



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

ILLINOIS GAMING BOARD

FINANCIAL AUDIT - STATE GAMING FUND

For the Year Ended: June 30, 2012

COMPLIANCE EXAMINATION

For the Two Years Ended: June 30, 2012

Summary of Findings:

Total this audit: 12

Total last audit: 8

Repeated from last audit: 1

Release Date: April 25, 2013

SYNOPSIS

- The Board failed to exercise adequate internal control over financial reporting, resulting in errors within the State Gaming Fund's year-end reporting package and draft financial statements.
- The Board was unable to comply with the requirements of the Riverboat Gambling Act, resulting in \$66.9 million in excess funds being retained in the State Gaming Fund's cash balance at June 30, 2012.
- The Board did not exercise adequate control over the calculation of its transfers to the Education Assistance Fund from the State Gaming Fund.
- The Board had not developed an effective change management process to control modifications to computer applications.
- The Board failed to maintain sufficient controls over the reconciliation and reporting of its property.

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

ILLINOIS GAMING BOARD
FINANCIAL AUDIT - STATE GAMING FUND
AND COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2012

EXPENDITURE STATISTICS	2012	2011	2010
Total Expenditures.....	\$ 141,933,940	\$ 110,907,249	\$ 107,866,857
OPERATIONS TOTAL.....	\$ 35,653,411	\$ 29,921,063	\$ 23,302,804
% of Total Expenditures.....	25.1%	27.0%	21.6%
Personal Services.....	7,610,228	6,766,788	6,402,345
Other Payroll Costs (FICA, Retirement).....	4,412,277	3,404,483	3,231,834
All Other Operating Expenditures.....	23,630,906	19,749,792	13,668,625
AWARDS & GRANTS.....	\$ 106,280,529	\$ 80,986,186	\$ 84,564,053
% of Total Expenditures.....	74.9%	73.0%	78.4%
Average Number of Employees.....	130	97	83
STATE GAMING FUND			
REVENUES, EXPENDITURES AND CHANGES IN			
FUND BALANCE (in thousands)	2012	2011	2010
Revenues			
Riverboat taxes.....	\$ 489,289	\$ 457,865	\$ 483,091
Licenses and fees.....	1,829	1,263	766
Other.....	2	1	1
Total.....	<u>491,120</u>	<u>459,129</u>	<u>483,858</u>
Expenditures			
Public protection and justice.....	43,525	29,930	22,974
Intergovernmental.....	106,281	80,987	84,564
Health and social services.....	898	838	1,235
Total.....	<u>150,704</u>	<u>111,755</u>	<u>108,773</u>
Other sources (uses) of financial resources			
Transfers-out to Education Assistance Fund.....	(340,416)	(347,374)	(375,085)
Net change in fund balance.....	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
STATE GAMING FUND			
BALANCE SHEET (in thousands)	2012	2011	2010
Assets			
Cash equity with State Treasurer.....	\$ 104,156	\$ 36,113	\$ 13,848
Taxes and other receivable, net.....	5,840	2,809	2,588
Total.....	<u>\$ 109,996</u>	<u>\$ 38,922</u>	<u>\$ 16,436</u>
Liabilities			
Accounts payable and accrued liabilities.....	\$ 1,310	\$ 720	\$ 991
Intergovernmental payables.....	12,235	8,915	8,984
Due to State fiduciary funds.....	200	141	97
Due to other funds.....	88,380	29,146	6,364
Due to component units.....	7,871	-	-
Total.....	<u>109,996</u>	<u>38,922</u>	<u>16,436</u>
Committed Fund Balance.....	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
SELECTED ACTIVITY MEASURES	Calendar Year	Calendar Year	Calendar Year
(Not Examined)	2011	2010	2009
Number of Riverboat Licensees.....	10	10	10
Adjusted Gross Receipts.....	\$ 1,477,600,520	\$ 1,373,421,897	\$ 1,428,923,092
Number of Admissions.....	14,801,944	13,834,414	14,418,760
Riverboat Taxes			
State Share.....	\$ 400,680,832	\$ 383,521,452	\$ 409,510,245
Local Share.....	88,741,621	82,552,001	85,885,708
Total Riverboat Taxes.....	<u>\$ 489,422,453</u>	<u>\$ 466,073,453</u>	<u>\$ 495,395,953</u>
BOARD ADMINISTRATOR			
During the Audit Period and Currently: Mr. Mark Ostrowski			

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

**INADEQUATE CONTROL OVER FINANCIAL
REPORTING**

**Lack of internal controls over
financial reporting**

The Board did not exercise adequate internal control over financial reporting, resulting in inaccuracies and errors within the State Gaming Fund's (Fund) year-end Generally Accepted Accounting Principles (GAAP) reporting package submitted to the Office of the State Comptroller and the Fund's draft financial statements. We noted:

**\$5.721 million incorrectly
categorized**

- The Board recorded adjusting journal entries which incorrectly categorized \$5.721 million as both taxes receivable and other receivables on its June 30, 2012, GAAP reporting forms. Further, the original taxes receivable adjusting journal entry included \$906 thousand for which the Board had already received the cash as of June 30, 2012. The entry included a \$45 thousand mathematical error when the Board added the receivable amounts.

\$45 thousand mathematical error

- The Board did not record \$30 thousand in video gaming licensing fees that were received on June 29, 2012 as cash in-transit as of June 30, 2012.

These combined errors resulted in an overstatement of the amount due to the Education Assistance Fund, totaling \$5.736 million, on the initial draft of the Fund's financial statements.

Auditors also noted errors and omissions from the Fund's draft financial statement disclosure notes:

Inadequate disclosure notes

- The Board's "Description of the Fund" and "Interfund Balance" footnotes did not reflect the Board's current operating environment and responsibilities under the Video Gaming Act.
- The Board's growing and current liability to the Horse Racing Equity Fund and Chicago State University were inaccurately included as a "Commitment" disclosure footnote.
- The Board did not include a subsequent event footnote regarding video gaming terminals going "live" in October 2012.

We recommended the Board work with Shared Services to implement procedures and cross-training measures to ensure the Fund's GAAP Package and financial statements are accurate and fairly presented in accordance with generally accepted accounting principles. (Finding 1, pages 14-16)

Board concurs with auditors

Board officials agreed with the recommendation and indicated they will work toward implementing policies and procedures to ensure the Fund's GAAP Package and financial statements are accurate and fairly presented.

NONCOMPLIANCE WITH STATUTORY PAYMENT REQUIREMENTS

Board did not make statutorily required payments

The Board was unable to comply with the requirements of the Riverboat Gambling Act, resulting in \$66.9 million in excess funds being retained in the State Gaming Fund's cash balance at June 30, 2012.

Horse Racing Equity Fund owed \$59.032 million

On July 15, 2011, the tenth riverboat casino license became operational in Des Plaines, Illinois. When this occurred, a statutory change required the Board to pay 15% and 2% of the tenth riverboat casino's adjusted gross receipts to the Illinois Racing Board for deposit into the Horse Racing Equity Fund and to Chicago State University, respectively. As of June 30, 2012, the State Gaming Fund had outstanding liabilities due to the Horse Racing Equity Fund and Chicago State University, totaling \$59.032 million and \$7.871 million, respectively.

Chicago State University owed \$7.871 million

We recommended the Board work with the Governor's Office of Management and Budget (GOMB) and the Illinois General Assembly to seek legislative remedy to address the growing cash balance within the State Gaming Fund. (Finding 2, Page 17)

Board concurs with auditors

Board officials agreed with the recommendation and indicated they will continue to work with GOMB and the Illinois General Assembly to seek legislative remedy to address the growing cash balance within the State Gaming Fund.

NEED TO IMPROVE CONTROLS OVER FUND TRANSFERS

Calculation errors noted for transfers to the Education Assistance Fund from the State Gaming Fund

The Board did not exercise adequate internal control over the calculation of its transfers to the Education Assistance Fund (EAF) from the State Gaming Fund (SGF).

During testing of the Board's bi-monthly transfers, we noted:

- The Board did not include all outstanding obligations due to Cook County as of the date the transfer was calculated.
- The Board did not include all outstanding obligations for admission and wagering taxes due to local governments as of the date the transfer was calculated. We were unable to recalculate the total obligation amount used by the Board in its calculation for these transfers.

- The Board did not include all receipts received by the Board and deposited in the SGF as of the date the transfer was calculated. We were unable to recalculate the total receipt amount used by the Board in its calculation for these transfers.
- The Board did not include all outstanding obligations due to the Horse Racing Equity Fund and the Chicago State University as of the date the transfer was calculated.
- The Board did not ensure all previous SGF transfer obligations to the EAF were included as of the date the transfer was calculated.
- The Board did not accurately account for cash disbursements paid by the Board as of the date the transfer was calculated.
- The Board did not maintain supporting documentation for cash disbursements paid by the Department of Human Services pursuant to an appropriation from the SGF for programs related to the treatment of problem gambling.

We recommended the Board implement internal controls to timely prepare and accurately calculate transfers of excess cash resources from the SGF to the EAF. (Finding 3, pages 18-19)

Board concurs with auditors

Board officials agreed with the recommendation and stated procedures are in the process of being revised to strengthen controls regarding the fund transfers.

LACK OF FORMALIZED CHANGE MANAGEMENT STANDARD

Lack of change management process

The Board had not developed an effective change management process to control modifications to computer applications to ensure changes are properly approved, tested and documented.

Documentation of changes not maintained

The Board maintains sixteen applications in order to meet their mission of administering and regulating riverboat casino gambling and video gaming in Illinois. Auditors noted, in the event a change was required, an email would be sent to the applicable programmer requesting the change be made. The programmer would complete the change; however, documentation was not always maintained.

We recommended the Board implement a structured change management standard to ensure adequate oversight of modifications to existing systems. (Finding 4, pages 20-21)

Board concurs with auditors

Board officials agreed with the recommendation and stated a structured change management standard was implemented, effective January 1, 2013.

INADEQUATE RECONCILIATION AND REPORTING OF PROPERTY

The Board did not maintain sufficient controls over the reconciliation and reporting of its property. Some of the conditions we noted are as follows:

Lack of supporting documentation

The Board's property listing contained inadequate and inaccurate information

- The Board did not adequately reconcile its property control records to the Agency Report of State Property (C-15) filed with the Office of the Comptroller.
- The Board could not provide support for numbers presented on the C-15.
- The Board's property listing contained inadequate and inaccurate information.
- The Board did not properly record pieces of equipment on its property listing.
- The Board did not timely record equipment on its property listing.
- The Board improperly included a commodity item as part of an asset's value.
- The Board did not record equipment items on the C-15 during the same quarter the items were actually added, transferred, or deleted.
- The Board improperly reported transfers-out as deletions.
- The Board reported a transfer-out of the same asset on two successive C-15s.

We recommended the Board establish controls over property reporting and implement procedures. (Finding 5, pages 22-26)

Board concurs with auditors

Board officials agreed with the recommendation and stated property control procedures have been implemented.

OTHER FINDINGS

The remaining findings pertain to: (1) noncompliance with timekeeping requirements, (2) performance evaluations, (3) inaccurate Agency Workforce Reports, (4) certifying insurance automotive coverage, (5) Board membership, (6) Identity Protection Act, and (7) weaknesses over security and control of confidential information. We will review the Board's progress towards the implementation of our recommendations in our next engagement.

AUDITORS' OPINION

Our auditors stated the State Gaming Fund Financial Statements of the Illinois Gaming Board as of and for the year ended June 30, 2012 are fairly stated in all material respects.



WILLIAM G. HOLLAND
Auditor General

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AUDITORS ASSIGNED

The financial audit and attestation engagement was performed by the Office of the Auditor General's staff.