



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

ILLINOIS POWER AGENCY

FINANCIAL AUDIT

For the Year Ended June 30, 2010

And

For the Year Ended June 30, 2009

Summary of Findings:

Total this audit: 35

Total last audit: 22

Repeated from last audit: 18

COMPLIANCE ATTESTATION EXAMINATION

For the Year Ended June 30, 2010

Release Date: March 24, 2011

INTRODUCTION

The Illinois Power Agency's accounting records were inadequate and contained numerous inconsistencies. The auditors were unable to satisfy themselves about the accuracy and completeness of the accounting records by means of other auditing procedures. As a result, the auditors were unable to express, and did not express an opinion on the Illinois Power Agency's financial statements as of and for the year ended June 30, 2010 and June 30, 2009.

SYNOPSIS

- The Agency **did not** submit accurate and complete financial information to the Governor, General Assembly or the Auditors. For the second year in a row, the Agency did not provide accurate and complete financial information.
- The Agency **failed** to follow the requirements of the Office of the State Comptroller's Statewide Accounting Management System 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.
- The Agency **did not** provide all requested documentation to the auditors.
- The Agency **did not** establish adequate accounting procedures and internal controls. The auditors are **uncertain** how much money **may have been** expended or bartered with from funds held by third parties. Further, the agency was unable or unwilling to provide an accounting to the auditors.
- The Agency **improperly allowed** State funds to be held in accounts outside the State Treasury without proper statutory authority.
- The Agency approved payment of an invoice for services performed **outside the terms of the contract**.
- The Agency **did not** have adequate controls over the Request For Qualification relating to the determination of consultants in various energy related fields.
- The Agency **did not** maintain adequate controls over evaluations of vendor proposals to the RFQ and subsequent RFP.
- The Agency **did not** enter into third party agreements with the utilities for reimbursement of consulting fees.

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

**ILLINOIS POWER AGENCY
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2010
UNAUDITED**

EXPENDITURE STATISTICS	2010	2009
Total Expenditures.....	\$ 2,660,226	\$ 1,044,272
General Revenue Fund		
OPERATIONS TOTAL.....	\$ -	\$ 1,044,272
% of Total Expenditures.....	0.0%	100.0%
For ordinary, incidental, and contingent expenses.....	\$ -	\$ 1,044,272
Illinois Power Agency Trust Fund		
OPERATIONS TOTAL.....	\$ 1,594,272	\$ -
% of Total Expenditures.....	59.9%	
For ordinary, incidental, and contingent expenses.....	\$ 1,594,272	\$ -
Illinois Power Agency Operations Fund		
OPERATIONS TOTAL.....	\$ 1,065,954	\$ -
% of Total Expenditures.....	40.1%	
For ordinary, incidental, and contingent expenses.....	\$ 1,065,954	\$ -
Average Number of Employees.....	1	1

SELECTED ACTIVITY MEASURES	2010	2009
Property and Equipment	\$ -	\$ -

AGENCY DIRECTOR
During Examination Period: Mark Pruitt
Currently: Mark Pruitt

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

LACK OF FINANCIAL INFORMATION

Incomplete and inaccurate financial information

The Agency did not submit accurate and complete financial information to the Governor, General Assembly or the Auditors.

The Agency is required to submit financial and operating information in accordance with generally accepted accounting principles. However, for the second year in a row, the Agency did not provide accurate and complete financial information. Specifically, the financial information provided did not contain all the necessary information regarding funds held outside of the State Treasury. In addition, certain financial information could not be supported by the Agency.

Noncompliance with State law

According to the Illinois Power Agency Act, (20 ILCS 3855/1-125) the “Agency shall report annually to the Governor and the General Assembly on the operations and transactions of the Agency. The annual report shall include, but not be limited to, each of the following...(10) Basic financial and operating information specifically detailed for the reporting year and including, but not limited to, income and expense statements, balance sheets, and changes in financial position, all in accordance with generally accepted accounting principles, debt structure, and a summary of funds on a cash basis.” (Finding 1, pages 18-19)

We recommend the Agency maintain adequate documentation necessary to comply with the requirements of the Illinois Power Agency Act.

Agency concurs with Auditors

The Agency’s Director agrees with the finding and recommendation.

**FAILURE TO FOLLOW OFFICE OF THE STATE
COMPTROLLER REQUIREMENTS**

Failure to submit financial reports

The 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.

During our examination, we noted:

- The Agency did not submit certain accounting reports to the Office of the State Comptroller.
- The Agency failed to file contracts and timely obligate funds with the Office of the State Comptroller.

The Office of the State Comptroller's SAMS Manual details the many requirements agencies must follow when processing financial transactions to and from Treasury-held funds. Also, according to the SAMS Manual, Section 27, State agencies are required to submit financial reports for the fund or funds from which they expend monies and/or into which they deposit receipts. (Finding 2, pages 20-21)

We recommended the Agency comply with the Statewide Accounting Management System requirements and financial reporting process.

Agency concurs with Auditors

The Agency's Director agrees with the finding and recommendation.

FAILURE TO PROVIDE INFORMATION TO AUDITORS

Documentation not provided to the auditors

The Agency did not provide all the requested documentation to the auditors.

Auditors issue Disclaimer of Opinion

In the prior year and current year audits, we have encountered significant issues in receiving documentation. As is necessary during a compliance examination and financial audit, we made numerous requests of the Agency. For example, we requested from the Agency supporting documentation for the financial statements, specifically accounts receivable and accounts payable; however, we were not provided the information, which resulted in a scope limitation. As a result, we rendered a disclaimer of opinion on the Agency's financial statements for fiscal years 2009 and 2010. In summary, we do not express an opinion on the Agency's financial statements.

State law requires Agencies to cooperate with auditors without delay

The Illinois State Auditing Act (30 ILCS 5/3-12) states, "At the request of the Auditor General, each agency shall, without delay, make available to the Auditor General or his or her designated representative any record or information requested....."

Without being provided support for testing related to Agency records, we were unable to determine if the Agency was performing all of its required duties and responsibilities. (Finding 3, pages 22-23)

We recommended the Agency hire staff to carry out the responsibilities of the Agency and ensure supporting documentation is maintained.

Agency concurs with Auditors

The Agency's Director agrees with the finding and recommendation.

LACK OF APPROPRIATE INTERNAL CONTROLS

Accounting procedures and internal controls lacking

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

Auditors uncertain about financial activity occurring outside of the Treasury with third parties

Although the Agency has been in existence for more than two years, they had not established a general ledger accounting system. Further, the Agency did not have 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. During fiscal year 2010, the Agency expended \$ 2,310,226 from the State Treasury held appropriation. The auditors are uncertain how much money may have been expended or bartered with from funds held by third parties.

Funds not deposited by Agency until auditors notified Comptroller's Office and Treasurer's Office

Additionally, as a result of the lack of proper procedures in place, the Agency did not record and document receipts from several sources. During the audit, it was determined at least \$1 million in funds were held in the possession of the Director for several months before being deposited into a Treasury fund. In fact, it was not until the auditors brought the issue to the attention of the Comptroller's Office and the Treasurer's Office did the Director deposit the funds.

Agency unwilling or unable to provide an accounting to auditors

In addition, the Agency did not pay bills in a timely manner, which resulted in some expenditures not being paid due to insufficient appropriation authorization. Additionally, the Agency is either unable or unwilling to determine the accurate amount of receipts, expenditures, receivables or payables.

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”. (Finding 4, pages 24-25)

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

Agency concurs with Auditors

The Agency’s Director agrees with the finding and recommendation.

STATE FUNDS IMPROPERLY HELD OUTSIDE OF STATE TREASURY

Funds held outside of State Treasury without proper authority

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

Auditors requested information from outside entities

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 \$ 490,000 or more of State funds were held by a Procurement Administrator as of June 30, 2010. As of June 30, 2009 an estimated \$ 986,000 or more of States funds were held by the two Procurement Administrators. These estimates are based entirely upon self reported information submitted by the responding Procurement Administrators.

\$490,000 or more held at June 30, 2010

According to the Illinois Power Agency Act, (20 ILCS 3855/1-15) “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 by this Act for actual services rendered.”

The State Officers and Employee 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. (Finding 10-6, pages 28-30)

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 concurs with Auditors

The Agency's Director agrees with the finding and recommendation.

APPROVAL OF PAYMENT FOR SERVICES PERFORMED OUTSIDE THE CONTRACT TERMS

The Agency approved payment of an invoice for services performed outside the terms of the contract.

\$850,000 payment denied by Comptroller's Office

During our testing, we noted one voucher; totaling \$850,000 was denied payment by the Comptroller's Office due to the fact that the services were performed without a valid contract. The Agency did have a fiscal year 2010 contract with the vendor. However, we noted the contract was a one day contract (March 6, 2010) and all services were performed March 9, 2010 or later.

Agency entered into a one day contract

Services performed outside of contract terms

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. (Finding 10-9, pages 35-36)

We recommend the Agency carefully review all contracts prior to execution.

Agency concurs with Auditors

The Agency's Director agrees with the finding and recommendation.

INADEQUATE CONTROLS OVER SOLICITATIONS

Controls over RFQs lacking

The Agency did not have adequate controls over the Request For Qualification (RFQ) relating to the determination of consultants in various energy related fields.

During the audit period the Agency issued a RFQ for consulting firms to provide expertise in various energy related fields. During our review, we noted:

- The RFQ stated the Agency was required to issue an RFQ and then a separate Request For Proposal (RFP) to those respondents of the RFQ which were deemed qualified, as required by the Illinois

Noncompliance with Illinois Power Agency Act

Power Agency Act. However, the Illinois Power Agency Act (20 ILCS 3855/1-75 (a)) only requires an RFQ for experts or expert consulting firms to develop the procurement plans and for procurement administrators, not consulting services to develop methodologies and strategies.

Director only evaluator

- The RFQ stated an Evaluation Committee would evaluate the solicitations; however, the Executive Director was the only evaluator.
- The RFQ stated the evaluation of “Capabilities” would be conducted on a point ranking system; however, detail of the point ranking system was not documented.

Evaluation not conducted as documented in RFQ

Additionally, we noted the solicitation overview posted on the Procurement Bulletin stated vendor responses were due to the Agency’s office by March 16, 2010 at 2:30pm. However, according to Section 3.8 (Opening) of the RFQ, responses would be opened at the Agency’s office in Chicago on “Thursday, July 24, 2008, 2006, 5:00 pm”, which was two to four years before the responses were due.

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. (Finding 10-23, pages 60-61)

We recommend the Agency ensure all information documented in solicitations is accurate.

Agency concurs with Auditors

The Agency’s Director agrees with the finding and recommendation.

INADEQUATE CONTROLS OVER VENDOR EVALUATIONS

Lack of controls over procurements

The Agency did not maintain adequate controls over evaluations of vendor proposals to the RFQ and subsequent RFP.

During the audit period the Agency issued a RFQ for consulting firms to provide expertise in various energy related fields. Subsequently, the Agency issued a RFP to qualified respondents.

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

Proposals not scored as outlined in RFQ

- We requested the "Scoring Sheets" evaluating the eight vendor's proposal. In October 2010, the Director provided a one page "Scoring Sheet" for each proposal evaluated. The "Scoring Sheets" documented evaluations of the "Administrative Compliance" and the vendor's "Capabilities" as outlined in the RFQ. Each section was scored with an 'X' on the applicable item being scored. The "Scoring Sheets" did not contain a point ranking system as stated in the RFQ.

Additionally, the various "Scoring Sheets" had hand written notes, indicating if the proposer was qualified or not, and were signed and dated by the Director.

Director provided auditors with two different sets of scoring sheets

At a meeting on December 22, 2010 with the auditors, the Director provided a second set of "Scoring Sheets" for the eight proposals evaluated. This set consisted of the evaluation of the "Administrative Compliance" and the vendor's "Capabilities" along with a numerical evaluation of the vendor's "Capability." Additionally, a spreadsheet was provided which contained a summary of the eight vendor's point score by each core area. However, the spreadsheet did not rank each proposal from best to least as documented by the RFQ.

Differences noted between the two different sets of scoring sheets

The "Scoring Sheets" provided in December 2010 did not contain hand written notes, as was included on the first set, did not indicate if the proposer was qualified or not, and was not signed and dated by the Executive Director.

One proposal received for RFP

According to the Director, the Agency received one proposal to the RFP. We reviewed the "Scoring Sheet" to determine if the vendor's proposal was evaluated as outlined in the RFP, noting:

Proposal not scored as outlined in RFP

- The "Administrative Requirements" were not evaluated, and
- The "Other Service" under the "Capability" Section was not evaluated.

In addition, the vendor's proposal was awarded more

Proposal awarded more points than allowed

points than the maximum allowed.

Director was only evaluator

The RFQ and the RFP stated the vendor's proposals would be evaluated by an Evaluation Committee; however, the Director was the only evaluator.

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.

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 10-24, pages 62-64)

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 concurs with Auditors

The Agency's Director agrees with the finding and recommendation.

LACK OF THIRD PARTY AGREEMENTS

No agreement with utilities

The Agency did not enter into third party agreements with the utilities for reimbursement of consulting fees.

Utilities to pay for contract

According to the Request For Proposal for consulting firms to provide expertise in various energy related fields, "Payments issued under any contracts resulting from this process will be authorized and issued by IPA with eventual reimbursement to the IPA from Commonwealth Edison and Ameren." However, according to the Director, the Agency and two utilities had not entered into an agreement for the payments.

Agency entered into \$5.9 million contract on behalf of utilities

In June 2010, the Agency entered into a five year contract for \$5,940,000 with the vendor. The Agency paid \$350,000 to the vendor during the audit period. According to the Director, the two utilities had not reimbursed the Agency.

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. (Finding 10-25, page 65)

We recommend the Agency enter into agreements and seek reimbursement from the two utilities.

Agency concurs with Auditors

The Agency's Director agrees with the finding and recommendation.

OTHER FINDINGS

The Agency Director accepted the remaining findings and recommendations.

AUDITORS' OPINION

The Illinois Power Agency's accounting records were inadequate and contained numerous inconsistencies. As a result, we were unable to satisfy ourselves about the accuracy and completeness of the accounting records by means of other audit procedures.

Auditors did not express an opinion on Agency financial statements

Because of these matters we were unable to apply other auditing procedures, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements.

Auditors could not issue an opinion on State Compliance Attestation Examination due to pervasive issues

Additionally, the Independent Accounts' Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes contains a scope disclaimer. The pervasive issues were so significant that an Auditors' opinion could not be issued.



WILLIAM G. HOLLAND
Auditor General

WGH:MKL:pp

SPECIAL ASSISTANT AUDITORS

Kerber, Eck & Braeckel, LLP were our special assistant auditors for the engagement.