



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, 2018

Release Date: April 18, 2019

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			18-1
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, 2018. A separate Financial Audit as of and for the year ending June 30, 2018, was previously released on January 3, 2019. This report contains one finding. The Financial Audit report contained no findings.

**SYNOPSIS**

- (18-1) The Teachers' Retirement System of the State of Illinois did not always obtain fully completed disclosures from investment managers as required by 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, 2018**

<b>EXPENSE AND REVENUE STATISTICS</b>	<b>FY 2018</b>	<b>FY 2017</b>
<b>Total Expenses</b> .....	<b>\$ 6,573,185,272</b>	<b>\$ 6,460,734,655</b>
Benefits and Refunds:		
Retirement Benefits .....	\$ 6,140,877,388	\$ 5,857,968,199
Survivor Benefits .....	285,067,712	263,429,481
Disability Benefits .....	32,764,545	31,470,071
Refunds .....	92,924,731	285,138,169
Total Benefits and Refunds .....	<u>\$ 6,551,634,376</u>	<u>\$ 6,438,005,920</u>
Administrative:		
Salaries .....	\$ 10,346,412	\$ 10,404,585
Other Payroll Costs (Retirement, Social Security and Group Insurance) .....	5,439,103	6,148,184
Professional Services (Actuary, Legal, Audit, Consulting) .....	1,879,628	1,698,085
Depreciation .....	948,500	1,065,985
Software Licenses and Maintenance .....	659,828	682,065
Communications (Postage, Printing, Telephone) .....	531,563	581,003
Building Operations and Maintenance .....	500,749	522,454
Insurance .....	304,757	301,037
Administrative services .....	270,677	559,658
All Other Expenses .....	669,679	765,679
Total Administrative .....	<u>\$ 21,550,896</u>	<u>\$ 22,728,735</u>
<b>Total Revenues</b> .....	<b>\$ 9,167,067,448</b>	<b>\$ 10,585,442,442</b>
<b>SCHEDULE OF INVESTMENTS (at Fair Value)</b>	<b>June 30, 2018</b>	<b>June 30, 2017</b>
International Equities .....	\$ 10,415,507,298	\$ 10,313,709,230
U.S. Equities .....	7,792,088,707	7,166,934,005
Real Estate .....	7,235,561,047	7,090,551,234
Private Equity .....	6,788,646,545	6,439,749,203
Diversifying strategies .....	5,855,617,530	5,871,043,153
Commingled Funds (U.S. and International) .....	3,508,455,165	2,881,748,706
Domestic Corporate Obligations .....	2,741,852,675	2,472,266,406
Foreign Debt/Corporate Obligations .....	2,646,843,261	2,371,084,926
U.S. Treasuries and Agencies .....	1,734,891,964	1,828,452,667
Cash and Cash Equivalents .....	1,280,712,915	1,223,393,259
U.S. Government-Backed Mortgages .....	679,749,043	424,274,294
Asset Backed Securities .....	497,437,541	284,798,620
Other real assets .....	464,051,207	437,540,238
Commercial and Collateralized Mortgages .....	282,315,363	242,180,724
Foreign Currency .....	68,446,828	81,744,713
Municipals .....	46,548,126	47,376,605
Derivatives - Options, Futures and Swaps .....	32,220,547	3,427,917
Total at End of Year .....	<u>\$ 52,070,945,762</u>	<u>\$ 49,180,275,900</u>
<b>CONTRIBUTIONS/DEDUCTIONS AND EFFECT ON INVESTMENTS (UNAUDITED)</b>	<b>FY 2018</b>	<b>FY 2017</b>
<b>CONTRIBUTIONS:</b>		
Members / Participants .....	\$ 938,037,245	\$ 929,130,165
Employers .....	84,633,117	149,495,577
State of Illinois .....	4,095,125,358	3,986,363,699
Total Contributions .....	<u>5,117,795,720</u>	<u>5,064,989,441</u>
<b>DEDUCTIONS:</b>		
Benefits .....	6,458,709,645	6,152,867,751
Refunds .....	92,924,731	285,138,169
Administration .....	21,550,896	22,728,735
Total Deductions .....	<u>6,573,185,272</u>	<u>6,460,734,655</u>
Investments Used to Pay Benefits and Expenses .....	<u>\$ (1,455,389,552)</u>	<u>\$ (1,395,745,214)</u>
<b>SUPPLEMENTARY INFORMATION</b>	<b>June 30, 2018</b>	<b>June 30, 2017</b>
Average Number of System Employees (Unaudited) .....	188	188
Investment Management Fees .....	\$ 352,680,802	\$ 319,405,576
Investment Commissions (Unaudited) .....	\$ 7,817,754	\$ 10,131,292
Weighted Average Monthly Retirement Benefit (Unaudited) .....	\$ 4,776	\$ 4,647
Weighted Average Monthly Survivor Benefit (Unaudited) .....	\$ 2,146	\$ 2,044
Weighted Average Monthly Disability Benefit (Unaudited) .....	\$ 2,438	\$ 2,378
Time-Weighted Rate of Return (Unaudited) .....	8.5%	12.6%
<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 contracts with minority, women or disabled persons**

During testing, the auditors noted ten of twenty-five (40%) 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 disabled persons. The investment managers informed the System that not all of this information was tracked. (Finding 1, pages 10-11) **This finding has been repeated since 2016.**

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 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. Based on the System's conversations with the legislation's Senate sponsor, the Senator confirmed the System's approach to implementation and the System's adherence to the intent of the law. *(For the previous System response, see Digest Footnote #1.)*

**ACCOUNTANT'S OPINION**

The accountants conducted a compliance examination of the Teachers' Retirement System for the year ended June 30, 2018, 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 State 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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**DIGEST FOOTNOTES**

**#1 – Noncompliance with Certain Disclosures Required by the Illinois Pension Code**

TRS has carefully reviewed the finding and after discussing the matter with Auditor General staff, objects 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. The information presented in the manager questionnaire's fully respond to the law and allow TRS to make a fully informed judgment on the manager's commitment to diversity.

TRS has been at the forefront of implementing all elements of the state's diversity policies. After discussing similar findings last year, with which we also disagreed, and *at the direction of the Auditor General's staff* we had our 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. We stand by our 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**

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, TRS was now pre-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.

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 TRS staff was not accurate, the auditors did count the disclosure as an exception.

To the extent that TRS believes the auditors agreed that anything less than an accurate disclosure would be acceptable, we do not agree with the agency's characterization.