



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

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

**Financial Audit
 For the Year Ended June 30, 2015**

Release Date: January 12, 2016

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	2014		15-1	
Category 2:	0	1	1				
Category 3:	0	0	0				
TOTAL	0	1	1				
FINDINGS LAST AUDIT: 1							

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, 2015. The Teachers' Retirement System's Compliance Examination covering the year ended June 30, 2015 will be issued in a separate report at a later date.

The System's total pension liability is \$111.9 billion at June 30, 2015, an increase of \$5.2 billion from \$106.7 billion at June 30, 2014. The net pension liability at June 30, 2015 is \$65.5 billion, which is the difference between the System's fiduciary net position of \$46.4 billion and the total pension liability. The System's net position as a percentage of the total pension liability is 41.5% at June 30, 2015 as compared to 43.0% at June 30, 2014. 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, therefore this information is no longer reported in the financial statements.

FINDING SYNOPSIS

- (15-1) The Teachers' Retirement System of the State of Illinois has weaknesses in controls over 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, 2015

OPERATING STATEMENT ANALYSIS	2015	2014
Additions:		
Contributions - Members.....	\$ 935,451,049	\$ 928,745,853
Contributions - State of Illinois.....	3,377,664,945	3,438,382,892
Contributions - School Districts / Employers.....	145,591,585	158,334,598
Total Contributions.....	<u>4,458,707,579</u>	<u>4,525,463,343</u>
Investment Income - Net Increase in Fair Value.....	753,800,289	5,804,678,228
Investment Income - Income From Investments.....	1,341,293,406	1,271,623,422
Investment Expense.....	(324,544,162)	(294,269,930)
Total Investment Income.....	<u>1,770,549,533</u>	<u>6,782,031,720</u>
Total Additions.....	<u>6,229,257,112</u>	<u>11,307,495,063</u>
Deductions:		
Benefits.....	5,536,399,447	5,225,206,828
Refunds.....	88,637,726	95,456,151
Administrative Expenses.....	21,686,860	21,218,069
Total Expenses.....	<u>5,646,724,033</u>	<u>5,341,881,048</u>
Additions Over Deductions.....	<u>\$ 582,533,079</u>	<u>\$ 5,965,614,015</u>
INVESTMENT PORTFOLIO ANALYSIS - Fair Value	June 30, 2015	June 30, 2014
Fixed Income.....	\$ 8,697,165,058	\$ 8,413,584,938
Equities.....	18,475,666,319	19,151,133,896
Real Estate.....	6,255,857,685	5,638,680,343
Short-term Investments.....	848,587,909	1,432,002,394
Private Equity Investments.....	5,281,073,621	5,038,446,122
Real Return.....	2,994,366,309	3,055,818,516
Absolute Return.....	3,471,868,205	2,618,256,628
Foreign Currency.....	74,142,815	84,850,132
Derivatives.....	936,964	2,805,648
Total Investment Portfolio.....	<u>\$ 46,099,664,885</u>	<u>\$ 45,435,578,617</u>
ADMINISTRATIVE EXPENSES	2015	2014
Personal Services.....	\$ 16,466,754	\$ 15,888,139
Professional Services.....	1,197,347	1,340,022
Communications (postage, printing & copying and telephone).....	559,379	624,126
Equipment Repair, Rental and Maintenance.....	294,509	286,121
Software Licenses and Maintenance.....	554,341	350,673
Other Operating Expenses.....	943,512	1,004,901
Building Operations and Maintenance.....	509,740	601,630
Depreciation.....	1,161,278	1,122,457
Total Administrative Expenses.....	<u>\$ 21,686,860</u>	<u>\$ 21,218,069</u>
SUPPLEMENTARY INFORMATION	June 30, 2015	June 30, 2014
Benefit Recipients.....	114,922	112,333
Active Members.....	159,707	159,838
Inactive Members.....	125,969	122,964
Total.....	<u>400,598</u>	<u>395,135</u>
PENSION LIABILITY	June 30, 2015	June 30, 2014
Total Pension Liability.....	\$ 111,916,989,345	\$ 106,682,654,886
Plan Fiduciary Net Position.....	46,406,915,593	45,824,382,514
Net Pension Liability.....	<u>\$ 65,510,073,752</u>	<u>\$ 60,858,272,372</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability.....	41.5%	43.0%
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 member census data reported by its participating employers.

Limited controls in place to verify the member census information

During testing it was noted that member census data for the System is accumulated from multiple participating employers which increases the likelihood of errors within the data. During fiscal year 2015 the System's processes and controls for verifying the data relied heavily on the reporting of the information by the participating employers with limited controls in place by the System to verify the member census information.

Action plan initiated during fiscal year 2015

During fiscal year 2015 the System developed an action plan to address the weaknesses. The System began implementation of certain details of the action plan during fiscal year 2015 with the expectation to implement additional controls in fiscal year 2016.

Management indicated the System did not have procedures in place to verify census data. The System began implementing new processes and controls over census data during the period and will continue to update and implement new controls moving forward.

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 42-43)

We recommended the System continue updating and implementing processes and controls to include the verification of the significant elements of census data going forward.

System concurred with the recommendation

System management concurred with the recommendation and indicated they will continue to implement processes and controls to verify member census data.

AUDITOR'S OPINION

Our auditors stated the financial statements of the Teachers' Retirement System as of June 30, 2015, and for the year then ended, are fairly stated in all material respects.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:RPU

SPECIAL ASSISTANT AUDITORS

Our Special Assistant Auditors for this audit were RSM US LLP.