

**State of Illinois
LEGISLATIVE AUDIT COMMISSION**

**Meeting Minutes – February 6, 2007
Springfield, Illinois**

MEMBERS PRESENT:

Senators:	Demuzio Righter	Representatives:	Brauer Hamos Mathias Mautino Pihos
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MEMBERS ABSENT:

Senators:	Lauzen Martinez Risinger	Colvin
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Staff Present: Cullen, Dunne and Stricklin

Participants: Illinois Commerce Commission – Charles Box, Chairman; and Tim Anderson, Executive Director.
Illinois Finance Authority – Jill Rendleman, Interim Executive Director. Independent Auditor – Joe Evans of McGladrey & Pullen.
Office of the Auditor General – William G. Holland, Bruce Bullard, Jon Fox, Lisa Warden and others.

The meeting convened at 10:00 a.m. with Representative Mautino presiding.

ILLINOIS COMMERCE COMMISSION

The Commission considered Review No. 4252, covering the auditors' report of the Illinois Commerce Commission for the two years ended June 30, 2005. Charles Box, Chairman, joined the meeting accompanied by Tim Anderson, Executive Director, and Harry Stoller, Director of the Energy Division. Also participating were Bruce Bullard and Lisa Warden of the Auditor General's Office.

Mr. Bullard highlighted two of the nine findings, none repeated, as follows:

- Paid efficiency billings from improper line items, and
- Did not expend funds from the Transportation Regulatory Fund in accordance with State law.

In response to questions from Representative Mautino, Mr. Anderson stated that as yet, no funds expended in error from the Transportation Regulatory Fund had been

reimbursed. He predicted the Fund would be reimbursed by the end of FY07. In response to further questions, Mr. Anderson stated that initially there was delay with establishing the rules of the process, but the Commission had ordered grants to ten entities totaling \$4.6 million from the Digital Divide Elimination Fund. In response to another question, Mr. Box stated that there had been little change in the number of 911 systems and that a report from FY03 should have stated two-hundred and three 911 systems instead of 230 systems.

In response to questions from Representative Pihos, Mr. Anderson stated the Commission's budget staff would be overseeing expenditures from the Transportation Regulatory Fund and there would be retraining since the process had been simplified. Mr. Anderson also reported that there is a tracking process for ensuring that employee evaluations are completed timely.

In response to a question from Representative Brauer, Chairman Box explained the terms served by each commissioner.

In response to questions from Senator Righter, Chairman Box and Mr. Anderson explained that a group which included the ICC, the utilities, the Attorney General and consumer groups went through a long process wherein they analyzed 12 -18 different possibilities of acquiring power, and came up with a reverse auction as the most viable considering the rules of the Federal Energy Regulatory Commission (FERC). The group also considered the RFP process. In response to another question, Mr. Anderson could not give the pricing trend related to the multiple reverse auctions in New Jersey, but promised to provide that information to the Senator. In response to further questions, Chairman Box confirmed that another power auction is scheduled for 2008, and Mr. Anderson stated that the process has begun for the Commission staff, AG, CUB, other consumer groups, utilities and users to formally review the first auction's process and recommend improvements. Mr. Anderson stated that material from the hearings could be made available to lawmakers. Mr. Box added that perhaps the ICC could host a walk through session on the entire process of the reverse auction for State lawmakers as it did for the Utility Commission of the Chicago City Council.

In response to statements and questions from Representative Brauer and Representative Hamos, Chairman Box said that the contracts with the power suppliers are binding. In response to another question, Chairman Box speculated that in the event of a rate freeze, there would be a gap and someone would have to pay the amount that was contracted for or the sellers would discontinue providing power.

In response to a question from the Auditor General, Mr. Anderson stated that the ICC hired Boston-Pacific to provide oversight on behalf of the ICC in the auction process. Chairman Box explained that Boston-Pacific was hired to ensure that all the procedures and steps were followed. Mr. Anderson stated that the auction manager, hired by the utility companies, provided oversight on the various bidders and whether they met certain specifications to qualify.

In response to a statement and question from Senator Lauzen about how to successfully obtain the least expensive energy and whether the reverse auction process could be measured for success, Mr. Anderson stated that the ICC is in the process of determining what worked well and what did not. Mr. Anderson also stated that Ohio had twice planned to hold reverse auctions and did not proceed.

In response to questions from Senator Demuzio, Mr. Anderson stated there were 21 bidders. In response to further questions from Senator Demuzio concerning the 120% and 160% increases instead of the \$1 a day as advertised, used an average instead of telling a customer what his or her increase would actually be.

Upon a motion properly made by Senator Demuzio, seconded by Representative Brauer and carried, the Commission accepted the audit report summarized in Review No. 4252.

ILLINOIS FINANCE AUTHORITY

The Commission then considered Review No. 4258, covering the auditors' report of the Illinois Finance Authority for the year ended June 30, 2005. Jill Rendleman, Interim Executive Director, joined the meeting accompanied by Jose Garcia, Chief Fiscal Officer, and Stuart Boldry, Chief Administrative Officer. Also participating were Bruce Bullard and Jon Fox of the Auditor General's office and Joe Evans of McGladrey & Pullen.

Mr. Bullard highlighted two of the 9 findings, none repeated, as follows:

- The Authority paid over \$267,000 in bonuses during FY05 to 23 employees based on an Incentive Based Compensation Plan.
- Inadequate measures to ensure statutory compliance related to purchasing, contractual agreements and real estate lease agreements.

By way of opening remarks, Director Rendleman stated that the Illinois Finance Authority is one of the nation's largest conduit-issuing authorities. She also stated that now that the State has consolidated seven authorities into one Illinois Finance Authority, that the expenses for the seven had been around \$4 million and now the single Authority generates about \$2 million a year in net earnings. The Authority has engaged a number of outside professionals including financial advisors, some accountants and legal counsel to support risk management initiatives. The Authority has agreed to seek an Attorney General's opinion on whether the Illinois finance Authority is subject to the State's Personnel Code. Director Rendleman also stated that the Authority had corrected the majority of the specific problems related to purchasing, contractual agreements and real estate agreements.

In response to a question from Representative Brauer, the Director explained that the Authority has opened an office in Mt. Vernon and has staff who travel and visit every county and banks in those counties. In the last year, the Authority has approved the 54 agricultural projects for \$389 million, the biggest number approved since the beginning of the Farm Development Authority in the early 1980s. In response to another question,

Director Rendleman stated that the Authority, after much study and review by attorneys on the board, staff counsel and outside attorneys, is firm in its opinion that the State Personnel Code does not apply to the Authority and it was never intended to apply to the Authority. The Authority believes that while an Attorney General opinion would carry a lot of weight with the Authority, it will take a court case or a change in statute to either include or preclude the Authority from the Personnel Code.

In response to questions from Representative Mathias, Auditor General Holland stated that the State Board of Investment has an incentive-based compensation plan and an exemption from the Personnel Code. When asked by the Auditor General, Director Rendleman stated that the Authority has not yet asked for an opinion from the Attorney General. The Auditor General stated there were two pages of agencies exempt from the Personnel Code and listed several agencies such as Constitutional Officers and their staffs, members and staffs of the General Assembly, Judges, officers and employees of the Court, Clerk of the Supreme Court, State Board of Education, State Board of Elections, the Illinois National Guard, director of State departments, director of IEMA, presidents and principle administrative officers of the State universities, and several others including the St. Louis Metropolitan Area Airport Authority. The Auditor General reiterated the audit's recommendation that the Authority either comply with the State Personnel Code and end the incentive-based compensation plan or ask for a statute change or an opinion from the Attorney General.

In response to comments and questions from Senator Righter, Director Rendleman stated that the Authority had engaged Mayer, Brown and Roe to draft the Authority's opinion on the Personnel Code issue because this was also an issue in an audit in 1988 and that firm had worked on the issue then on behalf of a predecessor authority. In response to another question, Director Rendleman explained that the incentive bonuses are very formulaic, based on mathematical calculations as to how much revenue is brought in by a particular individual at the Authority, or in some cases where individuals are not responsible directly for projects and project revenues, it may be determined by action items.

In response to questions from Senator Lauzen, the Director stated that the three or four moral obligation bonds represent $\frac{1}{2}$ of 1% of the Authority's business, and there had never been a loss on any of the moral obligations. In response to another question, the Director stated that there are no requirements or restrictions in the Authority's programs requiring a certain number of jobs to be created. The funding managers ask that question at the time of the closing, how many jobs have been or will be created, and the parties provide their best estimate. The Senator encouraged the Authority to follow-up to see if the job created numbers are realized. In response to a final question from Senator Lauzen, Director Rendleman stated that as a matter of written policy, the Authority only invests in projects that are triple-A rated, backed by U.S. government and agency securities.

There being no further questions, Senator Lauzen announced the audit for the Illinois Finance Authority would be held until the agreed to past audit items were fulfilled.

CONSENT CALENDAR

The Commission considered audits that do not appear to require the attendance of agency officials. All of the audits are for the period ending in 2005 unless otherwise noted. Upon a motion made by Representative Mautino Hamos, seconded by Senator Righter and carried, the following audits were accepted:

Agency

Chicago Technology Park Corporation
Court of Claims (Compliance)
Department of Corrections – Correctional Industries (Financial)
Department of Human Rights (Compliance)
Department of Natural Resources (Financial)
Environmental Protection Agency, Water Revolving Fund
Human Rights Commission (Compliance)
Illinois Literacy Foundation
Illinois Medical District Commission
Labor Relations Board
Regional Office of Education No. 17, DeWitt, Livingston and McLean Counties (Financial)
Regional Office of Education No. 24, Grundy and Kendall Counties (Financial)
Regional Office of Education No. 27, Henderson, Mercer and Warren Counties (Financial)
Regional Office of Education No. 38, Logan, Mason and Menard Counties (Financial)
Regional Office of Education No. 40, Calhoun, Greene, Jersey and Macoupin Counties (Financial)
Regional Office of Education No. 48, Peoria County (Financial)
University of Illinois
University of Illinois, Annual Financial Report, Auxiliary Facilities System
University of Illinois Alumni Association (Financial)
University of Illinois Foundation (Financial)
Prairieland Energy, Inc. (Financial)
University of Illinois Research Park, L.L.C. (Financial)
University of Illinois, Illinois Ventures, L.L.C. (Financial)
Wolcott, Wood and Taylor, Inc. (Financial)

MINUTES AND FINANCIAL STATEMENT

The November 2006 minutes and the November and December 2006 financial statements were approved as submitted.

OTHER ITEMS

Receipt of the following items was acknowledged:

- C. Auditor General's quarterly report for second quarter of FY07 ending December 31, 2006.
- D. Correspondence from the Office of the Treasurer re: abandoned property.

ADJOURNMENT

There being no further business to come before the Commission, upon a motion made by Representative Hamos, seconded and carried, the meeting adjourned at 11:45 a.m.