

# **Volunteer Fire Relief Association Working Group**

Office of the State Auditor  
Tuesday, December 2, 2014  
11 a.m. to 1 p.m.

## **Members Present**

Steve Donney, City of Harmony Mayor  
Dennis Feller, City of Lakeville Finance Director  
Bruce Hemstad, Bemidji Fire Relief Association Secretary (defined benefit lump sum plans)  
Dave Jaeger, Mahnomon Fire Relief Association Vice President (defined benefit lump sum plans)  
Aaron Johnston, Coon Rapids Fire Relief Association Treasurer (defined contribution plans)  
Larry Martin, Legislative Commission on Pensions and Retirement Director  
Rebecca Otto, State Auditor  
Bruce Roed, Mentor Fire Relief Association Trustee (defined contribution plans)  
Mark Rosenblum, Minnesota State Fire Department Association Representative (defined benefit lump sum plans)  
Kevin Wall, Lower Saint Croix Valley Fire Relief Association President (defined benefit lump sum plans)  
Nyle Zikmund, Minnesota State Fire Chiefs Association Representative (defined benefit monthly plans)

## **Members Excused**

Dave Ganfield, Apple Valley Fire Relief Association President (defined benefit monthly/lump sum combination plans)

## **Others Present**

Mary Chamberlain, Abdo, Eick & Meyers Representative  
Aaron Dahl, Office of the State Auditor Pension Analyst  
Veronika Gutsalyuk, Wells Fargo Advisors Representative  
Rose Hennessy Allen, Office of the State Auditor Pension Director  
Michael Johnson, Office of the State Auditor Pension Analyst  
Mark Kerr, Office of the State Auditor Assistant Legal Counsel  
Mike Luger, Eden Prairie Fire Department Representative  
Brian McKnight, Wells Fargo Advisors Representative  
Blake Pekkala, Office of the State Auditor Pension Intern  
Jeff Reed, Office of the State Auditor Supervisor of Special Investigations

The following motions were duly made, seconded and approved:

- RESOLVED to approve the November 13, 2014, Working Group Meeting Minutes;  
RESOLVED to move forward with the concept of requiring multiple signatures on special fund checks; and  
RESOLVED to move forward with the concept of providing the Office of the State Auditor with discretion to exempt relief associations from the penalty that occurs if a service pension is paid using a benefit level that exceeds the statutory maximum if certain conditions are met.

**I. Call to Order**

Hennessy Allen called the meeting to order.

**II. Review and Approval of Working Group Meeting Minutes**

The members reviewed the November 13, 2014, meeting minutes that had been provided in advance. Hemstad made a motion to approve the meeting minutes. Feller seconded the motion that then was adopted unanimously.

**III. Review of Draft Language Requiring Multiple Signatures on Checks**

Hennessy Allen explained that relief associations currently are not required by law to have multiple signatures on their checks. She explained that most other government entities in Minnesota, including cities, towns, and counties, are generally required to have multiple signatures on their checks. Multiple signatures are an important part of an entity's system of internal controls. When more than one person signs a check, each person is verifying that the governing body has approved the check for payment. The Group reviewed draft language that would require special fund disbursements paid by check to be signed by the treasurer and at least one other trustee who is designated by the board of trustees.

Zikmund asked if the draft language would allow for special fund payments to be made electronically. Kerr responded that the draft language permits electronic payments while still maintaining internal controls by requiring that policies and procedures be established that provide for authentication of the disbursement. Roed suggested that the draft language be updated to prohibit the pre-signing of checks. He indicated pre-signed checks are prohibited by the Gambling Control Board statutes. Kerr will review the Gambling Control Board statutes for an example of such a prohibition and report back to the Group. Zikmund made a motion to move forward with the concept of the draft language. Hemstad seconded the motion that then was adopted unanimously.

**IV. Discussion of Maximum Benefit Levels and Penalty**

Auditor Otto explained that relief associations with defined-benefit plans (lump-sum, monthly, and monthly/lump-sum combination plans) are required to calculate annually the maximum allowable benefit level. The Office of the State Auditor (OSA) provides relief associations with a form called the Maximum Benefit Worksheet (MBW) for performing the calculation. The calculation is an average of a relief association's non-investment primary revenue sources for the prior three years on a per-member basis. The primary revenue sources included in the calculation are the amounts of state aid and municipal contributions received, and ten percent of the relief association's surplus. Auditor Otto also explained that if a relief association pays a service pension using a benefit level that exceeds the maximum allowable benefit level, statute requires that penalties be imposed. The penalties are disqualification from receiving fire state aid and

a requirement that the relief association treasurer recover the amount of the overpaid service pension from any retired firefighter who received an overpayment.

Hennessy Allen described issues regarding the calculation to determine the maximum allowable benefit level. She also explained that penalties are imposed if a service pension is paid in error with no opportunity for the relief association to correct the error.

Martin provided the Group with a thorough history of the statute, explaining how the calculation was devised and why the draconian penalty was put in place. Martin shared that prior to the creation of the flexible service pension maximums, only one maximum lump-sum benefit level and one maximum monthly benefit level existed. Relief associations were required to obtain special legislation to increase their benefit levels above these maximums. The single limits were not effective and led to the creation of the Volunteer Firefighter's Relief Association Financing Guidelines Act of 1979 that put in place much of the law related to volunteer fire relief associations.

The flexible service pension maximums require that relief associations pay about 70 percent of the ongoing normal cost of the benefit level. The three-year average on which the calculation is based minimizes fluctuations in contributions or investment earnings that would be experienced from one year to the next. Martin recommended that communities determine what benefit level is needed to retain firefighters and then put a plan in place, which may require ongoing municipal contributions, for the relief association to reach that benefit level.

The Group agreed that generally, over time, the calculation is working as intended. The Group suggested that the OSA provide education to relief associations and their affiliated municipalities on the purpose of the MBW and consider changing the form name. The Group also suggested that the OSA consider providing a website calculation that uses a five-year average as a tool for relief association trustees. The Group also discussed whether required municipal contributions should be included in the calculation.

Luger explained to the Group that the Eden Prairie Fire Relief Association is interested in increasing the lump-sum maximum from the current \$10,000. He stated that for the monthly/lump-sum combination plans, the monthly benefit levels result in a much larger benefit over the life of the firefighter than a lump-sum benefit calculated at a corresponding benefit level. The Group agreed to explore increasing the \$10,000 lump-sum maximum for a handful of unique plans.

Finally, the Group agreed that the penalty provision should be changed so that a relief association would not automatically be disqualified from receiving fire state aid if a pension is paid using a benefit level above the maximum. The Group reviewed draft language that would give discretion to the OSA to certify the relief association as eligible for fire state aid after the presentation of sufficient evidence that the error occurred in good faith and the treasurer of the relief association has begun to take steps to recover the

amount of the overpaid service pension. Zikmund made a motion to move the concept of the draft language forward. Jaeger seconded the motion that then was adopted unanimously.

**V. Other Business**

There was no other business.

**VI. Next Meeting**

Monday, December 8, 2014

11:00 a.m. to 1:00 p.m.

Office of the State Auditor

**VII. Adjournment**

The meeting was adjourned at 1:00.