



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

ILLINOIS POWER AGENCY
NONSHARED GOVERNMENTAL FUNDS

Financial Audit
For the Year Ended June 30, 2018

Release Date: September 11, 2019

FINDINGS THIS AUDIT: 2				AGING SCHEDULE OF REPEATED FINDINGS			
				Repeated Since	Category 1	Category 2	Category 3
	New	Repeat	Total	No Repeat Findings			
Category 1:	2	0	2				
Category 2:	0	0	0				
Category 3:	0	0	0				
TOTAL	2	0	2				
FINDINGS LAST AUDIT: 1							

INTRODUCTION

The Agency’s mission is (1) to oversee the electricity planning and procurement processes to ensure adequate, reliable, affordable, efficient, and environmentally sustainable electric service at the lowest cost over time for the residential and small commercial customers of Commonwealth Edison, the Ameren Illinois Company, and the MidAmerican Energy Company and (2) to procure renewable energy using the resources of the Illinois Power Agency Renewable Energy Resources Fund.

This digest covers the financial audit of the Agency’s nonshared governmental funds as of and for the year ended June 30, 2018. A State Compliance Examination of the entire Agency for the two years ending June 30, 2018, will be released at a later date.

SYNOPSIS

- **(18-01)** The Agency did not exercise adequate control over preparing and accounting for its financial transactions or preparing its financial statements.
- **(18-02)** The Agency did not comply with statutory provisions governing transfers from the Illinois Power Agency Trust Fund to the Illinois Power Agency Operations Fund.

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 is summarized on next page.}

**ILLINOIS POWER AGENCY
FINANCIAL AUDIT
For the Year Ended June 30, 2018**

NONSHARED GOVERNMENTAL FUNDS (in thousands)	2018	2017
Illinois Power Agency Operations Fund		
Revenues.....	\$ 3,437	\$ 2,107
Expenditures.....	4,026	2,906
Other sources(uses) of financial resources.....	1,125	-
Net change in fund balance.....	<u>\$ 536</u>	<u>\$ (799)</u>
Assets and deferred outflows of resources.....	\$ 6,113	\$ 5,324
Liabilities and deferred inflows of resources.....	971	718
Committed fund balance.....	<u>\$ 5,142</u>	<u>\$ 4,606</u>
Illinois Power Agency Renewable Energy Resources Fund		
Revenues.....	\$ 5	\$ 40,928
Expenditures.....	4,358	1,915
Other sources(uses) of financial resources.....	-	(12,000)
Net change in fund balance.....	<u>\$ (4,353)</u>	<u>\$ 27,013</u>
Assets and deferred outflows of resources.....	\$ 170,404	\$ 174,472
Liabilities and deferred inflows of resources.....	1,491	1,206
Committed fund balance.....	<u>\$ 168,913</u>	<u>\$ 173,266</u>
Illinois Power Agency Trust Fund		
Revenues.....	\$ 2,844	\$ 4,060
Expenditures.....	-	-
Other sources(uses) of financial resources.....	(1,125)	-
Net change in fund balance.....	<u>\$ 1,719</u>	<u>\$ 4,060</u>
Assets and deferred outflows of resources.....	\$ 38,612	\$ 36,893
Liabilities and deferred inflows of resources.....	-	-
Nonspendable fund balance.....	37,017	35,768
Committed fund balance.....	<u>1,595</u>	<u>1,125</u>
Total fund balance.....	<u>\$ 38,612</u>	<u>\$ 36,893</u>

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

FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS

INADEQUATE CONTROL OVER FINANCIAL REPORTING

The Illinois Power Agency (Agency) did not exercise adequate control over preparing and accounting for its financial transactions or preparing its financial statements. The Agency reports transactions in the Illinois Power Agency Trust Fund (Fund 424), the Illinois Power Agency Operations Fund (Fund 425), and the Illinois Power Agency Renewable Energy Resources Fund (Fund 836).

During testing, we noted some of the more significant financial reporting problems as follows:

All transactions were not recorded

- During our review of the financial statements and the Agency's general ledger, we noted the Agency did not properly record all of its Fiscal Year 2018 transactions. In January 2019, we had the Agency review its financial transactions and post adjusting journal entries and the Agency posted the following corrections:

\$1,532,134 in unrecorded liabilities from Lapse Period expenditures

- The Agency did not accrue payables or recognize expenditures for invoices processed during the Fiscal Year 2018 Lapse Period, as the Agency had recorded this activity within its accounting system as Fiscal Year 2019 transactions. After its review, the Agency posted adjusting entries of \$199,619 and \$1,332,515 in Fund 425 and Fund 836, respectively.

\$168,866 in accounts receivable not accrued or recognized as revenue

- The Agency did not accrue accounts receivable or recognize revenues for utility invoices processed during the Fiscal Year 2018 Lapse Period, as the Agency had recorded this activity within its accounting system as Fiscal Year 2019 receipts. After its review, the Agency posted an adjusting entry of \$168,866 in Fund 425.

Interfund transfer not recorded

- The Agency did not record an interfund transfer and the related cash of \$1,125,223. After its review, the Agency posted an adjusting entry in Fund 425.

Investment activity not completely recorded

- The Agency did not completely record all investment activity performed on its behalf by the Illinois State Board of Investment in Fund 424. We proposed, and the Agency recorded in its final financial statements, a net adjusting entry of \$717,637 to correct this error.

Improper fund balance classification

- The Agency did not recognize the committed portion of Fund 424's fund balance. We proposed, and the Agency recorded in its final financial statements, an adjusting entry of \$1,594,731 to correct this error at June 30, 2018.

Improper accounting for a refund

- During testing of receipts subsequent to June 30, 2018, we identified a receipt from the State Employees' Retirement System of Illinois (SERS) that was a refund of a portion of the Agency's Fiscal Year 2018 employer contributions paid from Fund 425. We proposed, and the Agency recorded in its final financial statements, an adjusting entry to reduce expenditures and record the due from other State funds of \$19,199.

Note disclosures omitted interfund loan of \$150 million and transfer of \$1.125 million

- During our review of the Agency's draft notes to the financial statements, we noted the Interfund Balances and Activity footnote did not disclose the activity associated with a \$1.125 million transfer from Fund 424 to Fund 425 (see Finding 2018-002) or an interfund loan of \$150 million from Fund 836 to the State's General Fund not expected to be completely repaid until August 8, 2019.

Additionally, during testing, we noted, some of the more significant internal control problems impacting the Agency's transactions and internal accounting records as follows:

Reconciliations did not identify \$240,000 in transactions charged to the wrong account

- While re-performing reconciliations between the Agency's receipt records and the State Comptroller's *Monthly Revenue Status* report (SB04), we noted discrepancies between the amount of procurement fees and supplier fees. In following up on this matter, we identified two receipts, totaling \$240,000, were misclassified within the Agency's internal accounting records for Fund 425. This error should have been identified during the Agency's monthly reconciliations.

Three monthly reconciliations lacked a supervisory review

- The Agency did not document a supervisory review of its contract and obligation activity reconciliations to the State Comptroller's records for 3 of 15 (20%) months during Fiscal Year 2018 for Fund 425 and Fund 836. In addition, we noted 2 of the 15 (13%) reconciliations were prepared between 23 and 26 days late.

Two monthly reconciliations were performed late

- The Agency did not always recognize revenue from forfeitures which occurred when certain renewable energy suppliers failed to timely energize their system. We proposed, and the Agency recorded in its final financial statements, an adjusting entry to reduce bid deposits payable and recognize revenue of \$13,776 in Fund 836. (Finding 1, pages 24-28)

Failed to recognize forfeiture revenue of \$13,776

We recommended the Agency review its internal controls over its financial reporting process and implement procedures to ensure:

- 1) transactions are appropriately recorded and reflected within its financial statements and accounting records;
- 2) its notes to the financial statements conform with GASB requirements and are accurate;
- 3) payroll tax withholding and insurance deductions are accurate; and,
- 4) reconciliations to the State Comptroller's records are timely prepared and reviewed by an independent person.

Agency officials agreed

Agency officials agreed with our recommendation.

NONCOMPLIANCE WITH THE STATE FINANCE ACT

The Agency did not comply with statutory provisions governing transfers from the Illinois Power Agency Trust Fund (Trust Fund) to the Illinois Power Agency Operations Fund (Operations Fund).

Transfer process requires 13 distinct steps

During testing, we noted the process to transfer the prior year's investment income from the Trust Fund to the Operations Fund under the State Finance Act and the Statewide Accounting Management System requires 13 steps.

During testing of this fiscal year's transfer of \$1,125,223, we noted the following problems:

Deposited cash into the wrong fund

- The Agency, when it obtained the first Treasurer's Draft to deposit its cash receipt from the Illinois State Board of Investment (Board) into the Trust Fund, erroneously deposited the \$1,125,223 into the Operations Fund. The Agency subsequently identified this error and submitted a Receipt Transfer Request Form (Form SCO-102) to the State Comptroller to correct the error and deposit the amount into the Trust Fund.

Error subsequently corrected

Transfer appropriation erroneously not charged

- The Agency, once the cash was on deposit in the Trust Fund, erroneously did not charge the total transfer amount against its Trust Fund appropriation for transferring the cash into the Operations Fund on an invoice voucher (Form C-13). Instead, the Agency submitted a Form SCO-102 to complete the transfer, which reversed the correcting entry previously made by the Agency.
- The Agency, after the State Treasurer had deposited interest income into the Trust Fund now owed to the Board, erroneously charged its \$823 of interest earned

Transfer of funds back in Fiscal Year 2019 to the Illinois State Board of Investment charged to the improper account

in the Trust Fund against its Fiscal Year 2019 appropriation for the transfer of cash from the Trust Fund to the Operations Fund. The Agency should have performed this transfer using a Form C-13 charged against a nonappropriated account within the Trust Fund to disburse the interest income earned to the Board. As of the end of fieldwork, this error had not been corrected. (Finding 2, pages 29-30)

We recommended the Agency comply with the statutory transfer provisions, or seek a legislative remedy to simplify the process.

Agency officials agreed

Agency officials agreed with our recommendation.

We will review the Agency's progress towards the implementation of our recommendations in our next financial audit.

AUDITOR'S OPINIONS

The auditors stated the financial statements of the Illinois Power Agency Operations Fund, the Illinois Power Agency Renewable Energy Resources Fund, and the Illinois Power Agency Trust Fund as of and for the year ended June 30, 2018, are fairly stated in all material respects.

This financial audit was conducted by the Office of the Auditor General's staff.

SIGNED ORIGINAL ON FILE

JANE CLARK
Division Director

This report is transmitted in accordance with Section 3-14 of the Illinois State Auditing Act.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

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