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HOUSE BILL 1074  
Committee Substitute Favorable 6/13/12  
Third Edition Engrossed 6/20/12

Short Title: Stop Waste, Fraud, and Abuse in Govt. Act.

(Public)

Sponsors:

Referred to:

May 24, 2012

A BILL TO BE ENTITLED

AN ACT TO MAKE CHANGES TO THE STATUTES GOVERNING THE TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM, THE LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM, AND THE DISABILITY INCOME PLAN OF NORTH CAROLINA TO PROVIDE PROTECTION AND REMEDIES FOR REPORTING VIOLATIONS OF RETIREMENT LAW; TO ESTABLISH GUIDELINES FOR FRAUD INVESTIGATIONS THAT WILL ENHANCE THE DEPARTMENT OF STATE TREASURER'S CAPABILITY TO PREVENT AND DETECT FRAUD, WASTE, AND ABUSE; TO MAKE IT A CLASS 1 MISDEMEANOR TO FRAUDULENTLY RECEIVE A DECEDENT'S MONTHLY DISABILITY BENEFIT; AND TO CLARIFY THE APPOINTMENT OF THE MEDICAL BOARD.

The General Assembly of North Carolina enacts:

**SECTION 1.** Article 3 of Chapter 128 of the General Statutes is amended by adding a new section to read:

**"§ 128-38.6. Employee protection and remedies against unlawful retaliation for furnishing information to the Retirement Systems Division.**

(a) In the absence of fraud or malice, no person who furnishes information to the staff of the Retirement Systems Division relating to the investigation of possible violations of retirement law shall be liable for damages in a civil action for any oral or written statement made or any other action that is necessary to supply such information to the Division.

(b) Any employee of a participating local employer who is discharged, demoted, suspended, threatened, harassed, or in any other manner discriminated against in the terms and conditions of employment by the employee's employer because of lawful acts done by the employee in furtherance of the Retirement Systems Division's receipt of information concerning possible violations of retirement law, including cooperation with the Division's investigation of possible violations, shall be entitled to all relief necessary to make the employee whole. Relief shall include reinstatement with the same seniority status as the employee would have had but for the discrimination or retaliation by the employing unit, two times the amount of back pay, interest on the back pay, and compensation for any special damages sustained as a result of the discrimination or retaliation, including litigation costs and reasonable attorneys' fees. An employee may bring an action in superior court for the relief provided in this section."

**SECTION 2.(a)** G.S. 128-21 reads as rewritten:

**"§ 128-21. Definitions.**



The following words and phrases as used in this Article, unless a different meaning is plainly required by the context, shall have the following meanings:

(11b) "Firefighter" means a person (i) who is a full-time paid employee of an employer that participates in the Local Governmental Employees' Retirement System and maintains a fire department certified by the North Carolina Department of Insurance and (ii) who is actively serving in a position with assigned primary duties and responsibilities for the prevention, detection, and suppression of fire.

(11c) "Fraud investigation" means an independent review or examination by Retirement Systems Division staff or the Division's authorized representatives who are assisting the Retirement Systems Division staff of activities, actions, or decisions by employers or other affiliated or associated entities having an impact on the Retirement System. The purpose of a fraud investigation is to help detect and prevent fraud and to ensure full accountability in the use of pension funds.

(11d) "Law Enforcement Officer" means a full-time paid employee of an employer, who possesses the power of arrest, who has taken the law enforcement oath administered under the authority of the State as prescribed by G.S. 11-11, and who is certified as a law enforcement officer under the provisions of Chapter 17C of the General Statutes or certified as a deputy sheriff under the provisions of Chapter 17E of the General Statutes. "Law enforcement officer" also means the sheriff of the county. The number of paid personnel employed as law enforcement officers by a law enforcement agency may not exceed the number of law enforcement positions approved by the applicable local governing board.

...."

SECTION 2.(b) G.S. 135-1 reads as rewritten:

"§ 135-1. Definitions.

The following words and phrases as used in this Chapter, unless a different meaning is plainly required by the context, shall have the following meanings:

(11a) "Filing" when used in reference to an application for retirement shall mean the receipt of an acceptable application on a form provided by the Retirement System.

(11b) "Fraud investigation" means an independent review or examination by Retirement Systems Division staff or the Division's authorized representatives who are assisting the Retirement Systems Division staff of activities, actions, or decisions by employers or other affiliated or associated entities having an impact on the Retirement System. The purpose of a fraud investigation is to help detect and prevent fraud and to ensure full accountability in the use of pension funds.

(11c) "Law-Enforcement Officer" means a full-time paid employee of an employer who is actively serving in a position with assigned primary duties and responsibilities for prevention and detection of crime or the general enforcement of the criminal laws of the State of North Carolina or serving civil processes, and who possesses the power of arrest by virtue of an oath administered under the authority of the State.

...."

SECTION 2.(c) G.S. 128-28 is amended by adding three new subsections to read:

1       "(r) Fraud Investigations – Access to Persons and Records. – In the course of conducting  
2 a fraud investigation, the Retirement Systems Division shall:

3           (1) Have ready access to persons and may examine and copy all books, records,  
4 reports, vouchers, correspondence, files, personnel files, investments, and  
5 any other documentation of any employer. The review of State tax returns  
6 shall be limited to matters of official business, and the Division's report shall  
7 not violate the confidentiality provisions of tax laws.

8           (2) Have such access to persons, records, papers, reports, vouchers,  
9 correspondence, books, and any other documentation that is in the  
10 possession of any individual, private corporation, institution, association,  
11 board, or other organization which pertain to the following:

12           a. Amounts received pursuant to a grant or contract from the federal  
13 government, the State, or its political subdivisions.

14           b. Amounts received, disbursed, or otherwise handled on behalf of the  
15 federal government or the State. In order to determine that payments  
16 to providers of social and medical services are legal and proper, the  
17 providers of such services will give the Retirement Systems Division  
18 access to the records of recipients who receive such services.

19           (3) Have the authority, and shall be provided with ready access, to examine and  
20 inspect all property, equipment, and facilities in the possession of any  
21 employer agency or any individual, private corporation, institution,  
22 association, board, or other organization that were furnished or otherwise  
23 provided through grant, contract, or any other type of funding by the  
24 employer agency.

25       (s) Fraud Investigative Reports and Work Papers. – The Director of the Retirement  
26 Systems Division shall maintain for 10 years a complete file of all fraud investigative reports  
27 and reports of other examinations, investigations, surveys, and reviews issued under the  
28 Director's authority. Fraud investigation work papers and other evidence or related supportive  
29 material directly pertaining to the work of the Retirement Systems Division of the Department  
30 of State Treasurer shall be retained according to an agreement between the Director of  
31 Retirement and State Archives. To promote intergovernmental cooperation and avoid  
32 unnecessary duplication of fraud investigative effort, and notwithstanding local unit personnel  
33 policies to the contrary, pertinent work papers and other supportive material relating to issued  
34 fraud investigation reports may be, at the discretion of the Director of Retirement and unless  
35 otherwise prohibited by law, made available for inspection by duly authorized representatives  
36 of the State and federal government who desire access to and inspection of such records in  
37 connection with some matter officially before them, including criminal investigations. Except  
38 as provided in this section, or upon an order issued in Wake County Superior Court upon 10  
39 days' notice and hearing finding that access is necessary to a proper administration of justice,  
40 fraud investigation work papers and related supportive material shall be kept confidential,  
41 including any information developed as a part of the investigation.

42       (t) Fraud Reports May Be Anonymous. – The identity of any person reporting fraud,  
43 waste, and abuse to the Retirement Systems Division shall be kept confidential and shall not be  
44 maintained as a public record within the meaning of G.S. 132-1."

45       **SECTION 2.(d)** G.S. 135-6 is amended by adding three new subsections to read:

46       "(q) Fraud Investigations – Access to Persons and Records. – In the course of conducting  
47 a fraud investigation, the Retirement Systems Division shall:

48           (1) Have ready access to persons and may examine and copy all books, records,  
49 reports, vouchers, correspondence, files, personnel files, investments, and  
50 any other documentation of any employer. The review of State tax returns

1 shall be limited to matters of official business, and the Division's report shall  
2 not violate the confidentiality provisions of tax laws.

3 (2) Have such access to persons, records, papers, reports, vouchers,  
4 correspondence, books, and any other documentation that is in the  
5 possession of any individual, private corporation, institution, association,  
6 board, or other organization that pertain to the following:

7 a. Amounts received pursuant to a grant or contract from the federal  
8 government, the State, or its political subdivisions.

9 b. Amounts received, disbursed, or otherwise handled on behalf of the  
10 federal government or the State. In order to determine that payments  
11 to providers of social and medical services are legal and proper, the  
12 providers of such services will give the Retirement Systems Division  
13 access to the records of recipients who receive such services.

14 (3) Have the authority, and shall be provided with ready access, to examine and  
15 inspect all property, equipment, and facilities in the possession of any  
16 employer agency or any individual, private corporation, institution,  
17 association, board, or other organization that were furnished or otherwise  
18 provided through grant, contract, or any other type of funding by the  
19 employer agency.

20 (r) Fraud Investigative Reports and Work Papers. – The Director of the Retirement  
21 Systems Division shall maintain for 10 years a complete file of all fraud investigative reports  
22 and reports of other examinations, investigations, surveys, and reviews issued under the  
23 Director's authority. Fraud investigation work papers and other evidence or related supportive  
24 material directly pertaining to the work of the Retirement Systems Division of the Department  
25 of State Treasurer shall be retained according to an agreement between the Director of  
26 Retirement and State Archives. To promote intergovernmental cooperation and avoid  
27 unnecessary duplication of fraud investigative effort, and notwithstanding local unit personnel  
28 policies to the contrary, pertinent work papers and other supportive material relating to issued  
29 fraud investigation reports may be, at the discretion of the Director of Retirement and unless  
30 otherwise prohibited by law, made available for inspection by duly authorized representatives  
31 of the State and federal government who desire access to and inspection of such records in  
32 connection with some matter officially before them, including criminal investigations. Except  
33 as provided in this section, or upon an order issued in Wake County Superior Court upon 10  
34 days' notice and hearing finding that access is necessary to a proper administration of justice,  
35 fraud investigation work papers and related supportive material shall be kept confidential,  
36 including any information developed as a part of the investigation.

37 (s) Fraud Reports May Be Anonymous. – The identity of any person reporting fraud,  
38 waste, and abuse to the Retirement Systems Division shall be kept confidential and shall not be  
39 maintained as a public record within the meaning of G.S. 132-1."

40 **SECTION 3.(a)** G.S. 135-18.11 reads as rewritten:

41 "**§ 135-18.11. Improper receipt of decedent's retirement ~~allowance.~~ allowance or disability**  
42 **benefit.**

43 A person is guilty of a Class 1 misdemeanor if the person, with the intent to defraud,  
44 receives money as a result of cashing, depositing, or receiving a direct deposit of a decedent's  
45 retirement allowance or a decedent's monthly benefit under the Disability Income Plan of North  
46 Carolina and the person (i) knows that he or she is not entitled to the decedent's retirement  
47 ~~allowance,~~ allowance or the monthly disability benefit, (ii) receives the benefit at least two  
48 months after the date of the retiree's death, and (iii) does not attempt to inform this Retirement  
49 System of the retiree's death."

50 **SECTION 3.(b)** G.S. 135-111 reads as rewritten:

51 "**§ 135-111. Applicability of other pension laws.**

1 Subject to the provisions of this Article, the provisions of G.S. 135-9, entitled "Exemption  
2 from taxes, garnishment, attachment, etc."; G.S. 135-10, entitled "Protection against fraud";  
3 G.S. 135-10.1, entitled "Failure to Respond"; G.S. 135-18.11, entitled "Improper receipt of  
4 decendent's retirement allowance or disability benefit"; and G.S. 135-17, entitled "Facility of  
5 payment" shall be applicable to this Article and to benefits paid pursuant to the provisions of  
6 this Article."

7 **SECTION 4.(a)** G.S. 128-28(l) reads as rewritten:

8 "(l) Medical Board. – The Board of Trustees shall designate a Medical Board to be  
9 composed of not less than three nor more than five physicians not eligible to participate in the  
10 Retirement System. The Board of Trustees may structure appointment requirements and term  
11  durations for those medical board members. If required, other physicians may be employed to  
12 report on special cases. The Medical Board shall arrange for and pass upon all medical  
13 examinations required under the provisions of this Chapter, and shall investigate all essential  
14 statements and certificates by or on behalf of a member in connection with an application for  
15 disability retirement, and shall report in writing to the Board of Trustees its conclusion and  
16 recommendations upon all the matters referred to it."

17 **SECTION 4.(b)** G.S. 135-6(k) reads as rewritten:

18 "(k) Medical Board. – The Board of Trustees shall designate a medical board to be  
19 composed of not less than three nor more than five physicians not eligible to participate in the  
20 Retirement System. The Board of Trustees may structure appointment requirements and term  
21  durations for those medical board members. If required, other physicians may be employed to  
22 report on special cases. The medical board shall arrange for and pass upon all medical  
23 examinations required under the provisions of this Chapter, and shall investigate all essential  
24 statements and certificates by or on behalf of a member in connection with an application for  
25 disability retirement, and shall report in writing to the Board of Trustees its conclusion and  
26 recommendations upon all the matters referred to it."

27 **SECTION 5.** Section 3(a) of this act becomes effective December 1, 2012, and  
28 applies to acts committed on or after that date. The remainder of this act becomes effective  
29 July 1, 2012.