State of Illinois

ILLINOIS POWER AGENCY

FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

For the Year Ended June 30, 2011

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

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
For the Year Ended June 30, 2011

TABLE OF CONTENTS

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
For the Year Ended June 30, 2011

TABLE OF CONTENTS – CONTINUED

AGENCY OFFICIALS

Acting Director (10/11/11 through current)	Arlene Juracek
Director (through 10/7/11)	Mark Pruitt
Chief Fiscal Officer (1/11/11 through current)	Kristene Callanta

Agency offices are located at:

160 North LaSalle
Suite N-506
Chicago, IL 60601

IPA ILLINOIS POWER AGENCY
Arlene A. Juracek, Acting Director

Pat Quinn, Governor

August 13, 2012

Kerber, Eck & Braeckel, LLP
Certified Public Accountants
1000 Myers Building
1 West Old State Capital Plaza
Springfield, Illinois 62701

Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the 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 Agency's compliance with the following assertions during the year ended June 30, 2011. Based on this evaluation, we assert that during the year ended June 30, 2011, the Agency has materially complied with the assertions below, except as identified in the schedule of findings.

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

Yours very truly,

Illinois Power Agency

Arlene A. Juracek

Arlene A. Juracek
Acting Director

Kristene M. Callanta

Kristene M. Callanta
Chief Fiscal Officer

Michael Strong
Chief Legal Counsel

160 North LaSalle Street, Suite C-504, Chicago, Illinois 60601

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
COMPLIANCE REPORT
SUMMARY
For the Year Ended June 30, 2011

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

ACCOUNTANTS' REPORTS

The Independent Accountants' Report on State Compliance, on Internal Control Over Compliance and on Supplementary Information for State Compliance Purposes contains scope limitations, disclaimers, or other significant non-standard language.

SUMMARY OF FINDINGS

Number of	Current Report	Prior Report
Findings	23	35
Repeated findings	22	18
Prior recommendations implemented or not repeated	13	4

Details of findings are presented in a separate report section.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
COMPLIANCE REPORT
SUMMARY
For the Year Ended June 30, 2011

Item No.	Page	Description	Finding Type
		FINDINGS (GOVERNMENT AUDITING STANDARDS)	
11-1	19	Lack of Controls Over Alternative Compliance Payments	Material Weakness
11-2	21	Lack of Appropriate Internal Controls	Material Weakness
11-3	23	Lack of Formal Budgeting Process	Material Weakness
11-4	24	State Funds Improperly Held Outside the State Treasury	Material Weakness
11-5	25	Failure to Maintain an Aged Listing of Accounts Receivable	Material Weakness
11-6	26	Inadequate Fee Assessment	Material Weakness
11-7	27	Lack of Procedures to Perform Monthly Reconciliations Between Agency Records and the Comptroller's Reports	Material Weakness
11-8	29	Failure to Timely Deposit Agency Funds	Material Weakness

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
COMPLIANCE REPORT
SUMMARY
For the Year Ended June 30, 2011

Item No.	Page	Description	Finding Type
		FINDINGS (STATE COMPLIANCE)	
11-9	30	Lack of Methodology Related to Billings	Material Weakness and Material Noncompliance
11-10	32	Failure to Develop Procedures Related to Uncollectible Receivables	Material Weakness and Material Noncompliance
11-11	33	Failure to Adopt Rules Related to Fees and Charges the Agency is Authorized to Collect and Deposit	Material Weakness and Material Noncompliance
11-12	34	Inadequate Controls Over Vendor Evaluations	Material Weakness and Material Noncompliance
11-13	36	Contract Terms Inconsistent with Terms of Contract Obligation Document	Material Weakness and Material Noncompliance
11-14	37	Late Filing of Contract Documents	Material Weakness and Material Noncompliance
11-15	38	Rules for Development of Prequalified Supplier Lists	Material Weakness and Material Noncompliance
11-16	39	Plan for Post-Performance Review	Material Weakness and Material Noncompliance

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
COMPLIANCE REPORT
SUMMARY
For the Year Ended June 30, 2011

Item No.	Page	Description	Finding Type
		FINDINGS (STATE COMPLIANCE) continued	
11-17	40	Establishment of Required Bureaus and Lack of Adequate Staffing	Material Weakness and Material Noncompliance
11-18	42	Formal Agency Rules Not Adopted	Material Weakness and Material Noncompliance
11-19	44	Failure to Post Procurement Information	Significant Deficiency and Noncompliance
11-20	46	Consulting Procurement Plan Contract Term Violation of State Statute	Significant Deficiency and Noncompliance
11-21	47	Untimely Submission of Vouchers	Significant Deficiency and Noncompliance
11-22	49	Failure to Timely Submit Reports	Significant Deficiency and Noncompliance
11-23	52	Failure to Obtain Employee Insurance or License Verification	Significant Deficiency and Noncompliance

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
COMPLIANCE REPORT
SUMMARY
For the Year Ended June 30, 2011

FINDINGS (STATE COMPLIANCE) continued

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

Item No.	Page	Description	Finding Type
11-1	19	Lack of Controls Over Alternative Compliance Payments	Material Noncompliance
11-2	21	Lack of Appropriate Internal Controls	Material Noncompliance
11-3	23	Lack of Formal Budgeting Process	Material Noncompliance
11-4	24	State Funds Improperly Held Outside the State Treasury	Material Noncompliance
11-5	25	Failure to Maintain an Aged Listing of Accounts Receivable	Material Noncompliance
11-6	26	Inadequate Fee Assessment	Material Noncompliance
11-7	27	Lack of Procedures to Perform Monthly Reconciliations Between Agency Records and the Comptroller's Reports	Material Noncompliance
11-8	29	Failure to Timely Deposit Agency Funds	Material Noncompliance

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
COMPLIANCE REPORT
SUMMARY
For the Year Ended June 30, 2011

Item No.	Page	Description
		PRIOR FINDINGS NOT REPEATED
A	53	Lack of Financial Information
B	53	Failure to Follow the Requirements of the Statewide Accounting Management System and Financial Reporting Process
C	53	Failure to Provide Requested Engagement Documentation to the Auditors
D	54	Approval of Payment for Services Performed Outside the Contract Terms
E	54	Failure to Conduct Outreach to Minority Owned Businesses, Female Owned Businesses and Businesses Owned By Persons with Disabilities
F	54	Failure to Make Procurement Plan Public
G	55	Agency Did Not Have Basic Office Equipment
H	55	Excessive Phone Charges
I	55	Improper Timekeeping Practices
J	56	The Illinois Power Agency Failed to Use the Correct Mileage Reimbursement Rate
K	56	Failure to Adopt a Formal Policy for Telephone Usage
L	57	Failure to Provide a Telecommunication Device for the Hearing or Speech Impaired
M	57	Failure to Adopt a Record Retention Policy

EXIT CONFERENCE

The Agency declined an exit conference.

The responses to the recommendations were provided by Kristene Callanta, CFO, in an email dated August 13, 2012.

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INDEPENDENT ACCOUNTANTS' REPORT ON STATE COMPLIANCE, ON INTERNAL CONTROL OVER COMPLIANCE, AND ON SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES

Honorable William G. Holland
Auditor General
State of Illinois

Compliance

As Special Assistant Auditors for the Auditor General, we have examined the 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, 2011. The management of the Illinois Power Agency is responsible for compliance with these requirements. Our responsibility is to express an opinion on the Illinois Power Agency's compliance based on our examination.

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

We conducted our examination 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 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 Illinois Power Agency's compliance with specified requirements.

As described in findings 11-1, 11-2, 11-3, 11-4, 11-5, 11-6, 11-7, 11-8, 11-9, 11-10, 11-11, 11-12, 11-13, 11-14, 11-15, 11-16, 11-17, and 11-18, in the accompanying schedule of findings, the Illinois Power Agency did not comply with numerous State mandates, the SAMS Manual, general internal control procedures, and other required State rules. Compliance with such requirements is necessary, in our opinion, for the 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 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, 2011. However, the results of our procedures disclosed other instances of noncompliance with those 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 11-19, 11-20, 11-21, 11-22, and 11-23.

Internal Control

Management of the 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 Illinois Power Agency's internal control over compliance with the requirements listed in the first paragraph of this report as a basis for designing our examination procedures 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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 significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in an entity's 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 as described in the accompanying schedule of findings 11-1, 11-2, 11-3, 11-4, 11-5, 11-6, 11-7, 11-8, 11-9, 11-10, 11-11, 11-12, 11-13, 11-14, 11-15, 11-16, 11-17, and 11-18 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 11-19, 11-20, 11-21, 11-22, and 11-23 to be significant deficiencies.

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

The 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 Illinois Power Agency's responses and, accordingly, we express no opinion the responses.

Supplementary Information for State Compliance Purposes

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Illinois Power Agency as of and for the year ended June 30, 2011, which comprise the Illinois Power Agency's basic financial statements, and have issued our report thereon dated August 13, 2012. The accompanying supplementary information, as listed in the table of contents as Supplementary Information for State Compliance Purposes, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Illinois Power Agency. The 2011 Supplementary Information for State Compliance Purposes, except for that portion marked "unaudited," on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2011, taken as a whole.

We were unable to express an opinion on compliance with the requirements listed in the first paragraph of this report for the years ended June 30, 2010 and 2009. The accompanying supplementary information as listed in the table of contents as Supplementary Information for State Compliance Purposes is presented for additional analysis. We were unable to apply certain limited procedures as prescribed by the Audit Guide as adopted by the Auditor General to the 2010 and 2009 Supplementary Information for State Compliance purposes due to the Illinois Power Agency's incomplete and inaccurate records during those years. We do not express an opinion on the 2010 and 2009 supplemental information.

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

Kerber, Eck & Braeckel LLP

Springfield, Illinois
August 13, 2012

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INDEPENDENT AUDITORS' 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

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Illinois, Illinois Power Agency, as of and for the year ended June 30, 2011, which collectively comprise the Illinois Power Agency's basic financial statements, and have issued our report thereon dated August 13, 2012. 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.

Internal Control Over Financial Reporting

Management of the Illinois Power Agency is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Illinois Power Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements and not for the purpose of expressing an opinion on the effectiveness of the Illinois Power Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Illinois Power Agency's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 findings 11-1, 11-2, 11-3, 11-4, 11-5, 11-6, 11-7, and 11-8 in the accompanying schedule of findings to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Illinois Power Agency's financial statements are free of 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 items 11-1, 11-2, 11-3, 11-4, 11-5, 11-6, 11-7, and 11-8.

We noted certain matters that we reported to management of the Illinois Power Agency in a separate letter dated August 13, 2012.

The Illinois Power Agency's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the 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 agency management and is not intended to be and should not be used by anyone other than these specified parties.

Kerber, Eck & Braeckel LLP

Springfield, Illinois
August 13, 2012

11-1 Finding: Lack of Controls Over Alternative Compliance Payments

The Illinois Power Agency (Agency) did not establish controls to properly record receivables and ensure the accuracy of Alternative Compliance Payments remitted by Alternative Retail Electric Suppliers. According to the Agency's financial statements, the Agency recognized revenue of $ 7.7 million during fiscal year 2011 and had accounts receivable of $ 5.6 million at June 30, 2011, related to Alternative Compliance Payments.

In order to determine the accuracy of accounts receivable and revenues related to the Alternative Compliance Payments, the auditors requested the Agency to provide supporting documentation. In response to this request, the Agency indicated the Alternative Compliance Payment process was administered by the Illinois Commerce Commission (Commission) and the Agency did not receive any information relative to the Alternative Compliance Payments from the Commission.

As the Agency and the Commission did not have an agreement to document each party's responsibilities for processing Alternative Compliance Payments, the auditors inquired with the Commission regarding its role in this process. The auditors determined the Alternative Compliance Payments were self-reported by the Alternative Retail Electric Suppliers with their annual report submission due to the Commission on September 1. Upon receipt of an Alternative Compliance Payment, the Commission deposited the remittance into the Illinois Power Agency Renewable Energy Resource Fund (Fund 836). Further, the auditors determined that the Agency did not review the Alternative Compliance Payments received for accuracy or compliance with State law.

We noted the following internal control weaknesses and noncompliance:

- The Agency did not administer the Illinois Power Agency Renewable Energy Resource Fund by ensuring revenues and receipts due to the State from Alternative Compliance Payments were collected and remitted to the proper fund in the State Treasury.

  The Illinois Power Agency Act (20 ILCS 3855/1-56(b)) states, "The Illinois Power Agency Renewable Energy Resources Fund shall be administered by the Agency to procure renewable energy resources."

11-1 Finding: Lack of Controls Over Alternative Compliance Payments - Continued

- The Agency does not have an interagency agreement with the Commission detailing the specific functions, duties, and responsibilities of both the Agency and Commission for the accounting, recordkeeping, and deposit of Alternative Compliance Payments.

  The State Records Act (5 ILCS 160/8) requires the Executive Director to 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 perform a review of Alternative Compliance Payments to ensure the amounts remitted by the Alternative Retail Electric Suppliers were in accordance with State law.

- The Agency failed to identify three Alternative Retail Energy Suppliers who failed to make alternative compliance payments during the compliance period.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance revenues and funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts, prepare reliable financial reports, and maintain accountability over the State's resources. [Finding Code No. 11-1]

Agency Officials state that to the best of their knowledge, during FY11, the Agency was unaware of the need to establish independent controls over the ACP process and, to the extent that the Agency had knowledge of any requirements that it lacked the technical capacity to develop those controls.

Failure to establish controls over Alternative Compliance Payments limits the Agency's ability to prepare accurate financial reports and may have resulted in the Agency not collecting all amounts due to the State from Alternative Retail Electric Suppliers.

Recommendation

We recommend the Agency implement controls to ensure accurate payments are received. In addition, the Agency and the Commission should develop an interagency agreement outlining the duties and responsibilities of each entity.

Agency Response

The Agency agrees with this finding. The Agency is taking steps to work with the Illinois Commerce Commission ("ICC") to develop an interagency agreement that provides IPA with knowledge of and the ability to test ICC's controls.

11-2 Finding: Lack of Appropriate Internal Controls

The Illinois Power Agency (Agency) did not establish adequate accounting procedures and internal controls.

During our audit, we noted the Agency did not have a general ledger accounting system. Further, the Agency did not have any procedures in place to record and deposit receipts, pay bills when due, track accounts receivable or accounts payable, or track and monitor complaints related to billings.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires that "All State Agencies shall establish and maintain a system, or systems, of internal fiscal and administrative controls, which shall provide assurance that: (3) funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation".

According to Agency officials, to the best of the knowledge of current IPA employees, for the first half of FY11, Agency personnel did not have sufficient familiarity and/or expertise with the FCIAA or the SAMS Manual requirements for recording financial transactions, nor did the Agency retain outside consultants with familiarity or expertise.

Failure to implement adequate internal controls over accounting procedures and internal controls increases the risk that errors and irregularities could occur and not be detected. [Finding Code No. 11-2, 10-4, 09-4]

Recommendation

We recommend the Agency develop adequate procedures over cash receipts, cash disbursements, accounts receivable and accounts payable to ensure fiscal responsibility.

Agency Response

The Agency agrees with this finding. The Agency notes that no current IPA staff member was employed by the Agency or the State during the first 6 ½ months of the testing period, at which point the Agency hired its first Chief Fiscal Officer.

11-2 Finding: Lack of Appropriate Internal Controls - Continued

Agency Response - Continued

The Agency hired a Chief Fiscal Officer in January 2011 who is responsible for the Agency's financial accounting and reporting functions. After being hired, the CFO developed informal procedures to ensure the proper and timely processing of transactions to the IOC and State Treasurer. These procedures are currently being formalized with the development and implementation of the IPA Fiscal Operations Manual (FOM) that documents procedures over cash receipts, cash disbursements, accounts payable and accounts receivable, in addition to other financial areas. The Agency is also developing a GAAP Reporting Manual (GRM); both are being developed with the assistance of outside consultants. IPA has substantially implemented the procedures documented in the current drafts of the FOM and GRM as of the date of this response. However, IPA notes that the manuals will not be finalized until a draft of both documents has been completed, because the two documents are inter-related, and additions/revisions are being incorporated while this process is in progress.

In addition, the Agency implemented QuickBooks Pro 2011 accounting software in January 2012 to serve as the Agency's general ledger and to assist with year-end financial reporting.

Finally, the hiring of an Administrative Analyst in July 2012 added an additional level to processing and review procedures that will ensure accounting errors and irregularities are found and corrected promptly.

11-3 Finding: Lack of Formal Budgeting Process

The Illinois Power Agency (Agency) did not have a formal budgeting process.

During our audit, we noted the Agency did not have a formal budget process to effectively utilize its resources. During fiscal year 2011, the Agency received appropriations of $ 5,102,550.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires that "All State Agencies shall establish and maintain a system, or systems, of internal fiscal and administrative controls, which shall provide assurance that: (1) resources are utilized efficiently, effectively, and in compliance with applicable law".

According to Agency Officials, to the best of the knowledge of current IPA employees, for the first half of FY11, Agency personnel did not have sufficient familiarity and/or expertise with the FCIAA or the State Officers and Employee Money Disposition Act requirements, nor did the Agency retain outside consultants with familiarity or expertise.

Failure to establish a budgeting process places the Agency and State at risk of improper expenditures resulting in the loss of State funds. [Finding Code No. 11-3, 10-5, 09-5]

Recommendation

We recommend the Agency develop a formal budgeting process to ensure all funds of the Agency are spent and managed in a fiscally responsible manner.

Agency Response

The Agency agrees with this finding. The Agency notes that no current IPA staff member was employed by the Agency or the State during the first 6 ½ months of the testing period, at which point the Agency hired its first Chief Fiscal Officer. The Agency hired a Chief Fiscal Officer in January 2011, who is responsible for the Agency's financial accounting and reporting functions. The CFO developed informal procedures to monitor the budgeting process through an Excel spreadsheet by tracking vendors, contracts, obligations and billings. The CFO input the FY2012 budget into QuickBooks in March, 2012 and the Agency is now able to efficiently monitor the use of resources.

In addition, the IPA Fiscal Operations Manual was substantially developed during FY2012 and documents formal procedures over the obligation process The Agency is also simultaneously developing a GAAP Reporting Manual (GRM); both are being developed with the assistance of outside consultants. While IPA has substantially implemented the procedures currently documented in the current drafts of the FOM and GRM, the manuals will not be finalized until a draft of both documents has been completed, because the two documents are inter-related, and additions/revisions are being incorporated while this process is in progress.

11-4 Finding: State Funds Improperly Held Outside the State Treasury

The Illinois Power Agency (Agency) improperly allowed State funds to be held in accounts outside the State Treasury without proper statutory authority.

In order to determine the activities conducted by the Agency outside of the State treasury, we requested information from the Procurement Administrators and the Utilities. As a result, we determined: as instructed by the Director; an estimated $ 497,000 of State funds were held by a Procurement Administrator as of June 30, 2011 and 2010.

According to the Illinois Power Agency Act, (20 ILCS 3855/1-15 (b)) "no part of the revenues or assets of the Agency shall inure to the benefit of or be distributable to any of its employees or any other private persons, except as provided in this Act for actual services rendered."

The State Officers and Employees Money Disposition Act (30 ILCS 230/2a.2) prohibits a State officer or employee from maintaining or participating in a deposit of money received except as provided by law.

According to Agency officials, to the best of the knowledge of current IPA employees, for the first half of FY11, Agency personnel did not have sufficient familiarity and/or expertise with the State Officers and Employee Money Disposition Act requirements, nor did the Agency retain outside consultants with familiarity or expertise.

Failure to properly deposit State funds into a Treasury held account could result in a loss of State resources. [Finding Code No. 11-4, 10-6, 09-8]

Recommendation

We recommend the Agency implement the appropriate procedures to receive and deposit State revenues and collect interest. Additionally, we recommend the Agency obtain and properly deposit all funds held by the procurement administrators, on behalf of the Agency, as soon as possible.

Agency Response

The Agency agrees with this finding. The Agency notes that no current IPA staff member was employed by the Agency or the State during the time at which the incidents at the basis of this finding occurred.

During FY2011, the Agency substantially implemented procedures that are documented in the current draft of the IPA Fiscal Operations Manual (FOM). The relevant FOM section (Accounting and Financial Reporting Policies and Procedures, subsection Revenue and Related Asset (Receivable) Accounting) documents the specific procedures related to the receipt and deposit of State revenues. Prior to the implementation of the current draft of the FOM, the Agency ensured the procedures, later documented in the current draft of the FOM, were followed once the CFO was hired in January 2011.

11-5 Finding: Failure to Maintain an Aged Listing of Accounts Receivable

The Illinois Power Agency (Agency) did not maintain an aged listing of accounts receivable.

During our testing, we noted the Agency did not maintain an aged listing of accounts receivable throughout the fiscal year. According to the Agency's financial statements, accounts receivable at June 30, 2011, was $ 7.6 million.

According to the SAMS Manual (26.20.20), "in order for an agency to effectively estimate the collectability of its receivables and properly focus collection efforts, each outstanding receivable due the State must be "aged" relative to its formal due date."

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires that "All State Agencies shall establish and maintain a system, or systems, of internal fiscal and administrative controls, which shall provide assurance that: (3) funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation".

According to Agency Officials, to the best of the knowledge of current IPA employees, for the first half of FY11, Agency personnel did not have sufficient familiarity and/or expertise with the SAMS Manual requirements and financial reporting process, nor did the Agency retain outside consultants with familiarity or expertise.

Without an aged listing of accounts receivable, the Agency is unable to accurately monitor accounts receivable and track older, uncollectible items. [Finding Code No. 11-5, 10-7]

Recommendation

We recommend the Agency maintain an aged listing of accounts receivable throughout each fiscal year.

Agency Response

The Agency agrees with this finding. The Agency notes that no current IPA staff member was employed by the Agency or the State during the first 6 ½ months of the testing period, at which point the Agency hired its first Chief Fiscal Officer.

The Agency hired a Chief Fiscal Officer in January 2011 who is responsible for the Agency's financial accounting and reporting functions. The CFO developed informal procedures to maintain an aged listing of Accounts Receivable in an Excel spreadsheet. The information maintained in this spreadsheet was used by IPA and Shared Services to file the C-97/98/99s with IOC during FY2011. The Agency implemented QuickBooks Pro 2011 accounting software in January 2012 to serve as the Agency's general ledger and assist with year-end financial reporting. QuickBooks includes a report "AR Aging Detail".

11-6 Finding: Inadequate Fee Assessment

The Illinois Power Agency (Agency) did not assess adequate fees to ensure the costs of the preparation of the annual procurement plan were covered.

During our audit, we noted the Agency did not assess an adequate fee to each utility to ensure the cost of the preparation of the annual procurement plan was covered. Based on information provided by the Agency, the indirect costs plus the costs of the procurement planning consultants exceeds the amount assessed to the utilities. For 2011, the total cost of the preparation of the annual procurement plan was estimated at $ 1,273,963 while the fees assessed were $ 930,403.

According to the Illinois Power Act (20 ILCS 3855/1-75 (g)), the "Agency shall assess fees to each affected utility to recover the cost incurred in preparation of the annual procurement plan for the utility."

According to Agency Officials, to the knowledge of current Agency employees, Agency personnel did not have sufficient access to legal or accounting services to initiate formal rulemaking regarding fee assessment or develop a budget for FY11.

Failure to assess adequate fees to cover the preparation of the annual procurement plan is a violation of State statute. Additionally, this is poor management from a fiscal standpoint. [Finding Code No. 11-6, 10-10, 09-9]

Recommendation

We recommend the Agency consider both the direct and indirect costs related to the preparation of the annual procurement plan in order to ensure the appropriate fees are assessed to cover the costs.

Agency Response

The Agency agrees with this finding. In FY12, utilities were billed for both direct and indirect costs associated with the preparation of the procurement plan. In addition, the recently hired Chief Legal Counsel is in the process of completing the draft fees assessment rules for submission for publication in the Illinois Register to begin the formal rulemaking process.

11-7 Finding: Lack of Procedures to Perform Monthly Reconciliations between Agency Records and the Comptroller's Reports

The Illinois Power Agency (Agency) did not have procedures in place to perform monthly reconciliations between Agency records and the Comptroller's reports.

During our testing, we noted that there were no formal policies or procedures established to reconcile Comptroller's reports and Agency records for the first six months of the fiscal year. Additionally, formal monthly reconciliations were not prepared from July 2010 through December 2010.

According to the SAMS Manual (11.40.20), State agencies should reconcile unexpended budget authority balances per Agency records with the Comptroller monthly.

According to Agency Officials, to the best of the knowledge of current IPA employees, for FY11, Agency personnel did not have sufficient familiarity and/or expertise with the SAMS Manual requirements related to reconcile Agency records to Comptroller records.

Failure to reconcile Agency records to the Comptroller's reports is a violation of the SAMS Manual and could result in incomplete or inaccurate financial information. [Finding Code No. 11-7, 10-15]

Recommendation

We recommend the Agency develop formal procedures to perform monthly reconciliations between Agency records and the Comptroller's reports.

Agency Response

The Agency agrees with this finding. The Agency notes that no current IPA staff member was employed by the Agency or the State during the first 6 ½ months of the testing period, at which point the Agency hired its first Chief Fiscal Officer.

11-7 Finding: Lack of Procedures to Perform Monthly Reconciliations between Agency Records and the Comptroller's Reports - Continued

Agency Response - Continued

The Agency hired a Chief Fiscal Officer in January 2011 who is responsible for the Agency's financial accounting and reporting functions. In December 2010, the Agency entered into an interagency agreement with the Administrative and Regulatory Shared Services Center, which assisted the Agency with various accounting functions, including transactional processing and reconciliation procedures. The SB01, SB04 and SB05 Reports were reconciled to Agency records by CMS personnel through December 2010, Shared Services personnel from January 2011 until September 2011, and have been reconciled by IPA personnel and consultants since September 2011. The Agency is in the process of formalizing the reconciliation procedures in the Fiscal Operations Manual (FOM), which is currently under development. The Agency is also developing a GAAP Reporting Manual (GRM); both are being developed with the assistance of outside consultants. IPA has substantially implemented the procedures documented in the current drafts of the FOM and GRM as of the date of this response. However, IPA notes that the manuals will not be finalized until a draft of both documents has been completed, because the two documents are inter-related, and additions/revisions are being incorporated while this process is in progress.

11-8 Finding: Failure to Timely Deposit Agency Funds

The Illinois Power Agency (Agency) did not timely deposit agency funds.

During our testing, we noted 80 checks received between November 5, 2009 and July 14, 2010, totaling $ 1,500,416, were not deposited until August 8, 2010. This ranged from 25 days late to 255 days late.

According to the State Officers and Employees Money Disposition Act (30 ILCS 230/2 (a)), the Agency "shall pay into the State treasury the gross amount of money so received on the day of actual physical receipt with respect to any single item of receipt exceeding $ 10,000, within 24 hours of actual physical receipt with respect to an accumulation of receipts of $ 10,000 or more, or within 48 hours of actual physical receipt with respect to an accumulation of receipts exceeding $ 500 but less than $ 10,000."

According to Agency Officials, to the best of the knowledge of current IPA employees, for the first half FY11, Agency personnel did not have sufficient familiarity and/or expertise with the State Officers and Employees Money Disposition Act.

Without the proper procedures to ensure receipts are deposited timely, the Agency risks losing checks or checks not clearing, which would result in a loss of State revenue. [Finding Code No. 11-8]

Recommendations

The Agency's should have policies and procedures in place to ensure deposits of Agency funds are made promptly.

Agency Response

The Agency agrees with this finding, insofar as the described violations occurred during the first 6½ months of the testing period. The Agency notes that no current IPA staff member was employed by the Agency or the State during the first 6 ½ months of the testing period, at which point the Agency hired its first Chief Fiscal Officer.

The Agency hired a Chief Fiscal Officer in January 2011, who is responsible for the Agency's financial accounting functions. After being hired, the CFO implemented informal procedures to ensure the proper and timely depositing of agency funds in accordance with the State Officer and Employees Money Disposition Act (30 ILCS 230/2 (b)). These procedures are currently being formalized with the development and implementation of the IPA Fiscal Operations Manual (FOM) that documents procedures over cash receipts, in addition to other financial areas. The Agency is also developing a GAAP Reporting Manual (GRM); both are being developed with the assistance of outside consultants. While IPA has implemented the procedures documented in the current drafts FOM and GRM, the manuals will not be finalized until a draft of both documents has been completed, because the two documents are inter-related, and additions/revisions are being incorporated while this process is in progress.

11-9 Finding: Lack of Methodology Related to Billings

The Illinois Power Agency had not developed and documented a methodology in order to bill the utilities for reimbursement of consulting fees.

The Agency had not developed and documented a methodology to determine the applicable reimbursements from the utilities. As a result, the utilities did not reimburse the Agency on a timely basis.

During our testing, one of the utilities had informed the auditors that it had requested supporting documentation from the Agency over the past two years and had not received it. Additionally, the Agency had not entered into an agreement or otherwise set forth its calculation for agreement of fees.

During fiscal years 2010 and 2011, the Agency expended $ 1,466,903, in direct payments to the procurement planning consultants, for the development of the procurement plan, which was to be reimbursed by the utilities.

According to the Illinois Power Agency Act (20 ILCS 3855/1-75(g)), the Agency shall assess fees to each affected utility to recover the cost incurred in preparation of the annual procurement plan for the utility.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) states "All State agencies shall establish and maintain a system, or systems, of internal fiscal and administrative controls, which shall provide assurance that: (3) funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized user and misappropriation."

Agency Officials state that to the best of their knowledge, during FY11, the Agency developed, but had not documented a methodology in order to bill the utilities for reimbursement of consulting fees and that Agency personnel were unaware of a requirement to enter into agreements with the utilities.

The lack of a methodology could result in inappropriate reimbursement from the utilities. [Finding Code 11-9, 10-25]

Recommendation

We recommend the Agency develop a methodology for determining the proper billings to the utilities. Additionally, the Agency should enter into agreements with the utilities to ensure proper reimbursement.

11-9 Finding: Lack of Methodology Related to Billings - Continued

Agency Response

The Agency agrees in part with this finding. To the best of the knowledge of current IPA personnel, during FY11, the Agency methodology for determining the proper billings to utilities was neither formal nor documented. Since FY11, the Agency has developed documented informal policy. As noted in response to Finding 11-6 and 11-11, the recently hired Chief Legal Counsel is in the process of completing the draft fees assessment rules for submission for publication in the Illinois Register to begin the formal rulemaking process.

Responding further, the Agency believes that no formal agreement is required, because the Illinois Power Agency Act mandates that participating utilities cover costs incurred in support of the Procurement Planning process. (*See* 20 ILCS 3855/1-75(g).) IPA further states that formal fee assessment rules, once approved by JCAR, will further obviate the need for agreements.

11-10 Finding: Failure to Develop Procedures Related to Uncollectible Receivables

The Illinois Power Agency (Agency) had not developed procedures related to uncollectible receivables.

During our audit, we noted the Agency had not developed procedures in order to ensure uncollectible receivables were referred to the Comptroller's Offset System. According to the Agency's financial statements, accounts receivable at June 30, 2011, was $ 7.6 million.

According to the SAMS Manual (26.40.20), State agencies should use the Comptroller's Offset when it is determined to be in the best economic interest of the State.

According to Agency Officials, to the best of the knowledge of current IPA employees, for FY11, Agency personnel did not have sufficient familiarity and/or expertise with the SAMS Manual requirement or the Comptroller's Offset system.

Failure to refer uncollectible receivables is a violation of the SAMS Manual. Additionally, this could result in the State unknowingly paying vendors who owe the State overdue funds. [Finding Code No. 11-10, 10-14]

Recommendation

We recommend the Agency develop formal procedures in order to ensure uncollectible receivables are referred to the Comptroller's Offset System.

Agency Response

The Agency agrees with this finding. The Agency notes that no current IPA staff member was employed by the Agency or the State during the first 6 ½ months of the testing period, at which point the Agency hired its first Chief Fiscal Officer.

The Agency hired a Chief Fiscal Officer in January 2011 who is responsible for the Agency's financial accounting and reporting functions. Prior to June 30, 2011 the Agency developed informal procedures related to uncollectible receivables. Procedures are currently being formalized with the development and implementation of the Fiscal Operations Manual. The current draft of the FOM provides guidance related to the collection of receivables, implementation of the Agency's internal offset system, and eventual referral to the Comptroller's Offset System. The Agency is also developing a GAAP Reporting Manual (GRM); both are being developed with the assistance of outside consultants. IPA has substantially implemented the procedures documented in current drafts of the FOM and GRM as of the date of this response. However, IPA notes that the manuals will not be finalized until a draft of both documents has been completed, because the two documents are inter-related, and additions/revisions are being incorporated while this process is in progress.

11-11 Finding: Failure to Adopt Rules Related to Fees and Charges the Agency is Authorized to Collect and Deposit

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

Although the Agency was established in fiscal year 2008, the Agency had not adopted rules for fees and charges it is authorized to collect and deposit in order to fund Agency operations. During the fiscal year ended June 30, 2011, the Illinois Power Agency reported collecting approximately $ 9.4 million in bidder and supplier fees in the Illinois Power Agency Operations Fund.

According to the Illinois Power Agency Act (20 ILCS 3855/1-55), “the Agency shall adopt rules regarding charges and fees it is expressly authorized to collect in order to fund the operations of the Agency. These charges and fees shall be deposited into the Illinois Power Agency Operations Fund.”

According to Agency Officials, to the best of the knowledge of current IPA employees, for FY11, Agency personnel did not have sufficient legal expertise to draft or adopt formal agency rules related to fees and charges. Although the Agency did retain outside counsel, to the best of the knowledge of current IPA employees, the Agency lacked sufficient expertise to provide guidance to its outside counsel as to the content of proposed rules.

Failure to adopt formal rules related to fees and charges is a violation of State statute and could result in failure to collect appropriate funding for Agency operations. [Finding Code No. 11-11, 10-16]

Recommendation

We recommend the Agency adopt rules related to fees and charges it has authority to collect to fund operations.

Agency Response

The Agency agrees with this finding. During FY12, the Agency researched and drafted rules to be adopted governing assessment and collection of the fees it is authorized to collect under the Illinois Power Agency Act. The newly hired Chief Legal Counsel is in the process of formalizing these rules through the rulemaking process, which is currently in the pre-First Notice Order stage.

11-12 Finding: Inadequate Controls over Vendor Evaluations

The Illinois Power Agency (Agency) did not maintain adequate controls over evaluations of vendor proposals related to the Request for Qualifications (RFQ) and subsequent Request for Proposals (RFP) of the Procurement Administrators.

During our review of the three vendor's proposals to an RFQ:

- We were provided "Scoring Sheets" which evaluated each vendor's proposal. The "Scoring Sheets" documented the evaluation of the "Administrative Compliance" and the vendor's "Capabilities" as outlined in the RFQ. However, the "Scoring Sheet" for one vendor was incomplete. The technical section was not scored and a final scoring was not completed.

- The "Scoring Sheets" had handwritten notes, indicating if the vendor was qualified or not, and were signed and dated by the Director. Although the RFQ stated the vendor's proposal would be evaluated by the Evaluation Committee, the Director was the only evaluator.

During our review of the four vendor's proposals to an RFP, we noted:

- The vendor's proposals were not evaluated based on the criteria outlined in the RFP; Administrative Compliance, Technical Capability and Pricing Proposal.

- The "Overall Ranking" spreadsheet contained errors, and did not indicate the "Overall Ranking" of the vendor proposals. In fact, we could not determine the actual "Overall Ranking" of the vendor proposals due to the errors and incomplete information.

In addition, during our review of the RFP for legal services:

- We noted the vendor's proposals were not evaluated based on the criteria outlined in the RFP; Administrative Compliance, Technical Capability and Pricing Proposal.

- We received one "Scoring Sheets" per vendor. Our review noted the "Scoring Sheets" were all handwritten and were not signed or dated by the evaluator.

11-12 Finding: Inadequate Controls over Vendor Evaluations - Continued

- The "Overall Ranking" spreadsheet, which was handwritten, indicated two proposals had been disqualified. As for the remaining three proposals, we were unable to determine the actual "Overall Ranking" of the vendor's proposals due to incomplete information.

- Although the RFP stated the vendor's proposal would be evaluated by the Evaluation Committee, we were only provided one evaluation per vendor proposal.

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

According to Agency Officials, to the best of the knowledge of current IPA employees, for FY11, Agency personnel did not have sufficient resources and/or knowledge of statutory requirements to properly evaluate RFQs and RFPs and did not have sufficient personnel to form an Evaluation Committee.

Failure to evaluate vendor proposals as documented in the RFQ and RFP increases the likelihood the vendors and public will not view the proposal evaluation process as being fair and conducted in accordance with the requirements outlined in the solicitations. [Finding Code No. 11-12, 10-23, 10 -24]

Recommendation

The Agency should ensure proposals are evaluated as documented in the solicitations. Additionally, the Agency should ensure all evaluations are appropriately documented and conducted by an Evaluation Committee.

Agency Response

The Agency agrees with this finding. The Agency will develop procedures to ensure proposals are evaluated as documented in the solicitations and that all evaluations are appropriately documented and conducted by an Evaluation Committee. IPA anticipates forming an Evaluation Committee in FY13 in advance of issuing its next RFP or RFQ.

11-13 Finding: Contract Terms Inconsistent with Terms of Contract Obligation Document

The Illinois Power Agency (Agency) entered into contracts where the terms per the contract were not consistent with the terms in the contract obligation document (COD).

During our audit, we noted the term of one of the four contracts tested (25%), totaling $ 1,116,903 was not consistent with the term per the COD. The terms outlined in the COD were June 21, 2010 through June 30, 2015, versus the contract terms which were June 21, 2010 through June 30, 2011, with an available contract extension through June 21, 2012.

According to the SAMS Manual (15.10.40), the COD should mirror the terms in the final contract.

According to Agency Officials, to the best of the knowledge of current IPA employees, inconsistencies between terms of the identified contract and the related COD were due to an apparent error by Agency personnel.

As a result of the discrepancies, the Agency had contracted for services shorter than what was stated in the COD. [Finding Code No. 11-13, 10-21]

Recommendation

We recommend the Agency carefully review documents to ensure the terms of the contract are consistent with the terms of the contract obligation document.

Agency Response

The Agency agrees with this finding.

A Contract Obligation Document was submitted for FY2012 which is consistent with the contract terms. The hiring of an Administrative Analyst in July 2012 adds an additional level to processing and review procedures that will increase the chances that accounting errors and irregularities are found and corrected promptly.

11-14 Finding: Late Filing of Contract Documents

The Illinois Power Agency (Agency) did not timely file contracts with the Office of the Comptroller.

During our audit, we noted three of four (75%) contracts tested, totaling $ 2,415,995, were not filed with the Comptroller within 15 days of execution. Filing dates ranged from 21 days to 43 days subsequent to the start date of the contracts.

The Illinois Procurement Code (30 ILCS 500/20-80(b)) and the SAMS Manual (15.10.40) require State agencies to file contracts exceeding $ 10,000 ($ 5,000 for professional and artistic contracts) with the Office of the Comptroller within 15 days of execution.

According to Agency Officials, to the best of the knowledge of current IPA employees, for FY11, Agency personnel did not have sufficient resources and/or knowledge of statutory requirements to meet the requirement for filing contracts within 15 days.

Failure to file the proper contract documents with the Office of the Comptroller timely and improper approval of contract payments could lead to the improper expenditure of State funds. [Finding Code No. 11-14, 10-17, 09-15]

Recommendation

We recommend the Agency implement the appropriate procedures to ensure that all contract documents are properly and timely filed and paid according to the approved contract amounts.

Agency Response

The Agency agrees with this finding. The Agency notes that no current IPA staff member was employed by the Agency or the State during the first 6 ½ months of the testing period, at which point the Agency hired its first Chief Fiscal Officer.

The Agency hired a Chief Fiscal Officer in January 2011 who is responsible for the Agency's financial accounting and reporting functions including contracting processes. Once hired, the CFO implemented informal procedures designed to ensure that all contracts are timely filed.

11-15 Finding: Rules for Development of Prequalified Supplier Lists

The Illinois Power Agency (Agency) did not document rules for the development of certain prequalified supplier lists.

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

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

According to Agency Officials, to the best of the knowledge of current IPA employees, for FY11, Agency personnel did not have sufficient resources and/or knowledge of statutory requirements to create a prequalified supplier list.

Failure to create rules for the development of certain prequalified supplier lists is a violation of State statute and could subject the State to legal action. [Finding Code No. 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 this finding. The Agency respectfully notes that it is currently not engaged in any construction activity requiring engagement of suppliers for construction and construction-related professional services, and does not anticipate that it will engage in any construction-related activity within the foreseeable future.

Due to the magnitude of the issues noted from the prior audit, the Agency prioritized the findings and focused its time on reconstructing the accounting records, compiling accurate financial statements, developing formal procedures and hiring qualified staff to implement the recommendations noted in the prior audit. The Agency will work to establish rules for the development of prequalified supplier lists, as applicable, during FY2013.

11-16 Finding: Plan for Post-Performance Review

The Illinois Power Agency (Agency) did not include a plan for post-performance review in their solicitation documents.

During our audit, we noted the Agency did not include a plan for post-performance review in the uniform documents developed for the solicitation, review, and acceptance of all professional and artistic services.

According to the Illinois Procurement Code (30 ILCS 500/35-20):

"(b) All chief procurement officers, State purchasing officers, and their designees shall use the appropriate uniform procedures and forms specified in this Code for all professional and artistic services.

(c) These forms shall include in detail, in writing, at least:

(1) a description of the goal to be achieved;
(2) the services to be performed;
(3) the need for the service;
(4) the qualifications that are necessary; and
(5) a plan for post-performance review."

According to Agency Officials, to the best knowledge of current IPA employees, for FY11, Agency personnel did not have sufficient resources and/or expertise with the requirement of the Illinois Procurement code, nor did the Agency have outside consultants with relevant knowledge or expertise, to develop a plan for post-performance review.

Failure to include a plan for post-performance review in solicitation documents is a violation of State statute and could subject the State to legal action. [Finding Code No. 11-16, 10-19, 09-17]

Recommendation

We recommend the Agency include the required plan for post-performance review in all future solicitation documents.

Agency Response

The Agency agrees with this finding.

Due to the magnitude of the issues noted from the prior audit, the Agency prioritized the findings and focused its time on reconstructing the accounting records, compiling accurate financial statements, developing formal procedures and hiring qualified staff to implement the recommendations noted in the prior audit. The Agency will work to implement a plan for post-performance review in future solicitation documents during and FY2013.

11-17 Finding: Establishment of Required Bureaus and Lack of Adequate Staffing

The Illinois Power Agency (Agency) did not establish a Planning and Procurement Bureau or a Resource Development Bureau as required by its enabling statute. In addition, various Agency administrative requirements were not completed by Agency personnel.

Although the Agency was established in fiscal year 2008, the Director continued to be the sole employee until January of 2011. Specifically, we noted the Agency had not established a Planning and Procurement Bureau or a Resource Development Bureau. Additionally, within each bureau there was to be a chief appointed. Further, the Agency lacked adequate staffing in order to carry out administrative tasks.

The Illinois Power Act (20 ILCS 3855/1-70(b)) states within the Illinois Power Agency, the Agency shall establish a Planning and Procurement Bureau and a Resource Development Bureau. Each of these bureaus should have a chief with at least 10 years of experience in the related industries and an advanced degree in a related field. Subsequently, the statute was changed to require bureau chiefs have five years of experience.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) states that "All State agencies shall establish and maintain a system, or systems, of internal fiscal and administrative controls which shall provide assurance that: (1) resources are utilized efficiently, effectively, and in compliance with law".

According to Agency Officials, to the best of the knowledge of current IPA employees, the Agency was not able to hire additional personnel, except for a Chief Fiscal Officer in January 2011.

Failure to create these required bureaus is a violation of State statute. In addition, because these bureaus were not created, the Director had the sole responsibility for scoring all proposals and selecting winners for the procurement process, which could result in an abuse of power. Further, as a result of failure to hire appropriate personnel, the Agency has hired outside consultants who may not be cost effective and administrative tasks have not been appropriately and effectively completed. [Finding Code No. 11-17, 10-12, 09-7]

11-17 Finding: Establishment of Required Bureaus and Lack of Adequate Staffing - Continued

Recommendation

We recommend the Agency establish the required bureaus and appoint chiefs to these bureaus who meet the qualifications of the statute in order to ensure the Agency functions properly and in a cost-effective manner. We further recommend the Agency hire the staff needed to carry out administrative tasks.

Agency Response

The Agency agrees with this finding. The Agency is making progress in its staffing efforts. A Bureau Chief of Planning and Procurement will begin work for the Agency on August 16, 2012 and a new Acting Director was appointed in October 2011. To assist the Agency in carrying out its administrative duties, a Chief Fiscal Officer was hired in January 2011, Chief Legal Counsel began work in March 2012 and an Administrative Analyst was hired in July 2012 with additional staffing to occur during FY13.

11-18 Finding: Formal Agency Rules Not Adopted

The Illinois Power Agency (Agency) did not adopt rules for operation, administration, accounting and reporting as specified in the Illinois Power Agency Act.

During our audit, we noted the Agency had not drafted or 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 and a system of accounts.

According to the Illinois Power Agency Act (20 ILCS 3855/1-35), "the Agency shall adopt rules as may be necessary and appropriate for the operation of the Agency. In addition to other rules relevant to the operation of the Agency, the Agency shall adopt rules that accomplish each of the following: (1) establish procedures for monitoring the administration of any contract administered directly or indirectly by the Agency; except that the procedures shall not extend to executed contracts between electric utilities and their suppliers; (2) establish procedures for the recovery of costs incurred in connection with the development and construction of a facility should the Agency cancel a project, provided that no such costs shall be passed on to public utilities or their customers or paid from the Illinois Power Agency Operations Fund; (3) implement accounting rules and a system of accounts, in accordance with State law, permitting all reporting (i) required by the State, (ii) required under this Act, (iii) required by the Authority, or (iv) required under the Public Utilities Act."

According to Agency Officials, to the best of the knowledge of current IPA employees, for FY11, Agency personnel did not have sufficient legal expertise to draft or 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, or implement accounting rules and a system of accounts. Although the Agency had outside counsel, to the best of the knowledge of current IPA employees, the Agency did not have the necessary expertise to provide guidance to its outside counsel to properly develop those rules.

Formal administrative rules provide a basis for a proper accounting of the transactions of the agency, protect agencies from legal challenges and give additional legitimacy to agency actions and agency requests of external parties. Failure to adopt appropriate rules and procedures could result in a lack of proper reporting and failure to establish and adequately monitor internal controls. [Finding Code No. 11-18, 10-11, 09-6]

11-18 Finding: Formal Agency Rules Not Adopted - Continued

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 and a system of accounts as required by State statute.

Agency Response

The Agency agrees with this finding. In March 2012, the Agency hired a Chief Legal Counsel, who is in the process of formalizing all Agency rules. The Chief Legal Counsel has worked with JCAR and the Secretary of State Index Department on pre-First Notice review of prioritized rules.

Additionally, the Agency hired a Chief Fiscal Officer in January 2011 who is responsible for the Agency's financial accounting and reporting functions. After being hired, the CFO developed informal procedures over the Agency's financial operations. These procedures are currently being formalized with the development and implementation of the IPA Fiscal Operations Manual (FOM) that documents procedures over cash receipts, cash disbursements, accounts payable and accounts receivable, in addition to other financial areas. The Agency is also developing a GAAP Reporting Manual (GRM); both are being developed with the assistance of outside consultants. While IPA has implemented the procedures documented in the current drafts FOM and GRM, the manuals will not be finalized until a draft of both documents has been completed, because the two documents are inter-related, and additions/revisions are being incorporated while this process is in progress.

11-19 Finding: Failure to Post Procurement Information

The Illinois Power Agency (Agency) did not adequately post procurement information.

During our audit, we noted the Agency did not post "Notices" of the legal contract offered and the Request For Qualification related to the procurement of the Procurement Administrators. In addition, the Agency did not post "Notice" for the amendment of the procurement planning contract.

The Illinois Procurement Code (30 ILCS 500/15-1) states "The Illinois Power Agency is the State agency responsible for publishing its volumes of the Illinois Procurement Bulletin." Additionally, the Procurement Code (30 ILCS 500/15-10) states "The Illinois Procurement Bulletin shall contain notices and other information required by this Code or by rules promulgated under this Code to be published in the Illinois Procurement Bulletin."

The Illinois Procurement Code (30 ILCS 500/15-25 (b-5)) states "Notice of each and every contract that is awarded, including renegotiated contracts and change orders, shall be issued electronically to the successful responsible bidder or offeror, posted on the agency's website the next business day, and published in the next available subsequent Bulletin. The applicable chief procurement officer may provide by rule an organized format for the publication of the information, but in any case it must include at least all of the information specified in subsection (a) as well as the name of the successful responsible bidder or offeror, the contract price, the number of unsuccessful responsive bidders, and any other disclosure specified in any Section of this Code. This notice must be posted in the online electronic Bulletin prior to execution of the contract."

According to Agency Officials, to the best of the knowledge of current IPA employees, for FY11, the Agency was unaware of the requirement for posting of awarded contracts or publishing its own Procurement Bulletin or, to the extent that the Agency was aware during FY11, that it lacked sufficient expertise to publish its own Procurement Bulletin.

The awarded contracts should be posted in the Illinois Procurement Bulletin to present a fair evaluation process and so bidders can readily find results of the solicitations. [Finding Code No. 11-19, 10-20]

Recommendations

We recommend the Agency post the required information on the Procurement Bulletin.

11-19 Finding: Failure to Post Procurement Information - Continued

Agency Response

The Agency agrees with this finding. The Agency notes that no current IPA staff member was employed by the Agency or the State during the first 6 ½ months of the testing period, at which point the Agency hired its first Chief Fiscal Officer.

The Agency strives to ensure that all required information is posted to the Illinois Procurement Board or the IPA's Procurement Bulletin as required by State statute. The IPA will work with the Executive Ethics Commission to develop appropriate forms and publications.

11-20 Finding: Consulting Procurement Plan Contract Term in Violation of State Statute

The Illinois Power Agency (Agency) entered into a consulting contract for a term exceeding the time period allowed by State statute.

During our testing, we noted a contract entered into with the firm to develop the procurement plan was for one year and nine days with an option for a one-year extension, which exceeds the allotted terms as mandated. The total contract amount is $ 1,116,902.

Additionally, the Agency filed the contract obligation document which stated a five-year contract totaling $ 5,106,903.

According to the Illinois Power Agency Act (20 ILCS 3855/1-75 (a)(5)), "the Agency shall select an expert or expert consulting firm to develop procurement plans based on the proposals submitted and shall award one-year contracts to those selected with an option for the Agency for a one-year renewal."

According to Agency Officials, the extended length of this contract was due to an oversight by Agency personnel.

Entering into a consulting procurement plan contract with terms exceeding those allowed by the mandate is a violation of State statute. [Finding Code No. 11-20, 10-8]

Recommendation

We recommend the Agency follow the terms as prescribed by State statute when executing consulting procurement plan contracts.

Agency Response

The Agency agrees with this finding. Effective in future (post-FY11) fiscal years, Public Act 97-0618 (effective 10/26/11) extended the maximum length of time from one year with an option for a second year to five years. Thus, the current contract with the firm hired to develop the procurement plan is consistent with the time period allowed by State statute.

In March 2012, the Agency hired a Chief Legal Counsel who reviews all Agency contracts to ensure there are no violations of State statute. The hiring of an Administrative Analyst in July 2012 adds an additional level to processing and review procedures that will increase the chances that administrative errors and irregularities are found and corrected promptly.

11-21 Finding: Untimely Submission of Vouchers

The Illinois Power Agency (Agency) did not submit vouchers in a timely manner.

During testing, we noted the following:

- 7 of 30 (23%) contractual services vouchers, totaling $ 543,714, were not approved for payment within 30 days. The approval ranged from 42 days to 119 days delinquent.

- 10 of 30 (33%) contractual services vouchers, totaling $ 676,630, were not paid within 60 days. The payment date ranged from six days to 110 days delinquent.

- 4 of 22 (18%) commodities vouchers, totaling $ 194 were not approved for payment within 30 days. The approval ranged from 75 days to 127 days delinquent.

- 4 of 22 (18%) commodities vouchers, totaling $ 194, were not paid within 60 days. The payment date ranged from 45 days to 97 days delinquent.

- 4 of 12 (25%) telecommunications vouchers, totaling $ 758 were not approved for payment within 30 days. The approvals ranged from 29 days to 105 days delinquent.

- 3 of 12 (34%) telecommunication vouchers, totaling $ 540, were not paid within 60 days. The payment date ranged from 27 days to 75 days delinquent.

The State Prompt Payment Act (30 ILCS 540/3-2(1)) states that any bill approved for payment must be paid or payment issued within 60 days of receipt. If payment is not issued to the payee within the 60-day period, an interest penalty of 1.0% of any amount approved and unpaid shall be added for each month or fraction thereof after the end of the 60-day period, until final payment is made.

The Illinois Administrative Code (74 Ill. Admin. Code 900.70(b)) states that an Agency shall approve proper bills or deny bills with defects, in whole or in part, within 30 days after receipt.

According to Agency Officials, to the best of the knowledge of current IPA employees, for the first half of FY11, Agency personnel did not have sufficient familiarity and/or expertise with the State Prompt Payment Act or the Illinois Administrative Code, nor did the Agency retain outside consultants with familiarity or expertise.

11-21 Finding: Untimely Submission of Vouchers - Continued

Failure to approve vouchers timely is a violation of State statute and could result in additional charges to the Agency. [Finding Code No. 11-21, 10-13, 09-13]

Recommendation

We recommend the Agency approve and submit its vouchers in a timely manner.

Agency Response

The Agency agrees with this finding, insofar as the described violations occurred during the first 6½ months of the testing period. The Agency notes that no current IPA staff member was employed by the Agency or the State during the first 6 ½ months of the testing period, at which point the Agency hired its first Chief Fiscal Officer.

The Agency hired a Chief Fiscal Officer in January 2011 who is responsible for the Agency's financial accounting and reporting functions. After being hired, the CFO reviewed, approved and submitted all invoices in a timely fashion. To ensure duplicate vouchers are not processed, vouchers are tracked in an Excel spreadsheet by the CFO, using invoice, voucher and warrant detail. The spreadsheet was developed to identify any duplicate invoice numbers.

11-22 Finding: Failure to Timely Submit Reports

The Illinois Power Agency (Agency) did not timely submit various reports to the appropriate parties.

During our audit, we noted the Agency had not submitted:

- The Fiscal Control and Internal Auditing Act (FCIAA) Certification with the Office of the Auditor General.
- The Headquarters Report, TA-2 for January - June 2010 with the Legislative Audit Commission.
- The Fee Imposition Report for fiscal year 2011 with the State Comptroller's Office.
- The Public Accountability Report with the State Comptroller's Office.

Additionally, we noted the Agency did not timely submit the following reports:

- The Headquarters Report, TA-2 Form for July - December 2010 was not submitted to the Legislative Audit Commission until March 23, 2011, 81 days late.
- The quarterly accounts receivable report for June 30, 2010, was not submitted to the Comptroller until October 4, 2010, 65 days late.
- The Agency Workforce Report with the Secretary of State and the Governor's Office was not submitted until March 20, 2011, 78 days late.

According to the Fiscal Control and Internal Auditing Act (30 ILCS 10/3003), "By May 1 of each year, each chief executive officer of all State agencies shall, on the basis of an evaluation conducted in accordance with guidelines established under Section 3002, prepare and transmit to the Auditor General a certification that: (1) the systems of internal fiscal and administrative controls of the State agency fully comply with the requirements of this Act; or (2) the systems of internal fiscal and administrative controls of the State agency do not fully comply with the requirements of this Act."

11-22 Finding: Failure to Timely Submit Reports - Continued

According to the State Finance Act (30 ILCS 105/12-3), "each State agency, as defined by Section 1-7 of the Illinois State Auditing Act, shall file reports of all of its officers and employees for whom 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. Agencies with no officers or employees in this status shall file negative reports."

According to the State Comptroller Act (15 ILCS 405/16.2(a)), "a State agency that imposes fees shall file the Agency Fee Imposition Report Form established under Section 3-8.5 of the Illinois State Auditing Act with the Comptroller at the time the Comptroller specifies by rule."

According to SAMS (33.20.20) the Public Accountability Report "is to be submitted annually to the Comptroller's Office as part of the year-end reporting package. The Public Accountability Report is due to the Comptroller's Office by October 15."

According to the SAMS Manual (26.30.10), State agencies shall report receivables information to the Office of the State Comptroller quarterly. This report is due by the end of the month subsequent to the quarter reported.

The State Employment Records Act (5 ILCS 410/1) states that all agencies shall report the number of minorities, women, and physically disabled persons to the Secretary of State and Governor's Office on an annual basis. This report is due by January 1 of each year.

According to Agency Officials, to the best of the knowledge of current IPA employees, for the first half FY11, Agency personnel did not have sufficient familiarity and/or expertise with the filing requirements identified above. To the extent that IPA personnel had or gained knowledge of filing requirements and filed documents after the due date, to the best of the knowledge of current IPA employees late filing was due to limited Agency resources and/or lack of knowledge before a reasonable amount of time in advance of deadlines.

Failure to file reports is a violation of State statue. Additionally, failure to file could result in incomplete information provided to the State. [Finding Code No. 11-22, 10-26, 09-19]

11-22 Finding: Failure to Timely Submit Reports - Continued

Recommendation

We recommend the Agency file all required reports and in a timely manner.

Agency Response

The Agency agrees with this finding, insofar as the basis for 6 of 7 (86%) of the described violations occurred during the first 6 ½ months of the testing period. The Agency notes that no current IPA staff member was employed by the Agency or the State during the first 6 ½ months of the testing period, at which point the Agency hired its first Chief Fiscal Officer.

The Agency hired a Chief Fiscal Officer in January 2011 who is responsible for the Agency's financial accounting and reporting functions. During FY2011, the Agency continued to identify its reporting requirements and began timely filing of the C-97, TA-2, and Agency Workforce as well as other reports. In FY2012, FCIAA Certification, the Headquarters Report (TA-2), Fee Imposition Report, Public Accountability Report, quarterly accounts receivable reports and Agency Workforce Report were submitted timely. A reporting requirements checklist, with reporting deadlines, is being developed and will be used to ensure timely reporting in the future.

11-23 Finding: Failure to Obtain Employee Insurance or License Verification

The Illinois Power Agency (Agency) had not ensured employees were properly insured or licensed.

During our testing, we noted the Agency did not obtain verification to ensure employees using personal vehicles for State business were properly insured or licensed.

According to the Illinois Vehicle Code (625 ILCS 5/10-101(b)), "every employee of the State, who operates for purposes of State business a vehicle not owned, leased or controlled by the State shall procure insurance."

According to Agency Officials, to the best of the knowledge of current IPA employees, for the first half FY11, Agency personnel did not have sufficient familiarity and/or expertise with the Illinois Vehicle Code.

Failure to develop procedures to ensure Agency employees are properly licensed and insured while driving for State business is in a violation of State statutes. [Finding Code No. 11-23, 10-32]

Recommendation

We recommend that Agency develop procedures related to employee vehicle use.

Agency Response

The Agency agrees with this finding.

The Agency developed procedures for Employee Vehicle Usage, which are now documented in the current (as of this response) version IPA Employee Handbook. Employees driving personal vehicles for State business are required to sign certification forms stating employees are licensed and insured.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
PRIOR YEAR FINDINGS NOT REPEATED
For the Year Ended June 30, 2011

A: Lack of Financial Information

In the last examination, we noted the Illinois Power Agency did not prepare or submit financial information to the Governor, General Assembly or the auditors. [Finding Code No. 10-1]

Status:

Finding not repeated. During the current audit, financial information was submitted to the Governor, General Assembly and the auditors.

B: Failure to Follow the Requirements of the Statewide Accounting Management System and Financial Reporting Process

In the last examination, we noted the Illinois Power Agency failed to follow the requirements of the Statewide Accounting Management System (SAMS) relating to the receipting, obligating and expending from State Treasury-held funds and the financial reporting process established by the Office of the State Comptroller. [Finding Code No. 10-2]

Status:

Finding not repeated. The Agency did follow portions of the SAMS Manual during the audit period. As such, this has not been repeated. However, there were specific reporting and SAMS Manual requirements that were not followed. These have been reported as separate findings in the current year.

C: Failure to Provide Requested Engagement Documentation to the Auditors

In the last examination, we noted the Illinois Power Agency did not provide all the requested documentation to the auditors. [Finding Code No. 10-3]

Status:

Finding not repeated. During the current audit, the Agency provided all requested documentation to the auditors.

D: Approval of Payment for Services Performed Outside the Contract Term

In the last examination, we noted the Illinois Power Agency approved payment of an invoice for services performed outside the terms of the contract. The Agency entered into a contract with NERA under which the renewal terms were from March 6, 2010 through March 6, 2010 (a one day contract). Additionally, the Agency was not able to pay NERA an $ 850,000 payment due to the renewal term issue. [Finding Code No. 10-9]

Status:

Finding not repeated. During the current audit, we noted the $ 850,000 due to NERA was being settled in the Court of Claims. Additionally, based on our testing, services were performed within the contract terms.

E: Failure to Conduct Outreach to Minority Owned Businesses, Female Owned Businesses and Businesses Owned By Persons with Disabilities

In the last examination, we noted the Illinois Power Agency did not conduct outreach to minority owned businesses, female owned businesses, and businesses owned by persons with disabilities when offering bids for professional services. [Finding Code No. 10-22]

Status:

Finding not repeated. In the prior year, all findings were deemed material due to a disclaimer of an opinion on the financial statements and compliance examination. In the current year, this did not occur and this finding was deemed immaterial.

F: Failure to Make Procurement Plan Public

In the last examination, we noted the Illinois Power Agency failed to post a copy of the procurement plan on the Agency's website. [Finding Code No. 10-27]

Status:

Finding not repeated. During the current audit, we noted the Agency posted a copy of the procurement plan on the website.

G: Agency Did Not Have Basic Office Equipment

In the last examination, we noted the Illinois Power Agency did not have basic office equipment. [Finding Code No. 10-28]

Status:

Finding not repeated. During the current audit, we noted the Illinois Power Agency had obtained basic office equipment from the Department of Central Management Services.

H: Excessive Phone Charges

In the last examination, we noted the Illinois Power Agency had significant overages on its cellular telephone bills. [Finding Code No. 10-29]

Status:

Finding not repeated. Based on testing performed during the current audit, telephone charges were reasonable.

I: Improper Time Keeping Practices

In the last examination, we noted the Illinois Power Agency did not maintain proper time keeping practices for a portion of the year. [Finding Code No. 10-30]

Status:

Finding not repeated. Based on testing performed in the current audit, it appears the Agency maintained appropriate time keeping practices during the fiscal year.

J: The Illinois Power Agency Failed to Use the Correct Mileage Reimbursement Rate

In the last examination, we noted the Illinois Power Agency used the incorrect mileage rate for travel reimbursement. [Finding Code No. 10-31]

Status:

Finding not repeated. Based on testing performed, it appears the Agency used the correct mileage rate in the current fiscal year.

K: Failure to Adopt a Formal Policy for Telephone Usage

In the last examination, we noted the Illinois Power Agency did not have a formal policy for telephone usage. [Finding Code No. 10-33]

Status:

Finding not repeated. In the prior year, all findings were deemed material due to a disclaimer of an opinion on the financial statements and compliance examination. In the current year, this did not occur and this finding was deemed immaterial.

L: Failure to Provide a Telecommunication Device for the Hearing or Speech Impaired

In the last examination, we noted the Illinois Power Agency did not have a telecommunication device for the hearing or speech impaired. [Finding Code No. 10-34]

Status:

Finding not repeated. In the prior year, all findings were deemed material due to a disclaimer of an opinion on the financial statements and compliance examination. In the current year, this did not occur and this finding was deemed immaterial.

M: Failure to Adopt a Record Retention Policy

In the last examination, we noted the Illinois Power Agency had not adopted a formal record retention policy. [Finding Code No. 10-35]

Status:

Finding not repeated. In the prior year, all findings were deemed material due to a disclaimer of an opinion on the financial statements and compliance examination. In the current year, this did not occur and this finding was deemed immaterial.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
FINANCIAL STATEMENT REPORT
SUMMARY
For the Year Ended June 30, 2011

SUMMARY

The audit of the accompanying financial statements of the Illinois Power Agency was performed by Kerber, Eck & Braeckel, LLP.

Based on their audit, the auditors expressed an unqualified opinion on the Agency's basic financial statements.

SUMMARY OF FINDINGS

The auditors identified matters involving the Agency's internal control over financial reporting that they considered to be material weaknesses. The material weaknesses are described in the accompanying Schedule of Findings listed in the table of contents as findings 11-1 through 11-8, as follows:

11-1	Lack of Controls Over Alternative Compliance Payments
11-2	Lack of Appropriate Internal Controls
11-3	Lack of Formal Budgeting Process
11-4	State Funds Improperly Held Outside the State Treasury
11-5	Failure to Maintain an Aged Listing of Accounts Receivable
11-6	Inadequate Fee Assessment
11-7	Lack of Procedures to Perform Monthly Reconciliations Between Agency Records and the Comptroller's Reports
11-8	Failure to Timely Deposit Agency Funds

EXIT CONFERENCE

The Agency declined an exit conference.

The responses to the recommendations were provided by Kristene Callanta, CFO, in an email dated August 13, 2012.

Kerber, Eck & Braeckel LLP

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INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we were engaged to audit the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Illinois Power Agency as of and for the year ended June 30, 2011, which collectively comprise the Illinois Power Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Illinois Power Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 2, the financial statements of the Illinois Power Agency are intended to present the financial position and changes in financial position of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the 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, 2011, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Illinois Power Agency, as of June 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 13, 2012, on our consideration of the 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Illinois Power Agency has not presented a management's discussion and analysis and budgetary comparison information that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Illinois Power Agency's basic financial statements. The accompanying combining balance sheet and combining statement of revenues, expenditures and changes in fund balance are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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 agency management, and is not intended to be and should not be used by anyone other than these specified parties.

Kerber, Eck & Braeckel LLP

Springfield, Illinois
August 13, 2012

State of Illinois
Illinois Power Agency

Statement of Net Assets

June 30, 2011 (Expressed in Thousands)

		Governmental Activities
ASSETS		
Cash equity in State Treasury	$	5,373
Securities lending collateral equity of State Treasurer		155
Other receivables, net		7,570
Due from other State funds		34,474
Total assets		47,572
LIABILITIES		
Accounts payable and accrued liabilities		2,565
Obligations under securities lending of State Treasurer		155
Long term obligations:		
Due within one year		-
Due subsequent to one year		2
Total liabilities		2,722
NET ASSETS		
Restricted net assets		37,593
Unrestricted net assets		7,257
Total net assets	$	44,850

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

State of Illinois

Illinois Power Agency

Statement of Activities

For the Year Ended June 30, 2011 (Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Net (Expense) Revenues and Changes in Net Assets: Governmental Activities
Governmental activities			
Employment and economic development	$ 2,896	$ 8,190	$ 5,294
Total governmental activities	2,896	8,190	5,294
General revenues			
Receipts remitted to State Treasury			(1,044)
Interest and investment income			136
Other revenue			5,606
Total general revenues and transfers			4,698
Change in net assets			9,992
Net assets, July 1, 2010, restated			34,858
Net assets, June 30, 2011			$ 44,850

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

Balance Sheet - Governmental Funds

June 30, 2011 (Expressed in Thousands)

	General Fund	Nonmajor funds	Total Governmental Funds
ASSETS			
Cash equity in State Treasury	$ -	$ 5,373	$ 5,373
Securities lending collateral equity of State Treasurer	-	155	155
Other receivables, net	-	7,570	7,570
Due from other State funds	-	34,474	34,474
Total assets	$ -	$ 47,572	$ 47,572
LIABILITIES			
Accounts payable and accrued liabilities	$ -	$ 2,565	$ 2,565
Unavailable revenue	-	5,466	5,466
Obligations under securities lending of State Treasurer	-	155	155
Total liabilities	-	8,186	8,186
FUND BALANCES			
Restricted			
Employment and economic development	-	32,624	32,624
Committed			
Employment and economic development	-	6,762	6,762
Total fund balances	-	39,386	39,386
Total liabilities and fund balances	$ -	$ 47,572	$ 47,572

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

State of Illinois
Illinois Power Agency
Reconciliation of Governmental Funds Balance Sheet
to Statement of Net Assets
June 30, 2011
(Expressed in Thousands)

Total fund balances-governmental funds	$	39,386
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Revenues in the Statement of Activities that do not provide current financial resources are deferred in the funds.		5,466
Some liabilities reported in the Statement of Net Assets 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		(2)
Net assets of governmental activities	$	44,850

The accompanying notes to the 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, 2011 (Expressed in Thousands)

	General Fund	Nonmajor funds	Total Governmental Funds
REVENUES			
Licenses and fees	$ -	$ 8,555	$ 8,555
Interest and other investment income	-	136	136
Other revenues	-	7,764	7,764
Total revenues	-	16,455	16,455
EXPENDITURES			
Employment and economic development	-	2,894	2,894
Total expenditures	-	2,894	2,894
Excess (deficiency) of revenues over (under) expenditures	-	13,561	13,561
OTHER SOURCES (USES) OF FINANCIAL RESOURCES			
Receipts remitted to State Treasury	(1,044)	-	(1,044)
Transfers-in	-	154	154
Transfers-out	-	(154)	(154)
Net other sources (uses) of financial resources	(1,044)	-	(1,044)
Net change in fund balances	(1,044)	13,561	12,517
Fund balances, July 1, 2010, restated	1,044	25,825	26,869
FUND BALANCES, JUNE 30, 2011	$ -	$ 39,386	$ 39,386

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

State of Illinois
Illinois Power Agency
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to Statement of Activities
For the Year Ended June 30, 2011
(Expressed in Thousands)

Net change in fund balances	$	12,517
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.		(2,523)
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 absence		(2)
Change in net assets of governmental activities	$	9,992

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

(1) Organization

The Illinois Power Agency (the 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 General Assembly in which resources are appropriated for the use of the Agency. Activities of the Agency are subject to the authority of the Office of the Governor, the State's chief executive officer, and other departments of the executive and legislative branches of government (such as the Agency 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 pursuant to Public Act 095-0481, 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.

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.

(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, each major governmental fund of the State of Illinois 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, 2011, 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 Assets 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. These statements distinguish between the *governmental* and *business-type* activities of the Agency. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Net Assets presents the assets and liabilities of the Agency's governmental activities with the difference being reported as net assets. 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 general government function of the Agency's governmental activities. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

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

The Agency administers the following major governmental fund (or portions thereof in the case of shared funds – see note 2(d)):

General – This is the State's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The services which are administered by the Agency and accounted for in the general fund include, among others, economic development services.

(2) Summary of Significant Accounting Policies - Continued

(b) Basis of Presentation - Continued

Additionally, the Agency administers the following fund type:

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.

(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, 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 interest and other charges for services. All other revenue sources including fines, licenses, and other miscellaneous revenues are considered to be measurable and available only when cash is received.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

(2) Summary of Significant Accounting Policies - Continued

(d) Shared Fund Presentation

The financial statement presentation for the General Revenue Fund represents only the portion of the shared fund that can be directly attributed to the operations of the Agency. Financial statements for total fund operations of the shared State funds are presented in the State of Illinois' Comprehensive Annual Financial Report.

In presenting these financial statements, certain unique accounts are used for the presentation of shared funds. The following account is used in these financial statements to present the Agency's portion of shared funds:

Receipts remitted to State Treasury

This "other financing uses" account represents all cash receipts received during the fiscal year from SAMS records.

(e) Eliminations

Eliminations have been made in the government-wide Statement of Net Assets 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 have been eliminated in the government-wide Statement of Net Assets. Amounts reported in the governmental funds balance sheet as receivable from or payable to fiduciary funds have been included in the government-wide Statement of Net Assets as receivable from and payable to external parties, rather than as internal balances.

(f) Cash Equity in State Treasury

Cash equity in State Treasury consists of deposits held in the State Treasury.

(g) Interfund Transactions

The Agency has the following types of interfund transactions between Agency funds and funds of other State agencies:

Interfund Loans – amounts provided with a requirement for repayment, 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.

Services Provided and Used - 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.

(2) Summary of Significant Accounting Policies - Continued

(g) Interfund Transactions - Continued

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 assets.

Reimbursements - 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 - 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 financial statements consists of unpaid, accumulated vacation, holiday 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 tax).

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.

(i) Fund Balances

The difference between fund assets and liabilities is "Fund Balance" on governmental fund financial statements. In the fund financial statements, governmental funds report fund balances as a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. This hierarchy is made up of resources which are non-spendable, restricted, or unrestricted (committed, assigned and unassigned).

Non-spendable fund balance represents resources which relate to inventory or long-term receivables not expected to be converted to cash in the near term. There were no non-spendable fund balances as of June 30, 2011.

(2) Summary of Significant Accounting Policies - Continued

(i) Fund Balances - Continued

Restricted fund balance represents resources that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. The following funds had restricted fund balances as of June 30, 2011: Illinois Power Agency Trust (424) and Illinois Power Agency Renewable Energy Resources (836).

Committed fund balance represents resources that are constrained on use for a specific purpose imposed generally by the Governor and the State legislature, the highest levels of decision-making authority, through enabling legislation. This constraint can only be removed or changed by the same action by which it was established. The action to constrain funds should occur prior to the end of the fiscal year. The Illinois Power Agency Operations Fund (425) had committed fund balance as of June 30, 2011.

Assigned fund balance represents resources that are intended for a specific purpose consisting of amounts where the intended use is established by the Governor and State legislature designated for that purpose. The intended use is established by an official designated for that purpose. The Director of the Agency has been designated for this purpose. In all governmental funds, other than the General Fund, residual amounts are classified as assigned. There were no assigned fund balances as of June 30, 2011.

Unassigned fund balance represents resources that are available for any purpose. This classification is only reported in the General Fund, except in cases of negative fund balance reported in other governmental funds which are reported as unassigned. There were no unassigned fund balances as of June 30, 2011.

When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted resources first, then unrestricted resources when they are needed. Unrestricted resources which are committed are generally used before assigned resources, and assigned resources are generally used before unassigned resources.

(j) Net Assets

In the government-wide Statement of Net Assets, the difference between assets and liabilities is "Net Assets" and is displayed in two components as follows:

Restricted – This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted resources first, then unrestricted resources when they are needed.

Unrestricted – This consists of net assets that do not meet the definition of "restricted".

When both unrestricted and restricted net assets are available for use, the State uses restricted net assets first.

(2) Summary of Significant Accounting Policies - Continued

(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) New Accounting Pronouncements

Effective for the year ending June 30, 2011, the State adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* which establishes fund balance classifications and clarifies the definitions of fund types. There was no significant impact on the Agency's financial statements as a result of adopting this statement.

In addition, the State adopted GASB Statement No. 59, Financial Instruments Omnibus, which updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools. There was no significant impact on the Agency's financial statements as a result of adopting this statement.

(m) Future Adoption of GASB Statements

Effective for the year ending June 30, 2012, the State will adopt GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*, which clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. The Agency has not yet determined the impact on the Agency's financial statements as a result of adopting this statement.

(3) Net Assets Restricted by Enabling Legislation

The government-wide Statement of Net Assets reports $ 37.593 million of restricted net assets, all of which is restricted by enabling legislation.

(4) Deposits

(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 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) Securities Lending Transactions

Under the authority of the Treasurer's published investment policy that was developed in accordance with the State statute, the State Treasurer lends securities to broker-dealers and other entities for collateral that will be returned for the same securities in the future. The State Treasurer has, through a Securities Lending Agreement, authorized Deutsche Bank Group to lend the State Treasurer's securities to broker-dealers and banks pursuant to a form of loan agreement.

During fiscal year 2011, Deutsche Bank Group lent U.S. agency securities, U.S. treasury bills, and U.S. agency discount notes and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 100% of the aggregate market value of the loaned securities. Loans are marked to market daily. If the market value of collateral falls below 100%, the borrower must provide additional collateral to raise the market value to 100%.

The State Treasurer did not impose any restrictions during the fiscal year on the amount of the loans of available, eligible securities. In the event of borrower default, Deutsche Bank Group provides the State Treasurer with counterparty default indemnification. In addition, Deutsche Bank Group is obligated to indemnify the State Treasurer if Deutsche Bank Group loses any securities, collateral or investments of the State Treasurer in Deutsche Bank Group's custody. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or Deutsche Bank Group.

During the fiscal year, the State Treasurer and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in repurchase agreements with approved counterparties collateralized with securities approved by Deutsche Bank Group and marked to market daily at no less than 102%. Because the loans are terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The State Treasurer had no credit risk as a result of its securities lending program as the collateral held exceeded the fair value of the securities lent.

(4) Deposits - Continued

(b) Securities Lending Transactions - Continued

In accordance with GASB Statement No. 28, paragraph 9, the Office of the State Treasurer has allocated the assets and obligations at June 30, 2011 arising from securities lending agreements to the various funds of the State. The total allocated to the Agency was $155 thousand at June 30, 2011.

(5) Other Receivables

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

(6) Interfund Balances and Activity

(a) Balances Due from/to Other Funds

The following balances (amounts expressed in thousands) at June 30, 2011, represent amounts due from other State funds.

Fund	Due from Other State Funds	Description/Purpose
Nonmajor governmental funds	$ 34,474	Due from other State funds pursuant to statutory interfund borrowing and the related interest receivable.
	$ 34,474	

(6) Interfund Balances and Activity - Continued

(b) Transfers from/to Other Funds

Interfund transfers in (amounts expressed in thousands) for the year ended June 30, 2011, were as follows:

Fund	Transfers in from Other Agency Funds	Description/Purpose
Nonmajor governmental funds	$ 154	Transfer from Illinois Power Agency Trust Fund for statutory allocation of investment income.
	$ 154	

Interfund transfers out (amounts expressed in thousands) for the year ended June 30, 2011, were as follows:

Fund	Transfers out to Other Agency Funds	Description/Purpose
Nonmajor governmental funds	$ 154	Transfer to Illinois Power Agency Operations Fund for statutory allocation of investment income.
	$ 154	

(7) Long-Term Obligations

Changes in Long-Term Obligations

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2011, were as follows:

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011	Amounts Due Within One Year
Governmental activities:					
Compensated absences	$ -	$ 2	$ -	$ 2	$ -
Total	$ -	$ 2	$ -	$ 2	$ -

(8) Pension Plan

Substantially all of the Agency's full-time employees who are not eligible for participation in another state-sponsored retirement plan 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 2011 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2011. 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 their payrolls. For fiscal year 2011, the employer contribution rate was 27.988%.

(9) 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 Healthcare and Family Services along with 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.

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 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 are included as an integral part of the financial statements of the Department of Healthcare and Family Services. A copy of the financial statements of the Department of Healthcare and Family Services may be obtained by writing to the Department of Healthcare and Family Services, 201 South Grand Ave., Springfield, Illinois, 62763-3838.

(10) 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 are financed through appropriations to the Illinois 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, 2011.

(11) Restatements

A prior period adjustment was recorded in Fund 425, Illinois Power Agency Operations Fund, to correct expenditures which were overstated in fiscal year 2010. Disbursements totaling $ 585 (amounts expressed in thousands) were required to be reimbursed by vendors and should have been recorded as a reduction of expenditures. In the government-wide statements, recording expenditures in prior years for amounts that should have been recorded as receivables and a reduction of expenditures, led to an $ 81 (amounts expressed in thousands) restatement of net assets. The effect the restatement on fund balance and net assets is presented below:

	(amounts expressed in thousands)	
	Governmental Funds	
	Illinois Power Agency Operations Fund	Governmental Activities
Fund Balance/Net Assets, June 30, 2010, as previously reported	$ 26,284	$ 34,777
Correction of Prior Errors	585	81
Fund Balance/Net Assets, June 30, 2010, as restated	$ 26,869	$ 34,858

Combining Balance Sheet - Nonmajor Governmental Funds

June 30, 2011 (Expressed in Thousands)

	Special Revenue			
	Illinois Power Agency Trust 0424	**Illinois Power Agency Operations 0425**	**Illinois Power Agency Renewable Energy Resources 0836**	**Total**
ASSETS				
Cash equity in State Treasury	$ 397	$ 4,538	$ 438	$ 5,373
Securities lending collateral equity of State Treasurer	155	-	-	155
Other receivables, net	-	1,964	5,606	7,570
Due from other State funds	24,442	3,322	6,710	34,474
Total assets	$ 24,994	$ 9,824	$ 12,754	$ 47,572
LIABILITIES				
Accounts payable and accrued liabilities	$ -	$ 2,565	$ -	$ 2,565
Unavailable revenue	-	497	4,969	5,466
Obligations under securities lending of State Treasurer	155	-	-	155
Total liabilities	155	3,062	4,969	8,186
FUND BALANCES				
Restricted				
Employment and economic development	24,839	-	7,785	32,624
Committed				
Employment and economic development	-	6,762	-	6,762
Total fund balances	24,839	6,762	7,785	39,386
Total liabilities and fund balances	$ 24,994	$ 9,824	$ 12,754	$ 47,572

Combining Statement of Revenues, Expenditures and Changes in Fund Balance - Nonmajor Governmental Funds

For the Year Ended June 30, 2011 (Expressed in Thousands)

	Special Revenue			
	Illinois Power Agency Trust 0424	Illinois Power Agency Operations 0425	Illinois Power Agency Renewable Energy Resources 0836	Total
REVENUES				
Licenses and fees	$ -	$ 8,555	$ -	$ 8,555
Interest and other investment income	136	-	-	136
Other revenues	-	-	7,764	7,764
Total revenues	136	8,555	7,764	16,455
EXPENDITURES				
Employment and economic development	-	2,894	-	2,894
Total expenditures	-	2,894	-	2,894
Excess (deficiency) of revenues over (under) expenditures	136	5,661	7,764	13,561
OTHER SOURCES (USES) OF FINANCIAL RESOURCES				
Transfers-in	-	154	-	154
Transfers-out	(154)	-	-	(154)
Net other sources (uses) of financial resources	(154)	154	-	-
Net change in fund balances	(18)	5,815	7,764	13,561
Fund balances, July 1, 2010, restated	24,857	947	21	25,825
FUND BALANCES, JUNE 30, 2011	$ 24,839	$ 6,762	$ 7,785	$ 39,386

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES
SUMMARY
For the Year Ended June 30, 2011

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
  Comparative Schedule of Net Appropriations, Expenditures
  and Lapsed Balances
  Director's Salary
  Schedule of Locally Held Funds
  Schedule of Changes in State Property
  Comparative Schedule of Cash Receipts
  Reconciliation Schedule 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 Significant Account Balances
  Analysis of Accounts Receivable
  Description and Purpose of State Treasury Fund

- Analysis of Operations:

  Agency Functions and Planning Program
  Average Number of Employees
  Service Efforts and Accomplishments

The accountants' report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states that the 2011 information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in the auditors' opinion, except for that portion marked "unaudited," on which they express no opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The auditors were unable to apply certain limited procedures as prescribed by the Audit Guide adopted by the Auditor General to the 2010 and 2009 information due to the Illinois Power Agency's incomplete and inaccurate records during those years. Therefore, the auditors express no opinion on the 2010 and 2009 information.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY

SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES

Appropriations for Fiscal Year 2011
For the Fourteen Months Ended August 31, 2011

Public Act 096-0956	Appropriations (Net After Transfers)	Expenditures Through June 30, 2011 (1)	Approximate Lapse Period Expenditures July 1 to August 31, 2011 (1)	Approximate Total Expenditures (1)	Approximate Balances Lapsed (1)
APPROPRIATED FUNDS					
ILLINOIS POWER AGENCY TRUST FUND 424					
Interfund Cash Transfer to Illinois Power Agency Operations Fund	$ 550,000	$ 154,321	$ -	$ 154,321	$ 395,679
ILLINOIS POWER AGENCY OPERATIONS FUND 425					
Lump Sums and Other Purposes	4,552,550	2,808,167	1,118,260	3,926,427	626,123
ILLINOIS POWER AGENCY RENEWABLE ENERGY RESOURCES FUND 836					
Lump Sums and Other Purposes	-	-	-	-	-
TOTAL - ALL APPROPRIATED FUNDS	$ 5,102,550	2,962,488	1,118,260	4,080,748	$ 1,021,802
NON-APPROPRIATED FUNDS					
ILLINOIS POWER AGENCY TRUST FUND 424					
Interfund Borrowing to General Revenue Fund		24,331,000	-	24,331,000	
ILLINOIS POWER AGENCY OPERATIONS FUND 425					
Interfund Borrowing to General Revenue Fund		3,321,500	-	3,321,500	
ILLINOIS POWER AGENCY RENEWABLE ENERGY RESOURCES FUND 836					
Interfund Borrowing to General Revenue Fund		6,710,000	-	6,710,000	
TOTAL - ALL NON-APPROPRIATED FUNDS		34,362,500	-	34,362,500	
GRAND TOTAL - ALL FUNDS		$ 37,324,988	$ 1,118,260	$ 38,443,248	

Notes: (1) Expenditure data in this schedule has been obtained from the State Comptroller records which has been reconciled to those of the Agency
(2) Expenditure amount are vouchers approved for payment by the Agency and submitted to the State Comptroller for payment to the vendor.
(3) Approximate lapse period expenditures do not include interest payments appoved for payment by the Agency and submitted to the Comptoller for payment after August.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY

COMPARATIVE SCHEDULE OF NET APPROPRIATIONS,
EXPENDITURES AND LAPSED BALANCES
For the Fiscal Years Ended June 30, 2011, 2010, and 2009

	Fiscal Year		
	2011	2010 Unaudited	2009 Unaudited
APPROPRIATED FUNDS	PA 096-0956	PA 96-0046 Amended by PA 96-0890	PA 95-0732 Amended by PA 96-0004
GENERAL REVENUE FUND 001			
Appropriations (net after transfers)	$ -	$ -	$ 1,318,000
Expenditures			
Interfund Cash Transfers	-	-	1,044,272
Total Expenditures	-	-	1,044,272
Lapsed Balances	-	-	273,728
ILLINOIS POWER AGENCY TRUST FUND 424			
Appropriations (net after transfers)	550,000	1,800,000	-
Expenditures			
Interfund Cash Transfers	154,321	1,594,272	-
Total Expenditures	154,321	1,594,272	-
Lapsed Balances	395,679	205,728	-
ILLINOIS POWER AGENCY OPERATIONS FUND 425			
Appropriations (net after transfers)	4,552,550	4,550,000	-
Expenditures			
Lump Sums and Other Purposes	3,926,427	1,065,954	-
Total Expenditures	3,926,427	1,065,954	-
Lapsed Balances	626,123	3,484,046	-

STATE OF ILLINOIS
ILLINOIS POWER AGENCY

COMPARATIVE SCHEDULE OF NET APPROPRIATIONS,
EXPENDITURES AND LAPSED BALANCES - CONTINUED
For the Fiscal Years Ended June 30, 2011, 2010, and 2009

	Fiscal Year		
	2011	2010 Unaudited	2009 Unaudited
APPROPRIATED FUNDS	PA 096-0956	PA 96-0046 Amended by PA 96-0890	PA 95-0732 Amended by PA 96-0004
TOTAL APPROPRIATED FUNDS			
Appropriations (net after transfers)	5,102,550	6,350,000	1,318,000
Expenditures	4,080,748	2,660,226	1,044,272
Lapsed Balances	1,021,802	3,689,774	273,728
NON-APPROPRIATED FUNDS			
ILLINOIS POWER AGENCY TRUST FUND 424			
Interfund Borrowing to General Revenue Fund	24,331,000	-	-
ILLINOIS POWER AGENCY OPERATIONS FUND 425			
Interfund Borrowing to General Revenue Fund	3,321,500	-	-
ILLINOIS POWER AGENCY RENEWABLE ENERGY RESOURCES FUND 836			
Interfund Borrowing to General Revenue Fund	6,710,000	-	-
TOTAL NON-APPROPRIATED FUNDS	34,362,500	-	-
GRAND TOTAL EXPENDITURES - ALL FUNDS	$ 38,443,248	$ 2,660,226	$ 1,044,272

Note: Fiscal year 2011 expenditures and related lapsed balances do not reflect any interest payments approved for payment by the Agency and submitted to the Comptroller for payment after August.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY

DIRECTOR'S SALARY
For the Fiscal Years Ended June 30, 2011, 2010, and 2009

	Fiscal Year		
	2011	2010 Unaudited	2009 Unaudited
Appropriation - Director	$ 103,800	$ 103,800	$ 103,800
Expenditure - Director	99,028	60,550	-
Lapsed Balances - Director	$ 4,772	$ 43,250	$ 103,800

Note: The Director's Salary is appropriated to the Office of the State Comptroller

SCHEDULE OF LOCALLY HELD FUNDS
For the Year Ended June 30, 2011

The Illinois Power Agency did not work with the Office of the State Comptroller to establish any locally held funds. However, amounts were held with a procurement administrator outside of the State Treasury as of June 30, 2011. It could not be determined if these amounts were held in separate funds or if the amounts were accruing interest.

See finding 11-4.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY

SCHEDULE OF CHANGES IN STATE PROPERTY
For the Year Ended June 30, 2011

The Illinois Power Agency does not own any State Property. The Agency does use and maintain some office equipment. However, this equipment is owned by the Illinois Department of Central Management Services.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY

COMPARATIVE SCHEDULE OF CASH RECEIPTS
For the Fiscal Years Ended June 30, 2011 and 2010

	Fiscal Year	
	2011	2010 Unaudited
General Revenue Fund 001		
Interfund Cash Transfer from Illinois Power Agency Trust Fund	$ 1,044,272	$ -
Illinois Power Agency Operations Fund 425		
Interfund Cash Transfer from Illinois Power Agency Trust Fund	704,321	-
Bidder and Supplier Fees	9,371,311	1,408,992
Receipts recorded as expenditure reduction	249,956	14,640
Total Illinois Power Agency Operations Fund	10,325,588	1,423,632
Illinois Power Agency Renewable Energy Resources Fund 836		
Receipts for alternative compliance payments	7,148,261	-
Total Agency Cash Receipts Before Interest	18,518,121	1,423,632
Interest Deposited Directly into State Treasury		
Illinois Power Agency Trust Fund 424	44,853	171,468
Total Agency Receipts After Interest	$ 18,562,974	$ 1,595,100

STATE OF ILLINOIS
ILLINOIS POWER AGENCY

RECONCILIATION SCHEDULE OF CASH RECEIPTS TO DEPOSITS
REMITTED TO THE STATE COMPTROLLER
For the Years Ended June 30, 2011 and 2010

	Fiscal Year 2011	Fiscal Year 2010 Unaudited
General Revenue Fund 001		
Receipts per Agency records	$ 1,044,272	$ -
Reconciling Items		
Plus Cash on hand beginning of year	-	-
Plus Deposits in transit beginning of year	-	-
Less Cash on hand end of year	-	-
Less Deposits in transit end of year	-	-
Deposits per Comptroller	1,044,272	-
Illinois Power Agency Operations Fund 425		
Receipts per Agency records	10,325,588	1,423,632
Reconciling Items		
Plus Cash on hand beginning of year	1,423,632	-
Plus Deposits in transit beginning of year	-	-
Less Cash on hand end of year	-	(1,423,632)
Less Deposits in transit end of year	(44,425)	-
Deposits per Comptroller	11,704,795	-
Illinois Power Agency Renewable Energy Resources Fund 836		
Receipts per Agency records	7,148,261	-
Reconciling Items		
Plus Cash on hand beginning of year	-	-
Plus Deposits in transit beginning of year	-	-
Less Cash on hand end of year	-	-
Less Deposits in transit end of year	-	-
Deposits per Comptroller	7,148,261	-
Total Receipts per Agency Records Before Interest - Comparative Schedule of Cash Receipts	$ 18,518,121	$ 1,423,632

STATE OF ILLINOIS
ILLINOIS POWER AGENCY

ANALYSIS OF SIGNIFICANT VARIATIONS
IN EXPENDITURES
For the Fiscal Years Ended June 30, 2011 and 2010

The following are explanations for expenditures which differed by at least $ 267,000 and by more than 20% from the previous year.

Fund, Account (if Applicable) and Explanation	Fiscal Year 2011	Fiscal Year 2010 Unaudited
APPROPRIATED FUNDS		
Illinois Power Agency Trust Fund 424		
Interfund Cash Transfers	$ 154,321	$ 1,594,272
The decrease of expenditures is due to no reimbursement of Fund 001 expenditures during fiscal year 2011 as well as a decreased amount of interest transferred to Fund 425. In fiscal year 2011, the only interfund cash transfer was to Fund 425 for interest earned by Fund 424 pursuant due to 30 ILCS 105/6z-75(c). The amount of interest transferred was considerably less due to the decreased amount of interest earned in fiscal year 2011 (transfer of interest is not to exceed 90% of the interest earned). In addition, a transfer was made in fiscal year 2010 lapse period to reimburse Fund 001 for expenditures made in prior fiscal years when there was no appropriation. No similar transfer was made in fiscal year 2011.		
Illinois Power Agency Operations Fund 425		
Lump Sums and Other Purposes	$ 3,926,427	$ 1,065,954
The increase of expenditures can be attributed to an increase in staff, consulting fees related to the use of EMCAS interactive software, and the procurement administrator fees associated with the addition of Long Term Power Purchase Agreements pursuant to ICC Order 09-0373.		
NON-APPROPRIATED FUNDS		
Illinois Power Agency Trust Fund 424		
Interfund Borrowing to General Revenue Fund	$ 24,331,000	$ -
The increase is due to no interfund borrowing during fiscal year 2010.		
Illinois Power Agency Operations Fund 425		
Interfund Borrowing to General Revenue Fund	$ 3,321,500	$ -
The increase is due to no interfund borrowing during fiscal year 2010.		
Illinois Power Agency Renewable Energy Resources Fund 836		
Interfund Borrowing to General Revenue Fund	$ 6,710,000	$ -
The increase is due to no interfund borrowing during fiscal year 2010.		

STATE OF ILLINOIS
ILLINOIS POWER AGENCY

ANALYSIS OF SIGNIFICANT VARIATIONS
IN RECEIPTS
For the Fiscal Years Ended June 30, 2011 and 2010

The following are explanations for receipts which differed by at least $ 267,000 and by more than 20% from the previous year.

Fund, Account (if Applicable) and Explanation	Fiscal Year 2011	Fiscal Year 2010 Unaudited
General Revenue Fund 001		
Interfund Cash Transfer from Illinois Power Agency Trust Fund	$ 1,044,272	$ -
The increase is due to the reimbursement of Fund 001 expenditures received during fiscal year 2011. A transfer was made during fiscal year 2010 lapse from Fund 424 to reimburse Fund 001 for expenditures made in prior fiscal years when there was no appropriation.		
Illinois Power Agency Operations Fund 425		
Interfund Cash Transfer from Illinois Power Agency Trust Fund	$ 704,321	$ -
The increase is due to the timing of the fiscal year 2010 transfer of interest that was not made until fiscal year 2010 lapse period and was not received by Fund 425 until fiscal year 2011.		
Bidder and Supplier Fees	$ 9,371,311	$ 1,408,992
The increase of deposits is due to the addition of a procurement process for Long Term Power Purchase Agreements pursuant to ICC Order 09-0373.		
Illinois Power Agency Renewable Energy Resources Fund 836		
Receipts for alternative compliance payments	$ 7,148,261	$ -
The increase is due to the effective date of the required alternative compliance payments from ARES. No fees were collected until fiscal year 2011.		

STATE OF ILLIINOIS
ILLINOIS POWER AGENCY

ANALYSIS OF SIGNIFICANT LAPSE PERIOD SPENDING
For the Fiscal Year Ended June 30, 2011

The Following is an explanation of significant lapse period spending of $ 267,000 or more and 20% or more of total expenditures.

Expenditure Item	Fund	Total Expenditures	Lapse Period Expenditures	Percent	Explanation of Significant Lapse Period Expenditures
Lump Sums and Other Purposes	425	$ 3,926,427	$ 1,118,260	28%	The majority of expenditures paid during the lapse period were for Procurement Administration services provided during the last quarter of the fiscal year. The balance was for products/services provided during the last month of the fiscal year.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY

ANALYSIS OF SIGNIFICANT
ACCOUNT BALANCES

The following are explanations for cash balances, receivables, due to/from other State funds, and unavailable revenue, which differed by at least $ 267,000 and by more than 20% from the previous year.

Fund, Account (if Applicable) and Explanation	Fiscal Year 2011	Fiscal Year 2010 Unaudited
	(in thousands)	
Illinois Power Agency Trust Fund 424		
Cash Equity in State Treasury The decrease of $ 26,035,000, or 98%, from fiscal year 2010 to fiscal year 2011 was due primarily to the interfund borrowing by the General Revenue Fund.	$ 397	$ 26,432
Securities Lending Collateral Equity of State Treasurer The decrease of $ 9,360,000, or 98%, from fiscal year 2010 to fiscal year 2011 was due primarily to the interfund borrowing by the General Revenue Fund. As a result, the Agency had to use funds from the Securities Lending account to cover operations.	155	9,515
Due from Other State Funds The increase of $ 24,442,000, or 100%, from fiscal year 2010 to fiscal year 2011 was due primarily to the interfund borrowing by the General Revenue Fund.	24,442	-
Due to Other State Funds The decrease of $ 1,594,000 or 100%, from fiscal year 2010 to fiscal year 2011 was due primarily to the Agency repaying the State General Revenue Fund for moneys borrowed.	-	1,594

ANALYSIS OF SIGNIFICANT
ACCOUNT BALANCES - CONTINUED

Fund, Account (if Applicable) and Explanation	Fiscal Year 2011	Fiscal Year 2010 Unaudited
	(in thousands)	
Illinois Power Agency Trust Fund 424 - Continued		
Obligations under securities lending of State Treasurer The decrease of $ 9,360,000, or 98%, from fiscal year 2010 to fiscal year 2011 was due primarily to the interfund borrowing by the General Revenue Fund. As a result, the Agency had to use funds from the Securities Lending account to cover operations.	$ 155	$ 9,515
Illinois Power Agency Operations Fund 425		
Cash Equity in State Treasury The increase of $ 3,114,000, or 219%, from fiscal year 2010 to fiscal year 2011 was due primarily to the excess of revenues over expenditures generated by the Fund. Although a significant amount of cash was borrowed from the fund, there was still an increase in the ending cash balance.	4,538	1,424
Due from Other State Funds The increase of $ 2,772,000, or 504%, from fiscal year 2010 to fiscal year 2011 was due primarily to the interfund borrowing by the General Revenue Fund.	3,322	550
Unavailable Revenue The decrease of $ 365,000, or 42%, from fiscal year 2010 to fiscal year 2011 was due primarily to the timing of bidder and supplier fees. More funds were received prior to the end of lapse period than in the previous fiscal year.	497	862

STATE OF ILLINOIS
ILLINOIS POWER AGENCY

ANALYSIS OF SIGNIFICANT
ACCOUNT BALANCES - CONTINUED

Fund, Account (if Applicable) and Explanation	Fiscal Year 2011	Fiscal Year 2010 Unaudited
	(in thousands)	
Illinois Power Agency Renewable Energy Resources Fund 836		
Cash Equity in State Treasury	$ 438	$ -
The increase of $ 438,000, or 100%, from fiscal year 2010 to fiscal year 2011 was due primarily to the excess of revenues over expenditures generated by the Fund. Although a significant amount of cash was borrowed from the fund, there was still an increase in the ending cash balance.		
Other Receivables, net	5,606	7,148
The decrease of $ 1,542,000, or 22%, from fiscal year 2010 to fiscal year 2011 was due primarily to the timing of ACP receipts from the Illinois Commerce Commission. More funds were received prior to the end of lapse period than in the previous fiscal year.		
Due from Other State Funds	6,710	-
The increase of $ 6,710,000, or 100%, from fiscal year 2010 to fiscal year 2011 was due primarily to the interfund borrowing by the General Revenue Fund.		
Unavailable Revenue	4,969	7,127
The decrease of $ 2,158,000, or 30%, from fiscal year 2010 to fiscal year 2011 was due primarily to the timing of ACP receipts from the Illinois Commerce Commission. More funds were received prior to the end of lapse period than in the previous fiscal year.		

STATE OF ILLINOIS
ILLINOIS POWER AGENCY

ANALYSIS OF ACCOUNTS RECEIVABLE

For the Year Ended June 30, 2011
(in thousands)

		Aged Accounts Receivable						
	Current Receivables	1 - 30 Days	31 - 90 Days	91 - 180 Days	181 Days - 1 Year	Over 1 Year	Total Receivables	Allowance for Doubtful Accounts
Fund Name								
Illinois Power Agency Operations Fund 425	$ 1,116	$ -	$ -	$ -	$ -	$ 848	$ 1,964	$ -
Illinois Power Agency Renewable Energy Fund 836	5,606	-	-	-	-	-	5,606	-
Total	$ 6,722	$ -	$ -	$ -	$ -	$ 848	$ 7,570	$ -

Note: Receivables are collected by the Illinois Power Agency. Delinquent accounts are set up with the Comptroller's Offset System and with private collection firms.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY

DESCRIPTION AND PURPOSE OF STATE TREASURY FUNDS
For the Fiscal Year Ended June 30, 2011
(Amounts in thousands)

Fund Name	Fund Number	Purpose of Fund	Fund Balance as of June 30, 2011 (1)
General Revenue Fund	001	Created as a general fund in the State Treasury. The fund was used for the operations of the Agency in fiscal years 2008 and 2009, which constituted an advance that the Agency repaid from Fund 424 in fiscal year 2010 lapse period.	$ -
Illinois Power Agency Trust Fund	424	Created as a special fund in the State Treasury. 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.	24,839
Illinois Power Agency Operations Fund	425	Created as a special fund in the State Treasury. Fund shall be administered by the Agency for Agency operations as specified in the Illinois Power Agency Act.	6,762
Illinois Power Agency Facilities Fund	426	Created as a special fund in the State Treasury. 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 2011.	-
Illinois Power Agency Debt Service Fund	427	Created as a special fund in the State Treasury. 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 2011.	-
Illinois Power Agency Renewable Energy Fund	836	Created as a special fund in the State Treasury. Fund shall be administered by the Agency for procurement of renewable energy resources. This fund was created in fiscal year 2010.	7,785

(1) Funds balances were prepared on the modified accrual basis of accounting.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
ANALYSIS OF OPERATIONS
For the Fiscal Year Ended June 30, 2011

AGENCY FUNCTIONS AND PLANNING PROGRAM

The Illinois Power Agency (Agency) was created by the Illinois Power Agency Act of the General Assembly (095-0481) in 2008.

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 indentified 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 Illinois.

During fiscal year 2011, the Agency developed a procurement plan and held energy supply auctions. The auctions were held for the two major utility companies. There were five different auctions, two for one of the utility companies and three for the other. For all five auctions, bidder participation fees were assessed, as determined by the Agency. Additionally, successful bidders were assessed supplier fees. These 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.

Additionally, during fiscal year 2011, the Agency began receiving alternative compliance payments (ACP's). 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 in one of two ways:

a. Actually producing or purchasing energy from renewable sources, or
b. Making alternative compliance payments.

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 ICC, which then deposits the payment into the Illinois Power Agency Renewable Energy Fund (Fund 836) maintained by IPA. The ACP's are due September 1st.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
ANALYSIS OF OPERATIONS
For the Fiscal Year Ended June 30, 2011

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 Director maintains an office at the Michael A. Bilandic Building in Chicago.

The Illinois Power Act (20 ILCS 3855/1-70) required the Agency to establish a Planning and Procurement Bureau and a Resource Development Bureau; however, the Bureaus had not been established. In fact, the Agency Director and Chief Financial Officer are the sole staff as of June 30, 2011.

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

Agency Planning Program

The Illinois Power Agency does not have a formal planning program.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
AVERAGE NUMBER OF EMPLOYEES
For the Years Ended June 30, 2011

AVERAGE NUMBER OF EMPLOYEES

The following table, prepared from Agency records, presents the average number of employees, by function, for the Fiscal Years ended June 30,:

	2011	2010	2009
Procurement Planning	1	1	1
Administrative Services	.5	-	-
Total average full-time employees	1.5	1	1

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
SERVICE EFFORTS AND ACCOMPLISHMENTS
For the Two Years Ended June 30, 2011
(Unaudited)

SERVICE EFFORTS AND ACCOMPLISHMENTS

The Illinois Power Agency facilitates the provision of adequate, reliable, affordable, efficient and environmentally sustainable electric service to eligible customers at the lowest total cost over time, taking into account any benefits of price stability, and carries out other duties as provided by law.

Planning and Procurement

Output Indicators	2011	2010
• Number of Megawatt Hours Sourced for the Planning Year	54,768,145	59,943,030
• Renewables Portfolio Standard Volume Targets for the Planning Year	3,069,199	2,747,874
• Amount of electricity (energy and capacity) procured that meet the price benchmarks as agreed to by the ICC, procurement administrators and IPA	100%	100%
• Amount of renewable resources procured that meet the price benchmarks as agreed to by the ICC, procurement administrators and IPA	100%	100%