State of Illinois
Office of the
Auditor General
William G. Holland, Auditor General

SUMMARY REPORT DIGEST

ILLINOIS RACING BOARD

COMPLIANCE EXAMINATION
For the Year Ended: June 30, 2010

Release Date: September 22, 2011

Summary of Findings:	
Total this audit:	**8**
Total last audit:	*****
Repeated from last audit:	*****

SYNOPSIS

- The Board did not have adequate formal, written procedures with the Department of Revenue's Administrative and Regulatory Shared Services Center detailing each entity's responsibilities for the daily operations of the Board.

- The Board did not have adequate internal controls over collecting and reporting receipts and lacked adequate cash management for ensuring both the timely and efficient deposit of cash into the State Treasury.

- The Board did not exercise adequate control over disbursements and receipts from the proper fund in the State Treasury.

- The Board did not exercise adequate control over accounts receivable collection activities or preparing its Quarterly Accounts Receivable Reports for the Office of the State Comptroller.

- The Board did not exercise adequate control over voucher processing.

* Effective July 1, 2009, Executive Order 5 (2009) transferred all of the functions and associated powers, duties, rights, and responsibilities of the Illinois Racing Board that were provided by the Department of Revenue, except for any functions provided by the Administrative and Regulatory Shared Services Center at the Department of Revenue, to the Illinois Racing Board as a separate agency. As such, comparative data for fiscal years prior to July 1, 2009 is unavailable.

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

ILLINOIS RACING BOARD
COMPLIANCE EXAMINATION
For the Year Ended June 30, 2010

EXPENDITURE STATISTICS	**2010**	**2009**
Total Expenditures	**$ 126,012,746**	**(a)**
OPERATIONS TOTAL	$ 7,045,053	(a)
% of Total Expenditures	5.6%	(a)
Personal Services	969,919	(a)
Other Payroll Costs (FICA, Retirement)	525,643	(a)
All Other Operating Expenditures	5,549,491	(a)
AWARDS AND GRANTS	$ 118,967,693	(a)
% of Total Expenditures	94.4%	(a)
Total Receipts (b)	$ 28,285,649	**(a)**
Average Number of Employees	**59**	**(a)**

SELECTED ACTIVITY MEASURES (NOT EXAMINED)	**Calendar 2009**	**Calendar 2008**
Total Handle - Combined Live Racing and Simulcasts	$ 716,628,911	$ 818,655,036
Total Handle - Advance Deposit Wagering	$ 20,111,582	$ -
Total Handle within the State of Illinois	$ 736,740,493	$ 818,655,036
Payout to the Public	$ 570,551,890	$ 634,543,073
Total Purses Distributed	$ 72,807,538	$ 79,746,987

EXECUTIVE DIRECTOR
During Examination Period: Mr. Marc Laino
Currently: Mr. Marc Laino

Notes:

(a) Effective July 1, 2009, Executive Order 5 (2009) transferred all of the functions and associated powers, duties, rights, and responsibilities of the Illinois Racing Board that were provided by the Department of Revenue, except for any of the functions provided by the Administrative and Regulatory Shared Services Center at the Department of Revenue, to the Illinois Racing Board as a separate agency. As such, comparative data for fiscal years prior to July 1, 2009 is unavailable.

(b) The Board's deposits in transit do no reflect receipts in transit between the Board's offices at the racetracks and the Department of Revenue (see Finding 10-2 for additional information).

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

LACK OF FORMAL POLICIES AND PROCEDURES OVER SHARED SERVICES

The Board did not have adequate formal, written procedures with the Department of Revenue's Administrative and Regulatory Shared Services Center (Shared Services) detailing each entity's responsibilities for the daily operations of the Board.

When the Board separated from the Department of Revenue on July 1, 2009, Executive Order 5 (2009) required the Board to continue using the Shared Services Center for any functions being provided by Shared Services. While the Board entered into an Interagency Agreement with Shared Services, the agreement does not detail out specific functions, duties, or responsibilities to be performed by either party.

Confusion regarding responsibilities

Throughout the examination, we noted confusion regarding the Board and Shared Services' responsibilities for the Board's operations, including:

No attempts made to collect past-due receivables

- The Board does not make any attempts to collect past-due receivables, place debts owed to the State on the State Comptroller's Offset System, or refer delinquent debt to the Department of Revenue's Debt Collection Bureau. The Board responded by stating the collection of past due debt was the responsibility of Shared Services, while Shared Services stated they were responsible for preparing the Board's quarterly accounts receivable reports to the State Comptroller.

Untimely processing of the Board's vouchers for payment

- 21 of 113 (19%) vouchers tested were not approved within 30 days of the Board's receipt of a proper bill. In following up on these exceptions, Board management stated the invoices were sent to Shared Services in a timely manner; however, Shared Services did not process the invoice in a timely manner.

Disagreement regarding the proper amount to reimburse an employee resulted in an improper expenditure

- Board management and Shared Services' management disagreed upon the proper amount to voucher for an expenditure relating to an employee reimbursement, with Shared Services ultimately submitting a voucher for payment to the Office of the State Comptroller for an amount $184 above the expenditure amount verified by the Board. This reimbursement above the amount requested by the employee and verified to Shared Services by the Board was ultimately reimbursed to the State.

Unclear responsibilities regarding adjustments

- In response to inquiries regarding which employees have access to enter account adjustments, the Board's Chief Fiscal Officer stated any employee could potentially cancel or make adjustments to an account; however, this would not be a concern due to adjustments to accounts receivable are performed by Shared Services. In following up with Shared Services, they stated they did not adjust accounts and only prepared the quarterly accounts receivable reports.

Department of Revenue officials inappropriately approved expenditures charged to the Board's appropriation

- During voucher testing, the auditors noted three vouchers, totaling $5,314, were not expenditures of the Board. Per the vouchers, the Board's management did not approve the expenditures and the vouchers were approved by staff at the Department of Revenue. The Board and Department of Revenue ultimately submitted an expenditure adjustment to the Office of the State Comptroller to apply the expenditure to the proper fund and agency.

Untimely filing of a contract

- One of four (25%) contracts tested was not filed timely with the Office of the State Comptroller. At the time, the Illinois Procurement Code (30 ILCS 500/20-80(d)) required the Board submit professional and artistic contracts involving an expenditure of more than $5,000 to the Office of the State Comptroller within 15 days of execution. The Board stated the contract was sent to Shared Services; however, they were unaware Shared Services had not filed the contract.

We recommended the Board work with the Department of Revenue's Administrative and Regulatory Shared Services Center to delineate and reduce to writing each entity's responsibilities in performing the daily operations of the Board. (Finding 1, pages 10-12)

Board agrees with the auditors

Board officials stated they believe Executive Order 5 (2009) was not followed with respect to the transfer of headcount to perform administrative tasks. Further, they are working with Shared Services to understand what processes and tasks are being done by Shared Services and what portions need to be done by the Board.

INADEQUATE CONTROLS OVER RECEIPTS

The Board did not have adequate internal controls over collecting and reporting receipts and lacked adequate cash management for ensuring both the timely and efficient deposit of cash into the State Treasury. Some of the conditions we noted during testing follow:

Cash receipts were not deposited timely

- 11 of 25 (44%) receipts tested, totaling $739, were deposited into the State Treasury between one and seven business days late. These receipts were all collected by Board staff at the racetracks. Further, we noted the Board would send several days of cash receipts to the Department of Revenue in one mailing. $25,546 of $26,826 (95%) of cash receipts within the mailing bundles containing the tested receipts were deposited between one and 17 business days late.

- The Board mails FedEx packages containing checks to the Department of Revenue's Springfield office. While the Board expended $1,201 for this service from the racetracks during FY10, this amount would have been significantly higher had the Board complied with the State's receipt deposit timelines.

In transit receipts not checked

- At June 30, 2010, the Board reported no deposits in transit for the General Revenue Fund and the Illinois Racing Board Fingerprint License Fund. During the year, the Board reported cash collections into both of these funds from fees and fines remitted by licensees. The Board's ledger system was maintained by the Department of Revenue, and only reflects receipts received and recorded by the Department and in-transit to the State Treasury at the end of the fiscal year.

Auditors unable to conclude if cash receipt records were complete and appropriately reported

Due to this limitation, we were unable to conclude whether the Board's cash receipt records at June 30, 2010 were complete and appropriately reported.

We recommended the Board work with the Office of the State Comptroller and Office of the State Treasurer to determine a deposit process which is efficient and expedites cash receipts into the State Treasury, record in-transit amounts to accurately report cash balances, update the Board's receipt codes, and enhance internal controls over receipts to ensure the receipt date is maintained and Receipt Deposit Transmittals are properly completed. (Finding 10-2, pages 13-16)

Board disagrees with the auditors

Board officials disagreed with the finding stating the Board has a receipt deposit extension through the Department of Revenue; however, they agreed to report deposits in-transit and update the receipt source codes.

Auditor's Comment

In an auditor's comment, we noted the two-year receipt deposit extension jointly granted by the State Comptroller and State Treasurer to the Department of Revenue began December 31, 2009, **six months** after the Board's separation from the Department of Revenue.

INACCURATE DEPOSITS AND IMPROPER EXPENDITURES

The Board did not exercise adequate control over disbursements and receipts from the proper fund in the State Treasury. During testing, we noted the following:

$1 Inter-Track Wagering Location Admission Fee (Admission Fee)

$580,875 inappropriately deposited into the Illinois Racing Board Grant Fund

- The Illinois Horse Racing Act of 1975 (Act) (230 ILCS 5/27(f)) requires the Board to collect and distribute the Admission Fee on behalf of local governments imposing the fee. During FY10, receipts totaling $580,875 were deposited by the Board into the Illinois Racing Board Grant Fund. The Act requires the Board deposit moneys collected pursuant to Section 27 of the Act into the Horse Racing Fund.

Disbursements to local governments without an appropriation from the General Assembly

- As the Board deposited collections from the Admission Fee into the nonappropriated Illinois Racing Board Grant Fund, the Board distributed moneys due to the local governments, totaling $582,724 during FY10, from the Illinois Racing Board Grant Fund. These expenditures should have been paid from the Horse Racing Fund pursuant to an appropriation from the General

Assembly. The Act requires expenditures from the Horse Racing Fund to be appropriated by the General Assembly.

- The Statewide Accounting Management System (SAMS), Procedure 09.50.50, states the Illinois Racing Board Grant Fund's statutory authority is the Act (230 ILCS 5/31(i)). This section was amended by the General Assembly in 1992 and removed any statutory reference, receipts, or disbursements for the Illinois Racing Board Grant Fund, a State Trust Fund. SAMS requires State agencies to monitor, review, and notify the State Comptroller at the time a State Trust Fund may be dissolved.

$500 Inter-Track Wagering Location License Fees

$14,000 inappropriately deposited into the General Revenue Fund

- The Act (230 ILCS 5/26(h)(1)) requires the Board collect a $500 inter-track wagering location license fee. During FY10, receipts totaling $14,000 were deposited by the Board into the General Revenue Fund. The Act requires the Board deposit moneys collected pursuant to Section 26 of the Act into the Horse Racing Fund.

Fingerprint Fee

We noted the following noncompliance and internal control deficiencies:

The Board lacks statutory authority to collect the fingerprint fee

- The Board collects a $45 fee and deposits the fee into the Illinois Racing Board Fingerprint Fund. The Act does not authorize the Board to collect a fee.

Violation of the Illinois Horse Racing Act of 1975

- The Board makes expenditures from the Illinois Racing Board Fingerprint Fund. The Act (230 ILCS 5/28.1(b)) requires "all expenses of the Board incident to the administration of this Act" to be paid from the Horse Racing Fund.

Board charges a fee in excess of the statutory maximum

$102,672 excess cash balance at June 30, 2010 in the Illinois Racing Board Fingerprint Fund

- The Department of State Police bills the Board $34.25 for an electronic fingerprint check ($39.25 for paper forms) against State and FBI criminal history record databases. Fingerprint fees collected have exceeded actual costs. As a result, the Illinois Racing Board Fingerprint Fund has developed an excess cash balance of $102,672 at

June 30, 2010.

We recommended the Board deposit and distribute Inter-Track Wagering Location Admission Fees from the Horse Racing Fund, deposit Inter-Track Wagering Location License Fees into the Horse Racing Fund, and conform its fingerprint operations to State law, or seek a legislative remedy. (Finding 10-3, pages 17 – 19)

Board officials agreed with the recommendation

Board officials agreed to begin depositing the admission fees into the Horse Racing Fund in FY13 when an appropriation to distribute the fees can be obtained, deposit the $500 location license fee into the Horse Racing Fund, and seek a legislative remedy to the issues identified regarding the fingerprint fee.

INADEQUATE CONTROLS OVER ACCOUNTS RECEIVABLE

The Board did not exercise adequate control over accounts receivable collection activities or preparing its Quarterly Accounts Receivable Reports (Reports) for the Office of the State Comptroller. We noted the following:

No attempts made to collect past-due receivables

- The Board does not appear to make any attempts to collect past-due receivables, place debts owed to the State on the State Comptroller's Offset System, or refer delinquent debt to the Department of Revenue's Debt Collection Bureau.

Accounts receivable reports not filed

- The Board does not complete accounts receivable reports for:
  - the Horse Racing Equity Trust Fund for wagering taxes earned on the last three days of each quarter that have not yet been received by the Board;
  - the Illinois Racing Board Grant Fund for Inter-Track Wagering Location (OTB) admission fees earned during the last days of each quarter that have not been received by the Board;
  - the General Revenue Fund for $0.15 admission fees earned during the last days of each quarter that have not been received by the Board; and,
  - the Horse Racing Fund, the Quarter Horse Purse Fund, and the Quarter Horse Breeders Fund (reported by the Department of

Agriculture) for privilege taxes earned during the last days of each quarter that have not been received by the Department of Revenue. The Board, in accordance with the Illinois Horse Racing Act of 1975 (230 ILCS 5/27(c)), is responsible for verifying the completeness and accuracy of organizational licensee tax payments into all three funds. Further, the Board is responsible for notifying the Department of Revenue of necessary receipt adjustments to ensure quarter horse racing receipts are deposited into the Quarter Horse Breeders Fund.

- The Board does not report receivables for the Illinois Racing Board Charity Fund for charity assessments billed to organizational licensees in accordance with the Illinois Horse Racing Act of 1975 (230 ILCS 5/31.1). Further, the Board does not report any receivables for returned non-sufficient funds checks in either the General Revenue Fund or Illinois Racing Board Fingerprint Fund for fees imposed upon licensees.

During testing of the Board's quarterly accounts receivable reports for fines due to the General Revenue Fund, the auditors noted the following:

Improper reporting of "in-protest" accounts receivable

- The Board did not file a Quarterly Summary of Accounts Receivable (Form C-97) for "in-protest" fines imposed for rule violations by the Board's stewards (thereby meeting the recognition criteria established by SAMS), but are under appeal to the full membership of the Board.

Lack of supporting documentation from the Board's Pari-Mutual Information and Tracking System

- The Board did not provide support from the Pari-Mutual Information and Tracking System for protested rulings or unpaid fines in the Second and Third Quarters and payments, outstanding fines, and new fines for the Second Quarter.

Inconsistencies between accounts receivable reports and the supporting documentation

- The Board's final receivables balance for the Third Quarter was $29,459; however, the Board's supporting documentation listed the outstanding receivables as $44,259. In addition, the Board reported collections during the Third Quarter of $27,925; however, the Board's supporting documentation listed collections as $25,325.

Further, the Board did not report two outstanding fines, totaling $2,600, as gross receivables during the First and Fourth Quarters.

- The Board's accounts receivable reports contained references to the Department of Revenue throughout the report and were filed with the State Comptroller using the Department of Revenue's agency number.

Inadequate segregation of duties and management monitoring of accounts receivable

- In response to inquiries regarding which employees have access to enter account adjustments, the Chief Fiscal Officer stated any employee could potentially cancel or make adjustments to accounts receivable; however, this would not be a concern due to adjustments to accounts receivable are performed by Shared Services. In following up with Shared Services, they stated they did not adjust accounts and only prepared the quarterly accounts receivable reports. Further, the Board does not have an adequate method for a periodic review of receivables by management.

We recommended the Board implement procedures to pursue the collection of receivables due to the State; report receivables to the State Comptroller in accordance with the provisions of the Statewide Accounting Management System; and, implement controls to ensure account adjustments are only entered by employees approved by management with adequate supervisory review. (Finding 10-4, pages 20 – 24)

Board officials disagree that any employee could potentially cancel or adjust an account receivable

Board officials generally agreed with the recommendations; however, they stated the Pari-Mutual Information and Tracking System (PITS) database administrator alone has access to change, add or remove any record in any database. When making adjustments for staff he keeps a copy of the request on file.

Auditor's Comment

In an auditor's comment, we noted the Board does not have adequate controls over identifying individuals with the authority to adjust accounts. In the Board's response to the past due receivables, they state the Stewards are entering accounts receivable and during the Exit Conference the Board's management was unable to identify the process for adjusting an account receivable in the event a fine imposed through a Stewards Ruling was adjusted by the voting membership of the Illinois

Racing Board. The Board needs to identify and monitor employees making adjustments to accounts receivable in order to ensure accurate accounting of accounts receivable.

INADEQUATE CONTROLS OVER VOUCHER PROCESSING

The Board did not exercise adequate control over voucher processing. Some of the conditions we noted follow:

Untimely processing of vouchers

- 21 of 113 (19%) vouchers tested, totaling $318,845, were determined to be proper bills and approved for payment between three and 191 days late.

Department of Revenue officials inappropriately approved expenditures charged to the Board's appropriation

- Three of 113 (3%) vouchers tested, totaling $5,314, were not expenditures of the Board. Per the vouchers, the Board's management did not approve the expenditures and the vouchers were approved by staff at the Department of Revenue. The Board and Department of Revenue ultimately submitted an expenditure adjustment to the Office of the State Comptroller to apply the expenditure to the proper fund and agency.

Expenditure charged to the incorrect fiscal year

- One of 113 (1%) vouchers tested, totaling $8,970, was charged to the incorrect fiscal year. Per the supporting documentation, a portion of the invoice was for professional services occurring prior to June 30, 2009. Further, the Contract Obligation Document (Form C-23) for this expenditure was incomplete regarding the method of compensation.

Disagreement regarding the proper amount to reimburse an employee resulted in an improper expenditure

- One of 113 (1%) vouchers tested, totaling $289, overpaid the employee reimbursement by $184. Board management and Shared Services management disagreed upon the proper amount to voucher for expenditure relating to an employee reimbursement, with Department of Revenue's Administrative and Regulatory Shared Services Center (Shared Services) ultimately submitting a voucher for payment to the Office of the State Comptroller for an amount $184 above the expenditure amount verified by the Board. The $184 overpayment was ultimately reimbursed to the State.

We recommended the Board implement appropriate controls to ensure proper bills are approved within 30 days of receipt; vouchers presented to the State Comptroller are only the Board's expenses; vouchers are charged to the correct fiscal year and obligation documents are complete; vouchers are processed and paid at an amount approved by the Board; vouchers are mathematically accurate and comply with applicable travel guidelines; payments are processed and paid only once; and, use (sales) tax is not paid by the Board. (Finding 10-7, pages 31 – 32)

Board officials disagree

Board officials stated the Chief Fiscal Officer (CFO) of the Board and the CFO of Shared Services are working together to ensure accuracy and expediency of payment. Of 113 vouchers tested there were 7 errors (6%); of those 7 errors, 4 (57%) were caught by the Board CFO and corrected by Shared Services. One of the errors arose from the Dept. of Ag submitting a statement first and then an invoice later. Staff at the Board has since been instructed never to submit a statement for payment, only an original invoice, even if the statement has the same detail as an invoice. The Department of Revenue (DOR) vouchers did not originate from Illinois Racing Board (IRB) and could only have been discovered by IRB after having been entered. The Board believes that this is a DOR exception. The Board made it clear to Shared Services at the time the invoices were identified and corrected that only the Board has the ability to direct payment from the Horse Racing Fund. There have been no further issues since then.

Auditor's Comment

In an auditor's comment, we noted the Board granted Shared Services personnel the authority to certify the "goods or services specified on this voucher were for the use of this agency and that the expenditure for such goods or services was authorized and lawfully incurred…" under the State Finance Act (30 ILCS 105/9.04). The essence of Finding 10-1 and the errors noted above regarding the interaction between the Board and Shared Services is the lack of clear lines of authority and responsibility. A written agreement between both the Board and Shared Services would enhance each party's understanding of their role and responsibilities in running the day to day operations of the Board.

OTHER FINDINGS

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

AUDITOR'S OPINION

The auditors conducted a compliance examination of the Board for the year ended June 30, 2010 as required by the Illinois State Auditing Act. The auditors qualified their report on State Compliance for findings 10-1, 10-2, and 10-4. Except for the noncompliance described in these findings, the auditors stated the Board complied, in all material respects, with the requirements described in the report.

WILLIAM G. HOLLAND
Auditor General

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AUDITORS ASSIGNED:
The compliance attestation examination was performed by the Office of the Auditor General's staff.