



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

Frank J. Mautino, Auditor General

**SUMMARY REPORT DIGEST**

**TEACHERS' RETIREMENT SYSTEM**

Compliance Examination  
 For the Year Ended June 30, 2017

Release Date: April 5, 2018

FINDINGS THIS AUDIT: 1	AGING SCHEDULE OF REPEATED FINDINGS		
	New	Repeat	Total
Category 1:	0	0	0
Category 2:	0	0	0
Category 3:	0	1	1
<b>TOTAL</b>	<b>0</b>	<b>1</b>	<b>1</b>
FINDINGS LAST AUDIT: 1			

**INTRODUCTION**

This digest covers our Compliance Examination of the Teachers' Retirement System of the State of Illinois for the year ended June 30, 2017. A separate Financial Audit as of and for the year ending June 30, 2017, was previously released on January 9, 2018. This report contains one finding. The Financial Audit report contained no findings.

**SYNOPSIS**

- (17-1) The Teachers' Retirement System of the State of Illinois did not always obtain fully completed disclosures from investment managers as required in the Illinois Pension Code.

**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.

{Expenditures and Activity Measures are summarized on next page.}

**TEACHERS' RETIREMENT SYSTEM OF ILLINOIS**  
**COMPLIANCE EXAMINATION**  
**For the Year Ended June 30, 2017**

<b>EXPENSE AND REVENUE STATISTICS</b>	<b>FY 2017</b>	<b>FY 2016</b>
<b>Total Expenses</b> .....	<b>\$ 6,460,734,655</b>	<b>\$ 5,954,175,094</b>
Benefits and Refunds:		
Retirement Benefits .....	\$ 5,857,968,199	\$ 5,575,129,529
Survivor Benefits .....	263,429,481	242,578,458
Disability Benefits .....	31,470,071	30,472,221
Refunds .....	285,138,169	83,026,969
Total Benefits and Refunds .....	<u>\$ 6,438,005,920</u>	<u>\$ 5,931,207,177</u>
Administrative:		
Salaries .....	\$ 10,404,585	\$ 11,044,974
Other Payroll Costs (Retirement, Social Security and Group Insurance) .....	6,148,184	6,540,312
Professional Services (Actuary, Legal, Audit, Consulting) .....	1,698,085	1,061,094
Depreciation .....	1,065,985	1,100,476
Software Licenses and Maintenance .....	682,065	770,930
Communications (Postage, Printing, Telephone) .....	581,003	562,888
Administrative services .....	559,658	244,403
Building Operations and Maintenance .....	522,454	558,848
Insurance .....	301,037	370,635
All Other Expenses .....	765,679	713,357
Total Administrative .....	<u>\$ 22,728,735</u>	<u>\$ 22,967,917</u>
<b>Total Revenues</b> .....	<b>\$ 10,585,442,442</b>	<b>\$ 4,798,216,232</b>
<b>SCHEDULE OF INVESTMENTS (at Fair Value)</b>	<b>June 30, 2017</b>	<b>June 30, 2016</b>
International Equities .....	\$ 10,313,709,230	\$ 8,614,726,202
U.S. Equities .....	7,166,934,005	7,468,799,664
Real Estate .....	7,090,551,234	6,943,206,220
Private Equity .....	6,439,749,203	5,465,171,512
Diversifying strategies .....	5,871,043,153	5,755,273,811
Commingled Funds (U.S. and International) .....	2,881,748,706	2,261,484,652
Domestic Corporate Obligations .....	2,472,266,406	1,979,512,228
Foreign Debt/Corporate Obligations .....	2,371,084,926	2,575,875,233
U.S. Treasuries and Agencies .....	1,828,452,667	1,745,944,602
Cash and Cash Equivalents .....	1,223,393,259	1,127,440,142
Other real assets .....	437,540,238	330,652,257
U.S. Government-Backed Mortgages .....	424,274,294	811,200,590
Asset Backed Securities .....	284,798,620	223,987,181
Commercial and Collateralized Mortgages .....	242,180,724	232,622,701
Foreign Currency .....	81,744,713	103,219,472
Municipals .....	47,376,605	56,526,249
Derivatives - Options, Futures and Swaps .....	3,427,917	(62,716,360)
Total at End of Year .....	<u>\$ 49,180,275,900</u>	<u>\$ 45,632,926,356</u>
<b>CONTRIBUTIONS/DEDUCTIONS AND EFFECT ON INVESTMENTS (UNAUDITED)</b>	<b>FY 2017</b>	<b>FY 2016</b>
<b>CONTRIBUTIONS:</b>		
Members / Participants .....	\$ 929,130,165	\$ 951,809,398
Employers .....	149,495,577	148,040,767
State of Illinois .....	3,986,363,699	3,742,469,245
Total Contributions .....	<u>5,064,989,441</u>	<u>4,842,319,410</u>
<b>DEDUCTIONS:</b>		
Benefits .....	6,152,867,751	5,848,180,208
Refunds .....	285,138,169	83,026,969
Administration .....	22,728,735	22,967,917
Total Deductions .....	<u>6,460,734,655</u>	<u>5,954,175,094</u>
Investments Used to Pay Benefits and Expenses .....	<u>\$ (1,395,745,214)</u>	<u>\$ (1,111,855,684)</u>
<b>SUPPLEMENTARY INFORMATION</b>	<b>June 30, 2017</b>	<b>June 30, 2016</b>
Average Number of System Employees (Unaudited) .....	188	188
Investment Management Fees .....	\$ 318,170,747	\$ 301,646,073
Investment Commissions (Unaudited) .....	\$ 10,131,292	\$ 12,020,265
Average Monthly Retirement Benefit (Unaudited) .....	\$ 4,647	\$ 4,521
Average Monthly Survivor Benefit (Unaudited) .....	\$ 2,044	\$ 1,944
Average Monthly Disability Benefit (Unaudited) .....	\$ 2,378	\$ 2,308
Time-Weighted Rate of Return (Unaudited) .....	12.6%	0.0%
<b>EXECUTIVE DIRECTOR</b>		
During Engagement Period: Richard W. Ingram		
Currently: Richard W. Ingram		

**FINDINGS, CONCLUSIONS, AND**  
**RECOMMENDATIONS**

**NONCOMPLIANCE WITH CERTAIN DISCLOSURES  
REQUIRED BY THE ILLINOIS PENSION CODE**

The Teachers' Retirement System of the State of Illinois (System) did not always obtain fully completed disclosures from investment managers as required by the Illinois Pension Code.

**Investment managers did not properly disclose the number of employees or contractors who are minority, woman or a person with a disability**

During testing, the auditors noted ten of thirty (33%) investment manager disclosures returned to the System where the investment manager did not properly disclose the number of employees who are minority, women or persons with disabilities or the number of contracts with businesses owned by a minority, a woman or a person with a disability and the number of contracts with other than those businesses owned by a minority, a woman or a person with a disability. (Finding 1, pages 10-12)

We recommended the System work with their investment managers to comply with the disclosure requirements of the Illinois Pension Code or seek legislative remedy.

**System officials disagreed with auditors**

System officials objected in the most strenuous manner possible to both the conclusion drawn and the appearance of disregard for the requirements of the law that the finding presents. System officials stated the information presented in the investment manager questionnaires fully responded to the law and allowed the System to make a fully informed judgment on the manager's commitment to diversity.

System officials also stated that after discussing similar findings last year, with which they also disagreed and *at the direction of the Auditor General's staff* they had their managers change "N/A" responses to zero (0) where number counts were requested. Columns that show a zero total without individual entries were deemed noncompliant. System officials stated they stand by their position that adding zeros into any empty boxes in a column that sums to zero adds no additional information or value to the analysis.

**Auditor's comment**

In an auditor's comment we noted last year's audit was the first year of compliance testing for this requirement, which went into effect January 2, 2015. The auditors noted as exceptions in Finding 2016-1 any questions that were left blank by the asset management firm or for which the asset management firm indicated they did not have the requested information.

During the course of conducting this year's audit, the auditor's noted that, before sending the disclosure forms to the asset management firms for completion, the System was now pre-

**Disclosure form now includes pre-populated macro formula**

populating all disclosure forms with a macro formula that sums the disclosure total columns. If an asset management firm makes no disclosure the total column automatically sums to zero. If an asset management firm provided a disclosure, such as the number of contracts it has with minority-owned firms, then the macro formula automatically replaces the zero with the total number of minority-owned firms inserted by the asset management firm on the disclosure form.

**Zero may be a valid disclosure**

The auditors agree that “zero” is a number and, in fact, may be a valid number in response to some of the requested information. Where, however, there is conflicting information on the form that would indicate that the number “zero” which was pre-populated on the form by System staff was not accurate, the auditors did count the disclosure as an exception. To the extent that the System believes the auditors agreed that anything less than an accurate disclosure would be acceptable, we do not agree with the System’s characterization.

**We disagree that less than accurate disclosures would be acceptable**

**ACCOUNTANT’S OPINION**

The accountants conducted a compliance examination of the Teachers’ Retirement System for the year ended June 30, 2017, as required by the Illinois State Auditing Act. The accountants stated the Teachers’ Retirement System complied, in all material respects, with the requirements described in the report.

This compliance examination was conducted by BKD LLP.

**SIGNED ORIGINAL ON FILE**

JANE CLARK  
Division Director

This report is transmitted in accordance with Section 3-14 of the Illinois State Auditing Act.

**SIGNED ORIGINAL ON FILE**

FRANK J. MAUTINO  
Auditor General

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