



STATE OF ILLINOIS
**OFFICE OF THE
 AUDITOR GENERAL**

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

**TEACHERS' RETIREMENT SYSTEM OF
 THE STATE OF ILLINOIS**

**Financial Audit
 For the Year Ended June 30, 2014**

Release Date: January 22, 2015

FINDINGS THIS AUDIT: 1			
	<u>New</u>	<u>Repeat</u>	<u>Total</u>
Category 1:	0	0	0
Category 2:	1	0	1
Category 3:	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL	1	0	1
FINDINGS LAST AUDIT: 0			

INTRODUCTION

This digest covers the financial statement audit of Teachers' Retirement System of the State of Illinois (System) as of and for the year ended June 30, 2014. The Teachers' Retirement System's Compliance Examination covering the year ended June 30, 2014 will be issued in a separate report at a later date.

During fiscal year 2014 the System implemented Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*. Implementation of the new statement requires the System to disclose the total pension liability and net pension liability in the financial statement notes as well as other related information as required supplementary information. The System's total pension liability is \$106.7 billion at June 30, 2014. The net pension liability at June 30, 2014 is \$60.9 billion, which is the difference between the System's fiduciary net position of \$45.8 billion and the total pension liability. The System's funded ratio is 43%. The criteria used for computing pension liability information in the financial report in accordance with GASB Statement No. 67 differs from the criteria used to compute the actuarial accrued liability and actuarial unfunded liability, this information is no longer reported in the financial statements.

FINDING SYNOPSIS

- (14-1) The Teachers' Retirement System of the State of Illinois has weaknesses in controls over creditable earnings and member census data reported by its participating employers.

- Category 1:** Findings that are **material weaknesses** in internal control and/or a **qualification** on compliance with State laws and regulations (material noncompliance).
- Category 2:** Findings that are **significant deficiencies** in internal control and **noncompliance** with State laws and regulations.
- Category 3:** Findings that have **no internal control issues but are in noncompliance** with State laws and regulations.

{Financial information is summarized on next page.}

TEACHERS' RETIREMENT SYSTEM OF ILLINOIS

FINANCIAL AUDIT

For the Year Ended June 30, 2014

OPERATING STATEMENT ANALYSIS	2014	2013
Additions:		
Contributions - Members.....	\$ 928,745,853	\$ 921,422,657
Contributions - State of Illinois.....	3,438,382,892	2,703,312,213
Contributions - School Districts / Employers.....	158,334,598	157,179,243
Total Contributions.....	<u>4,525,463,343</u>	<u>3,781,914,113</u>
Investment Income - Net Increase in Fair Value.....	5,804,678,228	3,801,020,789
Investment Income - Income From Investments.....	1,271,623,422	1,041,120,321
Investment Expense.....	(294,269,930)	(280,372,727)
Total Investment Income.....	<u>6,782,031,720</u>	<u>4,561,768,383</u>
Total Additions.....	<u>11,307,495,063</u>	<u>8,343,682,496</u>
Deductions		
Benefits.....	5,225,206,828	4,893,084,234
Refunds.....	95,456,151	88,397,549
Administrative Expenses.....	21,218,069	20,257,553
Total Expenses.....	<u>5,341,881,048</u>	<u>5,001,739,336</u>
Additions Over Deductions.....	<u>\$ 5,965,614,015</u>	<u>\$ 3,341,943,160</u>
INVESTMENT PORTFOLIO ANALYSIS - Fair Value	June 30, 2014	June 30, 2013
Fixed Income.....	\$ 8,413,584,938	\$ 6,872,432,511
Equities.....	19,151,133,896	17,116,072,384
Real Estate.....	5,638,680,343	4,680,490,237
Short-term Investments.....	1,432,002,394	1,448,944,819
Private Equity Investments.....	5,038,446,122	4,687,146,815
Real Return.....	3,055,818,516	2,661,472,243
Absolute Return.....	2,618,256,628	2,110,246,003
Foreign Currency.....	84,850,132	114,363,611
Derivatives.....	2,805,648	(9,415,670)
Total Investment Portfolio.....	<u>\$ 45,435,578,617</u>	<u>\$ 39,681,752,953</u>
ADMINISTRATIVE EXPENSES	2014	2013
Personal Services.....	\$ 15,888,139	\$ 15,482,674
Professional Services.....	1,340,022	1,460,844
Communications (postage, printing & copying and telephone).....	624,126	610,578
Machine Repair and Rental.....	286,121	284,505
Software Licenses and Maintenance.....	350,673	250,271
Other Operating Expenses.....	1,004,901	764,997
Building Operations and Maintenance.....	601,630	491,791
Depreciation.....	1,122,457	911,893
Total Administrative Expenses.....	<u>\$ 21,218,069</u>	<u>\$ 20,257,553</u>
SUPPLEMENTARY INFORMATION	June 30, 2014	June 30, 2013
Benefit Recipients.....	112,333	108,783
Active Members.....	159,838	160,692
Inactive Members.....	122,964	120,325
Total.....	<u>395,135</u>	<u>389,800</u>
PENSION LIABILITY	June 30, 2014	June 30, 2013
Total Pension Liability.....	\$ 106,682,654,886	*
Plan Fiduciary Net Position.....	45,824,382,514	*
Net Pension Liability.....	<u>\$ 60,858,272,372</u>	*
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability.....	43.0%	*
* - With the implementation of GASB Statement No. 67 during fiscal year 2014 comparable amounts for fiscal year 2013 were not available		
EXECUTIVE DIRECTOR		
During Engagement Period: Richard W. Ingram		
Currently: Richard W. Ingram		

FINDING, CONCLUSION, AND RECOMMENDATION

CONTROLS OVER CENSUS DATA

The System has weaknesses in controls over creditable earnings and member census data reported by its participating employers.

Limited controls in place to verify the creditable earnings and member census information

During testing it was noted that creditable earnings and member census data for the System is accumulated from multiple participating employers which increases the likelihood of errors within the data. The System’s current processes and controls for verifying the data rely heavily on the reporting of the information by the participating employers and there are limited controls in place by the System to verify the creditable earnings and member census information.

System management indicated the System did not have procedures in place to conduct employer audits or other controls to verify census data.

Weaknesses in controls over census data could lead to a misstatement in the contributions which directly impacts valuation of Plan Net Position and the financial statements

Certain financial statement assertions relating to cost-sharing plans (that is, the Total Pension Liability (TPL) and revenues and receivables relating to contributions) are dependent on the completeness and accuracy of census data. Weaknesses in controls over the significant elements of census data could lead to a misstatement in the valuation of the TPL, a required disclosure to the System’s financial statements. In addition, a misstatement could lead to a misstatement in contributions which directly impacts valuation of Plan Net Position and the financial statements of the System. (Finding 1, pages 40-41)

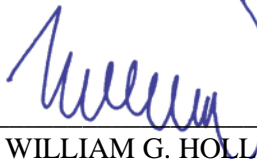
We recommended the System update current processes and controls to include the verification of significant elements of census data.

System concurred with the recommendation

System management concurred with the recommendation and indicated they will implement processes and controls to include verification of census data from participating employers.

AUDITOR’S OPINION

Our auditors stated the financial statements of the Teachers’ Retirement System as of June 30, 2014, and for the year then ended, are fairly stated in all material respects.



WILLIAM G. HOLLAND
Auditor General

WGH:RPU

SPECIAL ASSISTANT AUDITORS

Our Special Assistant Auditors for this audit were McGladrey
LLP.