



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

ILLINOIS TEACHERS' RETIREMENT SYSTEM

Compliance Examination
 For the Year Ended June 30, 2016

Release Date: May 11, 2017

FINDINGS THIS AUDIT: 1	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	0	0	0	No Repeat Findings			
Category 2:	0	0	0				
Category 3:	1	0	1				
TOTAL	1	0	1				
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, 2016. A separate Financial Audit as of and for the year ending June 30, 2016, was previously released on January 12, 2017. This report contains one finding. The Financial Audit report contained no findings.

SYNOPSIS

- (16-1) 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, 2016

EXPENSE AND REVENUE STATISTICS	FY 2016	FY 2015
Total Expenses	\$ 5,954,175,094	\$ 5,646,724,033
Benefits and Refunds:		
Retirement Benefits	\$ 5,575,129,529	\$ 5,281,221,313
Survivor Benefits	242,578,458	224,779,380
Disability Benefits	30,472,221	30,398,754
Refunds	83,026,969	88,637,726
Total Benefits and Refunds	<u>\$ 5,931,207,177</u>	<u>\$ 5,625,037,173</u>
Administrative:		
Salaries	\$ 11,044,974	\$ 10,585,536
Other Payroll Costs (Retirement, Social Security and Group Insurance)	6,540,312	5,881,218
Depreciation	1,100,476	1,161,278
Professional Services (Actuary, Legal, Audit, Consulting)	1,061,094	1,197,347
Software Licenses and Maintenance, EDP Supplies and Equipment	770,930	657,903
Communications (Postage, Printing, Telephone)	562,888	559,379
Building Operations and Maintenance	558,848	509,740
Insurance	370,635	385,240
Equipment Repairs, Rentals and Maintenance	271,196	294,509
All Other Expenses	686,564	454,710
Total Administrative	<u>\$ 22,967,917</u>	<u>\$ 21,686,860</u>
Total Revenues	\$ 4,798,216,232	\$ 6,229,257,112
SCHEDULE OF INVESTMENTS (at Fair Value)	June 30, 2016	June 30, 2015
International Equities	\$ 8,614,726,202	\$ 9,815,934,063
U.S. Equities	7,468,799,664	8,659,732,256
Real Estate	6,943,206,220	6,255,857,685
Private Equity	5,465,171,512	5,281,073,621
Absolute Return	3,196,766,195	3,471,868,205
Real Return Strategies	2,889,159,873	2,994,366,309
Foreign Debt/Corporate Obligations	2,575,875,233	2,643,561,328
Commingled Funds (U.S. and International)	2,261,484,652	1,737,067,407
Domestic Corporate Obligations	1,979,512,228	2,063,159,964
U.S. Treasuries and Agencies	1,745,944,602	1,347,259,720
Cash and Cash Equivalents	1,127,440,142	848,587,909
U.S. Government-Backed Mortgages	811,200,590	294,760,391
Commercial and Collateralized Mortgages	232,622,701	246,802,683
Asset Backed Securities	223,987,181	341,421,950
Foreign Currency	103,219,472	74,142,815
Municipals	56,526,249	23,131,615
Derivatives - Options, Futures and Swaps	(62,716,360)	936,964
Total at End of Year	<u>\$ 45,632,926,356</u>	<u>\$ 46,099,664,885</u>
CONTRIBUTIONS/DEDUCTIONS AND EFFECT ON INVESTMENTS (UNAUDITED)	FY 2016	FY 2015
CONTRIBUTIONS:		
Members / Participants	\$ 951,809,398	\$ 935,451,049
Employers	148,040,767	145,591,585
State of Illinois	3,742,469,245	3,377,664,945
Total Contributions	<u>4,842,319,410</u>	<u>4,458,707,579</u>
DEDUCTIONS:		
Benefits	5,848,180,208	5,536,399,447
Refunds	83,026,969	88,637,726
Administration	22,967,917	21,686,860
Total Deductions	<u>5,954,175,094</u>	<u>5,646,724,033</u>
Investments Used to Pay Benefits and Expenses	<u>\$ (1,111,855,684)</u>	<u>\$ (1,188,016,454)</u>
SUPPLEMENTARY INFORMATION	June 30, 2016	June 30, 2015
Average Number of System Employees (Unaudited)	188	190
Investment Management Fees	\$ 301,646,073	\$ 270,382,117
Investment Commissions (Unaudited)	\$ 12,020,265	\$ 11,060,483
Average Monthly Retirement Benefit	\$ 4,521	\$ 4,396
Average Monthly Survivor Benefit	\$ 1,944	\$ 1,849
Average Monthly Disability Benefit	\$ 2,308	\$ 2,257
Time-Weighted Rate of Return (Unaudited)	0.0%	4.0%
EXECUTIVE DIRECTOR		
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 in the Illinois Pension Code.

Investment managers did not properly disclose contracts with businesses owned by minority, female or a person with a disability

During testing, the auditors noted two of six (33%) investment manager disclosures returned to the System where the investment manager did not properly disclose the number of contracts with businesses owned by a minority, a female and or a person with a disability and the number of contracts with other than those businesses owned by a minority, a female or a person with a disability. (Finding 1, pages 10-11)

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

System officials disagreed with auditors

System officials respectfully but strongly rejected the finding of noncompliance with the Illinois Pension Code and indicated that it is committed to all efforts focused on greater diversity within its investment program and has worked diligently to ensure professional implementation of the law and its intent.

ACCOUNTANT'S OPINION

The accountants conducted a compliance examination of the System for the year ended June 30, 2016, as required by the Illinois State Auditing Act. The accountants stated the System complied, in all material respects, with the requirements described in the report.

This State compliance examination was conducted by RSM US LLP.

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BRUCE L. BULLARD
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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