



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, 2019

Release Date: April 15, 2020

FINDINGS THIS AUDIT: 1	New	Repeat	Total	AGING SCHEDULE OF REPEATED FINDINGS			
				Repeated Since	Category 1	Category 2	Category 3
Category 1:	0	0	0	2016			19-1
Category 2:	0	0	0				
Category 3:	<u>0</u>	<u>1</u>	<u>1</u>				
TOTAL	0	1	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, 2019. A separate Financial Audit as of and for the year ending June 30, 2019, was previously released on January 14, 2020. This compliance report contains one finding. The Financial Audit report contained no findings.

SYNOPSIS

- (19-1) The Teachers' Retirement System of the State of Illinois did not always obtain fully completed disclosures from investment managers and consultants as required by the Illinois Pension Code.

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

TEACHERS' RETIREMENT SYSTEM OF ILLINOIS
COMPLIANCE EXAMINATION
For the Year Ended June 30, 2019

EXPENSE AND REVENUE STATISTICS	FY 2019	FY 2018
Total Expenses	\$ 6,843,096,252	\$ 6,573,185,272
Benefits and Refunds:		
Retirement Benefits	\$ 6,405,907,842	\$ 6,140,877,388
Survivor Benefits	306,502,713	285,067,712
Disability Benefits	33,133,627	32,764,545
Refunds	73,216,390	92,924,731
Total Benefits and Refunds	<u>\$ 6,818,760,572</u>	<u>\$ 6,551,634,376</u>
Administrative:		
Salaries	\$ 11,031,954	\$ 10,346,412
Other Payroll Costs (Retirement, Social Security and Group Insurance)	5,984,001	5,439,103
Professional Services (Actuary, Legal, Audit, Consulting)	2,874,959	1,879,628
Software Licenses and Maintenance	965,505	659,828
Depreciation	875,719	948,500
Communications (Postage, Printing, Telephone)	557,958	531,563
Administrative services	549,072	270,677
Building Operations and Maintenance	441,844	500,749
EDP supplies and equipment	242,881	95,747
All Other Expenses	811,787	878,689
Total Administrative	<u>\$ 24,335,680</u>	<u>\$ 21,550,896</u>
Total Revenues	\$ 8,136,338,925	\$ 9,167,067,448
SCHEDULE OF INVESTMENTS (at Fair Value)	June 30, 2019	June 30, 2018
International Equities	\$ 9,904,945,062	\$ 10,415,507,298
U.S. Equities	7,918,736,361	7,792,088,707
Real Estate	7,354,809,101	7,235,561,047
Private Equity	6,378,902,197	6,788,646,545
Diversifying strategies	5,374,252,320	5,855,617,530
Commingled Funds (U.S. and International)	3,964,963,672	3,508,455,165
Foreign Debt/Corporate Obligations	3,483,275,889	2,646,843,261
Domestic Corporate Obligations	3,058,307,686	2,741,852,675
Cash and Cash Equivalents	1,601,845,805	1,280,712,915
U.S. Treasuries and Agencies	1,555,504,658	1,734,891,964
U.S. Government-Backed Mortgages	599,118,460	679,749,043
Other real assets	527,431,201	464,051,207
Commercial and Collateralized Mortgages	425,435,486	282,315,363
Asset Backed Securities	325,690,344	354,042,784
Collateralized Loan Obligations	220,443,502	143,394,757
Foreign Currency	95,012,450	68,446,828
Municipals	93,021,714	46,548,126
Derivatives - Options, Futures and Swaps	(55,888,377)	32,220,547
Total at End of Year	<u>\$ 52,825,807,531</u>	<u>\$ 52,070,945,762</u>
CONTRIBUTIONS/DEDUCTIONS AND EFFECT ON INVESTMENTS (UNAUDITED)	FY 2019	FY 2018
CONTRIBUTIONS:		
Members / Participants	\$ 963,972,120	\$ 938,037,245
Employers	88,514,781	84,633,117
State of Illinois	4,466,020,692	4,095,125,358
Total Contributions	<u>5,518,507,593</u>	<u>5,117,795,720</u>
DEDUCTIONS:		
Benefits	6,745,544,182	6,458,709,645
Refunds	73,216,390	92,924,731
Administration	24,335,680	21,550,896
Total Deductions	<u>6,843,096,252</u>	<u>6,573,185,272</u>
Investments Used to Pay Benefits and Expenses	<u>(1,324,588,659)</u>	<u>\$ (1,455,389,552)</u>
SUPPLEMENTARY INFORMATION	June 30, 2019	June 30, 2018
Average Number of System Employees (Unaudited)	189	188
Investment Manager and Custodian Fees	\$ 319,226,320	\$ 352,680,802
Investment Commissions (Unaudited)	\$ 6,420,436	\$ 7,817,754
Weighted Average Monthly Retirement Benefit (Unaudited)	\$ 4,905	\$ 4,776
Weighted Average Monthly Survivor Benefit (Unaudited)	\$ 2,251	\$ 2,146
Weighted Average Monthly Disability Benefit (Unaudited)	\$ 2,507	\$ 2,438
Time-Weighted Rate of Return (Unaudited)	5.2%	8.5%
EXECUTIVE DIRECTOR		
During Engagement Period: Richard W. Ingram		
Currently: Richard W. Ingram		

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

NONDISCLOSURE 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 and consultants as required by the Illinois Pension code.

Investment managers must complete a service providers form

The form includes all of the disclosures required by the Pension Code

Consultants must complete a consultant disclosure form

Before the System hires a new investment manager, they require the entity to complete the Firm Employment and Use of Professional Service Providers form. The form includes all of the disclosures required by the Pension Code for its investment and senior staff (Form A) and its contractors (Form B). In addition the form requests additional comments and certifications from the prospective investment manager related to their diversity initiatives that the System takes into consideration when hiring new investment managers. In the instance of an investment consultant, they are required to complete an Investment Consultant Disclosure form. Additionally, the System's agreement for Professional Services for Investment Consultants includes a Consultant Disclosure provision that ensures the contracted party has made all required disclosures.

One third of investment manager disclosures did not comply with the Pension Code

Illinois Pension Code 40 ILCS 5/1-113.21

During testing, the auditors noted 11 of 33 (33%) investment manager disclosures returned to the System where the investment manager did not properly disclose the number of contracts with minority, women or disabled person owned businesses and the number of contracts with other than those businesses owned by minority, women or persons with a disability. The investment managers informed the System that not all of this information was tracked. For certain investment managers, multiple exceptions were noted. Specifically, we noted the following:

Disclosure deficiencies noted

- 1 (9%) investment manager did not track any of the required disclosure items required by the Pension Code.
- 1 (9%) investment manager was an international firm that does not have defined diversity initiatives to track under its laws.
- 3 (27%) investment managers did not track the number of their investment and senior staff who are persons with a disability.
- 9 (82%) investment managers did not track the number of contracts for investment services, consulting services and professional services with minority-owned businesses, women-owned businesses or businesses owned by persons with a disability.

Investment consultant disclosure exception noted

Illinois Pension Code 40 ILCS 5/1-113.22

During testing, we noted one of nine (11%) investment consultants did not properly disclose the number of searches for investment services made by the consultant. The investment consultant informed the System that not all of this information was tracked. (Finding 1, pages 10-12) **This finding has been repeated since 2016.**

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

System officials disagreed with finding

System officials stated in their response that as in all prior years where the Auditor General has presented this finding, they disagree with it in the strongest terms and believe that they have complied fully with the statute and they will continue to follow their existing practice.

ACCOUNTANT’S OPINION

The accountants conducted a compliance examination of the Teachers’ Retirement System for the year ended June 30, 2019, 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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