STATE OF ILLINOIS
OFFICE OF THE
AUDITOR GENERAL
William G. Holland, Auditor General

SUMMARY REPORT DIGEST

ILLINOIS POWER AGENCY

Financial Audit and Compliance Examination
For the Year Ended June 30, 2014

Release Date: March 12, 2015

FINDINGS THIS AUDIT: 9

	New	Repeat	Total
Category 1:	**0**	**6**	**6**
Category 2:	1	2	3
Category 3:	0	0	0
TOTAL	1	8	9

FINDINGS LAST AUDIT: 23

AGING SCHEDULE OF REPEATED FINDINGS

Repeated Since	Category 1	Category 2	Category 3
2012	**14-1, 14-6**	**14-9**	
2011	**14-2**		
2010		**14-8**	
2009	**14-3, 14-4, 14-5**		

SYNOPSIS

- (**14-01**) The Agency's financial statements were not accurately prepared, which would have resulted in a material misstatement if not corrected.
- (**14-03**) A Resource Development Bureau was not established within the Agency as required by the Illinois Power Agency Act.
- (**14-07**) The Agency did not exercise adequate internal control over its 2014 Procurement Event.

OTHER MATTERS

- As of June 30, 2014, the Agency had $128.455 million in restricted expendable net position within the Illinois Power Agency Renewable Energy Resources Fund. These resources are dedicated to buying renewable energy resources using moneys from consumers purchasing electricity from Alternative Retail Electric Suppliers. Illinois Power Agency officials stated statutory limitations generally prevent the Agency from using these resources for their intended purpose.

Category 1:	Findings that are **material weaknesses** in internal control and/or a **qualification** on compliance with State laws and regulations (material noncompliance).
Category 2:	Findings that are **significant deficiencies** in internal control and **noncompliance** with State laws and regulations.
Category 3:	Findings that have **no internal control issues but are in noncompliance** with State laws and regulations.

{Financial information and Activity Measures are summarized on next page.}

ILLINOIS POWER AGENCY
FINANCIAL AUDIT and COMPLIANCE EXAMINATION
For the Year Ended June 30, 2014

EXPENDITURE STATISTICS	**2014**	**2013**
Total Expenditures	**$ 3,873,394**	**$ 1,106,156**
APPROPRIATED OPERATIONS TOTAL	$ 3,873,394	$ 1,106,156
% of Total Expenditures	100.0%	100.0%
Interfund Cash Transfer of Investment Income	914,900	36,324
Ordinary and Contingent Expenses of the Agency	1,239,352	1,069,832
Purchase of Renewable Energy Credits	1,719,142	-
Total Receipts	**$ 2,138,662**	**$ 2,437,036**
Average Number of Employees (unaudited)	**6**	**5**

STATEMENT OF NET POSITION (in thousands)	**2014**	**2013**
ASSETS		
Cash equity in State Treasury	$ 60,016	$ 21,333
Securities lending collateral equity of State Treasurer	44	-
Investments	32,622	28,335
Other receivables, net	77,095	39,467
Total assets	169,777	89,135
LIABILITIES		
Accounts payable and accrued liabilities	1,924	757
Obligations under securities lending of State Treasurer	44	-
Due to other State funds	3	3
Long term obligations	9	11
Total liabilities	1,980	771
NET POSITION		
Nonexpendable restricted net position	32,622	28,505
Expendable restricted net position	128,455	53,196
Unrestricted net position	6,720	6,663
Total net position	$ 167,797	$ 88,364

RESIDENTIAL CUSTOMERS (UNAUDITED)	**May 2014**	**May 2013**
FIXED RATE SUPPLY		
ComEd Region	1,075,353	1,093,713
Ameren Region	371,178	480,758

AGENCY DIRECTOR
During Examination Period: Anthony Star
Currently: Anthony Star

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

NEED TO IMPROVE THE FINANCIAL STATEMENT PREPARATION PROCESS

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

Some of the exceptions noted by the auditors included:

$7.271 million improperly classified

- The Agency improperly classified unavailable revenue, totaling $7.271 million, as liabilities as opposed to deferred inflows of resources.

Continued difficulties in accounting for accounts receivable collected by the Illinois Commerce Commission

- The Agency continued to have difficulty in establishing a written relationship with the Illinois Commerce Commission (Commission) that sufficiently described the functions and responsibilities of each party to allow for the proper accounting and financial reporting of Alternative Compliance Payments (ACPs).

Agency management not notified about billed accounts receivable

For example, the auditors identified two Alternative Electric Retail Suppliers (ARES) who had been billed by the Commission for failing to pay the full amount due for its ACPs, totaling $132,491. This amount was not reported by the Commission to the Agency for consideration in determining the accounts receivable balance of ACPs at June 30, 2014. Based on subsequent cash collections, the two ARES paid $132,522 in November 2014.

Insufficient footnote disclosures

- The Agency did not initially disclose exemptions claimed, totaling $295 thousand, by an ARES within its notes to the Agency's financial statements. As of the end of fieldwork, the Commission had not completed its adjudication process to determine whether to accept or deny the claimed exemptions.

Improper reporting of $161 million in net position

- The Agency did not properly report net position, totaling $161.077 million, in the Agency's draft financial statements on the Statement of Net Position.

Improper classification of $179 thousand in expenditures

- The Agency improperly classified payroll and benefits expenditures related to the Agency's Director paid by the State Comptroller during Fiscal Year 2014, totaling $179 thousand, as "employment and economic development" as opposed to "general government." (Finding 1, pages 14-17) **This finding has been repeated since 2012.**

We recommended the Agency enhance its accounting and financial reporting procedures to ensure its accounting records are accurate and allow for the accurate preparation of financial statements in accordance with accounting principles generally accepted in the United States of America. Further, Agency personnel should obtain training in the financial reporting standards set by the Governmental Accounting Standards Board.

Agency officials agree

Agency officials agreed with our recommendations and stated they hired an experienced Chief Financial Officer during fiscal year 2014 who has gained additional knowledge and experience in preparing the Agency's financial statements. *(For the previous Agency response, see Digest Footnote #1.)*

FAILURE TO ESTABLISH A RESOURCE DEVELOPMENT BUREAU

The Agency did not establish a Resource Development Bureau.

Required bureau not established

During testing, the auditors noted the Agency had not established a Resource Development Bureau and the Agency's Director had not appointed a Chief of the Resource Development Bureau. (Finding 3, pages 22-23) **This finding has been repeated since 2009.**

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

Agency agreed with the auditors

Agency officials agreed with our recommendations. *(For the previous Agency response, see Digest Footnote #2.)*

NEED TO IMPROVE CONTROLS OVER PROCUREMENT EVENTS

The Agency did not exercise adequate internal control over its 2014 Procurement Event.

During testing of the procurement requirements for the customers of ComEd and Ameren, the auditors noted:

Agency did not propose to purchase certain required electricity products

- The Agency did not propose to procure any cost-effective demand-response products (reductions in a customer's consumption of electricity during periods of high power prices or when the grid's reliability is threatened) in the Agency's 2014 Procurement Plan.

Agency filings with Commission indicated the utilities had not filed required reports

In the Agency's 2014 Procurement Plan, the Agency noted the utilities have not filed energy efficiency and demand-response programs with the Commission for approval under the Public Utilities Act, limiting the ability of the Agency to "have concrete information regarding how the utilities will meet their demand response goals." As such, the Agency did not propose any additional demand-response products in 2014 and recommended reconsideration in the 2016 plan.

- The Agency did not exercise adequate internal controls over documenting its agreement with the Procurement Administrator. The auditors noted the following:

Entered into task orders after the vendor began work

  - Task Order #1, for work between February 17 - March 27, 2014, was not signed by the Agency until April 18, 2014. The Agency eventually paid $187,008 for work performed under this task order.

  - Task Order #2, for work between March 31 - May 7, 2014, was not signed by the Agency until April 11, 2014. The Agency eventually paid $126,198 for work performed under this task order.

One task order was never signed by Agency officials

  - Task Order #3, for work between May 15 - July 2, 2014, was not signed by the Agency as of October 15, 2014. The Agency eventually paid $1,068 for work performed under this task order on July 22, 2014. (Finding 7, pages 29-31)

We recommended the Agency implement controls to ensure the annual procurement plan includes a proposal for cost-effective demand response products, or seek a legislative remedy. Further, the Agency should implement controls to approve task orders prior to the commencement of services by the Procurement Administrator.

Agency officials agree

Agency officials agreed with our recommendations and stated they will update their procedures and internal controls to ensure the timely signing of corresponding contracts and related task orders.

OTHER FINDINGS

The remaining findings pertain to: (1) inadequate controls over Alternative Compliance Payments, equipment, and reconciliations; (2) failing to adopt administrative rules; and, (3) noncompliance with the Fiscal Control and Internal Auditing Act. We will review the Agency's progress towards implementation of our recommendations in the next engagement.

OTHER MATTERS

GROWING BALANCE IN THE ILLINOIS POWER AGENCY RENEWABLE ENERGY RESOURCES FUND

The Agency has two distinct procurement requirements for renewable energy resources. The first is to procure energy for retail customers of ComEd and Ameren using moneys from ratepayer funds. The second is to procure Renewable Energy Credits (RECs) using moneys paid into the Illinois Power Agency Renewable Energy Resources Fund (RERF) from the customers of Alternative Retail Electric Suppliers (ARES).

Limited ability to use growing available cash

According to Illinois Power Agency officials, the Agency has a limited ability to use the growing available cash balance to "procure renewable energy resources" from the RERF as required by Section 1-56(b) of the Illinois Power Agency Act. The Agency was authorized by Public Act 098-0672 to use up to $30 million of the RERF through the development and implementation of a supplemental solar procurement plan. That plan was approved by the Commission on January 21, 2015, and the Agency expects the first procurement event under Public Act 098-0672 to occur in June 2015.

$128.455 million currently available

Expected to grow in September 2015

As of June 30, 2014, the Agency had $128.455 million in restricted expendable net position within the RERF. This amount is expected to grow when ARES remit additional moneys collected from consumers on September 1, 2015. An analysis of factors impacting the Agency's procurement of renewable energy resources is in the report on pages 36, 48, & 91-96.

AUDITOR'S OPINION

The auditors stated the financial statements of the Agency as of and for the year ended June 30, 2014, are fairly stated in all material respects.

ACCOUNTANT'S OPINION

The accountants conducted a compliance examination of the Agency for the year ended June 30, 2014, as required by the Illinois State Auditing Act. The auditors qualified their report on State compliance for Findings 2014-001 through 2014-006. Except for the noncompliance described in these findings, the accountants stated the Agency complied, in all material respects, with the requirements described in the report.

WILLIAM G. HOLLAND
Auditor General

WGH:djn

AUDITORS ASSIGNED

This audit and examination was performed by the Office of the Auditor General's staff.

DIGEST FOOTNOTES

#1 - Inaccurate Financial Statements - Previous Agency Response

2013 - The Agency agrees with the finding. The Agency has already implemented the following corrective actions to enhance its accounting and financial reporting procedures in order to address this finding. These actions included: (1) worked with external consultants, and the auditors, to identify and record necessary adjusting entries to ensure the accuracy of all Agency FY13 financial records and resulting corrected financial statements; (2) hired a Chief Operating Officer to assess the Agency's internal controls over all fiscal and operational processes; (3) hired a well-qualified and experienced Chief Financial Officer to ensure the accuracy and transparency of all Agency financial records; and, (4) finalized its Fiscal Operations Manual, which improves and governs all Agency financial operations and related procedures in accordance with applicable State statutes, rules, and regulations.

#2 - Failure to Establish a Resource Development Bureau - Previous Agency Response

2013 - The Agency agrees with the finding. However, as previously noted in the Agency response to FY11 Finding 11-17 and FY12 Finding 12-9, the Agency respectfully submits that although Section 1-70 of the IPA Act requires hiring of a Chief of the Resource Development Bureau, the Agency believes that hiring for this position would not be a prudent use of State resources at this time. This is because, based on the results of this year's electricity procurement planning the Agency is required to undertake pursuant to Section 1-75 of the IPA Act, there is and will be no need for the Agency to develop generation pursuant to Section 1-80 of the IPA Act in the short or medium term. As a result, the Agency believes there would be little to no substantive work for the Chief of the Resource Development Bureau to undertake for several years.

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