COMPLIANCE AUDIT

City of Pittsburgh Comprehensive Municipal Pension Trust Fund

Allegheny County, Pennsylvania

For the Period

January 1, 2012 to December 31, 2013

March 2015

Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General

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EUGENE A. DePASQUALE
AUDITOR GENERAL

The Honorable Mayor and City Council
City of Pittsburgh
Allegheny County
Pittsburgh, PA 15219

We have conducted a compliance audit of the City of Pittsburgh Comprehensive Municipal Pension Trust Fund for the period January 1, 2012 to December 31, 2013. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform our 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.

The objectives of the audit were:

1. To determine if municipal officials took appropriate corrective action to address the findings contained in our prior audit report; and

2. To determine if the pension trust fund was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

Our audit was limited to the areas related to the objectives identified above. Our methodology addressed determinations about the following:

- Whether state aid was properly determined and deposited in accordance with Act 205 requirements.

- Whether employer contributions are determined and deposited in accordance with the plan's governing document and applicable laws and regulations.

- Whether employee contributions are required and, if so, are determined, deducted, and deposited into the pension plan and are in accordance with the plan provisions and applicable laws and regulations.

- Whether benefit payments, if any, represent payments to all (and only) those entitled to receive them and are properly determined in accordance with applicable laws and regulations.

- Whether obligations for plan benefits are accurately determined in accordance with plan provisions and based on complete and accurate participant data; and whether actuarial valuation reports are prepared and submitted to the Public Employee Retirement Commission (PERC) in accordance with state law and selected information provided on these reports is accurate, complete and in accordance with plan provisions to ensure compliance for participation in the state aid program.

- Whether the special ad hoc postretirement adjustment granted to eligible pensioners is in accordance with applicable laws and regulations and whether the ad hoc reimbursement received by the municipality was treated in accordance with applicable laws and regulations.

- Whether refunds are made to eligible members in accordance with the plan provisions and applicable laws and regulations.

- Whether the pension trust fund is in compliance with state regulations for distressed municipalities.

- Whether the terms and methodologies of the issuance of bonds by the municipality, and any restrictions, are in compliance with plan provisions and state regulations.

- Whether casino revenues are determined and deposited as directed by the Intergovernmental Cooperation Authority (ICA) and in accordance with applicable laws and regulations.

- Whether parking tax revenues are deposited timely by the city and in accordance with plan provisions and applicable laws and regulations.

The City of Pittsburgh contracted with an independent certified public accounting firm for annual audits of the City of Pittsburgh Comprehensive Municipal Pension Trust Fund’s combined financial statements, which are available at the city’s offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

City officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the City of Pittsburgh Comprehensive Municipal Pension Trust Fund is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. In conducting our audit, we obtained an understanding of the city's internal controls as they relate to the city's compliance with those requirements and that we considered to be significant within the context of our audit objectives, and assessed whether those significant controls were properly designed and implemented. Additionally, we tested transactions, assessed official actions, performed analytical procedures, and interviewed selected officials to provide reasonable assurance of detecting instances of noncompliance with legal and regulatory requirements or noncompliance with provisions of contracts, administrative procedures, and local ordinances and policies that are significant within the context of the audit objectives.

The results of our tests indicated that, in all significant respects, the City of Pittsburgh Comprehensive Municipal Pension Trust Fund was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following findings further discussed later in this report:

<u>Police and Firemen's Pension Plans</u>

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Inconsistent Pension Benefits

Finding No. 4 – Incorrect Data On Certification Form AG 490 Resulting In Excess Reimbursements For Special 1989 Ad Hoc Postretirement Adjustments

<u>Non-Uniformed Pension Plan</u>

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Inconsistent Pension Benefits

<u>Non-Uniformed and Firemen's Pension Plans</u>

Finding No. 3 – Noncompliance With Prior Audit Recommendation - Incorrect Data On Certification Form AG 385 Resulting In A Net Overpayment Of State Aid

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information or conclude on it and, accordingly, express no form of assurance on it. However, we are extremely concerned about the respective plans' funded status contained in the respective schedules of funding progress included in this report. **The Police Pension Plan's Funded Ratio is 56.6% as of January 1, 2013, the Firemen's Pension Plan's Funded Ratio is 56.7% as of January 1, 2013, and the Non-Uniformed Pension Plan's Funded Ratio is 62.4% as of January 1, 2013,** which is the most recent data available. We encourage city officials to make responsible decisions when monitoring the funding of its pension plans to ensure their long-term financial stability.

As previously noted, Objective No. 2 of our audit of the City of Pittsburgh Comprehensive Municipal Pension Trust Fund is to determine compliance with applicable state laws, contracts, administrative procedures, and local ordinances and policies. Act 205 was amended on September 18, 2009, through the adoption of Act 44 of 2009. Among several provisions relating to municipal pension plans, the bill provides for the implementation of a distress recovery program. Three levels of distress have been established:

Level	Indication	Funding Criteria
I	Minimal distress	70-89%
II	Moderate distress	50-69%
III	Severe distress	Less than 50%

Act 205, as amended by Act 44, at Section 902(c) mandated the transfer of administration of the City of Pittsburgh's pension plans to the Pennsylvania Municipal Retirement System (PMRS) if the city was determined to be in Level III severe distress as of January 1, 2011. The January 1, 2011, actuarial valuation reports were to be filed with PERC by September 1, 2011. As noted in the Comments included in this audit report, in order to avoid a transfer of the city's pension plans to PMRS, the city adopted Ordinance Nos. 42 and 44 and Resolution No. 882, which were intended to provide additional funding to the Comprehensive Municipal Pension Trust Fund. During and subsequent to the current audit period, the city has made deposits of parking tax revenues to the pension trust fund pursuant to the terms of these documents. We urge the city to continue to take appropriate action to ensure the terms of these documents continue to be adhered to in the future.

The January 1, 2013, actuarial valuation reports filed with the Public Employee Retirement Commission (PERC) for the city's police, firemen's, and non-uniformed pension plans, which included the present value of anticipated future parking tax revenues referenced in this audit report, and were prepared using actuarial smoothing methodology, contained the following aggregated funding data:

Actuarial Valuation of Assets		Actuarial Accrued Liability		Funding Ratio
$	675,452,399	$	1,160,042,566	58%

Based on this information, PERC issued a notification that the City of Pittsburgh Comprehensive Municipal Pension Trust Fund is currently in Level II moderate distress status. Utilizing data from the city's comprehensive annual financial report (CAFR), which does not include the fair market value of future funding from parking tax revenues as noted in the Comments section of this audit report, the net assets of the pension trust fund at fair market value on January 1, 2013, were $353,871,239, which represents 31 percent of the fund's actuarial accrued liability as of that date.

While we acknowledge the actions city officials have taken to increase the plans' funding levels by, and subsequent to, January 1, 2011, which have included the dedication of future parking tax revenues and decreased investment return assumptions, which all were included in the plans' respective actuarial valuation reports, city officials in their fiduciary capacity must ensure that fiscally responsible decisions are made that will benefit the City of Pittsburgh and its taxpayers to ensure the city's pension plans have adequate resources to meet current and future benefit obligations to the city's hard-working police officers, firefighters, and municipal employees. It is clear that the City of Pittsburgh's Comprehensive Municipal Pension Trust Fund continues to face serious financial difficulties that city officials must address.

The contents of this report were discussed with officials of the City of Pittsburgh and, where appropriate, their responses have been included in the report.

February 19, 2015

John M. Lori, CPA
Deputy Auditor General for Audits

CONTENTS

ABBREVIATION

PERC - Public Employee Retirement Commission

BACKGROUND

On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.). The act established mandatory actuarial reporting and funding requirements and a uniform basis for the distribution of state aid to Pennsylvania's public pension plans. Section 402(j) of Act 205 specifically requires the Auditor General, as deemed necessary, to make an audit of every municipality which receives general municipal pension system State aid and of every municipal pension plan and fund in which general municipal pension system State aid is deposited.

Pension plan aid is provided from a 2 percent foreign casualty insurance premium tax, a portion of the foreign fire insurance tax designated for paid firefighters and any investment income earned on the collection of these taxes. Generally, municipal pension plans established prior to December 18, 1984, are eligible for state aid. For municipal pension plans established after that date, the sponsoring municipality must fund the plan for three plan years before it becomes eligible for state aid. In accordance with Act 205, a municipality's annual state aid allocation cannot exceed its actual pension costs.

In addition to Act 205, the City of Pittsburgh Comprehensive Municipal Pension Trust Fund is also governed by implementing regulations adopted by the Public Employee Retirement Commission (PERC) published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes including, but not limited to, the following:

Act 14 - Second Class City Code, Act of March 7, 1901 (P.L. 20, No. 14), as amended, 53 P.S. § 22101, et seq.

Act 147 - Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act, Act of December 14, 1988 (P.L. 1192, No. 147), as amended, 53 P.S. § 896.101 et seq.

The City of Pittsburgh Comprehensive Municipal Pension Trust Fund serves as a common administrative and investment agent for the city's police, firemen's and non-uniformed employee defined benefit pension plans. Ordinances governing pension plan operations are codified in the Pittsburgh Code, Title 1, Administrative, Article XI, Personnel, Chapter 192. The plans are also affected by the provisions of collective bargaining agreements between the city and its police officers, firefighters and non-uniformed employees.

The police pension plan was established September 1, 1935. Active members are required to contribute 6.0 percent of compensation plus $1 per month to the plan. Members who elect the surviving spouse benefit contribute an additional .5 percent of compensation. As of December 31, 2013, the plan had 883 active members, 25 terminated members eligible for vested benefits in the future, and 1,496 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

The firemen's pension plan was established May 25, 1933. Active members are required to contribute 6.5 percent of compensation plus $1 per month to the plan. Members who elect the surviving spouse benefit contribute an additional .5 percent of compensation. As of December 31, 2013, the plan had 584 active members, 1 terminated member eligible for vested benefits in the future, and 1,111 retirees receiving pension benefits from the plan.

The non-uniformed pension plan was established May 28, 1915. Active members hired prior to January 1, 1988, are required to contribute 5.0 percent of compensation to the plan. Members hired after December 31, 1987, are required to contribute 4.0 percent of compensation to the plan. As of December 31, 2013, the plan had 1,784 active members, 66 terminated members eligible for vested benefits in the future, and 1,584 retirees receiving pension benefits from the plan.

As of December 31, 2013, selected plan benefit provisions are as follows:

Police Pension Plan:

Eligibility Requirements:

Normal Retirement	Age 50 and 20 years of service.
Early Retirement	None
Vesting	A member is 100% vested after 20 years of service.

Retirement Benefit:

If hired prior to January 1, 1992, 50% of base salary averaged over the 12-month period prior to retirement, plus a service increment of $20 per month for each year of service between 20 and 25 years, plus $25 per month for each year of service beyond 25. If hired after December 31, 1991, 50% of base salary averaged over 36 months prior to retirement, plus a service increment of $20 per month for each year of service between 20 and 25 years, plus $25 per month for each year of service beyond 25.

Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions.
After Retirement Eligibility	A monthly benefit equal to 50% of the pension the member was receiving or was entitled to receive on the day of the member's death.

Disability Benefit:

For permanent disablement in the line of duty, or permanent disablement not in the line of duty after completing 10 years of service: If hired prior to January 1, 1992, 50% of earnings in year prior to disablement. If hired after December 31, 1991, sum of benefit and member's workers compensation benefit shall not exceed member's regular salary at time of disablement.

Firemen's Pension Plan:

Eligibility Requirements:

Normal Retirement	For members hired prior to January 1, 1976, the completion of 20 years of service. For members hired on or after January 1, 1976, later of age 50 or the completion of 20 years of service
Early Retirement	None
Vesting	A member is 100% vested after 20 years of service.

Retirement Benefit:

Benefit equals 50% of the average monthly wages earned during any 3 calendar years of service or the last 36 months immediately preceding retirement, plus a service increment of $20 per month for each year of service beyond 20.

Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions plus interest.
After Retirement Eligibility	A monthly benefit equal to 50% of the pension the member was receiving or was entitled to receive on the day of the member's death.

Disability Benefit:

For permanent disablement in the line of duty, or permanent disablement not in the line of duty after completing 10 years of service: 50% of the member's earnings in year prior to disablement.

BACKGROUND – (Continued)

Non-Uniformed Pension Plan:

Eligibility Requirements:

Normal Retirement:

Employees *Other Than* Emergency Medical Services	Later of age 60 *OR* completion of 8 years of service.
Emergency Medical Services	Later of age 55 *OR* completion of 8 years of service.

Early Retirement:

Eligibility:	Later of age 50 *OR* completion of 8 years of service.
Benefit:	Normal retirement benefit based upon average compensation at actual retirement.
Members hired *prior to* January 1, 1975 (Tier I employees)	If 25 years of service, reduction applied only on benefits attributed to earnings in excess of $7,800.
Members hired *after* January 1, 1975 (Tier II and Tier III employees)	May be deferred until age 60 *OR* paid immediately in a reduced amount. The reduction amount is ½ percent *per month* for each month that payment commences prior to age 60.

Vesting:

Eligibility:

Members hired *prior to* January 1, 1975 (Tier I employees)	Completion of 15 years of service.
Members hired *after* January 1, 1975 (Tier II and Tier III employees)	Attainment of age 40 *AND* 8 years of service.
Benefit:	Normal retirement benefit if employee contributions continue to age 50. Benefit deferred to age 60. An early retirement benefit may be elected at age 50.

BACKGROUND – (Continued)

Non-Uniformed Pension Plan - (Continued)

Retirement Benefit:

Members hired *prior to* January 1, 1975 (Tier I employees) whose union has not negotiated the benefits level for employees hired *on or after* January 1, 1975 *and before* January 1, 1988 (Tier II employees).	If pay is *less than* $450: • Equal to 60% of 3-year average pay; • Not less than $130; • Plus Service Increment, if any *OR* If pay is *greater than* $450: • 55% of the first $650 of 3-year average pay *and* 30% of excess; • Not less than $270; • Plus Service Increment, if any.
For members hired *after* December 31, 1987 (Tier III employees)	A monthly benefit equal to 50% of average compensation and Service Increment, if any.
Average Compensation: Members hired *prior to* January 1, 1975 (Tier I employees) whose union has not negotiated the benefits level for employees hired *on or after* January 1, 1975 *and before* January 1, 1988 (Tier II employees).	Average compensation, defined as: • Base Wage plus • Acting Pay or In-Grade Pay Averaged over the 3-year period prior to retirement or severance.
For members hired *after* December 31, 1987 (Tier III employees)	Averaged over a 4-year period prior to retirement of severance.
Service Increment:	An additional monthly benefit of 1% of average compensation for each completed year of service in excess of 20 years to a maximum of $100.

Survivor Benefit:

Death Benefits *Before* Retirement Eligibility Death *After* Early Retirement Eligibility	Surviving spouse entitled to 50% of pension that would have been payable if member retired at date of death.
Death *Before* Early Retirement Eligibility	Member's beneficiary receives amount equal to member's contributions.

Non-Uniformed Pension Plan - (Continued)

Death Benefits *After* Retirement Eligibility	Member's beneficiary receives an amount equal to the excess, if any, of the member's contributions over retirement benefit paid on member's behalf.
Members hired *Prior* to 1988 (Tier I & II employees)	Married employees may deduct up to $100 per month from their retirement benefit to provide for a $100 per month benefit payable to the surviving spouse until death or remarriage.
Members hired *After* December 31, 1987 (Tier III employees)	Married member may elect a reduced pension to provide for a 50% survivor benefit.

Disability Benefit:

Eligibility	Permanent disablement in the line of duty *OR* permanent disablement not in the line of duty after completing 8 years of service.
Benefit	Normal retirement benefit at the date of disablement not pro-rated for service less than 20 years.
Members hired *After* December 31, 1974 (Tier II employees)	A benefit reduced by 50% of their Social Security benefit upon reaching age 65. The reduction shall not exceed 50% of the benefit.
Members hired *After* December 31, 1987 (Tier III employees)	Normal retirement benefit if at least age 60 with 8 years of service. Upon reaching age 65, reduced by 50% of the Social Security benefit. The reduction shall not exceed 50% of the benefit. If disablement occurs prior to age 60 with at least 8 years of service, benefit is calculated as of age 60 with service being the greater of: • Service at disablement • The lesser of 20 years and completed service The benefit is reduced so that the sum of the plan benefit and worker's compensation does not exceed member's regular salary at the time of disablement.

CITY OF PITTSBURGH COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
STATUS OF PRIOR FINDINGS

Noncompliance With Prior Audit Recommendations

The City of Pittsburgh has not complied with the prior audit recommendations concerning the following as further discussed in the Findings and Recommendations section of this report:

- Inconsistent Pension Benefits – (Police and Firemen's Pension Plans)

- Inconsistent Pension Benefits – (Non-Uniformed Pension Plan)

- Incorrect Data On Certification Form AG 385 Resulting In A Net Overpayment Of State Aid – (Non-Uniformed and Firemen's Pension Plans)

Police and Firemen's Pension Plans

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Inconsistent Pension Benefits

Condition: As disclosed in the prior audit report, the police and firemen's pension plan governing documents were amended by Ordinance No. 22, which was formally adopted by the city on October 18, 2001. Ordinance No. 22 contains a benefit provision that conflicts with the collective bargaining agreement between the city and its police officers, as follows:

Benefit Provision	Ordinance No. 22	Collective Bargaining Agreement
Final average salary	Beneficiaries under Policemen's Benefit Plan No. 2, who retire or who become eligible to receive a pension allowance on or after January 1, 1988, shall be entitled to receive from the fund, per month, an amount equaling 50% of the average monthly earnings received by the contributor as an employee of the Bureau of Police of the city during the last 48 consecutive months preceding retirement. If any employee has not been employed in the Bureau of Police at least 48 months, but is otherwise entitled to a pension, the employee's pension shall equal not less than 50% of the amount which would constitute the average monthly earnings received by the beneficiary as an employee of the Bureau of Police.	For employees hired on or after January 1, 1992, the pension benefit will be determined on the basis of the last three (3) years of pay. (Section 14 of the police pension plan handbook states, in part, beneficiaries under the fund who retire or who become eligible to receive a pension allowance…shall be entitled to receive from the fund, per month, an amount equaling fifty per centum of the average monthly salary earned by the contributor as an employee of the Bureau of Police of the city during any three calendar years of service or the last thirty-six months immediately preceding retirement.)

Police and Firemen's Pension Plans – (Continued)

Finding No. 1 – (Continued)

With respect to the firemen's pension plan, Ordinance No. 22 provides that beneficiaries under Firemen's Benefit Plan No. 2 who retire on or after January 1, 1988, shall be entitled to receive, per month, an amount equaling 50 percent of the average monthly earnings received by the contributor as an employee of the Bureau of Fire of the city during the last 48 consecutive months preceding retirement. If any employee has not been employed in the Bureau of Fire at least 48 months, but is otherwise entitled to a pension, the employee's pension shall equal not less than 50% of the amount which would constitute the average monthly earnings received by the beneficiary as an employee of the Bureau of Fire. However, it has been determined that contrary to the ordinance, it has been the city's practice to provide pension benefits for all members of the firemen's pension plan based on 50 percent of the member's average monthly wages during any 3 calendar years of service or the last 36 months preceding retirement.

Furthermore, actuarial valuation report forms 201C for the police pension plan, with valuation dates of January 1, 2011 and January 1, 2013, submitted to PERC, reported the benefit provision included in the collective bargaining agreement. In addition, actuarial valuation report form 202C for the firemen's pension plan, with valuation dates of January 1, 2011 and January 1, 2013, submitted to PERC, reported the pension benefit to be based on wages averaged over the 36 month period prior to retirement.

Criteria: The plan's governing documents should contain consistent, clearly defined, and updated benefit provisions to ensure the sound administration of retirement benefits.

Cause: City officials failed to establish adequate internal control procedures to ensure compliance with the prior audit recommendation.

Effect: Inconsistent plan documents could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan. For the period January 1, 2005, to December 31, 2013, the fund began paying pension benefits to 131 police plan retirees and 72 firemen's plan retirees whose pension benefits were not calculated in accordance with Ordinance No. 22.

Recommendation: We again recommend that city officials consult with their solicitor and take the appropriate action to ensure that the plans' governing documents properly reflect all benefit obligations of the pension plans and that the inconsistencies among the various plan documents are eliminated.

Police and Firemen's Pension Plans – (Continued)

Finding No. 1 – (Continued)

Management's Response: The city has consulted with the solicitor for the pension plans, who has drafted legislation to amend Ordinance No. 22. This legislation took some time to draft because of the complexities involved when reviewing the different collective bargaining agreements. This draft legislation was sent to legal counsel for the Auditor General's office to verify that the legislation will suffice to bring the city into compliance. The city intends to submit this legislation to city council in the near future.

Auditor's Conclusion: Based on the management response, it appears the draft legislation submitted by the city will comply with the finding recommendation. Compliance will be subject to verification through our next audit.

Non-Uniformed Pension Plan

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Inconsistent Pension Benefits

Condition: As disclosed in the prior audit report, inconsistencies in benefit provisions exist between the non-uniformed pension plan's governing document, as amended by Ordinance No. 22, and the various collective bargaining agreements (CBAs).

Non-Uniformed Pension Plan – (Continued)

Finding No. 2 – (Continued)

The CBAs between the city and The Fraternal Association of Professional Paramedics for the periods January 1, 2001, to December 31, 2005 and January 1, 2006, to December 31, 2011, extended through December 31, 2014, contain the following inconsistency:

Benefit Provision	Ordinance No. 22 (Section 192.26 (b))	Collective Bargaining Agreement
Normal retirement benefit	The amount of any monthly pension of a member who terminates service prior to age 60 shall be either of the following as the member may elect at the time of termination of services: 1) A deferred pension, commencing on attainment of age 60, computed under the provisions of subsection (a) hereof based only on credited service and average monthly earnings to the date of early retirement; or 2) A reduced pension, commencing prior to age 60, equal to the deferred pension to which the member would have been eligible had he or she elected, reduced .5% for each month that the commencement of the pension precedes the month of the member's attainment of age 60.	Section 21A provides, effective January 1, 2003, bargaining unit employees shall be entitled to retire with the full pension benefits at age 55 and there shall be no actuarial reduction for employees electing to retire at age 55.

The CBAs between the city and the AFSCME District Council 84 Local 2719 for the period January 1, 2005 to December 31, 2009, and January 1, 2010 to December 31, 2014, contain the following inconsistency:

Benefit Provision	Ordinance No. 22 (Section 192.21)	Collective Bargaining Agreement
Social Security offset	There is hereby established a pension benefit plan which shall be known as the Municipal Benefit Plan No. 2 for eligible employees of the city hired on or after January 1, 1988. The provisions contained in this Municipal Benefit Plan No. 2 shall become a part of the municipal pension plan. . . (Eliminates Social Security offset).	Employees hired January 1, 2005 or thereafter shall receive those benefits established within Act 187 of 1975, which includes a Social Security offset.

Non-Uniformed Pension Plan – (Continued)

Finding No. 2 – (Continued)

The CBA between the city and the Pittsburgh Recreation Teachers Union Local 668 for the period January 1, 2005, to December 31, 2014, contains the following inconsistency:

Benefit Provision	Ordinance No. 22 (Section 192.21)	Collective Bargaining Agreement
Social Security offset	There is hereby established a pension benefit plan which shall be known as the Municipal Benefit Plan No. 2 for eligible employees of the city hired on or after January 1, 1988. The provisions contained in this Municipal Benefit Plan No. 2 shall become a part of the municipal pension plan. . . (Eliminates Social Security offset).	Employees hired January 1, 2005 or thereafter shall receive those benefits established within Act 187 of 1975, which includes a Social Security offset.

The CBAs between the city and the AFSCME AFL-CIO Local 2037 for the period January 1, 2005 to December 31, 2009, and January 1, 2010 to December 31, 2014, contains the following inconsistency:

Benefit Provision	Ordinance No. 22 (Section 192.21)	Collective Bargaining Agreement
Social Security offset	There is hereby established a pension benefit plan which shall be known as the Municipal Benefit Plan No. 2 for eligible employees of the city hired on or after January 1, 1988. The provisions contained in this Municipal Benefit Plan No. 2 shall become a part of the municipal pension plan. . . (Eliminates Social Security offset).	Employees hired January 1, 2005 or thereafter shall receive those benefits established within Act 187 of 1975, which includes a Social Security offset.

Criteria: The plan's governing documents should contain consistent, clearly defined and updated benefit provisions to ensure the sound administration of retirement benefits.

Cause: City officials failed to establish adequate internal control procedures to ensure compliance with the prior audit recommendation.

Non-Uniformed Pension Plan – (Continued)

Finding No. 2 – (Continued)

Effect: Inconsistent plan documents could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan.

Recommendation: We again recommend that city officials consult with their solicitor and take the appropriate action to ensure that the plan's governing document properly reflects all benefit obligations of the pension plan and that the inconsistencies among the various plan documents are eliminated.

Management's Response: The city has consulted with the solicitor of the pension plan, who has drafted legislation to amend Ordinance No. 22. This legislation took some time to draft because of the complexities involved when reviewing the different collective bargaining agreements. This draft legislation was sent to legal counsel for the Auditor General's office to verify that the legislation will suffice to bring the city into compliance. The city intends to submit this legislation to city council in the near future.

Auditor's Conclusion: Based on the management response, it appears the draft legislation submitted by the city will comply with the finding recommendation. Compliance will be subject to verification through our next audit.

Non-Uniformed and Firemen's Pension Plans

Finding No. 3 – Noncompliance With Prior Audit Recommendation – Incorrect Data On Certification Form AG 385 Resulting In A Net Overpayment Of State Aid

Condition: As disclosed in the prior audit report, the city received an underpayment of state aid for the year 2012 due to errors on the Certification Form AG 385 filed by the city. The city was reimbursed $3,576 for the underpayment of state aid not received; however, city officials failed to comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data in the years 2013 and 2014.

Non-Uniformed and Firemen’s Pension Plans

Finding No. 3 – (Continued)

The city failed to certify 4 eligible non-uniformed employees (4 units) and 1 eligible firefighter (2 units) on the Certification Form AG 385 filed in 2013 and failed to certify 1 eligible non-uniformed employee (1 unit) and certified 4 ineligible firefighters (8 units) on the Certification Form AG 385 filed in 2014. The data contained on these certification forms is based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), in order to be eligible for certification, an employee must have been employed on a full-time basis for at least six consecutive months and must have been participating in a pension plan during the certification year.

Cause: City officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified.

Effect: The data submitted on these certification forms is used, in part, to calculate the state aid due to the city for distribution to its pension plans. Because the city’s state aid allocations were based on unit value, the incorrect certification of pension data affected the city’s state aid allocations, as identified below:

Year	Type Of Plan	Units Overstated (Understated)	Unit Value	State Aid Overpayment (Underpayment)
2013	Non-Uniformed	(4)	$3,884	$ (15,536)
	Firemen’s	(2)	$3,884	(7,768)
				$ (23,304)
2014	Non-Uniformed	(1)	$3,873	$ (3,873)
	Firemen’s	8	$3,873	30,984
				$ 27,111
	Net Overpayment of State Aid			$ 3,807

Non-Uniformed and Firemen's Pension Plans

Finding No. 3 – (Continued)

Recommendation: We recommend that the net overpayment of state aid, in the amount of $3,807, be returned to the Commonwealth. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 320 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with the check.

We also again recommend that, in the future, plan officials establish adequate internal control procedures, such as having at least 2 people review the data certified, to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

Management's Response: The city has been working with the Intergovernmental Cooperation Authority (ICA) to find an integrated payroll system that will allow the city to better track employee leave time that renders them ineligible to be certified on Certification Forms AG 385.

Auditor's Conclusion: Compliance will be subject to verification through our next audit.

Police and Firemen's Pension Plans

Finding No. 4 – Incorrect Data On Certification Form AG 490 Resulting In Excess Reimbursements For Special 1989 Ad Hoc Postretirement Adjustments

Condition: The city improperly certified $447 of special ad hoc postretirement adjustments for a police officer's surviving spouse and failed to certify $38 for a firemen's surviving spouse in 2014 on Certification Form AG 490.

Criteria: Pursuant to Act 147, Certification Form AG 490 should report only the amount of special ad hoc postretirement adjustments paid in the previous year to eligible retirees and/or their surviving spouses.

Police and Firemen's Pension Plans

Finding No. 4 – (Continued)

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified.

Effect: Because the city's reimbursement is determined based on amounts reported on Certification Form AG 490, the city received an excess reimbursement in 2014, totaling $409, as illustrated below:

Reimbursement Certified	Reimbursement Due	Excess Reimbursement
$ 172,085	$ 171,676	$ 409

Recommendation: We recommend that the total excess reimbursement, in the amount of $409, be returned to the Commonwealth. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 320 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with the check.

Furthermore, we also recommend that in the future, plan officials establish adequate internal control procedures, such as having at least 2 people review the data certified, to ensure compliance with the instructions that accompany Certification Form AG 490 to assist them in accurately reporting the required pension data.

Management Response: City officials agreed with the finding without exception.

Auditor's Conclusion: Compliance will be subject to verification through our next audit.

CITY OF PITTSBURGH COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULES OF FUNDING PROGRESS

Historical trend information about the plan is presented herewith as supplementary information. It is intended to help users assess the plan's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other state and local government retirement systems.

The actuarial information is required by Act 205 biennially. The historical information, beginning as of January 1, 2009, is as follows:

POLICE PENSION PLAN

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	Unfunded (Assets in Excess of) Actuarial Accrued Liability as a % of Payroll [(b-a)/(c)]
01-01-09	$ 105,564,988	$ 387,857,613	$ 282,292,625	27.2%	$ 63,787,288	442.6%
01-01-11	235,012,542	390,253,799	155,241,257	60.2%	67,225,218	230.9%
01-01-13	248,871,901	440,021,893	191,149,992	56.6%	68,561,656	278.8%

Note: The market values of the plan's assets at 01-01-09 and 01-01-11 have been adjusted to reflect the smoothing of gains and losses using the tabular smoothing method subject to a minimum of 70% and maximum of 130% of the market value of assets. The market value of the plan's assets at 01-01-13 has been adjusted to reflect the smoothing of gains and losses using the tabular smoothing method subject to a minimum of 80% and maximum of 120% of the market value of assets. These methods will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

SCHEDULES OF FUNDING PROGRESS – (Continued)

FIREMEN'S PENSION PLAN

Actuarial Valuation Date	(1) Actuarial Value of Assets (a)	(2) Actuarial Accrued Liability (AAL) - Entry Age (b)	(3) Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	(4) Funded Ratio (a)/(b)	(5) Covered Payroll (c)	(6) Unfunded (Assets in Excess of) Actuarial Accrued Liability as a % of Payroll [(b-a)/(c)]
01-01-09	$ 118,292,383	$ 334,059,624	$ 215,767,241	35.4%	$ 47,509,475	454.2%
01-01-11	209,936,926	339,135,347	129,198,421	61.9%	49,516,116	260.9%
01-01-13	224,050,549	395,323,604	171,273,055	56.7%	52,375,212	327.0%

Note: The market values of the plan's assets at 01-01-09 and 01-01-11 have been adjusted to reflect the smoothing of gains and losses using the tabular smoothing method subject to a minimum of 70% and maximum of 130% of the market value of assets. The market value of the plan's assets at 01-01-13 has been adjusted to reflect the smoothing of gains and losses using the tabular smoothing method subject to a minimum of 80% and maximum of 120% of the market value of assets. These methods will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

CITY OF PITTSBURGH COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULES OF FUNDING PROGRESS – (Continued)

NON-UNIFORMED PENSION PLAN

Actuarial Valuation Date	(1) Actuarial Value of Assets (a)	(2) Actuarial Accrued Liability (AAL) - Entry Age (b)	(3) Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	(4) Funded Ratio (a)/(b)	(5) Covered Payroll (c)	(6) Unfunded (Assets in Excess of) Actuarial Accrued Liability as a % of Payroll [(b-a)/(c)]
01-01-09	$ 115,322,537	$ 267,615,711	$ 152,293,174	43.1%	$ 73,072,430	208.4%
01-01-11	187,041,985	282,683,095	95,641,110	66.2%	81,443,567	117.4%
01-01-13	202,529,949	324,697,069	122,167,120	62.4%	81,916,275	149.1%

Note: The market values of the plan's assets at 01-01-09 and 01-01-11 have been adjusted to reflect the smoothing of gains and losses using the tabular smoothing method subject to a minimum of 70% and maximum of 130% of the market value of assets. The market value of the plan's assets at 01-01-13 has been adjusted to reflect the smoothing of gains and losses using the tabular smoothing method subject to a minimum of 80% and maximum of 120% of the market value of assets. These methods will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

CITY OF PITTSBURGH COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the actuarial accrued liability as a factor.

Analysis of the dollar amount of the actuarial value of assets, actuarial accrued liability, and unfunded (assets in excess of) actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability (Column 4) provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage, over time, indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

Trends in unfunded (assets in excess of) actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded (assets in excess of) actuarial accrued liability as a percentage of annual covered payroll (Column 6) approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, where there is an unfunded actuarial accrued liability, the smaller this percentage, the stronger the plan. However, when assets are in excess of the actuarial accrued liability, the higher the bracketed percentage, the stronger the plan.

CITY OF PITTSBURGH COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULES OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

POLICE PENSION PLAN

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2008	$ 19,768,698	101.8%
2009	20,240,957	100.0%
2010	20,429,249	225.8%
2011	19,702,627	143.8%
2012	11,598,575	181.2%
2013	11,320,764	160.7%

CITY OF PITTSBURGH COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULES OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

FIREMEN'S PENSION PLAN

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2008	$ 7,900,618	100.7%
2009	14,116,164	100.0%
2010	14,408,404	225.8%
2011	15,736,257	132.5%
2012	11,272,650	177.2%
2013	11,504,026	155.2%

CITY OF PITTSBURGH COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULES OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

NON-UNIFORMED PENSION PLAN

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2008	$ 10,457,628	100.0%
2009	10,158,310	100.0%
2010	10,334,489	225.8%
2011	11,057,077	144.1%
2012	7,851,147	188.6%
2013	8,177,874	166.1%

CITY OF PITTSBURGH COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
SUPPLEMENTARY INFORMATION
NOTES TO SUPPLEMENTARY SCHEDULES
(UNAUDITED)

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation date follows:

POLICE PENSION PLAN

Actuarial valuation date	January 1, 2013
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	25 years
Asset valuation method	Tabular smoothing
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases *	4.5%

* Includes inflation at 3.0%

FIREMEN'S PENSION PLAN

Actuarial valuation date	January 1, 2013
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	25 years
Asset valuation method	Tabular smoothing
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases *	5.75%

* Includes inflation at 3.0%

NON-UNIFORMED PENSION PLAN

Actuarial valuation date	January 1, 2013
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	25 years
Asset valuation method	Tabular smoothing
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases *	4.0%

* Includes inflation at 3.0%

ACT 44 OF 2009

As noted in the Letter from the Deputy Auditor General, Act 205, as amended by Act 44, at Section 902(c) mandated the transfer of administration of the City of Pittsburgh's pension plans to the Pennsylvania Municipal Retirement System (PMRS) if the City was determined to be in Level III Severe Distress as of January 1, 2011. The January 1, 2011, actuarial valuation reports were to be filed with PERC by September 1, 2011.

In an attempt to avert a takeover of the city's pension plans by PMRS, Pittsburgh City Council adopted Ordinance Nos. 42 and 44 and Resolution No. 882, effective December 31, 2010.

Ordinance No. 42 irrevocably dedicated to the Comprehensive Municipal Pension Trust Fund the receipts of revenue from the city's parking tax for the years 2011 through 2041. Ordinance No. 44 details the payment schedule which provides for annual deposits of $13,376,000 for the years 2011 through 2017, and $26,752,000 for the years 2018 through 2041, resulting in total deposits to the Fund in the amount of $735,680,000.

Resolution No. 882 requested that the Intergovernmental Cooperation Authority (ICA) authorize the transfer of $45,000,000 from the City Restricted Debt Fund to the Comprehensive Municipal Pension Trust Fund for the new purpose of improving the cash position of the Fund. The ICA subsequently approved the transfer of the funds.

Pursuant to Ordinance Nos. 42 and 44, the city recognized the fair market value of the future funding from parking tax revenues in the amount of $238,572,759 as an asset in the revised January 1, 2011, actuarial valuation reports filed with PERC. Consequently the aggregate funding ratio of the city plans' increased to 62 percent. In a letter to the city dated September 19, 2011, PERC accepted the city's revised actuarial valuation reports (noting that the original valuations were prepared based on asset information included in the city's CAFR, which did not include the fair value of future parking revenues) and notified the city that in accordance with the aggregated funding status of its plans as of January 1, 2011, the city was determined to be in Level II Moderate Distress Status.

During the current audit period, the city made 4 separate deposits, annually, of parking tax revenues in the amounts of $3,344,000, totaling $13,376,000 for each year, pursuant to Ordinance No. 44. Subsequent to the current audit period in 2014, the city has made 4 separate deposits of parking tax revenues in the amounts of $3,344,000, totaling $13,376,000.

The Department of the Auditor General will continue to monitor the city's compliance with Act 205, as amended by Act 44 of 2009, and the implementation of Ordinance Nos. 42 and 44 during future audits of the City of Pittsburgh Comprehensive Municipal Pension Trust Fund.

CITY OF PITTSBURGH COMPREHENSIVE MUNICIPAL PENSION TRUST FUND COMMENTS

ACT 71 OF 2004

The Commonwealth of Pennsylvania declared the City of Pittsburgh financially distressed in 2004 pursuant to the provisions of Act 47 and established the Intergovernmental Cooperation Authority (ICA) and an Act 47 oversight team to help the city reach fiscal solvency. The mission/policy of ICA is described at Section 102 of Act 11 of 2004, titled Intergovernmental Cooperation Authority for cities of the Second Class.

Act 71 of 2004 specifically provides that the local share of gaming revenue from licensees located in the City of Pittsburgh shall be directed to the ICA. Act 71 directs the ICA to utilize gaming revenue to reduce debt, increase pension funding, or for any other purposes determined to be in the best interest of the City of Pittsburgh by the ICA.

The Board of the ICA has determined to release gaming funds only after it has completed an exhaustive review and analysis of the conditions that contribute to the structural fiscal weakness of the city's financial picture, and has made an informed determination as to the highest and best use of those funds.

In 2011, the ICA directed the payment of $1,400,000 of gaming revenues in addition to the city contributions in order to offset the pension systems decreased cash flows. These funds were deposited into the pension plans in January of 2012.

In October 2012, the ICA directed the payment of $7,455,000 of gaming revenues for deposit into the pension trust fund. These funds were deposited into the city's general fund as reimbursement for contributions required and paid by the city in excess of the city's 2012 minimum municipal obligations due to the pension plans.

In 2013, the ICA directed payments totaling $5,696,703 of gaming revenues in addition to the city contributions in order to offset the pension systems decreased cash flows. These funds were deposited into the pension plans during the year 2013.

In 2014, the ICA directed payments totaling $7,100,000 of gaming revenues in addition to the city contributions in order to offset the pension systems decreased cash flows. These funds were deposited into the pension plans during the year 2014.

The Department of the Auditor General will continue to monitor the ongoing deposits of gaming revenue into the city's pension trust fund during future audits of the City of Pittsburgh Comprehensive Municipal Pension Trust Fund.

RESOLUTION NOS. 49 AND 50 OF 2015

During the prior audit of the City of Pittsburgh Comprehensive Municipal Pension Trust Fund, a verbal observation was given to City officials noting that minimum survivor benefits in the amount of $350 per month were being paid to beneficiaries who met certain eligibility criteria. While the payment of these minimum monthly survivor benefits is authorized, it was noted that the last resolutions passed by City Council determining the amount of the benefits were in 1996. These resolutions authorized a payment of $250 per month. The increases to the monthly benefit began in 2001 and were included in the City's annual budget, although no subsequent resolutions were adopted by City Council authorizing the benefit increases. It was recommended that City Council formally adopt the benefit increases through properly executed resolutions.

During the performance of our current audit, it was noted that the City had not complied with our prior audit verbal observation. However, subsequent to the current audit period, on February 10, 2015, City Council passed Resolution Nos. 49 and 50, which authorized the $350 monthly payments to the eligible survivors of the City's police, firemen's, and non-uniformed pension plans. These resolutions were signed by Mayor Peduto on February 12, 2015.

CITY OF PITTSBURGH COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

City of Pittsburgh Comprehensive Municipal Pension Trust Fund
Allegheny County
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Pittsburgh, PA 15219

The Honorable William Peduto	Mayor
Mr. Bruce Kraus	Council President
Mr. Michael Lamb	Controller
Mr. Paul Leger	Finance Director
Mr. Anthony Landolina	Assistant Finance Director
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Mr. Paul F. Dugan	Secretary, Police Pension Plan
Mr. Ralph Sicuro	Secretary, Firemen's Pension Plan
Mr. Joseph Funaro	Office Manager, Firemen's Pension Plan
Ms. Valerie A. Sullivan	Executive Secretary, Non-Uniformed Pension Plan

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