



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, 2020

Release Date: April 22, 2021

FINDINGS THIS AUDIT: 1	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
<b>Category 1:</b>	<b>0</b>	<b>0</b>	<b>0</b>	2016			<b>20-1</b>
Category 2:	0	0	0				
Category 3:	<u>0</u>	<u>1</u>	<u>1</u>				
<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, 2020. A separate Financial Audit as of and for the year ending June 30, 2020, was previously released on January 7, 2021. This report contains one finding. The Financial Audit report contained no findings.

**SYNOPSIS**

- **(20-1)** The Teachers' Retirement System did not always obtain full disclosures from investment managers as required by the Illinois Pension Code.

<p><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).</p> <p><b>Category 2:</b> Findings that are <b>significant deficiencies</b> in internal control and <b>noncompliance</b> with State laws and regulations.</p> <p><b>Category 3:</b> Findings that have <b>no internal control issues but are in noncompliance</b> with State laws and regulations.</p>
-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

**TEACHERS' RETIREMENT SYSTEM OF ILLINOIS**  
**COMPLIANCE EXAMINATION**  
**For the Year Ended June 30, 2020**

<b>EXPENSE AND REVENUE STATISTICS</b>	<b>FY 2020</b>	<b>FY 2019</b>
<b>Total Expenses</b> .....	<b>\$ 7,122,491,327</b>	<b>\$ 6,843,096,252</b>
Benefits and Refunds:		
Retirement Benefits .....	\$ 6,672,266,721	\$ 6,405,907,842
Survivor Benefits .....	329,872,581	306,502,713
Disability Benefits .....	33,168,197	33,133,627
Refunds .....	64,217,456	73,216,390
Total Benefits and Refunds .....	<u>\$ 7,099,524,955</u>	<u>\$ 6,818,760,572</u>
Administrative:		
Salaries .....	\$ 11,075,840	\$ 11,031,954
Other Payroll Costs (Retirement, Social Security and Group Insurance) .....	5,685,057	5,984,001
Professional Services (Actuary, Legal, Audit, Consulting) .....	1,808,829	2,874,959
Depreciation .....	1,104,613	875,719
Software Licenses and Maintenance .....	1,068,164	965,505
Communications (Postage, Printing, Telephone) .....	470,227	557,958
Building Operations and Maintenance .....	451,833	441,844
Administrative services .....	307,357	549,072
All Other Expenses .....	994,452	1,054,668
Total Administrative .....	<u>\$ 22,966,372</u>	<u>\$ 24,335,680</u>
<b>Total Revenues</b> .....	<b>\$ 6,176,179,731</b>	<b>\$ 8,136,338,925</b>
<b>SCHEDULE OF INVESTMENTS (at Fair Value)</b>	<b>June 30, 2020</b>	<b>June 30, 2019</b>
International Equities .....	\$ 8,995,763,679	\$ 9,904,945,062
U.S. Equities .....	7,768,675,705	7,918,736,361
Real Estate .....	7,716,975,327	7,354,809,101
Private Equity .....	6,519,058,596	6,378,902,197
Diversifying strategies .....	5,542,576,267	5,374,252,320
Commingled Funds (U.S. and International) .....	3,274,885,797	1,716,196,678
Foreign Debt/Corporate Obligations .....	3,217,023,067	3,483,275,889
Private Debt .....	2,916,257,777	2,248,766,994
Domestic Corporate Obligations .....	2,433,892,252	3,058,307,686
Cash and Cash Equivalents .....	1,652,527,489	1,601,845,805
U.S. Treasuries and Agencies .....	515,366,878	1,555,504,658
Other real assets .....	368,868,176	527,431,201
Asset Backed Securities .....	175,495,345	325,690,344
U.S. Government-Backed Mortgages .....	148,463,903	599,118,460
Commercial and Collateralized Mortgages .....	116,987,263	645,878,988
Foreign Currency .....	79,352,928	95,012,450
Derivatives - Options, Futures and Swaps .....	6,184,038	(55,888,377)
Municipals .....	5,804,425	93,021,714
Total at End of Year .....	<u>\$ 51,454,158,912</u>	<u>\$ 52,825,807,531</u>
<b>CONTRIBUTIONS/DEDUCTIONS AND EFFECT ON INVESTMENTS (UNAUDITED)</b>	<b>FY 2020</b>	<b>FY 2019</b>
<b>CONTRIBUTIONS:</b>		
Members / Participants .....	\$ 994,400,416	\$ 963,972,120
Employers .....	92,658,238	88,514,781
State of Illinois .....	4,813,451,679	4,466,020,692
Total Contributions .....	<u>5,900,510,333</u>	<u>5,518,507,593</u>
<b>DEDUCTIONS:</b>		
Benefits .....	7,035,307,499	6,745,544,182
Refunds .....	64,217,456	73,216,390
Administration .....	22,966,372	24,335,680
Total Deductions .....	<u>7,122,491,327</u>	<u>6,843,096,252</u>
Investments Used to Pay Benefits and Expenses .....	<u>\$ (1,221,980,994)</u>	<u>\$ (1,324,588,659)</u>
<b>SUPPLEMENTARY INFORMATION</b>	<b>June 30, 2020</b>	<b>June 30, 2019</b>
Average Number of System Employees (Unaudited) .....	203	189
Investment Manager and Custodian Fees .....	\$ 379,053,680	\$ 319,226,320
Investment Commissions (Unaudited) .....	\$ 5,545,609	\$ 6,420,436
Weighted Average Monthly Retirement Benefit (Unaudited) .....	\$ 5,027	\$ 4,905
Weighted Average Monthly Survivor Benefit (Unaudited) .....	\$ 2,350	\$ 2,251
Weighted Average Monthly Disability Benefit (Unaudited) .....	\$ 2,572	\$ 2,507
Time-Weighted Rate of Return (Unaudited) .....	0.6%	5.2%
<b>EXECUTIVE DIRECTOR</b>		
During Engagement Period: Richard W. Ingram		
Currently: Stan Rupnik (Acting, effective 8/4/20)		

## 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.

#### **34 percent of investment managers tested did not properly disclose the number of contracts with minority, women, or disabled persons owned businesses**

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

During testing, the auditors noted 12 of 35 (34%) 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 (8%) investment manager did not track any of the required disclosure items required by the Pension Code.
- 1 (8%) investment manager was an international firm that does not have defined diversity initiatives to track under its laws.
- 9 (75%) 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.
- 1 (8%) investment manager did not track the fund expenses to date 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 10-12)

We recommended the System work with their 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.

**ACCOUNTANT'S OPINION**

The accountants conducted a compliance examination of the Teachers' Retirement System (System) for the year ended June 30, 2020, 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 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

FJM:JAF