LEGISLATIVE
AUDIT
COMMISSION

Review of
Illinois Power Agency
Year Ended June 30, 2013

622 Stratton Office Building
Springfield, Illinois 62706
217/782-7097

REVIEW: 4434
ILLINOIS POWER AGENCY
YEAR ENDED JUNE 30, 2013

FINDINGS/RECOMMENDATIONS - 23

ACCEPTED - 3
IMPLEMENTED - 19
PARTIALLY ACCEPTED - 1

REPEATED RECOMMENDATIONS - 12

PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 17

This review summarizes the auditors' reports on the Illinois Power Agency for the year ended June 30, 2013, filed with the Legislative Audit Commission July 31, 2014. The auditors performed a compliance examination and financial audit and stated the Agency financial statements were fairly presented in all material respects.

The Illinois Power Agency was created by the Illinois Power Agency Act in PA 095-0481 which became law in 2007. 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 identified 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. The Illinois Power Agency is an independent Agency subject to the oversight of the Executive Ethics Commission which appoints the Director. Appendix A presents some of the Agency's service efforts for FY13 and FY12.

During FY13, the Agency developed a procurement plan, which was approved by the Illinois Commerce Commission. While the Agency did not hold electricity and renewable resource supply procurement events in accordance with the plan, the Agency anticipates additional procurement events will be held in FY14 for both Ameren and ComEd. The procurement plan calls for separate energy and renewable products for ComEd and separate energy, capacity, and renewable resource products for Ameren. For all events, bid participation fees will be assessed and successful bidders will be assessed supplier fees. During FY13, the Agency received alternative compliance payments (ACP) from alternative retail energy suppliers who did not meet their obligations of producing or purchasing energy from renewable sources.

Acting Director Arlene Juracek who served from October 2011 until the current director, Mr. Anthony Star was appointed effective March 16, 2013, served as director during the first nine months of the one-year audit period. Mr. Star served the last three months of the audit period and continues to serve as Director. At June 30, 2013, the Agency had five full-time employees.

Financial Information

Appendix B provides a Statement of Net Position at June 30, 2013. Net position was $79.9 million in FY13 compared to $46.9 million in FY12. Appendix B also provides a summary of revenues and expenses for the year ended June 30, 2012.

Expenditures From Appropriations

The General Assembly appropriated a total of $12,213,500 and $4,329,200 in FY13 and FY12, respectively, to the Illinois Power Agency. An addition to receiving appropriated funds from the Illinois Power Agency Trust Fund and the Illinois Power Agency Operations Fund, for the first time in FY13, the Agency received an appropriation in the amount of $8,000,000 from the Illinois Power Agency Renewable Energy Resources Fund. Appendix C summarizes appropriations and expenditures for FY13 and FY12. Total expenditures from appropriated funds in FY13 were $1.1 million compared to $3.6 million in FY12. Lapse period expenditures were $88,277, or 8.6%, in FY13.

Expenditures in FY13 were less than expenditures in FY12 due the following:

- Contracting with a new procurement planning consultant who charged less than the prior consultant;
- Not conducting an energy procurement, reducing the amount paid to the Procurement Administrator; and
- Hiring in-house legal counsel, reducing the cost for obtaining external legal services.

During FY12, the Agency transferred the vast majority of cash assets held within the State Treasury to the Illinois State Board of Investment.

Cash Receipts

Appendix D provides a summary of the Agency's cash receipts for FY13 and FY12. Total cash receipts from bidder and supplier fees were $2.4 million in FY13 compared to $2.8 million in FY12.

Property and Equipment

As of June 30, 2013, the Agency owns about $11,900 in equipment. Finding 2013-013 relates to the reporting and recording of equipment in FY13.

Accounts Receivable

The Agency reported accounts receivable of $1,085,000 at June 30, 2013. The majority of the balance is current ($1,004,000). However, the Agency reported accounts receivable of $38.3 million for alternative compliance payments (ACPs) from alternative retail energy suppliers which did not meet their obligations of producing or purchasing energy from renewable sources.

Accountants' Findings and Recommendations

Condensed below are the 23 findings and recommendations, 12 repeated, included in the audit report. The following recommendations are classified on the basis of updated information provided by Director Anthony Star via electronic mail received February 24, 2015.

Accepted, Partially Accepted or Implemented

1. Enhance 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. (Repeated-2012)

Finding: The Illinois Power Agency's (Agency) financial statements contained inaccuracies. These problems, corrected, would have resulted in a material misstatement of the Agency's financial statements.

During testing, the auditors temporarily suspended the audit of the Agency's financial statements in February 2014 due to the number of significant errors noted by the auditors during testing, some of which are noted below:

- The Agency did not appear to have properly recognized revenue for Alternative Compliance Payments (ACPs) received and processed by the Illinois Commerce Commission on behalf of the Agency (see Rec #3), totaling $1,047,226 and $30,624,972 at June 30, 2012, and June 30, 2013, respectively.

- The Agency understated its accounts receivable at June 30, 2013, totaling $382,346, for ACPs.

- The Agency recorded transactions related to FY12 activity, totaling $92,192, in the Agency's FY13 records.

The preceding matters noted were in addition to the following matters already encountered and resolved prior to February 2014, as noted below:

Accepted, Partially Accepted or Implemented - continued

- The Agency recorded assets and liabilities that did not exist at June 30, 2013, in the Illinois Power Agency Trust Fund, totaling $26.835 million and $1.944 million, respectively. This was corrected by the State Comptroller before February 2014.

- The Agency did not record or disclose any liabilities or contingent liabilities for contracts to purchase renewable energy between June 2013 and May 2014. After notification from the auditors, the Agency contacted the suppliers to obtain the information necessary to properly present this information in the Agency's financial records and statements in October 2013 (see more information in Rec #4).

During discussions with the Agency's management and external consultants, the auditors and the Agency agreed to the following steps to prepare auditable financial statements:

- The Agency would review every transaction recorded during FY13 to check whether the transaction was properly entered into the Agency's records.

- The Agency would perform reconciliations of the Agency's cash, expenditures, and receipts to the records of the State Comptroller and explain all reconciling items.

The Agency provided revised financial information to the auditors in March 2014. The Agency recorded 17 adjusting journal entries to correct errors they discovered within their financial records during this review. During testing of the Agency's revised records, the auditors still noted, and the Agency corrected, the following errors and misstatements:

- The Agency's opening balances did not agree to the closing balances reported in the Agency's audited FY12 financial statements. The auditors identified an adjusting journal entry from the prior year was posted by the Agency to the wrong period, totaling $86,567.

- The Agency's beginning balance for unavailable revenue related to ACPs in Fiscal Year 2012 was overstated by $1,047,226 (see Rec #3).

- The Agency did not comply with statutory limitations on fund transfers from the Illinois Power Agency Trust Fund to the Illinois Power Agency Operations Fund (see Rec #2). The auditors proposed an adjusting entry to correct this error of $997,827.

- The Agency did not properly calculate its outstanding liabilities due to vendors for prompt payment interest not paid in prior years, overstating its liability by $48,620.

Response: Accepted. The Agency has already implemented the following corrective actions to enhance its accounting and financial reporting procedures in order to address this finding. These actions included: (1) worked with external consultants, and the auditors, to identify and record necessary adjusting entries to ensure the accuracy of all Agency FY13 financial records and resulting corrected financial statements; (2) hired a

Chief Operating Officer to assess the Agency's internal controls over all fiscal and operational processes; (3) hired a well-qualified and experienced Chief Financial Officer to ensure the accuracy and transparency of all Agency financial records; and, (4) finalized its Fiscal Operations Manual, which improves and governs all Agency financial operations and related procedures in accordance with applicable State statutes, rules, and regulations.

Updated Response: Implemented.

2. Record and perform transfers of investment income in accordance with the provisions of the State Finance Act. In addition, return the amount of excess transfers to the Trust Fund.

Finding: The Power Agency did not comply with statutory limitations on fund transfers from the Illinois Power Agency Trust Fund (Trust Fund) to the Illinois Power Agency Operations Fund (Operations Fund).

During FY08, electric generating utilities operating within the State contributed $25 million to the Agency for deposit into the Trust Fund. Pursuant to the State Finance Act, these moneys have been invested to generate investment income to both grow the corpus within the Trust Fund and provide an additional revenue source to fund the Agency's operations.

Each year, the Agency is to transfer an amount not exceeding the lesser of either 90% of the investment income during the fiscal year or an amount appropriated by the General Assembly for deposit into the Operations Fund from the Trust Fund. The Agency must retain the remainder of the year's investment income and add it to the corpus within the Trust Fund, which cannot be considered in calculating future year transfers of investment income. During testing, some of what the auditors noted follows:

- The beginning balance of the Trust Fund at July 1, 2012, was less than the $25 million initially contributed to the Trust Fund in FY08. Although the Trust Fund has never had an investment loss during any year from FY08 through FY12, the balance of the fund had not increased by the amount of investment income that should have been retained within the Trust Fund. Further, it appears the Agency actually transferred a portion of the initial $25 million contribution from the Trust Fund to the Operations Fund. At July 1, 2012, auditors estimated cumulative excess transfers of $469,834.

- The General Assembly appropriated $300,000 to the Agency in FY13 for transfer from the Trust Fund to the Operations Fund. The Agency's FY13 financial statements included an accrual due from the Trust Fund to the Operations Fund for $735,801 from FY13 investment income. This amount exceeds the appropriation limitation by $435,801. The Agency had not requested this $735,801 transfer as of the close of fieldwork.

Accepted, Partially Accepted or Implemented - continued

The auditors proposed adjusting journal entries to the Agency to correct these errors, which the Agency recorded in the financial statements.

Response: Accepted. The Agency has identified and implemented corrective actions necessary to ensure prior transfers accurately reflect movement of funds in accordance with applicable State statutes, rules, and regulations.

The Agency notes that the cause of this finding originates in activities undertaken by the Agency in FY11 and FY12 and involves aspects of the State Finance Act that include ambiguous language that was interpreted differently by previous Agency staff.

Additionally, the Agency (1) hired a Chief Operating Officer to assess the Agency's internal controls over all fiscal and operational processes; (2) hired a well-qualified and experienced Chief Financial Officer to ensure the accuracy and transparency of all Agency financial records; and, (3) finalized its Fiscal Operations Manual, which improves and governs all Agency financial operations and related procedures in accordance with applicable State statutes, rules, and regulations.

Updated Response: Implemented.

3. Work with the Illinois Commerce Commission (ICC) to obtain the information necessary to properly report alternative compliance payments (ACPs) in the Agency's financial statements. Further, work with the ICC to address the issuance of, and financial reporting for, refunds and credit carry-forwards, or seek a legislative remedy. (Repeated-2011)

Finding: The Power Agency did not establish internal controls to properly record receivables and ensure the accuracy of Alternative Compliance Payments (ACPs) remitted by Alternative Retail Electric Suppliers (ARES).

At the conclusion of each Energy Year (June - May), each ARES calculates its ACP liability by preparing a spreadsheet to self-report amounts due to the Illinois Commerce Commission and remits the calculated amount due by September 1.

During FY13, the processing of all ACPs was administered by the ICC. The ICC accepted payments, verified the payment's accuracy to the self-reported spreadsheet submitted by the ARES, and deposited the cash receipts into the Illinois Power Agency Renewable Energy Resources Fund (Renewable Fund). The Agency's Director performed a review of ACP receivables at June 30, 2013, that were paid to the Commission in October 2013. During testing, the auditors noted the following:

- The Agency did not properly record both prior year and current year transactions within the Renewable Fund. The auditors noted the Agency did not capture or consider the receipt date of ACPs paid to the Commission to properly cut off revenue recognition at the conclusion of the State's lapse period. The auditors proposed a $1,047,226 and a $30,624,972 reduction in unavailable revenue at June 30, 2012, and June 30, 2013, respectively. After notification from the auditors of this condition, the Agency recorded the adjusting journal entries necessary to restate the opening balances for prior year errors and corrected the current year's errors.

- The Agency did not have an interagency agreement with the ICC detailing the specific functions, duties, and responsibilities of both the Agency and the ICC for the accounting, recordkeeping, collection, and deposit of ACPs (see Rec #17).

- The Agency does not have a mechanism to identify any potential credit carry-forwards or refunds due to retail electric suppliers for financial reporting purposes. During the audit period, the Commission reported the existence of two overpayments from retail electric suppliers to the auditors, totaling $158.

- The Agency has not coordinated with the Commission to establish a process and procedure for the refund of excess ACPs. Additionally, the auditors noted the Agency does not have any appropriation authority to actually pay a refund if the Commission allowed an ARES to apply to the Agency for a refund.

Response: Accepted. The Agency has identified and implemented corrective actions necessary to ensure alternative compliance payments are recorded in accordance with applicable State statutes, rules, and regulations. As of October 10, 2013, the Agency memorialized an interagency agreement with the Illinois Commerce Commission. The Agency will work with the Illinois Commerce Commission to take additional corrective actions including, but not limited to, updating the interagency agreement to address this finding.

Additionally, the Agency (1) hired a Chief Operating Officer to assess the Agency's internal controls over all fiscal and operational processes; (2) hired a well-qualified and experienced Chief Financial Officer to ensure the accuracy and transparency of all Agency financial records; and, (3) finalized its Fiscal Operations Manual, which improves and governs all Agency financial operations and related procedures in accordance with applicable State statutes, rules, and regulations.

Updated Response: Partially Implemented. The Agency is working with the Illinois Commerce Commission to update the existing interagency agreement to fully remedy this finding.

4. Structure contractual agreements to accommodate fiscal year limitations and identify and record all liabilities and contingencies in the financial statements. Further, create credit requirements for suppliers of distributed renewable energy and procure Renewable Energy Credits (RECs) from distributed renewable energy generation devices, or seek a legislative remedy.

Accepted, Partially Accepted or Implemented - continued

<u>Finding:</u> The Power Agency did not comply with State Laws and regulations regarding accounting for the Agency's expenditures from its Renewable Energy Resources Fund (Renewable Fund).

During FY13, the Agency entered into contracts with Renewable Energy Suppliers (RES) to purchase Renewable Energy Credits (RECs) curtailed by order of the Illinois Commerce Commission (Commission). Under the terms of the contracts, the RES have the option, but not the obligation, to deliver RECs to the Agency under the terms of the contracts for energy produced from June 1, 2013, through May 31, 2014. The contracts require settlement by the RES providing RECs for retirement to the Agency on or before July 20, 2014.

The total potential cost of the REC purchase contracts is $2,240,006. The Agency could potentially procure an amount not to exceed 2,974 photovoltaic (solar) RECs and 118,646 wind RECs. During testing, the auditors noted the following:

- The Agency did not structure the terms of its contracts as to require settlement for RECs produced in June 2013 by the conclusion of the State's FY13 lapse period on August 31, 2013. According to auditor confirmations with the RES, they expect to deliver 648 photovoltaic RECs and 318 wind RECs produced in June 2013 to the Agency, totaling $97,473. As the Agency's contracts did not require settlement, the RES did not deliver the RECs and provide a proper bill to the Agency, resulting in the Agency not charging FY13 appropriations for expenses incurred during the fiscal year and pushing these expenses out to future year appropriations.

- The Agency did not report a liability for the $97,473 payable related to June 2013 RECs or disclose the existence of the $2,142,533 contingent commitment of future resources related to the remaining value of outstanding contracts to the Office of the State Comptroller. After receiving notification from the auditors of this condition, the Agency calculated the liability and prepared footnote disclosures to describe the existence of this transaction within the Agency's financial statements.

- The Agency did not procure RECs from distributed renewable energy generation devices. The Illinois Power Agency Act requires the Agency to procure renewable energy resources and at least 0.5% shall come from distributed renewable energy generation devices by June 1, 2013. Agency officials stated the Agency could not lawfully procure RECs from distributed renewable energy generation devices due to two regulatory and statutory barriers.

- The Agency did not create credit requirements for suppliers of distributed renewable energy. Additionally, the Agency did not solicit the use of third- party organizations to aggregate distributed renewable energy into groups of no less than one megawatt in installed capacity.

Agency officials stated that if the Agency's 2013 Procurement Plan was to have gone forward, the plan set out certain proposed credit terms and the Agency would have solicited third-party groups after authorization to hold a 2013 Procurement Event from the Commission.

Response: Accepted. FY13 was the first time in the Agency's history that it purchased Renewable Energy Credits (REC) and the contracts were structured to reflect the energy delivery-year schedule, which starts one month prior to the State fiscal year-end. The Agency will ensure that any future contracts for the purchase of RECs account for that difference, and will properly record all liabilities and contingencies.

Regarding the purchase of RECs from distributed renewable energy generation devices, Public Act 098-0672, signed into law by Governor Quinn effective on June 30, 2014, will allow the Agency to begin to purchase these resources in calendar year 2015 and will also facilitate the development of the applicable credit requirements.

Updated Response: Implemented. The Supplemental Photovoltaic Procurement Plan developed by the Agency (and approved by the Illinois Commerce Commission) pursuant to Public Act 098-0672 includes provisions to address this finding.

5. Perform and document a monthly reconciliation of the Agency's internal records to the State Comptroller's records. (Repeated-2010)

Finding: The Power Agency did not perform reconciliations of the Agency's records to the State Comptroller's records. During testing, the auditors noted the Agency did not perform reconciliations between the Agency's records and the following reports from the State Comptroller during Fiscal Year 2013:

- Monthly Appropriations Status Report (SB01);
- Monthly Revenue Status Report (SB04);
- Monthly Cash Report (SB05);
- Monthly Object Expense/Expenditures by Quarter Report (SA02);
- Monthly Agency Contract Report (SC14); and,
- Monthly Obligation Activity Report (SC15).

Agency officials stated the deficiency was due to resource constraints.

Response: Accepted. The Agency has identified and implemented corrective actions necessary to ensure all applicable monthly reconciliations (Agency to Comptroller) were prepared as mandated by applicable SAMS procedures. The Agency has (1) hired a Chief Operating Officer to assess the Agency's internal controls over all fiscal and operational processes; (2) hired a well-qualified and experienced Chief Financial Officer to ensure the accuracy and transparency of all Agency financial records; and, (3) finalized its Fiscal Operations Manual, which improves and governs all Agency financial operations and related procedures in accordance with applicable State statutes, rules, and regulations.

Updated Response: Implemented.

Accepted, Partially Accepted or Implemented - continued

6. Evaluate environment to segregate duties over the processing of financial transactions, establish separate accounts and passwords within financial reporting applications, and ensure the geographic distance between the Agency's office and backup site is of sufficient distance to permit recovery in the event of a regional disaster.

Finding: The Power Agency had not established adequate controls over its computing environment.

During the audit of the financial statements for the year ended June 30, 2013, the auditors identified control deficiencies related to the Agency's information systems. The Agency utilizes two different applications to process, accumulate, and analyze its financial information. During testing, the auditors noted the following:

- The Agency had not established adequate segregation of duties over processing financial transactions. The auditors noted the two employees processing financial transactions during the engagement period had the same powers and access rights within both applications. Additionally, the auditors noted the Agency had not conducted access reviews to determine who was able to and who should be able to utilize both applications to process, accumulate, and analyze the Agency's financial data.

- The Agency did not have separate accounts and passwords to access its financial reporting application. The auditors noted the two employees processing financial data each used the same account to access the application. Additionally, the auditors noted the application was not set up as to designate which individuals entered and reviewed journal entries within this application.

- While the data on the Agency's server, which has data supporting the Agency's $89 million in assets, was being backed up on a regular basis, the distance between the Agency's office and the backup site was insufficient to provide reasonable assurance a regional disaster would not destroy the Agency's data.

Agency officials stated the exceptions noted were due to oversight and the small size of the Agency.

Updated Response: Implemented. The Agency has upgraded its accounting system to the 2014 version of QuickBooks and implemented internal controls to ensure appropriate integrity and security of user accounts and passwords, as well as enhanced segregation of duties.

Effective October 2014, the Agency developed and implemented, with guidance from the Dept. of Central Management Services - Bureau of Communication and Computer Services (CMS-BCCS), a formal Disaster Recovery & Business Continuity Plan, and related procedures.

7. 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. (Repeated-2009)

Finding: The Power Agency did not adopt rules and regulations for the Agency's operations, administration, accounting, and reporting as required by the Illinois Power Agency Act.

During testing, the auditors 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.

Agency officials stated the Agency has been working to resolve this matter within their staffing constraints.

Response: Accepted. The Agency rules relating to a system of accounts were adopted by the Joint Committee on Administrative Rules on April 28, 2014, and published on May 9, 2014, as Title 83, Part 1220 of the Illinois Administrative Code. The Agency intends to initiate the other rulemakings during FY15.

Updated Response: Partially Implemented. The Agency has initiated the drafting of the remaining rules.

8. Draft and adopt formal agency rules for charges and fees the Agency is expressly authorized to collect in order to fund operations. (Repeated-2010)

Finding: The Power Agency did not adopt formal rules related to fees and charges it is authorized to collect and deposit.

During testing, the auditors noted that although the Agency was established in FY08, the Agency has not adopted rules for fees and charges it is expressly authorized to collect and deposit into the Illinois Power Agency Operations Fund to fund the Agency's operations. During Fiscal Year 2013, the Agency reported cash receipts of $2,437,036 in bidder and supplier fees for the Operations Fund.

Agency officials stated the Agency lacked sufficient time and resources to complete the process to adopt the rulemaking required by the Illinois Power Agency Act beyond certain preliminary steps.

Response: Accepted. The Agency rules relating to fees and charges were adopted by the Joint Committee on Administrative Rules on April 28, 2014, and published on May 9, 2014, as Title 83, Part 1200 of the Illinois Administrative Code.

Updated Response: Implemented.

Accepted, Partially Accepted or Implemented - continued

9. Establish rules for the development of prequalified supplier lists for construction and construction-related professional services. (Repeated-2009)

<u>Finding:</u> The Power Agency did not promulgate rules as required by the Illinois Procurement Code.

During testing, the auditors noted the Agency did not promulgate rules for the development of prequalified supplier lists for construction and construction-related professional services. Agency officials stated they lacked sufficient resources to promulgate the required rules.

<u>Updated Response:</u> Partially Implemented. The Agency has initiated drafting of proposed rules.

10. Establish a Resource Development Bureau, or seek a legislative remedy. (Repeated-2009)

<u>Finding:</u> The Power Agency did not establish a Resource Development Bureau or appoint a Chief of the Resource Development Bureau as required by the Illinois Power Agency Act.

Agency officials stated the Agency has not established the Resource Planning and Development Bureau nor hired the Bureau's Chief because they do not anticipate a need for these functions based upon recent procurement events.

<u>Response:</u> Accepted. However, as previously noted in the Agency response to FY11 Finding 11-17 and FY12 Finding 12-9, the Agency respectfully submits that although Section 1-70 of the IPA Act requires hiring of a Chief of the Resource Development Bureau, the Agency believes that hiring for this position would not be a prudent use of State resources at this time. This is because, based on the results of this year's electricity procurement planning the Agency is required to undertake pursuant to Section 1-75 of the IPA Act, there is and will be no need for the Agency to develop generation pursuant to Section 1-80 of the IPA Act in the short or medium term. As a result, the Agency believes there would be little to no substantive work for the Chief of the Resource Development Bureau to undertake for several years.

The Agency continues to express its concern regarding the hiring of a Bureau Chief for the Resource Development Bureau.

<u>Updated Response:</u> Partially Accepted.

11. Establish controls over the voucher processing system to only pay proper bills, charge expenditures to the correct fiscal year's appropriation and detail object

code, properly approve invoices for payment in a timely manner, and consecutively number vouchers.

Finding: The Power Agency did not maintain adequate controls over its expenditure and voucher processing functions. Some of the deficiencies noted by auditors during testing of 45 vouchers follows:

- Seven vouchers tested did not have the amount billed by the vendor paid by the Agency. As opposed to rejecting a bill deemed incorrect by the Agency and reporting the improper bill back to the vendor for correction and/or submission of additional supporting documentation, the Agency adjusted the bill and paid only the amount considered correct by the Agency. The documentation provided to auditors was not sufficient to determine if corrections were provided to the vendor and/or how the Agency derived the amount ultimately paid to the vendor.

- The Agency did not comply with fiscal year limitations for appropriated expenditures. The auditors noted the following:

  - One voucher tested, totaling \$20,696, included an offset by the Agency for a Fiscal Year 2012 overpayment of \$86,567 to the vendor. As the Agency did not seek a refund of the overpayment and internally offset the overpayment without presenting vouchers for the full FY13 expense, the Agency did not report to and the State Comptroller did not record \$86,567 of expenditures against the Agency's FY13 appropriations.

  - One voucher tested, totaling \$16,980, paid \$668 of FY14 expenditures from FY13 appropriations.

- One (2%) voucher tested, totaling \$3,387, was approved by the Agency 54 days late.

- Three (7%) vouchers tested, totaling \$11,914, were not completed properly by the Agency. The missing information and discrepancies noted included a lack of proper signatures on a voucher, the lack of a voucher date, and a traveler signing and dating a travel voucher before the date of travel.

- The Agency did not consecutively number all of its vouchers within the fiscal year.

Agency officials stated the noted deficiencies in expenditure processing were a result of staff oversight.

Response: Accepted. The Agency has identified and implemented corrective actions necessary to ensure adequate control over its expenditure and vouchering processes. The Agency has (1) hired a Chief Operating Officer to assess the Agency's internal controls over all fiscal and operational processes; (2) hired a well-qualified and experienced Chief Financial Officer to ensure the accuracy and transparency of all Agency financial records;

Accepted, Partially Accepted or Implemented - continued

and, (3) finalized its Fiscal Operations Manual, which improves and governs all Agency financial operations and related procedures in accordance with applicable State statutes, rules, and regulations.

<u>Updated Response:</u> Implemented.

12. Deposit investment income into the Trust Fund and only interfund cash transfer moneys pursuant to an appropriation from the General Assembly. Further, ensure amounts charged to an appropriation line item represents an allowable use under the terms of the appropriation law.

<u>Finding:</u> The Power Agency did not properly use appropriations within the Illinois Power Agency Trust Fund (Trust Fund). During testing, the auditors noted the following:

- The Agency circumvented the appropriations process by directly depositing investment income received from the Illinois State Board of Investment, totaling $92,192, into the Illinois Power Agency Operations Fund as opposed to depositing the receipt into the Trust Fund and performing an interfund cash transfer to move the moneys, pursuant to appropriation, into the Operations Fund.

- During FY13, the Agency transferred the remaining cash on deposit in the Trust Fund within the State Treasury, totaling $36,324, to the Illinois State Board of Investment. To perform this transaction, the Agency incorrectly charged the entire amount to its FY13 appropriation for transferring moneys from the Trust Fund to the Operations Fund as opposed to charging this activity to the Trust Fund's nonappropriated interfund cash transfer line item.

Agency officials stated the errors were due to oversight.

<u>Response:</u> Accepted. The Agency has identified and implemented corrective actions necessary to ensure prior transfers accurately reflect movement of funds in accordance with applicable State statutes, rules, and regulations.

Additionally, the Agency (1) hired a Chief Operating Officer to assess the Agency's internal controls over all fiscal and operational processes; (2) hired a well-qualified and experienced Chief Financial Officer to ensure the accuracy and transparency of all Agency financial records; and, (3) finalized its Fiscal Operations Manual, which improves and governs all Agency financial operations and related procedures in accordance with applicable State statutes, rules, and regulations.

<u>Updated Response:</u> Implemented.

13. Ensure property and equipment records are properly maintained and updated as required to allow for proper reporting of equipment transactions to the Office of the State Comptroller. (Repeated-2012)

Finding: The Power Agency did not maintain sufficient control over the recording and reporting of State property. Some of the deficiencies noted by auditors during testing follows:

The Agency did not take appropriate measures to verify the completeness and accuracy of the Agency's property records.

- 42 of 71 equipment items did not have a recorded value on the Agency's property listing. According to Agency officials, many of these items were transferred to the Agency from the Department of Central Management Services.

- The Agency did not remove three property items transferred as surplus to the Department of Central Management Services during Fiscal Year 2013 from its property records.

The Agency did not properly prepare its "Agency Report of State Property" (Form C-15) filed with the Office of the State Comptroller.

- The Agency has an unreconciled difference between the Agency's property records and amounts reported on its Form C-15s, totaling $1,186.

- The Agency did not record six of nine equipment additions during Fiscal Year 2013 on its Form C-15s, totaling $806.

Agency officials stated these conditions were due to staff error.

Response: Accepted. The Agency has identified and implemented corrective actions necessary to ensure adequate control over its recording and reporting of State property.

The Agency has (1) hired a Chief Operating Officer to assess the Agency's internal controls over all fiscal and operational processes; (2) hired a well-qualified and experienced Chief Financial Officer to ensure the accuracy and transparency of all Agency financial records; and, (3) finalized its Fiscal Operations Manual, which improves and governs all Agency financial operations and related procedures in accordance with applicable State statutes, rules, and regulations.

Updated Response: Implemented. No Change.

14. Properly approve all contracts as required by State law. (Repeated-2012)

Finding: The Power Agency did not properly approve contracts. During testing, the auditors noted three of the six contracts were not properly approved. Two of the noted

Accepted, Partially Accepted or Implemented - continued

contracts were missing the Chief Legal Counsel's signature and one contract was missing the date the Chief Legal Counsel and Chief Financial Officer signed the contract.

Agency officials stated the deficiencies were due to resource constraints and human error.

Response: Accepted. The Agency has identified and implemented corrective actions necessary to ensure all Agency contracts are prepared and approved as mandated by the State Finance Act and applicable SAMS procedures.

The Agency has (1) hired a Chief Operating Officer to assess the Agency's internal controls over fiscal and operational processes; (2) hired a well-qualified and experienced Chief Financial Officer to ensure the accuracy and transparency of all Agency financial records; and, (3) finalized its Fiscal Operations Manual, which improves and governs all Agency financial operations and related procedures in accordance with applicable State statutes, rules, and regulations.

Updated Response: Implemented.

15. Implement internal controls designed to allow for the timely filing of contractual agreements. Further, review documents filed with external parties for compliance with all applicable laws, rules, and regulations. (Repeated-2009)

Finding: The Power Agency did not maintain adequate internal control over compliance with the provisions of the Illinois Procurement Code.

During FY13, the Agency entered into 13 contracts. During testing, the auditors noted the following:

- Three (23%) contracts totaling $181,916 were filed with the State Comptroller between 74 and 83 days late.
- The Agency did not properly complete late filing affidavits for the three contracts filed late, as noted above. The auditors noted all three affidavits were not signed by the Agency's Director, one affidavit was not notarized, and two affidavits were not filed with the Auditor General.

Agency officials stated the deficiencies were due to resource constraints and human error.

Response: Accepted. The Agency has identified and implemented corrective actions necessary to maintain appropriate control over Agency contracts as mandated by the Illinois Procurement Code.

The Agency has (1) hired a Chief Operating Officer to assess the Agency's internal controls over all fiscal and operational processes; (2) hired a well-qualified and experienced Chief

Financial Officer to ensure the accuracy and transparency of all Agency financial records; and, (3) finalized its Fiscal Operations Manual, which improves and governs all Agency financial operations and related procedures in accordance with applicable State statutes, rules, and regulations.

Updated Response: Implemented.

16. Follow the Illinois Procurement Code and use the emergency provisions of the Illinois Procurement Code only in true emergencies and not due to inadequate planning.

Finding: The Power Agency filed an emergency purchase affidavit for a purchase which was not an emergency, in violation of the Illinois Procurement Code.

During FY13, the Agency entered into one emergency purchase, totaling $30,434, with a public accounting firm to prepare the Agency's FY12 GAAP Packages, financial statements, and procedure manuals. During testing, the auditors noted the reason for the emergency was the "deadline to renew this contract was overlooked."

Response: Accepted. The Agency has identified and implemented corrective actions necessary to maintain appropriate control over Agency contracts as mandated by the Illinois Procurement Code.

The Agency has (1) hired a Chief Operating Officer to assess the Agency's internal controls over all fiscal and operational processes; (2) hired a well-qualified and experienced Chief Financial Officer to ensure the accuracy and transparency of all Agency financial records; and, (3) finalized its Fiscal Operations Manual, which improves and governs all Agency financial operations and related procedures in accordance with applicable State statutes, rules, and regulations. Through these actions the Agency has reduced its need for outside accounting services.

Updated Response: Implemented.

17. Document interagency agreements in writing.

Finding: The Power Agency did not enter into written interagency agreements.

During testing, the auditors noted the Illinois Commerce Commission collected, processed, and performed all recordkeeping functions for Alternative Compliance Payments (see Rec #3) and the Executive Ethics Commission was processing payroll transactions at the beginning of FY13 on behalf of the Agency. However, the auditors noted the Agency had not entered into formal interagency agreements with either entity identifying the specific functions, duties, and responsibilities of both agencies for the processing, accounting, and recordkeeping of transactions.

Accepted, Partially Accepted or Implemented - continued

Additionally, the auditors noted the Agency did not have policies and procedures for initiating and monitoring interagency agreements and the Agency did not have a process for allocating the cost of shared employee costs across State agencies.

Agency officials stated the failure to enter into interagency agreements was due to oversight.

Response: Accepted. At the start of FY13, the Executive Ethics Commission (EEC) was responsible for processing the Agency's payroll. However, during September 2013, the Agency began processing payroll on its own, and therefore an interagency agreement with the EEC was no longer needed.

During FY13, the Agency began working with the Illinois Commerce Commission (ICC) to memorialize roles and responsibilities governing the processing of alternative compliance payments. On October 10, 2013, the Agency memorialized an interagency agreement with the ICC.

Updated Response: Implemented.

18. Conduct and document an evaluation of internal controls in accordance with the Fiscal Control and Internal Auditing Act. (Repeated-2012)

Finding: The Power Agency did not conduct an evaluation of its internal controls as required by the Fiscal Control and Internal Auditing Act.

For FY13, the Agency submitted a certification letter to the Auditor General stating that an evaluation of the internal fiscal and administrative controls of the Agency was performed. However, the Agency was unable to provide documentation of the evaluation process. Further, the auditors noted the Agency only identified weaknesses based on the FY11 audit.

Agency officials stated the evaluation was conducted using the previously released audit report as a guide and the Acting Director's review of the checklist provided him persuasive evidence the Agency was deficient in multiple areas and not in compliance with the Fiscal Control and Internal Auditing Act.

Response: Accepted. The Agency has identified and implemented corrective actions necessary to ensure appropriate review of its internal controls as required by the Fiscal Control and Internal Auditing Act.

The Agency has (1) hired a Chief Operating Officer to assess the Agency's internal controls over all fiscal and operational processes; (2) hired a well-qualified and experienced Chief Financial Officer to ensure the accuracy and transparency of all Agency financial records; and, (3) finalized its Fiscal Operations Manual, which improves and governs all Agency financial operations and related procedures in accordance with applicable State statutes, rules, and regulations.

Updated Response: Implemented.

19. Formally document each employee's daily start and end times.

Finding: The Power Agency had not established adequate controls over employee attendance. During testing, the auditors noted the Agency has not documented employee start and end times within either the Agency's employee policies or individual employee files.

Agency officials stated the deficiency was due to oversight.

Updated Response: Implemented. Effective 7/1/2014, the Agency revised its Employee Handbook to include start and end times.

20. Implement controls to ensure accounts receivable are properly recorded in the Agency's records and accurately reported to the Office of the State Comptroller. (Repeated-2012)

Finding: The Power Agency did not maintain sufficient control over collecting and reporting accounts receivable. Some of the deficiencies noted by auditors during testing, follows:

- The Agency's procedures for collecting accounts receivable are inadequate and not designed to ensure amounts are promptly recorded within the Agency's billing records.
  - The Agency posted invoices for procurement planning expenses to two electric utilities, totaling $1,030,123, as an adjustment dated June 30, 2013; however, the actual date the Agency billed the utilities was August 26, 2013. The auditors concluded these amounts had not been billed in a timely manner by the Agency.
  - As of June 10, 2013, seven Renewable Energy Suppliers (RES) were not timely billed for a nonrefundable fee, totaling $27,274. The Agency eventually posted these receivables as an adjustment dated June 30, 2013, but was unable to identify the actual date the Agency billed the RES. In addition, the Agency did not report these receivables as past due on the Agency's June 30, 2013, quarterly accounts receivable report to the State Comptroller.
- The Agency did not exercise adequate control over aging accounts receivable or estimating uncollectible amounts. The auditors noted the following:

Accepted, Partially Accepted or Implemented - continued

- o The Agency has not reviewed its accounts receivable process to determine whether its method of not calculating an estimate for uncollectible accounts is fair and reasonable. For example, the auditors noted one account, totaling $9,430, where the Agency had not recorded an allowance for doubtful accounts even though the entity disputes the amount due and the amount was originally billed around October 2012.

- o Due to the lack of controls over invoice billing, the Agency's ability to prepare accurate aging reports of accounts receivable for its quarterly reports to the State Comptroller was significantly limited. As such, the auditors could not conclude as to whether the Agency's accounts receivable aging schedule within its quarterly report of accounts receivable to the Office of the State Comptroller was fair and accurate.

- The Agency did not submit accurate quarterly accounts receivable reports to the Office of the State Comptroller. The auditors noted the following:

  - o The Agency did not report accounts receivable under a recognized Major Revenue Source account within the State's Chart of Accounts. The Agency reported a portion of each quarter's accounts receivable activity to an expenditures account.

  - o Three of four quarterly reports did not report a beginning balance for accounts receivable which agreed with the prior quarter's ending balance for accounts receivable. The auditors noted differences between $25,000 and $470,000.

Agency officials stated these conditions were due to resource constraints and human error.

Response: Accepted. The Agency has identified and implemented corrective actions necessary to ensure adequate control over its collection and reporting of accounts receivable.

The Agency has (1) hired a Chief Operating Officer to assess the Agency's internal controls over all fiscal and operational processes; (2) hired a well-qualified and experienced Chief Financial Officer to ensure the accuracy and transparency of all Agency financial records; and, (3) finalized its Fiscal Operations Manual, which improves and governs all Agency financial operations and related procedures in accordance with applicable State statutes, rules, and regulations.

Updated Response: Implemented.

21. Document the date of receipt for cash payments, as required by law.

Finding: The Power Agency did not properly record the date cash receipts were received by the Agency within the Agency's accounting system.

During testing, the auditors noted 7 of 14 receipts tested, totaling $1,267,000, where the receipt date recorded within the Agency's accounting system did not agree with the receipt date noted within the Agency's supporting documentation. The auditors noted differences between one to five days between the date noted on the receipt's supporting documentation when compared to the date recorded within the Agency's accounting system.

Agency officials stated the exceptions noted were due to oversight.

Response: Accepted. The Agency has identified and implemented corrective actions necessary to ensure adequate control over its cash receipts process.

The Agency has (1) hired a Chief Operating Officer to assess the Agency's internal controls over all fiscal and operational processes; (2) hired a well-qualified and experienced Chief Financial Officer to ensure the accuracy and transparency of all Agency financial records; and, (3) finalized its Fiscal Operations Manual, which improves and governs all Agency financial operations and related procedures in accordance with applicable State statutes, rules, and regulations.
Updated Response: Implemented.

22. Accurately report official headquarters designations to the Commission in accordance with the Act.

Finding: The Power Agency did not file accurate Travel Headquarters Reports (Form TA-2) with the Legislative Audit Commission.

During testing, the auditors noted the Chief of the Planning and Procurement Bureau at the Agency, who works from Baltimore, Maryland, was omitted from the Form TA-2 reports filed by the Agency with the Commission during FY13.

Agency officials stated the employee was inadvertently omitted from the TA-2 reports due to oversight.

Response: Accepted. The Agency has identified and implemented corrective actions necessary to ensure the accurate preparation and submission of required TA-2 reports to the Legislative Audit Commission.

The Agency hired a Chief Operating Officer to assess the Agency's internal controls over all fiscal and operational processes in accordance with applicable State statutes, rules, and regulations.

Accepted, Partially Accepted or Implemented - concluded

Updated Response: Implemented.

23. Properly calculate withholding income taxes, require employees to submit leave requests for time off, and maintain each employee's application in their respective personnel file.

Finding: The Power Agency did not maintain adequate controls over personal services. During testing, the auditors noted the following:

- One of four employees tested did not have the proper amount withheld from the employee's paycheck for State withholding taxes.

- The Agency did not require one of three employees eligible to use accrued leave time to submit requests for approval of the employee's leave time by the employee's supervisor.

- Two of four employees tested did not have an employment application or similar documentation within the employee's personnel file.

Agency officials stated these exceptions were due to oversight and the Agency not adopting these processes after they were exempted from the Personnel Code.

Response: Accepted. The Agency has identified and implemented corrective actions necessary to ensure adequate control over its personnel services including correcting tax withholdings.

The Agency has (1) hired a Chief Operating Officer to assess the Agency's internal controls over all fiscal and operational processes; (2) hired a well-qualified and experienced Chief Financial Officer to ensure the accuracy and transparency of all Agency financial records; and, (3) finalized its Fiscal Operations Manual, which improves and governs all Agency financial operations and related procedures in accordance with applicable State statutes, rules, and regulations.

Updated Response: Implemented.

Emergency Purchases

The Illinois Procurement Code (30 ILCS 500/) states, "It is declared to be the policy of the State that the principles of competitive bidding and economical procurement practices shall be applicable to all purchases and contracts...." The law also recognizes that there will be emergency situations when it will be impossible to conduct bidding. It provides a general exemption when there exists a threat to public health or public safety, or when immediate expenditure is necessary for repairs to State property in order to protect against further loss of or damage to State Property, to prevent or minimize serious disruption in critical State services that affect health, safety, or collection of substantial State revenues, or to ensure the integrity of State records; provided, however that the term of the emergency purchase shall not exceed 90 days. A contract may be extended beyond 90 days if the chief procurement officer determines additional time is necessary and that the contract scope and duration are limited to the emergency. Prior to the execution of the extension, the chief procurement officer must hold a public hearing and provide written justification for all emergency contracts. Members of the public may present testimony.

Notice of all emergency procurement shall be provided to the Procurement Policy Board and published in the online electronic Bulletin no later than 3 business days after the contract is awarded. Notice of intent to extend an emergency contract shall be provided to the Procurement Policy Board and published in the online electronic Bulletin at least 14 days before the public hearing.

A chief procurement officer making such emergency purchases is required to file an affidavit with the Procurement Policy Board and the Auditor General. The affidavit is to set forth the circumstance requiring the emergency purchase. The Legislative Audit Commission receives quarterly reports of all emergency purchases from the Office of the Auditor General. The Legislative Audit Commission is directed to review the purchases and to comment on abuses of the exemption.

The Agency reported one emergency purchase during FY13 for $30,434.25 for technical assistance necessary to prepare GAAP packages and financial statements.

Headquarters Designations

The State Finance Act requires all State agencies to make semiannual headquarters reports to the Legislative Audit Commission. Each State agency is required to 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.

On July 10, 2013, the Illinois Power Agency reported no employees spent the majority of working time at locations other than official headquarters.

APPENDIX A

Service Efforts and Accomplishments

	FY13	FY12
Output Indicators		
Number of residential customers in the Ameren region taking fixed price supply as of May	480,758	956,043
Number of residential customers in the ComEd region taking fixed price supply as of May	1,093,713	2,993,667

APPENDIX B

Statement of Net Position

	FY13	FY12
Assets		
Cash equity in State Treasury	$ 21,333,000	$ 40,476,000
Investments	28,335,000	1,944,000
Other receivables, net	39,467,000	4,800,000
Due from other State funds	-	3,353,000
Total assets	**89,135,000**	**50,573,000**
Liabilities		
Accounts payable and accrued Liabilities	757,000	1,689,000
Obligations under securities lending of State Treasurer	-	1,944,000
Due to other State funds	3,000	-
Long term obligations: Due subsequent year	11,000	6,000
Total Liabilities	**771,000**	**3,639,000**
Net Position		
Restricted net position	-	39,818,000
Nonexpendable	28,505,000	-
Expendable	45,811,000	-
Unrestricted position	5,589,000	7,116,000
Total net position	**$ 79,905,000**	**$ 46,934,000**

Statement of Revenue, Expenditures and Changes in Fund Balances

	FY13	FY12
Revenues		
Licenses and fees	$ 726,000	$ 3,086,000
Interest and other investment income	3,435,000	102,000
Other revenues	31,349,000	5,739,000
Total revenues	**$ 35,510,000**	**$ 8,927,000**
Expenditures		
Employment and economic development	1,356,000	3,603,000
Excess of revenues over expenditures	34,154,000	5,324,000
Net change in fund balances	34,154,000	5,324,000
Fund balances, July 1, 2012 restated and 2011	45,751,000	39,386,000
Fund balances, June 30	**$ 79,905,000**	**$ 44,710,000**
Corrections		1,041,000
Restated for FY12		**$ 45,751,000**

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ILLINOIS POWER AGENCY

YEAR ENDED JUNE 30, 2013

APPENDIX C

Summary of Appropriations and Expenditures

	FY13	FY12
TOTAL APPROPRIATION	**$ 12,213,500**	**$ 4,329,200**
Expenditures		
Lump Sum - ordinary & contingent expenses	1,106,156	3,614,670
Total Appropriated Funds Expenditures	**$ 1,106,156**	**$ 3,614,670**
Non-Appropriated Funds		
Expenditures		
Illinois Power Agency Trust Fund		
Interfund Cash Transfers	-	24,863,930
Total Non-Appropriated Funds Expenditures	$ -	**$ 24,863,930**
Total Expenditures - All Funds	**$ 1,106,156**	**$ 28,478,600**

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ILLINOIS POWER AGENCY
YEAR ENDED JUNE 30, 2013

APPENDIX D

Summary of Cash Receipts

	FY13	FY12
Illinois Power Agency Operations Fund		
Bidder and Supplier Fees	2,437,036	2,840,738
Total	**$ 2,437,036**	**$ 2,840,738**