

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

MANAGEMENT LETTER

MINNEAPOLIS POLICE RELIEF ASSOCIATION
MINNEAPOLIS, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2008

Description of the Office of the State Auditor

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits of local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

Tax Increment Financing - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**MINNEAPOLIS POLICE RELIEF ASSOCIATION
MINNEAPOLIS, MINNESOTA**

For the Year Ended December 31, 2008



Management Letter

**Audit Practice Division
Office of the State Auditor
State of Minnesota**

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**MINNEAPOLIS POLICE RELIEF ASSOCIATION
MINNEAPOLIS, MINNESOTA**

TABLE OF CONTENTS

	<u>Page</u>
Schedule of Findings and Recommendations	1
Report on Internal Control Over Financial Reporting and Minnesota Legal Compliance	5

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**MINNEAPOLIS POLICE RELIEF ASSOCIATION
MINNEAPOLIS, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2008**

INTERNAL CONTROL OVER FINANCIAL REPORTING

PREVIOUSLY REPORTED ITEM NOT RESOLVED

07-1 Internal Control/Segregation of Duties

Management is responsible for establishing and maintaining internal control. This responsibility includes the internal control over the various accounting cycles, the fair presentation of the financial statements and related notes, and the accuracy and completeness of all financial records and related information. Adequate segregation of duties is a key internal control in an organization's accounting system. The size of the Minneapolis Police Relief Association (MPRA) and its staffing limits the internal control that management can design and implement into the organization. This situation is not unusual in operations the size of the MPRA, but the Board of Directors should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal control and accounting point of view.

Generally, segregation of duties can be attained with the hiring of additional personnel; however, this becomes a significant cost consideration to entities such as the MPRA. Under the above conditions, the most effective system of control lies in the knowledge of the Board of Directors regarding the MPRA's operations and the periodic review of those operations. We recommend the Board of Directors be mindful that limited staffing causes inherent risks in safeguarding the MPRA's assets and the proper reporting of its financial activity.

Client's Response:

The MPRA Board of Directors is aware that due to the Association's staffing limitations, segregation of duties necessary to ensure adequate internal controls in the accounting system is very difficult. As does the Auditor, the MPRA recognizes that the trade-off of additional administrative expenses and the limited segregation of duties is an ongoing issue. Although this situation is not unusual for an organization our size, the MPRA Board will continue to review oversight procedures already in place and monitor staff to help assure procedures are being followed.

COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

03-1 Components of Unit Value

Pension benefits for the MPRA are based on a unit value. Minn. Stat. § 423B.01, subd. 20, and the MPRA's Bylaws define a unit as 1/80th of the current monthly salary of a first grade patrol officer.

Following is a schedule of the calculation of per unit value used at December 31, 2008:

<u>Component</u>	<u>Hourly Rate</u>	<u>Number of Hours</u>	<u>Annually</u>	<u>Monthly</u>	<u>Per Unit</u>
Base wages	\$ 30.90	2088	\$ 64,517.11	\$ 5,376.43	\$ 67.21
Shift differential	1.19	2088	2,486.81	207.23	2.59
Clothes/equipment	-	-	824.81	68.73	0.86
Longevity	3.63	2088	7,585.18	632.10	7.90
60 hours accumulated comp time	35.72	60	2,143.37	178.61	2.23
Health club dues	-	-	401.28	33.44	0.42
Sick leave credit pay	35.72	96	3,429.38	285.78	3.57
Vacation credit pay	34.53	36.22	1,250.90	104.24	1.30
Performance premium (2%)	-	-	1,290.34	107.53	1.34
Holiday pay	35.72	9.39	335.40	27.95	0.35
Overtime (@1.5)	53.58	158.79	8,508.52	709.04	8.86
Total			<u>\$ 92,773.09</u>	<u>\$ 7,731.09</u>	<u>\$ 96.64</u>

The sum of the hourly rate for base wages, shift differential, and longevity is the rate used to calculate the unit value for 60 hours of accumulated comp time, sick leave credit pay, holiday pay, and overtime components.

The MPRA's Bylaws identify that the components of salary be included to the extent they are payable under a collective bargaining agreement. Those salary components added after the 1995 Settlement Agreement between the MPRA and the City of Minneapolis should be included at the average amount paid to those top grade patrol officers who received the compensation item. Therefore, actual payroll practices of the City of Minneapolis have been reviewed to determine that the salary components used by the MPRA in the unit value calculation were not inconsistent with payments to active patrol officers.

The actual payroll practice of the City of Minneapolis, for the 60 hours of accumulated comp time and 96 hours of sick leave--which are the maximum amounts allowed by contract that eligible patrol officers may elect to cash-out each year--are not paid at a rate which includes shift differential. Therefore, neither should the unit value calculation for the MPRA include shift differential in those components. The unit value is overstated by \$.19/unit or approximately \$98 per year per beneficiary at 43 units.

In the 2003 audit, we recommended the MPRA review and analyze components of unit value. The MPRA and its legal counsel have reviewed its methods and calculations of monthly salary used to calculate unit value and have concluded they are proper and reasonable. They obtained payroll data from the City of Minneapolis and formulated a methodology for annualizing and calculating overtime hours for those top grade patrol officers who retired during the year and for accumulating averages, which were then used to calculate average hours for certain components of pay, including vacation credit pay, overtime, and holiday pay. The MPRA also adjusted the rate used for vacation credit pay calculations to include base wages and longevity, but not shift differential.

For the 2007 audit, during the process of confirming certain actual payroll information directly with City of Minneapolis police payroll staff, inconsistencies were identified with the overtime and holiday pay hours for 2006 used by the MPRA legal counsel in the analysis for averaging those components which then served as the basis for computing the unit value in the table above. MPRA staff initiated a review of the 2006 hours, and it was agreed that the difference in overtime hours was attributable to the City's provision of a multiplier for shift extension overtime. MPRA staff extended their review to include data for prior years to form conclusions about its consistency and the impact it may have on the unit value. It was determined, by the MPRA staff, that the 2004 and 2005 overtime hours were incorrect, and an adjustment was made in 2008 to decrease the unit value by \$.08.

We continue to recommend the unit value be corrected. The City of Minneapolis and the MPRA should agree on the methodology for determining relevant hours and averages for the components of pay to be included in the unit value calculation. The actual payroll practice of the City of Minneapolis for these and any other components of salary used by the MPRA as the basis for calculating the unit value for pension benefits should be followed to ensure consistency. This matter is in litigation.

Client's Response:

The MPRA continues to believe that the unit value calculation should include the shift differential amount for the 60 hours of accumulated comp time and 96 hours of sick leave. Since the 1995 Settlement Agreement, the unit value has been calculated in the same manner.

The MPRA believes that it has accurately calculated the unit value as set forth in the Findings. Based on the fact the 1995 Settlement Agreement included shift differential in the amounts attributable to the 60 hours of accumulated comp time and 96 hours of sick leave, the MPRA believes it has appropriately established the unit value by including shift differential in these components for nearly a decade. We also believe the MPRA's basis used for calculations for accumulated comp time and sick leave are provided in the Collective Bargaining Agreement ("CBA").



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE

Board of Directors
Minneapolis Police Relief Association

Internal Control Over Financial Reporting

In planning and performing our audit of the basic financial statements of the Minneapolis Police Relief Association (MPRA) as of and for the year ended December 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the MPRA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the MPRA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the MPRA's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the MPRA's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the MPRA's financial statements that is more than inconsequential will not be prevented or detected by the MPRA's internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the MPRA's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified the deficiency described in the accompanying Schedule of Findings and Recommendations as item 07-1 to be a significant deficiency in internal control over financial reporting.

Minnesota Legal Compliance

We have audited the basic financial statements of the MPRA as of and for the year ended December 31, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* covers three categories of compliance to be tested in audits of relief associations: deposits and investments, conflicts of interest, and relief associations. Our study included all of the listed categories.

The results of our tests indicate that, for the items tested, the MPRA complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Recommendations as item 03-1.

The MPRA's written responses to the significant deficiency and the compliance finding identified in our audit have been included in the Schedule of Findings and Recommendations. We did not audit the MPRA's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Directors, management, and others within the MPRA and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

August 28, 2009

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR