

STATE OF ILLINOIS

ILLINOIS POWER AGENCY

STATE COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2022

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

**STATE OF ILLINOIS
ILLINOIS POWER AGENCY
STATE COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2022**

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**STATE OF ILLINOIS
ILLINOIS POWER AGENCY
FINANCIAL AUDIT
INDIVIDUAL NONSHARED GOVERNMENTAL FUNDS
For the Year Ended June 30, 2022**

AGENCY OFFICIALS

Director (Acting) (October 1, 2022 – Present) Mr. Brian Granahan

Director (July 1, 2021 – September 30, 2022) Mr. Anthony Star

Administrative Services

Chief Financial Officer (December 16, 2022 – Present) Mr. Kevin Hayes

Chief Financial Officer (July 1, 2022 – December 15, 2022) Vacant

Chief Financial Officer (July 1, 2021 – June 30, 2022) Ms. Gloria Gibson

Chief Legal Counsel (Acting) (October 1, 2022 - Present) Ms. Kelly Turner

Chief Legal Counsel (July 1, 2021 – September 30, 2022) Mr. Brian Granahan

Chief Operating Officer Mr. Sanjay Patel

Planning and Procurement Bureau

Bureau Chief (Acting) (June 3, 2022 – Present) Mr. Anthony Star

Bureau Chief (September 1, 2021 – June 3, 2022) Mr. Doug Stinner

The Agency's office is located at:

105 W. Madison Street, Suite 1401
Chicago, Illinois 60602

June 29, 2023

Plante & Moran, PLLC

200 N. Martingale Road Suite 900

Schaumburg, IL 60173

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 State of Illinois, Illinois Power Agency. We are responsible for and we have established and maintained an effective system of internal controls over compliance requirements. We have performed an evaluation of the Agency's compliance with the following specified requirements during the two-year period ended June 30, 2022. Based on this evaluation, we assert that during the years ended June 30, 2021, and June 30, 2022, the Agency has materially complied with the specified requirements listed below.

- 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 the 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.

Yours truly,

State of Illinois, Illinois Power Agency

SIGNED ORIGINAL ON FILE

Agency Head

SIGNED ORIGINAL ON FILE

Fiscal Officer

SIGNED ORIGINAL ON FILE

General Counsel

**STATE OF ILLINOIS
ILLINOIS POWER AGENCY
STATE COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2022**

STATE COMPLIANCE REPORT

SUMMARY

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

ACCOUNTANT’S REPORT

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

SUMMARY OF FINDINGS

Number of	<u>Current Report</u>	<u>Prior Reports</u>
Findings	2	0
Repeated Findings	0	0
Prior Recommendations Implemented or Not Repeated	0	4

SCHEDULE OF FINDINGS

<u>Item No.</u>	<u>Page</u>	<u>Last/First Reported</u>	<u>Description</u>	<u>Finding Type</u>
Current Findings				
2022-001	9	New	Inadequate Controls Over Financial Statement Close Processes	Material Weakness, Material Noncompliance
2022-002	11	New	Failure to Fully Utilize the State’s Enterprise Resource Planning System	Significant Deficiency, Noncompliance

Prior Findings Not Repeated

None Noted

**STATE OF ILLINOIS
ILLINOIS POWER AGENCY
STATE COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2022**

EXIT CONFERENCE

The Agency waived an exit conference in correspondence from Kevin Hayes, Chief Financial Officer, on June 26, 2023. The Agency provided responses to the findings in correspondence from Kevin Hayes, Chief Financial Officer, on June 26, 2023.

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

Honorable Frank J. Mautino
Auditor General
State of Illinois
and
State of Illinois, Illinois Power Agency

Report on State Compliance

As Special Assistant Auditors for the Auditor General, we have examined compliance by the State of Illinois, Illinois Power Agency (Agency) with the specified requirements listed below, as more fully described in the *Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide)* as adopted by the Auditor General, during the two years ended June 30, 2022. Management of the Agency is responsible for compliance with the specified requirements. Our responsibility is to express an opinion on the Agency’s compliance with the specified requirements based on our examination.

The specified requirements are:

- 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.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Illinois State Auditing Act (Act), and the *Audit Guide*. Those standards, the Act, and the *Audit Guide* require that we plan and perform the examination to obtain reasonable assurance about whether the Agency complied with the specified requirements in all material respects.

An examination involves performing procedures to obtain evidence about whether the Agency complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgement, including an assessment of the risks of material noncompliance with the specified requirements, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our modified opinion.

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

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

Our examination disclosed material noncompliance with the following specified requirements applicable to the Agency during the two years ended June 30, 2022. As described in the accompanying Schedule of Findings as item 2022-001, the Agency had not complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

In our opinion, except for the material noncompliance with the specified requirements described in the preceding paragraph, the Agency complied with the specified requirements during the two years ended June 30, 2022, in all material respects.

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

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

Report on Internal Control Over Compliance

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with the specified requirements on a timely basis. A material weakness in internal control is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material noncompliance with the specified requirements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings as item 2022-001 to be a material weakness.

A significant deficiency in internal control is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings as item 2022-002 to be a significant deficiency.

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

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

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

SIGNED ORIGINAL ON FILE

Southfield, Michigan
June 29, 2023

ILLINOIS POWER AGENCY
A Component Unit of the State of Illinois
SCHEDULE OF FINDINGS – CURRENT FINDINGS
For the Two Years Ended June 30, 2022

2022-001 FINDING – Inadequate Controls Over Financial Statement Close Process

The Illinois Power Agency (Agency) did not complete the final closing of its accounting records timely or within the timelines established by the Statewide Accounting Management System (SAMS) manual. In addition, the financial statements provided to auditors were not initially accurate.

The Agency’s year-end close process was completed over six months after year-end. The delayed procedures included delayed reconciliations of subsidiary ledgers to the general ledger for accounts receivable, accounts payable, revenue, and expenses. General ledger account balances were not appropriately stated on the trial balance and financial statements provided to auditors at the start of the audit process. The Agency’s Generally Accepted Accounting Principles (GAAP) reporting packages were submitted to the Comptroller’s Office on August 19, 2022 for Fund 424, Fund 425, and Fund 836, and on September 28, 2022 for Fund 1408. A complete set of GAAP basis financial statements were submitted on October 17, 2022.

Concepts Statement No. 1 of Governmental Accounting Standards Board, Objectives of Financial Reporting (GASBCS 1, paragraph 66), states, “If financial reports are to be useful, they must be issued soon enough after the reported events to affect decisions”. 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 that revenue, expenditures and transfers of assets are properly recorded and accounted for to permit the preparation of accounts and reliable financial reports. SAMS Procedure 27.10.10 states GAAP reporting packages are due between August 10 and August 31. Further SAMS Procedures 27.10.10 identifies the Agency as required to submit a complete set of GAAP basis financial statements (including footnote disclosures) to the Comptroller's Office by October 15th. Good internal controls require the Agency to have a timely year-end close process and the general ledger being complete and free of adjustments before financial statement audits begin.

Agency officials stated a vacancy in the Chief Financial Officer position for approximately six months during the audit period was the main cause of the financial statement preparation delays.

Failure to maintain adequate internal controls over year-end reconciliations and reports could result in untimely and inaccurate financial reporting. (Finding Code No. 2022-001)

Recommendation

We recommend the Agency timely prepare and submit GAAP basis reporting packages and financial statements to the Comptroller in accordance with the SAMS manual. Further, we recommend the trial balances and financial statements, when provided to auditors in a timely manner, are complete and accurate.

ILLINOIS POWER AGENCY
A Component Unit of the State of Illinois
SCHEDULE OF FINDINGS – CURRENT FINDINGS
For the Two Years Ended June 30, 2022

Agency Response

The Agency agrees with the finding. The Agency did not utilize the State’s ERP system because of its inability to produce financial statements for the Agency as a standalone entity. The Agency is forced to use a separate accounting system to produce internal and external financial reports. The Agency hired a new Chief Financial Officer in December 2022 and is in the process of hiring a Senior Accountant to improve the capacity and proficiency of the Finance Bureau.

ILLINOIS POWER AGENCY
A Component Unit of the State of Illinois
SCHEDULE OF FINDINGS – CURRENT FINDINGS
For the Two Years Ended June 30, 2022

2022-002 FINDING – Failure to Fully Utilize the State’s Enterprise Resource Planning System

The Illinois Power Agency (Agency) did not utilize the State’s Enterprise Resource Planning (ERP) System as its main accounting system, which resulted in unnecessary inefficiency.

The Agency utilizes an accounting system other than the State’s ERP as its main accounting system, which necessitates a reconciliation between its two systems. The Agency did not fully reconcile its accounting system to the State’s ERP until approximately six months after year end. Failure to timely complete the reconciliation caused journal entries to be identified by the Agency.

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 that resources are utilized efficiently, effectively, and in compliance with applicable laws. Government Auditing Standards (2018 Revision, Technical Update April 2021) 1.02 states that, “The concept of accountability for use of public resources and government authority is key to our nation’s governing processes. Management and officials entrusted with public resources are responsible for carrying out public functions and providing service to the public effectively, efficiently, economically, ethically, and equitably within the context of the statutory boundaries of the specific government program.”

Agency officials stated it does not utilize the State’s ERP system because of its inability to produce financial statements for the Agency as a standalone entity. The Agency uses a separate accounting system to produce internal and external financial reports. Agency officials further stated a vacancy in the Chief Financial Officer position for approximately six months during the audit period was the main cause of the reconciliation delay.

Failure to fully utilize the State’s ERP System could result in outdated systems not being supported, untimely financial information and the lack of full transparency and resulted in the inefficient usage of State resources and reporting delays. (Finding Code No. 2022-002)

Recommendation

We recommend the Agency to transition to utilizing the State’s ERP System as its main accounting system and ensure a timely reconciliation of its accounting systems until this transition is complete.

Agency Response

The Agency agrees with the finding. The Agency did not utilize the State’s ERP system because of its inability to produce financial statements for the Agency as a standalone entity. The Agency is forced to use a separate accounting system to produce internal and external financial reports. The Agency hired a new Chief Financial Officer in December 2022 and is in the process of hiring a Senior Accountant to improve the capacity and proficiency of the Finance Bureau.

ILLINOIS POWER AGENCY
A Component Unit of the State of Illinois
SCHEDULE OF FINDINGS – CURRENT FINDINGS
For the Two Years Ended June 30, 2022

Status of Performance Audits

Illinois Power Agency

The Office of the Auditor General conducted a performance audit of the Illinois Power Agency’s (Agency) management of the Renewable Energy Credit procurement process and Adjustable Block Program pursuant to Legislative Audit Commission Resolution Number 153. The audit was released in May 2021 and contained one recommendation. We followed up on the status of the following performance audit recommendation. The information below summarizes the current status of the recommendation.

STATUS OF PAST PERFORMANCE AUDIT RECOMMENDATIONS					
As of June 29, 2023					
Audit	Rec. No.	Recommendation Description	Implemented	Status	
				Partially Implemented	Not Implemented
Future Energy Jobs Act	1	Renewable Energy Percentage-Based Procurement Goals		X	

Source: Summary of Illinois Power Agency performance audit recommendations and current status.

RECOMMENDATION 1 – RENEWABLE ENERGY PERCENTAGE-BASED PROCUREMENT GOALS

The Illinois Power Agency should continue to work to meet the renewable energy percentage-based procurement goals required by 20 ILCS 3855/1-75(c)(1)(B).

Current status: Partially Implemented

During the current examination, the Agency did not meet the percentage-based renewable energy goals identified in the Illinois Power Agency Act. Section 1-75(c)(1)(B), required the procurement of renewable energy credits to be at least 20.5 percent of the electricity consumed by customers of the three large investor-owned utilities in Illinois by June 1, 2022. Agency officials stated that procured renewable energy as a percentage of the overall energy produced would be about 10 percent.

There are two ways in which renewable energy projects are procured: (1) competitively and (2) through the Adjustable Block Program. During the performance audit conducted pursuant to Legislative Audit Commission Resolution Number 153, auditors concluded the process in place was both efficient and maximized the dollars spent to increase the renewable portfolio standard in Illinois for the competitive procurement process. However, auditors could not find criteria to use to determine whether funds were maximized or whether they were spent efficiently for the Adjustable Block Program.

After the Audit Report was released on May 11, 2021, the General Assembly passed Public Act 106-0662 (commonly known as the Climate and Equitable Jobs Act or CEJA) which was enacted in September of 2021 and addressed many of the structural issues of the Illinois Renewable Portfolio Standard that led to this audit being conducted.

ILLINOIS POWER AGENCY
A Component Unit of the State of Illinois
SCHEDULE OF FINDINGS – CURRENT FINDINGS (CONTINUED)
For the Two Years Ended June 30, 2022

This included changes to 20 ILCS 3855/1-75(c)(1)(B) including extending the percentage-based goals beyond 2025 to 2040, adding further emphasis on prioritizing procurements that lead to the development of new renewable energy resources, and a focus on new prioritization of the resource mix to be procured.

According to Agency officials, the Agency has not met the percentage-based goals but has made progress in working toward meeting the percentage-based goals by being able to reopen programs, and by conducting new procurements. The Agency's current Long-Term Plans includes a forecast of ongoing and projected activities designed to reach the 2030 target of 40%. Due to the length of time needed to develop renewable energy projects, particularly large-scale wind and solar facilities, there is a lag between when renewable energy credits are contracted for, and when the facilities that will produce them actually come online. Through CEJA, the RPS was significantly updated with increased funding, new project categories for the Adjustable Block Program, a new procurement structure for utility-scale renewable procurements, and the adoption of standards related to labor and equity. IPA noted that all of these new provisions added new complexity to administering the RPS. The Agency reopened the Adjustable Block Program in December of 2021 (as it had been closed to new applications to due funding constraints) and 18,200 new project applications have been approved as of May 18, 2023, representing 473 MW of solar capacity, and an additional 250 MW of previously waitlisted community solar projects were able to move forward. Of that 473 MW, only 84.9 MW have been completed and energized by project developers with the balance in various stages of development and construction. The Agency has conducted two procurements for renewable energy credits from utility-scale wind and solar projects in 2022 which will lead to the development of an additional 962.75 MW of Solar and 200 MW of wind, with the next procurement event scheduled for June 2023.

To support meeting the procurement goals of the RPS, the Agency's biannual Long-Term Renewable Resources Plan was also updated and approved by the Illinois Commerce Commission in July of 2022 providing a framework for the Agency's renewable energy activities for 2022 and 2023, and will be updated starting in the summer of 2023, leading to ICC approval in February of 2024. Additionally the Agency implemented other procurements proscribed by Public Act 102-0662 including the Coal to Solar procurement which will support another 228.6 MW of solar projects, and the Carbon Mitigation Credit procurement which provides financial stability for three nuclear powerplants, and which avoided their closure, which would have been a significant setback to the state's goal of reducing carbon emissions as well as a loss of thousands of jobs and millions of dollars of local property taxes.

According to Agency officials, while challenges remain for the growth of the renewable energy industry in Illinois, including ongoing funding challenges for utility-scale projects, interconnection delays, and supply chain issues, overall, since the release of the performance audit significant progress has been made.