



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

ILLINOIS POWER AGENCY

**FINANCIAL AUDIT AND
COMPLIANCE EXAMINATION
For the Year Ended June 30, 2012**

Release Date: June 19, 2013

Summary of Findings:

Total this audit:	17
Total last audit:	23
Repeated from last audit:	11

SYNOPSIS

- The Illinois Power Agency's financial statements contained inaccuracies, which would have resulted in a material misstatement if not corrected.
- The Illinois Power Agency lacked controls to properly record receivables and ensure the accuracy of Alternative Compliance Payments remitted by Alternative Retail Electric Suppliers.
- The Illinois Power Agency improperly allowed State funds to be held in accounts outside the State Treasury without statutory authority.
- The Illinois Power Agency did not assess adequate fees to ensure the costs of the preparation of the annual procurement plan were recovered.
- The Illinois Power Agency inaccurately reported accounts receivable information to the Office of the State Comptroller.
- The Illinois Power Agency did not establish a Planning and Procurement Bureau or a Resource Development Bureau as required by its enabling statute.
- The Illinois Power Agency did not adopt rules for operation, administration, accounting and reporting as specified in the Illinois Power Agency Act.

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

ILLINOIS POWER AGENCY
FINANCIAL AUDIT and COMPLIANCE EXAMINATION
For the Year Ended June 30, 2012

EXPENDITURE STATISTICS	2012	2011
Total Expenditures	\$ 28,478,600	\$ 38,443,248
APPROPRIATED OPERATIONS TOTAL.....	\$ 3,614,670	\$ 4,080,748
% of Total Expenditures.....	12.7%	10.6%
Interfund Cash Transfer.....	-	154,321
Lump Sums and Other Purposes.....	3,614,670	3,926,427
NON-APPROPRIATED OPERATIONS TOTAL.....	\$ 24,863,930	\$ 34,362,500
% of Total Expenditures.....	87.3%	89.4%
Interfund Borrowing to General Revenue Fund.....	-	34,362,500
Interfund Cash Transfer.....	24,863,930	-
Total Receipts	\$ 39,669,283	\$ 18,562,974
Average Number of Employees	2.3	1.5

FINANCIAL INFORMATION (expressed in thousands)	2012	2011
ASSETS		
Cash equity in State Treasury.....	\$ 40,476	\$ 5,373
Securities lending collateral equity of State Treasurer.....	1,944	155
Other receivables, net.....	4,800	7,570
Due from other State funds.....	3,353	34,474
Total assets.....	<u>50,573</u>	<u>47,572</u>
LIABILITIES		
Accounts payable and accrued liabilities.....	1,689	2,565
Obligations under securities lending of State Treasurer.....	1,944	155
Long term obligations.....	6	2
Total liabilities.....	<u>3,639</u>	<u>2,722</u>
NET ASSETS		
Restricted net assets.....	39,818	37,593
Unrestricted net assets.....	7,116	7,257
Total net assets.....	<u>\$ 46,934</u>	<u>\$ 44,850</u>

AGENCY DIRECTOR
During Examination Period: Mark Pruitt (through October 7, 2011), Arlene Juracek (Acting) (October 11, 2011 through March 15, 2013), Anthony Star (Acting) (effective March 16, 2013)
Currently: Anthony Star, Acting Director

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

**NEED TO IMPROVE FINANCIAL STATEMENT
REPORTING**

Inaccuracies in financial statements

The Agency's financial statements contained inaccuracies. These problems, if not corrected, would have resulted in a material misstatement.

**\$470,138 in unrecorded accounts
receivable and deferred revenue**

During the auditor's testing of the Agency's June 30, 2012 financial statements, the following errors were noted:

- The Agency did not record \$470,138 in accounts receivable and deferred revenue. These unrecorded receivables related to billings made by the Agency in fiscal year 2013 to re-coup expenses incurred for Procurement Planning and Contract Mediation Services in FY 2012.
- The Agency recorded \$963,243 of revenue fees as a credit to certain expense accounts.

**\$963,243 in revenues credited
against expense accounts**

**Material adjustments made to
financial statements**

These errors were considered material and Agency management made adjustments to correct the financial statements. (Finding Code No. 12-1, pages 16-17)

We recommended that the Agency enhance its accounting and financial reporting procedures to ensure accounting records are accurate and allow for the accurate preparation of financial statements in accordance with accounting principles generally accepted in the United States of America.

Agency agrees with auditors

Agency management agrees with the finding and recommendation.

**LACK OF CONTROLS OVER ALTERNATIVE
COMPLIANCE PAYMENTS**

Controls not established

The Agency did not establish controls to properly record receivables and ensure the accuracy of payments remitted by Alternative Retail Electric Suppliers. The Agency's financial statements reported revenue of \$5.7 million during fiscal year 2012 and had accounts receivable of \$2.2 million at June 30, 2012, related to Alternative Compliance Payments.

Lack of interagency agreement

During fiscal year 2012, the Alternative Compliance Payment process was administered by the Illinois Commerce Commission (Commission). However, the Agency and the Commission did not have an agreement to document each party's responsibilities for processing Alternative Compliance Payments. During fiscal year 2012, the Alternative Compliance Payments were self-reported by the Alternative Retail Electric Suppliers with their annual report submission due to the Commission on September 1. Upon receipt of an

**Alternative Compliance Payments
self reported**

Agency did not review payments for accuracy or compliance with State law

Alternative Compliance Payment, the Commission deposited the remittance into the Illinois Power Agency Renewable Energy Resource Fund (Fund 836). Further, the Agency did not review the Alternative Compliance Payments received for accuracy or compliance with State law.

We noted the following internal control weaknesses and noncompliance:

- The Agency did not administer the Illinois Power Agency Renewable Energy Resource Fund by ensuring revenues and receipts due to the State from Alternative Compliance Payments were collected and remitted to the proper fund in the State Treasury.
- The Agency did not have an interagency agreement with the Commission detailing the specific functions, duties, and responsibilities of both the Agency and Commission for the accounting, recordkeeping, and deposit of Alternative Compliance Payments.
- The Agency did not perform a review of Alternative Compliance Payments to ensure the amounts remitted by the Alternative Retail Electric Suppliers were in accordance with State law.

Failure to establish controls over Alternative Compliance Payments limits the Agency's ability to prepare accurate financial reports and may result in the Agency not collecting all amounts due to the State from Alternative Retail Electric Suppliers. (Finding 12-2, pages 18-19)

We recommended the Agency implement controls to ensure accurate payments are received. In addition, the Agency and the Commission should develop an interagency agreement outlining the duties and responsibilities of each entity.

Agency agrees with auditors

Agency management agrees with the finding and recommendation.

STATE FUNDS IMPROPERLY HELD OUTSIDE THE STATE TREASURY

State funds held outside the treasury without statutory authority

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

An estimated \$497,000 of State funds held by a procurement administrator

As of June 30, 2012, one Procurement Administrator continued to hold State funds (as instructed by the former Director of the Agency) totaling an estimated \$497,000.

Failure to properly deposit State funds into a Treasury held account could result in a loss of State resources. (Finding 12-3, page 20) **This finding was first reported in 2009.**

We recommended the Agency implement the appropriate procedures to receive and deposit State revenues and collect interest. Additionally, we recommended the Agency obtain and properly deposit all funds held by the procurement administrators, on behalf of the Agency, as soon as possible.

Agency agrees with auditors

Agency management agrees with the finding and recommendation. (For the previous Agency response, see Digest Footnote #1.)

INADEQUATE FEE ASSESSMENT

Fees not adequately assessed

The Agency did not assess adequate fees to ensure the costs of the preparation of the annual procurement plan were recovered.

Cost of the annual procurement plan was estimated at \$1,217,398 while fees assessed were \$1,195,859

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 recovered. Based on information provided by the Agency, the indirect costs plus the costs of the procurement planning consultants exceeds the amounts billed to the utilities. For fiscal year 2012, the total cost of the preparation of the annual procurement plan was estimated at \$1,217,398 while the fees billed were \$1,195,859.

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. 12-4, page 21) **This finding was first reported in 2009.**

We recommended the Agency improve its procedures to ensure that appropriate fees are assessed in order to cover the costs related to the preparation of the annual procurement plan.

Agency agrees with auditors

Agency management agrees with the finding and recommendation. (For the previous Agency response, see Digest Footnote #2.)

NEED TO IMPROVE ACCOUNTS RECEIVABLE REPORTING

The Agency inaccurately reported accounts receivable information to the Office of the State Comptroller.

During testing, the auditors noted the following errors with the Quarterly Summaries of Accounts Receivable Reports:

Approximately \$1.5 million in accounts receivable inaccurately reported

- One (50%) of two reports tested, inaccurately reported accounts receivable, totaling approximately \$1,578,000 under a revenue source that had not been established.

- The number of accounts reported in the aging of receivables was inaccurate. The Agency reported the number based on individual invoices, not by number of customers.

Failure to properly report accounts receivable to the Office of the State Comptroller could result in inaccurate accounting records at the State level. (Finding 12-7, page 25)

We recommended the Agency implement controls to ensure the accounts receivable are properly reported to the Office of the State Comptroller in accordance with the SAMS Manual.

Agency agrees with auditors

Agency management agrees with the finding and recommendation.

ESTABLISHMENT OF REQUIRED BUREAUS AND LACK OF ADEQUATE STAFFING

Failure to establish required Bureaus

The Agency did not establish a Planning and Procurement Bureau or a Resource Development Bureau as required by its enabling statute.

Lack of staffing to carry out mandated tasks

During our audit, we noted the Agency had not established a Planning and Procurement Bureau or a Resource Development Bureau. Additionally, within each bureau a chief was to be appointed. Further, the Agency lacked adequate staffing for most of the fiscal year in order to carry out its mandated tasks.

Violation of State law

Failure to create these required bureaus is a violation of State statute. In addition, because these bureaus were not created, the Director/Acting Director and the Chief Fiscal Officer had the sole responsibility for the procurement processes, which could result in an abuse of power. (Finding 12-9, pages 27-28) **This finding was first reported in 2009.**

We recommended 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.

Agency agrees with auditors

Agency management agrees with the finding and recommendation. (For the previous agency response, see Digest Footnote #3.)

FORMAL AGENCY RULES NOT ADOPTED

Agency did not adopt rules as required by the Illinois Power Agency Act

The 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 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.

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 12-10, pages 29-30) **This finding was first reported in 2009.**

Agency concurs with auditors

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.

Agency management agrees with the finding and recommendation. (For the previous Agency response, see Digest Footnote #4.)


OTHER FINDINGS

The remaining findings were reportedly being given attention by the Agency. We will review the Agency's progress towards implementation of our recommendations in our next engagement.

AUDITORS' OPINION

The auditors stated the Illinois Power Agency financial statements as of June 30, 2012 and for the year then ended were fairly presented in all material respects.

A compliance examination of the Illinois Power Agency was conducted as required by the Illinois State Auditing Act. The Accountant's Report noted the Illinois Power Agency did not comply in all material respects with numerous State mandates, the SAMS Manual, general internal control procedures, and other required rules.



WILLIAM G. HOLZLAND
.. Auditor General

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SPECIAL ASSISTANT AUDITORS

Borschneck, Pelletier & Co. were our Special Assistant Auditors for this engagement.

DIGEST FOOTNOTES

#1-STATE FUNDS IMPROPERLY HELD OUTSIDE THE STATE TREASURY-Previous Agency Response

2011- The Agency agrees with the finding. The Agency notes that no current IPA staff member was employed by the Agency or the State during the time at which the incidents at the basis of this finding occurred.

During FY2011, the Agency substantially implemented procedures that are documented in the current draft of the IPA Fiscal Operations Manual (FOM). The relevant FOM section (Accounting and Financial Reporting Policies and Procedures, subsection Revenue and Related Assets (Receivables) Accounting) documents the specific procedures related to the receipt and deposit of State revenues. Prior to the implementation of the current draft of the FOM, the Agency ensured the procedures, later documented in the current draft of FOM, were followed once the CFO was hired in January 2011.

#2-INADEQUATE FEE ASSESSMENT-Previous Agency Response

2011-The Agency agrees with the finding. In FY12, utilities were billed for both direct and indirect costs associated with the preparation of the procurement plan. In addition, the recently hired Chief Legal Counsel is in the process of completing the draft fees assessment rules for submission for publication in the Illinois Register to begin the formal rulemaking process.

#3-ESTABLISHMENT OF REQUIRED BUREAUS AND LACK OF ADEQUATE STAFFING-Previous Agency Response

2011-The Agency agrees with the finding. The Agency is making progress in its staffing efforts. A Bureau Chief of Planning and Procurement will begin work for the Agency on August 16, 2012 and a new Acting Director was appointed in October 2011. To assist the Agency in carrying out its administrative duties, a Chief Fiscal Officer was hired in January 2011, Chief Legal Counsel began work in March 2012 and an Administrative Analyst was hired in July 2012 with additional staffing to occur in FY13.

#4-FORMAL AGENCY RULES NOT ADOPTED-Previous Agency Response

2011-The Agency agrees with the finding. In March 2012, the Agency hired a Chief Legal Counsel, who is in the process of formalizing all Agency rules. The Chief Legal has worked with JCAR and the Secretary of State Index Department on pre-First Notice review of prioritized rules.

Additionally, the Agency hired a Chief Fiscal Officer in January 2011 who

is responsible for the Agency's financial accounting and reporting functions. After being hired, the CFO developed informal procedures over the Agency's financial operations. These procedures are currently being formalized with the development and implementation of the IPA Fiscal Operations Manual (FOM) that documents procedures over cash receipts, cash disbursements, accounts payable and accounts receivable, in addition to other financial areas. The Agency is also developing a GAAP Reporting Manual (GRM); both are being developed with the assistance of outside consultants. While IPA has implemented the procedures documented in the current draft FOM and GRM, the manuals will not be finalized until a draft of both documents has been completed, because the two documents are inter-related, and additions/revisions are being incorporated while this process is in progress.