



STATE OF ILLINOIS  
**OFFICE OF THE  
AUDITOR GENERAL**

William G. Holland, Auditor General

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**SUMMARY REPORT DIGEST**

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**ILLINOIS POWER AGENCY**

**FINANCIAL AUDIT AND  
COMPLIANCE EXAMINATION  
For the Year Ended June 30, 2011**

**Release Date: August 23, 2012**

**Summary of Findings:**

<b>Total this audit:</b>	<b>23</b>
<b>Total last audit:</b>	<b>35</b>
<b>Repeated from last audit:</b>	<b>22</b>

**SYNOPSIS**

- The Illinois Power Agency did not establish controls to properly record receivables and ensure the accuracy of Alternative Compliance Payments remitted by Alternative Retail Electric Suppliers.
- The Illinois Power Agency did not establish adequate accounting procedures and internal controls.
- The Illinois Power Agency improperly allowed State funds to be held in accounts outside the State Treasury without proper statutory authority.
- The Illinois Power Agency did not assess adequate fees to ensure the costs of the preparation of the annual procurement plan were covered.
- The Illinois Power Agency did not timely deposit agency funds.
- The Illinois Power Agency had not developed and documented a methodology in order to bill the utilities for reimbursement of consulting fees.
- The Illinois Power Agency did not maintain adequate controls over evaluations of vendor proposals related to the Request for Qualifications and subsequent Request for Proposals of the Procurement Administrators.
- The Illinois Power 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.
- The Illinois Power Agency did not adopt rules for operation, administration, accounting and reporting as specified in the Illinois Power Agency Act.
- The Illinois Power Agency entered into a consulting contract for a term exceeding the time period allowed by State statute.

{Expenditures and Activity Measures are summarized on the reverse page.}

**ILLINOIS POWER AGENCY  
FINANCIAL AUDIT  
For the Year Ended June 30, 2011  
COMPLIANCE EXAMINATION  
For the Year Ended June 30, 2011**

<b>EXPENDITURE STATISTICS</b>	<b>2011</b>
<b>Total Expenditures.....</b>	<b>\$ 38,443,248</b>
APPROPRIATED OPERATIONS TOTAL.....	\$ 4,080,748
% of Total Expenditures.....	10.6%
Lump Sums and Other Purposes.....	\$ 3,926,427
Interfund Cash Transfers.....	\$ 154,321
NON-APPROPRIATED OPERATIONS TOTAL.....	\$ 34,362,500
% of Total Expenditures.....	89.4%
Interfund Borrowing.....	\$ 34,362,500
<b>Total Receipts.....</b>	<b>\$ 18,562,974</b>
<b>Average Number of Employees.....</b>	<b>1.5</b>

<b>FINANCIAL INFORMATION (\$ expressed in thousands)</b>	<b>2011</b>
<b>ASSETS</b>	
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.....	<u>\$ 47,572</u>
<b>LIABILITIES</b>	
Accounts Payable and accrued liabilities.....	2,565
Obligations under securities lending of State Treasurer.....	155
Long Term Obligations.....	2
Total Liabilities.....	<u>\$ 2,722</u>
<b>Net Assets</b>	
Restricted net assets.....	37,593
Unrestricted net assets.....	7,257
Total Net Assets.....	<u>\$ 44,850</u>

<b>AGENCY DIRECTOR</b>
During Examination Period: Mark Pruitt (through October 7, 2011), Arlene Juracek (effective October 11, 2011) Currently: Arlene Juracek, Acting Director

**FINDINGS, CONCLUSIONS, AND**  
**RECOMMENDATIONS**

**LACK OF CONTROLS OVER ALTERNATIVE COMPLIANCE PAYMENTS**

**Controls had not been established to record receivables and ensure the accuracy of payments**

**Agency accounts receivable at June 30th total \$5.6 million**

The 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.

**Illinois Commerce Commission processed 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.

**Auditors determined payments were self reported**

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.

**Agency did not review payments 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 Agency does not have an interagency agreement with the Commission detailing the

**Lack of interagency agreement**

specific functions, duties, and responsibilities of both the Agency and Commission for the accounting, recordkeeping, and deposit of Alternative Compliance Payments.

- 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.

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. (Finding Code No. 11-1, pages 19-20)

We recommended 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 concurs with auditors**

Agency management agrees with the finding and recommendation.

**LACK OF APPROPRIATE INTERNAL CONTROLS**

The Agency did not establish adequate accounting procedures and internal controls.

**Accounting procedures and internal controls lacking**

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.

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, pages 21-22) **This finding was first reported in 2009.**

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

**Agency concurs with auditors**

Agency management agrees with finding and recommendation. (For the previous Agency response, see Digest Footnote #1.)

**STATE FUNDS IMPROPERLY HELD OUTSIDE THE STATE TREASURY**

**State funds held outside the treasury without statutory authority**

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

**An estimated \$497,000 of state funds held by a procurement administrator**

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.

Failure to properly deposit State funds into a Treasury held account could result in a loss of State resources. (Finding Code No. 11-4, page 24) **This finding was first reported in 2009.**

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

**Agency concurs with auditors**

Agency management agrees with the finding and recommendation. (For the previous Agency response, see Digest Footnote #2.)

**INADEQUATE FEE ASSESSMENT**

**Fees not adequately assessed**

The 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.

**Cost of the annual procurement plan was estimated at \$1.2 million while fees assessed were \$930,403**

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.

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, page 26) **This finding was first reported in 2009.**

We recommended 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 concurs with auditors**

Agency management agrees with the finding and recommendation. (For the previous Agency response, see Digest Footnote #3.)

#### **FAILURE TO TIMELY DEPOSIT FUNDS**

The Agency did not timely deposit agency funds.

**80 checks totaling \$1.5 million deposited 25 to 255 days late**

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.

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, page 29)

We recommended the Agency have policies and procedures in place to ensure deposits of Agency funds are made promptly.

**Agency concurs with auditors**

Agency management agrees with the finding and recommendation.

#### **LACK OF METHODOLOGY RELATED TO BILLINGS**

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

**Utilities did not reimburse Agency on a timely basis**

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.

**One utility informed auditors it had requested supporting documentation from the Agency over the past two years and had not received it**

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.

**\$1.4 million to be reimbursed by the utilities for the development of the procurement plan**

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

The lack of a methodology could result in inappropriate reimbursement from the utilities. (Finding Code 11-9, pages 30-31)

We recommended 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.

**Agency partially agrees with auditors**

Agency management agrees in part with the finding and recommendation. The Agency believes 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.

## **INADEQUATE CONTROLS OVER VENDOR EVALUATIONS**

**Controls over RFQs and RFPs lacking**

The 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,

**Scoring sheets incomplete**

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.

**Director only evaluator**

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

**Evaluation not conducted using criteria as outlined in RFP**

- 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.

**Auditors could not determine ranking due to errors and incomplete information**

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

**Evaluation not conducted as documented in RFP pertaining to 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.
- 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.

**Overall ranking was incomplete**

**Director only evaluator**

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, pages 34-35)

We recommended the Agency 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 concurs with auditors**

Agency management agrees with the finding and recommendation.

**ESTABLISHMENT OF REQUIRED BUREAUS AND LACK OF ADEQUATE STAFFING**

**Failure to establish required Bureaus**

The 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 complete by Agency personnel.

**Agency established in fiscal year 2008, Director only employee until January 2011**

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.

**Violation of State law**

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, pages 40-41) **This finding was first reported in 2009.**

We recommended 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 recommended the Agency hire the staff needed to carry out administrative tasks.

**Agency concurs with auditors**

Agency management agrees with finding and recommendation. (For the previous agency response, see

Digest Footnote #4.)

### **FORMAL AGENCY RULES NOT ADOPTED**

**Agency did not adopt rules as required by the Illinois Power Agency Act**

The Agency did not adopt rules for the 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.

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, pages 42-43) **This finding was first reported in 2009.**

We recommended 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 concurs with auditors**

Agency management agrees with the finding and recommendation. (For the previous Agency response, see Digest Footnote #5.)

### **CONSULTING CONTRACT TERM IN VIOLATION OF STATE STATUTE**

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

**Contract term to develop procurement plan exceeds the allotted terms as mandated**

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.

**COD does not agree with contract**

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

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, page 46)

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

**Agency concurs with auditors**

Agency management agrees with the finding and recommendation.

**OTHER FINDINGS**

The remaining findings were reportedly being given attention by the Agency. We will review the Agency's progress towards implementation of our recommendations in our next engagement.

**AUDITORS' OPINION**

The auditors stated the Illinois Power Agency financial statements as of June 30, 2011 and for the year then ended were fairly presented in all material respects.

A compliance examination of the Illinois Power Agency was conducted as required by the Illinois State Auditing Act. The Accountant's Report noted the Illinois Power Agency did not comply in all material respects with numerous State mandates, the SAMS Manual, general internal control procedures, and other required rules.



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WILLIAM G. HOLLAND  
Auditor General

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**SPECIAL ASSISTANT AUDITORS**

Kerber, Eck & Braeckel, LLP were our Special Assistant Auditors for this engagement.

## **DIGEST FOOTNOTES**

### **#1-LACK OF APPROPRIATE INTERNAL CONTROLS- Previous Agency Response**

2010- The Agency agrees with the finding. To establish adequate procedures over cash receipts, cash disbursements, accounts receivable, accounts payable and ensure fiscal responsibility, the Agency is developing internal controls structures with the assistance of the Office of Accountability. Processes and procedures to ensure appropriate oversight and recording of interactions and transactions between the Agency and vendors, utilities, the Administrative and Regulatory Shared Services Center are the primary focus of the control development process.

Controls utilized by other agencies are being reviewed for use and application to the IPA. The Agency plans to obtain outside assistance from a public accounting firm familiar with utility regulation to assist the CFO in completing a forensic recovery of documentation to support Agency financial records and reports for the FY 2009 and 2010 periods. An additional task for the vendor will be to assist the Agency by recommending appropriate controls specific to the Agency's accounting functions.

### **#2-STATE FUNDS IMPROPERLY HELD OUTSIDE THE STATE TREASURY-Previous Agency Response**

2010- The Agency agrees with the finding. During the 2009 procurement cycle, one utility collected \$657,031.20 in bidder fees on behalf of the Agency, one procurement administrator collected \$488,325, and a second procurement administrator collected \$496,988. The fees due to the Agency were paid by vendors to register in the IPA-managed procurements (Bidder Registration Fees), and if they were successful in winning bids (Contract Award Fees). The utility and the first procurement administrator transferred their collected fees to the Agency, and the Agency deposited those funds into the State Treasury.

The second procurement administrator in the 2009 procurement has held the fees in lieu of payments on \$490,000 in invoices issued by the procurement administrator to the Agency for services rendered during the 2009 procurement cycle. This was an incorrect treatment of the funds, and the Agency has requested that the funds be reimbursed. This procurement administrator has filed a claim against the Agency in the Court of Claims to secure payment from the Agency on the invoices due. The vendor will return the collected funds when their claim is settled in the Court of Claims.

### **#3-INADEQUATE FEE ASSESSMENT-Previous Agency Response**

2010-The Agency agrees with the finding. The CFO and the Director have adjusted the Agency's budget planning to anticipate little to no revenue from the IPA Trust Fund, and to cover Agency

operating costs through higher fees assessments on Agency managed wholesale power procurements. Once hired, the Agency's General Counsel will be tasked with rules drafting to reflect the fees assessment methods and practices proposed by the Agency CFO. Anticipated Procurement Bureau staff will assist the CFO with estimating procurement costs (both direct and indirect), and tracking expenses related to procurement events and planning. The Office of Accountability will assist in the creation of processes and controls that establish appropriate fee estimation, assessment, and reporting.

**#4-ESTABLISHMENT OF REQUIRED BUREAUS AND LACK OF ADEQUATE STAFFING-Previous Agency Response**

2010- The Agency agrees with the finding. To establish the required bureaus, the Agency has prepared position descriptions for the Procurement and Development bureau chiefs and support staff. These positions will be submitted for review by the Civil Service Commission in FY 2011. Research and outreach to locate individuals meeting the statutory requirements of the bureau chiefs is ongoing.

**#5-FORMAL AGENCY RULES NOT ADOPTED-Previous Agency Response**

2010- The Agency agrees with the finding. The Agency hired a Chief Financial Officer who started working at the Agency in January 2011 with primary responsibilities of managing Agency Budgeting, Accounting, and Financial Reporting functions. The CFO is supported in her work by the Administrative and Regulatory Shared Services Center through an interagency agreement entered into in December 2010. Additionally, the CFO has contacted CFO's in other Agency's to request information regarding appropriate fiscal rules and systems. Planned hires of Procurement and Development Bureau staff will be tasked with identifying and drafting process descriptions and rules regarding their key mission and administrative tasks.

The Office of Accountability which will assist in the review and formalizing of rules with the planned General Counsel hire. The General Counsel will be responsible for managing the formal submittal of agency rules and ensuring that compliance measurements are taken and evaluated.