



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

Frank J. Mautino, Auditor General

**SUMMARY REPORT DIGEST**

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

State Compliance Examination  
 For the Two Years Ended June 30, 2023

Release Date: March 14, 2024

FINDINGS THIS AUDIT: 3				AGING SCHEDULE OF REPEATED FINDINGS			
	<u>New</u>	<u>Repeat</u>	<u>Total</u>	<u>Repeated Since</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>
<b>Category 1:</b>	<b>1</b>	<b>0</b>	<b>1</b>	2021		23-2	
<b>Category 2:</b>	<b>0</b>	<b>1</b>	<b>1</b>	2016			23-1
<b>Category 3:</b>	<b>0</b>	<b>1</b>	<b>1</b>				
<b>TOTAL</b>	<b>1</b>	<b>2</b>	<b>3</b>				
<b>FINDINGS LAST AUDIT: 2</b>							

**INTRODUCTION**

This digest covers the compliance examination audit of the Teachers' Retirement System (System) for the two years ended June 30, 2023. A digest covering the System's Financial Audit as of and for the year ended June 30, 2023, was previously released on January 18, 2024.

**SYNOPSIS**

- **(23-1)** 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.
- **(23-3)** The System had not implemented adequate controls over its service providers.

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

**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.

**The System requires new investment managers to complete a 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.

**2% of investment managers tested did not properly disclose the number of contracts with businesses owned by minorities, women or persons with a disability**

**Illinois Pension Code 40 ILCS 5/1-113.21**

During testing, we noted 2 of 96 (2%) investment manager disclosures returned to the System where the investment manager did not properly disclose the number of contracts with businesses owned by minorities, women or persons with a disability and the number of contracts with other than those businesses owned by minority, women or persons with a disability. We noted that both 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. (Finding 1, pages 8-9)

**This finding has been reported since 2016.**

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

**System management disagreed with the finding**

System management stated that as with prior years, they disagreed with this finding and believe the System is following statute compliance.

**INADEQUATE INTERNAL CONTROLS OVER  
SERVICE PROVIDERS**

The System had not implemented adequate controls over its service providers.

We requested the System's population of service providers utilized during the examination period to determine if the System had reviewed the internal controls of its service

providers. In response to our request, the System provided a population; however, the population contained inaccuracies.

Due to these conditions, we were unable to conclude the System's population records were sufficiently precise and detailed under the Professional Standards promulgated by the American Institute of Certified Public Accountants (AT-C § 205). Even given the population limitations, we tested a sample of two service providers, noting the System had not:

**The System had not conducted an analysis of deviations noted in SOC reports**

- Conducted an analysis of deviations noted in the service providers' System and Organization Control (SOC) reports to determine the impact to their internal control environment.
- Conducted an analysis to determine if the subservice providers' service impacted the System's internal control environment.
- Conducted a review of the Complementary User Entity Controls (CUECs) and the System's related controls. (Finding 3, pages 11-12)

We recommended the System strengthen its controls in identifying and documenting all service providers utilized. Further, we recommended the System obtain SOC reports and analyze the deviations noted in the service providers' SOC reports to determine the impact to the System's internal control environment, the subservice providers to determine their impact to the System's internal controls, and the CUECs as they relate to the System's internal controls.

**System management agreed**

System management agreed with the finding.

**OTHER FINDINGS**

The remaining finding pertained to weaknesses in cybersecurity programs and practices. We will review the System's progress towards the implementation of our recommendations in our next State compliance examination.

**AUDITOR'S OPINION**

The financial audit report was previously released. The auditors stated the financial statements of the System as of and for the year ended June 30, 2023, are fairly stated in all material respects.

**ACCOUNTANT'S OPINION**

The accountants conducted a State compliance examination of the System for the two years ended June 30, 2023, as required by the Illinois State Auditing Act. The accountants qualified their report on State compliance for Finding 2023-003. Except for the noncompliance described in this finding, the accountants stated the System complied, in all material respects, with the requirements described in the report.

This State compliance examination was conducted by FORVIS, LLP.

**SIGNED ORIGINAL ON FILE**

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JANE CLARK  
Division Director

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

**SIGNED ORIGINAL ON FILE**

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FRANK J. MAUTINO  
Auditor General

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