

**BILL PURCELL
MAYOR**



**DEPARTMENT OF FINANCE
INTERNAL AUDIT SECTION**

**METROPOLITAN
GOVERNMENT OF NASHVILLE
AND DAVIDSON COUNTY**

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Memo

Date: July 20, 2004

Memo to: David Manning

From: Kim McDoniel

Regarding: Police Secondary Employment Rates

At your request, we engaged KPMG to conduct an analysis of the rates developed by the Metropolitan Nashville Police Department used in charging other Metro departments and outside entities for services under the Secondary Employment Unit. KPMG has affirmed that Metro's full cost recovery policy and the method utilized by Metro are consistent with methods allowed under the Federal Government's OMB Circular A-87. In verifying the assumptions and calculations used to develop SEU rates, however, KPMG noted an error surrounding the application of holiday pay and FICA rates and recommended that the hourly rates charged to outside entities be raised by \$1.

KPMG also pointed out that if the Police Department implemented the MGT recommendation to pay straight time as opposed to overtime for outside entities as allowed under Federal payroll regulations, the related hourly rates would be significantly decreased as follows:

	Current Rates	Straight Time
Police Officer	\$63	\$51
Sergeant	74	58
Lieutenant	79	62
Captain	85	65

July 20, 2004
Mr. Manning
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KPMG's full report, including detailed calculations, is attached. Please let me know if you have any questions or need additional information.

Copy: Chief Ron Serpas
Talia Lomax-O'dneal
Metropolitan Council Audit Committee



Metropolitan Government of Nashville and Davidson County



Police Secondary Employment Unit Rate Analysis

July 2004



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BACKGROUND AND METHODOLOGY

BACKGROUND and METHODOLOGY

The Metropolitan Government of Nashville and Davidson County (METRO), Tennessee retained KPMG LLP (KPMG) to conduct an analysis of the calculations utilized to prepare the fiscal year 2004 (FY 04) rate schedule for the Police Secondary Employment Unit (SEU). The objective of the rate schedule is to ensure that METRO recovers the full cost of providing SEU services to both METRO and Non-Metro agencies. This report presents the results of the analysis.

KPMG's analysis of the FY04 SEU rate schedule included the examination of underlying source data used in the calculations. KPMG gained an understanding of how costs were derived, from what sources, and how they relate to the SEU as a whole. A four-pronged approach was utilized to perform the analysis of the FY04 SEU rate schedule. The analysis consisted of the following components:

- Conduct of Interviews;
- Documentation Review;
- Analytical Evaluation; and
- Recommendations.

Conduct of Interviews. Select METRO staff was interviewed to gain an understanding of how the FY04 SEU rate schedule was prepared and calculated. This included documenting the method for deriving specific costs; the data sources used for cost calculations; and how the costs relate to the SEU on a day-to-day basis. Interviews included the METRO Cost Accounting Manager, as well as the Executive Administrator and Finance Manager for Fiscal Affairs within the Police department, and METRO General Services and Fleet Department staff.

Documentation Review. Source data used in the calculations of the rate schedule was examined to verify data integrity in the model calculations. The source data included METRO budget documents and other METRO departmental statistical reports used to identify indirect costs charged to the SEU. The Excel spreadsheets, used and provided by METRO, were used as the basis for changes to established rates. These spreadsheets have been modified for recommendations and are provided as Exhibits to this report. In addition to the source data provided by METRO, KPMG reviewed the legislation, approved in 1998, that allows the government to impose fees for SEU service. The legislation expressed the governing body's intent to recover full costs of the services provided.

Proforma Analysis. Metro received a recommendation from an outside consulting firm that indicated the current procedure of paying officers overtime on non-Metro secondary Employment engagements was not required by current laws. If this recommendation was implemented the rates charged would be:

- Police Officer \$51.00
- Sergeants \$58.00
- Lieutenant \$62.00
- Captain \$65.00

The detail of rates are displayed at exhibit F.

Analytical Evaluation. The calculations performed by METRO to construct the FY04 SEU rate schedule were evaluated to assess the appropriateness of use in the rate determination process. Both direct and indirect costs, and the processes for cost determination were considered in the evaluation stage. KPMG relied heavily on its knowledge and understanding of OMB Circular and A-87 guidelines when evaluating the processes undertaken by METRO for the rate determination of the SEU. Note that KPMG was not engaged to determine the appropriateness of allocation methods used in the LOCAP, which was prepared by another firm.

OMB Circular A-87 states, “indirect cost pools should be distributed to benefited cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.” There are 2 possible methods for allocating indirect costs and the computation of an indirect cost rate:

- Simplified method – To the extent that major functions or cost objectives benefit from indirect costs to approximately the same degree, total costs can be classified into one of two categories, either direct or indirect. Both shall exclude capital expenditures and unallowable costs. The distribution base (direct costs) may be (1) total direct costs (excluding capital expenditures and other distorting items, such as pass-through funds, major subcontracts, etc.), (2) direct salaries and wages, or (3) another base which results in an equitable distribution.
- Multiple allocation method – To the extent major functions or cost objectives benefit from indirect costs in varying degrees, such costs shall be accumulated into separate cost groupings, and each grouping shall then be allocated by means of a base (statistic) which best measures relative benefits. Some examples might include square footage, FTE’s, transactions, etc.

Consistent with METRO’S overall cost policies, METRO determined the simplified method was appropriate for allocating indirect costs with respect to the SEU. As a result, we conducted our analysis based on the simplified method employed by METRO.



Recommendations. Based on the understanding and evaluation of the processes and data calculations used in the rate model, KPMG developed recommendations to modify the existing FY04 SEU rate model as follows.

- We noted unallowable capital outlay costs of \$5,190 included in indirect costs. The impact was to drop the hourly overhead rate from \$27.03 to \$27.00, which had no effect on the standard hourly rates charged.
- We also noted an error in FICA rates used for the Non-Metro agency holiday rate. The impact was to raise the Non-Metro holiday hourly rates by \$1.



TECHNICAL ANALYSIS

TECHNICAL ANALYSIS

Technical Analysis – Observations

Published Rate Components

We obtained a copy of the rate schedule for FY 04. The schedule identifies a separate rate to be charged by rank, which includes a police officer, sergeant, lieutenant and captain. The individual rates included the following components:

- Overtime rate of pay
- Fringe benefits, which include pension and FICA
- In line-of-duty (IOD) benefit liability
- Legal liability insurance
- Administrative overhead
- Reconciling adjustment

We reconciled rates of pay shown on the rate schedule to METRO's supporting expenditure information. Expenditures were summarized by rank and an average was calculated based on the number of positions. Overtime rates were calculated by taking the average rate of pay for each classification and multiplying by 1.5 (time-and-a-half).

Pension costs seemed reasonable and were applied using a percentage of salaries, which we recalculated for verification purposes. Social security costs were also included at the rate of 7.65%, as appropriate.

IOD benefit liability of \$1.00 per hour is added to recover METRO additional exposure costs of insurance associated with Police Officers providing additional services above and beyond the normal workday. Additional legal liability insurance of 10 cents per hour is added to recover the additional liability associated with the City/County relating to off-duty police officers. Both of these charges seemed reasonable.

Administrative overhead in the amount of \$27.03 per hour consists of both indirect costs from the City/Countywide cost allocation plan (LOCAP), referred to as "central service costs", and Police department administrative divisions, referred to as "departmental indirect costs". Central service costs allocated to the Police department as a whole through the LOCAP amounted to nearly \$14 million, based on actual expenditures during fiscal year 2001. We reconciled central service costs used in the rate calculations to the published LOCAP report dated September 2002.

Departmental indirect costs included in administrative overhead amounted to \$13,634,081. The remaining balance was derived from the following Police divisions:

- Chief of Police
- Fiscal Management Division
- Inventory Management (Supply)
- Personnel Services Division
- Administrative Services Command Bureau
- Planning and Research Division
- Behavioral Health Division (employee assistance)
- Information Services Division
- Office of Professional Accountability (internal affairs)
- Training Academy

The indirect classification of the above divisions seems reasonable from a costing standpoint; however, we were not engaged to, and did not, perform an in-depth analysis of the Police department's administrative costs. We reconciled departmental administrative costs used in the rate calculations to a detailed expenditure report for the same year provided by METRO. Fiscal Management Division operating expenditures appropriately included an adjustment to eliminate motor pool and telecommunications charges, as they are directly allocated to the SEU.

A reconciling adjustment in the amount of (\$.66) per hour was included in the rate schedule. This adjustment accounts for a projected retained earnings surplus in FY 04.

In addition to charging a per hour rate for the officer, a separate vehicle rate is charged for the use of automobiles or motorcycles. Depending upon the vehicle type, a flat rate is charged for the first 4 hours (minimum charge) and an additional charge per hour for any usage above 4 hours. The hourly rates charged by the SEU were \$3.17 for automobiles and \$2.64 for motorcycles. These rates include costs associated with the monthly rates charged to the Police department from METRO's centralized motor pool for capital, maintenance, fuel and other miscellaneous items such as car washes and body repairs. METRO used that information to perform an analysis (see Exhibit F) to determine the average cost of a police vehicle per hour of service.

Administrative Overhead Hourly Rate

The overhead rate of \$27.03 per hour includes a component for both departmental indirect costs and LOCAP costs (see Exhibit B "Indirect Costs"). First, indirect costs were calculated by isolating those Police divisions that were considered indirect in nature. Then, these departmental indirect costs were subtracted from total Police expenditures to derive "direct" costs. These direct costs are used as the "base" or denominator in the calculation of an indirect cost rate. The departmental indirect costs calculated above were added to LOCAP indirect costs to come up with total indirect costs relating to the Police department as a whole. Finally, total indirect costs are divided into the base to arrive at a departmental indirect rate of 26.1% for the Police department (also see Exhibit B). By calculating a single departmental rate, METRO has applied this rate to the activities of the SEU as a component of the Police department.

Application of Indirect Rate to SEU

METRO's policy is to allocate indirect costs based on total expenditures. The 26.1% indirect rate was, therefore, applied to fiscal year 2002 SEU total operating expenditures of \$2,771,264 to arrive at total indirect costs related to the SEU of \$723,300. The \$723,300 allocated to SEU resulted in over 80% of the hourly overhead rate charged for SEU services, or \$21.75 out of \$27.03 per hour.

Technical Analysis – Recommendations

Indirect Costs

Certain types of costs are considered unallowable with respect to allocation per the Office of Management and Budget's (OMB) Circular A-87 "Cost Principles for State, Local and Indian Tribal Governments". The Information Services Division administrative costs included \$5,190 in capital outlay costs, which, per A-87, should be excluded from total costs prior to calculating a departmental indirect rate.

- ❖ **Based on the above, we believe departmental indirect costs should be adjusted down from \$13,634,081 to \$13,628,891 (see Exhibit A).**

Technical Analysis – Result of Recommendation

See Exhibit E, which documents the result of the recommendation on METRO's current rate schedule. Calculated overhead rates have dropped from \$27.03 per hour to \$27.00 per hour. Standard hourly rates by rank remain unchanged. We did note, however, an error in the formula for calculating FICA for holiday rates for Non-Metro Agencies. The FICA rate was being applied to standard rates as opposed to the holiday rates. This correction increased the hourly holiday rates for Non-Metro agencies by \$1 per rank.



EXHIBIT A

Police Indirect Costs Detail FY 02 Actual

**Police Indirect Costs Detail
FY 02 Actual**

Division Indirect Cost						Recommended Adjustments
Account	BU	Payroll	Benefits	All Other	Total	
Chief of Police	31110001	572,941.68	121,678.54	16,417.53	711,037.75	
Fiscal Mgmt Division	31110100	722,732.14	177,943.42	3,247,591.17	4,148,266.73	
Inventory Mgmt (Supply)	31110101	114,953.63	35,678.93	382,855.71	533,488.27	
Personnel Services Division	31120100	362,293.09	91,342.77	3,754.09	457,389.95	
Admin Services Command Bureau	31120001	228,537.78	50,027.74	6,767.25	285,332.77	
Planning and Research Division	31120200	506,829.40	122,386.15	18,444.83	647,660.38	
Behavioral Health Division	31110400	601,191.98	150,468.08	110,544.40	862,204.46	
Information Services Division	31110500	1,821,857.68	473,656.08	1,319,652.22	3,615,165.98	(5,190.00)
Office Professional Accountability	31110200	680,018.97	152,096.85	4,168.59	836,284.41	
Training Academy	31120400	1,046,559.43	253,303.55	154,536.73	1,454,399.71	
Department Indirect Cost						
Dennis Stanford Legal	31740201	67,832.56	15,017.53	-	82,850.09	
TOTAL		6,725,748.34	1,643,599.64	5,264,732.52	13,634,080.50	(5,190.00) Total Adjustments
				Less:	(5,190.00)	
					13,628,890.50	Total adjusted indirect costs
Police						
LOCAP Schedule A		Police	13,969,884.00			
		Police Drug Enf	11,847.00			
			13,981,731.00			



EXHIBIT B

Metropolitan Police Department Indirect Cost Rate Calculation For the Fiscal Year Ended June 30, 2002

**Metropolitan Police Department
Indirect Cost Rate Calculation
For the Fiscal Year Ended June 30, 2002**

Indirect Costs:		<u>Adjusted</u>	
Central Services Costs	\$ 13,981,731.00	\$ 13,981,731.00	
Administration	\$ 13,634,080.50	\$ 13,628,890.50	Taken from Exhibit A
	\$ 27,615,811.50	\$ 27,610,621.50	Recalculated
Direct Costs:			
Operations	\$ 106,142,995.57	\$ 106,142,995.57	
Less:			
Capital	\$ (499,673.00)	\$ (499,673.00)	
Add:			
Depr	\$ 256,470.64	\$ 256,470.64	
	\$ 105,899,793.21	\$ 105,899,793.21	
Indirect Cost Rate Computation:	26.08%	26.07%	Recalculated



EXHIBIT C

Police Fund Operating Expenditures FY 02

**Police Fund Operating Expenditures
FY- 02**

FUND	Account	Amount
10101	General Fund	112,036,200
18301	USD	481,000
30003	General Fund 4 %	846,894
30013	99 LLEBG Grant	433,009
30015	00 LLEBG Grants	239,365
30016	01 LLEBG Grants	71,742
30147	Police Drug Enforcement	859,661
30148	Police Secondary Employment	2,771,264
30149	Police Federal Drug Enforcemen	152,515
30150	Police Education Foundation	18,982
30155	Police Forfeitures	300,575
30156	Police Federal Forfeitures	384,390
32000	Grants General	1,181,478
Total Expenditures		\$ 119,777,076
Less:		
	Admin	\$ 13,634,081
Total Expenditures Less Admin:		\$ 106,142,996
Less: A-87 Unallowable		
10101	General Fund	5,190.00
30003	General Fund 4%	124,806.00
30003	General Fund 4%	54,457.00
30013	99 LLEBG 31305300	61,298.00
30015	00 LLEBG 31305400	72,000.00
30147	State Drug Fund 31740201	54,324.00
30149	Justice Felony Forfeiture Fund 31750100	38,214.00
30155	State Gambling Forfeiture Fund 31740103	73,789.00
30156	Treasury Felony Forfeiture Fund 31760100	15,595.00
Total Unallowable		\$ 499,673
Add: Depreciation		
	Total Depreciation	256,470.64
Total Expenditures		105,899,793



EXHIBIT D

Secondary Employment Unit Annual Budget July 1, 2003 to June 30, 2004

**Secondary Employment Unit Annual Budget
July 1 2003 to June 30, 2004**

Administrative Cost Projection for FY04 Business Unit 31701000

Payroll Employee Name		Salary	COLA	INCR	TOTAL	36.11% Benefits	Sub-total	Months	Total
Hugh Nelson	100%	50,804	1,524	-	52,328	18,893	71,221	12	71,221
Jan Johnson	50%	29,328	880	755	30,963	11,179	21,071	12	21,071
Baron Harmon	30%	46,101	1,383	1,187	48,671	17,573	19,873	12	19,873
Kelly Martin	100%	23,519	706	606	24,830	8,965	33,795	12	33,795
Total Payroll		149,752	4,493	2,548	156,792	56,610	145,961		\$ 145,961
COLA	3.0%								
INCREMENTS	2.5%								
Non Payroll Operating									
Cellular Telephone (3)							1,200		
Pager (2) @ \$72 yr							144		
Telephone System							-		
Storage Cabinets							-		
Copy Machine							2,400		
Office Supplies							750		
OSE Phone Lines							1,860		
Workstations							1,888		
CDPD Service							1,200		
Software Contribution							20,000		
Sequel Server							-		
Total Non Payroll							29,442		\$ 0.89
Additional Non Payroll									
Interest on Float	12%	-					-		
Software Depr. 40,000/3 yrs. Adj. \$12,000							\$ -		
Total Additional							-		

			ANNUAL	HOURLY
Total Administrative Cost Projection			\$ 175,403	\$ 5.27
SEU Payroll and Non Payroll Operating Cost				
LOCAP Allocation	13.20%		\$ 365,884	\$ 11.00
Dept. Indirect Cost Allocation	12.87%	2,771,264	\$ 356,651	\$ 10.73
	26.07%			
Total overhead cost projection for FY04			\$ 897,938	\$ 27.00
Projected hours of secondary employment	33,252			

Taken from Exhibit B

FY02 SEU Operating Expenditures

recalc
amts



EXHIBIT E

Metropolitan Police Department Police Officer Extra Duty Rates FY 04 Standard Rates

**METROPOLITAN POLICE DEPARTMENT
POLICE OFFICER EXTRA DUTY RATES
FY04 STANDARD RATES**

Taken from Exhibit D

The following are the flat rates that will be charged to Metropolitan Government Agencies based on an analysis of the average hourly cost. Employees will be paid their actual overtime rate of pay.

Recalculated Amts

Rank	Average Rate	PENSION		IOD Benefit		FICA		Overhead	Reconciling Adjustment	Legal Liability Insurance	Total	Rounded Rate
		9.265%	\$	1.00	7.65%							
POLICE OFFICER	\$ 33.34	\$ 3.09	\$ 1.00	\$ 2.55	\$ 27.00	\$ (0.66)	\$ 0.10	\$ 66.42	\$ 66.00			
SERGEANT	\$ 42.65	\$ 3.95	\$ 1.00	\$ 3.26	\$ 27.00	\$ (0.66)	\$ 0.10	\$ 77.31	\$ 77.00			
LIEUTENANT	\$ 48.20	\$ 4.47	\$ 1.00	\$ 3.69	\$ 27.00	\$ (0.66)	\$ 0.10	\$ 83.80	\$ 84.00			
CAPTAIN	\$ 52.91	\$ 4.90	\$ 1.00	\$ 4.05	\$ 27.00	\$ (0.66)	\$ 0.10	\$ 89.31	\$ 89.00			

The following are the standard rates that will be charged to Non-Metro Clients.

	Hrly Amt. Paid to Officers	IOD Benefit Liability	7.65%	SEU Overhead	Legal Liability Insurance	Reconciling Adjustment	Total	Rounded Flat Rate
POLICE OFFICER	\$ 33.00	\$ 1.00	\$ 2.52	\$ 27.00	\$ 0.10	\$ (0.66)	\$ 62.97	\$ 63.00
SERGEANT	\$ 43.00	\$ 1.00	\$ 3.29	\$ 27.00	\$ 0.10	\$ (0.66)	\$ 73.73	\$ 74.00
LIEUTENANT	\$ 48.00	\$ 1.00	\$ 3.67	\$ 27.00	\$ 0.10	\$ (0.66)	\$ 79.12	\$ 79.00
CAPTAIN	\$ 53.00	\$ 1.00	\$ 4.05	\$ 27.00	\$ 0.10	\$ (0.66)	\$ 84.50	\$ 85.00

**METROPOLITAN POLICE DEPARTMENT
POLICE OFFICER EXTRA DUTY RATES
FY04 HOLIDAY RATES**

The following are the flat rates for *holiday employment* that will be charged to Metropolitan Government Agencies based on an analysis of the average hourly cost. Employees will be paid their actual holiday rate of pay.

Rank	Average Rate	PENSION		IOD Benefit		FICA		Overhead	Reconciling Adjustment	Legal Liability Insurance	Total	Rounded Rate
		9.265%	\$	1.00	7.65%							
POLICE OFFICER	\$ 44.47	\$ 4.12	\$ 1.00	\$ 3.40	\$ 27.00	\$ (0.66)	\$ 0.10	\$ 79.44	\$ 80.00			
SERGEANT	\$ 53.78	\$ 4.98	\$ 1.00	\$ 4.11	\$ 27.00	\$ (0.66)	\$ 0.10	\$ 90.32	\$ 90.00			
LIEUTENANT	\$ 58.85	\$ 5.45	\$ 1.00	\$ 4.50	\$ 27.00	\$ (0.66)	\$ 0.10	\$ 96.25	\$ 97.00			
CAPTAIN	\$ 70.54	\$ 6.54	\$ 1.00	\$ 5.40	\$ 27.00	\$ (0.66)	\$ 0.10	\$ 109.92	\$ 110.00			

The following are the standard rates that will be charged to Non-Metropolitan Government Agencies for HOLIDAY jobs.

	Hrly Amt. Paid to Officers	IOD Benefit Liability	7.65%	SEU Overhead	Legal Liability Insurance	Reconciling Adjustment	Total	Rounded Flat Rate
POLICE OFFICER	\$ 44.00	\$ 1.00	\$ 3.37	\$ 27.00	\$ 0.10	\$ (0.66)	\$ 74.81	\$ 75.00
SERGEANT	\$ 54.00	\$ 1.00	\$ 4.13	\$ 27.00	\$ 0.10	\$ (0.66)	\$ 85.58	\$ 86.00
LIEUTENANT	\$ 59.00	\$ 1.00	\$ 4.51	\$ 27.00	\$ 0.10	\$ (0.66)	\$ 90.96	\$ 91.00
CAPTAIN	\$ 71.00	\$ 1.00	\$ 5.43	\$ 27.00	\$ 0.10	\$ (0.66)	\$ 103.88	\$ 104.00

VEHICLE RATES	Vehicle Reimbursement					
	Capital, Gas & Maint.	Legal Liab. Insurance	First Four Hours	Rounded First Four Hours	Vehicle Hourly Rate	Rounded Each Adt. Hour
Automobile	\$ 3.17	\$ 0.18	\$ 13.40	\$ 14.00	\$ 3.35	\$ 4.00
Motorcycle	\$ 2.64	\$ 0.18	\$ 11.28	\$ 12.00	\$ 2.82	\$ 3.00

Note: Vehicle rate charged to all customers as recommended by Budget Division based on FY03 rates.



EXHIBIT F

Metropolitan Police Department Police Officer Non-Metro Client Rates Based On Outside Consultant Recommendations

Metropolitan Police Department
 Non Metro Clients
 Based on Outside Consultant Recommendation

The following are the rates that would be charged to non-Metro clients
 if Metro were to implement the recommendations of the outside consultant.

	<u>Hrly Amt.</u>	<u>IOD Benefit</u>	<u>7.65%</u>	<u>SEU</u>	<u>Legal</u>	<u>Reconciling</u>	<u>Total</u>	<u>Rounded</u>
	<u>Paid to</u>	<u>Liability</u>		<u>Overhead</u>	<u>Liability</u>	<u>Adjustment</u>		<u>Flat Rate</u>
	<u>Officers</u>				<u>Insurance</u>			
POLICE OFFICER	\$22.00	\$1.00	\$1.68	\$27.00	\$0.10	(\$0.66)	\$51.12	\$51.00
SERGEANT	\$28.67	\$1.00	\$2.19	\$27.00	\$0.10	(\$0.66)	\$58.30	\$58.00
LIEUTENANT	\$32.00	\$1.00	\$2.45	\$27.00	\$0.10	(\$0.66)	\$61.89	\$62.00
CAPTAIN	\$35.33	\$1.00	\$2.70	\$27.00	\$0.10	(\$0.66)	\$65.48	\$65.00