

STATE OF NORTH CAROLINA

PERFORMANCE AUDIT

**NORTH CAROLINA STATE PROPERTY FIRE
INSURANCE FUND**

**DEPARTMENT OF INSURANCE, RISK MANAGEMENT
DIVISION**

NOVEMBER 2011

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

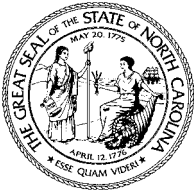
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November 16, 2011

The Honorable Beverly E. Perdue, Governor
Members of the North Carolina General Assembly
Mr. Wayne Goodwin, Insurance Commissioner and State Fire Marshal,
North Carolina Department of Insurance

Ladies and Gentlemen:

We are pleased to submit this performance audit titled State Property Fire Insurance Fund. The audit objective was to evaluate whether state-owned property is being cost-effectively insured against unexpected losses. Mr. Goodwin received a copy of this report. His written comments are included in the appendix.

The Office of the State Auditor initiated this audit to improve the effectiveness of the management of state-owned property.

We wish to express our appreciation to the staff of the Department of Insurance, Division of Risk Management for the courtesy, cooperation, and assistance provided us during the audit.

Respectfully submitted,

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

TABLE OF CONTENTS

	PAGE
SUMMARY	2
INTRODUCTION	
BACKGROUND.....	5
OBJECTIVES, SCOPE, AND METHODOLOGY	5
FINDINGS AND RECOMMENDATIONS.....	6
APPENDIX	
DEPARTMENT RESPONSE	14
ORDERING INFORMATION	17

SUMMARY

PURPOSE

This audit report evaluates whether state-owned property is being cost-effectively insured against unexpected losses.

This audit makes recommendations so the Governor, Legislature and the Department of Insurance, Risk Management Division (RMD), can take appropriate corrective action.

RESULTS

The inventory of insured State property may not include all insurable properties. A comparison of the inventory of State property maintained by RMD with the inventory of property maintained by the Department of Administration, State Property Office, identified numerous discrepancies. Failure to maintain an accurate inventory may result in state property not having any insurance when state-owned buildings are not included in the inventory or having unwarranted insurance premium costs when property is included which is not a State asset.

There are also numerous instances where all property information necessary to calculate insurance premiums was not provided to private insurers. Missing information included building and content values and property characteristics such as construction type and fire protection systems. Lack of building and content values can increase the state's exposure to loss. When all building characteristics are not provided, insurers may use worst-case assumptions when calculating their risk of loss, which may result in a higher premium assessment.

State property valuations used to calculate premiums for private insurance coverage may be inaccurate. Our review of selected properties as identified in the Wake County property tax records found significant differences from the insured value reported in the RMD inventory of insured properties. The large difference between the two valuations and inconsistency in the relative difference indicates state agencies may not be using a uniform methodology to calculate property replacement values.¹ Allowing agencies to use various methodologies to assess building replacement costs may result in inaccurate insurance valuations of state-owned buildings, resulting in increased risk from unexpected losses and/or higher premiums due to overstated property valuations.

Property insurance assessments made by the RMD to State agencies are often inequitable, which results in some State entities subsidizing the operations of other State entities. Property insurance assessments are inequitable because RMD purchases unlimited coverage for all State property, but building assessments often exclude charges for fire or other perils. RMD is statutorily required to only assess agencies for fire coverage for buildings funded primarily through special operating funds. In addition, building charges are also reduced when an agency's requested coverage excludes specific perils such as vandalism, sprinkler leakage, and theft.

¹ Market value is the price at which an asset would trade in a competitive auction setting. Replacement value is the cost to rebuild the structure at the time of loss with one of like kind and quality.

PERFORMANCE AUDIT

RMD may not be in compliance with State procurement laws. North Carolina statutes require procurement of goods or services over \$25,000 to be obtained by a competitive bidding process.² RMD has utilized the same insurance broker to purchase private insurance since 1952. Failure to use a competitive bidding process may result in the State not obtaining the best value for its private insurance coverage.

The deductible amount for private insurance may need to be adjusted to improve the overall cost-effectiveness of the State's property insurance program. Changes in the property loss deductible amount can significantly change the premiums paid to private insurers. The most recent adjustment to the claim amount eligible for payment from private insurers occurred in 2000 and resulted in a 23% reduction in insurance premiums.

RECOMMENDATIONS

The Legislature should consider directing establishment of a single inventory of state-owned property. A single inventory of state-owned property should be designed to perform all related functions to include: insurance, financial reporting, capital improvement planning, and emergency response. In addition, procedures should be developed to ensure the inventory is maintained accurately.

RMD should require State entities to provide documented justification for any missing data.

RMD should ensure State entities use a uniform methodology to determine the replacement value for state-owned buildings by requiring State entities to submit supporting information substantiating the reported valuation results.

RMD should ask the Legislature to amend North Carolina statutes to require fire insurance assessments for all state-owned property regardless of the funding arrangement. In addition, they should request that North Carolina statutes be amended to ensure all state-owned buildings and contents have unlimited all-peril insurance coverage.

RMD should contract for private insurance through a competitive bidding process in accordance with North Carolina procurement laws. Alternatively, RMD should obtain specific authorization from the Department of Administration or the Legislature, exempting them from the requirement to purchase services through a competitive process.

RMD should perform a periodic cost/benefit analysis of the established property insurance deductible amount. This analysis should consider at a minimum the following factors: ability to pay, prior claims history, availability of external sources of funds, estimated premium costs based on different deductible amounts, and the likelihood of legislative transfers of funds from the State Property Fire Insurance Fund's reserves for other purposes.

² As specified in G.S. [143-52](#) and [143-53.1](#).

Agency's Response

The Agency's response is included in the appendix.

INTRODUCTION

BACKGROUND

The Department of Insurance, Risk Management Division (RMD) is responsible for ensuring state-owned buildings and contents are adequately insured. Currently the State pays claims up to \$2.5 million per occurrence if the State entity has the appropriate coverage. Insurance for claims in excess of \$2.5 million is purchased from private insurers.

As of June 30, 2011, RMD was providing insurance for 15,308 properties with a replacement value of \$28.4 billion. These properties included state-owned buildings, leased properties with insurance for building contents, as well as other structures such as parking decks and towers. In fiscal year 2010, State agencies were assessed \$14.2 million by RMD for property insurance coverage, which included \$9.1 million in payments for private insurance.

OBJECTIVES, SCOPE, AND METHODOLOGY

The audit objectives were to evaluate whether state-owned property is being cost-effectively insured against losses. We conducted the fieldwork from June 2011 to July 2011.

To achieve the audit objectives we reviewed State laws, interviewed RMD personnel, and analyzed insurance data. We also obtained an understanding of the inventory of North Carolina government buildings and State property insurance policies.

Because of the test nature and other inherent limitations of an audit, together with limitations of any system of internal and management controls, this audit would not necessarily disclose all performance weaknesses or lack of compliance.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We conducted this audit under the authority vested in the State Auditor of North Carolina by North Carolina General Statute 147.64.

FINDINGS AND RECOMMENDATIONS

1. INVENTORY OF INSURED STATE PROPERTY MAY NOT BE ACCURATE

The inventory used to insure State property may be inaccurate. To help determine the validity of the Department of Insurance, Risk Management Division (RMD) inventory of State property, we compared it with the inventory of property maintained by the Department of Administration's State Property Office^{3,4}. This comparison identified 406 buildings with a replacement value exceeding \$65 million in the State Property Office inventory that were not included on the RMD inventory. Additionally, 113 buildings with a replacement value exceeding \$158 million were identified in the RMD inventory, but not found in the State Property Office building inventory.⁵

An accurate inventory of State property is necessary to ensure the State is adequately protected from unexpected losses. Failure to maintain a complete inventory of state-owned buildings may result in state property not having any insurance when state-owned buildings are not included in the inventory or having unwarranted insurance premium costs when property is included which is not a valid State asset.

The RMD inventory of state-owned properties relies on State agencies to identify state-owned properties to be insured. The Division does not independently verify the accuracy of the inventory of properties provided by each State agency. Consequently, the Division cannot be assured of the accuracy of State agency reporting.

RMD was unable to account for some of the identified discrepancies between the two property inventories. RMD provided a variety of reasons to account for many of the identified discrepancies between the inventory of property maintained by the State Property Office and the RMD inventory. These reasons included: transfer of building jurisdiction to a local government, building demolition included in one inventory but not on the other, and properties, such as towers and small structures which are not required to be tracked by the State Property Office. However, RMD did not provide justification to account for most of the identified discrepancies.

³ G.S. 143-341b charges the Department of Administration with preparing and keeping current a complete and accurate inventory of all buildings owned or leased (in whole or in part) by the State or by any State agency. This inventory shall show the location, amount of floor space and floor plans of every building owned or leased by the State or by any State agency, and the agency to which each building, or space therein, is currently allocated.

⁴ An inventory of state-owned buildings is also maintained by the Department of Administration and by the State Controllers Office. However, due to differences in the composition of the inventory of state-owned buildings maintained by the State Controller, a valid comparison of this inventory with the RMD inventory could not be performed. The inventory maintained by the State Controller includes repairs and renovations as separate assets, and only includes assets with an acquisition value of \$5000 or greater. In addition, the method to identify assets in the State Controller maintained inventory is different from the methodology used by RMD to identify assets to be insured. Consequently, we were unable to identify assets common to both inventories.

⁵ Replacement values for both the 406 buildings reported by the Department of Administration and the 113 in the RMD Inventory were not available for all identified properties.

FINDINGS AND RECOMMENDATIONS

The property inventory is used by RMD to determine State agency insurance assessments and by private insurers for calculating the premiums the State must pay for purchased insurance. State agency insurance assessments are based on the reported property replacement value and the level of insurance coverage. Private insurers use reported building replacement values and construction and usage characteristics to calculate the premiums charged to the State for purchased insurance.

Recommendations: The Legislature should consider directing establishment of a single inventory of state-owned property. This State property inventory should be designed to provide necessary information to perform all of the State's related functions to include: insurance, financial reporting, capital improvement planning, and emergency response. In addition, procedures should be developed to ensure this inventory of State property is accurately maintained.

2. ALL INSURANCE RELATED PROPERTY INFORMATION HAS NOT BEEN COLLECTED

All information necessary to calculate insurance premiums was not provided to private insurers for many state-owned properties. Missing information included building and content values for state-owned buildings and building characteristics such as construction type, occupant usage, and fire protection systems.

When building and content values are not provided to private insurers, the associated state-owned properties may not be fully covered for future property losses. When all building characteristic information necessary to calculate insurance premiums is not provided, insurers are forced to make assumptions. Often insurers use worst-case assumptions when calculating their risk of loss, which may result in a higher premium assessment.

The Department of Insurance, Risk Management Division (RMD) relies on State agencies to provide building and content valuations, as well as pertinent information on building characteristics. RMD reported that for some structures such as towers and parking decks, information such as building content value is not needed by insurers. Consequently, a missing content value for these structures would not have an adverse impact on the State's risk exposure or premium calculation. However, RMD also reported that for some buildings, it was not apparent whether missing building information would adversely impact the State. Although spot checks of missing data are sometimes conducted, RMD does not verify all reported building information is complete and accurate.

Recommendation: RMD should establish a process to ensure all State property information used by private insurers to calculate insurance premiums is complete and accurate.

FINDINGS AND RECOMMENDATIONS

3. REPORTED VALUATIONS FOR STATE-OWNED PROPERTIES MAY BE INACCURATE

State property valuations used to calculate premiums for private insurance coverage may be inaccurate. There are significant differences between the assessed building valuations identified in Wake County Property Tax Records and the insured value reported in Department of Insurance, Risk Management Division (RMD) inventory of insured properties (Exhibit 2).

While the assessed taxable amount represents the market value and the insured value represents the replacement value of each property, the large difference between the two valuations and inconsistency in the relative difference indicates State agencies may not be using a uniform methodology to calculate property replacement values.⁶ Allowing agencies to use various methodologies to assess building replacement costs may result in inaccurate insurance valuations of state-owned buildings, resulting in increased risk from unexpected losses and/or higher premiums due to overstated property valuations.

State agencies are responsible for reporting to RMD the insured value of state-owned buildings under its jurisdiction.⁷ Each year RMD adjusts these valuations to reflect inflationary increases, and provides this information to the applicable State agency to review. Upon completion, updated property valuations along with other pertinent insurance information are submitted to the State's private insurers. Private insurers use this information to calculate the premiums for the insurance coverage they provide to the State.

Exhibit 2: Comparison of Assessed Tax Values and State Building Insurance Values¹

Building Name	Building Assessed Tax Value	Building Insurance Value RMD	Difference	Ratio of tax value to insured value
STATE CAPITOL BUILDING	\$7,105,282	\$28,490,238	\$20,767,105	3.7
COURT OF APPEALS BUILDING	\$4,345,595	\$12,095,070	\$7,371,597	2.6
JUSTICE BUILDING	\$9,288,034	\$14,808,997	\$4,713,307	1.5
OLD EDUCATION BUILDING	\$16,634,306	\$23,570,168	\$5,489,400	1.3
OLD REVENUE BUILDING	\$9,205,365	\$37,614,358	\$27,608,526	3.8
AGRICULTURE BUILDING	\$8,147,360	\$28,468,840	\$19,613,013	3.2
LABOR BUILDING	\$2,536,937	\$7,972,077	\$5,214,536	2.9
NC MUSEUM OF HISTORY BUILDING	\$26,317,124	\$52,683,644	\$24,078,074	1.8
HIGHWAY BUILDING	\$13,080,823	\$26,193,068	\$11,974,782	1.8
TOTALS	\$96,660,830	\$231,896,460	\$135,235,630	2.2

¹The nine buildings had a total tax assessed value of \$105,066,120. Wake County assessed real estate values reflect the market value as of January 1, 2008, which is the date of the last county-wide revaluation. Adjusted for an 8% decrease in property real estate values since January 1, 2008 the adjusted total tax assessed value was \$96,660,830.

Source: Auditor Calculation

⁶ Market value is the price at which an asset would trade in a competitive auction setting. Replacement value is the cost to rebuild the structure at the time of loss with one of like kind and quality.

⁷ As specified in [G.S. 58-31-35](#).

FINDINGS AND RECOMMENDATIONS

Recommendation: RMD should ensure state entities use a uniform methodology to determine the replacement value for state-owned buildings.

4. PROPERTY INSURANCE PREMIUM ASSESSMENTS TO STATE AGENCIES ARE INEQUITABLE

Property insurance assessments made by the Department of Insurance, Risk Management Division (RMD) to state agencies are often inequitable. Consequently, some State entities are subsidizing the operations of other State agencies because assessments do not reflect the available level of insurance coverage.

Property insurance charges to State agencies are inequitable because RMD purchases unlimited coverage for all State property, but building insurance charges paid by State agencies often exclude charges for fire or other perils. North Carolina law only allows RMD to charge agencies for fire coverage for buildings funded primarily through special operating funds.⁸ Therefore, some State agencies are paying more for property insurance than if all buildings were subject to insurance charges for fire coverage. Consequently, in fiscal year 2010, 69.4% (\$21.1 billion) of the reported value of state-owned buildings and contents were not assessed for fire insurance coverage.

In addition, RMD purchases unlimited all-peril insurance for every State building, but lowers the insurance charged to State agencies that request reduced levels of coverage. Agencies can lower their assessment by requesting to be excluded from coverage on other perils such as vandalism, sprinkler leakage or theft. Since all buildings are covered by unlimited insurance, requests for reduced coverage lower the amount charged back to state agencies, but not the level of available coverage. Therefore, some State agencies are paying more for property insurance than if all State agencies were charged for the available coverage. Also, RMD reported that they will not pay agency claims for losses if the agency had not requested the associated coverage, even when the claim is eligible for payment through private insurance. In fiscal year 2010, State agencies requested only 15.3% (\$4.7 billion) of the State's total property valuation be fully covered against all damages through all-risk insurance.

As shown in Exhibit 3, some agencies benefit from these exclusions, while other agencies pay inflated assessments. The differences between the auditor's calculated amount and the amount assessed by RMD vary widely among agencies. The auditor calculated amount varies because it allocates costs for property insurance based only on agency reported property replacement values, while the RMD assessment incorporates exclusions associated with building funding status and reduced coverage.

⁸ As specified in [G.S. 58-31-5](#), Special Operating Funds include any activity that receives its financial support from sources other than General Fund Appropriation.

FINDINGS AND RECOMMENDATIONS

Exhibit 3: Comparison of FY 2010 RMD Assessed Premiums and Auditor Calculated Premiums

Department Name	Insurance Value	Premium Assessed by RMD	Premium Calculated by Auditor	Difference
TRANSPORTATION	\$644,237,484	\$1,565,291	\$322,079	\$1,243,212
COMMERCE	\$456,136,816	\$1,172,066	\$228,040	\$944,026
ENVIRONMENT AND NATURAL RESOURCES	\$608,651,448	\$754,591	\$304,288	\$450,303
CRIME CONTROL & PUBLIC SAFETY	\$446,439,660	\$594,712	\$223,192	\$371,520
AGRICULTURE	\$322,100,228	\$340,261	\$161,030	\$179,231
CULTURAL RESOURCES	\$451,811,235	\$390,907	\$225,878	\$165,029
OFFICE OF THE GOVERNOR	\$168,142,159	\$187,590	\$84,061	\$103,529
PUBLIC EDUCATION	\$24,588,498	\$56,678	\$12,293	\$44,385
GLOBAL TRANSPARK	\$45,787,419	\$66,668	\$22,891	\$43,777
JUDICIAL	\$108,218,357	\$76,927	\$54,102	\$22,825
NC ARBORETUM	\$19,808,802	\$27,938	\$9,903	\$18,035
MISCELLANEOUS BOARDS & COMMISSIONS	\$4,100,223	\$12,453	\$2,050	\$10,403
INSURANCE	\$2,758,730	\$8,457	\$1,379	\$7,078
GENERAL ASSEMBLY	\$78,847,995	\$46,056	\$39,419	\$6,637
NC EDUCATION LOTTERY	\$3,506,848	\$6,033	\$1,753	\$4,280
REVENUE	\$4,617,019	\$4,163	\$2,308	\$1,855
SECRETARY OF STATE	\$1,106,941	\$2,346	\$553	\$1,793
STATE CONTROLLER	\$1,497,652	\$1,713	\$749	\$964
ADMINISTRATIVE HEARINGS OFFICE	\$980,155	\$906	\$490	\$416
STATE TREASURER	\$725,000	\$479	\$362	\$117
STATE AUDITOR	\$207,000	\$0	\$103	(\$103)
LABOR	\$6,854,772	\$523	\$3,427	(\$2,904)
JUSTICE/ATTORNEY GENERAL	\$173,953,204	\$58,055	\$86,966	(\$28,911)
JUVENILE JUSTICE & DELINQUENCY PREVENTION	\$168,700,145	\$17,240	\$84,340	(\$67,100)
ADMINISTRATION	\$928,464,714	\$183,842	\$464,175	(\$280,333)
CORRECTION	\$2,201,883,732	\$350,705	\$1,100,806	(\$750,101)
HUMAN RESOURCES	\$1,638,722,531	\$48,942	\$819,260	(\$770,318)
UNIVERSITY SYSTEM	\$19,901,267,957	\$8,229,757	\$9,949,402	(\$1,719,645)
Totals	\$28,414,116,724	\$14,205,299	\$14,205,299	\$0

Source: Auditor Calculations

Recommendation: RMD should request the Legislature amend North Carolina statutes to require fire insurance assessments for all state-owned property regardless of the funding arrangement. In addition, RMD should request that North Carolina statutes be amended to ensure all state-owned buildings and contents have unlimited all-peril insurance coverage.

FINDINGS AND RECOMMENDATIONS

5. PRIVATE INSURANCE IS NOT OBTAINED THROUGH A COMPETITIVE BIDDING PROCESS

The Department of Insurance, Risk Management Division (RMD) has not contracted for property insurance through a competitive process for nearly 60 years. RMD has utilized the same insurance broker to purchase private insurance since 1952.⁹ Failure to utilize a competitive bidding process may result in the State not obtaining the best value for its private insurance coverage.

RMD may not be in compliance with State procurement laws. North Carolina statutes require procurement of goods or services over \$25,000 to be obtained by a competitive bidding process.¹⁰ In Fiscal Year 2010, RMD paid \$9.1 million in premiums for private property insurance coverage. RMD may not be in compliance with State procurement laws.

RMD reported that their interpretation of the State's administrative code exempted them from the requirement to competitively bid for private insurance. This interpretation was based on requests in the 1950s by both the Council of State and Legislature for the insurance broker to amend its non-profit charter to become the agent of record for procurement of insurance for the State. Based on the State's role in the amendment of the charter, RMD treated the insurance broker as a quasi-state agency.¹¹

Upon notification of the auditor's concerns regarding eligibility for this competitive bidding exemption, RMD initiated a process to obtain further clarification from the Department of Administration. RMD also reported it is considering requesting a statutory change, which would specifically exempt them from having to procure these services through a competitive process.

Recommendation: RMD should contract for private insurance through a competitive bidding process in accordance with North Carolina procurement laws. Alternatively, RMD should obtain specific authorization from the Department of Administration or the Legislature, exempting them from the requirement to purchase services through a competitive process.

6. ADJUSTING INSURANCE DEDUCTIBLE AMOUNT COULD IMPROVE COST-EFFECTIVENESS

The property loss deductible amount has not been adjusted since 2000, the last time the Department of Insurance, Risk Management Division (RMD) conducted a formal analysis of the deductible amount.

⁹ RMD purchases insurance through the North Carolina Association of Insurance Agents, Inc. (NCAIA). NCAIA is an agency incorporated and owned by the independent Insurance Agents of North Carolina.

¹⁰ As specified in G.S. [143-52](#) and [143-53.1](#).

¹¹ As specified in [01 NCAS 05B.1601\(11\)](#), services provided directly by an agency of the State, federal or local government, or their employees when performing the service as a part of their normal governmental function may be exempted from the competitive bidding process.

FINDINGS AND RECOMMENDATIONS

The property loss deductible amount associated with procurement of private insurance should be periodically reviewed. Changes in the property loss deductible amount can significantly affect the premiums paid to private insurers. For example, the most recent adjustment to the claim amount eligible for payment from private insurers occurred in 2000 when it was increased from \$1.1 million to \$2.5 million. This increase in the property loss deductible amount resulted in a 23% reduction in insurance premiums.

In fiscal year 2010, the Department of Insurance Risk Management Division (RMD) paid private insurers \$9.1 million in premiums to provide coverage for losses exceeding \$2.5 million per occurrence. However, since 2000, there have not been any claims exceeding the \$2.5M deductible amount. Claims of less than \$2.5 million are paid directly from the State Property Fire Insurance Fund.

The property loss deductible amount is used by private insurers in the calculation of insurance premiums. The determination of an appropriate property loss deductible amount should be based on characteristics of the state's property insurance program, such as the availability of funds to pay property loss claims, past claims history, availability of external resources, and the likelihood of legislative transfers of funds from the State Property Fire Insurance Fund's reserves for other purposes. These characteristics are subject to change over time, which may result in a deductible amount that is no longer cost-effective.

Recommendation: We recommend RMD perform a periodic cost/benefit analysis of the established property insurance deductible amount. This analysis should consider at a minimum the following factors: ability to pay, prior claims history, availability of external sources of funds, estimated premium costs based on different deductible amounts, and the likelihood of legislative transfers of funds from the State Property Fire Insurance Fund's reserves for other purposes.

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November 16, 2011

The Honorable Beth Wood, CPA
North Carolina State Auditor
20601 Mail Service Center
Raleigh, NC 27699-0601

Dear Auditor Wood:

Thank you for providing me with the opportunity to respond to the Performance Audit of the North Carolina State Property Fire Insurance Fund.

The North Carolina Department of Insurance (hereinafter, "NCDOI") and I have been seeking an audit of the Fund for several years now and are grateful for this audit. You and your staff have been very courteous, professional and thorough throughout this audit. We appreciate all of your efforts on this audit.

Most of the issues affecting the North Carolina State Property Fire Insurance Fund involve a wide range of state agencies across state government and can only be fully addressed with the cooperation of all participants throughout state government and in some instances with extensive assistance from the Department of Administration and the North Carolina General Assembly. We believe that your report will be helpful to all participants in matters affecting the State Property Fire Insurance Fund. NCDOI's Risk Management Division plans to work with other state agencies and the General Assembly to comply with your recommendations.

While NCDOI will work with all agencies to address the items in your recommendations, the Risk Management Division would like to offer the following comments.

Please note that the Risk Management Division staff believes that the issues relating to inventory of state property, building characteristics and building valuation are complex and that there are currently no suitable comparisons which will permit broad conclusions to be made concerning these issues. With that caveat, the Risk Management Division staff certainly agrees that all state agencies need to better address the concerns identified in your report, staff will continue to work to address these concerns, and staff will seek assistance from other agencies in addressing these issues.

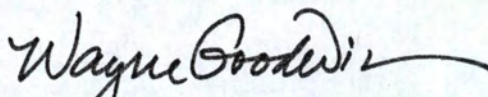
With regards to the use of the non-profit North Carolina Association of Insurance Agents as the Agent of Record, please note that this is a long-standing arrangement that was established approximately 60 years ago. In approximately 1952, various members of the Council of State and the General Assembly at the time asked the non-profit North Carolina Association of Insurance Agents to amend its charter to permit it to become the agent of record for bidding out and securing insurance for the State. This was accomplished in 1952, and this non-profit Association has served as Agent of Record ever

since. This non-profit provides broker services exclusively for the State of North Carolina and does not obtain insurance for any other entity other than the State. Subject to constraints of the insurance marketplace and the unique insurance needs of the State, the non-profit Association routinely solicits competition for various insurance policies that it procures for the State. The Risk Management Division has addressed the Auditor's recommendation concerning the Agent of Record by seeking approval of a waiver or exemption from the Department of Administration. If further warranted, the Risk Management Division may seek explicit statutory authorization from the General Assembly.

My staff and I are committed to doing all we can in our power to improve the State Property Fire Insurance Fund and will actively engage agencies across state government to address your recommendations.

I thank you for all of your assistance in this matter.

Very truly yours,



Wayne Goodwin
Commissioner of Insurance

cc: Kenneth Barnette
✓ Chuck Hefren
Jack Cooke

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