STATE OF ILLINOIS
ILLINOIS POWER AGENCY
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
For the Year Ended June 30, 2013

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AGENCY OFFICIALS

Director (03/16/13 – Present)	Mr. Anthony Star
Director (Acting) (07/01/12 – 03/15/13)	Ms. Arlene Juracek

Administrative Services

Chief Financial Officer (04/01/14 – Present)	Mr. Charles Kudia
Chief Financial Officer (02/16/14 – 03/31/14)	Vacant
Chief Financial Officer (07/01/12 – 02/15/14)	Ms. Kristene Callanta
Chief Legal Counsel (05/01/14 – Present)	Mr. Brian Granahan
Chief Legal Counsel (07/01/12 – 04/30/14)	Mr. Michael Strong
Chief Operating Officer[1] (09/09/13 – Present)	Mr. Sanjay Patel

Planning and Procurement Bureau

Bureau Chief (07/12/12 – Present)	Mr. Mario Bohorquez
Bureau Chief (07/01/12 – 07/11/12)	Vacant

Resource Development Bureau

Bureau Chief	Vacant

The Agency's office is located at:

Michael A. Bilandic Building
160 N. LaSalle Street, Suite C-504
Chicago, Illinois 60601

[1] The Chief Operating Officer position was created on September 9, 2013.

IPA ILLINOIS POWER AGENCY
Anthony M. Star, Director

7/9/2014

Honorable William G. Holland
Auditor General
State of Illinois
740 East Ash Street
Springfield, Illinois 62703-3154

RE: STATE COMPLIANCE EXAMINATION
MANAGEMENT ASSERTION LETTER

Dear Mr. Holland:

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 State of Illinois, Illinois Power Agency. 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 State of Illinois, Illinois Power Agency's compliance with the following assertions during the one-year period ended June 30, 2013. Based on this evaluation, we assert that during the year ended June 30, 2013, the State of Illinois, Illinois Power Agency has materially complied with the assertions below.

A. The State of Illinois, Illinois Power Agency 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 State of Illinois, Illinois Power Agency 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 State of Illinois, Illinois Power Agency 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 State of Illinois, Illinois Power Agency 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 State of Illinois, Illinois Power Agency on behalf of the State or held in trust by the State of Illinois, Illinois Power Agency have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Kind Regards,

State of Illinois, Illinois Power Agency

Anthony Star, Director

Charles Kudia, Chief Financial Officer

Brian Granahan, Chief Legal Counsel

COMPLIANCE REPORT

SUMMARY

The compliance testing performed during this examination was conducted in accordance with *Government Auditing Standards* and in accordance with the Illinois State Auditing Act.

ACCOUNTANT'S REPORT

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

SUMMARY OF FINDINGS

Number of	Current Report	Prior Report
Findings	23	17
Repeated findings	12	11
Prior recommendations implemented or not repeated	5	12

SCHEDULE OF FINDINGS

Item No.	Page	Description	Finding Type
		FINDINGS *(GOVERNMENT AUDITING STANDARDS)*	
2013-001	15	Inaccurate Financial Statements	Material Weakness
2013-002	19	Noncompliance with the Investment Income Transfer Limitations of the State Finance Act	Material Weakness and Noncompliance
2013-003	22	Inadequate Controls over Alternative Compliance Payments	Material Weakness
2013-004	26	Inadequate Controls over the Purchase of Renewable Energy Credits	Material Weakness
2013-005	30	Failure to Perform Reconciliations from the Agency's Records to the State Comptroller's Records	Significant Deficiency

Item No.	Page	Description	Finding Type
		FINDINGS *(GOVERNMENT AUDITING STANDARDS)*	
2013-006	32	Inadequate Controls over the Agency's Information Systems	Significant Deficiency
		FINDINGS (STATE COMPLIANCE)	
2013-007	34	Failure to Adopt Formal Administrative Rules	Material Weakness and Material Noncompliance
2013-008	35	Failure to Adopt Administrative Rules for Fees and Charges	Material Weakness and Material Noncompliance
2013-009	36	Failure to Adopt Rules for Developing Prequalified Supplier Lists	Material Weakness and Material Noncompliance
2013-010	37	Failure to Establish a Resource Development Bureau	Material Weakness and Material Noncompliance
2013-011	39	Inadequate Controls over Voucher Processing	Material Weakness and Material Noncompliance
2013-012	43	Noncompliance with Appropriation Laws	Material Weakness and Material Noncompliance
2013-013	45	Inadequate Controls over Equipment	Material Weakness and Material Noncompliance
2013-014	49	Failure to Properly Approve Contractual Agreements	Significant Deficiency and Noncompliance
2013-015	51	Failure to Timely File Contractual Agreements	Significant Deficiency and Noncompliance
2013-016	53	Avoidable Use of an Emergency Contract	Significant Deficiency and Noncompliance
2013-017	55	Failure to Enter into Written Interagency Agreements	Significant Deficiency and Noncompliance
2013-018	57	Noncompliance with the Fiscal Control and Internal Auditing Act	Significant Deficiency and Noncompliance

Item No.	Page	Description	Finding Type
		FINDINGS (STATE COMPLIANCE)	
2013-019	59	Inadequate Controls over Employee Attendance	Significant Deficiency and Noncompliance
2013-020	60	Inadequate Controls over Accounts Receivable	Significant Deficiency and Noncompliance
2013-021	64	Inadequate Controls over Cash Receipts	Significant Deficiency and Noncompliance
2013-022	65	Inaccurate Travel Headquarters Reports	Significant Deficiency and Noncompliance
2013-023	66	Inadequate Controls over Personal Services	Significant Deficiency and Noncompliance

In addition, the following findings which are reported as current findings relating to *Government Auditing Standards* also meet the reporting requirements for State Compliance.

2013-001	15	Inaccurate Financial Statements	Material Weakness and Material Noncompliance
2013-002	19	Noncompliance with the Investment Income Transfer Limitations of the State Finance Act	Material Weakness and Material Noncompliance
2013-003	22	Inadequate Controls over Alternative Compliance Payments	Material Weakness and Material Noncompliance
2013-004	26	Inadequate Controls over the Purchase of Renewable Energy Credits	Material Weakness and Material Noncompliance
2013-005	30	Failure to Perform Reconciliations from the Agency's Records to the State Comptroller's Records	Significant Deficiency and Noncompliance
2013-006	32	Inadequate Controls over the Agency's Information Systems	Significant Deficiency and Noncompliance

Item No.	Page	Description
		PRIOR FINDINGS NOT REPEATED
A	68	State Funds Improperly Held Outside of the State Treasury
B	68	Inadequate Fee Assessment
C	68	Failure to Timely Submit Reports
D	69	Failure to Obtain Employee Insurance or License Verification
E	69	Failure to Comply with the Identity Protection Act

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Agency personnel at an exit conference on July 1, 2014. Attending were:

Illinois Power Agency
Anthony Star - Director
Charles Kudia - Chief Financial Officer
Brian Granahan - Chief Legal Counsel
Sanjay Patel - Chief Operating Officer

Office of the Auditor General
Thomas L. Kizziah, CPA - Audit Manager
Daniel J. Nugent, CPA - Audit Manager
Jorge Cerda - Audit Supervisor
Mike Stutz - State Auditor
Ryan Goerres - State Auditor

The responses to the recommendations were provided by Mr. Anthony Star, Director, in a correspondence dated July 9, 2014.

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OFFICE OF THE AUDITOR GENERAL
WILLIAM G. HOLLAND

INDEPENDENT ACCOUNTANT'S REPORT ON STATE COMPLIANCE AND ON INTERNAL CONTROL OVER COMPLIANCE

Honorable William G. Holland
Auditor General
State of Illinois

Compliance

We have examined the State of Illinois, Illinois Power Agency's compliance with the 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 year ended June 30, 2013. The management of the State of Illinois, Illinois Power Agency is responsible for compliance with these requirements. Our responsibility is to express an opinion on the State of Illinois, Illinois Power Agency's compliance based on our examination.

A. The State of Illinois, Illinois Power Agency 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 State of Illinois, Illinois Power Agency 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 State of Illinois, Illinois Power Agency 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 State of Illinois, Illinois Power Agency 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 State of Illinois, Illinois Power Agency on behalf of the State or held in trust by the State of Illinois, Illinois Power Agency have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

INTERNET ADDRESS: AUDITOR@MAIL.STATE.IL.US

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 as adopted by the Auditor General pursuant to the Act; and, accordingly, included examining, on a test basis, evidence about the State of Illinois, Illinois Power Agency's compliance with those requirements listed in the first paragraph of this report and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the State of Illinois, Illinois Power Agency's compliance with specified requirements.

As described in items 2013-011 and 2013-012 in the accompanying schedule of findings, the State of Illinois, Illinois Power Agency did not comply with requirements regarding obligating, expending, receiving, and using public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law. As described in items 2013-002 and 2013-007 through 2013-010 in the accompanying schedule of findings, the State of Illinois, Illinois Power Agency did not comply with requirements regarding obligating, expending, receiving, and using 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. As described in items 2013-001, 2013-004 and 2013-013 in the accompanying schedule of findings, the State of Illinois, Illinois Power Agency did not comply with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations. As described in item 2013-003 in the accompanying schedule of findings, the State of Illinois, Illinois Power Agency did not comply with applicable laws and regulations concerning the collection of State revenues and receipts and the accounting and recordkeeping of such revenues and receipts is fair, accurate, and in accordance with law. Compliance with such requirements is necessary, in our opinion, for the State of Illinois, Illinois Power Agency to comply with the requirements listed in the first paragraph of this report.

In our opinion, except for the noncompliance described in the preceding paragraph, the State of Illinois, Illinois Power Agency complied, in all material respects, with the compliance requirements listed in the first paragraph of this report during the year ended June 30, 2013. However, the results of our procedures disclosed instances of noncompliance with the requirements, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of findings as items 2013-005, 2013-006, and 2013-014 through 2013-023.

Internal Control

Management of the State of Illinois, Illinois Power Agency is responsible for establishing and maintaining effective internal control over compliance with the requirements listed in the first paragraph of this report. In planning and performing our examination, we considered the State of Illinois, Illinois Power Agency's internal control over compliance with the requirements listed in the first paragraph of this report to determine the examination procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Audit Guide, issued by the Illinois Office of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of the State of Illinois, Illinois Power Agency's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois, Illinois Power Agency's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with the requirements listed in the first paragraph of this report on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a requirement listed in the first paragraph of this report will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings as items 2013-001 through 2013-004 and 2013-007 through 2013-013 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings as items 2013-005, 2013-006, and 2013-014 through 2013-023 to be significant deficiencies.

As required by the Audit Guide, immaterial findings excluded from this report have been reported in a separate letter.

The State of Illinois, Illinois Power Agency's responses to the findings identified in our examination are described in the accompanying schedule of findings. We did not examine the State of Illinois, Illinois Power Agency's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, and the State of Illinois, Illinois Power Agency's management, and is not intended to be and should not be used by anyone other than these specified parties.

Bruce L. Bullard

BRUCE L. BULLARD, CPA
Director of Financial and Compliance Audits

Springfield, Illinois
July 9, 2014

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OFFICE OF THE AUDITOR GENERAL
WILLIAM G. HOLLAND

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable William G. Holland
Auditor General
State of Illinois

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the aggregate remaining fund information of the State of Illinois, Illinois Power Agency, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the State of Illinois, Illinois Power Agency's basic financial statements, and have issued our report thereon dated July 9, 2014. Our report includes a reference to other auditors who audited the financial statements of the Illinois State Board of Investment - an internal investment pool of the State of Illinois - as described in our report on the State of Illinois, Illinois Power Agency's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State of Illinois, Illinois Power Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Illinois, Illinois Power Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois, Illinois Power Agency's internal control.

INTERNET ADDRESS: AUDITOR@MAIL.STATE.IL.US

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 were not identified. However, as described in the accompanying schedule of findings, we identified 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, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings as items 2013-001 through 2013-004 to be material weaknesses.

A *significant deficiency* 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 items 2013-005 and 2013-006 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Illinois, Illinois Power Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as item 2013-002.

State of Illinois, Illinois Power Agency's Response to Findings

The State of Illinois, Illinois Power Agency's responses to the findings identified in our audit are described in the accompanying schedule of findings. The State of Illinois, Illinois Power Agency's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State of Illinois, Illinois Power Agency's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Illinois, Illinois Power Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bruce L. Bullard
BRUCE L. BULLARD, CPA
Director of Financial and Compliance Audits

Springfield, Illinois
July 9, 2014

2013-001. **FINDING** (Inaccurate Financial Statements)

The Illinois Power Agency (Agency) did not prepare accurate financial statements. These financial reporting problems, if not identified and corrected, would have resulted in a material misstatement of the Agency's financial statements.

During testing, the auditors temporarily suspended the audit of the Agency's financial statements in February 2014 due to the number of significant errors noted by the auditors during testing, some of which are noted below:

- The Agency did not appear to have properly recognized revenue for Alternative Compliance Payments (ACPs) received and processed by the Illinois Commerce Commission on behalf of the Agency (see more information in Finding 2013-003), totaling $1,047,226 and $30,624,972 at June 30, 2012, and June 30, 2013, respectively.

- The Agency had not corrected its records during Fiscal Year 2013 for an erroneous accounts receivable related to ACPs, totaling $11,184, recorded in Fiscal Year 2012.

- The Agency understated its accounts receivable at June 30, 2013, totaling $382,346, for ACPs.

- The Agency had recorded payables based upon the Lapse Period expenditures for the Agency recorded by the State Comptroller as opposed to the Agency's own internal records. The net effect was an understatement of expenditures by $826.

- The Agency's supporting documentation for preparing the financial statements identified a transaction, totaling $26,774, not recorded by the State Comptroller without providing an explanation for the difference.

- The Agency's accounts receivable records indicated external parties had paid amounts due to the Agency, totaling $4,499, before the corresponding amount due had been billed by the Agency (see more information in Finding 2013-020).

- The Agency recorded transactions reversing expenses paid by the Agency when booking an accounts receivable balance. Additionally, it appears the Agency then attempted to correct the problem by entering transactions at year end to reestablish the expenses and corresponding revenue. The total reclass entry for this error totaled $788,662.

2013-001. **FINDING** (Inaccurate Financial Statements) (continued)

- The Agency recorded transactions related to Fiscal Year 2012 activity, totaling $92,192, in the Agency's Fiscal Year 2013 records.

The preceding matters noted were in addition to the following matters already encountered and resolved prior to February 2014, as noted below:

- The Agency recorded assets and liabilities that did not exist at June 30, 2013, in the Illinois Power Agency Trust Fund, totaling $26.835 million and $1.944 million, respectively. This was corrected by the State Comptroller before February 2014.

- The Agency did not record or disclose any liabilities or contingent liabilities for contracts to purchase renewable energy between June 2013 and May 2014. After notification from the auditors, the Agency contacted the suppliers to obtain the information necessary to properly present this information in the Agency's financial records and statements in October 2013 (see more information in Finding 2013-004).

During discussions with the Agency's management and external consultants, the auditors and the Agency agreed to the following steps to prepare auditable financial statements:

- The Agency would review every transaction recorded during Fiscal Year 2013 to check whether the transaction was properly entered into the Agency's records.

- The Agency would perform reconciliations of the Agency's cash, expenditures, and receipts to the records of the State Comptroller and explain all reconciling items.

The Agency provided revised financial information to the auditors in March 2014. The Agency recorded 17 adjusting journal entries to correct errors they discovered within their financial records during this review. During testing of the Agency's revised records, the auditors still noted the following errors and misstatements:

- The Agency's opening balances did not agree to the closing balances reported in the Agency's audited Fiscal Year 2012 financial statements. The auditors identified an adjusting journal entry from the prior year was posted by the Agency to the wrong period, totaling $86,567. The auditors proposed an adjusting entry to correct this error, which the Agency recorded in its financial records.

2013-001. **FINDING** (Inaccurate Financial Statements) (continued)

- The Agency's beginning balance for unavailable revenue related to ACPs in Fiscal Year 2012 was overstated by $1,047,226 (see more information in Finding 2013-003). The auditors proposed an adjusting entry to correct this error, which the Agency recorded in its financial statements.

- The Agency did not comply with statutory limitations on fund transfers from the Illinois Power Agency Trust Fund to the Illinois Power Agency Operations Fund (see more information in Finding 2013-002). The auditors proposed an adjusting entry to correct this error, which the Agency recorded in its financial statements. The total error identified by the auditors was $997,827.

- The Agency did not properly calculate its outstanding liabilities due to vendors for prompt payment interest not paid in prior years, overstating its liability by $48,620. The auditors proposed an adjusting entry to correct this error, which the Agency recorded in its financial statements.

The State Comptroller Act (15 ILCS 405/19.5(a)) requires the Agency report all financial information deemed necessary by the State Comptroller to compile and publish the State's Comprehensive Annual Financial Report. The Statewide Accounting Management System, Chapter 27, provides the mechanism for the Agency to prepare GAAP Reporting Packages for reporting financial information necessary for the State Comptroller to prepare the State's Comprehensive Annual Financial Report.

In accordance with Generally Accepted Accounting Principles (GAAP), all assets, liabilities, revenues, and expenses should be properly recorded in the proper fund in the financial statements. Governmental Accounting Standards Board Statement No. 34, Paragraph 113, *Basic Financial Statements*, states the Agency's notes to the financial statements should communicate information essential for the fair presentation of the financial statements not displayed on the face of the financial statements.

Finally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Agency establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

Agency officials stated these errors were due to oversight and human error.

2013-001. **FINDING** (Inaccurate Financial Statements) (continued)

Failure to properly record transactions and prepare accurate financial statements could have, if not detected and corrected, resulted in a material misstatement of the Agency's financial statements, reducing the overall reliability of Statewide financial reporting. (Finding Code No. 2013-001, 12-1)

RECOMMENDATION

We recommend the Agency enhance its accounting and financial reporting procedures to ensure its accounting records are accurate and allow for the accurate preparation of financial statements in accordance with accounting principles generally accepted in the United States of America.

AGENCY RESPONSE

The Agency agrees with the finding. The Agency has already implemented the following corrective actions to enhance its accounting and financial reporting procedures in order to address this finding. These actions included: (1) worked with external consultants, and the auditors, to identify and record necessary adjusting entries to ensure the accuracy of all Agency FY13 financial records and resulting corrected financial statements; (2) hired a Chief Operating Officer to assess the Agency's internal controls over all fiscal and operational processes; (3) hired a well-qualified and experienced Chief Financial Officer to ensure the accuracy and transparency of all Agency financial records; and, (4) finalized its Fiscal Operations Manual, which improves and governs all Agency financial operations and related procedures in accordance with applicable State statutes, rules, and regulations.

2013-002. **FINDING** (Noncompliance with the Investment Income Transfer Limitations of the State Finance Act)

The Illinois Power Agency (Agency) did not comply with statutory limitations on fund transfers from the Illinois Power Agency Trust Fund (Trust Fund) to the Illinois Power Agency Operations Fund (Operations Fund).

During Fiscal Year 2008, electric generating utilities operating within the State contributed $25 million to the Agency for deposit into the Trust Fund. Pursuant to the State Finance Act (Act) (30 ILCS 105/6z-75(c)), these moneys have been invested to generate investment income to both grow the corpus within the Trust Fund and provide an additional revenue source to fund the Agency's operations paid from the Operations Fund. Each year, the Agency is to transfer an amount not exceeding the lesser of either 90% of the investment income during the fiscal year or an amount appropriated by the General Assembly for deposit into the Operations Fund from the Trust Fund. The Agency must retain the remainder of the year's investment income and add it to the corpus within the Trust Fund, which cannot be considered in calculating future year transfers of investment income.

During testing, the auditors noted the following:

- The beginning balance of the Trust Fund at July 1, 2012, was less than the $25 million initially contributed to the Trust Fund in Fiscal Year 2008 by electric generating utilities. Although the Trust Fund has never had an investment loss during any year from Fiscal Year 2008 through Fiscal Year 2012, the balance of the fund had not increased by the amount of investment income that should have been retained within the Trust Fund and not transferred to the Operations Fund pursuant to the State Finance Act (30 ILCS 105/6z-75(c)). Further, it appears the Agency actually transferred a portion of the initial $25 million contribution from the Trust Fund to the Operations Fund. At July 1, 2012, auditors estimated cumulative excess transfers of $469,834, without considering the following bullet point.

- The General Assembly appropriated $0 to the Agency in Fiscal Year 2012 for transfer from the Trust Fund to the Operations Fund. The Agency's Fiscal Year 2012 financial statements did not include any interfund activity disclosures related to a potential transfer of investment income from the Trust Fund to the Operations Fund. During Fiscal Year 2013, the Agency recorded a transaction to transfer $92,192 as a "Transfer of FY12 424 Investment Income." This amount was not ultimately withdrawn from the Trust Fund's account at the Illinois State Board of Investment until July 3, 2013.

2013-002. **FINDING** (Noncompliance with the Investment Income Transfer Limitations of the State Finance Act) (continued)

- The General Assembly appropriated $300,000 to the Agency in Fiscal Year 2013 for transfer from the Trust Fund to the Operations Fund. The Agency's Fiscal Year 2013 financial statements included an accrual due from the Trust Fund to the Operations Fund for $735,801 from Fiscal Year 2013 investment income. This amount exceeds the appropriation limitation by $435,801. The Agency had not requested this $735,801 transfer as of the close of fieldwork.

The auditors proposed adjusting journal entries to the Agency to correct these errors, which the Agency recorded in the financial statements.

The Act (30 ILCS 105/6z-75(c)) provides, "the General Assembly may annually appropriate from the ... Trust Fund to the ... Operations Fund an amount not to exceed 90% of the annual investment income earned by the ... Trust Fund to the Illinois Power Agency. Any investment income not appropriated by the General Assembly in a given fiscal year shall be added to the principal of the ... Trust Fund, and thereafter considered a part thereof and not subject to appropriation as income earned by the ... Trust Fund." The State Constitution (Article VIII, Section 2(b)) empowers the General Assembly by law to make appropriations for all expenditures of public funds by the State. The Act (30 ILCS 105/25(a)) states "all appropriations shall be available for expenditure for the fiscal year or for a lesser period if the Act making that appropriation so specifies."

Further, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Agency establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance that transfers of resources applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

Finally, the Trust Fund is classified for financial reporting purposes as a permanent fund. Governmental Accounting Standards Board Statement No. 34, Paragraph 65, *Basic Financial Statements*, states "permanent funds should be used to report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs."

Agency officials stated they initially had a different interpretation of the limitations on the transfer of investment income pursuant to appropriations.

2013-002. **FINDING** (Noncompliance with the Investment Income Transfer Limitations of the State Finance Act) (continued)

Failure to properly transfer investment income from the Trust Fund to the Operations Fund represents noncompliance with the State Finance Act and could have, if not detected and corrected, resulted in a material misstatement of the Agency's financial statements, reducing the overall reliability of Statewide financial reporting. (Finding Code No. 2013-002)

RECOMMENDATION

We recommend the Agency record and perform transfers of investment income in accordance with the provisions of the State Finance Act. In addition, we recommend the Agency return the amount of excess transfers to the Trust Fund.

AGENCY RESPONSE

The Agency agrees with the finding. The Agency has identified and implemented corrective actions necessary to ensure prior transfers accurately reflect movement of funds in accordance with applicable State statutes, rules, and regulations.

The Agency notes that the cause of this finding originates in activities undertaken by the Agency in FY11 and FY12 and involves aspects of the State Finance Act that include ambiguous language that was interpreted differently by previous Agency staff.

Additionally, the Agency (1) hired a Chief Operating Officer to assess the Agency's internal controls over all fiscal and operational processes; (2) hired a well-qualified and experienced Chief Financial Officer to ensure the accuracy and transparency of all Agency financial records; and, (3) finalized its Fiscal Operations Manual, which improves and governs all Agency financial operations and related procedures in accordance with applicable State statutes, rules, and regulations.

2013-003. **FINDING** (Inadequate Controls over Alternative Compliance Payments)

The Illinois Power Agency (Agency) did not establish internal controls to properly record receivables and ensure the accuracy of Alternative Compliance Payments (ACPs) remitted by Alternative Retail Electric Suppliers (ARES).

At the conclusion of each Energy Year (June - May), each ARES calculates its ACP liability by preparing a spreadsheet to self-report amounts due to the Illinois Commerce Commission (Commission) and remits the calculated amount due by September 1. During Fiscal Year 2013, the processing of all ACPs was administered by the Commission. The Commission accepted payments, verified the payment's accuracy to the self-reported spreadsheet submitted by the ARES, and deposited the cash receipts into the Illinois Power Agency Renewable Energy Resources Fund (Renewable Fund). The Agency's Director performed a review of ACP receivables at June 30, 2013, that were paid to the Commission in October 2013.

During testing, the auditors noted the following:

- The Agency did not properly record both prior year and current year transactions within the Renewable Fund. The auditors noted the Agency did not capture or consider the receipt date of ACPs paid to the Commission to properly cut off revenue recognition at the conclusion of the State's Lapse Period. The auditors proposed a $1,047,226 and a $30,624,972 reduction in unavailable revenue at June 30, 2012, and June 30, 2013, respectively.

  After notification from the auditors of this condition, the Agency recorded the adjusting journal entries necessary to restate the opening balances for prior year errors and corrected the current year's errors.

  In accordance with Generally Accepted Accounting Principles (GAAP), all assets, liabilities, revenues, and expenses should be properly recorded in the proper fund in the financial statements. Governmental Accounting Standards Board Statement No. 33, Paragraph 29, *Accounting and Financial Reporting for Nonexchange Transactions*, states the Agency should recognize revenues "in the accounting period when they become available and measurable" under the modified accrual basis of accounting within the governmental funds.

2013-003. **FINDING** (Inadequate Controls over Alternative Compliance Payments) (continued)

Further, the State Comptroller Act (15 ILCS 405/19.5(a)) requires the Agency report all financial information deemed necessary by the State Comptroller to compile and publish the State's Comprehensive Annual Financial Report. The Statewide Accounting Management System, Chapter 27, provides the mechanism for the Agency to prepare GAAP Reporting Packages detailing revenues and unavailable revenues for reporting financial information necessary for the State Comptroller to prepare the State's Comprehensive Annual Financial Report.

- The Agency did not have an interagency agreement with the Commission detailing the specific functions, duties, and responsibilities of both the Agency and the Commission for the accounting, recordkeeping, collection, and deposit of ACPs (see more information in Finding 2013-017).

The State Records Act (5 ILCS 160/8) requires the Agency's Director make and preserve records containing adequate and proper documentation of the organization, functions, policies, decisions, procedures, and essential transactions of the Agency designed to furnish information to protect the legal and financial rights of the State.

- The Agency does not have a mechanism to identify any potential credit carry-forwards or refunds due to retail electric suppliers for financial reporting purposes. During the audit period, the Commission reported the existence of two overpayments from retail electric suppliers to the auditors, totaling $158.

The Illinois Administrative Code (Code) (83 Ill. Admin. Code 455.130(g)) requires the Commission to carry forward to subsequent years the amount of excess ACPs, unless and to the extent to which the retail electric supplier petitions for and is granted permission to apply to the Agency for a refund. Further, the Code (83 Ill. Admin. Code 455.150(b)) provides an ARES may petition the Commission for a refund of ACPs recognized by the Commission to be in excess of the statutory requirements.

Agency officials stated this provision of the Code only binds the Commission, as the Agency has no other statutory or administrative requirement to administer the credit carry-forward. The auditors note the Agency is solely responsible for the proper financial reporting of the Renewable Fund.

2013-003. **FINDING** (Inadequate Controls over Alternative Compliance Payments) (continued)

- The Agency has not coordinated with the Commission to establish a process and procedure for the refund of excess ACPs. Additionally, the auditors noted the Agency does not have any appropriation authority to actually pay a refund if the Commission allowed an ARES to apply to the Agency for a refund.

  The Code (83 Ill. Admin Code 455.150(b)) requires the Commission coordinate with the Agency in developing a process and procedure to refund payments in excess of the statutory requirements. Public Act 097-0731 appropriated $8,000,000 to the Agency from the Renewable Fund for funding purchases of renewable energy or Renewable Energy Credits during Fiscal Year 2013 and did not include an appropriation for the payment of ACP refunds.

  Agency officials stated the Agency would have objected to the regulation when it was proposed by the Commission because it exceeded the statutory authority of both the Agency and Commission.

The Agency is ultimately responsible for the activities the Commission conducts on its behalf. The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Agency establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance that revenues and funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

Failure to consider the receipt date of moneys received by the Commission within the Agency's financial statements and GAAP Reporting Packages could have, if not detected and corrected, resulted in a material misstatement of the Agency's financial statements, reducing the overall reliability of Statewide financial reporting.

Additionally, failure to develop formal, written policies and procedures detailing the relationship between the Agency and the Commission led to noncompliance with State laws, rules, and regulations. (Finding Code No. 2013-003, 12-2, 11-1)

2013-003. **FINDING** (Inadequate Controls over Alternative Compliance Payments) (continued)

RECOMMENDATION

We recommend the Agency work with the Commission to obtain the information necessary to properly report ACPs in the Agency's financial statements. Further, the Agency should work with the Commission to address the issuance of, and financial reporting for, refunds and credit carry-forwards, or seek a legislative remedy.

AGENCY RESPONSE

The Agency agrees with the finding. The Agency has identified and implemented corrective actions necessary to ensure alternative compliance payments are recorded in accordance with applicable State statutes, rules, and regulations. As of October 10, 2013, the Agency memorialized an interagency agreement with the Illinois Commerce Commission. The Agency will work with the Illinois Commerce Commission to take additional corrective actions including, but not limited to, updating the interagency agreement to address this finding.

Additionally, the Agency (1) hired a Chief Operating Officer to assess the Agency's internal controls over all fiscal and operational processes; (2) hired a well-qualified and experienced Chief Financial Officer to ensure the accuracy and transparency of all Agency financial records; and, (3) finalized its Fiscal Operations Manual, which improves and governs all Agency financial operations and related procedures in accordance with applicable State statutes, rules, and regulations.

2013-004. **FINDING** (Inadequate Controls over the Purchase of Renewable Energy Credits)

The Illinois Power Agency (Agency) did not comply with State laws and regulations regarding accounting for the Agency's expenditures from its Renewable Energy Resources Fund (Renewable Fund).

During Fiscal Year 2013, the Agency entered into contracts with Renewable Energy Suppliers (RES) to purchase Renewable Energy Credits (RECs) curtailed by order of the Illinois Commerce Commission (Commission). Under the terms of the contracts, the RES have the option, but not the obligation, to deliver RECs to the Agency under the terms of the contracts for energy produced from June 1, 2013, through May 31, 2014. The contracts require settlement by the RES providing RECs for retirement to the Agency on or before July 20, 2014.

The total potential cost of the REC purchase contracts is $2,240,006. The Agency could potentially procure an amount not to exceed 2,974 photovoltaic (solar) RECs and 118,646 wind RECs.

During testing, the auditors noted the following:

- The Agency did not structure the terms of its contracts as to require settlement for RECs produced in June 2013 by the conclusion of the State's Fiscal Year 2013 Lapse Period on August 31, 2013. According to auditor confirmations with the RES, they expect to deliver 648 photovoltaic RECs and 318 wind RECs produced in June 2013 to the Agency, totaling $97,473. As the Agency's contracts did not require settlement, the RES did not deliver the RECs and provide a proper bill to the Agency, resulting in the Agency not charging Fiscal Year 2013 appropriations for expenses incurred during the fiscal year and pushing these expenses out to future year appropriations.

  The State Constitution (Article VIII, Section 2(b)) states, "[t]he General Assembly by law shall make appropriations for all expenditures of public funds by the State." The State Finance Act (30 ILCS 105/25(a)) states, "appropriations shall be available for expenditure for the fiscal year … that the appropriation so specifies." Public Act 097-0731 appropriated $8,000,000 to the Agency from the Renewable Fund for funding purchases of renewable energy or RECs during Fiscal Year 2013.

2013-004. **FINDING** (Inadequate Controls over the Purchase of Renewable Energy Credits) (continued)

- The Agency did not report a liability for the $97,473 payable related to June 2013 RECs or disclose the existence of the $2,142,533 contingent commitment of future resources related to the remaining value of outstanding contracts to the Office of the State Comptroller. After receiving notification from the auditors of this condition, the Agency calculated the liability and prepared footnote disclosures to describe the existence of this transaction within the Agency's financial statements.

  The State Comptroller Act (15 ILCS 405/19.5(a)) requires the Agency report all financial information deemed necessary by the State Comptroller to compile and publish the State's Comprehensive Annual Financial Report. The Statewide Accounting Management System, Chapter 27, provides the mechanism for the Agency to prepare GAAP Reporting Packages detailing outstanding liabilities, current year expenses, and any contingencies or commitments for reporting financial information necessary for the State Comptroller to prepare the State's Comprehensive Annual Financial Report.

  In accordance with Generally Accepted Accounting Principles (GAAP), all assets, liabilities, revenues, and expenses should be properly recorded in the proper fund in the financial statements. Governmental Accounting Standards Board Statement No. 34, Paragraph 113, *Basic Financial Statements*, states the Agency's notes to the financial statements should communicate information essential for the fair presentation of the financial statements not displayed on the face of the financial statements.

  Agency officials stated the financial reporting errors were due to oversight.

- The Agency did not procure RECs from distributed renewable energy generation devices.

  The Illinois Power Agency Act (Act) (20 ILCS 3855/1-56(b)) requires the Agency to procure renewable energy resources. Of the renewable energy resources procured, at least 0.5% shall come from distributed renewable energy generation devices by June 1, 2013.

  Agency officials stated the Agency could not lawfully procure RECs from distributed renewable energy generation devices due to two regulatory and statutory barriers.

2013-004. **FINDING** (Inadequate Controls over the Purchase of Renewable Energy Credits) (continued)

First, the Agency can only procure resources for the utilities subject to the provisions of a procurement plan approved by the Commission. In Fiscal Year 2013, the Commission did not approve the procurement of distributed generation resources. The Commission's Final Order stated, "Given current circumstances, the Commission concludes that no procurement of distributed generation should be undertaken for the 2013-2014 procurement period" (Docket No. 12-0544, Final Order at page 122).

Second, two provisions of the Illinois Power Agency Act (20 ILCS 3855/ 1-56(c) and 20 ILCS 3855/1-56(d)) require that REC procurements from the Renewable Fund must be held "in conjunction with a procurement event for electric utilities" and that the price paid for RECs "shall not exceed the winning bid prices paid for like resources procured for electric utilities." As the Agency did not conduct a procurement event for the utilities in Fiscal Year 2013 (including a procurement of "like resources," such as RECs from distributed generation, as noted above), Agency officials deemed it was impossible to procure RECs from distributed renewable energy generation devices using the Renewable Fund in Fiscal Year 2013.

- The Agency did not create credit requirements for suppliers of distributed renewable energy. Additionally, the Agency did not solicit the use of third-party organizations to aggregate distributed renewable energy into groups of no less than one megawatt in installed capacity.

  The Act (20 ILCS 3855/1-56(b)) requires the Agency to create credit requirements for suppliers of distributed renewable energy and solicit the use of third-party organizations to aggregate distributed renewable energy into groups of no less than one megawatt in installed capacity.

  Agency officials stated that if the Agency's 2013 Procurement Plan was to have gone forward, the plan set out certain proposed credit terms and the Agency would have solicited third-party groups after authorization to hold a 2013 Procurement Event from the Commission.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Agency establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance that expenditures applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

2013-004. **FINDING** (Inadequate Controls over the Purchase of Renewable Energy Credits) (continued)

Failure to structure contractual agreements to include a settlement at the conclusion of the State's fiscal year resulted in the Agency not charging Fiscal Year 2013 appropriations for expenses incurred during the fiscal year and pushing these expenses out to future year appropriations, in violation of the State Finance Act. Further, failure to record and report all liabilities, commitments, and contingencies within the Agency's financial statements and GAAP Reporting Packages could have, if not detected and corrected, resulted in a material misstatement of the Agency's financial statements and related note disclosures, reducing the overall reliability of Statewide financial reporting.

Additionally, failure to procure renewable energy resources from distributed renewable energy generation devices, create credit requirements for suppliers of distributed renewable energy, and solicit the use of third-party organizations to aggregate distributed renewable energy into groups of no less than one megawatt in installed capacity represents noncompliance with the Act. (Finding Code No. 2013-004)

RECOMMENDATION

We recommend the Agency structure its contractual agreements to accommodate fiscal year limitations and identify and record all liabilities and contingencies in the financial statements. Further, the Agency should create credit requirements for suppliers of distributed renewable energy and procure RECs from distributed renewable energy generation devices, or seek a legislative remedy.

AGENCY RESPONSE

The Agency agrees with the finding. FY13 was the first time in the Agency's history that it purchased Renewable Energy Credits (REC) and the contracts were structured to reflect the energy delivery-year schedule, which starts one month prior to the State fiscal year end. The Agency will ensure that any future contracts for the purchase of RECs account for that difference, and will properly record all liabilities and contingencies.

Regarding the purchase of RECs from distributed renewable energy generation devices, Public Act 098-0672, signed into law by Governor Quinn effective on June 30, 2014, will allow the Agency to begin to purchase these resources in calendar year 2015 and will also facilitate the development of the applicable credit requirements.

2013-005. **FINDING** (Failure to Perform Reconciliations from the Agency's Records to the State Comptroller's Records)

The Illinois Power Agency (Agency) did not perform reconciliations of the Agency's records to the State Comptroller's records.

During testing, the auditors noted the Agency did not perform reconciliations between the Agency's records and the following reports from the State Comptroller during Fiscal Year 2013:

- Monthly Appropriations Status Report (SB01);
- Monthly Revenue Status Report (SB04);
- Monthly Cash Report (SB05);
- Monthly Object Expense/Expenditures by Quarter Report (SA02);
- Monthly Agency Contract Report (SC14); and,
- Monthly Obligation Activity Report (SC15).

The Statewide Accounting Management System (SAMS), Procedure 07.30.20, notes "the effectiveness of any accounting and financial information system is very much dependent on the accuracy of data submitted and the confidence of its users that the system handled that data properly. Agency reconciliation is the primary control that insures these requirements are being satisfied." As such, SAMS Procedures 11.40.10, 25.40.10, 09.40.10, 07.30.21, 15.30.10, and 15.30.20 establish processes for a monthly reconciliation of the SB01, SB04, SB05, SA02, SC14, and SC15 reports generated by the Office of the State Comptroller.

Agency officials stated the deficiency was due to resource constraints.

The Agency did eventually prepare reconciliations of the SB01, SB04, and SB05 reports in February and March 2014, as requested by the auditors to continue auditing the Agency's financial statements and underlying accounting records (see more information in Finding 2013-001).

Failure to reconcile the Agency's records to the State Comptroller's records represents noncompliance with the Statewide Accounting Management System and could result in incomplete or inaccurate financial information. (Finding Code No. 2013-005, 12-5, 11-7, 10-15)

RECOMMENDATION

We recommend the Agency perform and document a monthly reconciliation of the Agency's internal records to the State Comptroller's records.

2013-005. **FINDING** (Failure to Perform Reconciliations from the Agency's Records to the State Comptroller's Records) (continued)

AGENCY RESPONSE

The Agency agrees with the finding. The Agency has identified and implemented corrective actions necessary to ensure all applicable monthly reconciliations (Agency to Comptroller) were prepared as mandated by applicable SAMS procedures. The Agency has (1) hired a Chief Operating Officer to assess the Agency's internal controls over all fiscal and operational processes; (2) hired a well-qualified and experienced Chief Financial Officer to ensure the accuracy and transparency of all Agency financial records; and, (3) finalized its Fiscal Operations Manual, which improves and governs all Agency financial operations and related procedures in accordance with applicable State statutes, rules, and regulations.

2013-006. **FINDING** (Inadequate Controls over the Agency's Information Systems)

The Illinois Power Agency (Agency) had not established adequate controls over its computing environment.

During the audit of the financial statements for the year ended June 30, 2013, the auditors identified control deficiencies related to the Agency's information systems. The Agency utilizes two different applications to process, accumulate, and analyze its financial information.

During testing, the auditors noted the following:

- The Agency had not established adequate segregation of duties over processing financial transactions. The auditors noted the two employees processing financial transactions during the engagement period had the same powers and access rights within both applications. Additionally, the auditors noted the Agency had not conducted access reviews to determine who was able to and who should be able to utilize both applications to process, accumulate, and analyze the Agency's financial data.

- The Agency did not have separate accounts and passwords to access its financial reporting application. The auditors noted the two employees processing financial data each used the same account to access the application. Additionally, the auditors noted the application was not set up as to designate which individuals entered and reviewed journal entries within this application.

- While the data on the Agency's server, which has data supporting the Agency's $89 million in assets, was being backed up on a regular basis, the distance between the Agency's office and the backup site was insufficient to provide reasonable assurance a regional disaster would not destroy the Agency's data.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Agency establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance "funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources." Generally accepted information technology guidance includes promoting the recovery of critical data, ensuring employees do not share accounts and passwords, journal entries identify the preparer and reviewer, and employee powers and access rights within computer applications are appropriately disbursed to reflect each employee's responsibilities in the processing of the Agency's financial information.

2013-006. **FINDING** (Inadequate Controls over the Agency's Information Systems) (continued)

Agency officials stated the exceptions noted were due to oversight and the small size of the Agency.

Without the implementation of adequate controls and procedures, there is an increased risk that unauthorized individuals may gain access to the Agency's information system resources. These deficiencies increase the risk that the confidentiality, integrity, and availability of the Agency's data will be compromised. (Finding Code No. 2013-006)

RECOMMENDATION

We recommend the Agency evaluate its environment to segregate duties over the processing of financial transactions, establish separate accounts and passwords within its financial reporting applications, and ensure the geographic distance between the Agency's office and backup site is of sufficient distance to permit recovery in the event of a regional disaster.

AGENCY RESPONSE

The Agency agrees with the finding. The Agency has identified and implemented corrective actions necessary to address and remedy this finding including the upgrade of the Agency's accounting system to allow for separate accounts and passwords.

The Agency will evaluate it options with CMS, as well as alternative approaches, to ensure the security of its records in the event of a regional disaster.

2013-007. **FINDING** (Failure to Adopt Formal Administrative Rules)

The Illinois Power Agency (Agency) did not adopt rules and regulations for the Agency's operations, administration, accounting, and reporting as required by the Illinois Power Agency Act.

During testing, the auditors noted the Agency had not adopted formal agency rules, established procedures for monitoring the administration of contracts, established procedures for the recovery of costs incurred in connection with the development and construction of a facility, or implemented accounting rules.

The Illinois Power Agency Act (20 ILCS 3855/1-35) requires the Agency adopt rules establishing procedures for (1) monitoring the administration of contracts administered, directly or indirectly, by the Agency; (2) the recovery of costs incurred in connection with the development or construction of a facility if the Agency cancels the construction process; and, (3) implementing a system of accounts in accordance with State law to permit reporting required by State, the Illinois Finance Authority, the Illinois Power Agency Act, or the Public Utilities Act.

Agency officials stated the Agency has been working to resolve this matter within their staffing constraints.

Formal administrative rules provide a basis for a proper accounting of the transactions of the Agency, protect the Agency from legal challenges, and give additional legitimacy to Agency actions and Agency requests of external parties. Failure to adopt formal rules represents noncompliance with the Illinois Power Agency Act and could result in a failure to establish and adequately monitor internal controls and proper reporting. (Finding Code No. 2013-007, 12-10, 11-18, 10-11, 09-6)

RECOMMENDATION

We recommend the Agency draft and adopt formal agency rules, establish procedures for monitoring the administration of contracts, establish procedures for the recovery of costs incurred in connection with the development and construction of a facility, and implement accounting rules.

AGENCY RESPONSE

The Agency agrees with the finding. The Agency rules relating to a system of accounts were adopted by the Joint Committee on Administrative Rules on April 28, 2014, and published on May 9, 2014, as Title 83, Part 1220 of the Illinois Administrative Code. The Agency intends to initiate the other rulemakings during FY15.

2013-008. **FINDING** (Failure to Adopt Administrative Rules for Fees and Charges)

The Illinois Power Agency (Agency) did not adopt formal rules related to fees and charges it is authorized to collect and deposit.

During testing, the auditors noted that although the Agency was established in Fiscal Year 2008, the Agency has not adopted rules for fees and charges it is expressly authorized to collect and deposit into the Illinois Power Agency Operations Fund (Operations Fund) to fund the Agency's operations. During Fiscal Year 2013, the Agency reported cash receipts of $2,437,036 in bidder and supplier fees for the Operations Fund.

The Illinois Power Agency Act (20 ILCS 3855/1-55) requires the Agency "adopt rules regarding charges and fees it is expressly authorized to collect in order to fund the operations of the Agency" and deposit these receipts generated under these rules into the Operations Fund.

Agency officials stated the Agency lacked sufficient time and resources to complete the process to adopt the rulemaking required by the Illinois Power Agency Act beyond certain preliminary steps.

Formal administrative rules provide a basis for a proper accounting of the transactions of the Agency, protect the Agency from legal challenges, and give additional legitimacy to Agency actions and Agency requests of external parties. Failure to adopt rules regarding charges and fees for deposit into the Operations Fund represents noncompliance with the Illinois Power Agency Act and could result in failure to collect appropriate funding for the Agency's operations. (Finding Code No. 2013-008, 12-8, 11-11, 10-16)

RECOMMENDATION

We recommend the Agency draft and adopt formal agency rules for charges and fees it is expressly authorized to collect in order to fund the Agency's operations.

AGENCY RESPONSE

The Agency agrees with the finding. The Agency rules relating to fees and charges were adopted by the Joint Committee on Administrative Rules on April 28, 2014, and published on May 9, 2014, as Title 83, Part 1200 of the Illinois Administrative Code.

2013-009. **FINDING** (Failure to Adopt Rules for Developing Prequalified Supplier Lists)

The Illinois Power Agency (Agency) did not promulgate rules as required by the Illinois Procurement Code.

During testing, the auditors noted the Agency did not promulgate rules for the development of prequalified supplier lists for construction and construction-related professional services.

The Illinois Procurement Code (30 ILCS 500/30-20(b)) requires the Agency promulgate rules for "the development of prequalified supplier lists for construction and construction-related professional services and the periodic updating of those lists."

Agency officials stated they lacked sufficient resources to promulgate the required rules.

Failure to promulgate rules for the development of prequalified supplier lists for construction and construction-related professional services represents noncompliance with the Illinois Procurement Code. (Finding Code No. 2013-009, 12-12, 11-15, 10-18, 09-16)

RECOMMENDATION

We recommend the Agency establish rules for the development of prequalified supplier lists for construction and construction-related professional services.

AGENCY RESPONSE

The Agency agrees with the finding. The Agency intends to initiate the rulemaking during FY15.

2013-010. **FINDING** (Failure to Establish a Resource Development Bureau)

The Illinois Power Agency (Agency) did not establish a Resource Development Bureau.

During testing, the auditors noted the following:

- The Agency did not establish a Resource Development Bureau.

  The Illinois Power Agency Act (Act) (20 ILCS 3855/1-70(b)) requires the Agency establish a Resource Development Bureau within the Agency.

- The Agency's Director did not appoint a Chief of the Resource Development Bureau.

  The Act (20 ILCS 3855/1-70(d)) requires the Agency's Director appoint a Chief of the Resource Development Bureau who has at least five years of direct experience in electric generation project development and an advanced degree in economics, engineering, law, business, or a related field.

Agency officials stated the Agency has not established the Resource Planning and Development Bureau nor hired the Bureau's Chief because they do not anticipate a need for these functions based upon recent procurement events.

Failure to establish a Resource Development Bureau represents noncompliance with the Illinois Power Agency Act. (Finding Code No. 2013-010, 12-9, 11-17, 10-12, 09-7)

RECOMMENDATION

We recommend the Agency establish a Resource Development Bureau, or seek a legislative remedy.

2013-010. **FINDING** (Failure to Establish a Resource Development Bureau) (continued)

AGENCY RESPONSE

The Agency agrees with the finding. However, as previously noted in the Agency response to FY11 Finding 11-17 and FY12 Finding 12-9, the Agency respectfully submits that although Section 1-70 of the IPA Act requires hiring of a Chief of the Resource Development Bureau, the Agency believes that hiring for this position would not be a prudent use of State resources at this time. This is because, based on the results of this year's electricity procurement planning the Agency is required to undertake pursuant to Section 1-75 of the IPA Act, there is and will be no need for the Agency to develop generation pursuant to Section 1-80 of the IPA Act in the short or medium term. As a result, the Agency believes there would be little to no substantive work for the Chief of the Resource Development Bureau to undertake for several years.

The Agency continues to express its concern regarding the hiring of a Bureau Chief for the Resource Development Bureau.

2013-011. **FINDING** (Inadequate Controls over Voucher Processing)

The Illinois Power Agency (Agency) did not maintain adequate controls over its expenditure and voucher processing functions.

During testing of 45 vouchers, totaling $474,269, the auditors noted the following:

- Seven (16%) vouchers tested, totaling $173,451, did not have the amount billed by the vendor paid by the Agency. As opposed to rejecting a bill deemed incorrect by the Agency and reporting the improper bill back to the vendor for correction and/or submission of additional supporting documentation, the Agency adjusted the bill and paid only the amount considered correct by the Agency. The documentation provided to auditors was not sufficient to determine if corrections were provided to the vendor and/or how the Agency derived the amount ultimately paid to the vendor.

  The Illinois Administrative Code (Code) (74 Ill. Admin. Code 900.80(a)) requires the Agency, when reviewing a bill submitted that lacks sufficient and/or correct information as required by the Agency to process the bill, shall not consider the bill a Proper Bill until it is completed by and/or additional information is provided by the vendor. In addition, the Code (74 Ill. Admin. Code 900.70(c)) requires the Agency notify the vendor of a bill's defects and maintain documentation of this notification and subsequent actions taken by the Agency and vendor.

- The Agency did not comply with fiscal year limitations for appropriated expenditures. The auditors noted the following:

  - One (2%) voucher tested, totaling $20,696, included an offset by the Agency for a Fiscal Year 2012 overpayment of $86,567 to the vendor. As the Agency did not seek a refund of the overpayment and internally offset the overpayment without presenting vouchers for the full Fiscal Year 2013 expense, the Agency did not report to and the State Comptroller did not record $86,567 of expenditures against the Agency's Fiscal Year 2013 appropriations.

  - One (2%) voucher tested, totaling $16,980, paid $668 of Fiscal Year 2014 expenditures from Fiscal Year 2013 appropriations.

2013-011. **FINDING** (Inadequate Controls over Voucher Processing) (continued)

The State Constitution (Article VIII, Section 2(b)) empowers the General Assembly by law to make appropriations for all expenditures of public funds by the State. The State Finance Act (30 ILCS 105/25(a)) states "all appropriations shall be available for expenditure for the fiscal year or for a lesser period if the Act making that appropriation so specifies." Further, the State Comptroller Act (15 ILCS 405/10.14) establishes a process that, when an appropriation has lapsed, overpayments returned "shall be credited to the fund on which the warrant was drawn and credited to the expenditure authorization to which the warrant was charged."

- Three (7%) vouchers tested, totaling $168, included payments for shipping charges incurred by the Department of Central Management Services, totaling $96.

The State Finance Act (30 ILCS 105/9.04) requires the Agency certify "the goods or services specified on this voucher were for the use of this agency."

- One (2%) voucher tested, totaling $3,387, was not approved by the Agency within 30 days of receiving the invoice. The voucher was approved 54 days late.

The Code (74 Ill. Admin. Code 900.70(b)) requires the Agency review a bill and either deny or approve the bill, in whole or in part, within 30 days after physical receipt of the bill.

- Three (7%) vouchers tested, totaling $11,914, were not completed properly by the Agency. The missing information and discrepancies noted included a lack of proper signatures on a voucher, the lack of a voucher date, and a traveler signing and dating a travel voucher before the date of travel.

The Statewide Accounting Management System (SAMS), Procedures 17.20.10 and 17.20.20, requires the Agency enter the voucher's batch date on each processed voucher. Good internal controls include obtaining all required signatures prior to submitting a voucher to the State Comptroller for payment and ensuring employees do not prepare and submit travel vouchers prior to actually going on a trip.

- One (2%) voucher tested, totaling $36,168, did not comply with the travel regulations for vendors. The Agency overpaid per diem by $10 and the traveler did not document three attempts to obtain lodging at the State rate of $90 before accepting lodging with a per night cost of $239.

2013-011. **FINDING** (Inadequate Controls over Voucher Processing) (continued)

The Code (80 Ill. Admin. Code 2800.Appendix A) establishes out-of-State per diem at $8 per quarter day and out-of-State lodging in Pittsburgh, Pennsylvania at $90 per night. Further, the Code (80 Ill. Admin. Code 2800.710(b)) requires a diligent effort to obtain lodging at the State's rate prior to accepting lodging costs which exceed the maximum permitted rate.

- Four (9%) vouchers tested, totaling $229, were coded by the Agency with the incorrect detail object code.

  SAMS, Procedure 11.10.50, requires the Agency assign a proper detail object code to report expenditure information at a more refined level within a common object of expenditure.

- The Agency did not consecutively number all of its vouchers within the fiscal year.

  SAMS, Procedures 17.20.10 and 17.20.20, requires the assignment of a unique number to each voucher within each fiscal year. Good internal controls over accounts payable include assigning each voucher a sequential number to provide reasonable assurance as to the completeness of the Agency's expenditure records.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Agency establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance expenditures applicable to operations are properly recorded and accounted for to permit the preparation of reliable financial and statistical reports and to maintain accountability over the State's resources.

Agency officials stated the noted deficiencies in expenditure processing were a result of staff oversight.

Failure to process bills in accordance with the provisions of the Code may result in payment errors to vendors, increasing the risk of confusion among the Agency and its vendors, litigation regarding unpaid claims, and increases the risk of a material misstatement within the Agency's financial statements from unrecognized expenses. Failure to comply with the appropriation limitations of the State Finance Act represents noncompliance with State law and reduces legislative control over the Agency's expenditures. Further, failure to exercise adequate control increases the risk of improper payments and limits the usefulness of Statewide expenditure reporting. (Finding Code No. 2013-011)

2013-011. **FINDING** (Inadequate Controls over Voucher Processing) (continued)

RECOMMENDATION

We recommend the Agency establish controls over its voucher processing system to only pay the Agency's proper bills, charge expenditures to the correct fiscal year's appropriation and detail object code, properly approve invoices for payment in a timely manner, and consecutively number vouchers.

AGENCY RESPONSE

The Agency agrees with the finding. The Agency has identified and implemented corrective actions necessary to ensure adequate control over its expenditure and vouchering processes. The Agency has (1) hired a Chief Operating Officer to assess the Agency's internal controls over all fiscal and operational processes; (2) hired a well-qualified and experienced Chief Financial Officer to ensure the accuracy and transparency of all Agency financial records; and, (3) finalized its Fiscal Operations Manual, which improves and governs all Agency financial operations and related procedures in accordance with applicable State statutes, rules, and regulations.

2013-012. **FINDING** (Noncompliance with Appropriation Laws)

The Illinois Power Agency (Agency) did not properly use appropriations within the Illinois Power Agency Trust Fund (Trust Fund).

During testing, the auditors noted the following:

- The Agency circumvented the appropriations process by directly depositing investment income received from the Illinois State Board of Investment, totaling $92,192, into the Illinois Power Agency Operations Fund (Operations Fund) as opposed to depositing the receipt into the Trust Fund and performing an interfund cash transfer to move the moneys, pursuant to appropriation, into the Operations Fund.

  Public Act 97-0064 did not appropriate any funds to the Agency from the Trust Fund for the deposit of investment income into the Operations Fund during Fiscal Year 2012. Further, the State Finance Act (30 ILCS 105/6z-75(c)) provides, "the General Assembly may annually appropriate from the ... Trust Fund to the ... Operations Fund an amount not to exceed 90% of the annual investment income earned by the ... Trust Fund to the Illinois Power Agency. Any investment income not appropriated by the General Assembly in a given fiscal year shall be added to the principal of the ... Trust Fund, and thereafter considered a part thereof and not subject to appropriation as income earned by the ... Trust Fund."

- During Fiscal Year 2013, the Agency transferred the remaining cash on deposit in the Trust Fund within the State Treasury, totaling $36,324, to the Illinois State Board of Investment. To perform this transaction, the Agency incorrectly charged the entire amount to its Fiscal Year 2013 appropriation for transferring moneys from the Trust Fund to the Operations Fund as opposed to charging this activity to the Trust Fund's nonappropriated interfund cash transfer line item.

  Public Act 097-0731 appropriated $300,000 to the Agency from the Trust Fund for the deposit of investment income into the Operations Fund during Fiscal Year 2013.

The State Constitution (Article VIII, Section 2(b)) states, "[t]he General Assembly by law shall make appropriations for all expenditures of public funds by the State."

Agency officials stated the errors were due to oversight.

2013-012. **FINDING** (Noncompliance with Appropriation Laws) (continued)

Failure to use appropriations from the General Assembly in strict adherence with the purpose of the line item circumvents legislative control, reduces the reliability of the State's financial information, and represents noncompliance with State law. (Finding Code No. 2013-012)

RECOMMENDATION

We recommend the Agency deposit investment income into the Trust Fund and only interfund cash transfer moneys pursuant to an appropriation from the General Assembly. Further, the Agency should ensure amounts charged to an appropriation line item represents an allowable use under the terms of the appropriation law.

AGENCY RESPONSE

The Agency agrees with the finding. The Agency has identified and implemented corrective actions necessary to ensure prior transfers accurately reflect movement of funds in accordance with applicable State statutes, rules, and regulations.

Additionally, the Agency (1) hired a Chief Operating Officer to assess the Agency's internal controls over all fiscal and operational processes; (2) hired a well-qualified and experienced Chief Financial Officer to ensure the accuracy and transparency of all Agency financial records; and, (3) finalized its Fiscal Operations Manual, which improves and governs all Agency financial operations and related procedures in accordance with applicable State statutes, rules, and regulations.

2013-013. **FINDING** (Inadequate Controls over Equipment)

The Illinois Power Agency (Agency) did not maintain sufficient control over the recording and reporting of State property.

During testing, the auditors noted the following:

- The Agency did not take appropriate measures to verify the completeness and accuracy of the Agency's property records.

    - 42 of 71 (59%) equipment items did not have a recorded value on the Agency's property listing. According to Agency officials, many of these items were transferred to the Agency from the Department of Central Management Services.

      The Statewide Accounting Management System (SAMS), Procedure 29.10.10, requires the Agency keep detail records with the original cost of the asset.

    - The Agency did not remove three property items transferred as surplus to the Department of Central Management Services during Fiscal Year 2013 from its property records.

      The Illinois Administrative Code (Code) (44 Ill. Admin. Code 5010.400) requires the Agency adjust its property records within 30 days of a change or deletion of equipment items.

    - Three of three (100%) recorded inventory additions, totaling $3,213, were understated by $135. The Agency did not include all of the components of three new computers into the original cost of the asset.

      SAMS, Procedure 03.30.20, notes the basic cost of equipment consists of all costs necessary to acquire an asset and place it into service.

    - The Agency improperly recorded six equipment items valued at less than $100 in the Agency's property listing, totaling $240. Additionally, the auditors noted eight equipment items valued at less than $100 in the Agency's property listing, totaling $453.

2013-013. **FINDING** (Inadequate Controls over Equipment) (continued)

- o The auditors noted problems with the proper coding of detail object codes on equipment vouchers. While reconciling the Agency's property reports to the State Comptroller's expenditure records, the auditors noted one $30 commodities item coded to an equipment detail object code. When reviewing the Agency's calculation of original cost for the three computer inventory additions noted above, the auditors noted each computer's battery, totaling $135, was erroneously charged to a commodities detail object code. Finally, the auditors noted $5 of a $131 phone purchase was not coded as a purchase of telephone equipment.

  The State Finance Act (30 ILCS 105/20) defines "equipment," when used in an appropriation act, to mean all expenditures having a unit value exceeding $100 for the acquisition of property of a non-consumable nature. Further, the State Finance Act (30 ILCS 105/15b) defines "commodities," when used in an appropriation act, to mean all expenditures for the purchase of items with a consumable nature or having a unit value not exceeding $100 for the acquisition of property of a non-consumable nature.

  Further, SAMS, Procedure 29.10.10, requires the Agency maintain a permanent record of all State property.

  Additionally, SAMS, Procedure 11.10.50, requires the Agency code expenditures with the proper detail object code to "report expenditure information at a more refined level."

- The Agency did not properly prepare its "Agency Report of State Property" (Form C-15) filed with the Office of the State Comptroller.

  - o The Agency has an unreconciled difference between the Agency's property records and amounts reported on its Form C-15s, totaling $1,186.

    SAMS, Procedure 29.20.10, requires the Agency record and provide a footnote explanation for all adjustments to the Agency's Form C-15 reports due to prior period reporting errors.

  - o The Agency did not record six of nine (67%) equipment additions during Fiscal Year 2013 on its Form C-15s, totaling $806.

2013-013. **FINDING** (Inadequate Controls over Equipment) (continued)

SAMS, Procedure 29.20.10, requires the Agency record all equipment purchases occurring during the quarter being reported to the Office of the State Comptroller on a Form C-15.

- o The Agency has a net understatement of $558 on its Form C-15 arising from recording equipment items under $100 on its Form C-15s and failing to include the cost of the new computer batteries on its Form C-15s.

  The State Finance Act (30 ILCS 105/20) defines "equipment," when used in an appropriation act, to mean all expenditures having a unit value exceeding $100 for the acquisition of property of a non-consumable nature. Further, SAMS, Procedure 29.10.10, notes the quarterly Form C-15 is for "the reporting by State agencies of State property information" by asset category, including equipment items.

- One of 12 (8%) equipment items selected for location testing, a mobile phone valued at $160, was not found at the location noted on the Agency's property listing. While the Agency's property listing indicated this equipment was at the Agency's Chicago office, the property was in the custody of an Agency official who works from Baltimore, Maryland.

  SAMS, Procedure 29.10.10, requires the Agency keep detail records with the location of the asset. Further, the Code (44 Ill. Admin. Code 5010.400) requires the Agency adjust its property records within 30 days of a change or deletion of equipment items.

The State Property Control Act (30 ILCS 605/4) requires responsible officers at each State agency be accountable for the supervision, control, and inventory of property under their jurisdiction to ensure the proper accounting and safeguarding of assets.

Agency officials stated these conditions were due to staff error.

Due to these limitations, the auditors were unable to conclude whether the Agency's property records at June 30, 2013, were complete and appropriately reported.

Failure to properly record and report equipment transactions represents noncompliance with the State Property Control Act, the Illinois Administrative Code, and the Statewide Accounting Management System. (Finding Code No. 2013-013, 12-6)

2013-013. **FINDING** (Inadequate Controls over Equipment) (continued)

RECOMMENDATION

We recommend the Agency ensure the property and equipment records are properly maintained and updated as required to allow for proper reporting of equipment transactions to the Office of the State Comptroller.

AGENCY RESPONSE

The Agency agrees with the finding. The Agency has identified and implemented corrective actions necessary to ensure adequate control over its recording and reporting of State property.

The Agency has (1) hired a Chief Operating Officer to assess the Agency's internal controls over all fiscal and operational processes; (2) hired a well-qualified and experienced Chief Financial Officer to ensure the accuracy and transparency of all Agency financial records; and, (3) finalized its Fiscal Operations Manual, which improves and governs all Agency financial operations and related procedures in accordance with applicable State statutes, rules, and regulations.

2013-014. **FINDING** (Failure to Properly Approve Contractual Agreements)

The Illinois Power Agency (Agency) did not properly approve contracts.

During Fiscal Year 2013, the Agency entered into six contracts individually valued in excess of $250,000, totaling $3,498,793.

During testing, the auditors noted three (50%) of the six contracts in excess of $250,000, totaling $1,484,000, were not properly approved. Two of the noted contracts were missing the Chief Legal Counsel's signature and one contract was missing the date the Chief Legal Counsel and Chief Financial Officer signed the contract.

The State Finance Act (Act) (30 ILCS 105/9.02(a)(1)) requires the Agency ensure any new contract or contract renewal of $250,000 or more in a fiscal year be signed or approved in writing by the Agency's Director, Chief Legal Counsel, and Chief Financial Officer. Further, the Act (30 ILCS 105/9.02(a)(2)) provides the Agency shall not file with the State Comptroller or file any authorization for payment against the contract with the State Comptroller if the required signatures or approvals are lacking.

Agency officials stated the deficiencies were due to resource constraints and human error.

Failure to properly approve contracts may result in an expenditure of State funds for unapproved purposes and represents noncompliance with the Act. (Finding Code No. 2013-014, 12-11)

RECOMMENDATION

We recommend the Agency properly approve all contracts in accordance with the Act.

AGENCY RESPONSE

The Agency agrees with the finding. The Agency has identified and implemented corrective actions necessary to ensure all Agency contracts are prepared and approved as mandated by the State Finance Act and applicable SAMS procedures.

2013-014. **FINDING** (Failure to Properly Approve Contractual Agreements) (continued)

The Agency has (1) hired a Chief Operating Officer to assess the Agency's internal controls over fiscal and operational processes; (2) hired a well-qualified and experienced Chief Financial Officer to ensure the accuracy and transparency of all Agency financial records; and, (3) finalized its Fiscal Operations Manual, which improves and governs all Agency financial operations and related procedures in accordance with applicable State statutes, rules, and regulations.

2013-015. **FINDING** (Failure to Timely File Contractual Agreements)

The Illinois Power Agency (Agency) did not maintain adequate internal control over compliance with the provisions of the Illinois Procurement Code (Code).

During Fiscal Year 2013, the Agency entered into 13 contracts individually valued in excess of $20,000, totaling $3,979,802.

During testing, the auditors noted the following:

- Three (23%) contracts, totaling $181,916, were filed with the State Comptroller between 74 and 83 days late. In following up on this exception, Agency officials indicated the contracts were rejected by the State Comptroller for failing to comply with all legal requirements, as the vendors had not registered their business entities with the State Board of Elections as required by the Code (30 ILCS 500/20-160).

  The Fiscal Control and Internal Auditing Act (Act) (30 ILCS 10/3001) requires the Agency establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance obligations are in compliance with applicable law. Good internal controls over compliance include ensuring vendors comply with the provisions of the Code as to allow the Agency to timely file contractual obligations and associated documents with the State Comptroller.

- The Agency did not properly complete late filing affidavits for the three contracts filed late, as noted above. The auditors noted all three affidavits were not signed by the Agency's Director, one affidavit was not notarized, and two affidavits were not filed with the Auditor General.

  The Code (30 ILCS 500/20-80(c)) requires the Agency, for contracts not filed within 30 days of execution, file a Late Filing Affidavit with the State Comptroller and Auditor General signed by the Agency's Director explaining why the contract was not timely filed with the State Comptroller. Further, the Statewide Accounting Management System (SAMS), Procedure 15.10.40, requires the Agency have the Late Filing Affidavit notarized.

Agency officials stated the deficiencies were due to resource constraints and human error.

2013-015. **FINDING** (Failure to Timely File Contractual Agreements) (continued)

Failure to ensure vendors have complied with the requirements of the Code delays the filing of obligations with the State Comptroller, negatively impacts encumbrance accounting, and represents noncompliance with the Act. In addition, failure to properly complete and file Late Filing Affidavits represents noncompliance with the Code and SAMS and limits governmental oversight. (Finding Code No. 2013-015, 12-13, 11-14, 10-17, 09-15)

RECOMMENDATION

We recommend the Agency implement internal controls designed to allow for the timely filing of contractual agreements. Further, we recommend the Agency review documents filed with external parties for compliance with all applicable laws, rules, and regulations.

AGENCY RESPONSE

The Agency agrees with the finding. The Agency has identified and implemented corrective actions necessary to maintain appropriate control over Agency contracts as mandated by the Illinois Procurement Code.

The Agency has (1) hired a Chief Operating Officer to assess the Agency's internal controls over all fiscal and operational processes; (2) hired a well-qualified and experienced Chief Financial Officer to ensure the accuracy and transparency of all Agency financial records; and, (3) finalized its Fiscal Operations Manual, which improves and governs all Agency financial operations and related procedures in accordance with applicable State statutes, rules, and regulations.

2013-016. **FINDING** (Avoidable Use of an Emergency Contract)

The Illinois Power Agency (Agency) filed an emergency purchase affidavit for a purchase which was not an emergency, in violation of the Illinois Procurement Code (Code).

During Fiscal Year 2013, the Agency entered into one emergency purchase, totaling $30,434, with a public accounting firm to prepare the Agency's Fiscal Year 2012 GAAP Packages, financial statements, and procedure manuals.

During testing, the auditors noted the reason for the emergency, as noted on the Agency's affidavit filed with the Auditor General, was the "deadline to renew this contract was overlooked." Thus, this purchase only met the definition of an emergency under the Code (30 ILCS 500/20-30) due to the Agency's inability to timely identify a need to enter into a renewal contract with the vendor, thus creating the emergency situation.

The Code (30 ILCS 500/20-30(a)) permits the Agency to make an emergency procurement without competitive sealed bidding or prior notice when there exists a threat to public health or public safety; when an immediate expenditure is necessary for repairs to State property in order to protect against further loss or damage; to prevent or minimize serious disruption in critical State services that affect health, safety, or the collection of substantial State revenues; or, to ensure the integrity of State records.

Agency officials stated the deficiency was due to oversight.

The Agency's inability to enter into a renewal contract in a timely manner for this contract created the emergency situation. Proper planning and foresight would have allowed for these services to either be renewed or competitively bid on a timely, non-emergency basis. The competitive bidding process is essential to maintaining the integrity of the State's procurement policies. This process serves as a key control to ensure that the State receives the most qualified vendors to provide goods and services at competitive prices. Bypassing this process through emergency procurements jeopardizes the effectiveness of the Agency's procurement function while also increasing the risk of the State paying a higher cost for the products or services procured. (Finding Code No. 2013-016)

RECOMMENDATION

We recommend the Agency follow the Illinois Procurement Code and use the emergency provisions of the Illinois Procurement Code only in true emergencies and not due to inadequate planning.

2013-016. **FINDING** (Avoidable Use of an Emergency Contract) (continued)

AGENCY RESPONSE

The Agency agrees with the finding. The Agency has identified and implemented corrective actions necessary to maintain appropriate control over Agency contracts as mandated by the Illinois Procurement Code.

The Agency has (1) hired a Chief Operating Officer to assess the Agency's internal controls over all fiscal and operational processes; (2) hired a well-qualified and experienced Chief Financial Officer to ensure the accuracy and transparency of all Agency financial records; and, (3) finalized its Fiscal Operations Manual, which improves and governs all Agency financial operations and related procedures in accordance with applicable State statutes, rules, and regulations. Through these actions the Agency has reduced its need for outside accounting services.

2013-017. **FINDING** (Failure to Enter into Written Interagency Agreements)

The Illinois Power Agency (Agency) did not enter into written interagency agreements.

During testing, the auditors noted the Illinois Commerce Commission collected, processed, and performed all recordkeeping functions for Alternative Compliance Payments (see more information in Finding 2013-003) and the Executive Ethics Commission was processing payroll transactions at the beginning of Fiscal Year 2013 on behalf of the Agency. However, the auditors noted the Agency had not entered into formal interagency agreements with either entity identifying the specific functions, duties, and responsibilities of both agencies for the processing, accounting, and recordkeeping of transactions.

Additionally, the auditors noted the Agency did not have policies and procedures for initiating and monitoring interagency agreements and the Agency did not have a process for allocating the cost of shared employee costs across State agencies.

The Agency is ultimately responsible for the activities other State agencies conduct on its behalf. The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Agency establish and maintain a system, or systems, of fiscal and administrative controls to provide reasonable assurance transactions applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources. Good internal controls include developing a written agreement documenting and assigning responsibility for the relevant controls necessary to establish the appropriate security, availability, and processing integrity of the control environments and applicable interagency communications and transaction reporting process flows.

Agency officials stated the failure to enter into interagency agreements was due to oversight.

Failure to enter into formal interagency agreements prevents all parties from assessing whether the agreements are reasonable, appropriate, and sufficiently document the responsibilities of all parties for their role in processing the Agency’s transactions. In addition, not sharing the cost of employee services distorts the appropriation process and results in an inaccurate allocation of expenditures between agencies. (Finding Code No. 2013-017)

RECOMMENDATION

We recommend the Agency document interagency agreements in writing.

2013-017. **FINDING** (Failure to Enter into Written Interagency Agreements) (continued)

AGENCY RESPONSE

The Agency agrees with the finding. At the start of FY13, the Executive Ethics Commission (EEC) was responsible for processing the Agency's payroll. However, during September 2013, the Agency began processing payroll on its own, and therefore an interagency agreement with the EEC was no longer needed.

During FY13, the Agency began working with the Illinois Commerce Commission (ICC) to memorialize roles and responsibilities governing the processing of alternative compliance payments. On October 10, 2013, the Agency memorialized an interagency agreement with the ICC.

2013-018. **FINDING** (Noncompliance with the Fiscal Control and Internal Auditing Act)

The Illinois Power Agency (Agency) did not conduct an evaluation of its internal controls as required by the Fiscal Control and Internal Auditing Act (Act).

For Fiscal Year 2013, the Agency submitted a certification letter to the Auditor General stating that an evaluation of the internal fiscal and administrative controls of the Agency was performed in accordance with guidelines established by the State Comptroller in consultation with the Director of Central Management Services. However, the Agency was unable to provide documentation of the evaluation process.

Further, the auditors noted the Agency only "identified weaknesses based on the Fiscal Year 2011 audit of the [Agency] conducted by the Auditor General's Office."

The Act (30 ILCS 10/3003) requires the Agency's Director annually conduct an evaluation of the Agency's systems of internal fiscal and administrative controls, based upon guidelines established by the State Comptroller in consultation with the Director of Central Management Services, and file a certification regarding the evaluation with the Auditor General by May 1.

Agency officials stated the evaluation was conducted using the previously released audit report as a guide and the Acting Director's review of the checklist provided him persuasive evidence the Agency was deficient in multiple areas and not in compliance with the Fiscal Control and Internal Auditing Act.

Failure to conduct an evaluation of internal controls may cause the Agency to overlook certain deficiencies that exist within the Agency's internal control structure. Additionally, the State's post audit program is not and should not be considered an internal control mechanism for any operational activity at a State agency. (Finding Code No. 2013-018, 12-14)

RECOMMENDATION

We recommend the Agency conduct and document an evaluation of its internal control in accordance with the Fiscal Control and Internal Auditing Act.

2013-018. **FINDING** (Noncompliance with the Fiscal Control and Internal Auditing Act) (continued)

AGENCY RESPONSE

The Agency agrees with the finding. The Agency has identified and implemented corrective actions necessary to ensure appropriate review of its internal controls as required by the Fiscal Control and Internal Auditing Act.

The Agency has (1) hired a Chief Operating Officer to assess the Agency's internal controls over all fiscal and operational processes; (2) hired a well-qualified and experienced Chief Financial Officer to ensure the accuracy and transparency of all Agency financial records; and, (3) finalized its Fiscal Operations Manual, which improves and governs all Agency financial operations and related procedures in accordance with applicable State statutes, rules, and regulations.

2013-019. **FINDING** (Inadequate Controls over Employee Attendance)

The Illinois Power Agency (Agency) had not established adequate controls over employee attendance.

During testing, the auditors noted the Agency has not documented employee start and end times within either the Agency's employee policies or individual employee files.

The Illinois Power Agency Act (20 ILCS 3855/1-20(b)(22)) authorizes the Agency's Director to hire employees deemed essential for the Agency's operations. Good internal control over personnel services includes establishing formal work rules and processes, such as establishing and documenting employee start and end times.

Agency officials stated the deficiency was due to oversight.

Failure to formally establish and document employee start and end times reduces the Agency's ability to monitor employee's time reporting. (Finding Code No. 2013-019)

RECOMMENDATION

We recommend the Agency formally document each employee's daily start and end times.

AGENCY RESPONSE

The Agency agrees with the finding. The Agency will update its employee policies in its Employee Handbook to include start and end times.

2013-020. **FINDING** (Inadequate Controls over Accounts Receivable)

The Illinois Power Agency (Agency) did not maintain sufficient control over collecting and reporting accounts receivable.

During testing, the auditors noted the following:

- The Agency's procedures for collecting accounts receivable are inadequate and not designed to ensure amounts are promptly recorded within the Agency's billing records. The auditors noted the following:
    - The Agency posted invoices for procurement planning expenses to two electric utilities, totaling $1,030,123, as an adjustment dated June 30, 2013; however, the actual date the Agency billed the utilities was August 26, 2013. The auditors concluded these amounts had not been billed in a timely manner by the Agency.
    - As of June 10, 2013, seven Renewable Energy Suppliers (RES) were not timely billed for a nonrefundable fee, totaling $27,274. The Agency eventually posted these receivables as an adjustment dated June 30, 2013, but was unable to identify the actual date the Agency billed the RES. In addition, the Agency did not report these receivables as past due on the Agency's June 30, 2013, quarterly accounts receivable report to the State Comptroller.
    - The Agency did not adequately monitor its accounts receivable. The auditors noted the Agency did not identify the unrecorded receivables from the RES even after two RES paid all or a portion of their amount due on June 10, 2013, totaling $4,499. These amounts were recorded as a reduction of other outstanding accounts receivable in the Agency's accounting records.

The Illinois State Collection Act of 1986 (30 ILCS 210/3) states it is the "public policy of this State to aggressively pursue the collection of accounts or claims due and payable to the State of Illinois through all reasonable means." The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Agency establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance assets and resources are safeguarded against loss, revenues and funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports, and to maintain accountability over the State's resources.

2013-020. **FINDING** (Inadequate Controls over Accounts Receivable) (continued)

- The Agency did not exercise adequate control over aging accounts receivable or estimating uncollectible amounts. The auditors noted the following:

  - The Agency has not reviewed its accounts receivable process to determine whether its method of not calculating an estimate for uncollectible accounts is fair and reasonable. For example, the auditors noted one account, totaling $9,430, where the Agency had not recorded an allowance for doubtful accounts even though the entity disputes the amount due and the amount was originally billed around October 2012.

    The Statewide Accounting Management System (SAMS), Procedure 26.20.20, states the Agency should examine the collection history for each type of receivable that it recognizes in order to establish guidelines for estimating the amount of debt that will be uncollectible.

  - Due to the lack of controls over invoice billing, the Agency's ability to prepare accurate aging reports of accounts receivable for its quarterly reports to the State Comptroller was significantly limited. As such, the auditors could not conclude as to whether the Agency's accounts receivable aging schedule within its quarterly report of accounts receivable to the Office of the State Comptroller was fair and accurate.

    SAMS, Procedure 26.20.20, states, "In order for an agency to effectively estimate the collectibility of its receivables and properly focus collection efforts, each outstanding receivable due the State must be "aged" relative to its formal due date."

- The Agency did not submit accurate quarterly accounts receivable reports to the Office of the State Comptroller. The auditors noted the following:

  - The Agency did not report accounts receivable under a recognized Major Revenue Source account within the State's Chart of Accounts. The Agency reported a portion of each quarter's accounts receivable activity to an expenditures account (#510).

2013-020. **FINDING** (Inadequate Controls over Accounts Receivable) (continued)

SAMS, Procedure 27.50.20, establishes account #510 as an account for Employment and Economic Development expenditures. SAMS, Procedure 26.30.20, requires the Agency report accounts receivable under each Major Revenue Source account receiving revenue at the Agency.

- Three of four (75%) quarterly reports did not report a beginning balance for accounts receivable which agreed with the prior quarter's ending balance for accounts receivable. The auditors noted differences between $25 thousand and $470 thousand.

  SAMS, Procedure 26.30.20, requires the Agency report the beginning balance for each Major Revenue Source's accounts receivable that agrees to the ending balance from the prior quarter. Additionally, the Agency is not to adjust this balance for any discrepancies.

- Three of four (75%) quarterly reports did not report an amount for adjusting entries during the quarter that agreed with the Agency's accounting records. The auditors noted differences between $25 thousand and $470 thousand. One quarter's report did not have an explanation for the difference. The remaining two quarters' reports did not have these adjusting entries adequately explained with sufficient detail to understand the reasons for the adjustment.

  SAMS, Procedure 26.30.20, requires the Agency report all corrections or adjustments to accounts receivable and explain the reasoning for the change within the report's Explanations/Comments area.

- Two of four (50%) quarterly reports reported an amount for new accounts receivable during the quarter that did not trace to the Agency's accounting records. The auditors noted differences of $44 thousand and $87 thousand.

  SAMS, Procedure 26.30.20, requires the Agency report the amount of receivables recognized within the quarter for each Major Revenue Source.

2013-020. **FINDING** (Inadequate Controls over Accounts Receivable) (continued)

- o Two of four (50%) quarterly reports reported an amount for collections on accounts receivable during the quarter that did not trace to the Agency's accounting records. The auditors noted differences of ($1) thousand and $61 thousand.

  SAMS, Procedure 26.30.20, requires the Agency report the amount of collections during the quarter on accounts outstanding no more than 180 days and the amount of collections during the quarter on accounts outstanding beyond 180 days.

Agency officials stated these conditions were due to resource constraints and human error.

Failure to exercise adequate controls over accounts receivable led to reporting errors reducing the reliability of Statewide financial information, could have resulted in lost revenue to the State, and represents noncompliance with State laws and regulations. (Finding Code No. 2013-020, 12-7)

RECOMMENDATION

We recommend the Agency implement controls to ensure accounts receivable are properly recorded in the Agency's records and accurately reported to the Office of the State Comptroller.

AGENCY RESPONSE

The Agency agrees with the finding. The Agency has identified and implemented corrective actions necessary to ensure adequate control over its collection and reporting of accounts receivable.

The Agency has (1) hired a Chief Operating Officer to assess the Agency's internal controls over all fiscal and operational processes; (2) hired a well-qualified and experienced Chief Financial Officer to ensure the accuracy and transparency of all Agency financial records; and, (3) finalized its Fiscal Operations Manual, which improves and governs all Agency financial operations and related procedures in accordance with applicable State statutes, rules, and regulations.

2013-021. **FINDING** (Inadequate Controls over Cash Receipts)

The Illinois Power Agency (Agency) did not properly record the date cash receipts were received by the Agency within the Agency's accounting system.

During testing, the auditors noted 7 of 14 (50%) receipts tested, totaling $1,267,000, where the receipt date recorded within the Agency's accounting system did not agree with the receipt date noted within the Agency's supporting documentation. The auditors noted differences between one to five days between the date noted on the receipt's supporting documentation when compared to the date recorded within the Agency's accounting system.

The State Officers and Employees Money Disposition Act (Act) (30 ILCS 230/2(a)) requires the Agency keep proper books with a detailed, itemized accounting of all receipts showing the date of receipt, payor, purpose, and amount.

Agency officials stated the exceptions noted were due to oversight.

Failure to document the receipt date for payments to the Agency represents noncompliance with the State Officers and Employees Money Disposition Act. (Finding Code No. 2013-021)

RECOMMENDATION

We recommend the Agency document the date of receipt for cash payments, as required by the Act.

AGENCY RESPONSE

The Agency agrees with the finding. The Agency has identified and implemented corrective actions necessary to ensure adequate control over its cash receipts process.

The Agency has (1) hired a Chief Operating Officer to assess the Agency's internal controls over all fiscal and operational processes; (2) hired a well-qualified and experienced Chief Financial Officer to ensure the accuracy and transparency of all Agency financial records; and, (3) finalized its Fiscal Operations Manual, which improves and governs all Agency financial operations and related procedures in accordance with applicable State statutes, rules, and regulations.

2013-022. **FINDING** (Inaccurate Travel Headquarters Reports)

The Illinois Power Agency (Agency) did not file accurate Travel Headquarters Reports (Form TA-2) with the Legislative Audit Commission (Commission).

During testing, the auditors noted the Chief of the Planning and Procurement Bureau at the Agency, who works from Baltimore, Maryland, was omitted from the Form TA-2 reports filed by the Agency with the Commission during Fiscal Year 2013.

The State Finance Act (Act) (30 ILCS 105/12-3) requires each State agency to file semi-annual Form TA-2 reports with the Commission for all officers and employees where their official headquarters have been designated at any location other than that at which their official duties require them to spend the largest part of their working time. Good internal controls over compliance include ensuring all Form TA-2 reports filed with the Commission are complete and accurate.

Agency officials stated the employee was inadvertently omitted from the Form TA-2 reports due to oversight.

Failure to submit accurate Form TA-2 reports reduces effective government oversight. (Finding Code No. 2013-022)

RECOMMENDATION

We recommend the Agency accurately report official headquarters designations to the Commission in accordance with the Act.

AGENCY RESPONSE

The Agency agrees with the finding. The Agency has identified and implemented corrective actions necessary to ensure the accurate preparation and submission of required TA-2 reports to the Legislative Audit Commission.

The Agency hired a Chief Operating Officer to assess the Agency's internal controls over all fiscal and operational processes in accordance with applicable State statutes, rules, and regulations.

2013-023. **FINDING** (Inadequate Controls over Personal Services)

The Illinois Power Agency (Agency) did not maintain adequate controls over personal services.

During testing, the auditors noted the following:

- One of four (25%) employees tested did not have the proper amount withheld from the employee's paycheck for State withholding taxes.

- The Agency did not require one of three (33%) employees eligible to use accrued leave time to submit requests for approval of the employee's leave time by the employee's supervisor.

- Two of four (50%) employees tested did not have an employment application or similar documentation within the employee's personnel file. Upon notification of this exception, the Agency added an e-mail with one noted employee's cover letter and resume and another e-mail from the other noted employee's with their cover letter, resume, and references to each personnel file.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Agency establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance resources are utilized efficiently, effectively, and in compliance with applicable law. Good internal controls include ensuring amounts withheld for State taxes are calculated in accordance with applicable law. Additionally, the documentation of the approval of benefit time usage provides a mechanism to provide assurance employees do not use benefit time not accrued.

The Illinois Power Agency Act (20 ILCS 3855/1-20(b)(4)) allows the Agency to employ personnel as necessary to fulfill the Agency's purposes. The State Records Act (5 ILCS 160/8) requires the Agency's Director make and preserve records pertaining to the essential decisions of the Agency. Good internal controls over compliance include ensuring an employee's application or similar documentation is retained within the employee's personnel file for record retention purposes.

Agency officials stated these exceptions were due to oversight and the Agency not adopting these processes after they were exempted from the Personnel Code.

2013-023. **FINDING** (Inadequate Controls over Personal Services) (continued)

Failure to withhold the proper amount from employees may subject the State to legal risks. Further, failure to require all employees to seek approval of leave time prior to its use increases the risk employees may use leave time they have not accrued. Additionally, failure to maintain an employee's application or similar documentation within the employee's personnel file increases the likelihood these records will not be retained by the Agency. (Finding Code No. 2013-023)

RECOMMENDATION

We recommend the Agency properly calculate withholding income taxes, require employees to submit leave requests for time off, and maintain each employee's application in their respective personnel file.

AGENCY RESPONSE

The Agency agrees with the finding. The Agency has identified and implemented corrective actions necessary to ensure adequate control over its personnel services including correcting tax withholdings.

The Agency has (1) hired a Chief Operating Officer to assess the Agency's internal controls over all fiscal and operational processes; (2) hired a well-qualified and experienced Chief Financial Officer to ensure the accuracy and transparency of all Agency financial records; and, (3) finalized its Fiscal Operations Manual, which improves and governs all Agency financial operations and related procedures in accordance with applicable State statutes, rules, and regulations.

A. **FINDING** (State Funds Improperly Held Outside of the State Treasury)

During the prior examination, the Illinois Power Agency (Agency) improperly allowed State funds to be held in accounts outside the State Treasury without proper statutory authority. (Finding Code No. 12-3, 11-4, 10-6, 09-8)

Status: Implemented

During the current examination, the auditors noted the Agency submitted claims to the State Comptroller's Offset System to withhold the full amount due, totaling $496,988, from the vendor. The State Comptroller recovered the full amount due from the vendor between July 2013 and November 2013.

B. **FINDING** (Inadequate Fee Assessment)

During the prior examination, the Illinois Power Agency (Agency) did not assess adequate fees to ensure the costs of the preparation of the annual procurement plan were recovered. (Finding Code No. 12-4, 11-6, 10-10, 09-9)

Status: Implemented

During the current examination, the auditors noted the Agency developed a process to bill the utilities to recover the direct and indirect costs incurred by the Agency in preparing the annual procurement plan.

C. **FINDING** (Failure to Timely Submit Reports)

During the prior examination, the Illinois Power Agency (Agency) did not timely submit reports to the appropriate parties. Specifically, two of its quarterly "Agency Report of State Property" (Form C-15) reports filed with the Office of the State Comptroller and the State Hispanic Employment Plan Survey filed with the Department of Human Rights were filed late. (Finding Code No. 12-15, 11-22, 10-26, 09-19)

Status: Implemented

During the current examination, the auditors noted the Agency's Form C-15 reports were filed timely and the Agency was no longer required to prepare and submit the State Hispanic Employment Plan Survey.

D. **FINDING** (Failure to Obtain Employee Insurance or License Verification)

During the prior examination, the Illinois Power Agency (Agency) did not obtain verification from its employees to ensure employees using personal vehicles for State business were properly insured and licensed. (Finding Code No. 12-16, 11-23, 10-32)

Status: Implemented

During the current examination, the auditors noted each employee's personnel file had a signed verification that the employee was properly insured and licensed.

E. **FINDING** (Failure to Comply with the Identity Protection Act)

During the prior examination, the Illinois Power Agency (Agency) failed to implement the provisions of the Identity Protection Act. (Finding Code No. 12-17)

Status: Moved to the Immaterial Letter as Finding IM2013-013

During the current examination, the auditors noted the Agency adopted an Identity Protection Policy in February 2014; however, the Agency did not have an Identity Protection Policy during Fiscal Year 2013. As a result, this issue will be reported in the Agency's Report of Immaterial Findings as Finding IM2013-013.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
For the Year Ended June 30, 2013

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying financial statements of the State of Illinois, Illinois Power Agency was performed by the Office of the Auditor General.

Based on their audit, the auditors expressed an unmodified opinion on the State of Illinois, Illinois Power Agency's basic financial statements.

SUMMARY OF FINDINGS

The auditors identified matters involving the State of Illinois, Illinois Power Agency's internal control over financial reporting that they considered to be material weaknesses and significant deficiencies. The material weaknesses are described in the accompanying Schedule of Findings on pages 15-29 of this report as item 2013-001, *Inaccurate Financial Statements*, item 2013-002, *Noncompliance with the Investment Income Transfer Limitations of the State Finance Act*, item 2013-003, *Inadequate Controls over Alternative Compliance Payments*, and item 2013-004, *Inadequate Controls over the Purchase of Renewable Energy Credits*. The significant deficiencies are described in the accompanying Schedule of Findings on pages 30-33 of this report as item 2013-005, *Failure to Perform Reconciliations from the Agency's Records to the State Comptroller's Records*, and item 2013-006, *Inadequate Controls over the Agency's Information Systems*.

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Agency personnel at an exit conference on July 1, 2014. Attending were:

<u>Illinois Power Agency</u>
Anthony Star - Director
Charles Kudia - Chief Financial Officer
Brian Granahan - Chief Legal Counsel
Sanjay Patel - Chief Operating Officer

<u>Office of the Auditor General</u>
Thomas L. Kizziah, CPA - Audit Manager
Daniel J. Nugent, CPA - Audit Manager
Jorge Cerda - Audit Supervisor
Mike Stutz - State Auditor
Ryan Goerres - State Auditor

The responses to the recommendations were provided by Mr. Anthony Star, Director, in a correspondence dated July 9, 2014.

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OFFICE OF THE AUDITOR GENERAL
WILLIAM G. HOLLAND

INDEPENDENT AUDITOR'S REPORT

Honorable William G. Holland
Auditor General
State of Illinois

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the aggregate remaining fund information of the State of Illinois, Illinois Power Agency, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the State of Illinois, Illinois Power Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the June 30, 2013, financial statements of the Illinois State Board of Investment - an internal investment pool of the State of Illinois - which statements reflect total assets constituting 31.79 percent of the total assets on the Statement of Net Position, 8.03 percent of the total revenues on the Statement of Activities, 31.52 percent of the total assets on the Balance Sheet - Governmental Funds, and 9.67 percent of the total revenues on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds for the year ended June 30, 2013. Those financial statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the investment activities of the Illinois State Board of Investment within the Illinois Power Agency Trust Fund, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the

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audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the aggregate remaining fund information for the State of Illinois, Illinois Power Agency, as of June 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2, the financial statements of the State of Illinois, Illinois Power Agency are intended to present the financial position and the changes in financial position of only that portion of the governmental activities and the aggregate remaining fund information of the State of Illinois that is attributable to the transactions of the State of Illinois, Illinois Power Agency. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2013, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

<u>Restatement</u>

As part of our audit of the June 30, 2013, financial statements, we also audited the adjustments described in Note 11 that were applied to restate the June 30, 2012, financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the June 30, 2012, financial statements of the State of Illinois, Illinois Power Agency other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the June 30, 2012, financial statements as a whole.

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit for the year ended June 30, 2013, was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Illinois, Illinois Power Agency's basic financial statements. The accompanying supplementary information in the combining and individual nonmajor fund financial statements, the State Compliance Schedules 1 through 10, and the Analysis of Operations Section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information for the year ended June 30, 2013, in the combining and individual nonmajor fund financial statements and the State Compliance Schedules 1 through 10 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The accompanying supplementary information for the year ended June 30, 2013, in the combining and individual nonmajor fund financial statements and the State Compliance Schedules 1 through 10 has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information for the year ended June 30, 2013, in the combining and individual nonmajor fund financial statements and the State Compliance Schedules 1 through 10 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The State of Illinois, Illinois Power Agency's basic financial statements for the year ended June 30, 2012 (not presented herein), were audited by other auditors whose report thereon dated May 28, 2013, expressed unmodified opinions on the respective financial statements of the governmental activities and the aggregate remaining fund information. The report of the other auditors dated May 28, 2013, stated the accompanying supplementary information for the year ended June 30, 2012 in Schedules 2 through 10 for the year ended June 30, 2012, was subjected to the auditing procedures applied in the audit of the June 30, 2012, financial statements and certain additional auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those basic financial statements or the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and, in their opinion, was fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended June 30, 2012.

As reported in Finding 2013-013, we were not able to determine whether the State of Illinois, Illinois Power Agency's property records at June 30, 2013, and June 30, 2012, were complete and appropriately reported. Therefore, we were unable to conclude whether the Schedule of Changes in State Property was complete.

The accompanying supplementary information in the Analysis of Operations Section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 9, 2014, on our consideration of the State of Illinois, Illinois Power Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Illinois, Illinois Power Agency's internal control over financial reporting and compliance.

Restricted Use of this Auditor's Report

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Comptroller, and the State of Illinois, Illinois Power Agency's management, and is not intended to be and should not be used by anyone other than these specified parties.

Bruce L. Bullard
BRUCE L. BULLARD, CPA
Director of Financial and Compliance Audits

Springfield, Illinois
July 9, 2014

State of Illinois
Illinois Power Agency
Statement of Net Position
June 30, 2013
(Expressed in Thousands)

		Governmental Activities
Assets		
Cash equity in State Treasury	$	21,333
Investments		28,335
Other receivables, net		39,467
Total assets		89,135
Liabilities		
Accounts payable and accrued liabilities		757
Due to other State funds		3
Long term obligations:		
Due subsequent to one year		11
Total liabilities		771
Net Position		
Restricted net position		
Nonexpendable		28,505
Expendable		53,196
Unrestricted net position		6,663
Total net position	$	88,364

The accompanying notes to financial statements are an integral part of this statement.

State of Illinois
Illinois Power Agency
Statement of Activities
For the Year Ended June 30, 2013
(Expressed in Thousands)

		Program Revenues	Net (Expenses) Revenues and Changes in Net Position
Functions/Programs	**Expenses**	**Charges for Services**	**Governmental Activities**
Governmental activities			
Employment and economic development	$ 1,361	$ 979	$ (382)
Total governmental activities	1,361	979	(382)
General revenues			
Interest and investment income			3,435
Other revenue			38,382
Total general revenues			41,817
Change in net position			41,435
Net position, July 1, 2012, as restated (see Note 11)			46,929
Net position, June 30, 2013			$ 88,364

The accompanying notes to financial statements are an integral part of this statement.

State of Illinois
Illinois Power Agency
Balance Sheet -
Governmental Funds
June 30, 2013
(Expressed in Thousands)

	Nonmajor funds	Total Governmental Funds
Assets		
Cash equity in State Treasury	$ 21,333	$ 21,333
Investments	28,335	28,335
Other receivables, net	39,467	39,467
Due from other agency funds	770	770
Total assets	$ 89,905	$ 89,905
Liabilities		
Accounts payable and accrued liabilities	$ 757	$ 757
Due to other agency funds	770	770
Due to other State funds	3	3
Unavailable revenue	8,470	8,470
Total liabilities	10,000	10,000
Fund Balances		
Nonspendable - endowments and similar funds	28,505	28,505
Restricted		
Employment and economic development	45,811	45,811
Committed		
Employment and economic development	5,589	5,589
Total fund balances	79,905	79,905
Total liabilities and fund balances	$ 89,905	$ 89,905

The accompanying notes to financial statements are an integral part of this statement.

State of Illinois
Illinois Power Agency
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2013
(Expressed in Thousands)

Total fund balances-governmental funds	$	79,905
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Revenues in the Statement of Activities that do not provide current financial resources are deferred in the funds.		8,470
Some liabilities reported in the Statement of Net Position do not require the use of current financial resources and therefore are not reported as liabilities in governmental funds. These liabilities consist of:		
Compensated absences		(11)
Net position of governmental activities	$	88,364

The accompanying notes to financial statements are an integral part of this statement.

State of Illinois
Illinois Power Agency
Statement of Revenues, Expenditures,
and Changes in Fund Balances - Governmental Funds
For the Year Ended June 30, 2013
(Expressed in Thousands)

	Nonmajor funds	Total Governmental Funds
Revenues		
Licenses and fees	$ 726	$ 726
Interest and other investment income	3,435	3,435
Other revenues	31,349	31,349
Total revenues	35,510	35,510
Expenditures		
Employment and economic development	1,356	1,356
Total expenditures	1,356	1,356
Excess (deficiency) of revenues over (under) expenditures	34,154	34,154
Other sources and uses of financial resources		
Transfers in	300	300
Transfers out	(300)	(300)
Total other sources and uses of financial resources	-	-
Net change in fund balances	34,154	34,154
Fund balances, July 1, 2012, as restated (see Note 11)	45,751	45,751
Fund Balances, June 30, 2013	$ 79,905	$ 79,905

The accompanying notes to financial statements are an integral part of this statement.

State of Illinois
Illinois Power Agency
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2013
(Expressed in Thousands)

Net change in fund balances	$	34,154
Amounts reported for governmental activities in the Statement of Activities are different because:		
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. This amount represents the increase (decrease) in unavailable revenue over the prior year.		7,286
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. Below are such activities.		
Increase in compensated absences		(5)
Change in net position of governmental activities	$	41,435

The accompanying notes to financial statements are an integral part of this statement.

(1) Organization

The Illinois Power Agency (Agency) is a part of the executive branch of government of the State of Illinois (State) and operates under the authority of and review by the Illinois General Assembly. The Agency operates under a budget approved by the Illinois General Assembly in which resources are appropriated for the use of the Agency. The Agency is an independent agency subject to the oversight of the Executive Ethics Commission and its activities are subject to the authority of certain departments of the executive and legislative branches of government (such as the Department of Central Management Services, the Governor's Office of Management and Budget, the State Treasurer's Office, and the State Comptroller's Office) as defined by the Illinois General Assembly. All funds appropriated to the Agency and all other cash received are under the custody and control of the State Treasurer.

The Agency, created in 2008, is dedicated to capturing the benefits of competitive energy markets and facilitating the development of alternative energy technologies for the benefit of Illinois consumers. The Agency meets these objectives by planning and managing competitive procurements and participating in the development of new power generation assets and approaches in Illinois.

(2) Summary of Significant Accounting Policies

The financial statements of the Agency have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). To facilitate the understanding of data included in the financial statements, summarized below are the more significant accounting policies.

(a) Financial Reporting Entity

As defined by GAAP, the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

1) Appointment of a voting majority of the component unit's board and either (a) the primary government's ability to impose its will, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or

2) Fiscal dependency on the primary government and the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government.

Based upon the required criteria, the Agency has no component units and is not a component unit of any other entity. However, because the Agency is not legally separate from the State of Illinois, the financial statements of the Agency are included in the financial statements of the State of Illinois. The State of Illinois' Comprehensive Annual Financial Report may be obtained by writing to the State Comptroller's Office, Division of Financial Reporting, 325 West Adams Street, Springfield, Illinois, 62704-1871, or accessing its website at www.ioc.state.il.us.

(2) Summary of Significant Accounting Policies - Continued

(b) Basis of Presentation

The financial statements of the State of Illinois, Illinois Power Agency are intended to present the financial position and changes in financial position of only that portion of the governmental activities and the aggregate remaining fund information of the State of Illinois that is attributable to the transactions of the Agency. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2013, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

***Government-wide Statements*:**

The government-wide Statement of Net Position and Statement of Activities report the overall financial activity of the Agency, excluding fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities of the Agency. The financial activities of the Agency consist only of governmental activities, which are primarily supported by investment income, contract compliance, and procurement activity fees.

The Statement of Net Position presents the assets and liabilities of the Agency's governmental activities with the difference being reported as net position. The assets and liabilities are presented in order of their relative liquidity by class of asset or liability with liabilities whose average maturities are greater than one year reported in two components - the amount due within one year and the amount due in more than one year.

The Statement of Activities presents a comparison between direct expenses and program revenues for the employment and economic development function of the Agency's governmental activities. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges paid by the recipients of goods or services offered by the programs. Revenues that are not classified as program revenues, including all taxes and other revenues consisting of alternative compliance payments, are presented as general revenues.

***Fund Financial Statements*:**

The fund financial statements provide information about the Agency's funds. The emphasis on fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The Agency does not administer any major governmental funds, or portions thereof in the case of shared funds, of the State of Illinois as described in the State of Illinois' Comprehensive Annual Financial Report.

(2) Summary of Significant Accounting Policies – Continued

(b) Basis of Presentation - Continued

The Agency administers the following fund types:

Governmental Fund Type:

Special Revenue:

These funds account for resources obtained from specific revenue sources that are legally restricted to expenditures for specified purposes. Special revenue funds account for, among other things, federal grant programs, taxes levied with statutorily defined distributions and other resources restricted as to purpose.

Illinois Power Agency Operations Fund – 425

This fund was created as a special fund in the State Treasury. The fund is administered by the Agency for Agency operations as specified in the Illinois Power Agency Act.

Illinois Power Agency Facilities Fund – 426

This fund was created as a special fund in the State Treasury. The fund shall be administered by the Agency for costs incurred in connection with the development and construction of a power facility by the Agency as well as costs incurred in connection with the operation and maintenance of an Agency facility. There was no activity in this fund during Fiscal Year 2013.

Illinois Power Agency Debt Service Fund – 427

This fund was created as a special fund in the State Treasury. The fund shall be administered by the Agency for retirement of revenue bonds issued for any Agency facility. There was no activity in this fund during Fiscal Year 2013.

Illinois Power Agency Renewable Energy Resources Fund – 836

This fund was created as a special fund in the State Treasury. This fund is administered by the Agency for the procurement of renewable energy resources.

(2) Summary of Significant Accounting Policies – Continued

(b) Basis of Presentation - Continued

Permanent Trust:

These funds account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that benefit the government or its citizens.

Illinois Power Agency Trust Fund – 424

This fund was created as a special fund in the State Treasury. This fund has two distinct purposes:

1) This fund may accept, receive, and administer any grants, loans, or other funds made available to it by any source. Any funds received by the Fund shall not be considered income, but shall be added to the principal of the Fund. These amounts shall be interfund cash transferred to the Illinois Power Agency Investment Fund to be held for investment by the Illinois State Board of Investment for the purpose of obtaining a total return on investments for the long term as described in the State Finance Act (30 ILCS 105/6z-75).

2) This fund may accept cash transfers of investment income from the Illinois Power Agency Investment Fund for interfund cash transfer, subject to appropriations from the Illinois General Assembly, to the Illinois Power Agency Operations Fund as described in the State Finance Act (30 ILCS 105/6z-75).

Illinois Power Agency Investment Fund – 1408

This fund was created as a locally held fund held by the Illinois State Board of Investment outside of the State Treasury. Any funds received by the Fund from the Illinois Power Agency Trust Fund shall not be considered income, but shall be added to the principal of the Fund. In addition, the Agency may interfund cash transfer, subject to the maximum appropriation for the Illinois Power Agency Trust Fund from the Illinois General Assembly, up to 90% of the annual investment income to the Illinois Power Agency Trust Fund for interfund cash transfer to the Illinois Power Agency Operations Fund. Any investment income not interfund cash transferred to the Illinois Power Agency Trust Fund for interfund cash transfer to the Illinois Power Agency Operations Fund shall not be considered income, but shall be added to the principal of the Fund.

This fund has been collapsed into the Illinois Power Agency Trust Fund for financial reporting purposes.

(2) Summary of Significant Accounting Policies – Continued

(c) Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Nonexchange transactions, in which the Agency gives (or receives) value without directly receiving (or giving) equal value in exchange, include income taxes, excise taxes, wealth taxes, alternative compliance payments, grants, entitlements, and donations. On an accrual basis, revenues are recognized in the fiscal year in which the underlying exchange transaction occurs. Revenue from grants, entitlements, and similar items are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been met.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, principal and interest on formal debt issues, claims and judgments, and compensated absences are recorded only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of formal debt issues and acquisitions under capital leases and installment purchases are reported as other financing sources.

Significant revenue sources which are susceptible to accrual include charges for services and interest and investment income. All other revenue sources including fines, licenses, and other miscellaneous revenues are considered to be measurable and available only when cash is received.

During the fiscal year, the Agency adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of GASB Statement No. 62 is to incorporate certain accounting and financial reporting guidance into GASB's authoritative literature. The guidance included the following pronouncements issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements: (1) Financial Accounting Standards Board (FASB) Statements and Interpretations, (2) Accounting Principles Board Opinions, and (3) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

(2) Summary of Significant Accounting Policies – Continued

(c) Measurement Focus and Basis of Accounting - Continued

During the fiscal year, the Agency adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which was established to standardize the financial statement presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. Additionally, the statement provides guidance for reporting net position within a framework that includes deferred outflows of resources and deferred inflows of resources, in addition to assets and liabilities.

(d) Eliminations

Eliminations have been made in the government-wide Statement of Net Position to minimize the "grossing-up" effect on assets and liabilities within the governmental activities column of the Agency. As a result, amounts reported in the governmental funds balance sheet as interagency interfund receivables and payables are eliminated in the government-wide Statement of Net Position. Amounts reported in the governmental funds balance sheet as receivable from or payable to fiduciary funds are included in the government-wide Statement of Net Position as receivable from and payable to external parties, rather than as internal balances. During Fiscal Year 2013, the Agency did not have receivables from or payables to fiduciary funds.

(e) Cash Equity in State Treasury

Cash equity in the State Treasury included deposits held in the State Treasury. It also includes cash received and deposited in the Agency's clearing account and in process of transfer to the State Treasurer.

(f) Investments

Investments are reported at fair value. The Illinois State Board of Investment holds investments for the Illinois Power Agency Trust Fund within the Illinois Power Agency Investment Fund pursuant to the State Finance Act (30 ILCS 105/6z-75).

(g) Interfund Transactions

The following types of interfund transactions between the Agency's funds and funds of other State agencies may occur:

Interfund Loans are amounts provided with a requirement for repayment made in accordance with State law, which are reported as interfund receivables in lender funds and interfund payables in borrower funds. When interfund loan repayments are not expected within a reasonable time, the interfund balances are reduced and the amount that is not expected to be repaid is reported as a transfer from the fund that made the loan to the fund that received the loan.

(2) Summary of Significant Accounting Policies – Continued

(g) Interfund Transactions - Continued

Services provided and used are sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used are reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as interfund receivables and payables in the governmental funds balance sheet or the government-wide and proprietary fund statements of net position.

Reimbursements are repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements are reported as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

Transfers are flows of assets (such as cash or goods) between funds without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers.

(h) Compensated Absences

The liability for compensated absences reported in the government-wide statement of net position consists of unpaid, accumulated vacation and sick leave balances for Agency employees. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The liability has been calculated based on the employees' current salary level and includes salary related costs (e.g., Social Security and Medicare taxes).

Legislation that became effective January 1, 1998, capped the paid sick leave for all State Employees' Retirement System members at December 31, 1997. Employees continue to accrue twelve sick days per year, but will not receive monetary compensation for any additional time earned after December 31, 1997. Sick days earned between 1984 and December 31, 1997, (with a 50% cash value) would only be used after all days with no cash value are depleted. Any sick days earned and unused after December 31, 1997, will be converted to service time for purposes of calculating employee pension benefits.

(2) Summary of Significant Accounting Policies – Continued

(i) Fund Balances

For the year ended June 30, 2013, the governmental funds reported fund balances in the following categories:

Nonspendable – This consists of amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. The Illinois Power Agency Trust Fund (424) had nonspendable fund balance as of June 30, 2013.

Restricted – This consists of amounts that are restricted to specific purposes, which is when constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation. The Illinois Power Agency Renewable Energy Resources Fund (836) had a restricted fund balance as of June 30, 2013.

Committed – This consists of amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Agency's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the Agency removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. The Agency's highest level of decision-making authority rests with the Illinois General Assembly and the Governor. The State passes "Public Acts" to commit its fund balances. The Illinois Power Agency Operations Fund (425) had committed fund balance as of June 30, 2013.

Assigned – This consists of net amounts that are constrained by the Agency's intent to be used for specific purposes, but that are neither restricted nor committed. Fund balance assignments can only be removed or changed by action of the General Assembly. There were no assigned fund balances as of June 30, 2013.

Unassigned – This consists of residual fund balance (deficit) that has not been restricted, committed, or assigned within the Agency's governmental funds. There were no unassigned fund balances as of June 30, 2013.

The Agency has a general policy to first use restricted resources for expenditures incurred for which both restricted and unrestricted (committed, assigned, or unassigned) resources are available. When expenditures are incurred for which only unrestricted resources are available, the policy is to use committed resources first, then assigned. Unassigned amounts are only used after the other resources have been used.

(2) Summary of Significant Accounting Policies – Continued

(j) Net Position

For the year ended June 30, 2013, the governmental activities reported net position in the following categories:

Restricted – This consists of net position that is legally restricted by outside parties or by law through constitutional provisions or enabling legislation. The nonexpendable restricted resources are subject to a requirement they be maintained intact by the Agency indefinitely. The expendable restricted resources represent amounts that can be spent by the Agency.

Unrestricted – This consists of net position that does not meet the definition of "restricted."

(k) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(l) Future Adoption of GASB Statements

Effective for the year ending June 30, 2014, the Agency will adopt GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The Agency has not yet determined the impact on the Agency's financial statements as a result of adopting this statement.

Effective for the year ending June 30, 2014, the Agency will adopt GASB Statement No. 66, *Technical Correction – 2012 – an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The Agency has not yet determined the impact on the Agency's financial statements as a result of adopting this statement.

(2) Summary of Significant Accounting Policies – Continued

(l) Future Adoption of GASB Statements – Continued

Effective for the year ending June 30, 2015, the Agency will adopt GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, which is to improve financial reporting by state and local governmental pensions. The Agency has not yet determined the impact on the Agency's financial statements as a result of adopting this statement.

Effective for the year ending June 30, 2015, the Agency will adopt GASB Statement No. 69, *Government Combinations and Disposals of Government Operations,* which establishes standards related to government combinations and disposals of government operations, including combinations in which no consideration is provided, such as government mergers and transfers of operations, and combinations in which consideration is provided, such as disposal of government operations. The Agency has not yet determined the impact on the Agency's financial statements as a result of adopting this statement.

Effective for the year ending June 30, 2014, the Agency will adopt GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, the objective of which is to improve the recognition, measurement, and disclosure guidance for state and local governments that have extended or received financial guarantees that are nonexchange transactions. The statement requires a government that extends a nonexchange financial guarantee to recognize a liability when it is more likely than not that the government will be required to make a payment on the guarantee. Additionally, the statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities. The Agency has not yet determined the impact on its financial statements as a result of adopting this statement.

Effective for the year ending June 30, 2015, the Agency will adopt GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68*, which addresses an issue regarding the application of the transition provisions of GASB Statement No. 68. The statement clarifies the accounting for contributions to a defined benefit pension plan after the measurement date of a government's beginning net pension liability. The Agency has not yet determined the impact on its financial statements as a result of adopting this statement.

(3) Deposits and Investments

(a) Deposits

The State Treasurer is the custodian of the Agency's deposits and investments for funds maintained in the State Treasury. Deposits in the custody of the State Treasurer, including cash on hand and cash in transit, totaled $21.333 million at June 30, 2013. These deposits are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act of the Illinois Compiled Statutes (15 ILCS 520/11). Funds held by the State Treasurer have not been categorized as to credit risk because the Agency does not own individual securities. Detail on the nature of these deposits is available within the State of Illinois' Comprehensive Annual Financial Report.

(b) Investments

The Illinois State Board of Investment, an internal investment pool of the State of Illinois, holds the investments within the Illinois Power Agency Investment Fund pursuant to the State Finance Act (30 ILCS 105/6z-75). These investments were acquired after the transfer of cash from the Illinois Power Agency Trust Fund held by the State Treasurer during Fiscal Year 2013. At June 30, 2013, total investments were $28.335 million.

The Illinois State Board of Investment manages all assets held by them within a single commingled fund. Disclosures pertaining to these investments are included in the financial statements of the Illinois State Board of Investment. A copy of the financial statements of the Illinois State Board of Investment may be obtained by writing to the Illinois State Board of Investment, 180 North LaSalle Street, Suite 2015, Chicago, Illinois, 60601.

(4) Other Receivables

The balance of Other Receivables on the Statement of Net Position includes amounts owed to the Agency for contract award fees, alternative compliance payments, and reimbursements from vendors.

(5) Interfund Balances and Activity

Balances Due from/to Other Funds

The following balances (amounts expressed in thousands) at June 30, 2013, represent amounts due from other Agency funds.

Fund	Due from Other Agency Funds	Description/Purpose
Nonmajor governmental	$ 770	Due from other Agency funds for investment income transfers
Total	$ 770	

The following balances (amounts expressed in thousands) at June 30, 2013, represent amounts due to other Agency funds and due to other State funds.

Fund	Due to Other Agency Funds	Due to Other State Funds	Description/Purpose
Nonmajor governmental:	$ 770	$ -	Due from other Agency funds for investment income transfers
Nonmajor governmental:	$ -	$ 3	Due to other State funds for services
Total	$ 770	$ 3	

(6) Long-Term Obligations

Changes in Long-Term Obligations

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2013, were as follows:

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013	Amounts Due Within One Year
Compensated Absences	$ 6	$ 11	$ 6	$ 11	$ -
Total	$ 6	$ 11	$ 6	$ 11	$ -

(7) Pension Plan

Substantially all of the Agency's full-time employees participate in the State Employees' Retirement System (SERS), which is a pension trust fund in the State of Illinois reporting entity. The SERS is a single-employer defined benefit public employee retirement system (PERS) in which State employees participate, except those covered by the State Universities, Teachers', General Assembly, and Judges' Retirement Systems. The financial position and results of operations of the SERS for fiscal year 2013 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2013. The SERS issues a separate CAFR that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255.

A summary of SERS benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the SERS' CAFR. Also included is a discussion of employer and employee obligations to contribute and the authority under which those obligations are established.

The Agency pays employer retirement contributions based upon an actuarially determined percentage of its payrolls. For Fiscal Year 2013, the employer contribution rate was 37.987%.

(8) Post-employment Benefits

The State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Central Management Services. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employee's Retirement System do not contribute towards health, dental, and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health, dental, and vision benefits. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes $5,000.

However, Public Act 97-0695, effective, July 1, 2012, alters the contributions to be paid by the State, annuitants, survivors, and retired employees under the State Employees Group Insurance Act. This Act requires the Director of Central Management Services to, on an annual basis, determine the amount that the State should contribute. The remainder of the cost of coverage shall be the responsibility of the annuitant, survivor, or retired employee. These costs will be assessed beginning July 1, 2013.

The total cost of the State's portion of health, dental, vision, and life insurance benefits of all members, including post-employment health, dental, vision, and life insurance benefits, is recognized as an expenditure by the State in the State of Illinois' Comprehensive Annual Financial Report. The State finances the costs on a pay-as-you-go basis. The total costs incurred for health, dental, vision, and life insurance benefits are not separated by department or component unit for annuitants and their dependents nor active employees and their dependents.

A summary of post-employment benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established is included as an integral part of the financial statements of the Department of Central Management Services. A copy of the financial statements of the Department of Central Management Services may be obtained by writing to the Department of Central Management Services, 715 Stratton Building, 401 South Spring Street, Springfield, Illinois, 62706.

(9) Risk Management

The Agency is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; workers compensation; and natural disasters. The State retains the risk of loss (i.e. self insured) for these risks.

The Agency's risk management activities for self-insurance, unemployment insurance and workers' compensation are financed through appropriations to the Department of Central Management Services and are accounted for in the General Fund of the State. The claims are not considered to be a liability of the Agency; and accordingly, have not been reported in the Agency's financial statements for the year ended June 30, 2013.

(10) Commitments and Contingencies

(a) Operating Leases

The Agency leases various real property and equipment under terms of noncancelable operating lease agreements that require the Agency to make minimum lease payments plus pay a pro rata share of certain operating costs. Rent expense under operating leases was $16 thousand for the year ended June 30, 2013.

(b) Renewable Energy Credits

During fiscal year 2013, the Agency entered into contracts with seven energy companies, committing to the purchase of Long-Term Renewable Energy Credits (REC) if the energy companies chose to exercise their rights to sell the credits to the Agency by July 10, 2014. Two energy companies have indicated their intent to exercise their rights to sell credits totaling $97 thousand as of June 30, 2013; therefore, the $97 thousand is included in Accounts Payable in the Statement of Net Position. As of June 30, 2013, outstanding commitments totaled $2.143 million.

(11) Restatement

The Agency's financial statements have been restated as of July 1, 2012. The restatement is a result of the Agency:

a) overstating the amount of unavailable revenue and accounts receivable from Alternative Compliance Payments;
b) performing excess transfers of investment income from the Illinois Power Agency Trust Fund to the Illinois Power Agency Operations Fund; and,
c) overstating the liability due to vendors for unpaid interest obligations.

The individual Governmental Funds have been restated by the following transactions (in thousands):

	Illinois Power Agency Operations 0425	Illinois Power Agency Renewable Energy Resources 0836	Illinois Power Agency Trust 0424	Total, Governmental Funds
Fund Balance at June 30, 2012, as previously reported	$ 6,291	$ 13,524	$ 24,895	$ 44,710
(a) Correction of an error related to unavailable revenue and accounts receivable	-	1,035	-	1,035
(b) Correction of an error related to transfers of investment income under the State Finance Act	(470)	-	470	-
(c) Correction of an error related to interest due to vendors under the State Prompt Payment Act	6	-	-	6
Fund Balance at June 30, 2012, as restated	$ 5,827	$ 14,559	$ 25,365	$ 45,751

In addition, the Agency reclassified the Illinois Power Agency Trust Fund from a Special Revenue to a Permanent Trust governmental fund type.

(11) Restatement - Continued

The Governmental Funds and Governmental Activities have been restated by the following transactions (in thousands):

	Total, Governmental Funds	Total, Governmental Activities
Fund Balance/Net Position at June 30, 2012, as previously reported	$ 44,710	$ 46,934
(a) Correction of an error related to unavailable revenue and accounts receivable	1,035	(11)
(b) Correction of an error related to transfers of investment income under the State Finance Act	-	-
(c) Correction of an error related to interest due to vendors under the State Prompt Payment Act	6	6
Fund Balance/Net Position at June 30, 2012, as restated	$ 45,751	$ 46,929

(12) Subsequent Events

a) On June 30, 2014, House Bill 2427 (as amended by Senate Amendments 4 and 5) became effective after being signed by the Governor. This bill, now Public Act 098-0672, requires the Agency to develop a supplemental procurement plan, subject to Illinois Commerce Commission approval, to spend up to $30 million from the Illinois Power Agency Renewable Energy Resources Fund on renewable energy credits from new and existing photovoltaic systems.

b) In Fiscal Year 2013, pursuant to the Illinois Commerce Commission approval of the 2013 Procurement Plan, the Agency did not conduct any procurement events for ComEd and Ameren. This was the first time in the Agency's history that this occurred. In Fiscal Year 2014, the Agency successfully procured energy for both ComEd and Ameren and expects to continue to do so in future years.

State of Illinois
Illinois Power Agency
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2013
(Expressed in Thousands)

	Special Revenue		Permanent Trust	
	Illinois Power Agency Operations 0425	**Illinois Power Agency Renewable Energy Resources 0836**	**Illinois Power Agency Trust 0424**	**Total**
Assets				
Cash equity in State Treasury	$ 6,422	$ 14,911	$ -	$ 21,333
Investments	-	-	28,335	28,335
Other receivables, net	1,085	38,382	-	39,467
Due from other agency funds	300	-	470	770
Total assets	$ 7,807	$ 53,293	$ 28,805	$ 89,905
Liabilities				
Accounts payable and accrued liabilities	$ 660	$ 97	$ -	$ 757
Due to other agency funds	470	-	300	770
Due to other State funds	3	-	-	3
Unavailable revenue	1,085	7,385	-	8,470
Total liabilities	2,218	7,482	300	10,000
Fund Balances				
Nonspendable - endowments and similar funds	-	-	28,505	28,505
Restricted				
Employment and economic development	-	45,811	-	45,811
Committed				
Employment and economic development	5,589	-	-	5,589
Total fund balances	5,589	45,811	28,505	79,905
Total liabilities and fund balances	$ 7,807	$ 53,293	$ 28,805	$ 89,905

State of Illinois
Illinois Power Agency
Combining Statement of Revenues,
Expenditures, and Changes in Fund Balances -
Nonmajor Governmental Funds
For the Year Ended June 30, 2013
(Expressed in Thousands)

	Special Revenue		Permanent Trust	
	Illinois Power Agency Operations 0425	Illinois Power Agency Renewable Energy Resources 0836	Illinois Power Agency Trust 0424	Total
Revenues				
Licenses and fees	$ 726	$ -	$ -	$ 726
Interest and other investment income	-	-	3,435	3,435
Other revenues	-	31,349	-	31,349
Total revenues	726	31,349	3,435	35,510
Expenditures				
Employment and economic development	1,264	97	(5)	1,356
Total expenditures	1,264	97	(5)	1,356
Excess (deficiency) of revenues over (under) expenditures	(538)	31,252	3,440	34,154
Other sources and uses of financial resources				
Transfers in	300	-	-	300
Transfers out	-	-	(300)	(300)
Total other sources and uses of financial resources	300	-	(300)	-
Net change in fund balances	(238)	31,252	3,140	34,154
Fund balances, July 1, 2012, as restated (see Note 11)	5,827	14,559	25,365	45,751
Fund Balances, June 30, 2013	$ 5,589	$ 45,811	$ 28,505	$ 79,905

SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES

SUMMARY

Supplementary Information for State Compliance Purposes presented in this section of the report includes the following:

- Fiscal Schedules and Analysis:
  - Schedule of Appropriations, Expenditures, and Lapsed Balances – Fiscal Year 2013
  - Comparative Schedule of Net Appropriations, Expenditures, and Lapsed Balances
  - Schedule of Changes in State Property
  - Comparative Schedule of Cash Receipts and Reconciliation of Cash Receipts to Deposits Remitted to the State Comptroller
  - Analysis of Significant Variations in Expenditures
  - Analysis of Significant Variations in Receipts
  - Analysis of Significant Lapse Period Spending
  - Analysis of Accounts Receivable
  - Analysis of Significant Variations in Asset and Liability Accounts
  - Analysis of Significant Variations in Revenue and Expenditure Accounts

- Analysis of Operations (Unaudited):
  - Agency Functions and Planning Program (Unaudited)
  - Director's Salary (Unaudited)
  - Average Number of Employees (Unaudited)
  - Emergency Purchases (Unaudited)
  - Service Efforts and Accomplishments (Unaudited)

The auditor's report that covers the Supplementary Information for State Compliance Purposes presented in the Financial Report Section states that it has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in the auditor's opinion, it is fairly stated, in all material respects, in relation to the basic financial statements as a whole from which it has been derived. The auditor's report also states the Analysis of Operations Section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, the auditors do not express an opinion or provide any assurance on it.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

SCHEDULE OF APPROPRIATIONS, EXPENDITURES, AND LAPSED BALANCES

Appropriations for Fiscal Year 2013

For the Fourteen Months Ended August 31, 2013

Public Act 97-0731	Appropriations	Expenditures Through June 30, 2013	Lapse Period Expenditures July 1 to August 31, 2013	Total Expenditures	Balances Lapsed
APPROPRIATED FUNDS					
Illinois Power Agency Operations Fund - 425					
Lump Sums - Ordinary and Contingent Expenses of the Illinois Power Agency	$ 3,913,500	$ 981,555	$ 88,277	$ 1,069,832	$ 2,843,668
Subtotal, Illinois Power Agency Operations Fund	$ 3,913,500	$ 981,555	$ 88,277	$ 1,069,832	$ 2,843,668
Illinois Power Agency Trust Fund - 424					
Lump Sums - For Deposit into the Illinois Power Agency Operations Fund	$ 300,000	$ 36,324	$ -	$ 36,324	$ 263,676
Subtotal, Illinois Power Agency Trust Fund	$ 300,000	$ 36,324	$ -	$ 36,324	$ 263,676
Illinois Power Agency Renewable Energy Resources Fund - 836					
Lump Sums - Purchase of Renewable Energy or Renewable Energy Credits	$ 8,000,000	$ -	$ -	$ -	$ 8,000,000
Subtotal, Illinois Power Agency Renewable Energy Resources Fund	$ 8,000,000	$ -	$ -	$ -	$ 8,000,000
TOTAL - ALL APPROPRIATED FUNDS	$ 12,213,500	$ 1,017,879	$ 88,277	$ 1,106,156	$ 11,107,344

Note 1: The data in this schedule was taken from the State Comptroller’s records and reconciled to the Agency’s records.
Note 2: Expenditure amounts are vouchers approved for payment by the Agency and submitted to the State Comptroller for payment to the vendor.
Note 3: As described in Finding 2013-012, the Agency did not comply with State laws regarding the use of appropriated funds.

STATE OF ILLINOIS

ILLINOIS POWER AGENCY

FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

SCHEDULE 2

COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES, AND LAPSED BALANCES

For the Fiscal Year Ended June 30,

	Fiscal Year	
APPROPRIATED FUNDS	2013	2012
Illinois Power Agency Operations Fund - 425	P.A. 97-0731	P.A. 97-0064
Appropriations	$ 3,913,500	$ 4,329,200
Expenditures		
Lump Sums - Ordinary and Contingent Expenses of the Illinois Power Agency	$ 1,069,832	$ 3,614,670
Total Illinois Power Agency Operations Fund Expenditures	$ 1,069,832	$ 3,614,670
Lapsed Balances	$ 2,843,668	$ 714,530
Illinois Power Agency Trust Fund - 424		
Appropriations	$ 300,000	$ -
Expenditures		
Lump Sums - For Deposit into the Illinois Power Agency Operations Fund	$ 36,324	$ -
Total Illinois Power Agency Trust Fund Expenditures	$ 36,324	$ -
Lapsed Balances	$ 263,676	$ -
Illinois Power Agency Renewable Energy Resources Fund - 836		
Appropriations	$ 8,000,000	$ -
Expenditures		
Lump Sums - Purchase of Renewable Energy or Renewable Energy Credits	$ -	$ -
Total Illinois Power Agency Renewable Energy Resource Fund Expenditures	$ -	$ -
Lapsed Balances	$ 8,000,000	$ -

COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES, AND LAPSED BALANCES
For the Fiscal Year Ended June 30,

	Fiscal Year 2013	Fiscal Year 2012
APPROPRIATED FUNDS (continued)		
TOTAL - APPROPRIATED FUNDS		
Total Appropriations	$ 12,213,500	$ 4,329,200
Total Appropriated Expenditures	$ 1,106,156	$ 3,614,670
Lapsed Balances	$ 11,107,344	$ 714,530
NONAPPROPRIATED FUNDS		
Illinois Power Agency Trust Fund - 424		
Expenditures		
Interfund Cash Transfers	$ -	$ 24,863,930
Total Illinois Power Agency Trust Fund Expenditures	$ -	$ 24,863,930
TOTAL - NONAPPROPRIATED FUNDS		
Total Nonappropriated Expenditures	$ -	$ 24,863,930
TOTAL EXPENDITURES - ALL FUNDS		
Total Appropriated Expenditures	$ 1,106,156	$ 3,614,670
Total Nonappropriated Expenditures	$ -	$ 24,863,930
TOTAL EXPENDITURES - ALL FUNDS	$ 1,106,156	$ 28,478,600

Note 1: The data in this schedule was taken from the State Comptroller’s records and reconciled to the Agency’s records.

Note 2: Expenditure amounts are vouchers approved for payment by the Agency and submitted to the State Comptroller for payment to the vendor.

Note 3: As described in Finding 2013-012, the Agency did not comply with State laws regarding the use of appropriated funds.

Note 4: For Fiscal Year 2012, expenditures and lapsed balances do not include interest payments approved for payment by the Illinois Power Agency and submitted to the State Comptroller for payment to the vendor after August 2012.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
SCHEDULE OF CHANGES IN STATE PROPERTY
For the Year Ended June 30, 2013

		Equipment
Balance at July 1, 2012	$	7,036
Additions		4,154
Deletions		-
Net Transfers		-
Balance at June 30, 2013	$	11,190

Note 1: This schedule has been derived from the Illinois Power Agency's records, which were unable to be reconciled to property reports submitted to the Office of the State Comptroller (see Finding 2013-013).

Note 2: The Illinois Power Agency has 42 property items at June 30, 2013, with no recorded value (see Finding 2013-013).

Note 3: The Illinois Power Agency transferred three property items to the Department of Central Management Services with no recorded value during the year ended June 30, 2013 (see Finding 2013-013).

STATE OF ILLINOIS **SCHEDULE 4**
ILLINOIS POWER AGENCY
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

COMPARATIVE SCHEDULE OF CASH RECEIPTS AND RECONCILIATION OF CASH RECEIPTS TO DEPOSITS REMITTED TO THE STATE COMPTROLLER

For the Fiscal Year Ended June 30,

	Fiscal Year	
Illinois Power Agency Operations Fund - 425	2013	2012
Bidder and Supplier Fees	$ 2,437,036	$ 2,840,738
Total Receipts - Fund 425	$ 2,437,036	$ 2,840,738
Receipts, per Agency Records	$ 2,437,036	$ 2,840,738
Add: Deposits in Transit, Beginning of the Fiscal Year	1,165,003	44,425
Subtract: Deposits in Transit, End of the Fiscal Year	4,499	1,165,003
Deposits, Recorded by the State Comptroller	$ 3,597,540	$ 1,720,160

ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES
For the Year Ended June 30, 2013

ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES BETWEEN FISCAL YEARS 2013 AND 2012

Illinois Power Agency Operations Fund - 425

Lump Sums - Ordinary and Contingent Expenses of the Illinois Power Agency
During Fiscal Year 2013, the Agency experienced a decrease in expenses due to the following:

1) The Agency contracted with a new Procurement Planning Consultant who charged less than the prior consultant;

2) The Agency did not conduct an energy procurement during Fiscal Year 2013, reducing the amount paid to the Procurement Administrator; and,

3) The Agency hired an in-house legal counsel, significantly reducing the cost for obtaining external legal services.

Illinois Power Agency Trust Fund - 424

Interfund Cash Transfers
During Fiscal Year 2012, the Agency transferred the vast majority of the cash assets held within the State Treasury to the Illinois State Board of Investment. The Agency transferred all of the remaining residual cash assets when they became available during Fiscal Year 2013; however, these amounts were charged to the incorrect account as described in Finding 2013-012.

ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS
For the Year Ended June 30, 2013

ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS BETWEEN FISCAL YEARS 2013 AND 2012

The Agency did not have any significant variations in cash receipts between Fiscal Year 2013 and Fiscal Year 2012.

SCHEDULE 7

ANALYSIS OF SIGNIFICANT LAPSE PERIOD SPENDING

For the Year Ended June 30, 2013

FISCAL YEAR 2013

The Agency did not have any significant Lapse Period spending during Fiscal Year 2013.

SCHEDULE 8

ANALYSIS OF ACCOUNTS RECEIVABLE

For the Fiscal Year Ended June 30,

Illinois Power Agency Operations Fund - 425	Fiscal Year 2013	Fiscal Year 2012
NOT IN PROTEST (in thousands)		
Receivables Not Past Due	$ 1,004	$ 1,433
1 - 90 Days	23	-
91 - 180 Days	-	-
181 Days - 1 Year	58	373
1 Year <= 2 Years	-	738
2 Years <= 3 Years	-	-
3 Years <= 4 Years	-	-
4 Years <= 5 Years	-	-
5 Years <= 10 Years	-	-
> 10 Years	-	-
Gross Receivables - Fund 425	$ 1,085	$ 2,544
Less: Allowance for Doubtful Accounts	-	-
Net Receivables - Fund 425	$ 1,085	$ 2,544

These amounts represent both billed receivables and accrued fees earned by the Agency from amounts charged to third parties for energy procurement planning and administration and administrative costs related to the purchase of Renewable Energy Credits.

In addition to collecting fees, the Agency is responsible for the financial reporting of Alternative Compliance Payments (ACPs). At the conclusion of each Energy Year (June through May), each Alternative Retail Electric Supplier calculates its liability by preparing a spreadsheet to self-report amounts due to the Illinois Commerce Commission (Commission) and remits the calculated amount due by September 1. During Fiscal Year 2013, the processing of all ACPs was administered by the Commission. The Commission accepted payments, verified the payment's accuracy to the self-reported spreadsheet, and deposited the cash receipts into the Illinois Power Agency Renewable Energy Resources Fund. The Agency reported accounts receivable of $38.382 million at June 30, 2013, and $2.157 million at June 30, 2012, for ACPs.

STATE OF ILLINOIS **SCHEDULE 9**
ILLINOIS POWER AGENCY
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
ANALYSIS OF SIGNIFICANT VARIATIONS IN ASSET AND LIABILITY ACCOUNTS
For the Year Ended June 30,
(Expressed in Thousands)

	Fiscal Year 2013	Fiscal Year 2012	Dollar Change	Percentage Change
Illinois Power Agency Operations Fund - 425				
Assets				
Cash equity in State Treasury	$ 6,422	$ 2,858	$ 3,564	125%
Other receivables, net	1,085	2,544	(1,459)	-57%
Prepaid expenses	-	87	(87)	-100%
Due from other Agency funds	300	3,321	(3,021)	-91%
Liabilities				
Accounts payable and accrued liabilities	$ 660	$ 1,676	$ (1,016)	-61%
Due to other Agency funds	470	470	-	0%
Due to other State funds	3	5	(2)	-40%
Unavailable Revenue	1,085	832	253	30%
Illinois Power Agency Trust Fund - 424				
Assets				
Cash equity in State Treasury	$ -	$ 24,863	$ (24,863)	-100%
Securities lending collateral of State Treasurer	-	1,944	(1,944)	-100%
Investments	28,335	-	28,335	100%
Other receivables, net	-	1	(1)	-100%
Due from other Agency funds	470	470	-	0%
Due from other State funds	-	31	(31)	-100%
Liabilities				
Due to other Agency funds	$ 300	$ -	$ 300	100%
Obligations of securities lending of State Treasurer	-	1,944	(1,944)	-100%
Illinois Power Agency Renewable Energy Resources Fund - 836				
Assets				
Cash equity in State Treasury	$ 14,911	$ 12,755	$ 2,156	17%
Other receivables, net	38,382	2,157	36,225	1679%
Liabilities				
Accounts payable and accrued liabilities	$ 97	$ -	$ 97	100%
Unavailable Revenue	7,385	352	7,033	1998%

Note 1: The Fiscal Year 2012 amounts have been restated, as described in Note 11 on pages 97-98.
Note 2: Agency management's explanations for the significant variations noted above are described on pages 112-114.

ANALYSIS OF SIGNIFICANT VARIATIONS IN ASSET AND LIABILITY ACCOUNTS BETWEEN FISCAL YEARS 2013 AND 2012

Illinois Power Agency Operations Fund - 425

Cash Equity in State Treasury
The net increase of $3.6 million in cash from Fiscal Year 2012 to Fiscal Year 2013 is primarily due to the collection of $3.3 million from the General Revenue Fund. The remaining $300 thousand increase in cash was due to the collection of several other receivables.

Other receivables, net
The net decrease of approximately $1.5 million in other receivables from Fiscal Year 2012 to Fiscal Year 2013 is primarily related to the timing of reimbursement fees due from utilities and other mediation consultant fees.

Due from other Agency funds
The net decrease of $3 million in the amounts due from other Agency funds was the collection of $3.3 million from the General Revenue Fund and an increase of $300 thousand from the accounting for an interfund cash transfer that will be paid in Fiscal Year 2014 from the Illinois Power Agency Trust Fund to the Illinois Power Agency Operations Fund.

Accounts payable and accrued liabilities
The decrease of $1.0 million in accounts payable and accrued liabilities from Fiscal Year 2012 to Fiscal Year 2013 is due to a decrease in expenditures paid during the Lapse Period for products and services provided during the last month of the fiscal year.

Unavailable revenue
The increase of $253 thousand in unavailable revenue from Fiscal Year 2012 to Fiscal Year 2013 is due to the timing of the collection of the other receivables. A larger amount of receivables was collected after the end of the Lapse Period than the previous year.

Illinois Power Agency Trust Fund - 424

Cash Equity in State Treasury
In Fiscal Year 2013, the Illinois Power Agency Trust Fund transferred approximately $24.9 million from a cash account in the State Treasury to the Illinois State Board of Investment in order to invest the money and receive a better return.

ANALYSIS OF SIGNIFICANT VARIATIONS IN ASSET AND LIABILITY ACCOUNTS BETWEEN FISCAL YEARS 2013 AND 2012 (continued)

Illinois Power Agency Trust Fund - 424 (continued)

Securities lending collateral of State Treasurer
In Fiscal Year 2012, the State Treasurer lent approximately $1.9 million in securities to broker-dealers and other entities for collateral that will be returned for the same securities in the future. The State Treasurer had authorized Deutsche Bank Group to lend the State Treasurer's securities to broker-dealers and banks pursuant to a form of loan. In Fiscal Year 2013, there were no outstanding agreements.

Investments
In Fiscal Year 2013, the Illinois Power Agency Trust Fund transferred approximately $24.9 million from a cash account in the State Treasury to the Illinois State Board of Investment in order to invest the money and receive a better return. The increase in investment income of approximately $3.3 million in Fiscal Year 2013 represents the increased return from conducting this transaction.

Due to other Agency funds
For Fiscal Year 2013, the General Assembly appropriated $300 thousand to the Illinois Power Agency Operations Fund from the Illinois Power Agency Trust Fund. The $300 thousand will be paid in Fiscal Year 2014 from the Illinois Power Agency Trust Fund to the Illinois Power Agency Operations Fund.

Obligations of securities lending of State Treasurer
In Fiscal Year 2012, the State Treasurer lent approximately $1.9 million in securities to broker-dealers and other entities for collateral that will be returned for the same securities in the future. The State Treasurer had authorized Deutsche Bank Group to lend the State Treasurer's securities to broker-dealers and banks pursuant to a form of loan. In Fiscal Year 2013, there were no outstanding agreements.

Illinois Power Agency Renewable Energy Resources Fund - 836

Cash Equity in State Treasury
The increase in cash of approximately $2.2 million during Fiscal Year 2013 was from the collection of outstanding receivables from Alternative Compliance Payments outstanding at the end of Fiscal Year 2012.

ANALYSIS OF SIGNIFICANT VARIATIONS IN ASSET AND LIABILITY ACCOUNTS BETWEEN FISCAL YEARS 2013 AND 2012 (continued)

Illinois Power Agency Renewable Energy Resources Fund - 836 (continued)

Other receivables, net

The net increase in receivables of $36.3 million for Fiscal Year 2013 represents an increase of receivables from Alternative Compliance Payments (ACPs) of $38.4 million and a decrease of $2.2 million from the collection of outstanding receivables during Fiscal Year 2013 that were outstanding at the end of Fiscal Year 2012. The increase in ACP receivables is due to two factors. ACPs are collected from Alternative Retail Electric Suppliers as part of their compliance obligations for the Renewable Portfolio Standard on a charge per megawatt hour of energy delivered to their customers. The charge rate increased between Fiscal Year 2012 and Fiscal Year 2013 and the total number of megawatt hours sold by the Alternative Retail Electric Suppliers increased significantly.

Unavailable revenue

The increase of $7.0 million in unavailable revenue from Fiscal Year 2012 to Fiscal Year 2013 is due to the timing of the collection of Alternative Compliance Payments. A larger amount of receivables were collected after the end of the Lapse Period than the previous year.

STATE OF ILLINOIS **SCHEDULE 10**

ILLINOIS POWER AGENCY

FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

ANALYSIS OF SIGNIFICANT VARIATIONS

IN REVENUE AND EXPENDITURE ACCOUNTS

For the Year Ended June 30,

(Expressed in Thousands)

	Fiscal Year			
	2013	2012	Dollar Change	Percentage Change
Illinois Power Agency Operations Fund - 425				
<u>Revenues</u>				
Licenses and fees	$ 726	$ 3,085	$ (2,359)	-76%
<u>Expenditures</u>				
Employment and economic development	$ 1,264	$ 3,557	$ (2,293)	-64%
<u>Other sources and uses of financial resources</u>				
Transfers in	$ 300	$ -	$ 300	100%
Illinois Power Agency Trust Fund - 424				
<u>Revenues</u>				
Interest and other investment income	$ 3,435	$ 102	$ 3,333	3268%
<u>Expenditures</u>				
Employment and economic development	$ (5)	$ 46	$ (51)	-111%
<u>Other sources and uses of financial resources</u>				
Transfers out	$ 300	$ -	$ 300	100%
Illinois Power Agency Renewable Energy Resources Fund - 836				
<u>Revenues</u>				
Other revenues	$ 31,349	$ 6,774	$ 24,575	363%
<u>Expenditures</u>				
Employment and economic development	$ 97	$ -	$ 97	100%

Note 1: The Fiscal Year 2012 amounts have been restated, as described in Note 11 on pages 97-98.

Note 2: Agency management's explanations for the significant variations noted above are described on pages 116-117.

ANALYSIS OF SIGNIFICANT VARIATIONS IN REVENUE AND EXPENDITURE ACCOUNTS BETWEEN FISCAL YEARS 2013 AND 2012

Illinois Power Agency Operations Fund - 425

Licenses and fees
In Fiscal Year 2013, licenses and fees revenue decreased approximately $2.4 million from Fiscal Year 2012. Licenses and fee revenue is a reimbursement of expenses associated with producing procurement plans and administering procurement events. The decrease in revenue is a direct result of the decrease in expenses in the employment and economic development expenditures.

Employment and economic development
In Fiscal Year 2013, employment and economic development expenditures decreased approximately $2.3 million from Fiscal Year 2012. The main reason is because of a decrease of approximately $2.3 million in operations management services for Procurement Plan consultant services and Procurement Administration services.

Transfers in
For Fiscal Year 2013, the General Assembly appropriated $300 thousand to the Illinois Power Agency Operations Fund from the Illinois Power Agency Trust Fund. In Fiscal Year 2012, the General Assembly did not appropriate funds to the Illinois Power Agency Operations Fund from the Illinois Power Agency Trust Fund.

Illinois Power Agency Trust Fund - 424

Interest and other investment income
In Fiscal Year 2013, the Illinois Power Agency Trust Fund transferred approximately $24.9 million from a cash account in the State Treasury to the Illinois State Board of Investment in order to invest the money and receive a better return. The increase in investment income of approximately $3.3 million in Fiscal Year 2013 represents the increased return from conducting this transaction.

Transfers out
For Fiscal Year 2013, the General Assembly appropriated $300 thousand to the Illinois Power Agency Operations Fund from the Illinois Power Agency Trust Fund. In Fiscal Year 2012, the General Assembly did not appropriate funds to the Illinois Power Agency Operations Fund from the Illinois Power Agency Trust Fund.

ANALYSIS OF SIGNIFICANT VARIATIONS IN REVENUE AND EXPENDITURE ACCOUNTS BETWEEN FISCAL YEARS 2013 AND 2012 (continued)

Illinois Power Agency Renewable Energy Resources Fund - 836

Other revenues

The increase of $24.6 million in revenue from Alternative Compliance Payments (ACPs) is due to two factors. ACPs are collected from Alternative Retail Electric Suppliers as part of their compliance obligations for the Renewable Portfolio Standard on a charge per megawatt hour of energy delivered to their customers. The charge rate increased between Fiscal Year 2012 and Fiscal Year 2013 and the total number of megawatt hours sold by the Alternative Retail Electric Suppliers increased significantly.

AGENCY FUNCTIONS AND PLANNING PROGRAM

For the Year Ended June 30, 2013

(UNAUDITED)

Agency Functions

The Illinois Power Agency (Agency) was established in Fiscal Year 2008 by the Illinois Power Agency Act (20 ILCS 3855).

The Agency's mission is to (a) develop procurement plans to ensure adequate, reliable, affordable, efficient and environmentally sustainable electric service at the lowest cost over time; (b) conduct competitive procurement processes to procure the supply resources identified in the procurement plan; (c) develop electric generation and co-generation facilities that use indigenous coal or renewable resources, or both, financed with bonds issued by the Illinois Finance Authority; and, (d) supply electricity from the Agency's facilities at cost to one or more of the following: municipal electric systems, governmental aggregators, or rural electric cooperatives in the State of Illinois.

During Fiscal Year 2013, the Agency developed a Procurement Plan, which was approved by the Illinois Commerce Commission (Commission) in December 2012. While the Agency did not hold electricity and renewable resource supply procurement events in accordance with the approved Procurement Plan, the Agency anticipates additional procurement events (the Rate Stability Procurements) will be held during Fiscal Year 2014 in accordance with Public Act 097-0616. These will be held for both Ameren and ComEd. The Rate Stability Procurements involve the separate purchase of block energy and renewable resource products for each of the two utilities. The Procurement Plan procurements will be for separate energy and renewable products for ComEd and separate energy, capacity, and renewable resource products for Ameren. In all procurement events, bidder participation fees will be assessed, as determined by the Agency. In addition, successful bidders will be assessed supplier fees, which are determined by a formula based upon the volume awarded to each winning bidder and a unit price. The unit price is determined by the Procurement Administrators in collaboration with the Agency and is designed to recoup the costs of conducting the Procurement Event, including the amount paid by the Agency to the Procurement Administrators. The results of all previous procurement events are available on the Agency's website.

Additionally, during Fiscal Year 2013 the Agency received Alternative Compliance Payments (ACPs). By law, all alternative retail energy suppliers (ARES) are required to produce or procure a certain amount of renewable energy resources in order to meet Renewable Portfolio Standard (RPS) targets. ARES can meet their obligations by either producing or purchasing energy from renewable sources or making ACPs.

At least 50% of an ARES' base RPS compliance must come from making ACP payments. The compliance period for energy suppliers is June 1 to May 31. At the end of each compliance period, each ARES must produce a report documenting its retail sales for the compliance period. The report is used to calculate the amount due. The report and payment are submitted to the

Commission, which then deposits the payment into the Illinois Power Agency Renewable Energy Resources Fund maintained by the Agency. All ACPs are due September 1st.

The Director is responsible for all functions of the Illinois Power Agency and completion of the statutory and contractually assigned duties and responsibilities of the Agency. The Agency maintains an office at 160 N. LaSalle, Suite C-504, Chicago, Illinois, 60601.

The Illinois Power Agency Act (20 ILCS 3855/1-70) required the Agency to establish a Planning and Procurement Bureau and a Resource Development Bureau; however, the Resource Development Bureau has not been established.

In addition, the Agency had not adopted formal rules for the operation, administration and accounting, and reporting of the Agency.

Planning Program

The Agency does not have a formal planning program.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
DIRECTOR'S SALARY
For the Year Ended June 30, 2013

(UNAUDITED)

The State Comptroller annually receives appropriations to pay the salaries of the State's Officers. The following table, prepared from the State Comptroller's records, presents the Director's salary for the Fiscal Year Ended June 30,

	Fiscal Year	
STATE OFFICERS' SALARIES	2013	2012
General Revenue Fund - 001 (State Comptroller)		
Appropriations	$ 103,800	$ 103,800
Expenditures		
Payroll for the Director of the Illinois Power Agency	$ 103,966	$ 103,113
Total General Revenue Fund Expenditures	$ 103,966	$ 103,113
Lapsed Balances	$ (166)	$ 687

AVERAGE NUMBER OF EMPLOYEES

For the Year Ended June 30, 2013

(UNAUDITED)

The following table, prepared from the Agency's records, presents the average number of employees, by function, for the Fiscal Year Ended June 30,

Division	2013	2012
Director	1	1
Administrative Services	3	2
Resource Development Bureau	0	0
Planning and Procurement Bureau	1	0
Total Full-Time Equivalent Employees	5	3

EMERGENCY PURCHASES

For the Year Ended June 30, 2013

(UNAUDITED)

The Agency reported the following emergency purchase to the Office of the Auditor General during Fiscal Year 2013:

Description		Cost
Contract Extension with Crowe Horwath, LLP for the Agency to meet the Fiscal Year 2012 GAAP Packages and Financial Statement Reporting Deadline set by the State Comptroller and complete the Agency's Operations and Reporting Manuals	$	30,434
Total Cost of Emergency Purchases	$	30,434

Note: As described in Finding 2013-016, this emergency purchase only met the definition of an emergency under the Illinois Procurement Code due to inadequate planning.

SERVICE EFFORTS AND ACCOMPLISHMENTS

For the Year Ended June 30, 2013

(UNAUDITED)

Mission Statement:

To execute the required advisory, planning, and procurement processes necessary to implement the provisions of the Illinois Power Agency Act.

Program Goals:

Objectives:

1) Develop annual electricity plans for ComEd and Ameren eligible retail customers and submit to the Illinois Commerce Commission for approval.
    a. Include cost effective renewable resources sufficient to meet the standards specified in the Illinois Power Agency Act.
    b. Include clean coal resources to the extent provided for in the Illinois Power Agency Act.
    c. Develop a diverse supply portfolio plan, including consideration of demand response and energy efficiency as provided by law, to assist with achieving the lowest total cost to consumers over time, taking into account the benefits of price stability.
2) Conduct competitive procurement processes to procure the resources identified in the plan and as approved by the Illinois Commerce Commission.
    a. Ensure appropriate price benchmarks are established.
    b. Secure qualified procurement administrators.
    c. Assess compliance with plans and provide expert advice to the Illinois Commerce Commission and the procurement administrators.
3) Develop and facilitate clean coal investment as provided for by law.
    a. Facilitate Synthetic Natural Gas (SNG) sourcing agreements between producers and the applicable gas utilities.
    b. Develop staff expertise in project financing, gas and coal markets and risk analysis.

Funds:

Illinois Power Agency Operations Fund

Statutory Authority:

Illinois Power Agency Act (20 ILCS 3855)

SERVICE EFFORTS AND ACCOMPLISHMENTS
For the Year Ended June 30, 2013

(UNAUDITED)

	2012 Actual	2013 Target/ Projected	2013 Actual	2014 Target/ Projected
Input Indicators				
Total expenditures - State appropriated funds (in thousands)	$ 3,614.7	$ 3,413.5	$ 1,106.2	$ 4,866.5
Average monthly full-time equivalents	2.3	4.0	4.5	6.0
Output Indicators				
Number of residential customers in the Ameren region taking fixed price supply as of May	956,043	N/A	480,758	N/A
Number of residential customers in the ComEd region taking fixed price supply as of May	2,993,667	N/A	1,093,713	N/A
Outcome Indicators				
Procurement Plan approved by the Illinois Commerce Commission	Yes	Yes	Yes	Yes
All required Procurement Event outcomes approved by the Illinois Commerce Commission	Yes	Yes	N/A	Yes
Efficiency/Cost-Effectiveness Indicators				
Renewable energy resource targets met within the constraints of the mandated cost caps	Yes	Yes	Yes	Yes

(a) The number of full-time equivalent staff members has been corrected for a reporting error.
(b) The total actual expenditures for Fiscal Year 2013 ($1,106.2 thousand) includes an interfund cash transfer ($36.3 thousand).
(c) As the result of a potential legislative change during Fiscal Year 2014 impacting the Illinois Power Agency Renewable Energy Resources Fund, the Agency's projected Fiscal Year 2014 total expenditures may change substantially.