

STATE OF ILLINOIS  
**ILLINOIS POWER AGENCY**  
FINANCIAL AUDIT  
INDIVIDUAL NONSHARED GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2018

STATE OF ILLINOIS  
ILLINOIS POWER AGENCY  
FINANCIAL AUDIT  
INDIVIDUAL NONSHARED GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2018

**TABLE OF CONTENTS**

	<b>Page</b>
Agency Officials	1
Financial Statement Report:	
Summary	2
Independent Auditor's Report	3
Financial Statements	
Individual Nonshared Governmental Funds	
Balance Sheets	
Illinois Power Agency Operations Fund	
Illinois Power Agency Renewable Energy Resources Fund	
Illinois Power Agency Trust Fund	6
Statements of Revenues, Expenditures, and Changes in Fund Balances	
Illinois Power Agency Operations Fund	
Illinois Power Agency Renewable Energy Resources Fund	
Illinois Power Agency Trust Fund	7
Notes to the Financial Statements	8
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	21
Schedule of Findings	
Current Findings – <i>Government Auditing Standards</i>	24
Prior Finding Not Repeated	31

STATE OF ILLINOIS  
**ILLINOIS POWER AGENCY**  
FINANCIAL AUDIT  
INDIVIDUAL NONSHARED GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2018

**AGENCY OFFICIALS**

Director Mr. Anthony Star

*Administrative Services*

Chief Financial Officer (02/16/2018 – Present)	Ms. Gloria Gibson
Chief Financial Officer (11/28/2017 – 02/15/2018)	Vacant
Chief Financial Officer (07/01/2016 – 11/27/2017)	Mr. Charles L. Kudia

Chief Legal Counsel Mr. Brian Granahan

Chief Operating Officer Mr. Sanjay Patel

*Planning and Procurement Bureau*

Bureau Chief Mr. Mario Bohorquez

The Agency's office is located at:

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

STATE OF ILLINOIS  
**ILLINOIS POWER AGENCY**  
FINANCIAL AUDIT  
INDIVIDUAL NONSHARED GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2018

**FINANCIAL STATEMENT REPORT**

**SUMMARY**

The audit of the accompanying financial statements of the Illinois Power Agency Operations Fund, the Illinois Power Agency Renewable Energy Resources Fund, and the Illinois Power Agency Trust Fund of the State of Illinois, Illinois Power Agency was performed by the Office of the Auditor General.

Based on their audit, the auditors expressed unmodified opinions on 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.

**SUMMARY OF FINDINGS**

The auditors identified matters involving the Agency's internal control over financial reporting that they considered to be material weaknesses. The material weaknesses are described in the accompanying Schedule of Findings on pages 24-30 of this report as item 2018-001, *Inadequate Control over Financial Reporting*, and item 2018-002, *Noncompliance with the State Finance Act*.

**EXIT CONFERENCE**

The findings and recommendations appearing in this report were discussed with Agency personnel at an exit conference on August 1, 2019. Attending were:

Illinois Power Agency

Anthony Star – Director

Gloria Gibson – Chief Financial Officer

Office of the Auditor General

Daniel J. Nugent, CPA – Audit Manager

The responses to the recommendations were provided by Gloria Gibson, Chief Financial Officer, in an e-mail dated August 1, 2019.

SPRINGFIELD OFFICE:  
ILES PARK PLAZA  
740 EAST ASH • 62703-3154  
PHONE: 217/782-6046  
FAX: 217/785-8222 • TTY: 888/261-2887  
FRAUD HOTLINE: 1-855-217-1895



CHICAGO OFFICE:  
MICHAEL A. BILANDIC BLDG. • SUITE S-900  
160 NORTH LASALLE • 60601-3103  
PHONE: 312/814-4000  
FAX: 312/814-4006  
FRAUD HOTLINE: 1-855-217-1895

OFFICE OF THE AUDITOR GENERAL  
FRANK J. MAUTINO

INDEPENDENT AUDITOR'S REPORT

Honorable Frank J. Mautino  
Auditor General  
State of Illinois

**Report on the Financial Statements**

We have audited the accompanying financial statements of the Illinois Power Agency Operations Fund, the Illinois Power Agency Renewable Energy Resources Fund, and the Illinois Power Agency Trust Fund of the State of Illinois, Illinois Power Agency, as of and for the year ended June 30, 2018, and the related notes to the financial statements, as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the June 30, 2018, financial statements of the Illinois State Board of Investment - an internal investment pool of the State of Illinois - which statements reflect total assets constituting 100 percent of the total assets on the Balance Sheet and 100 percent of the total revenues on the Statement of Revenues, Expenditures, and Changes in Fund Balances within the Illinois Power Agency Trust Fund for the year ended June 30, 2018. Those financial statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the investment activities of the Illinois State Board of Investment within the Illinois Power Agency Trust Fund, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Opinions**

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Illinois Power Agency Operations Fund, the Illinois Power Agency Renewable Energy Resources Fund, and the Illinois Power Agency Trust Fund of the State of Illinois, Illinois Power Agency, as of June 30, 2018, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note 2, the financial statements present only the Illinois Power Agency Operations Fund, the Illinois Power Agency Renewable Energy Resources Fund, and the Illinois Power Agency Trust Fund and do not purport to, and do not, present fairly the financial position of the State of Illinois or the State of Illinois, Illinois Power Agency, as of June 30, 2018, and the changes in its financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

### **Other Matters**

#### Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 1, 2019, on our consideration of the State of Illinois, Illinois Power Agency's internal control over financial reporting of the Illinois Power Agency Operations Fund, the Illinois Power Agency Renewable Energy Resources Fund, and the Illinois Power Agency Trust Fund and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Illinois, Illinois Power Agency's internal control over financial reporting of the Illinois Power Agency Operations Fund, the Illinois Power Agency Renewable Energy Resources Fund, and the Illinois Power Agency Trust Fund and its compliance.

### **Restricted Use of this Auditor's Report**

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Comptroller, the State of Illinois, Executive Ethics Commission, and the State of Illinois, Illinois Power Agency's management, and is not intended to be and should not be used by anyone other than these specified parties.

**SIGNED ORIGINAL ON FILE**

---

JANE CLARK, CPA  
Director of Financial and Compliance Audits

Springfield, Illinois  
August 1, 2019

**State of Illinois**  
**Illinois Power Agency**  
**Individual Nonshared Governmental Funds**  
**Balance Sheet**  
**June 30, 2018**  
**(Expressed in Thousands)**

	<u>Special Revenue</u>		<u>Permanent Trust</u>
	<u>Illinois Power Agency Operations 0425</u>	<u>Illinois Power Agency Renewable Energy Resources 0836</u>	<u>Illinois Power Agency Trust 0424</u>
<b>Assets</b>			
Cash equity in State Treasury	\$ 5,925	\$ 57,904	\$ -
Investments	-	-	38,612
Other receivables, net	169	-	-
Due from other State funds	19	112,500	-
<b>Total assets</b>	<u>\$ 6,113</u>	<u>\$ 170,404</u>	<u>\$ 38,612</u>
<b>Deferred Outflows of Resources (DOR)</b>			
<b>Total DOR</b>	-	-	-
<b>Total assets and DOR</b>	<u>\$ 6,113</u>	<u>\$ 170,404</u>	<u>\$ 38,612</u>
<b>Liabilities</b>			
Accounts payable and accrued liabilities	\$ 968	\$ 1,491	\$ -
Due to other Agency funds	-	-	-
Due to other State funds	3	-	-
<b>Total liabilities</b>	<u>971</u>	<u>1,491</u>	<u>-</u>
<b>Deferred Inflows of Resources (DIR)</b>			
<b>Total DIR</b>	-	-	-
<b>Fund Balances</b>			
Nonspendable - endowments and similar funds	-	-	37,017
Committed			
Employment and economic development	5,142	168,913	1,595
<b>Total fund balance</b>	<u>5,142</u>	<u>168,913</u>	<u>38,612</u>
<b>Total liabilities, DIR, and fund balances</b>	<u>\$ 6,113</u>	<u>\$ 170,404</u>	<u>\$ 38,612</u>

The accompanying notes to the financial statements are an integral part of this statement.

**State of Illinois**  
**Illinois Power Agency**  
**Individual Nonshared Governmental Funds**  
**Statements of Revenues, Expenditures, and Changes in Fund Balances**  
**For the Year Ended June 30, 2018**  
**(Expressed in Thousands)**

	<u>Special Revenue</u>		<u>Permanent Trust</u>
	<u>Illinois Power Agency Operations 0425</u>	<u>Illinois Power Agency Renewable Energy Resources 0836</u>	<u>Illinois Power Agency Trust 0424</u>
<b>Revenues</b>			
Licenses and fees	\$ 3,437	\$ -	\$ -
Interest and other investment income	-	-	2,844
Other revenues	-	5	-
<b>Total revenues</b>	<u>3,437</u>	<u>5</u>	<u>2,844</u>
<b>Expenditures</b>			
Employment and economic development	4,026	4,358	-
Interest	-	-	-
<b>Total expenditures</b>	<u>4,026</u>	<u>4,358</u>	<u>-</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>(589)</u>	<u>(4,353)</u>	<u>2,844</u>
<b>Other sources (uses) of financial resources</b>			
Transfers in	1,125	-	-
Transfers out	-	-	(1,125)
<b>Net other sources (uses) of financial resources</b>	<u>1,125</u>	<u>-</u>	<u>(1,125)</u>
<b>Net change in fund balances</b>	<u>536</u>	<u>(4,353)</u>	<u>1,719</u>
Fund balances, July 1, 2017	<u>4,606</u>	<u>173,266</u>	<u>36,893</u>
<b>Fund Balances, June 30, 2018</b>	<u><u>\$ 5,142</u></u>	<u><u>\$ 168,913</u></u>	<u><u>\$ 38,612</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

**STATE OF ILLINOIS  
ILLINOIS POWER AGENCY**

Individual Nonshared Governmental Funds  
Notes to the Financial Statements

June 30, 2018

**(1) Organization**

The Illinois Power Agency (Agency) is a part of the executive branch of government of the State of Illinois (State) and operates under the authority of and review by the Illinois General Assembly. The Agency actively administers four individual nonshared governmental funds - the Illinois Power Agency Operations Fund, the Illinois Power Agency Trust Fund, the Illinois Power Agency Investment Fund, and the Illinois Power Agency Renewable Energy Resources Fund (collectively, "Funds") - described within these Notes to the Financial Statements. A nonshared fund is a fund in which a single agency of the State is responsible for administering substantially all of the financial transactions of the fund. Each of the Funds operate under a budget approved by the Illinois General Assembly in which resources are appropriated for the use of the Agency to meet each one of the Funds' specific mission and functions as described within the Illinois Compiled Statutes and the Illinois Administrative Code. All funds appropriated to the Agency from each one of the Funds and all cash received for each one of the Funds are under the custody and control of the State Treasurer.

The Agency, created in Fiscal Year 2008, is dedicated to capturing the benefits of competitive energy markets and facilitating the development of alternative energy technologies for the benefit of Illinois consumers. The Agency meets these objectives by planning and managing competitive procurements and participating in the development of new power generation assets and approaches in Illinois. The Agency is an independent agency subject to the oversight of the Executive Ethics Commission and its activities are subject to the authority of certain departments of the executive and legislative branches of government (such as the Department of Central Management Services (CMS), the Governor's Office of Management and Budget, the State Treasurer's Office, and the State Comptroller's Office) as defined by the Illinois General Assembly.

**(2) Summary of Significant Accounting Policies**

The financial statements of the Funds have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for governmental funds, as prescribed by the Governmental Accounting Standards Board (GASB). To facilitate user understanding of the Funds' financial statements, significant accounting policies are summarized below.

**(a) Financial Reporting Entity**

As defined by GAAP, the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable.

The financial statements only present the Funds administered by the Agency and do not purport to, and do not, present fairly the financial position of the Agency or the State as of June 30, 2018, nor changes in the Agency or State's financial position for the year ended in conformity with GAAP.

**STATE OF ILLINOIS  
ILLINOIS POWER AGENCY**

Individual Nonshared Governmental Funds  
Notes to the Financial Statements

June 30, 2018

**(2) Summary of Significant Accounting Policies – Continued**

**(a) Financial Reporting Entity - Continued**

The Funds are not legally separate from the State; therefore, the financial information of the Funds are included in the financial statements of the State. The State's Comprehensive Annual Financial Report (CAFR) may be obtained by writing to the State Comptroller's Office, Division of Financial Reporting, 325 West Adams Street, Springfield, Illinois, 62704-1871, or accessing its website at [www.illinoiscomptroller.gov](http://www.illinoiscomptroller.gov).

**(b) Basis of Presentation**

In government, the basic reporting entity is a fund. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and/or other resources together with all related liabilities, obligations, inflows, outflows, and equities, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. A balance sheet and statement of revenues, expenditures, and changes in fund balance have been presented for the Funds administered by the Agency.

The Agency administers the following fund types:

**Governmental Fund Type:**

**Special Revenue:**

These funds account for resources obtained from specific revenue sources that are legally restricted to expenditures for specified purposes. Special revenue funds account for, among other things, federal grant programs, taxes levied with statutorily defined distributions, and other resources restricted as to purpose.

**Illinois Power Agency Operations Fund – 425**

This fund was created as a special fund in the State Treasury. The fund is administered by the Agency for Agency operations as specified in the Illinois Power Agency Act. Funding sources include charges for services through fee reimbursements as provided by the Illinois Power Agency Act and transfers of interest and investment income from the Illinois Power Agency Trust Fund.

**Illinois Power Agency Debt Service Fund – 427**

This fund was created as a special fund in the State Treasury. The fund shall be administered by the Agency for retirement of revenue bonds issued for any Agency facility. There was no activity in this fund during Fiscal Year 2018.

**STATE OF ILLINOIS  
ILLINOIS POWER AGENCY**

Individual Nonshared Governmental Funds  
Notes to the Financial Statements

June 30, 2018

**(2) Summary of Significant Accounting Policies – Continued**

***(b) Basis of Presentation - Continued***

**Illinois Power Agency Facilities Fund – 426**

This fund was created as a special fund in the State Treasury. The fund shall be administered by the Agency for costs incurred in connection with the development and construction of a power facility by the Agency as well as costs incurred in connection with the operation and maintenance of an Agency facility. There was no activity in this fund during Fiscal Year 2018.

**Illinois Power Agency Renewable Energy Resources Fund – 836**

This fund was created as a special fund in the State Treasury. This fund is administered by the Agency for the procurement of renewable energy resources. This fund's funding source was Alternative Compliance Payments remitted by Alternative Retail Electric Suppliers to comply with the State's Renewable Portfolio Standard established by the Public Utilities Act.

**Permanent:**

These funds account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that benefit the government or its citizens.

**Illinois Power Agency Trust Fund – 424**

This fund was created as a special fund in the State Treasury. This fund has two distinct purposes:

- 1) This fund may accept, receive, and administer any grants, loans, or other funds made available to it by any source. Any funds received except for interest and investment income shall not be considered income, but shall be added to the principal of the Illinois Power Agency Trust Fund. These amounts shall be interfund cash transferred to the Illinois Power Agency Investment Fund to be held for investment by the Illinois State Board of Investment for the purpose of obtaining a total return on investments for the long term as described in the State Finance Act (30 ILCS 105/6z-75).
- 2) This fund may accept cash transfers of investment income from the Illinois Power Agency Investment Fund for interfund cash transfer, subject to appropriations from the Illinois General Assembly, to the Illinois Power Agency Operations Fund as described in the State Finance Act (30 ILCS 105/6z-75).

**STATE OF ILLINOIS  
ILLINOIS POWER AGENCY**

Individual Nonshared Governmental Funds  
Notes to the Financial Statements

June 30, 2018

**(2) Summary of Significant Accounting Policies – Continued**

***(b) Basis of Presentation - Continued***

**Illinois Power Agency Investment Fund – 1408**

This fund was created as a locally held fund held by the Illinois State Board of Investment outside of the State Treasury. Any funds received by the Illinois Power Agency Investment Fund from the Illinois Power Agency Trust Fund shall not be considered income, but shall be added to the principal of the Fund. In addition, the Agency may interfund cash transfer, subject to the maximum appropriation for the Illinois Power Agency Trust Fund from the Illinois General Assembly, up to 90% of the annual investment income to the Illinois Power Agency Trust Fund for interfund cash transfer to the Illinois Power Agency Operations Fund. Any investment income not interfund cash transferred to the Illinois Power Agency Trust Fund for interfund cash transfer to the Illinois Power Agency Operations Fund shall not be considered income, but shall be added to the principal of the Illinois Power Agency Investment Fund.

The Illinois Power Agency Investment Fund has been collapsed into the Illinois Power Agency Trust Fund for financial reporting purposes.

Funding sources for both permanent funds include interest accumulations deposited by the State Treasurer, investment income received through the Illinois State Board of Investment, and any grants, loans, or other funds made available to it by any source.

***(c) Measurement Focus and Basis of Accounting***

The Funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, principal and interest on formal debt issues, claims and judgments, and compensated absences are recorded only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of formal debt issues and acquisitions under capital leases and installment purchases are reported as other financing sources. Significant revenue sources which are susceptible to accrual include charges for services and interest and investment income. All other revenue sources including fines, licenses, and other miscellaneous revenues are considered to be measurable and available only when cash is received.

**STATE OF ILLINOIS  
ILLINOIS POWER AGENCY**

Individual Nonshared Governmental Funds  
Notes to the Financial Statements

June 30, 2018

**(2) Summary of Significant Accounting Policies – Continued**

**(d) Cash Equity in State Treasury**

Cash equity in the State Treasury includes deposits held in the State Treasury. It also includes cash received and deposited in the Agency's clearing account and in process to the State Treasurer.

**(e) Investments**

Investments are reported at fair value. The Illinois State Board of Investment holds investments for the Illinois Power Agency Trust Fund within the Illinois Power Agency Investment Fund pursuant to the State Finance Act (30 ILCS 105/6z-75).

**(f) Interfund Transactions**

The following types of interfund transactions between the Funds and funds of other State agencies may occur:

**Interfund Loans** are amounts provided with a requirement for repayment made in accordance with State law, which are reported as interfund receivables in lender funds and interfund payables in borrower funds. When interfund loan repayments are not expected within a reasonable time, the interfund balances are reduced and the amount that is not expected to be repaid is reported as a transfer from the fund that made the loan to the fund that received the loan.

**Services provided and used** are sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used are reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as interfund receivables and payables in the governmental fund's balance sheet.

**Reimbursements** are repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements are reported as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

**Transfers** are flows of assets (such as cash or goods) between funds without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the governmental funds making transfers and as other financing sources in the governmental funds receiving transfers.

**STATE OF ILLINOIS  
ILLINOIS POWER AGENCY**

Individual Nonshared Governmental Funds  
Notes to the Financial Statements

June 30, 2018

**(2) Summary of Significant Accounting Policies – Continued**

**(g) Fund Balances**

Fund balances are classified in the following categories:

***Nonspendable*** – This consists of amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. The Illinois Power Agency Trust Fund had a nonspendable fund balance as of June 30, 2018.

***Restricted*** – This consists of amounts that are restricted to specific purposes, which is when constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation. There were no restricted fund balances as of June 30, 2018.

***Committed*** – This consists of amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Agency’s highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the Agency removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. The Agency’s highest level of decision-making authority rests with the Illinois General Assembly and the Governor. The State passes “Public Acts” to commit its fund balances. The Illinois Power Agency Trust Fund, the Illinois Power Agency Operations Fund, and the Illinois Power Agency Renewable Energy Resources Fund had committed fund balances as of June 30, 2018.

***Assigned*** – This consists of net amounts that are constrained by the Agency’s intent to be used for specific purposes, but that are neither restricted nor committed. Fund balance assignments can only be removed or changed by action of the General Assembly. There were no assigned fund balances as of June 30, 2018.

***Unassigned*** – This consists of residual fund balance (deficit) that has not been designated for specific purposes within the Funds. There were no unassigned fund balances as of June 30, 2018.

The Agency has a general policy to first use restricted resources for expenditures incurred for which both restricted and unrestricted (committed, assigned, or unassigned) resources are available. When expenditures are incurred for which only unrestricted resources are available, the policy is to use committed resources first, then assigned. Unassigned amounts are only used after the other resources have been used.

**STATE OF ILLINOIS  
ILLINOIS POWER AGENCY**

Individual Nonshared Governmental Funds  
Notes to the Financial Statements

June 30, 2018

**(2) Summary of Significant Accounting Policies – Continued**

**(h) Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**(i) Future Adoption of GASB Statements**

Effective for the year ending June 30, 2019, the Agency will adopt GASB Statement No. 83, *Certain Asset Retirement Obligations*, which is to address accounting and financial reporting for legally enforceable liability associated with the retirement of a tangible capital asset. The Agency does not expect this statement to have an impact on the Agency's Funds.

Effective for the year ending June 30, 2020, the Agency will adopt GASB Statement No. 84, *Fiduciary Activities*, which is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The Agency does not expect this statement to have an impact on the Agency's Funds.

Effective for the year ending June 30, 2021, the Agency will adopt GASB Statement No. 87, *Leases*, which is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The Agency has not yet determined the impact on the Funds' financial statements as a result of adopting this statement.

Effective for the year ending June 30, 2019, the State will adopt GASB Statement No. 88, *Certain Disclosures Related to Debt*, including Direct Borrowings and Direct Placements, the objective of which is to improve the consistency of information that is disclosed in the notes to government financial statements related to debt, including direct borrowings and direct placements, and to provide financial statement users with additional essential information about debt. It also clarifies which liabilities should be included in the debt related disclosures. The statement defines debt for the purposes of disclosures in notes to financial statements as a liability that arises from a contractual obligation to pay cash in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. The Agency does not expect this statement to have an impact on the Agency's Funds.

Effective for the year ending June 30, 2021, the State will adopt GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the end of a Construction Period*, which enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and establishes accounting requirements for interest cost incurred before the end of a construction period. The Agency does not expect this statement to have an impact on the Agency's Funds.

**STATE OF ILLINOIS  
ILLINOIS POWER AGENCY**

Individual Nonshared Governmental Funds  
Notes to the Financial Statements

June 30, 2018

**(2) Summary of Significant Accounting Policies – Continued**

**(i) Future Adoption of GASB Statements - Continued**

Effective for the year ending June 30, 2020, the State will adopt GASB Statement No. 90, *Majority Equity Interests - an amendment of GASB Statements No. 14 and No. 61*, the objective of which is to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The statement defines a majority equity interest and provides information on how the holding of a majority equity interest in a legally separate organization should be accounted for based on the ownership percentage, whether the holding meets the definition of an investment or whether the legally separate organization should be reported as a component unit. The Agency does not expect this statement to have an impact on the Agency's Funds.

Effective for the year ending June 30, 2021, the Agency will adopt GASB Statement No. 91, *Conduit Debt Obligations*, which establishes a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations and improving required note disclosures. The Agency does not expect this statement to have an impact on the Agency's Funds.

**(3) Deposits and Investments**

**(a) Deposits**

The State Treasurer is the custodian of the Fund's deposits and investments for funds maintained in the State Treasury. Deposits in the custody of the State Treasurer at June 30, 2018, including cash on hand and cash in transit, totaled \$5.925 million for the Illinois Power Agency Operations Fund and \$57.904 million for the Illinois Power Agency Renewable Energy Resources Fund. These deposits are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act of the Illinois Compiled Statutes (15 ILCS 520/11). Funds held by the State Treasurer have not been categorized as to credit risk because the Funds do not own individual securities. Details on the nature of these deposits are available within the State's CAFR.

**STATE OF ILLINOIS  
ILLINOIS POWER AGENCY**

Individual Nonshared Governmental Funds  
Notes to the Financial Statements

June 30, 2018

**(3) Deposits and Investments – Continued**

**(b) Investments**

The Illinois State Board of Investment, an internal investment pool of the State, holds the investments within the Illinois Power Agency Investment Fund pursuant to the State Finance Act (30 ILCS 105/6z-75). At June 30, 2018, total investments were \$38.612 million.

The Illinois State Board of Investment manages all assets held by it within a single commingled fund. Disclosures pertaining to these investments are included in the financial statements of the Illinois State Board of Investment. A copy of the financial statements of the Illinois State Board of Investment may be obtained by writing to the Illinois State Board of Investment, 180 North LaSalle Street, Suite 2015; Chicago, Illinois, 60601.

**(4) Other Receivables**

The balance of Other Receivables for the Illinois Power Agency Operations Fund includes reimbursements owed to the Agency, totaling \$169 thousand.

**(5) Interfund Balances and Activity**

Interfund transfer activity during the year ended June 30, 2018, consisted of the following:

The following balances (in thousands) represents amounts transferred among funds:

<u>Transfers In</u>	<u>Transfers Out</u> Illinois Power Agency Trust Fund	<u>Description/Purpose</u>
Illinois Power Agency Operations Fund	\$ 1,125	Transfer Pursuant to the State Finance Act (30 ILCS 105/6z-75)
Total:	<u>\$ 1,125</u>	

In addition, the General Assembly ordered a \$150 million interfund loan between the Illinois Power Agency Renewable Energy Resources Fund and the General Fund. On August 9, 2017, the State Comptroller and the State Treasurer, in consultation with the Governor's Office of Management and Budget, processed the transaction. Under the State Finance Act (30 ILCS 105/5h.5), the State Comptroller and the State Treasurer must repay the loan by August 8, 2019. On April 27, 2018, the first repayment of \$37.5 million was processed from the General Fund to the Illinois Power Agency Renewable Energy Resources Fund by the State Comptroller and the State Treasurer.

**STATE OF ILLINOIS  
ILLINOIS POWER AGENCY**

Individual Nonshared Governmental Funds  
Notes to the Financial Statements

June 30, 2018

**(5) Interfund Balances and Activity – Continued**

The following presents the Funds' interfund balances and activities at June 30, 2018:

The following balances (in thousands) represents amounts due to other funds:

<u>Due From</u>	<u>Due To</u> <u>Other State Funds</u>	<u>Description/Purpose</u>
Illinois Power Agency Operations Fund	\$ 3	Payment for Services
Total:	<u>\$ 3</u>	

The following balances (in thousands) represents amounts due from other funds:

<u>Due To</u>	<u>Due From</u> <u>Other State Funds</u>	<u>Description/Purpose</u>
Illinois Power Agency Operations Fund	\$ 19	Rate Change Refund of Employer Contributions
Illinois Power Agency Renewable Energy Resources Fund	112,500	Interfund Loan Pursuant to the State Finance Act (30 ILCS 105/5h.5)
Total:	<u>\$ 112,519</u>	

**(6) Pension Plan**

Substantially all of the Agency's full-time employees participate in the State Employees' Retirement System (SERS), which is a pension trust fund in the State of Illinois' reporting entity. The SERS is a single-employer defined benefit public employee retirement system in which State employees participate, except those covered by the State Universities, Teachers', General Assembly, and Judges' Retirement Systems. The financial position and results of operations of the SERS for Fiscal Year 2018 are included in the State of Illinois' CAFR for the year ended June 30, 2018. The SERS also issues a separate CAFR that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255.

A summary of benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the SERS' CAFR. Also included is a discussion of employer and employee obligations to contribute and the authority under which those obligations are established.

The Agency pays employer retirement contributions based upon an actuarially determined percentage of its payrolls. For Fiscal Year 2018, the employer contribution rate was 47.342%.

**STATE OF ILLINOIS  
ILLINOIS POWER AGENCY**

Individual Nonshared Governmental Funds  
Notes to the Financial Statements

June 30, 2018

**(7) Post-employment Benefits**

The State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the CMS. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employees' Retirement System do not contribute towards health, dental, and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health, dental, and vision benefits. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes \$5,000.

The total cost of the State's portion of health, dental, vision, and life insurance benefits of all members, including post-employment health, dental, vision, and life insurance benefits, is recognized as an expenditure by the State in the State's CAFR.

The State finances the costs on a pay-as-you-go basis. The total costs incurred for health, dental, vision, and life insurance benefits are not separated by department or component unit for annuitants and their dependents nor active employees and their dependents.

A summary of post-employment benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established is included as an integral part of the financial statements of CMS. A copy of the financial statements of CMS may be obtained by writing to CMS, 715 Stratton Building, 401 South Spring Street, Springfield, Illinois, 62706.

**(8) Risk Management**

The Funds are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; workers compensation; and, natural disasters. The State retains the risk of loss (i.e., self insured) for these risks.

The Funds' risk management activities for self-insurance, unemployment insurance, and workers' compensation are financed through appropriations to the Department of Central Management Services and are accounted for in the General Fund of the State. The claims are not considered to be a liability of the Funds; and accordingly, have not been reported in the Funds' financial statements for the year ended June 30, 2018.

**STATE OF ILLINOIS  
ILLINOIS POWER AGENCY**

Individual Nonshared Governmental Funds  
Notes to the Financial Statements

June 30, 2018

**(9) Commitments and Contingencies**

**(a) Operating Leases**

The Illinois Power Agency Operations Fund leases various real property and equipment under terms of noncancellable operating lease agreements through December 2018 that required the Illinois Power Agency Operations Fund to make minimum lease payments plus pay a pro rata share of certain operating costs. Rent expense under operating leases was \$20 thousand for the year ended June 30, 2018.

**(b) Renewable Energy Credits**

During Fiscal Years 2015 and 2016, under the Supplemental Photovoltaic Procurement Plan developed pursuant to Public Act 98-0672, the Agency held procurements to purchase up to \$30 million in Renewable Energy Credits (RECs) from new photovoltaic distributed energy generation devices.

A total of 14 companies have contracts to sell RECs to the Agency with contracts that started on or after, July 1, 2016, and with terms that allowed for up to nine months to identify individual projects, one year to develop projects, and then five years for the delivery of RECs as they are created. As of June 30, 2018, the outstanding commitment for those contracts totaled \$20.9 million.

**(10) Subsequent Events**

Since June 30, 2018, the Agency has increased its headcount by three full-time staff members.

On August 3, 2018, the Agency began using the State's new ERP system. To help ensure the accuracy of financial information, the Agency processes its transactions in parallel within both ERP and its legacy accounting system.

On September 17, 2018, the Agency entered into a Memorandum of Understanding (MOU) with its Program Administrator to oversee the implementation of the Illinois Solar for All program, which is paid for by the Illinois Power Agency Renewable Energy Resources Fund. As of August 1, 2019, the Agency has not entered into any other contracts as part of the Illinois Solar for All program.

On October 15, 2018, the Agency entered into a new lease office agreement for its main office to relocate from 160 N. LaSalle Street in Chicago, Illinois, a State-owned building, to 105 W. Madison Street in Chicago, Illinois, a privately-owned building. The new lease commenced on December 1, 2018. The Agency leases 3,555 square feet of office space starting at a monthly rent of \$8,331 per month paid from the Illinois Power Agency Operations Fund until the end of the term November 30, 2023.

On January 1, 2019, the Agency, after completing an RFQ/RFP process exempt from the Illinois Procurement Code, entered into a MOU with its current vendor to continue serving as the Agency's Procurement Administrator.

**STATE OF ILLINOIS  
ILLINOIS POWER AGENCY**

Individual Nonshared Governmental Funds  
Notes to the Financial Statements

June 30, 2018

**(10) Subsequent Events – Continued**

The Agency is not aware of any additional facts, decisions, or conditions that might be expected to have a significant effect on the financial position or results of operations during this and future fiscal years.

SPRINGFIELD OFFICE:

ILES PARK PLAZA  
740 EAST ASH • 62703-3154  
PHONE: 217/782-6046

FAX: 217/785-8222 • TTY: 888/261-2887  
FRAUD HOTLINE: 1-855-217-1895



CHICAGO OFFICE:

MICHAEL A. BILANDIC BLDG. • SUITE S-900  
160 NORTH LASALLE • 60601-3103  
PHONE: 312/814-4000  
FAX: 312/814-4006  
FRAUD HOTLINE: 1-855-217-1895

OFFICE OF THE AUDITOR GENERAL

FRANK J. MAUTINO

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable Frank J. Mautino  
Auditor General  
State of Illinois

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, 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 of the State of Illinois, Illinois Power Agency, as of and for the year ended June 30, 2018, and the related notes to the financial statements, as listed in the table of contents, and have issued our report thereon dated August 1, 2019, which contained an emphasis of matter paragraph stating the financial statements present only the Illinois Power Agency Operations Fund, the Illinois Power Agency Renewable Energy Resources Fund, and the Illinois Power Agency Trust Fund and do not purport to, and do not, present fairly the financial position of the State of Illinois or the State of Illinois, Illinois Power Agency, as of June 30, 2018, and the changes in its financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our report includes a reference to other auditors who audited the financial statements of the Illinois State Board of Investment – an internal investment pool of the State of Illinois – as described in our report on the Illinois Power Agency Trust Fund of the State of Illinois, Illinois Power Agency's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the State of Illinois, Illinois Power Agency's internal control over financial reporting (internal control) of the Illinois Power Agency Operations Fund, the Illinois Power Agency Renewable Energy Resources Fund, and the Illinois Power Agency Trust Fund to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Illinois, Illinois Power Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois, Illinois Power Agency's internal control.

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, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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 were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as item 2018-001 and 2018-002, which we consider to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether 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 of the State of Illinois, Illinois Power Agency are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as item 2018-002.

### **State of Illinois, Illinois Power Agency's Responses to the Findings**

The State of Illinois, Illinois Power Agency's responses to the findings identified in our audit are described in the accompanying schedule of findings. The State of Illinois, Illinois Power Agency's responses were not subjected to auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State of Illinois, Illinois Power Agency's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Illinois, Illinois Power Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**SIGNED ORIGINAL ON FILE**

---

JANE CLARK, CPA  
Director of Financial and Compliance Audits

Springfield, Illinois  
August 1, 2019

STATE OF ILLINOIS  
ILLINOIS POWER AGENCY  
**SCHEDULE OF FINDINGS – GOVERNMENT AUDITING STANDARDS**  
For the Year Ended June 30, 2018

2018-001. **FINDING** (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 the following financial reporting problems:

- 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:
  - 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.
  - 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.
  - The Agency did not record an interfund transfer and the related cash of \$1,125,223 (see Finding 2018-002). After its review, the Agency posted an adjusting entry in Fund 425.
- 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.
- 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.

STATE OF ILLINOIS  
ILLINOIS POWER AGENCY  
**SCHEDULE OF FINDINGS – GOVERNMENT AUDITING STANDARDS**  
For the Year Ended June 30, 2018

2018-001. **FINDING** (Inadequate Control over Financial Reporting) (continued)

- 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.
- The Agency did not reclassify liabilities to other State agencies for services rendered to Fund 425, totaling \$1,662, as amounts due to other State funds and not accounts payable. We proposed, and the Agency recorded in its final financial statements, an adjusting entry for this error.
- During our review of the Agency's draft notes to the financial statements, we noted the following errors and omissions:
  - 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.

The Codification (§ 2300.126) published by the Governmental Accounting Standards Board (GASB) requires the Agency disclose amounts due from other funds, the purpose for interfund balances, and any interfund balances not expected to be repaid within one year. Further, the Codification (§ 2300.127) requires the Agency disclose details about interfund transfers, including the amounts transferred and a general description of the transfers.

- We noted several instances where the Agency's trial balance did not agree with the Agency's notes to the financial statements. Additionally, we noted other non-financial disclosure errors, such as a misstatement in the employer contribution rate to the SERS during Fiscal Year 2018.

The Codification (§ 2300.102) states:

The notes to the financial statements should communicate information essential for fair presentation of the basic financial statements that is not displayed on the face of the financial statements. As such, the notes form an integral part of the basic financial statements.

STATE OF ILLINOIS  
ILLINOIS POWER AGENCY  
**SCHEDULE OF FINDINGS – GOVERNMENT AUDITING STANDARDS**  
For the Year Ended June 30, 2018

2018-001. **FINDING** (Inadequate Control over Financial Reporting) (continued)

Good internal controls over financial reporting include ensuring the notes to the financial statements are carefully prepared and adequately reviewed so both financial and non-financial information is fairly presented.

Additionally, during testing, we noted the following internal control problems impacting the Agency's transactions and internal accounting records:

- The Agency did not exercise adequate internal controls over processing payroll during Fiscal Year 2018. During testing of seven employees, we noted:
  - One employee (14%), a resident of the State of Maryland, did not have the correct amount of withholding.
  - Two employees (29%) did not have the correct payroll deductions for the employee's healthcare contribution for group insurance.
- 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.
- 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.
- The Agency prepared one of 15 (7%) monthly reconciliations between its internal records and the State Comptroller's *Monthly Appropriation Status* report (SB01) for Fund 424, Fund 425, and Fund 836 24 days 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.

STATE OF ILLINOIS  
ILLINOIS POWER AGENCY  
**SCHEDULE OF FINDINGS – GOVERNMENT AUDITING STANDARDS**  
For the Year Ended June 30, 2018

2018-001. **FINDING** (Inadequate Control over Financial Reporting) (continued)

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Agency establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance “revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.” Further, the Statewide Accounting Management System (Procedure 07.30.20) requires the Agency reconcile its records to the State Comptroller’s records within 60 days of month end and work with the State Comptroller in resolving any discrepancies.

Agency officials stated these errors were due to oversight and insufficient qualified staff during critical periods.

Failure to ensure all transactions and required non-financial disclosures were complete and appropriately reflected in the financial statements could have, if not detected and corrected, resulted in a material misstatement of the Agency’s financial statements. Further, failure to establish and maintain internal fiscal and administrative controls over both transactions and reconciliations could result in legal risks to the State, reliance on inaccurate financial data, and errors and other irregularities not being timely detected and corrected. (Finding Code No. 2018-001)

**RECOMMENDATION**

We recommend 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.

STATE OF ILLINOIS  
ILLINOIS POWER AGENCY  
**SCHEDULE OF FINDINGS – GOVERNMENT AUDITING STANDARDS**  
For the Year Ended June 30, 2018

2018-001. **FINDING** (Inadequate Control over Financial Reporting) (continued)

**AGENCY RESPONSE**

The Agency agrees with this finding. The Agency will review its internal governance and control structures and implement appropriate procedures to ensure the following: (1) all Agency transactions are appropriately recorded and reflected within its accounting records and financial statements; (2) corresponding notes to the financial statements are accurate and conform with GASB requirements; (3) payroll tax withholding and insurance deductions are accurate; and (4) Agency financial reconciliations to the State Comptroller's Office records are prepared accurately and timely and reviewed by an independent Agency staff member. In addition, the Agency requested that the Department of Innovation and Technology (DoIT) correct the Maryland withholding rate, but DoIT declined to do so.

STATE OF ILLINOIS  
ILLINOIS POWER AGENCY  
**SCHEDULE OF FINDINGS – GOVERNMENT AUDITING STANDARDS**  
For the Year Ended June 30, 2018

2018-002. **FINDING** (Noncompliance with the State Finance Act)

The Illinois Power Agency (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).

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 (30 ILCS 105/6z-75) and the Statewide Accounting Management System (SAMS) requires 13 steps.

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

- 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.
- 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 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.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Agency establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance resources are utilized in compliance with applicable law and transfers are properly recorded and accounted for to permit the preparation of accounts and reliable financial reports.

STATE OF ILLINOIS  
ILLINOIS POWER AGENCY  
**SCHEDULE OF FINDINGS – GOVERNMENT AUDITING STANDARDS**  
For the Year Ended June 30, 2018

2018-002. **FINDING** (Noncompliance with the State Finance Act)

Agency officials stated these errors were due to the unfamiliarity of staff members with an extremely complex statutory process.

Failure to properly transfer investment income from the Trust Fund to the Operations Fund represents noncompliance with the State Finance Act and resulted in the State's accounting records not properly reflecting all of the various components of this transaction. (Finding Code No. 2018-002)

**RECOMMENDATION**

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

**AGENCY RESPONSE**

The Agency agrees with this finding. The Agency has implemented procedures to ensure that the statutory transfer provisions governing transfers from the Trust Fund to the Operations Fund are properly implemented in accordance with applicable law. Additionally, the Agency will consider seeking a legislative remedy to simplify the transfer process between the Trust Fund and Operations Fund.

STATE OF ILLINOIS  
ILLINOIS POWER AGENCY  
**PRIOR FINDING NOT REPEATED**  
For the Year Ended June 30, 2018

A.        **FINDING**    (Failure to Report Contractual Commitments)

During the financial audit as of and for the year ended June 30, 2017, the Illinois Power Agency (Agency) did not report its contractual commitments to the Office of the State Comptroller (Comptroller).

During the current financial audit, we noted the Agency reported its contractual commitments to the Comptroller. (Finding Code No. 2017-001)