



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, 2021

Release Date: March 29, 2022

FINDINGS THIS AUDIT: 2				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>0</b>	<b>0</b>	<b>0</b>	2016			21-1
<b>Category 2:</b>	1	0	1				
<b>Category 3:</b>	0	1	1				
<b>TOTAL</b>	<b>1</b>	<b>1</b>	<b>2</b>				
<b>FINDINGS LAST AUDIT: 1</b>							

**INTRODUCTION**

This digest covers our Compliance Examination of the Teachers' Retirement System of the State of Illinois for the year ended June 30, 2021. A separate Financial Audit as of and for the year ending June 30, 2021, was previously released on December 22, 2021. This report contains two findings. The Financial Audit report contained no findings.

**SYNOPSIS**

- (21-1) The Teachers' Retirement System did not always obtain fully completed disclosures from investment managers as required by the Illinois Pension Code.

<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.

**TEACHERS' RETIREMENT SYSTEM OF THE STATE OF ILLINOIS**  
**STATE COMPLIANCE EXAMINATION**  
**For the Year Ended June 30, 2021**

<b>EXPENSE AND REVENUE STATISTICS</b>	<b>2021</b>	<b>2020</b>
<b>Total Expenses</b> .....	<b>\$ 7,411,900,824</b>	<b>\$ 7,122,491,327</b>
Benefits and Refunds:		
Retirement Benefits .....	\$ 6,935,054,294	\$ 6,672,266,721
Survivor Benefits .....	357,078,075	329,872,581
Disability Benefits .....	31,816,332	33,168,197
Refunds .....	64,194,011	64,217,456
Total Benefits and Refunds .....	<u>\$ 7,388,142,712</u>	<u>\$ 7,099,524,955</u>
Administrative:		
Salaries .....	\$ 10,924,264	\$ 11,075,840
Other Payroll Costs (Retirement, Social Security and Group Insurance) .....	6,106,380	5,685,057
Professional Services (Actuary, Legal, Audit, Consulting) .....	2,017,613	1,808,829
Depreciation .....	1,794,122	1,104,613
Software Licenses and Maintenance .....	1,034,575	1,068,164
Communications (Postage, Printing, Telephone) .....	256,995	470,227
Building Operations and Maintenance .....	469,960	451,833
Administrative services .....	286,886	307,357
All Other Expenses .....	867,317	994,452
Total Administrative .....	<u>\$ 23,758,112</u>	<u>\$ 22,966,372</u>
<b>Total Revenues</b> .....	<b>\$ 19,307,928,073</b>	<b>\$ 6,176,179,731</b>
<b>SCHEDULE OF INVESTMENTS (at Fair Value)</b>	<b>June 30, 2021</b>	<b>June 30, 2020</b>
International Equities .....	\$ 11,206,327,107	\$ 8,995,763,679
U.S. Equities .....	11,201,200,370	7,768,675,705
Private Equity .....	10,178,044,705	6,519,058,596
Real Estate .....	8,853,790,213	7,716,975,327
Diversifying strategies .....	5,541,737,095	5,542,576,267
Private Debt .....	4,069,872,023	2,916,257,777
Foreign Debt/Corporate Obligations .....	3,431,936,825	3,217,023,067
Commingled Funds (U.S. and International) .....	2,920,618,212	3,274,885,797
Domestic Corporate Obligations .....	2,049,105,777	2,433,892,252
Cash and Cash Equivalents .....	1,756,658,884	1,652,527,489
U.S. Treasuries and Agencies .....	760,917,735	515,366,878
Other real assets .....	715,953,909	368,868,176
U.S. Government-Backed Mortgages .....	681,894,069	148,463,903
Commercial and Collateralized Mortgages .....	289,996,014	116,987,263
Foreign Currency .....	112,911,645	79,352,928
Asset Backed Securities .....	81,053,316	175,495,345
Municipals .....	5,220,000	5,804,425
Derivatives - Options, Futures and Swaps .....	(5,405,619)	6,184,038
Total at End of Year .....	<u>\$ 63,851,832,280</u>	<u>\$ 51,454,158,912</u>
<b>CONTRIBUTIONS/DEDUCTIONS AND EFFECT ON INVESTMENTS (UNAUDITED)</b>	<b>2021</b>	<b>2020</b>
<b>CONTRIBUTIONS:</b>		
Members / Participants .....	\$ 1,023,531,951	\$ 994,400,416
Employers .....	97,594,081	92,658,238
State of Illinois .....	5,140,648,356	4,813,451,679
Total Contributions .....	<u>6,261,774,388</u>	<u>5,900,510,333</u>
<b>DEDUCTIONS:</b>		
Benefits .....	7,323,948,701	7,035,307,499
Refunds .....	64,194,011	64,217,456
Administration .....	23,758,112	22,966,372
Total Deductions .....	<u>7,411,900,824</u>	<u>7,122,491,327</u>
Investments Used to Pay Benefits and Expenses .....	<u>\$ (1,150,126,436)</u>	<u>\$ (1,221,980,994)</u>
<b>SUPPLEMENTARY INFORMATION</b>	<b>June 30, 2021</b>	<b>June 30, 2020</b>
Average Number of System Employees (Unaudited) .....	202	203
Investment Manager and Custodian Fees .....	\$ 449,838,070	\$ 379,053,680
Investment Commissions (Unaudited) .....	\$ 6,080,028	\$ 5,545,609
Weighted Average Monthly Retirement Benefit (Unaudited) .....	\$ 5,155	\$ 5,027
Weighted Average Monthly Survivor Benefit (Unaudited) .....	\$ 2,465	\$ 2,350
Weighted Average Monthly Disability Benefit (Unaudited) .....	\$ 2,630	\$ 2,572
Time-Weighted Rate of Return (Unaudited) .....	25.5%	0.6%
<b>EXECUTIVE DIRECTOR</b>		
During Engagement Period: Richard W. Ingram (7/1/20 - 8/3/20); Stan Rupnik (Acting) (8/4/20 - 6/25/21); Stan Rupnik (effective 6/26/21)		
Currently: Stan Rupnik		

**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.

**31 percent of investment managers tested did not properly disclose the number of contracts with minority, women, or persons with a disability**

Illinois Pension Code 40 ILCS 5/1-113.21

During testing, the auditors noted 5 of 16 (31%) 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 all five 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)

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.

**OTHER FINDING**

The remaining finding pertains 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.

**ACCOUNTANT'S OPINION**

The accountants conducted a compliance examination of the Teachers' Retirement System (System) for the year ended June 30, 2021, 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**

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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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