

State of Illinois

ILLINOIS POWER AGENCY

FINANCIAL AUDIT

For the Year Ended June 30, 2009

And

For the Year Ended June 30, 2010

COMPLIANCE EXAMINATION

For the Year ended June 30, 2010

Performed as Special Assistant Auditors
for the Auditor General, State of Illinois

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
For the Year Ended June 30, 2010

TABLE OF CONTENTS

	Page
Agency Officials	5
Management Assertion Letter	6
Compliance Report	
Summary	7
Accountants' Reports	
Independent Accountants' Report on State Compliance, on Internal Control Control Over Compliance, and on Supplementary Information for State State Compliance Purposes	13
Independent Auditors' Report on Internal Controls Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Governmental Auditing Standards</i>	16
Schedule of Findings	
Current Findings - <i>Governmental Auditing Standards</i>	18
Current Findings - State Compliance	38
Financial Statement Report	
Summary	79
Independent Auditors' Report	81
Fiscal Year 2010 Basic Financial Statements - Unaudited	
Statement of Net Assets	83
Statement of Activities	84

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
For the Year Ended June 30, 2010

TABLE OF CONTENTS - CONTINUED

Fiscal Year 2010 Governmental Fund Financial Statements - Unaudited	
Balance Sheet	85
Statement of Revenues, Expenditures and Changes in Fund Balances	87
Notes to the Basic Financial Statements	89
Combining Balance Sheet	98
Combining Statement of Revenues, Expenditures & Changes in Fund Balances	99
Fiscal Year 2009 Basic Financial Statements - Unaudited	
Statement of Net Assets	100
Statement of Activities	101
Fiscal Year 2009 Governmental Fund Financial Statements - Unaudited	
Balance Sheet	102
Statement of Revenues, Expenditures and Changes in Fund Balances	104
Notes to the Basic Financial Statements	106
Combining Balance Sheet	112
Combining Statement of Revenues, Expenditures & Changes in Fund Balances	113
Supplemental Information for State Compliance Purposes	
Summary	114
Fiscal Schedules and Analysis – Not Examined	
Schedule of Appropriations, Expenditures and Lapsed Balances	
Fiscal Year 2010	115
Fiscal Year 2009	116
Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances	117

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
For the Year Ended June 30, 2010

TABLE OF CONTENTS - CONTINUED

Director's Salary	118
Schedule of Locally Held Funds	119
Schedule of Changes in State Property	120
Comparative Schedule of Cash Receipts	121
Reconciliation Schedule of Cash Receipts to Deposits Remitted to the State Comptroller	122
Analysis of Significant Variations in Expenditures	123
Analysis of Significant Variations in Receipts	124
Analysis of Significant Lapse Period Spending	125
Analysis of Accounts Receivable and Accounts Payable	126
Description and Purpose of State Treasury Funds	127
Analysis of Operations-Not Examined	
Agency Functions and Planning Program	128

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
For the Year Ended June 30, 2010

AGENCY OFFICIALS

Director

Mark Pruitt

Agency offices are located at:

160 North LaSalle
Suite N-508
Chicago, IL 60601



March 10, 2011

Kerber, Hick & Brackel, LLP
Certified Public Accountants
1000 Myers Building
1 West Old State Capital Plaza
Springfield, Illinois 62701

Ladies and Gentlemen:

I am responsible for the identification of and compliance with all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the Illinois Power Agency ("Agency"). I am responsible for the system of internal controls over compliance requirements. I have performed an evaluation of the Agency's compliance with the following assertions during the year ended June 30, 2010. Based on this evaluation, I assert that during the year ended June 30, 2010, the Agency has materially complied with the assertions below.

- A. The agency has obligated, expended, received and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The agency has obligated, expended, received and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The agency has complied, in material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. State revenues and receipts collected by the agency are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the agency on behalf of the State or held in trust by the agency have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Yours very truly,

Illinois Power Agency

Mark Pruitt, Director

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
COMPLIANCE REPORT
SUMMARY
For the Year Ended June 30, 2010

As Special Assistant Auditors for the Illinois Auditor General we were engaged to conduct a Compliance Attestation Examination in accordance with Government Auditing Standards and in accordance with the Illinois State Auditing Act. However, due to incomplete and inadequate records we were unable to and did not perform an Attestation Examination in accordance with Government Auditing Standards.

ACCOUNTANTS' REPORTS

The Independent Accountants' Report on State Compliance, on Internal Control Over Compliance and on Supplementary Information for State Compliance Purposes contains scope limitations, disclaimers, or other significant non-standard language.

SUMMARY OF FINDINGS

<u>Number of</u>	<u>Current</u>	<u>Prior</u>
Findings	35	22
Repeated findings	18	N/A*
Prior recommendations implemented or not repeated	4	N/A*

*FY09 was the first State Compliance Examination of the Illinois Power Agency.

Details of findings are presented in a separate report section.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
COMPLIANCE REPORT
SUMMARY
For the Year Ended June 30, 2010

<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Finding Type</u>
FINDINGS (GOVERNMENT AUDITING STANDARDS)			
10-1	18	Lack of Financial Information	Material Weakness Disclaimer
10-2	20	Failure to Follow the Requirements of the Statewide Accounting Management System and Financial Reporting Process	Material Weakness Disclaimer
10-3	22	Failure to Provide Requested Engagement Documentation to the Auditors	Material Weakness Disclaimer
10-4	24	Lack of Appropriate Internal Controls	Material Weakness Disclaimer
10-5	26	Lack of Formal Budgeting Process	Material Weakness Disclaimer
10-6	28	State Funds Improperly Held Outside the State Treasury	Material Weakness Disclaimer
10-7	31	Failure to Maintain an Aged Listing of Accounts Receivable	Material Weakness Disclaimer
10-8	33	Consulting Procurement Plan Contract Term in Violation of State Statute	Material Weakness Disclaimer
10-9	35	Approval of Payment for Services Performed Outside the Contract Terms	Material Weakness Disclaimer

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
COMPLIANCE REPORT
SUMMARY
For the Year Ended June 30, 2010

<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Finding Type</u>
FINDINGS (GOVERNMENT AUDITING STANDARDS) continued			
10-10	37	Inadequate Fees Assessment	Material Weakness Disclaimer
FINDINGS (STATE COMPLIANCE)			
10-11	38	Formal Agency Rules Not Adopted	Material Weakness Disclaimer
10-12	40	Establishment of Required Bureaus and Lack of Adequate Staffing	Material Weakness Disclaimer
10-13	42	Untimely Submission of Vouchers	Material Weakness Disclaimer
10-14	44	Failure to Develop Procedures Related to Uncollectible Receivables	Material Weakness Disclaimer
10-15	46	Lack of Procedures to Perform Monthly Reconciliations between Agency Records and the Comptroller's Records	Material Weakness Disclaimer
10-16	48	Failure to Adopt Rules Related to Fees and Charges the Agency is Authorized to Collect and Deposit	Material Weakness Disclaimer
10-17	49	Late Filing of Contract Documents	Material Weakness Disclaimer
10-18	51	Rules for Development of Prequalified Supplier Lists	Material Weakness Disclaimer

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
COMPLIANCE REPORT
SUMMARY
For the Year Ended June 30, 2010

<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Finding Type</u>
FINDINGS (STATE COMPLIANCE) continued			
10-19	53	Plan for Post-Performance Review	Material Weakness Disclaimer
10-20	55	Failure to Post Requests for Proposal and Notice of Awarded Contracts	Material Weakness Disclaimer
10-21	57	Contract Terms were Inconsistent with the Terms of the Contract Obligation Document	Material Weakness Disclaimer
10-22	59	Failure to Conduct Outreach to Minority Owned Businesses, Female Owned Businesses and Businesses Owned By Persons with Disabilities	Material Weakness Disclaimer
10-23	60	Inadequate Controls over Solicitations	Material Weakness Disclaimer
10-24	62	Inadequate Controls over Vendor Evaluations	Material Weakness Disclaimer
10-25	65	Lack of Third Party Agreements	Material Weakness Disclaimer
10-26	66	Failure to Submit Reports	Material Weakness Disclaimer
10-27	68	Failure to Make Procurement Plan Public	Material Weakness Disclaimer
10-28	69	Agency Did Not Have Basic Office Equipment	Material Weakness Disclaimer

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
COMPLIANCE REPORT
SUMMARY
For the Year Ended June 30, 2010

<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Finding Type</u>
FINDINGS (STATE COMPLIANCE) continued			
10-29	70	Excessive Phone Charges	Material Weakness Disclaimer
10-30	71	Improper Timekeeping Practices	Material Weakness Disclaimer
10-31	72	The Illinois Power Agency Failed to Use the Correct Mileage Reimbursement Rate	Material Weakness Disclaimer
10-32	73	Failure to Develop Procedures for Employee Vehicle Usage	Material Weakness Disclaimer
10-33	74	Failure to Adopt a Formal Policy for Telephone Usage	Material Weakness Disclaimer
10-34	75	Failure to Provide a Telecommunication Device for the Hearing or Speech Impaired	Material Weakness Disclaimer
10-35	76	Failure to Adopt a Record Retention Policy	Material Weakness Disclaimer

Note: All 35 findings meet the reporting requirements for State Compliance purposes.

<u>Item No.</u>	<u>Page</u>	<u>Description</u>
PRIOR FINDINGS NOT REPEATED		
A	77	Lack of Appropriate Documentation Supporting Vouchers

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
COMPLIANCE REPORT
SUMMARY
For the Year Ended June 30, 2010

<u>Item No.</u>	<u>Page</u>	<u>Description</u>
		PRIOR FINDINGS NOT REPEATED
B	77	Agency Not Party to Contracts for Bidder and Supplier Fees
C	77	Untimely Filing of Statement of Economic Interests
D	78	Failure to Pay Travel Vouchers

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed at an exit conference on March 1, 2011. Attending were:

Illinois Power Agency
Kristene Callanta, CFO

Office of Management and Budget
Julie O'Brien, Associate Director

Department of Central Management Services
Paul Romitti, CFO
Tammy Compton, Fiscal

Office of the Auditor General
Kathy Lovejoy, Audit Manager

Kerber, Eck & Braeckel, LLP-Special Assistant Auditors
Pam McClelland, Partner
Kate Ward, Manager

The responses to the recommendations were provided by Mark Pruitt, Director in an email dated March 10, 2011.

INDEPENDENT ACCOUNTANTS' REPORT ON STATE COMPLIANCE,
ON INTERNAL CONTROL OVER COMPLIANCE, AND ON
SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES

Honorable William G. Holland
Auditor General
State of Illinois

Compliance

As Special Assistant Auditors for the Auditor General, we were engaged to examine the Illinois Power Agency's compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, during the year ended June 30, 2010. The management of State of Illinois, Illinois Power Agency is responsible for compliance with the following requirements:

- A. Obligation, expenditure, receipt, and use of public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. Obligation, expenditure, receipt, and use of public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. Compliance, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. Collecting State revenues and receipts in accordance with applicable laws and regulations and maintaining an appropriate accounting and recordkeeping of such revenues and receipts which is fair, accurate and in accordance with law.
- E. Safe handling of money or negotiable securities or similar assets on behalf of the State or held in trust and ensuring they have been properly and legally administered and the accounting and recordkeeping related thereto is proper, accurate, and in accordance with law.

The Illinois Power Agency did not have complete and accurate records and failed to respond to some inquiries and requests. Therefore, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the Illinois Power Agency's compliance with requirements listed in the first paragraph of this report. The results of our limited procedures

disclosed instances of noncompliance, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompany schedule of findings (10-1, 10-2, 10-3, 10-4, 10-5, 10-6, 10-7, 10-8, 10-9, 10-10, 10-11, 10-12, 10-13, 10-14, 10-15, 10-16, 10-17, 10-18, 10-19, 10-20, 10-21, 10-22, 10-23, 10-24, 10-25, 10-26, 10-27, 10-28, 10-29, 10-30, 10-31, 10-32, 10-33, 10-34, 10-35).

Internal Control

The management of Illinois Power Agency is responsible for establishing and maintaining effective internal control over compliance with the requirements listed in the first paragraph of this report. We do not express an opinion on the effectiveness of the Illinois Power Agency's internal control over compliance.

Our consideration of internal control over compliance was a basis for designing our examination procedures and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and others we consider to be significant deficiencies. A *deficiency* in an entity's internal control over compliance 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 noncompliance with the requirements listed in the first paragraph of this report on a timely basis.

A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material noncompliance with a requirement listed in the first paragraph of this report will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control over compliance as described in the accompanying schedule of findings (10-1, 10-2, 10-3, 10-4, 10-5, 10-6, 10-7, 10-8, 10-9, 10-10, 10-11, 10-12, 10-13, 10-14, 10-15, 10-16, 10-17, 10-18, 10-19, 10-20, 10-21, 10-22, 10-23, 10-24, 10-25, 10-26, 10-27, 10-28, 10-29, 10-30, 10-31, 10-32, 10-33, 10-34, 10-35) to be material weaknesses.

There were no immaterial findings that have been excluded from this report.

The Illinois Power Agency's responses to the findings identified in our examination are described in the accompanying schedule of findings. We did not examine Illinois Power Agency's responses and, accordingly, we express no opinion on them.

As stated in the second paragraph we were unable to express an opinion on compliance with the requirements listed in the first paragraph of this report. The accompanying supplementary information as listed in the table of contents as Supplementary Information for State Compliance Purposes is presented for additional analysis. We were unable to apply certain limited procedures as prescribed by the Audit Guide as adopted by the Auditor General to the 2010 and

2009 Supplementary Information for State Compliance Purposes, due to the Illinois Power Agency's incomplete and inaccurate records. We do not express an opinion on the supplemental information.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, agency management, and is not intended to be and should not be used by anyone other than these specified parties.

Kelley, Eck & Braeckel LLP

Springfield, Illinois
March 10, 2011

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND OTHER MATTERS
BASED ON CRITERIA FOR AUDITS OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we were engaged to audit the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Illinois Power Agency, as of and for the years ended June 30, 2010 and June 30, 2009, which collectively comprise Illinois Power Agency's basic financial statements and have issued our report thereon dated March 10, 2011. The scope of our work was not sufficient to enable us to express, and we do not express opinions on the basic financial statements as of and for the years ended June 30, 2010 and June 30, 2009. Although we were not able to express opinions on the basic financial statements, *Government Auditing Standards* issued by the Comptroller General of the United States requires reporting on internal control over financial reporting and compliance and other matter based on any procedures that were performed.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Illinois Power Agency's internal control over financial reporting as a basis for designing our auditing procedures but not for the purpose of expressing an opinion on the effectiveness of the Illinois Power Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Illinois Power Agency's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 over financial reporting, such that there is a reasonable possibility that a material misstatement of the Illinois Power Agency's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the Illinois Power Agency's internal control over financial reporting described in the accompanying schedule of findings to be material weaknesses. (10-1, 10-2, 10-3, 10-4, 10-5, 10-6, 10-7, 10-8, 10-9, and 10-10)

Compliance

In connection with our engagement to audit the basic financial statements of the Illinois Power, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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 items (10-1, 10-2, 10-3, 10-4, 10-5, 10-6, 10-7, 10-8, 10-9, and 10-10). Additionally, if the scope of our work had been sufficient to enable us to express opinions on the basic financial statements, other instances of noncompliance or other matters may have been identified and reported herein.

The Illinois Power Agency's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Illinois Power Agency's responses and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, agency management, and is not intended to be and should not be used by anyone other than these specified parties.

Kelley, Eck & Braeckel LLP

Springfield, Illinois
March 10, 2011

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
CURRENT FINDINGS-GOVERNMENTAL AUDITING STANDARDS
For the Year Ended June 30, 2010

10-1 Finding: Lack of Financial Information

The Illinois Power Agency (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.

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.”

Additionally, 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 (4) 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.”

The Director stated the Agency did not have trained staff to support the financial reporting functions during the audit period.

Because of the Agency’s failure to provide complete financial information and supporting documentation, the information included in the financial statements cannot be verified and the Agency is not in compliance with the requirements of the Illinois Power Agency Act. As a result, the auditors issued a disclaimer of opinion on the Agency’s financial statements. In summary, we do not express an opinion on the financial statements. We were unable to form and have not formed an opinion as to the fairness of the presentation of the financial statements in conformity with generally accepted accounting principles. [Finding Code 10-1, 09-1]

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
CURRENT FINDINGS-GOVERNMENTAL AUDITING STANDARDS
For the Year Ended June 30, 2010

10-1 Finding: Lack of Financial Information - Continued

Recommendation

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

Agency Response

The Agency agrees with the finding. To generate and maintain adequate documentation necessary to comply with the requirements of the Illinois Power Agency Act, the Agency requested and received the assistance of Central Management Services (CMS) in July 2010 to create the Agency's FY 2009 and FY 2010 financial statements, and FY 2010 GAAP package submittals. Additionally, CMS assisted the Agency in preparing and submitting payments into treasury accounts, filing Contract Obligation Documents and vouchers with the Office of the Comptroller, and transferring funds between agency accounts.

The Agency also entered into an Interagency Agreement with the Administrative and Regulatory Shared Services Center in December 2010 to support Agency Accounts Receivables, Accounts Payables, Voucher Processing, General Accounting, Financial Statement Reporting and Human Resources functions. The Agency's hired a Chief Financial Officer who started working at the Agency in January 2011 with primary responsibilities of managing Agency Budgeting, Accounting, and Financial Reporting functions. The CFO is reviewing accounting software packages that will support management of Agency finances, and to serve as a control and reconciliation feature in relation to interactions with the Administrative and Regulatory Shared Services Center. Together, the Administrative and Regulatory Shared Services Center and the agency CFO are processing the Agency's fiscal transactions and maintaining complete records of those activities for use in reporting and responding to data requests.

The Agency plans to obtain outside assistance from a public accounting firm familiar with utility regulation to assist in auditing the records at ComEd and Ameren to assure that IPA is receiving all the revenue it should. Additionally, the firm will assist the CFO in completing a forensic recovery of documentation to support Agency financial records and reports for the FY 2009 and 2010 periods. Lastly, the agency will seek to use the firm's utility expertise to assist in setting up processes appropriate to the agency's interactions with the utilities. The Agency will enhance its current financial reporting arrangements with the assistance of the Office of Accountability which will assist in the creation of audit compliant processes that support financial reporting tasks.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
CURRENT FINDINGS-GOVERNMENTAL AUDITING STANDARDS
For the Year Ended June 30, 2010

10-2 Finding: Failure to Follow the Requirements of the Statewide Accounting Management System (SAMS) and the Financial Reporting Process

The Illinois Power Agency (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 audit, we noted the Agency did not submit certain accounting reports to the Office of the State Comptroller. In addition, the Agency failed to timely file contracts and timely obligate funds with the Office of State Comptroller.

The 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.

The Director stated the Agency did not have trained staff to support the SAMS Manual requirements during the audit period.

Without the knowledge needed to process financial transactions in and out of funds and prepare financial reports, the Agency is unable to comply with the SAMS Manual as required by the State Comptroller Act. [Finding Code No. 10-2, 09-2]

Recommendation

We recommend the Agency comply with the SAMS Manual requirements and financial reporting process.

Agency Response

The Agency agrees with the finding. To comply with the SAMS Manual requirements and financial reporting processes, the Agency requested and received the assistance of Central Management Services (CMS) in July 2010 to assist the Agency in complying with SAMS Manual requirements and financial reporting processes including the FY 2009 and FY 2010 financial statements, and the agency's FY 2010 GAAP package submittals.

The Agency also entered into an Interagency Agreement with the Administrative and Regulatory Shared Services Center in December 2010 to support Agency Accounts Receivables, Accounts

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
CURRENT FINDINGS-GOVERNMENTAL AUDITING STANDARDS
For the Year Ended June 30, 2010

10-2 Finding: Failure to Follow the Requirements of the Statewide Accounting Management System (SAMS) and the Financial Reporting Process-Continued

Payables, Voucher Processing, General Accounting, Financial Statement Reporting and Human Resources functions. A substantial amount of the Administrative and Regulatory Shared Services Center interactions with the Agency relate to complying with SAMS Manual requirements. The Agency hired a Chief Financial Officer who started working at the Agency in January 2011 with primary responsibilities of managing Agency Budgeting, Accounting, and Financial Reporting functions. The CFO has contacted CFO's in other Agency's to request information regarding best practices with regard to SAMS and other fiscal matters, and will request to receive any available training from the Office of the Comptroller with regard to SAMS. Together, the Administrative and Regulatory Shared Services Center and the agency CFO are processing the Agency's fiscal transactions in compliance with SAMS requirements, and maintaining complete records of those activities for use in reporting and responding to data requests.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
CURRENT FINDINGS-GOVERNMENTAL AUDITING STANDARDS
For the Year Ended June 30, 2010

10-3 Finding: Failure to Provide Requested Engagement Documentation to the Auditors

The Illinois Power Agency (Agency) did not provide all the requested documentation to the auditors.

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.

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

Additionally, 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... (4) 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."

The Director stated the Agency did not have trained staff or internal systems to generate complete and accurate responses to data requests during the audit period.

Without being provided support or evidential matter for testing related to Agency records, we were unable to determine if the Agency was performing all of its required duties and responsibilities. [Finding Code 10-3, 09-3]

Recommendation

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

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
CURRENT FINDINGS-GOVERNMENTAL AUDITING STANDARDS
For the Year Ended June 30, 2010

10-3 Finding: Failure to Provide Requested Engagement Documentation to the Auditors - Continued

Agency Response

The Agency agrees with the finding. To carry out the responsibilities of the Agency and ensure supporting documentation is maintained, the Agency requested and received the assistance of Central Management Services (CMS) in July 2010 to create the Agency's FY 2009 and FY 2010 financial statements, and FY 2010 GAAP package submittals. Additionally, CMS assisted the Agency in preparing and submitting payments into treasury accounts, filing Contract Obligation Documents and vouchers with the Office of the Comptroller, and transferring funds between agency accounts. Documentation generated by the tasks performed by CMS on behalf of the Agency have been retained, and are serving as a model for records collection and retention for the Agency.

The Agency also entered into an Interagency Agreement with the Administrative and Regulatory Shared Services Center in December 2010 to support Agency Accounts Receivables, Accounts Payables, Voucher Processing, General Accounting, Financial Statement Reporting and Human Resources functions. Administrative and Regulatory Shared Services Center activities generate records and reports for the Agency that are accessible and available to the Agency. The Agency hired a Chief Financial Officer who started working at the Agency in January 2011 with primary responsibilities of managing Agency Budgeting, Accounting, and Financial Reporting functions. The CFO is reviewing accounting software packages that will support management of Agency finances, and to support further documentation and reporting functions. Together, the Administrative and Regulatory Shared Services Center and the agency CFO are processing the Agency's fiscal transactions and maintaining complete records of those activities for use in reporting and responding to data requests.

The Agency plans to obtain outside assistance from a public accounting firm familiar with utility regulation to assist the CFO in completing a forensic recovery of documentation to support Agency financial records and reports for the FY 2009 and 2010 periods. The Agency will enhance its current financial reporting arrangements with the assistance of the Office of Accountability which will assist in the creation of audit compliant processes that support financial reporting tasks.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
CURRENT FINDINGS-GOVERNMENTAL AUDITING STANDARDS
For the Year Ended June 30, 2010

10-4 Finding: Lack of Appropriate Internal Controls

The Illinois Power Agency (Agency) did not establish adequate accounting procedures and internal controls.

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.

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.

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".

The Director stated the Agency did not have trained staff or internal controls to complete Agency transactions in a timely manner during the audit period.

Failure to implement adequate internal controls over accounting procedures and internal controls increases the risk that errors and irregularities could occur and not be detected. [Finding Code No. 10-4, 09-4]

Recommendation

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

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
CURRENT FINDINGS-GOVERNMENTAL AUDITING STANDARDS
For the Year Ended June 30, 2010

10-4 Finding: Lack of Appropriate Internal Controls - Continued

Agency Response

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

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

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
CURRENT FINDINGS-GOVERNMENTAL AUDITING STANDARDS
For the Year Ended June 30, 2010

10-5 Finding: Lack of Formal Budgeting Process

The Illinois Power Agency (Agency) did not have a formal budgeting process.

During our audit, we noted the Agency did not have a formal budget process to effectively utilize its resources. During fiscal year 2010, the Agency received appropriations of \$6,350,000.

In fiscal year 2009, the Agency contracted with a procurement administrator for \$490,715 and obligated only \$246,999 for the fiscal year. However, the procurement administrator submitted billings totaling an estimated \$368,201, which was \$121,202 over the obligation amount. The billings were not paid within the fiscal year. Further, according to the Director, the procurement administrator had retained the bidder fees collected for the Agency as payment for services. At the end of fiscal year 2010, the procurement administrator still held these funds and the Director did not attempt to collect these funds.

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”.

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.

The Director stated the Agency did not have trained staff or internal systems to manage expenditures against budget during the audit period.

Failure to establish a budgeting process places the Agency and State at risk of improper expenditures resulting in the loss of State funds. [Finding Code No. 10-5, 09-5]

Recommendation

We recommend the Agency develop a formal budgeting process to ensure all funds of the Agency are spent and managed in a fiscally responsible manner. Further, all funds collected on behalf of the Agency should be remitted to the Agency and deposited in a State Treasury Fund.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
CURRENT FINDINGS-GOVERNMENTAL AUDITING STANDARDS
For the Year Ended June 30, 2010

10-5 Finding: Lack of Formal Budgeting Process (continued)

Agency Response

The Agency agrees with the finding. To ensure all funds are spent and managed in a fiscally responsible manner and that all funds collected on behalf of the Agency are remitted and deposited into a State Treasury Fund, the Agency has hired a Chief Financial Officer. The Agency hired a Chief Financial Officer who started working at the Agency in January 2011 with primary responsibilities of managing Agency Budgeting, Accounting, and Financial Reporting functions. The CFO is supported in her work by the Administrative and Regulatory Shared Services Center through an interagency agreement entered into in December 2010. Additionally, the CFO has contacted CFO's in other Agency's to request information regarding best practices with regard to Budgeting and fiscal controls. The Agency will enhance its current financial reporting arrangements with the assistance of the Office of Accountability which will assist in the creation of audit compliant processes that support budgeting and reporting.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
CURRENT FINDINGS-GOVERNMENTAL AUDITING STANDARDS
For the Year Ended June 30, 2010

10-6 Finding: State Funds Improperly Held Outside the State Treasury

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

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 the State's funds were held by the two Procurement Administrators. These estimates are based entirely upon self reported information submitted by the responding Procurement Administrators.

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 in 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.

The Director stated the Agency did not have trained staff, established accounts or accounting systems to receive and deposit fees during the audit period.

Failure to properly deposit State funds into a Treasury held account could result in a loss of State resources. [Finding Code No. 10-6, 09-8]

Recommendation

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.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
CURRENT FINDINGS-GOVERNMENTAL AUDITING STANDARDS
For the Year Ended June 30, 2010

10-6 Finding: State Funds Improperly Held Outside the State Treasury-Continued

Agency Response

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

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

All fees paid to the Agency during the Spring 2010 procurement cycle were collected by the Agency, but were late in deposit into the State Treasury due to a lack of formal receipting and depositing procedures and a bank clearing account for the Agency. All fees paid to the Agency during the December 2010 renewable energy procurement cycle were collected by the Agency and promptly deposited into the State Treasury reflecting the successful implementation of the Agency's payment receiving and depositing processes.

The Agency's newly hired Chief Financial Officer started working at the Agency in January 2011 with primary responsibilities of managing Budgeting, Accounting, and Financial Reporting functions. The CFO is responsible for the receipting and same day deposit of all payments to the Agency. The CFO is assisted in the processing of payments to the Agency by the Administrative and Regulatory Shared Services Center. The Agency entered into an Interagency Agreement with the Administrative and Regulatory Shared Services Center in December 2010 to support Agency Accounts Receivables, Accounts Payables, Voucher Processing, General Accounting, Financial Statement Reporting and Human Resources functions.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
CURRENT FINDINGS-GOVERNMENTAL AUDITING STANDARDS
For the Year Ended June 30, 2010

10-6 Finding: State Funds Improperly Held Outside the State Treasury-Continued

Agency Response

The Agency plans to obtain outside assistance from a public accounting firm familiar with utility regulation to assist in auditing the records at ComEd and Ameren to assure that IPA is receiving all the revenue it should. Additionally, the firm will assist the CFO in completing a forensic recovery of documentation to support Agency financial records and reports for the FY 2009 and 2010 periods. Lastly, the agency will seek to use the firm's expertise to assist in setting up processes to facilitate monitoring and evaluation of Accounts Receivable.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
CURRENT FINDINGS-GOVERNMENTAL AUDITING STANDARDS
For the Year Ended June 30, 2010

10-7 Finding: Failure to Maintain an Aged Listing of Accounts Receivable

The Illinois Power Agency (Agency) did not maintain an aged listing of accounts receivable.

During our testing, we noted the Agency did not create or provide an aged listing of accounts receivable.

According to the SAMS Manual (26.20.20), “in order for an agency to effectively estimate the collectability of its receivables and properly focus collection efforts, each outstanding receivable due the State must be “aged” relative to its formal due date.”

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”.

The Director stated the Agency did not have trained staff or systems to develop procedures related to the reporting of aged receivables.

Without an aged listing of accounts receivable, the Agency is unable to accurately monitor accounts receivable and track older, uncollectible items. [Finding Code No. 10-7]

Recommendation

We recommend the Agency develop and maintain an aged listing of accounts receivable.

Agency Response

The Agency agrees with the finding. The Agency’s newly hired Chief Financial Officer started working at the Agency in January 2011 with primary responsibilities of managing Agency Budgeting, Accounting, and Financial Reporting functions. The CFO has responsibility for reporting aged receivables. The CFO is supported by the Administrative and Regulatory Shared Services Center through and Interagency Agreement. The CFO is reviewing accounting software packages that will support management of Agency finances, and to serve as a control and reconciliation feature in relation to interactions with the Administrative and Regulatory Shared Services Center. Together, the Administrative and Regulatory Shared Services Center and the agency CFO are processing the Agency’s fiscal transactions and maintaining complete records of those activities for use in establishing an Aged Listing of Accounts Receivable.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
CURRENT FINDINGS-GOVERNMENTAL AUDITNG STANDARDS
For the Year Ended June 30, 2010

10-7 Finding: Failure to Maintain an Aged Listing of Accounts Receivable -Continued

The Agency plans to obtain outside assistance from a public accounting firm familiar with utility regulation to assist in auditing the records at ComEd and Ameren to assure that IPA is receiving all the revenue it should. Additionally, the firm will assist the CFO in completing a forensic recovery of documentation to support Agency financial records and reports for the FY 2009 and 2010 periods. Lastly, the agency will seek to use the firm's expertise to assist in setting up processes to facilitate monitoring and evaluation of Accounts Receivable.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
CURRENT FINDINGS-GOVERNMENTAL AUDITING STANDARDS
For the Year Ended June 30, 2010

10-8 Finding: Consulting Procurement Plan Contract Term in Violation of State Statute

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

During our testing, we noted a contract entered into with the expert firm hired to develop the procurement plan was for five years with an option for two one-year extensions, which exceeds the allotted term as mandated. The total contract amount is \$5,940,000.

According to the Illinois Power Agency Act (20 ILCS 3855/1-75 (a)(5)), “the Agency shall select an expert or expert consulting firm to develop procurement plans based on the proposals submitted and shall award one year contracts to those selected with an option for the Agency for a one year renewal.”

The Director stated the Agency did not have trained staff to support the review of contract documents submitted to the Office of the Comptroller.

Entering into a consulting procurement plan contract with terms exceeding those allowed by the mandate is a violation of State statute. [Finding Code No. 10-8]

Recommendation

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

Agency Response

The Agency agrees with the finding. The Agency Director erred by setting a contract period of five years instead of the single year with an optional one-year extension as provided in the IPA Act. Pricing for the contract was not dependent on length of contract. The Agency has drafted a contract amendment reducing the contract length from 5 years to a single year with an optional one-year extension as specified by the IPA Act.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
CURRENT FINDINGS-GOVERNMENTAL AUDITING STANDARDS
For the Year Ended June 30, 2010

10-8 Finding: Consulting Procurement Plan Contract Term in Violation of State Statute-Continued

To ensure that contract terms are consistent with statutory limits, the agency has hired a Chief Financial Officer who started working at the Agency in January 2011 with primary responsibilities of managing Agency Budgeting, Accounting, and Financial Reporting functions. Contract review is now managed by the Agency CFO. The CFO will be supported in this task by the General Counsel and Procurement Bureau personnel who will also review contracts prior to execution to ensure compliance with IPA Act and the Procurement Code. The Office of Accountability will assist in the formalizing the processes and controls used by the Agency in evaluating and executing contracts.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
CURRENT FINDINGS-GOVERNMENTAL AUDITING STANDARDS
For the Year Ended June 30, 2010

10-9 Finding: Approval of Payment for Services Performed Outside the Contract Terms

The Illinois Power Agency (Agency) approved payment of an invoice for services performed outside the terms of the contract.

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.

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.

The Director stated the Agency did not have trained staff to support the review of contract documents submitted to the Office of the Comptroller.

As the services performed were outside the contracted date, the payment of \$ 850,000 could not be made to the vendor. [Finding Code No. 10-9]

Recommendation

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

Agency Response

The Agency agrees with the finding. An incorrect contract end date of 3/9/2010 was entered into the contract extension submittal to the Office of the Comptroller. That date was corrected to 3/9/2011 and submitted to the Office of the Comptroller; however, the voucher related to payment to the contractor was not filed before the end of the lapse period.

The vendor has filed in the Court of Claims to recover the payments due them by the Agency.

To ensure that contract documents are accurate, the agency has hired a Chief Financial Officer who started working at the Agency in January 2011 with primary responsibilities of managing Agency Budgeting, Accounting, and Financial Reporting functions. Contract documents are now reviewed by the Agency CFO. The CFO will be supported in this task by the General

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
CURRENT FINDINGS-GOVERNMENTAL AUDITNG STANDARDS
For the Year Ended June 30, 2010

10-9 Finding: Approval of Payment for Services Performed Outside the Contract Terms
(continued)

Counsel and Procurement Bureau personnel who will also review contracts prior to execution to ensure compliance with IPA Act and the Procurement Code. The Office of Accountability will assist in the formalizing the processes and controls used by the Agency in evaluating and executing contracts.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
CURRENT FINDINGS-GOVERNMENTAL AUDITING STANDARDS
For the Year Ended June 30, 2010

10-10 Finding: Inadequate Fee Assessment

The Illinois Power Agency (Agency) did not assess adequate fees to ensure the costs of the preparation of the annual procurement plan were covered.

During our audit, we noted the Agency did not assess an adequate fee to each utility to ensure the cost of the preparation of the annual procurement plan was covered. Based on information provided by the Director, the indirect costs plus the costs of the procurement planning consultants exceeds the amount assessed to the bidders. The cost of the preparation of the annual procurement plan was estimated at \$411,298 while the fees assessed, as represented by the Director, were \$350,000.

According to the Illinois Power Act (20 ILCS 3855/1-75 (g)), the “Agency shall assess fees to each affected utility to recover the cost incurred in preparation of the annual procurement plan for the utility.”

The Director stated the Agency sought to support internal operational costs with the interest earnings from the IPA Trust Fund during the audit period.

Failure to assess adequate fees to cover the preparation of the annual procurement plan is a violation of State statute. Additionally, this is poor management from a fiscal standpoint. [Finding Code No. 10-10, 09-9]

Recommendation

We recommend the Agency consider both the direct and indirect costs related to the preparation of the annual procurement plan in order to ensure the appropriate fees are assessed to cover the costs.

Agency Response

The Agency agrees with the finding. The CFO and the Director have adjusted the Agency’s budget planning to anticipate little to no revenue from the IPA Trust Fund, and to cover Agency operating costs through higher fees assessments on Agency managed wholesale power procurements. Once hired, the Agency’s General Counsel will be tasked with rules drafting to reflect the fees assessment methods and practices proposed by the Agency CFO. Anticipated Procurement Bureau staff will assist the CFO with estimating procurement costs (both direct and indirect), and tracking expenses related to procurement events and planning. The Office of Accountability will assist in the creation of processes and controls that establish appropriate fee estimation, assessment, and reporting.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
CURRENT FINDINGS-STATE COMPLIANCE
For the Year Ended June 30, 2010

10-11 Finding: Formal Agency Rules Not Adopted

The Illinois Power Agency (Agency) did not adopt rules for operation, administration, accounting and reporting as specified in the Illinois Power Agency Act.

During our audit, we noted the Agency had not drafted or adopted formal agency rules, established procedures for monitoring the administration of contracts, established procedures for the recovery of costs incurred in connection with the development and construction of a facility, or implemented accounting rules and a system of accounts.

According to the Illinois Power Agency Act (20 ILCS 3855/1-35), “the Agency shall adopt rules as may be necessary and appropriate for the operation of the Agency. In addition to other rules relevant to the operation of the Agency, the Agency shall adopt rules that accomplish each of the following: (1) establish procedures for monitoring the administration of any contract administered directly or indirectly by the Agency; except that the procedures shall not extend to executed contracts between electric utilities and their suppliers; (2) establish procedures for the recovery of costs incurred in connection with the development and construction of a facility should the Agency cancel a project, provided that no such costs shall be passed on to public utilities or their customers or paid from the Illinois Power Agency Operations Fund; (3) implement accounting rules and a system of accounts, in accordance with State law, permitting all reporting (i) required by the State, (ii) required under this Act, (iii) required by the Authority, or (iv) required under the Public Utilities Act.”

The Director stated the Agency did not have trained staff to draft, submit, and implement rules related to the administration of contracts, cost recovery in connection with the development and construction of a facility, and accounting rules and a system of accounts during the audit period.

Formal administrative rules provide a basis for a proper accounting of the transactions of the Agency, protect agencies from legal challenges and give additional legitimacy to Agency actions and Agency requests of external parties. Failure to adopt appropriate rules and procedures could result in a lack of proper reporting and failure to establish and adequately monitor internal controls. [Finding Code No. 10-11, 09-6]

Recommendation

We recommend the Agency draft and adopt formal Agency rules, establish procedures for monitoring the administration of contracts, establish procedures for the recovery of costs incurred in connection with the development and construction of a facility, and implement accounting rules and a system of accounts as required by State statute.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
CURRENT FINDINGS-STATE COMPLIANCE
For the Year Ended June 30, 2010

10-11 Finding: Formal Agency Rules Not Adopted - Continued

Agency Response

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

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

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
CURRENT FINDINGS-STATE COMPLIANCE
For the Year Ended June 30, 2010

10-12 Finding: Establishment of Required Bureaus and Lack of Adequate Staffing

The Illinois Power Agency (Agency) did not establish a Planning and Procurement Bureau or a Resource Development Bureau as required by its enabling statute. In addition, various Agency administrative requirements were not completed by the Director, who is the Agency's sole employee.

Although the Agency was established in fiscal year 2008, the Director continued to be the sole employee during the audit period. Specifically, we noted the Agency had not established a Planning and Procurement Bureau or a Resource Development Bureau. Additionally, within each bureau there was to be a chief appointed. Further, the Agency lacked adequate staffing in order to carry out administrative tasks.

The Illinois Power Act (20 ILCS 3855/1-70) states that within the Agency, the Agency shall establish a Planning and Procurement Bureau and a Resource Development Bureau. Each of these bureaus should have a chief with at least 10 years of experience in the related industries and an advanced degree in a related field. Additionally, good business practice dictates that the appropriate staff be hired to carry out the administrative tasks of the Agency.

The Director stated the narrow job requirement criteria and unstable funding streams prevented the hiring of Agency staff during the audit period.

Failure to create these required bureaus is a violation of State statute. In addition, because these bureaus were not created, the Director had the sole responsibility for scoring all proposals and selecting winners for the procurement process, which could result in an abuse of power. Further, as a result of failure to hire appropriate personnel, the Agency has hired outside consultants who may not be cost effective and administrative tasks have not been appropriately and effectively completed. [Finding Code No. 10-12, 09-7]

Recommendation

We recommend the Agency establish the required bureaus and appoint chiefs to these bureaus who meet the qualifications of the statute in order to ensure the Agency functions properly and in a cost-effective manner. We further recommend the Agency hire the staff needed to carry out administrative tasks.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
CURRENT FINDINGS-STATE COMPLIANCE
For the Year Ended June 30, 2010

10-12 Finding: Establishment of Required Bureaus and Lack of Adequate Staffing (continued)

Agency Response

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

To carry out administrative tasks, the Agency plans to hire a General Counsel and has hired a Chief Financial Officer. The Agency's CFO started working at the Agency in January 2011 with primary responsibilities of managing Agency Budgeting, Accounting, and Financial Reporting functions. The CFO is reviewing accounting software packages that will support management of Agency finances, and to serve as a control and reconciliation feature in relation to interactions with the Administrative and Regulatory Shared Services Center which supports the CFO through an Interagency Agreement.

The Agency plans to obtain outside assistance from a public accounting firm familiar with utility regulation to assist in auditing the records at ComEd and Ameren to assure that IPA is receiving all the revenue it should. Additionally, the firm will assist the CFO in completing a forensic recovery of documentation to support Agency financial records and reports for the FY 2009 and 2010 periods. Lastly, the agency will seek to use the firm's utility expertise to assist in setting up processes appropriate to the agency's interactions with the utilities.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
CURRENT FINDINGS-STATE COMPLIANCE
For the Year Ended June 30, 2010

10-13 Finding: Untimely Submission of Vouchers

The Illinois Power Agency (Agency) did not submit vouchers in a timely manner.

During contractual services testing, we noted the following:

- 15 of 15 (100%) contractual services vouchers, totaling \$ 1,055,348, were not approved for payment within 30 days.
- 12 of 15 (80%) contractual services vouchers, totaling \$ 604,580, were not paid within 60 days.

The State Prompt Payment Act (30 ILCS 540/3-2(1)) states that any bill approved for payment must be paid or payment issued within 60 days of receipt. If payment is not issued to the payee within the 60 day period, an interest penalty of 1.0% of any amount approved and unpaid shall be added for each month or fraction thereof after the end of the 60 day period, until final payment is made.

The Illinois Administrative Code (74 Ill. Admin. Code 900.70(b)) states that an Agency shall approve proper bills or deny bills with defects, in whole or in part, within 30 days after receipt.

The Director stated the Agency did not have trained staff to support the timely preparation and submittal of vouchers during the audit period.

Failure to file vouchers timely is a violation of State statute and could result in additional charges to the Agency. [Finding Code No. 10-13, 09-13]

Recommendation

We recommend the Agency approve and submit its vouchers in a timely manner. Vouchers should be marked as “paid” when sent to the State Comptroller’s Office so that duplicate payments are not made.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
CURRENT FINDINGS-STATE COMPLIANCE
For the Year Ended June 30, 2010

10-13 Finding: Untimely Submission of Vouchers (continued)

Agency Response

The Agency agrees with the finding. To approve and submit vouchers in a timely manner, the Agency has hired a Chief Financial Officer who started working at the Agency in January 2011 with primary responsibilities of managing Agency Budgeting, Accounting, and Financial Reporting functions. The CFO is responsible for the preparation and initiation of vouchers. The CFO is assisted in the submittal of contracts and Contract Obligation Documents by the Administrative and Regulatory Shared Services Center. The Agency entered into an Interagency Agreement with the Administrative and Regulatory Shared Services Center in December 2010 to support Agency Accounts Receivables, Accounts Payables, Voucher Processing, General Accounting, Financial Statement Reporting and Human Resources functions. The CFO is reviewing accounting software packages that will support management of Agency finances, and to serve as a control and reconciliation feature in relation to interactions with the Administrative and Regulatory Shared Services Center. Additionally, the CFO has contacted CFO's in other Agency's to request information regarding best practices with regard to voucher processing and will request to receive any available training from the Office of the Comptroller with regard to voucher processing procedures.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
CURRENT FINDINGS-STATE COMPLIANCE
For the Year Ended June 30, 2010

10-14 Finding: Failure to Develop Procedures Related to Uncollectible Receivables

The Illinois Power Agency (Agency) had not developed procedures related to uncollectible receivables.

During our audit, we noted the Agency had not developed procedures in order to ensure uncollectible receivables were referred to the Comptroller's Offset System.

According to the SAMS Manual (26.40.20), State agencies should use the Comptroller's Offset when it is determined to be in the best economic interest of the State.

The Director stated the Agency did not have trained staff to develop procedures related to the reporting of uncollectible receivables.

Failure to refer uncollectible receivables is a violation of the SAMS Manual. Additionally, this could result in the State unknowingly paying vendors who owe the State overdue funds. [Finding Code No. 10-14]

Recommendation

We recommend the Agency develop procedures in order to ensure uncollectible receivables are referred to the Comptroller's Offset System.

Agency Response

The Agency agrees with the finding. To develop procedures in order to ensure uncollectible receivables are referred to the Comptroller's Offset System, the Agency has hired a Chief Financial Officer who started working at the Agency in January 2011 with primary responsibilities of managing Agency Budgeting, Accounting, and Financial Reporting functions. The CFO is responsible for referring uncollectible receivables to the Comptroller's Offset System. The CFO is assisted in the submittal of contracts and Contract Obligation Documents by the Administrative and Regulatory Shared Services Center. The Agency entered into an Interagency Agreement with the Administrative and Regulatory Shared Services Center in December 2010 to support Agency Accounts Receivables, Accounts Payables, Voucher Processing, General Accounting, Financial Statement Reporting and Human Resources functions. The CFO is reviewing accounting software packages that will support management of Agency finances, and to serve as a control and reconciliation feature in relation to interactions with the Administrative and Regulatory Shared Services Center.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
CURRENT FINDINGS-STATE COMPLIANCE
For the Year Ended June 30, 2010

10-14 Finding: Failure to Develop Procedures Related to Uncollectible Receivables (continued)

Additionally, the CFO has contacted CFO's in other Agency's to request information regarding best practices with regard to SAMS and other fiscal matters, and will request to receive any available training from the Office of the Comptroller with regard to the Comptroller's Offset System.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
CURRENT FINDINGS-STATE COMPLIANCE
For the Year Ended June 30, 2010

10-15 Finding: Lack of Procedures to Perform Monthly Reconciliations between Agency Records and the Comptroller's Reports

The Illinois Power Agency (Agency) did not have procedures in place to perform monthly reconciliations between Agency records and the Comptroller's reports.

During our testing, we noted that there were no policies or procedures established to reconcile Comptroller's reports and Agency records. Additionally, formal monthly reconciliations were not prepared.

According to the SAMS Manual (11.40.20), State agencies should reconcile unexpended budget authority balances per Agency records with the Comptroller monthly.

The Director stated the Agency did not have trained staff or systems to develop procedures related to monthly reconciliation of Agency and Comptroller records.

Failure to reconcile Agency records to the Comptroller's reports is a violation of the SAMS Manual and could result in incomplete or inaccurate financial information. [Finding Code No. 10-15]

Recommendation

We recommend the Agency develop procedures to perform monthly reconciliations between Agency records and the Comptroller's reports.

Agency Response

The Agency agrees with the finding. The Agency entered into an Interagency Agreement with the Administrative and Regulatory Shared Services Center in December 2010 to support Agency Accounts Receivables, Accounts Payables, Voucher Processing, General Accounting, Financial Statement Reporting and Human Resources functions. The Agency's newly hired Chief Financial Officer started working at the Agency in January 2011 with primary responsibilities of managing Agency Budgeting, Accounting, and Financial Reporting functions. The CFO is reviewing accounting software packages that will support management of Agency finances, and to serve as a control and reconciliation feature in relation to interactions with the Administrative and Regulatory Shared Services Center. Together, the Administrative and Regulatory Shared Services Center and the agency CFO are processing the Agency's fiscal transactions and maintaining complete records of those activities for use in conducting monthly reconciliations.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
CURRENT FINDINGS-STATE COMPLIANCE
For the Year Ended June 30, 2010

10-15 Finding: Lack of Procedures to Perform Monthly Reconciliations between Agency Records and the Comptroller's Reports-Continued

The Agency plans to obtain outside assistance from a public accounting firm familiar with utility regulation to assist in auditing the records at ComEd and Ameren to assure that IPA is receiving all the revenue it should. Additionally, the firm will assist the CFO in completing a forensic recovery of documentation to support Agency financial records and reports for the FY 2009 and 2010 periods. Lastly, the agency will seek to use the firm's expertise to assist in setting up processes to facilitate monthly reconciliations between Agency, Administrative and Regulatory Shared Services Center, and Comptroller reports. The Office of Accountability which will assist in the creation of audit compliant processes that support financial reporting tasks.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
CURRENT FINDINGS-STATE COMPLIANCE
For the Year Ended June 30, 2010

10-16 Finding: Failure to Adopt Rules Related to Fees and Charges the Agency is Authorized to Collect and Deposit

The Illinois Power Agency (Agency) had not adopted formal rules related to fees and charges it is authorized to collect and deposit.

Although the Agency was established in fiscal year 2008, the Agency had not adopted rules for fees and charges it is authorized to collect and deposit in order to fund Agency operations.

According to the Illinois Power Agency Act (20 ILCS 3855/1-55), “the Agency shall adopt rules regarding charges and fees it is expressly authorized to collect in order to fund the operations of the Agency. These charges and fees shall be deposited into the Illinois Power Agency Operations Fund.”

The Director stated the Agency did not have trained staff to draft, submit, and implement rules related to the collection of fees to support Agency operations.

Failure to adopt formal rules related to fees and charges is a violation of State statute and could result in failure to collect appropriate funding for Agency operation. [Finding Code No. 10-16]

Recommendation

We recommend the Agency adopt rules related to fees and charges it has authority to collect to fund operations.

Agency Response

The Agency agrees with the finding. To adopt rules related to fees and charges it has the authority to collect to fund operations, the CFO and the Director have adjusted the Agency’s budget planning to anticipate little to no revenue from the IPA Trust Fund, and to cover Agency operating costs through higher fees assessments on Agency managed wholesale power procurements. Once hired, the Agency’s General Counsel will be tasked with rules drafting to reflect the fees assessment methods and practices proposed by the Agency CFO. Anticipated Procurement Bureau staff will assist the CFO with estimating procurement costs (both direct and indirect), and tracking expenses related to procurement events and planning. The Office of Accountability will assist in the creation of processes and controls that establish appropriate fee estimation, assessment, and reporting.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
CURRENT FINDINGS-STATE COMPLIANCE
For the Year Ended June 30, 2010

10-17 Finding: Late Filing of Contract Documents

The Illinois Power Agency (Agency) did not file contract obligation documents and contracts with the Comptroller subsequent to the date of the initiation of the contracts.

During our audit, we noted six of six (100%) contracts tested, totaling \$7,695,000, were filed with the Comptroller on July 29, 2010, 29 days after the fiscal year end. This ranged from 38 days to 393 days subsequent to the start date of the contracts.

The Illinois Procurement Code (30 ILCS 500/20-80(b)) and the SAMS Manual (15.10.40) require State agencies to file contracts exceeding \$10,000 (\$5,000 for professional and artistic contracts) with the Comptroller within 15 days of execution.

The Director stated the Agency did not have trained staff or systems to support the timely filing of contract documents during the audit period.

Failure to file the proper contract documents with the Comptroller timely and improper approval of contract payments could lead to the improper expenditure of State funds. [Finding Code No. 10-17, 09-15]

Recommendation

We recommend the Agency implement the appropriate procedures to ensure that all contract documents are properly and timely filed and paid according to the approved contract amounts.

Agency Response

The Agency agrees with the finding. To ensure that all contract documents are properly and timely filed and paid according to the approved contract amounts, the Agency has hired a Chief Financial Officer who started working at the Agency in January 2011 with primary responsibilities of managing Agency Budgeting, Accounting, and Financial Reporting functions. The CFO is responsible for the preparation and initiation of contract submittals. The CFO is assisted in the submittal of contracts and Contract Obligation Documents by the Administrative and Regulatory Shared Services Center. The Agency entered into an Interagency Agreement with the Administrative and Regulatory Shared Services Center in December 2010 to support Agency Accounts Receivables, Accounts Payables, Voucher Processing, General Accounting, Financial Statement Reporting and Human Resources functions.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
CURRENT FINDINGS-STATE COMPLIANCE
For the Year Ended June 30, 2010

10-17 Finding: Late Filing of Contract Documents -Continued

Additionally, the CFO has contacted CFO's in other Agency's to request information regarding best practices with regard to contract processing, and will request to receive any available training from the Office of the Comptroller with regard to SAMS procedures.

The anticipated hiring of Bureau staff and a General Counsel will enhance the ability of the CFO to manage contract filing. The Office of Accountability will assist in the creation of processes and procedures that support contract approval and processing.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
CURRENT FINDINGS-STATE COMPLIANCE
For the Year Ended June 30, 2010

10-18 Finding: Rules for Development of Prequalified Supplier Lists

The Illinois Power Agency (Agency) did not document rules for the development of certain prequalified supplier lists.

We noted the Agency did not promulgate rules for the development of prequalified supplier lists for construction and construction-related professional services and for professional and artistic services.

According to the Illinois Procurement Code (30 ILCS 500/30-20 (b)), “the Illinois Power Agency shall promulgate rules for the development of prequalified supplier lists for construction and construction-related professional services and the periodic updating of those lists.” Additionally, according to the Illinois Procurement Code (30 ILCS 500/35-15), the Agency is to develop appropriate and reasonable prequalification standards and categories of professional and artistic services and also assemble and maintain a comprehensive list of prequalified and categorized businesses and persons.

The Director stated the Agency did not have trained staff to draft, submit, and implement rules related to creating prequalified supplier lists for construction and construction-related professional services and the periodic updating of those lists.

Failure to create rules for the development of certain prequalified supplier lists is a violation of State statute and could subject the State to legal action. [Finding Code No. 10-18, 09-16]

Recommendation

We recommend the Agency establish rules for the development of prequalified supplier lists for construction and construction-related professional services and for professional and artistic services.

Agency Response

The Agency agrees with the finding. To establish rules for the development of prequalified supplier lists the Agency has reviewed the pre-qualification rules published for the Capital Development Board in “TITLE 44: GOVERNMENT CONTRACTS, PROCUREMENT AND PROPERTY MANAGEMENT. SUBTITLE B: SUPPLEMENTAL PROCUREMENT. CHAPTER XII: CAPITAL DEVELOPMENT BOARD PART 950 PREQUALIFICATION AND BIDDER RESPONSIBILITY SECTION 950.170 PROCESSING OF CONTRACTOR PREQUALIFICATION AND BIDDER RESPONSIBILITY AND RENEWAL APPLICATIONS as they relate to prequalifying contracts.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
CURRENT FINDINGS-STATE COMPLIANCE
For the Year Ended June 30, 2010

10-18 Finding: Rules for Development of Prequalified Supplier Lists (continued)

The anticipated General Counsel and Resource Development Bureau personnel will be tasked with ensuring that rules for creating prequalified supplier lists for construction and construction-related professional services are drafted, approved, implemented, and the periodically updated.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
CURRENT FINDINGS-STATE COMPLIANCE
For the Year Ended June 30, 2010

10-19 Finding: Plan for Post-Performance Review

The Illinois Power Agency (Agency) did not include a plan for post-performance review in their solicitation documents.

During our audit, we noted the Agency did not include a plan for post-performance review in the uniform documents developed for the solicitation, review, and acceptance of all professional and artistic services.

According to the Illinois Procurement Code (30 ILCS 500/35-20 (c) (5)), the forms used by the Agency to solicit professional and artistic services shall include “a plan for post-performance review.”

The Director stated the Agency Director was not aware of the requirement .

Failure to include a plan for post-performance review in solicitation documents is a violation of State statute and could subject the State to legal action. [Finding Code No. 10-19, 09-17]

Recommendation

We recommend the Agency include the required plan for post-performance review in all future solicitation documents.

Agency Response

The Agency agrees with the finding. To ensure that an appropriate post-performance review is included in all future solicitation documents, the Agency has engaged the Executive Ethics Commission and has been assigned a state procurement officer. The officer is assisting the Agency in managing solicitation drafting, review, and postings. The Executive Ethics Commission has provided the following reference to the Agency regarding post-performance review:

Title 44: Government Contracts, Procurements and Property Management, Subtitle A: Procurement and Contract Provisions, Chapter 1: Department of Central Management Services, Part 1, Standard Procurement Section 1.2035 Competitive Selection Procedures for Professional and Artistic Services, Subchapter s) states: The SPO of the using agency shall provide a synopsis of the contract and shall rate the vendor's performance using the form developed by the CPO. A copy of the completed form shall be provided to the CPO.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
CURRENT FINDINGS-STATE COMPLIANCE
For the Year Ended June 30, 2010

10-19 Finding: Plan for Post-Performance Review (continued)

The Agency has requested a copy of the form for inclusion in future procurement events. Once received, the Agency will include the form in all procurement drafts, and support the vendor performance review. The anticipated General Counsel and Procurement Bureau personnel will be tasked with ensuring that the post-performance review is a standard part of any Agency Professional and Artistic Services solicitations. The Office of Accountability will assist in the formalizing the processes and controls used by the Agency to ensure appropriate controls are in place to guide these activities.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
CURRENT FINDINGS-STATE COMPLIANCE
For the Year Ended June 30, 2010

10-20 Finding: Failure to Post Requests for Proposal and Notice of Awarded Contracts

The Illinois Power Agency (Agency) did not post Requests for Proposal (RFP) and Notice of Awarded Contracts to the Procurement Bulletin.

During our testing, we noted that the RFP and Notice of Awarded Contract were not posted to the Procurement Bulletin for:

- Two of the six solicitations, and
- Five of the six awards.

According to the Procurement Code (30 ILCS 500/15-25), “Notice of each and every contract that is offered, including renegotiated contracts and change orders, shall be published in the Bulletin.” Further, under Section 15-1 of the Code (30 ILCS 500/15-1), “the Illinois Power Agency is the State agency responsible for publishing its volumes of the Illinois Procurement Bulletin.”

The Director stated the Agency did not have trained and available staff to complete necessary posting of contract awards and notices.

Failure to post Requests for Proposal and related Notice of Awarded Contracts is a violation of a State statute. This could result in the State contracting with entities who may not be the most qualified vendor due to the fact that the solicitation information was not made public. [Finding Code No. 10-20)

Recommendation

We recommend the Agency post the required Requests for Proposal and Notice of Awarded Contracts to the Procurement Bulletin.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
CURRENT FINDINGS-STATE COMPLIANCE
For the Year Ended June 30, 2010

10-20 Finding: Failure to Post Requests for Proposal and Notice of Awarded Contracts

Agency Response

The Agency agrees with the finding. To ensure that Requests for Proposals and Notices of Award are posted on the Procurement Bulletin, the Agency has engaged the Executive Ethics Commission and has been assigned a state procurement officer. The officer is assisting the Agency in managing solicitation drafting, review, and postings.

Additionally, the anticipated General Counsel and Procurement Bureau personnel will be tasked with ensuring postings, notices, and other necessary documentation of procurement events are executed in compliance with IPA Act and the Procurement Code. The Office of Accountability will assist in the formalizing the processes and controls used by the Agency to ensure appropriate controls are in place to guide these activities.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
CURRENT FINDINGS-STATE COMPLIANCE
For the Year Ended June 30, 2010

10-21 Finding: Contract Terms were Inconsistent with the Terms of the Contract Obligation Document

The Illinois Power Agency (Agency) entered into contracts where the terms per the contract were not consistent with the terms in the contract obligation document (COD).

During our testing, we noted the term of one of five contracts tested (20%), totaling \$5,940,000 was not consistent with the term per the COD. The terms outlined in the COD were June 21, 2010 through June 30, 2014 versus the contract terms which were June 21, 2010 through June 30, 2015.

According to the SAMS Manual (15.10.40), the COD should mirror the terms in the final contract.

The Director stated the Agency did not have staff to support the reviews of Contract Obligation Documents and vouchers prior to submittal to the Office of the Comptroller during the audit period.

As a result of the discrepancies, the Agency had contracted for services longer than what was stated in the COD. This would result in payment issued after the COD term had expired. [Finding Code No 10-21]

Recommendation

We recommend the Agency carefully review documents to ensure the terms of the contract are consistent with the terms of the contract obligation document.

Agency Response

The Agency agrees with the finding. To ensure that contract terms are consistent with contract obligation documents, the agency has hired a Chief Financial Officer who started working at the Agency in January 2011 with primary responsibilities of managing Agency Budgeting, Accounting, and Financial Reporting functions. Contract Obligation Document initiation and tracking is now managed by the Agency CFO. The Agency entered into an Interagency Agreement with the Administrative and Regulatory Shared Services Center in December 2010 to support Agency Accounts Receivables, Accounts Payables, Voucher Processing, General Accounting, Financial Statement Reporting and Human Resources functions. Contract Obligation Document filing is now managed through the Administrative and Regulatory Shared Services Center. All Contract Obligation Documents are reviewed for accuracy prior to submittal to the Office of the Comptroller.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
CURRENT FINDINGS-STATE COMPLIANCE
For the Year Ended June 30, 2010

10-21 Finding: Contract Terms were Inconsistent with the Terms of the Contract Obligation Document-Continued

The Agency will enhance its internal voucher preparation, submittal and tracking processes with the assistance of the Office of Accountability. The Office of Accountability will assist in the creation of audit compliant processes that support timely and accurate Contract filing and processing.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
CURRENT FINDINGS-STATE COMPLIANCE
For the Year Ended June 30, 2010

10-22 Finding: Failure to Conduct Outreach to Minority Owned Businesses, Female Owned Businesses and Businesses Owned By Persons with Disabilities

The Illinois Power Agency (Agency) did not conduct outreach to minority owned businesses, female owned businesses, and businesses owned by persons with disabilities when offering bids for professional services.

During our testing, we noted the Agency did not conduct any form of outreach to minority owned businesses, female owned businesses, or businesses owned by persons with disabilities when procuring professional services of the Agency, including legal services, procurement administrators, and procurement planning consultants.

According to the Illinois Power Agency Act (20 ILCS 3855/1-127(a)), the Agency “when offering bids for professional services, shall conduct outreach to minority owned businesses, female owned businesses, and businesses owned by persons with disabilities.”

The Director stated the Agency did not have the staff or resources to conduct outreach beyond posting solicitation documents on the state procurement bulletin.

Failure to conduct outreach to minority owned businesses, female owned businesses, and businesses owned by persons with disabilities is a violation of State statute. [Finding Code No. 10-22]

Recommendation

We recommend the Agency establish methods of outreach to minority owned businesses, female owned business and businesses owned by persons with disabilities.

Agency Response

The Agency agrees with the finding. The Director has engaged the CMS Business Enterprise Program for listings of organizations which maintain publications in which the IPA can advertise future solicitations. The anticipated General Counsel and Procurement Bureau personnel will review advertising requirements and implement outreach plans consistent with the IPA Act and the Procurement Code. The Office of Accountability will assist in the formalizing the processes and controls used by the Agency in evaluating and executing contracts.

The Agency will schedule advertisements in available minority-oriented publications in conjunction with posting of solicitations on the Illinois Procurement Bulletin.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
CURRENT FINDINGS-STATE COMPLIANCE
For the Year Ended June 30, 2010

10-23 Finding: Inadequate Controls over Solicitations

The Illinois Power Agency (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 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.
- 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.

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.

The Director stated the Agency did not have available staff to assist in the administration of solicitations and notices.

Failure to have a properly documented proposal could result in vendors not responding adequately. [Finding 10-23]

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
CURRENT FINDINGS-STATE COMPLIANCE
For the Year Ended June 30, 2010

10-23 Finding: Inadequate Controls over Solicitations (continued)

Recommendation

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

Agency Response

The Agency agrees with the finding. The Agency has engaged the Executive Ethics Commission and has been assigned a state procurement officer to assist the Agency in managing solicitation drafting, review, and postings. The CFO will be available to participate as an Evaluation Committee member. The Office of Accountability will assist in the creation of processes and controls that comply with the Procurement Code with regard to vendor scoring and selection. Once hired, the Agency's General Counsel and Procurement Bureau staff will manage solicitation processes consistent with the Procurement Code, the IPA Act, and internal controls and rules.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
CURRENT FINDINGS-STATE COMPLIANCE
For the Year Ended June 30, 2010

10-24 Finding: Inadequate Controls over Vendor Evaluations

The Illinois Power Agency (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:

- We requested the "Scoring Sheets" evaluating the eight vendors' proposals. 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.

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 vendors' point score by each core area. However, the spreadsheet did not rank each proposal from best to least as documented by the RFQ.

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.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
CURRENT FINDINGS-STATE COMPLIANCE
For the Year Ended June 30, 2010

10-24 Finding: Inadequate Controls over Vendor Evaluations - Continued

In comparing the two sets of “Scoring Sheets” we noted:

- One vendor had additional categories marked on the first set and not on the second set (personnel resumes, staff availability, and additional services were marked on the first set).
 - One vendor had the “Additional Services” category marked N/A; however, the same category was blank on the second set of “Scoring Sheets.”
- The “Scoring Sheets” indicated one vendor was deemed unqualified; however, there was no documentation supporting the determination.
 - The Scoring Sheets did not contain an evaluation for Section 5.1 of the RFQ dealing with “General Requirements” instructions (signed original, correct number of copies, no promotional or display material, and referenced attachments).

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:

- 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 points than the maximum allowed.

The RFQ and the RFP stated the vendors’ 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.

The Director stated the Agency did not have available staff to assist in the administration of solicitations and notices.

Failure to evaluate vendor proposals as documented in the RFQ and RFP increases the likelihood the vendors and public will not view the proposal evaluation process as being fair and conducted in accordance with the requirements outlined in the solicitations. [Finding Code 10-24]

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
CURRENT FINDINGS-STATE COMPLIANCE
For the Year Ended June 30, 2010

10-24 Finding: Inadequate Controls over Vendor Evaluations - Continued

Recommendation

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 Response

The Agency agrees with the finding. The Agency has engaged the Executive Ethics Commission and has been assigned a state procurement officer to assist the Agency in managing solicitation drafting, review, and postings. The CFO will be available to participate as an Evaluation Committee member. The Office of Accountability will assist in the creation of processes and controls that comply with the Procurement Code with regard to vendor scoring and selection. Once hired, the Agency's General Counsel and Procurement Bureau staff will manage solicitation processes consistent with the Procurement Code, the IPA Act, and internal controls and rules.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
CURRENT FINDINGS-STATE COMPLIANCE
For the Year Ended June 30, 2010

10-25 Finding: Lack of Third Party Agreements

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

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.

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.

The Director stated the Agency relied on statutory language being sufficient to govern the recovery of costs from the Utilities.

The lack of agreements could result in the Agency not being reimbursed. [Finding Code 10-25]

Recommendation

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

Agency Response

The Agency agrees with the finding. The Agency has drafted agreement language to formalize the cost recovery schedules, documentation, and cost allocations for the billing of the Utilities for cost recovery on procurement planning service cost obligations. The Agency will seek acceptance of agreements with the Utilities and re-issue invoices in a manner consistent with the agreement language. The Office of Accountability will assist in the creation of audit compliant processes that will be used by the Agency to manage the reimbursements due from the Utilities.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
CURRENT FINDINGS-STATE COMPLIANCE
For the Year Ended June 30, 2010

10-26 Finding: Failure to Submit Reports

The Illinois Power Agency (Agency) did not submit various reports to the appropriate parties.

During our examination, we noted the Agency had not submitted:

- Quarterly accounts receivable reports with the State Comptroller' Office.
- The Agency Workforce Report with the Secretary of State and the Governor's Office.
- The Fiscal Control and Internal Auditing Act (FCIAA) Certification with the Office of the Auditor General.
- The Headquarters Report, TA-2 Form with the Legislative Audit Committee.
- The Fee Imposition Report for fiscal year 2010 with the Comptroller's Office.

According to the SAMS Manual (26.30.10), State agencies shall report receivables information to the Office of the State Comptroller quarterly. This report is due by the end of the month subsequent to the quarter reported.

The State Employment Records Act (5 ILCS 410/1) states that all agencies shall report the number of minorities, women, and physically disabled persons to the Secretary of State and Governor's Office on an annual basis. This report is due by January 1 of each year.

According to the Fiscal Control and Internal Auditing Act (30 ILCS 10/3003), "By May 1 of each year, each chief executive officer of all State agencies shall, on the basis of an evaluation conducted in accordance with guidelines established under Section 3002, prepare and transmit to the Auditor General a certification that: (1) the systems of internal fiscal and administrative controls of the State agency fully comply with the requirements of this Act; or (2) the systems of internal fiscal and administrative controls of the State agency do not fully comply with the requirements of this Act."

According to the State Finance Act (30 ILCS 105/12-3), "each State agency, as defined by Section 1-7 of the Illinois State Auditing Act, shall file reports of all of its officers and employees for whom official headquarters have been designated at any location other than that at which their official duties require them to spend the largest part of their working time. Agencies with no officers or employees in this status shall file negative reports."

According to the State Comptroller Act (15 ILCS 405/16.2(a)), "a State agency that imposes fees shall file the Agency Fee Imposition Report Form established under Section 3-8.5 of the Illinois State Auditing Act with the Comptroller at the time the Comptroller specifies by rule."

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
CURRENT FINDINGS-STATE COMPLIANCE
For the Year Ended June 30, 2010

10-26 Finding: Failure to Submit Reports - Continued

The Director stated the Agency did not have trained staff to support the reporting functions during the audit period.

Failure to file reports is a violation of State statute. Additionally, failure to file could result in incomplete information provided to the State. [Finding Code No. 10-26, 09-19]

Recommendation

We recommend the Agency file all required reports and in a timely manner.

Agency Response

The Agency agrees with the finding. To ensure the timely completion and filing of reports, the Agency has hired a Chief Financial Officer who started working at the Agency in January 2011 with primary responsibilities of managing Agency Budgeting, Accounting, and Financial Reporting functions. Supported by the Administrative and Regulatory Shared Services Center through an Interagency Agreement, the CFO is processing the Agency's fiscal transactions and maintaining complete records of those activities for use in filing regular financial reports.

The Agency CFO and Director have identified non-financial reporting requirements for the Agency, and have developed a calendar and planning schedule to support the timely preparation and submittal of the reports. The Office of Accountability will assist in the creation of audit compliant processes that support controls to assure appropriate report development.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
CURRENT FINDINGS-STATE COMPLIANCE
For the Year Ended June 30, 2010

10-27 Finding: Failure to Make Procurement Plan Public

The Illinois Power Agency (Agency) failed to post a copy of the procurement plan on the Agency's website.

During our testing, we noted the Agency did not post a copy of the procurement plan on the Agency's website.

According to the Public Utilities Act (220 ILCS 5/16-111.5 (d) (2)) "copies of the procurement plan shall be posted and made publicly available on the Agency's and Commission's websites, and copies shall also be provide to each affected electric utility."

The Director stated the Agency did not have the staff available to create and maintain an agency website during the audit period.

Failure to post the procurement plan on the Agency's website, fails to allow public availability. [Finding Code No. 10-27, 09-10]

Recommendation

We recommend the Agency develop a website and make available to the public the procurement plan.

Agency Response

The Agency agrees with the finding. The Agency engaged the Illinois Department of Central Management Services in to design and post an IPA agency website at www.illinois.gov/ipa.

The 2011 Procurement Draft Plan and Final Plan were posted at the Agency site in August and September of 2011. Consistent with the statute, the Draft and Final Plans for 2011 were also posted on the Illinois Commerce Commission website as well. The Agency will continue to utilize the website to post future procurement plans and advertise procurement-related events.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
CURRENT FINDINGS-STATE COMPLIANCE
For the Year Ended June 30, 2010

10-28 Finding: Agency Did Not Have Basic Office Equipment

The Illinois Power Agency (Agency) did not have basic office equipment.

During our audit, we noted the Agency did not maintain basic office equipment such as a fax machine, copier, printer or scanner.

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: (4) revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of the accounts and reliable financial and statistical reports and to maintain accountability over the State’s resources.”

The Director stated the Agency utilized the computers, telephones, and printers that were provided to the agency by Central Management Services when the agency was formed and resided in the James R. Thompson building in Chicago.

Without having access to basic office equipment, the Agency is unable to maintain adequate records, such as copies of contracts and vouchers submitted to various agencies. Additionally, the Agency cannot operate in an efficient manner. [Finding Code No. 10-28, 09-11]

Recommendation

We recommend the Agency purchase or lease basic equipment. These types of expenditures should be included in the operating budget of the Agency.

Agency Response

The Agency agrees with the finding. Since moving to the Michael A. Bilandic Building in Chicago, and with the hiring of the CFO, the Agency has started securing necessary equipment (desks, chairs, tables, files, telephones, Blackberry devices, printers, computers, and office supplies). A needs assessment for a combined printer, fax, and scanner has been completed, and is expected to be installed in Spring 2011. The Agency will continue to use the procurement services and contracts provided by the Department of Central Management Services to meet Agency office and technology needs.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
CURRENT FINDINGS-STATE COMPLIANCE
For the Year Ended June 30, 2010

10-29 Finding: Excessive Phone Charges

The Illinois Power Agency (Agency) had significant overages on its cellular telephone bills.

During our audit, we noted the Agency incurred \$ 3,576 in overages from July – December 2009 cellular bills. The billings were for the Director.

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: (4) 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.”

The Director stated his cell phone account was covered by a limited data volume package during a portion of the audit period. Data volumes used during the period exceeded the original contract limits.

As a result of the lack of oversight to the charges, the Agency paid significantly more for phone service than would be necessary had the appropriate data plan been established. [Finding Code No. 10-29, 09-14]

Recommendation

We recommend the Agency review its phone plan and select the plan that will minimize monthly costs.

Agency Response

The Agency agrees with the finding. The cell phone package was converted in January 2010 to an unlimited data package that has yielded lower monthly cellular charges. The Agency CFO and Director will review cell phone charges on monthly statements to ensure lowest cost services are provided. The Office of Accountability will assist the Agency in establishing internal controls regarding telephone use and billing review.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
CURRENT FINDINGS-STATE COMPLIANCE
For the Year Ended June 30, 2010

10-30 Finding: Improper Timekeeping Practices

The Illinois Power Agency (Agency) did not have adequate controls over employee timekeeping requirements.

The Agency did not prepare and maintain timesheets documenting the employee's time spent each day on official business for July through December 2009.

The State Officials and Employees Ethics Act (5 ILCS 430/5-5) requires State employees to periodically submit timesheets documenting the time spent each day on official State business to the nearest quarter hour.

The Director stated he was not aware of the time-reporting requirement prior to January 2010.

Failure to maintain the required timekeeping records increases the potential that the State is paying for services that have not been performed. (Finding Code No. 10-30, 09-21)

Recommendation

We recommend the Agency establish policies and procedures which will ensure timesheets are being prepared and submitted periodically and maintained by the Agency as required by statute.

Agency Response

The Agency agrees with the finding. Once notified of the requirement, the Director started maintaining timekeeping utilizing forms provided by CMS in January 2010. The Agency CFO reports her time in the same manner. The Office of Accountability will assist the Agency in establishing internal controls regarding time reporting.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
CURRENT FINDINGS-STATE COMPLIANCE
For the Year Ended June 30, 2010

10-31 Finding: The Illinois Power Agency Failed to Use the Correct Mileage Reimbursement Rate

The Illinois Power Agency (Agency) used the incorrect mileage reimbursement rate.

During our review of the Director's travel expenditures, it was noted that mileage reimbursement amounts exceeded the federal reimbursement rate for travel after January 1, 2010. A rate of \$ 0.505 per mile was used versus the correct rate of \$.50 per mile.

According to the State Finance Act (30 ILCS 105/12-2(b)), "Mileage for automobile travel shall be reimbursed at the allowance rate in effect under regulations promulgated pursuant to 5 U.S.C. 5707(b)(2). In the event the rate set under federal regulations increases or decreases during the course of the State's fiscal year, the effective date of the new rate shall be the effective date of the change in the federal rate."

The Director stated the Agency did not update the mileage reimbursement rate on the Agency's C-10 form to reflect the reduction in rates from \$0.505 to \$0.500.

As a result of the use of the incorrect rate, \$ 18.66 was reimbursed in mileage in excess of approved rates. [Finding Code No. 10-31]

Recommendation

We recommend the Agency obtain and utilize the correct mileage reimbursement rate.

Agency Response

The Agency agrees with the finding. The Director has written a reimbursement check to the Illinois Treasurer's Office in the amount of \$18.66. Additionally, the mileage reimbursement rate on the Agency's C-10 has been corrected. The Agency's newly hired Chief Financial Officer started working at the Agency in January 2011 with primary responsibilities of managing Agency Budgeting, Accounting, and Financial Reporting functions. Voucher preparation and proofing are now managed by the Agency CFO.

The Agency will update the mileage reimbursement rates used on the C-10 form in accordance with the release of future travel bulletins from the Director of Central Management Services. The Office of Accountability will assist the Agency in establishing internal controls regarding travel reimbursements and voucher preparation.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
CURRENT FINDINGS-STATE COMPLIANCE
For the Year Ended June 30, 2010

10-32 Finding: Failure to Develop Procedures for Employee Vehicle Usage

The Illinois Power Agency (Agency) had not developed appropriate employee vehicle use procedures.

During our testing, we noted the Agency did not have procedures in place to ensure employees using personal vehicles for State business were properly insured or licensed.

According to the Illinois Vehicle Code (625 ILCS 5/10-101(b)), “every employee of the State, who operates for purposes of State business a vehicle not owned, leased or controlled by the State shall procure insurance.”

The Director stated the Agency did not have trained staff to support the development of formal Employee Vehicle usage policies.

Failure to develop procedures to ensure Agency employees are properly licensed and insured while driving for State business is in a violation of State statutes. [Finding Code No 10-32]

Recommendation

We recommend that Agency develop procedures related to employee vehicle use.

Agency Response

The Agency agrees with the finding. The Director and the CFO are researching vehicle use policies used by other Illinois Agencies. Licensing and proof of insurance are the primary focus of the research effort. The Agency will establish vehicle use procedures appropriate to how personnel utilize vehicles as part of their duties. The Office of Accountability will assist the Agency in establishing internal controls and procedures regarding employee vehicle use.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
CURRENT FINDINGS-STATE COMPLIANCE
For the Year Ended June 30, 2010

10-33 Finding: Failure to Adopt a Formal Policy for Telephone Usage

The Illinois Power Agency (Agency) did not have a formal policy for telephone usage.

The Agency had not adopted a policy for (a) approving long distance calls or verifying calls were for official business, (b) limiting personal phone calls and (c) collecting reimbursements when necessary.

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”.

The Director stated the Agency did not have trained staff to support the development of a records retention policy.

Lack of appropriate telephone usage policies could result in the abuse of State resources for personal purposes. [Finding Code No 10-33]

Recommendation

We recommend the Agency adopt a formal policy for telephone usage.

Agency Response

The Agency agrees with the finding. The Agency CFO is researching telephone usage policies maintained by other similar agencies, and will recommend appropriate policies. The Office of Accountability will assist the Agency in establishing internal controls and procedures regarding telephone usage.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
CURRENT FINDINGS-STATE COMPLIANCE
For the Year Ended June 30, 2010

10-34 Finding: Failure to Provide a Telecommunication Device for the Hearing or Speech Impaired

The Illinois Power Agency (Agency) did not have a telecommunication device for the hearing or speech impaired.

During our testing, we noted the Agency did not have a telecommunication device for the hearing or speech impaired located in the office.

According to the Civil Administrative Code (20 ILCS 405/405-270(2)), the communication services for State agencies “shall include a minimum of one telecommunication device for the deaf installed and operational within each state agency, to provide public access to agency information for those persons who are hearing or speech impaired.”

The Director stated he was unaware of the requirement to maintain a telecommunication device for hearing and speech impaired.

The lack of a telecommunication device for the hearing or speech impaired is a violation of State statute. [Finding Code No. 10-34]

Recommendation

We recommend the Agency take the necessary steps to provide a telecommunication device for the hearing or speech impaired.

Agency Response

The Agency agrees with the finding. The Agency has requested assistance from the Central Management Services Customer Service Center in securing a telecommunication device for hearing and speech impaired for installation at the Agency offices through a telecommunications service request to the Department of Central Management Services. The Agency will ensure that the telecommunications device is operating through periodic testing.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
CURRENT FINDINGS-STATE COMPLIANCE
For the Year Ended June 30, 2010

10-35 Finding: Failure to Adopt a Record Retention Policy

The Illinois Power Agency (Agency) had not adopted a formal record retention policy.

During our testing, we noted the Agency had not adopted a formal record retention policy.

According to the State Records Act (5 ILCS 160/9), “the head of each agency shall establish, and maintain an active, continuing program for the economical and efficient management of the records of the agency.”

The Director stated the Agency did not have trained staff to support the development of a records retention policy.

Failure to establish and adopt a record retention policy is a violation of State statute. [Finding Code No. 10-35]

Recommendation

We recommend the Agency adopt a formal record retention policy.

Agency Response

The Agency agrees with the finding. The Agency CFO is researching records retention policies maintained by other similar agencies, and will recommend appropriate formal retention policies to replace the informal practices currently in use. The Agency plans to obtain outside assistance from a public accounting firm familiar with utility regulation to assist the CFO in completing a forensic recovery of documentation to support Agency financial records and reports for the FY 2009 and 2010 periods. An additional task for the vendor will be to assist the Agency by recommending appropriate records retention practices specific to the Agency’s accounting functions. Additionally, the Office of Accountability will assist the Agency in establishing internal controls and procedures appropriate for records retention.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
PRIOR YEAR FINDINGS NOT REPEATED
For the Year Ended June 30, 2010

A: Lack of Appropriate Documentation Supporting Vouchers

In the last examination, we noted the Illinois Power Agency was approving vouchers for payment which lacked appropriate documentation. [Finding Code No. 09-12]

Status:

Finding not repeated. Based upon our sample testing, the Illinois Power Agency reviewed invoices and documentation was maintained.

B: Agency Not Party to Contracts for Bidder and Supplier Fees

In the last examination, we noted that the Illinois Power Agency wasn't party to contracts between the wholesale suppliers and the utilities relating to the bidder and supplier fees. Bidder and suppliers fees were contracted to be paid to either a procurement administrator or the utility and not the Illinois Power Agency. [Finding Code No. 09-18]

Status:

Finding not repeated. Based on our sample testing, the Illinois Power Agency invoiced the suppliers and bidders directly. Funds were then remitted directly to the Illinois Power Agency.

C: Untimely Filing of Statement of Economic Interests

In the last examination, we noted that the Director of the Illinois Power Agency did not file his statement of economic interests timely. [Finding Code No. 09-20]

Status:

Finding not repeated. The Director of the Illinois Power Agency filed his statement of economic interest with the Secretary of State in accordance with state statute.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
PRIOR YEAR FINDINGS NOT REPEATED
For the Year Ended June 30, 2010

D: Failure to Pay Travel Vouchers

In the last examination, we noted that \$ 6,363 in travel vouchers were denied payment due to the Agency having obligated all funds for payment of contractual services. [Finding Code No. 09-22]

Status:

Finding not repeated. The Illinois Power Agency correctly obligated funds allowing all travel vouchers to be paid by the Illinois Office of the State Comptroller.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
FINANCIAL STATEMENT REPORT
SUMMARY
For the Year Ended June 30, 2010
And
For the Year ended June 30, 2009

AUDITORS' REPORT

As Special Assistant Auditors for the Illinois Auditor General, we were engaged to audit the accompanying financial statements of the Illinois Power Agency. However, 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. The scope of our work was not sufficient to enable us to express an opinion of the financial statements for FY 10 and FY 09.

SUMMARY OF FINDINGS

The auditors identified matters involving the Agency's internal control over financial reporting that they considered to be material weaknesses and significant deficiencies. The material weaknesses are described in the accompanying Schedule listed in the table of contents as findings 10-1-Lack Of Financial Information, 10-2-Failure to Follow the Requirements of the Statewide Accounting Management System and Financial Reporting Process, 10-3-Failure to Provide Requested Engagement Documentation to the Auditors, 10-4-Lack of Appropriate Internal Controls, 10-5-Lack of Formal Budgeting Process, 10-6-State Funds Improperly Held Outside the State Treasury, 10-7-Failure to Maintain an Aged Listing of Accounts Receivable, 10-8-Consulting Procurement Plan Contract Term in Violation of State Statute, 10-9-Approval of Payment for Services Performed Outside the Contract Terms, 10-10-Inadequate Fee Assessment.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
FINANCIAL STATEMENT REPORT
SUMMARY
For the Year Ended June 30, 2010

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed at an exit conference on March 1, 2011. Attending were:

Illinois Power Agency
Kristene Callanta, CFO

Office of Management and Budget
Julie O'Brien, Associate Director

Department of Central Management Services
Paul Romitti, CFO
Tammy Compton, Fiscal

Office of the Auditor General
Kathy Lovejoy, Audit Manager

Kerber, Eck & Braeckel, LLP-Special Assistant Auditors
Pam McClelland, Partner
Kate Ward, Manager

INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we were engaged to audit the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Illinois Power Agency as of and for the years ended June 30, 2010 and June 30, 2009, which collectively comprise the Illinois Power Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Illinois Power Agency's management.

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.

Because of the matter discussed in the above paragraph, and 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 referred to in the first paragraph.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 10, 2011 on our consideration of the Illinois Power Agency's internal control over financial reporting 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Illinois Power Agency has not presented a management's discussion and analysis and budgetary comparison information that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was to be conducted for the purpose of forming opinions on the financial statements that collectively comprise the Illinois Power Agency's basic financial statements. The Combining Statements as of and for the years ended June 30, 2010 and June 30, 2009 as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Because the accounting records were inadequate and we were unable to apply other auditing procedures regarding the accuracy and completeness of the accounting records as discussed in the second paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the Illinois Power Agency's financial statements.

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, and agency management and is not intended to be and should not be used by anyone other than these specified parties.

Kelley, Eck & Braeckel LLP

Springfield, Illinois
March 10, 2011

State of Illinois
Illinois Power Agency

Statement of Net Assets

June 30, 2010 (Expressed in Thousands)

	<u>Governmental Activities</u>
ASSETS	
Cash equity in State Treasury	\$ 27,857
Securities lending collateral equity of State Treasurer	9,515
Other receivables, net	9,009
Prepaid expenses	340
Total assets	<u>46,721</u>
LIABILITIES	
Accounts payable and accrued liabilities	2,421
Due to other State funds	8
Obligations under securities lending of State Treasurer	9,515
Total liabilities	<u>11,944</u>
NET ASSETS	
Restricted	24,703
Unrestricted net assets	10,074
Total net assets	<u>\$ 34,777</u>

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

State of Illinois
Illinois Power Agency

Statement of Activities

For the Year Ended June 30, 2010 (Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues	Net (Expense) Revenues and Changes in Net Assets
		Charges for Services	Governmental Activities
Governmental activities			
Employment and economic development	\$ 1,590	\$ 8,758	\$ 7,168
Total governmental activities	<u>1,590</u>	<u>8,758</u>	<u>7,168</u>
General revenues			
Interest and investment income			174
Transfers-in			1,594
Transfers-out			<u>(1,594)</u>
Total general revenues and transfers			<u>174</u>
Change in net assets			7,342
Net assets, July 1, 2009			27,435
Net assets, June 30, 2010			<u>\$ 34,777</u>

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

State of Illinois
Illinois Power Agency

**Balance Sheet -
Governmental Funds**

June 30, 2010 (Expressed in Thousands)

	General Fund	Nonmajor funds	Total Governmental Funds
ASSETS			
Cash equity in State Treasury	\$ -	\$ 27,857	\$ 27,857
Securities lending collateral equity of State Treasurer	-	9,515	9,515
Other receivables, net	-	9,009	9,009
Due from other Agency funds	1,044	550	1,594
Total assets	<u>\$ 1,044</u>	<u>\$ 46,931</u>	<u>\$ 47,975</u>
LIABILITIES			
Accounts payable and accrued liabilities	\$ -	\$ 2,421	\$ 2,421
Due to other Agency funds	-	1,594	1,594
Due to other State funds	-	8	8
Unavailable revenue	-	8,153	8,153
Obligations under securities lending of State Treasurer	-	9,515	9,515
Total liabilities	<u>-</u>	<u>21,691</u>	<u>21,691</u>
FUND BALANCES			
Unreserved, undesignated			
General fund	1,044	-	1,044
Special revenue funds	-	25,240	25,240
Total fund balances	<u>1,044</u>	<u>25,240</u>	<u>26,284</u>
Total liabilities and fund balances	<u>\$ 1,044</u>	<u>\$ 46,931</u>	<u>\$ 47,975</u>

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

State of Illinois
Illinois Power Agency
Reconciliation of Governmental Funds Balance Sheet
to Statement of Net Assets
June 30, 2010
(Expressed in Thousands)

Total fund balances-governmental funds	\$ 26,284
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Prepaid expenses for governmental activities are current uses of financial resources in the funds.	340
Revenues in the Statement of Activities that do not provide current financial resources are deferred in the funds.	<u>8,153</u>
Net assets of governmental activities	<u><u>\$ 34,777</u></u>

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

State of Illinois
Illinois Power Agency

**Statement of Revenues, Expenditures
and Changes in Fund Balances - Governmental Funds**

For the Year Ended June 30, 2010 (Expressed in Thousands)

	General Fund	Nonmajor funds	Total Governmental Funds
REVENUES			
Licenses and fees	\$ -	\$ 2,262	\$ 2,262
Interest and other investment income	-	174	174
Total revenues	<u>-</u>	<u>2,436</u>	<u>2,436</u>
EXPENDITURES			
Employment and economic development	-	1,930	1,930
Total expenditures	<u>-</u>	<u>1,930</u>	<u>1,930</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>506</u>	<u>506</u>
OTHER SOURCES (USES) OF FINANCIAL RESOURCES			
Transfers-in	1,044	550	1,594
Transfers-out	-	(1,594)	(1,594)
Net other sources (uses) of financial resources	<u>1,044</u>	<u>(1,044)</u>	<u>-</u>
Net change in fund balances	1,044	(538)	506
Fund balances, July 1, 2009	<u>-</u>	<u>25,778</u>	<u>25,778</u>
FUND BALANCES, JUNE 30, 2010	<u>\$ 1,044</u>	<u>\$ 25,240</u>	<u>\$ 26,284</u>

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

State of Illinois
Illinois Power Agency
Reconciliation of Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to Statement of Activities
For the Year Ended June 30, 2010
(Expressed in Thousands)

Net change in fund balances	\$	506
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>Prepaid expenses are recorded as uses of financial resources in governmental funds but do not affect the expenses reported on the Statement of Activities. Prepaid expenses increased by this amount over the prior year.</p>		340
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. This amount represents the increase in unavailable revenue over the prior year.</p>		6,496
		6,496
Change in net assets of governmental activities	\$	7,342
		7,342

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

**STATE OF ILLINOIS
ILLINOIS POWER AGENCY**

Notes to Financial Statements

June 30, 2010

(1) Organization

The Illinois Power Agency (the 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 operates under a budget approved by the General Assembly in which resources are appropriated for the use of the Agency. Activities of the Agency are subject to the authority of the Office of the Governor, the State's chief executive officer, and other departments of the executive and legislative branches of government (such as the Agency of Central Management Services, 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. All funds appropriated to the Agency and all other cash received are under the custody and control of the State Treasurer.

The Agency, created in 2008 pursuant to Public Act 095-0481, 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.

(2) Summary of Significant Accounting Policies

The financial statements of the Agency have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). To facilitate the understanding of data included in the financial statements, summarized below are the more significant accounting policies.

(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. Financial accountability is defined as:

- 1) Appointment of a voting majority of the component unit's board and either (a) the primary government's ability to impose its will, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or
- 2) Fiscal dependency on the primary government.

Based upon the required criteria, the Agency has no component units and is not a component unit of any other entity. However, because the Agency is not legally separate from the State of Illinois, the financial statements of the Agency are included in the financial statements of the State of Illinois. The State of Illinois' Comprehensive Annual Financial Report may be obtained by writing to the State Comptroller's Office, Division of Financial Reporting, 325 West Adams Street, Springfield, Illinois, 62704-1871.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY

Notes to Financial Statements

June 30, 2010

(b) Basis of Presentation

The financial statements of the State of Illinois, Illinois Power Agency, are intended to present the financial position, changes in financial position, and cash flows of only that portion of the governmental activities, each major governmental fund of the State of Illinois and the aggregate remaining fund information of the State of Illinois that is attributable to the transactions of the Agency. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2010 the changes in financial position for the year then ended, and the cash flows in conformity with accounting principles generally accepted in the United States of America.

Government-wide Statements. The government-wide statement of net assets and statement of activities report the overall financial activity of the Agency, excluding fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities of the Agency. These statements distinguish between the *governmental* and *business-type* activities of the Agency. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of net assets presents the assets and liabilities of the Agency's governmental activities with the difference being reported as net assets. The assets and liabilities are presented in order of their relative liquidity by class of asset or liability with liabilities whose average maturities are greater than one year reported in two components - the amount due within one year and the amount due in more than one year.

The statement of activities presents a comparison between direct expenses and program revenues for the general government function of the Agency's governmental activities. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges paid by the recipients of goods or services offered by the programs. Revenues that are not classified as program revenues are presented as general revenues.

Fund Financial Statements. The fund financial statements provide information about the Agency's funds. Separate statements for each fund category are presented. The emphasis on fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

The Agency administers the following major governmental funds (or portions thereof in the case of shared funds – see note 2(d)) of the State:

General – This is the State's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The services which are administered by the Agency and accounted for in the general fund include, among others, economic development services.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY

Notes to Financial Statements

June 30, 2010

Additionally, the Agency administers the following fund types:

Governmental Fund Types:

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.

(c) Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Nonexchange transactions, in which the Agency gives (or receives) value without directly receiving (or giving) equal value in exchange. On an accrual basis, revenues are recognized in the fiscal year in which the underlying exchange transaction occurs. Revenue from grants, entitlements, and similar items are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been met.

Governmental 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 general long-term debt and acquisitions under capital leases are reported as other financing sources.

Significant revenue sources which are susceptible to accrual include interest and other charges for services. All other revenue sources including fines, licenses, and other miscellaneous revenues are considered to be measurable and available only when cash is received.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

(d) Shared Fund Presentation

The financial statement presentation for the General Revenue Fund represents only the portion of the shared fund that can be directly attributed to the operations of the Agency. Financial statements for total fund operations of the shared State funds are presented in the State of Illinois' Comprehensive Annual Financial Report.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY

Notes to Financial Statements

June 30, 2010

(e) *Eliminations*

Eliminations have been made in the government-wide statement of net assets to minimize the “grossing-up” effect on assets and liabilities within the governmental activities column of the Agency. As a result, amounts reported in the governmental funds balance sheet as interagency interfund receivables and payables have been eliminated in the government-wide statement of net assets. Amounts reported in the governmental funds balance sheet as receivable from or payable to fiduciary funds have been included in the government-wide statement of net assets as receivable from and payable to external parties, rather than as internal balances.

(f) *Prepaid items*

Payments made to vendors for services that will benefit periods beyond the date of this report are recorded as prepaid items on the government-wide statement of net assets.

(g) *Interfund Transactions*

The Agency has the following types of interfund transactions between Agency funds and funds of other State agencies:

Services provided and used—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 funds balance sheet or the government-wide and proprietary fund statements of net assets.

Transfers—flows of assets (such as cash or goods) 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 funds making transfers and as other financing sources in the funds receiving transfers.

(h) *Fund Balances*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties as to use for specific purposes. Designations of fund balances represent tentative State plans that are subject to change.

(i) *Net Assets*

In the government-wide and proprietary fund statements of net assets, equity is displayed in three components as follows:

Restricted – This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the State’s policy to use restricted resources first, then unrestricted resources when they are needed.

**STATE OF ILLINOIS
ILLINOIS POWER AGENCY**

Notes to Financial Statements

June 30, 2010

Unrestricted – This consists of net assets that do not meet the definition of “restricted”.

(j) 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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(k) New Accounting Pronouncements

Effective for the year ending June 30, 2010 the State adopted GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which established guidance for recognition and amortization of intangible assets in the financial statements of governments. There was no significant impact on the Agency’s financial statements as a result of adopting this statement.

Also effective for the year ending June 30, 2010 the State adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which established standards of accounting and financial reporting for certain derivative instruments. There was no significant impact on the Agency’s financial statements as a result of adopting this statement.

(l) Future Adoption of GASB Statements

Effective for the year ending June 30, 2011 the State will adopt GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which establishes fund balance classifications and clarifies the definitions of fund types. The Agency has not yet determined the impact on the Agency’s financial statements as a result of adopting this statement.

(3) Deposits and Investments

(a) Deposits

The State Treasurer is the custodian of the Agency’s deposits and investments for funds maintained in the State Treasury. The Agency independently manages deposits and investments maintained outside the State Treasury.

Deposits in the custody of the State Treasurer 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 Agency does not own individual securities. Detail on the nature of these deposits and investments is available within the State of Illinois’ Comprehensive Annual Financial Report.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY

Notes to Financial Statements

June 30, 2010

(b) Securities Lending Transactions

Under the authority of the Treasurer's published investment policy that was developed in accordance with the State statute, the State Treasurer lends securities to broker-dealers and other entities for collateral that will be returned for the same securities in the future. The State Treasurer has, through a Securities Lending Agreement, authorized Deutsche Bank Group to lend the State Treasurer's securities to broker-dealers and banks pursuant to a form of loan agreement.

During fiscal year 2010, Deutsche Bank Group lent U.S. agency securities and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 100% of the aggregate market value of the loaned securities. Loans are marked to market daily. If the market value of collateral falls below 100%, the borrower must provide additional collateral to raise the market value to 100%.

The State Treasurer did not impose any restrictions during the fiscal year on the amount of the loans of available, eligible securities. In the event of borrower default, Deutsche Bank Group provides the State Treasurer with counterparty default indemnification. In addition, Deutsche Bank Group is obligated to indemnify the State Treasurer if Deutsche Bank Group loses any securities, collateral or investments of the State Treasurer in Deutsche Bank Group's custody. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or Deutsche Bank Group.

During the fiscal year, the State Treasurer and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in repurchase agreements with approved counterparties collateralized with securities approved by Deutsche Bank Group and marked to market daily at no less than 102%. Because the loans are terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The State Treasurer had no credit risk as a result of its securities lending program as the collateral held exceeded the fair value of the securities lent.

In accordance with GASB Statement No. 28, paragraph 9, the Office of the State Treasurer has allocated the assets and obligations at June 30, 2010 arising from securities lending agreements to the various funds of the State. The total allocated to the Agency was \$9.515 million at June 30, 2010.

**STATE OF ILLINOIS
ILLINOIS POWER AGENCY**

Notes to Financial Statements

June 30, 2010

(4) **Interfund Balances and Activity**

(a) *Balances Due from/to Other Funds*

The following balances (amounts expressed in thousands) at June 30, 2010 represent amounts due from other Agency funds.

<u>Fund</u>	<u>Due from Other Agency Funds</u>	<u>Description/Purpose</u>
General	\$ 1,044	Due from other Agency funds pursuant to statutory administrative cost reimbursements.
Nonmajor governmental funds	\$ 550	Due from other Agency funds pursuant to statutory allocation of investment income.
	<u>\$ 1,594</u>	

The following balances (amounts expressed in thousands) at June 30, 2010 represent amounts due to other Agency and other State funds.

<u>Fund</u>	<u>Due to</u>		<u>Description/Purpose</u>
	<u>Other Agency Funds</u>	<u>Other State Funds</u>	
Nonmajor governmental funds	\$ 1,594	\$ 8	Due to other Agency funds pursuant to statutory administrative cost reimbursements and allocation of investment income and other State funds for internal service fund services received.
	<u>\$ 1,594</u>	<u>\$ 8</u>	

**STATE OF ILLINOIS
ILLINOIS POWER AGENCY**

Notes to Financial Statements

June 30, 2010

(b) Transfers from/to Other Funds

Interfund transfers in (amounts expressed in thousands) for the year ended June 30, 2010, were as follows:

<u>Fund</u>	<u>Transfers in from Other Agency Funds</u>	<u>Description/Purpose</u>
General	\$ 1,044	Transfer from Illinois Power Agency Trust Fund for statutory reimbursement of administrative costs.
Nonmajor governmental funds	550	Transfer from Illinois Power Agency Trust Fund for statutory allocation of investment income.
	<u>\$ 1,594</u>	

Interfund transfers out (amounts expressed in thousands) for the year ended June 30, 2010, were as follows:

<u>Fund</u>	<u>Transfers out to Other Agency Funds</u>	<u>Description/Purpose</u>
General	\$ 1,044	Transfer to General Revenue Fund for statutory reimbursement of administrative costs.
Nonmajor governmental funds	550	Transfer to Illinois Power Agency Operations Fund for statutory allocation of investment income.
	<u>\$ 1,594</u>	

**STATE OF ILLINOIS
ILLINOIS POWER AGENCY**

Notes to Financial Statements

June 30, 2010

(5) Risk Management

The Agency is 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 Agency's risk management activities are financed through appropriations to the Illinois 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 Agency; and accordingly, have not been reported in the Agency's financial statements for the year ended June 30, 2010.

(6) Subsequent Event

Subsequent to June 30, 2010 the State borrowed \$24 million from the Illinois Power Agency Trust Fund and \$6.710 million from the Illinois Power Agency Renewable Energy Resources Fund to meet cash flow deficits and to maintain liquidity in the General Revenue Fund and the Common School Fund pursuant to Public Act 96-0958 Section 5.15. Amounts are required to be repaid to the fund of origin within 18 months after the date on which they were borrowed.

State of Illinois
 Illinois Power Agency

Combining Balance Sheet -
 Nonmajor Governmental Funds

June 30, 2010 (Expressed in Thousands)

	Special Revenue			Total
	Illinois Power Agency Trust 0424	Illinois Power Agency Operations 0425	Illinois Power Agency Renewable Energy Resources 0836	
ASSETS				
Cash equity in State Treasury	\$ 26,431	\$ 1,426	\$ -	\$ 27,857
Securities lending collateral equity of State Treasurer	9,515			9,515
Other receivables, net	20	2,277	6,712	9,009
Due from other Agency funds	-	550	-	550
Total assets	\$ 35,966	\$ 4,253	\$ 6,712	\$ 46,931
LIABILITIES				
Accounts payable and accrued liabilities	\$ -	\$ 2,421	\$ -	\$ 2,421
Due to other Agency funds	1,594	-	-	1,594
Due to other State funds	-	8	-	8
Unavailable revenue	-	1,462	6,691	8,153
Obligations under securities lending of State Treasurer	9,515	-	-	9,515
Total liabilities	11,109	3,891	6,691	21,691
FUND BALANCES				
Unreserved, undesignated	24,857	362	21	25,240
Total fund balances	24,857	362	21	25,240
Total liabilities and fund balances	\$ 35,966	\$ 4,253	\$ 6,712	\$ 46,931

State of Illinois
 Illinois Power Agency

Combining Statement of Revenues,
 Expenditures and Changes in Fund Balance -
 Nonmajor Governmental Funds

For the Year Ended June 30, 2010 (Expressed in Thousands)

	Special Revenue			Total
	Illinois Power Agency Trust 0424	Illinois Power Agency Operations 0425	Illinois Power Agency Renewable Energy Resources 0836	
REVENUES				
License and fees	\$ -	\$ 2,241	\$ 21	\$ 2,262
Interest and other investment income	174	-	-	174
Total revenues	174	2,241	21	2,436
EXPENDITURES				
Employment and economic development	-	1,930	-	1,930
Total expenditures	-	1,930	-	1,930
Excess (deficiency) of revenues over (under) expenditures	174	311	21	506
OTHER SOURCES (USES) OF FINANCIAL RESOURCES				
Transfers-in	-	550	-	550
Transfers-out	(1,594)	-	-	(1,594)
Net other sources (uses) of financial resources	(1,594)	550	-	(1,044)
Net change in fund balances	(1,420)	861	21	(538)
Fund balances, July 1, 2009	26,277	(499)	-	25,778
FUND BALANCES, JUNE 30, 2010	\$ 24,857	\$ 362	\$ 21	\$ 25,240

State of Illinois
Illinois Power Agency

Statement of Net Assets

June 30, 2009 (Expressed in Thousands)

	<u>Governmental Activities</u>
ASSETS	
Unexpended appropriations	\$ 1,036
Cash equity in State Treasury	26,260
Securities lending collateral equity of State Treasurer	3,733
Other receivables, net	1,674
Total assets	<u>32,703</u>
LIABILITIES	
Accounts payable and accrued liabilities	1,535
Obligations under securities lending of State Treasurer	3,733
Total liabilities	<u>5,268</u>
NET ASSETS	
Restricted	25,000
Unrestricted net assets	2,435
Total net assets	<u>\$ 27,435</u>

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

State of Illinois
Illinois Power Agency

Statement of Activities

For the Year Ended June 30, 2009 (Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues	Charges for Services	Net (Expense) Revenues and Changes in Net Assets
Governmental activities				
Employment and economic development	\$ 1,543	\$ 1,657	\$ 114	\$ 114
Total governmental activities	1,543	1,657	114	114
General revenues				
Appropriations from State Resources			1,318	1,318
Lapsed Appropriations			(274)	(274)
Interest and investment income			610	610
Total general revenues and transfers			1,654	1,654
Change in net assets				1,768
Net assets, July 1, 2008				25,667
Net assets, June 30, 2009				\$ 27,435

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

State of Illinois
Illinois Power Agency

**Balance Sheet -
 Governmental Funds**

June 30, 2009 (Expressed in Thousands)

	<u>General Fund</u>	<u>Nonmajor funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Unexpended appropriations	\$ 1,036	\$ -	\$ 1,036
Cash equity in State Treasury	-	26,260	26,260
Securities lending collateral equity of State Treasurer	-	3,733	3,733
Other receivables, net	-	1,674	1,674
Total assets	<u>\$ 1,036</u>	<u>\$ 31,667</u>	<u>\$ 32,703</u>
LIABILITIES			
Accounts payable and accrued liabilities	\$ 1,036	\$ 499	\$ 1,535
Unavailable revenue	-	1,657	1,657
Obligations under securities lending of State Treasurer	-	3,733	3,733
Total liabilities	<u>1,036</u>	<u>5,889</u>	<u>6,925</u>
FUND BALANCES			
Unreserved, undesignated			
General fund	-	-	-
Special revenue funds	-	25,778	25,778
Total fund balances	<u>-</u>	<u>25,778</u>	<u>25,778</u>
Total liabilities and fund balances	<u>\$ 1,036</u>	<u>\$ 31,667</u>	<u>\$ 32,703</u>

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

State of Illinois
Illinois Power Agency
Reconciliation of Governmental Funds Balance Sheet
to Statement of Net Assets
June 30, 2009
(Expressed in Thousands)

Total fund balances-governmental funds	\$ 25,778
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Revenues in the Statement of Activities that do not provide current financial resources are deferred in the funds.	<u>1,657</u>
Net assets of governmental activities	<u><u>\$ 27,435</u></u>

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

State of Illinois
Illinois Power Agency

**Statement of Revenues, Expenditures
and Changes in Fund Balances - Governmental Funds**

For the Year Ended June 30, 2009 (Expressed in Thousands)

	General Fund	Nonmajor funds	Total Governmental Funds
REVENUES			
Licenses and fees	\$ -	\$ -	\$ -
Interest and other investment income	-	610	610
Total revenues	<u>-</u>	<u>610</u>	<u>610</u>
EXPENDITURES			
Employment and economic development	1,044	499	1,543
Total expenditures	<u>1,044</u>	<u>499</u>	<u>1,543</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,044)</u>	<u>111</u>	<u>(933)</u>
OTHER SOURCES (USES) OF FINANCIAL RESOURCES			
Appropriations from State Resources	1,318	-	1,318
Lapsed appropriations	(274)	-	(274)
Transfers-in	-	-	-
Transfers-out	-	-	-
Net other sources (uses) of financial resources	<u>1,044</u>	<u>-</u>	<u>1,044</u>
Net change in fund balances	-	111	111
Fund balances, July 1, 2008	-	25,667	25,667
FUND BALANCES, JUNE 30, 2009	<u>\$ -</u>	<u>\$ 25,778</u>	<u>\$ 25,778</u>

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

State of Illinois
Illinois Power Agency
Reconciliation of Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to Statement of Activities
For the Year Ended June 30, 2009
(Expressed in Thousands)

Net change in fund balances	\$	111
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. This amount represents the increase in unavailable revenue over the prior year.		1,657
Change in net assets of governmental activities	\$	1,768

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

**STATE OF ILLINOIS
ILLINOIS POWER AGENCY**

Notes to Financial Statements

June 30, 2009

(1) Organization

The Illinois Power Agency (the 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 operates under a budget approved by the General Assembly in which resources are appropriated for the use of the Agency. Activities of the Agency are subject to the authority of the Office of the Governor, the State's chief executive officer, and other departments of the executive and legislative branches of government (such as the Agency of Central Management Services, 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. All funds appropriated to the Agency and all other cash received are under the custody and control of the State Treasurer.

The Agency, created in 2008 pursuant to Public Act 095-0481, 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.

(2) Summary of Significant Accounting Policies

The financial statements of the Agency have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). To facilitate the understanding of data included in the financial statements, summarized below are the more significant accounting policies.

(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. Financial accountability is defined as:

- 1) Appointment of a voting majority of the component unit's board and either (a) the primary government's ability to impose its will, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or
- 2) Fiscal dependency on the primary government.

Based upon the required criteria, the Agency has no component units and is not a component unit of any other entity. However, because the Agency is not legally separate from the State of Illinois, the financial statements of the Agency are included in the financial statements of the State of Illinois. The State of Illinois' Comprehensive Annual Financial Report may be obtained by writing to the State Comptroller's Office, Division of Financial Reporting, 325 West Adams Street, Springfield, Illinois, 62704-1871.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY

Notes to Financial Statements

June 30, 2009

(b) Basis of Presentation

The financial statements of the State of Illinois, Illinois Power Agency, are intended to present the financial position, changes in financial position, and cash flows of only that portion of the governmental activities, each major governmental fund of the State of Illinois and the aggregate remaining fund information of the State of Illinois that is attributable to the transactions of the Agency. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2009 the changes in financial position for the year then ended, and the cash flows in conformity with accounting principles generally accepted in the United States of America.

Government-wide Statements. The government-wide statement of net assets and statement of activities report the overall financial activity of the Agency, excluding fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities of the Agency. These statements distinguish between the *governmental* and *business-type* activities of the Agency. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of net assets presents the assets and liabilities of the Agency's governmental activities with the difference being reported as net assets. The assets and liabilities are presented in order of their relative liquidity by class of asset or liability with liabilities whose average maturities are greater than one year reported in two components - the amount due within one year and the amount due in more than one year.

The statement of activities presents a comparison between direct expenses and program revenues for the general government function of the Agency's governmental activities. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges paid by the recipients of goods or services offered by the programs. Revenues that are not classified as program revenues are presented as general revenues.

Fund Financial Statements. The fund financial statements provide information about the Agency's funds. Separate statements for each fund category are presented. The emphasis on fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

The Agency administers the following major governmental funds (or portions thereof in the case of shared funds – see note 2(d)) of the State:

General – This is the State's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The services which are administered by the Agency and accounted for in the general fund include, among others, economic development services.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY

Notes to Financial Statements

June 30, 2009

Additionally, the Agency administers the following fund types:

Governmental Fund Types:

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.

(c) Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Nonexchange transactions, in which the Agency gives (or receives) value without directly receiving (or giving) equal value in exchange. On an accrual basis, revenues are recognized in the fiscal year in which the underlying exchange transaction occurs. Revenue from grants, entitlements, and similar items are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been met.

Governmental 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 general long-term debt and acquisitions under capital leases are reported as other financing sources.

Significant revenue sources which are susceptible to accrual include interest and other charges for services. All other revenue sources including fines, licenses, and other miscellaneous revenues are considered to be measurable and available only when cash is received.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

(d) Shared Fund Presentation

The financial statement presentation for the General Revenue Fund represents only the portion of the shared fund that can be directly attributed to the operations of the Agency. Financial statements for total fund operations of the shared State funds are presented in the State of Illinois' Comprehensive Annual Financial Report.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY

Notes to Financial Statements

June 30, 2009

(e) *Eliminations*

Eliminations have been made in the government-wide statement of net assets to minimize the “grossing-up” effect on assets and liabilities within the governmental activities column of the Agency. As a result, amounts reported in the governmental funds balance sheet as interagency interfund receivables and payables have been eliminated in the government-wide statement of net assets. Amounts reported in the governmental funds balance sheet as receivable from or payable to fiduciary funds have been included in the government-wide statement of net assets as receivable from and payable to external parties, rather than as internal balances.

(f) *Interfund Transactions*

The Agency has the following types of interfund transactions between Agency funds and funds of other State agencies:

Services provided and used—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 funds balance sheet or the government-wide and proprietary fund statements of net assets.

Transfers—flows of assets (such as cash or goods) 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 funds making transfers and as other financing sources in the funds receiving transfers.

(g) *Fund Balances*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties as to use for specific purposes. Designations of fund balances represent tentative State plans that are subject to change.

(h) *Net Assets*

In the government-wide and proprietary fund statements of net assets, equity is displayed in three components as follows:

Restricted – This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the State’s policy to use restricted resources first, then unrestricted resources when they are needed.

Unrestricted – This consists of net assets that do not meet the definition of “restricted”.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY

Notes to Financial Statements

June 30, 2009

(i) *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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(j) *Future Adoption of GASB Statements*

Effective for the year ending June 30, 2010 the State will adopt GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which establishes guidance for recognition and amortization of intangible assets in the financial statements of governments. The Agency has not yet determined the impact on the Agency's financial statements as a result of adopting this statement.

Also effective for the year ending June 30, 2010 the State will adopt GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which establishes standards of accounting and financial reporting for certain derivative instruments. The Agency has not yet determined the impact on the Agency's financial statements as a result of adopting this statement.

(3) **Deposits and Investments**

(a) *Deposits*

The State Treasurer is the custodian of the Agency's deposits and investments for funds maintained in the State Treasury. The Agency independently manages deposits and investments maintained outside the State Treasury.

Deposits in the custody of the State Treasurer 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 Agency does not own individual securities. Detail on the nature of these deposits and investments is available within the State of Illinois' Comprehensive Annual Financial Report.

(b) *Securities Lending Transactions*

Under the authority of the Treasurer's published investment policy that was developed in accordance with the State statute, the State Treasurer lends securities to broker-dealers and other entities for collateral that will be returned for the same securities in the future. The State Treasurer has, through a Securities Lending Agreement, authorized Dresdner Bank AG, New York Branch (Dresdner) to lend the State Treasurer's securities to broker-dealers and banks pursuant to a form of loan agreement.

**STATE OF ILLINOIS
ILLINOIS POWER AGENCY**

Notes to Financial Statements

June 30, 2009

During fiscal year 2009, Dresdner lent U.S. agency securities and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 102% of the aggregate market value of the loaned securities. Loans are marked to market daily. If the market value of collateral falls below 102%, the borrower must provide additional collateral to raise the market value to 102%.

The State Treasurer did not impose any restrictions during the fiscal year on the amount of the loans of available, eligible securities. In the event of borrower default, Dresdner provides the State Treasurer with counterparty default indemnification. In addition, Dresdner is obligated to indemnify the State Treasurer if Dresdner loses any securities, collateral or investments of the State Treasurer in Dresdner's custody. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or Dresdner.

During the fiscal year, the State Treasurer and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in repurchase agreements with approved counterparties collateralized with securities approved by Dresdner and marked to market daily at no less than 102%. Because the loans are terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The State Treasurer had no credit risk as a result of its securities lending program as the collateral held exceeded the fair value of the securities lent.

In accordance with GASB Statement No. 28, paragraph 9, the Office of the State Treasurer has allocated the assets and obligations at June 30, 2009 arising from securities lending agreements to the various funds of the State. The total allocated to the Agency was \$3.733 million at June 30, 2009.

(4) Risk Management

The Agency is 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 Agency's risk management activities are financed through appropriations to the Illinois 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 Agency; and accordingly, have not been reported in the Agency's financial statements for the year ended June 30, 2009.

(5) Fund Deficit

The Illinois Power Operations Fund had a deficit fund balance of \$.499 million at June 30, 2009 resulting from the recognition of fund liabilities in excess of accrued revenues on the modified accrual basis.

State of Illinois
 Illinois Power Agency

Combining Balance Sheet -
 Nonmajor Governmental Funds

June 30, 2009 (Expressed in Thousands)

	<u>Special Revenue</u>		
	Illinois Power Agency Trust 0424	Illinois Power Agency Operations 0425	Total
ASSETS			
Cash equity in State Treasury	\$ 26,260	\$ -	\$ 26,260
Securities lending collateral equity of State Treasurer	3,733		3,733
Other receivables, net	17	1,657	1,674
Total assets	\$ 30,010	\$ 1,657	\$ 31,667
LIABILITIES			
Accounts payable and accrued liabilities	\$ -	\$ 499	\$ 499
Unavailable revenue	-	1,657	1,657
Obligations under securities lending of State Treasurer	3,733	-	3,733
Total liabilities	3,733	2,156	5,889
FUND BALANCES			
Unreserved, undesignated	26,277	(499)	25,778
Total fund balances	26,277	(499)	25,778
Total liabilities and fund balances	\$ 30,010	\$ 1,657	\$ 31,667

State of Illinois
 Illinois Power Agency

Combining Statement of Revenues,
 Expenditures and Changes in Fund Balance -
 Nonmajor Governmental Funds

For the Year Ended June 30, 2009 (Expressed in Thousands)

	<u>Special Revenue</u>		
	Illinois Power Agency Trust 0424	Illinois Power Agency Operations 0425	Total
REVENUES			
License and fees	\$ -	\$ -	\$ -
Interest and other investment income	610	-	610
Total revenues	<u>610</u>	<u>-</u>	<u>610</u>
EXPENDITURES			
Employment and economic development	-	499	499
Total expenditures	<u>-</u>	<u>499</u>	<u>499</u>
Excess (deficiency) of revenues over (under) expenditures	<u>610</u>	<u>(499)</u>	<u>111</u>
OTHER SOURCES (USES) OF FINANCIAL RESOURCES	<u>-</u>	<u>-</u>	<u>-</u>
Net other sources (uses) of financial resources	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>610</u>	<u>(499)</u>	<u>111</u>
Fund balances, July 1, 2008	<u>25,667</u>	<u>-</u>	<u>25,667</u>
FUND BALANCES, JUNE 30, 2009	<u>\$ 26,277</u>	<u>\$ (499)</u>	<u>\$ 25,778</u>

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES
SUMMARY
For the Year Ended June 30, 2010

Supplementary Information for State Compliance Purposes presented in this section of the report includes the following:

- **Fiscal Schedules and Analysis-Not Examined**

- Schedule of Appropriations, Expenditures and Lapsed Balances
- Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances
- Director's Salary
- Schedule of Locally Held Funds
- Schedule of Changes in State Property
- Comparative Schedule of Cash Receipts
- Reconciliation Schedule of Cash Receipts to Deposits Remitted to the State Comptroller
- Analysis of Significant Variations in Expenditures
- Analysis of Significant Variations in Receipts
- Analysis of Significant Lapse Period Spending
- Analysis of Accounts Receivable and Accounts Payable
- Description and Purpose of State Treasury Fund

- **Analysis of Operations-Not Examined**

- Agency Functions and Planning Program

The accountants' report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states the accountants were unable to apply certain limited procedures as prescribed by the Audit Guide as adopted by the Auditor General. The accountants do not express an opinion on the supplementary information.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY

SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES - **NOT EXAMINED**

Appropriations for Fiscal Year 2010
Fourteen Months Ended August 31, 2010

<u>Public Act 96-0046 amended by Public Act 96-0890</u>	<u>Appropriations (Net After Transfers)</u>	<u>Expenditures Through June 30, 2010</u>	<u>Approximate Expenditures</u>	<u>Approximate Total Expenditures</u>	<u>Approximate Balances Lapsed</u>
<u>APPROPRIATED FUNDS</u>					
<u>ILLINOIS POWER AGENCY TRUST FUND 424</u>					
For deposit into the General Revenue Fund	\$ 1,250,000	\$ -	\$ 1,044,272	\$ 1,044,272	\$ 205,728
For deposit into the Illinois Power Agency Operations Fund	<u>\$ 550,000</u>	<u>\$ -</u>	<u>\$ 550,000</u>	<u>\$ 550,000</u>	<u>\$ -</u>
TOTAL ILLINOIS POWER AGENCY TRUST FUND	\$ 1,800,000	\$ -	\$ 1,594,272	\$ 1,594,272	\$ 205,728
<u>ILLINOIS POWER AGENCY OPERATIONS FUND 425</u>					
For the ordinary, incidental, and contingent expenses of the Illinois Power Agency	<u>\$ 4,550,000</u>	<u>\$ -</u>	<u>\$ 1,065,954</u>	<u>\$ 1,065,954</u>	<u>\$ 3,484,046</u>
TOTAL ALL FUNDS FISCAL YEAR 2010	<u><u>\$ 6,350,000</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,660,226</u></u>	<u><u>\$ 2,660,226</u></u>	<u><u>\$ 3,689,774</u></u>

Note: All appropriations, expenditures and lapsed balances were obtained from records of the State Comptroller. The Agency did not provide accounting reports to the auditors. Thus, a reconciliation of the Agency information to the State Comptroller's records could not be made. See Finding 10-15.

Note: Approximate lapse period expenditures do not include potential payments approved by the Agency and submitted to the Comptroller for payment after August.

State of Illinois
Illinois Power Agency

SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES - **NOT EXAMINED**

Appropriations for Fiscal Year 2009
Fourteen Months Ended August 31, 2009

<u>Public Act 96-0004</u>	<u>Appropriations (Net After Transfers)</u>	<u>Expenditures Through June 30, 2009</u>	<u>Lapse Period Expenditures July 1 to August 31, 2009</u>	<u>Total Expenditures</u>	<u>Balances Lapsed</u>
<u>APPROPRIATED FUNDS</u>					
<u>GENERAL REVENUE FUND 001</u>					
For the ordinary, incidental, and contingent expenses of the Illinois Power Agency	\$ 1,318,000	\$ 8,316	\$ 1,035,956	\$ 1,044,272	\$ 273,728
TOTAL ALL FUNDS FISCAL YEAR 2009	\$ 1,318,000	\$ 8,316	\$ 1,035,956	\$ 1,044,272	\$ 273,728

Note: All appropriations, expenditures and lapsed balances were obtained from records of the State Comptroller. The Agency did not provide accounting reports to the auditors. Thus, a reconciliation of the Agency information to the State Comptroller's records could not be made. See Finding 10-15.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY

COMPARATIVE SCHEDULE OF NET APPROPRIATIONS,
EXPENDITURES AND LAPSED BALANCES - **NOT EXAMINED**
For the Fiscal Years Ended June 30, 2010 and 2009

	Fiscal Year	
	<u>2010</u>	<u>2009</u>
	PA 96-0046	
	Amended by	
	PA 96-0890	PA 96-0004
<u>General Revenue Fund-001</u>		
Appropriations	\$ -	\$ 1,318,000
(net after transfers)		
Expenditures		
For the ordinary, incidental, and contingent		
expenses of the Illinois Power Agency	-	1,044,272
Total Expenditures	-	1,044,272
Lapsed Balances	\$ -	\$ 273,728
<u>Illinois Power Agency Trust Fund-424</u>		
Appropriations	\$ 1,800,000	\$ -
(net after transfers)		
Expenditures		
For deposit into the General Revenue Fund	1,044,272	-
For deposit into the Illinois Power Agency		
Operations Fund	550,000	-
Total Expenditures	1,594,272	-
Lapsed Balances	\$ 205,728	\$ -
<u>Illinois Power Agency Operations Fund-425</u>		
Appropriations	\$ 4,550,000	\$ -
(net after transfers)		
Expenditures		
For the ordinary, incidental, and contingent		
expenses of the Illinois Power Agency	1,065,954	-
Total Expenditures	1,065,954	-
Lapsed Balances	\$ 3,484,046	\$ -
<u>Grand Total, All Funds</u>		
Appropriations	\$ 6,350,000	\$ 1,318,000
(net after transfers)		
Expenditures	2,660,226	1,044,272
Lapsed Balances	\$ 3,689,774	\$ 273,728

Note: All appropriations, expenditures and lapsed balances were obtained from records of the State Comptroller. The Agency did not provide accounting reports to the auditors. Thus, a reconciliation of the Agency information to the State Comptroller's records could not be made. See Finding 10-15

Note: Approximate lapse period expenditures do not include payments approved by the Agency and submitted to the Comptroller for payment after August.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY

DIRECTOR'S SALARY - NOT EXAMINED
For the Fiscal Years Ended June 30, 2010 and 2009

	<u>FISCAL YEAR</u>	
	<u>2010</u>	<u>2009</u>
Appropriation-Director	\$103,800	\$103,800
Expenditure-Director	<u>\$103,800</u>	<u>\$103,800</u>
Lapsed Balances-Director	<u>\$0</u>	<u>\$0</u>

Note: The Director's Salary is appropriated to the Office of the State Comptroller

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
SCHEDULE OF LOCALLY HELD FUNDS – **NOT EXAMINED**
For the Year Ended June 30, 2010

The Illinois Power Agency did not work with the Office of the State Comptroller to establish any locally held funds. However, amounts were held with a procurement administrator outside of the State Treasury as of June 30, 2010. It could not be determined if these amounts were held in separate funds or if the amounts were accruing interest. Additionally, the amounts held could not be accurately determined.

See Finding 10-6.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
SCHEDULE OF CHANGES IN STATE PROPERTY – **NOT EXAMINED**
For the Year Ended June 30, 2010

The Illinois Power Agency does not own any State Property. The Agency does use and maintain some office equipment. However, this equipment is owned by the Illinois Department of Central Management Services.

See Finding 10-28.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY

COMPARATIVE SCHEDULE OF CASH RECEIPTS - NOT EXAMINED
For the Fiscal Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<u>Illinois Power Agency Trust Fund - 424</u>		
Interest	\$ 171,468	\$ 644,193
Total receipts - Fund 424	<u>\$ 171,468</u>	<u>\$ 644,193</u>

<u>Fund Name</u>	<u>Fund Number</u>	<u>Purpose of Fund</u>
Illinois Power Agency Trust Fund	424	Created as a special fund in the State Treasury. Fund may accept, receive, and administer any grants, loans or other funds made available to it by any source. Any funds received by the Fund shall not be considered income, but shall be added to the principal of the fund. The General Assembly may annually appropriate from the Fund to the Agency an amount not to exceed 90% of the annual investment income earned by the Fund. During fiscal year 2010 & 2009, interest income was earned on these funds. These were the only cash receipts in the fund.
Illinois Power Agency Operations Fund	425	Created as a special fund in the State Treasury. Fund shall be administered by the Agency for Agency operations as specified in the Illinois Power Agency Act. There was no revenue activity in this fund during fiscal years 2010 & 2009.
Illinois Power Agency Facilities Fund	426	Created as a special fund in the State Treasury. 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 years 2010 & 2009.
Illinois Power Agency Debt Service Fund	427	Created as a special fund in the State Treasury. 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 years 2010 & 2009.
Illinois Power Agency Renewable Energy Fund	836	Created as a special fund in the State Treasury. Fund shall be administered by the Agency for procurement of renewable energy resources. This fund was created in fiscal year 2010. There was no activity in this fund during fiscal year 2010.

Note: The above information was derived from Office of the Comptroller records.

See finding 10-15.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY

RECONCILIATION SCHEDULE OF CASH RECEIPTS TO DEPOSITS
REMITTED TO THE STATE COMPTROLLER - **NOT EXAMINED**
For the Fiscal Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<u>Illinois Power Agency Trust Fund - 424</u>		
Utilities - Generating Companies		
Deposit per Agency records	\$ -	\$ -
Deposits in transit beginning of year	-	-
Deposits in transit end of year	-	-
Interest		
Deposit per Agency records	-	-
Deposits in transit beginning of year	-	-
Deposits in transit end of year	-	-
Total deposits per Agency records	-	-
	-	*
Unreconciled difference	171,468	644,193
Deposits per Comptroller	\$ 171,468	\$ 644,193
Grand Totals for Illinois Power Agency Trust Fund - 424		
Deposit per Agency records	\$ -	\$ -
Deposits in transit beginning of year	-	-
Deposits in transit end of year	-	-
Total deposits per Agency records	-	-
	-	*
Unreconciled difference	171,468	644,193
Deposits per Comptroller	\$ 171,468	\$ 644,193

Note: The above information was derived from Office of the Comptroller records.
The Illinois Power Agency did not maintain accounting records.

See findings 10-4 and 10-15.

* The Illinois Power Agency had received monies; however, no action was taken to record the amounts in the accounting records or deposit the monies in the State Treasury.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY

ANALYSIS OF SIGNIFICANT VARIATIONS
IN EXPENDITURES - **NOT EXAMINED**
For the Fiscal Years Ended June 30, 2010 and 2009

The following are explanations for expenditures which differed by at least \$ 50,000 and by more than 20 percent from the previous year.

<u>Fund, Account (if Applicable) and Explanation</u>	Fiscal Year	
	<u>2010</u>	<u>2009</u>
General Revenue Fund 001		
For the ordinary, incidental and contingent expenses of the Illinois Power Agency	\$ -	\$ 1,044,272
According to available information, the decrease of \$1,044,272 from fiscal year 2009 to fiscal year 2010 was due to the Agency receiving no appropriations from GRF in the current year.		
Illinois Power Agency Trust Fund 424		
For deposit into the General Revenue Fund	\$ 1,044,272	\$ -
According to available information, the increase of \$1,044,272, from fiscal year 2009 to fiscal year 2010 was due to the Agency receiving appropriations in Fund 424 in the current year in order to pay back the GRF for expenditures in the prior year as mandated.		
For deposit into the Illinois Power Agency Operations Fund	\$ 550,000	\$ -
According to available information, the increase of \$550,000, from fiscal year 2009 to fiscal year 2010 was due to the Agency receiving appropriations in Fund 424 in the current year to finance the operations of the Agency.		
Illinois Power Agency Operations Fund 425		
For the ordinary, incidental and contingent expenses of the Illinois Power Agency	\$ 1,065,954	\$ -
According to available information, the increase of \$1,065,954, from fiscal year 2009 to fiscal year 2010 was due to the Agency beginning to utilize this fund for the current year operations vs the GRF as in prior years.		

State of Illinois
Illinois Power Agency

ANALYSIS OF SIGNIFICANT VARIATIONS
IN RECEIPTS - **NOT EXAMINED**
For the Fiscal Years Ended June 30, 2010 and 2009

The following are explanations for receipts which differed by at least \$ 50,000 and by more than 20 percent from the previous year.

<u>Fund, Account (if Applicable) and Explanation</u>	<u>Fiscal Year</u>	
	<u>2010</u>	<u>2009</u>
Illinois Power Agency Trust Fund 424		
Interest	\$ 171,468	\$ 644,193
The decrease is due to a decrease in earnings on cash held in the Fund. Cash held in the Fund is administered by the Illinois State Treasurer. Illinois Power Agency management has no authority to dictate how these funds are invested.		

State of Illinois
Illinois Power Agency

ANALYSIS OF SIGNIFICANT LAPSE PERIOD SPENDING - NOT EXAMINED

For the year ended June 30, 2010

Expenditure Item	Fund	Total Expenditures	Lapse Period Expenditures	Percent	Explanation of Significant Lapse Period Expenditures
For deposit into the General Revenue Fund	424	\$ 1,044,272	\$ 1,044,272	100%	The majority of expenditures were paid during the lapse period because the Illinois Power Agency did not have any procedures in place to pay expenditures prior to the lapse period.
For deposit into the Illinois Power Agency Operations Fund	424	550,000	550,000	100%	The majority of expenditures were paid during the lapse period because the Illinois Power Agency did not have any procedures in place to pay expenditures prior to the lapse period.
For the ordinary, incidental and contingent expenses of the Illinois Power Agency.	425	1,065,954	1,065,954	100%	The majority of expenditures were paid during the lapse period because the Illinois Power Agency did not have any procedures in place to pay expenditures prior to the lapse period.

See Finding 10-15.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES
ANALYSIS OF ACCOUNTS RECEIVABLE AND
ACCOUNTS PAYABLE – **NOT EXAMINED**
For the Year Ended June 30, 2010

The Illinois Power Agency reported accounts receivable of \$9,009,000 at June 30, 2010. The balance is attributed to supplier and bid fees charged to energy suppliers. Some of these fees are related to prior year auctions and are still held at procurement administrators outside of the State Treasury. In addition, management has incorrectly recorded a receivable for checks received by the Agency throughout fiscal year 2010 but not deposited into the State Treasury by year end. All of the fees should have been remitted to the Illinois Power Agency and subsequently deposited into the State Treasury; however, the Agency had no procedures for the appropriate receipt and deposit of funds. The Agency considers all of these fees to be fully collectible and therefore, no allowance for uncollectible accounts was established.

See Finding 10-7.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY

DESCRIPTION AND PURPOSE OF STATE TREASURY FUND - **NOT EXAMINED**
For the Fiscal Year Ended June 30, 2010

Fund Name	Fund Number	Purpose of Fund	Fund balance as of June 30, 2010
Illinois Power Agency Trust Fund	424	Created as a special fund in the State Treasury. Fund may accept, receive, and administer any grants, loans or other funds made available to it by any source. Any funds received by the Fund shall not be considered income, but shall be added to the principal of the Fund.	\$ 26,431,533
Illinois Power Agency Operations Fund	425	Created as a special fund in the State Treasury. Fund shall be administered by the Agency for Agency operations as specified in the Illinois Power Agency Act.	-
Illinois Power Agency Facilities Fund	426	Created as a special fund in the State Treasury. 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 2010.	-
Illinois Power Agency Debt Service Fund	427	Created as a special fund in the State Treasury. 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 2010.	-
Illinois Power Agency Renewable Energy Fund	836	Created as a special fund in the State Treasury. Fund shall be administered by the Agency for procurement of renewable energy resources. This fund was created in 2010 and there was no activity in this fund during fiscal year 2010.	-

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
ANALYSIS OF OPERATIONS – **NOT EXAMINED**
For the Fiscal Year Ended June 30, 2010

AGENCY FUNCTIONS AND PLANNING PROGRAM

The Illinois Power Agency (Agency) was created by the Illinois Power Agency Act of the General Assembly (095-0481) in 2008.

The Agency's mission is to (a) develop procurement plans to ensure adequate, reliable, affordable, efficient and environmentally sustainable electric service at the lowest cost over time, (b) conduct competitive procurement processes to procure the supply resources indentified in the procurement plan, (c) develop electric generation and co-generation facilities that use indigenous coal or renewable resources, or both, financed with bonds issued by the Illinois Finance Authority, and (d) supply electricity from the Agency's facilities at cost to one or more of the following: municipal electric systems, governmental aggregators, or rural electric cooperatives in Illinois.

During fiscal year 2010, the Agency developed a procurement plan and held energy supply auctions. The auctions were held for the two major utility companies. There were five different auctions, two for one of the utility companies and three for the other. For all five auctions, bid participation fees were assessed, as determined by the Agency. In prior years these fees were collected by third parties and as of June 30, 2010 approximately 50% of the prior year fees were still held by the procurement administrator. The fees which were not collected by third parties were being held as undeposited checks at June 30, 2010. The amounts payable to the Agency could not accurately be determined due to lack of accounting records.

The Director is responsible for all functions of the Illinois Power Agency and completion of the statutory and contractually assigned duties and responsibilities of the Agency. The Director maintains an office at the Michael A. Bilandic Building in Chicago.

The Illinois Power Act (20 ILCS 3855/1-70) required the Agency to establish a Planning and Procurement Bureau and a Resource Development Bureau; however, the Bureaus had not been established. In fact, the Agency Director is the sole staff.

In addition, the Agency had not adopted rules for the operation, administration and accounting and reporting over the Agency. Additionally, the Agency did not maintain adequate records to ensure revenues were deposited, bills were paid or the tracking of accounts receivable or accounts payable.

Agency Planning Program

The Illinois Power Agency does not have a formal planning program.