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# **Teachers' Retirement System of the State of Illinois**

## **Compliance Examination**

For the Two Years Ended June 30, 2023

Performed as Special Assistant Auditors for  
the Auditor General, State of Illinois

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**Teachers' Retirement System  
of the State of Illinois**  
**State Compliance Examination**  
**For the Two Years Ended June 30, 2023**

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**Teachers' Retirement System  
of the State of Illinois  
Compliance Examination  
For the Two Years Ended June 30, 2023**

***System Officials***

Executive Director	Stan Rupnik, CFA
Chief Investment Officer	Stan Rupnik, CFA
Chief Financial Officer	Deron Bertolo
General Counsel	Emily Peterson
Director of Internal Audit and Risk	Stacy Smith, CPA, CIDA

***Governing Board Members***

President	Mr. Matthew Hunt
Vice President	Mr. Andrew Hirshman
Board of Trustee (2/23 – Present)	Dr. Tony Sanders
Board of Trustee	Ms. Beth Anderson
Board of Trustee	Mr. Kevin Blackburn
Board of Trustee	Mr. Joseph Blomquist
Board of Trustee	Ms. Marsha Byas
Board of Trustee	Mr. Michael Goetz
Board of Trustee	Ms. Maria Jazo-Harris
Board of Trustee	Ms. Maureen Mena
Board of Trustee	Mr. David Miller
Board of Trustee	Mr. Fred Peronto
Board of Trustee	Mr. Larry Pfeiffer
Board of Trustee	Mr. Doug Strand

***Office Locations***

Springfield Office  
2815 West Washington Street  
Springfield, Illinois 62794

Lisle Office  
4200 Commerce Court, Suite 100  
Lisle, Illinois 60532-3611

Chicago Office  
333 West Wacker Drive, Suite 2610  
Chicago, Illinois 60606



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

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**R. Stanley Rupnik, Executive Director**  
2815 West Washington Street  
Springfield, Illinois 62702

February 26, 2024

FORVIS, LLP  
Certified Public Accountant  
225 North Water Street, Suite 400  
Decatur, IL 62523

Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the Teachers' Retirement System. We are responsible for and we have established and maintained an effective system of internal controls over compliance requirements. We have performed an evaluation of the Teachers' Retirement System's compliance with the following specified requirements during the two-year period ended June 30, 2023. Based on this evaluation, we assert that during the years ended June 30, 2023 and 2022 the Teachers' Retirement System has materially complied with the specified requirements listed below.

- A. The Teachers' Retirement System has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The Teachers' Retirement System has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions, or mandatory directions imposed by law upon such obligation, expenditure, receipt, or use.
- C. The Teachers' Retirement System has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. State revenues and receipts collected by the Teachers' Retirement System are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate, and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the Teachers' Retirement System on behalf of the State or held in trust by the Teachers' Retirement System have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Yours truly,

**Teachers' Retirement System**

**SIGNED ORIGINAL ON FILE**

Stan Rupnik, Executive Director

**SIGNED ORIGINAL ON FILE**

~~Deron Bertolo~~, Chief Financial Officer

**SIGNED ORIGINAL ON FILE**

Emily Peterson, General Counsel

# **State Compliance Report**

**Teachers' Retirement System  
of the State of Illinois  
State Compliance Examination  
For the Two Years Ended June 30, 2023**

**State Compliance Report**

**Summary**

The State compliance testing performed during this examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the *Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies* (Audit Guide.)

**Accountant's Reports**

The Independent Accountant's Report on State Compliance and on Internal Control Over Compliance does not contain scope limitations or disclaimers, but does contain a modified opinion on compliance and identifies material weaknesses over internal control over compliance.

**Summary of Findings**

Number of	Current Report	Prior Report
Findings	3	2
Repeated findings	2	1
Prior recommendations implemented or not repeated	0	0

**Schedule of Findings**

Item No.	Page	Last/First Reported	Description	Finding Type
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**Current Findings**

2023-001	8	2021/2016	Noncompliance with Certain Disclosures Required by the Illinois Pension Code	Noncompliance
2023-002	10	2021/2021	Weaknesses in Cybersecurity Programs and Practices	Significant Deficiency and Noncompliance
2023-003	11	New	Inadequate Controls Over Service Providers	Material Weakness and Material Noncompliance

**Teachers' Retirement System  
of the State of Illinois  
State Compliance Examination  
For the Two Years Ended June 30, 2023**

***Exit Conference***

The System waived an exit conference in a correspondence from Deron Bertolo, Chief Financial Officer, on February 6, 2024. The responses to the recommendations were provided by Deron Bertolo, Chief Financial Officer, in a correspondence dated February 6, 2024.

## Independent Accountant's Report on State Compliance and on Internal Control over Compliance

Honorable Frank J. Mautino  
Auditor General  
State of Illinois

and

The Board of Trustees  
Teachers' Retirement System of the State of Illinois

### Report on State Compliance

As Special Assistant Auditors for the Auditor General, we have examined compliance by the Teachers' Retirement System of the State of Illinois (System) with the specified requirements listed below, as more fully described in the *Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide)* as adopted by the Auditor General, during the two years ended June 30, 2023. Management of the System is responsible for compliance with the specified requirements. Our responsibility is to express an opinion on the System's compliance with the specified requirements based on our examination.

The specified requirements are:

- A. The System has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The System has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions, or mandatory directions imposed by law upon such obligation, expenditure, receipt, or use.
- C. The System has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. State revenues and receipts collected by the System are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate, and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the System on behalf of the State or held in trust by the System have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Illinois State Auditing Act (Act), and the *Audit Guide*. Those standards, the Act, and the *Audit Guide* require that we plan and perform the examination to obtain reasonable assurance about whether the System complied with the specified requirements in all material respects. An examination involves performing procedures to obtain evidence about whether the System complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance with the specified requirements, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our modified opinion.

We are required to be independent and to meet our other ethical responsibilities in accordance with relevant ethical requirements relating to the engagement.

Our examination does not provide a legal determination on the System's compliance with the specified requirements.

Our examination disclosed material noncompliance with the following specified requirements applicable to the System during the two years ended June 30 2023. As described in the accompanying Schedule of Findings as item 2023-003, the System had not complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

In our opinion, except for the material noncompliance with the specified requirements described in the preceding paragraph, the System complied with the specified requirements during the two years ended June 30, 2023, in all material respects. However, the results of our procedures disclosed instances of noncompliance with the specified requirements, which are required to be reported in accordance with criteria established by the *Audit Guide* and are described in the accompanying Schedule of Findings as items 2023-001 and 2023-002.

The System's responses to the compliance findings identified in our examination are described in the accompanying Schedule of Findings. The System's responses were not subjected to the procedures applied in the examination and, accordingly, we express no opinion on the responses.

The purpose of this report is solely to describe the scope of our testing and the results of that testing in accordance with the requirements of the *Audit Guide*. Accordingly, this report is not suitable for any other purpose.

### **Report on Internal Control Over Compliance**

Management of the System is responsible for establishing and maintaining effective internal control over compliance with the specified requirements (internal control). In planning and performing our examination of internal control, we considered the System's internal control to determine the examination procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the System's compliance with the specified requirements and to test and report on the System's internal control in accordance with the *Audit Guide*, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with the specified requirements on a timely basis. A material weakness in internal control is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material noncompliance with the specified requirements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as item 2023-003 to be a material weakness.

A significant deficiency in internal control is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as item 2023-002 to be a significant deficiency.

There were no immaterial findings that have been excluded from this report.

The System's responses to the internal control findings identified in our examination are described in the accompanying Schedule of Findings. The System's responses are not subjected to the procedures applied in the examination and, accordingly, we express no opinion on the responses.

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing based on the requirements of the *Audit Guide*. Accordingly, this report is not suitable for any other purpose.

**SIGNED ORIGINAL ON FILE**

Decatur, Illinois  
February 26, 2024

**Teachers' Retirement System  
of the State of Illinois**  
**Schedule of Findings**  
**Current Findings – State Compliance**  
**For the Two Years Ended June 30, 2023**

**2023-001. Finding – 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.

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.

Illinois Pension Code 40 ILCS 5/1-113.21

During testing, the auditors 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.

The Illinois Pension Code (40 ILCS 5/1-113.21 (a)) states, "No contract, oral or written, for investment services, consulting services, or commitment to a private market fund shall be awarded by a retirement system, pension fund, or investment board established under this Code unless the investment advisor, consultant, or private market fund first discloses:

- (1) the number of its investment and senior staff and the percentage of its investment and senior staff who are (i) a minority person, (ii) a woman, and (iii) a person with a disability; and
- (2) the number of contracts, oral or written, for investment services, consulting services, and professional and artistic services that the investment advisor, consultant, or private market fund has with (i) a minority-owned business, (ii) a women-owned business, or (iii) a business owned by a person with a disability; and

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**2023-001. Finding – Noncompliance with Certain Disclosures Required by the Illinois Pension Code (Continued)**

- (3) the number of contracts, oral or written, for investment services, consulting services, and professional and artistic services the investment advisor, consultant, or private market fund has with a business other than (i) a minority-owned business, (ii) a women-owned business or (iii) a business owned by a person with a disability, if more than 50% of services performed pursuant to the contract are performed by (i) a minority person, (ii) a woman, and (iii) a person with a disability.”

The Illinois Pension Code (40 ILCS 5/1-113.21 (b)) states “The disclosures required by this Section shall be considered, within the bounds of financial and fiduciary prudence, prior to the awarding of a contract, oral or written, for investment services, consulting services, or commitment to a private market fund.”

System officials stated the compliance department verifies that all required disclosures are received during the due diligence process; however, some investment managers do not currently track or cannot legally provide all of the required disclosures in accordance with the current language within the Illinois Pension Code.

Failure to obtain the necessary disclosures from the investment managers prior to awarding the contract results in noncompliance with the Illinois Pension Code. (Finding Code No. 2023-001, 2021-001, 2020-001, 2019-001, 2018-001, 2017-001, 2016-001)

Recommendation

We recommend 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 Response

As with prior years, TRS disagrees with this finding and believes the System is following statute compliance and is, in fact, requesting information beyond the requirements of the statute. Further, the System engages a third-party diversity, equity and inclusion (DEI) measurement service to assess diversity profiles and provide data well in excess of the disclosures required by statute. The System’s compliance department continues to oversee adherence to the intent of the law. Please also refer to prior year responses.

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**2023-002. Finding – Weaknesses in Cybersecurity Programs and Practices**

The Teachers' Retirement System (System) had weak internal controls related to cybersecurity programs, practices and control of confidential information.

The System utilizes various applications which contain a significant amount of critical and confidential data, such as names, addresses, Social Security numbers, banking information, etc.

The Illinois State Auditing Act (30 ILCS 5/3-2.4) requires the Auditor General to review State agencies and their cybersecurity programs and practices.

During our examination of the System's cybersecurity programs, practices and control of confidential information, we noted the System had not:

- Developed a risk assessment methodology, conducted a comprehensive risk assessment or implemented risk reducing controls.
- Developed a data classification methodology or classified its data.

The *Center for Internet Security, Critical Security Controls, version 8* requires entities establish and maintain a data classification scheme, and manage the security life cycle of software and data.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance funds, property and other assets and resources are safeguarded against waste, loss, unauthorized use and misappropriation and maintain accountability over the State's resources.

System management indicated competing priorities resulted in the identified weaknesses.

The lack of an adequate cybersecurity program and adequate cybersecurity practices could result in unidentified risks and vulnerabilities, which could ultimately lead to the System's confidential and personal information being susceptible to cyberattacks and unauthorized disclosure. (Finding Code No. 2023-002, 2021-002)

Recommendation

We recommend the System develop a risk assessment methodology, conduct a comprehensive risk assessment and implement risk reducing controls. Additionally, we recommend the System develop a data classification methodology and classify its data.

System Response

TRS agrees with the finding and will expand current risk assessments to more fully incorporate our data classification methodology and documented corresponding controls.

**Teachers' Retirement System  
of the State of Illinois**  
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**2023-003. Finding – Inadequate Controls Over Service Providers**

The Teachers' Retirement System (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:

- 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.

The *Center for Internet Security, Critical Security Controls, version 8* requires entities establish and maintain an inventory of service providers, and assess the service providers' internal controls.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance funds, property and other assets and resources are safeguarded against waste, loss, unauthorized use and misappropriation and maintain accountability over the State's resources.

The System indicated the weaknesses were the result of competing priorities.

Without having reviewed SOC reports or another form of independent internal control review, the System does not have assurance the service providers' internal controls are adequate and operating effectively. (Finding Code No. 2023-003)

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**2023-003. Finding – Inadequate Controls over Service Providers (Continued)**

Recommendation

We recommend the System strengthen its controls in identifying and documenting all service providers utilized. Further, we recommend 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.
- The CUECs as they relate to the System's internal controls.

System Response

TRS agrees and has recently implemented a structured process for reviewing service providers' SOC reports. We will update our controls to better document our reviews and the CUECs as they relate to the System's internal controls.