p. 30).

Additional Information

[Report 05-22](#) includes a response from the Department of Administration, call (608) 266-2818 or visit our Web site:



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