

**STATE OF ILLINOIS
ILLINOIS GAMING BOARD**

FINANCIAL AUDIT
FUND 129 - STATE GAMING FUND
For the Year Ended June 30, 2012
AND
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2012

STATE OF ILLINOIS
ILLINOIS GAMING BOARD
For the Two Years Ended June 30, 2012

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STATE OF ILLINOIS
ILLINOIS GAMING BOARD
For the Two Years Ended June 30, 2012

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BOARD OFFICIALS

ILLINOIS GAMING BOARD

| | |
|--------------------------------------|--|
| Chairman | Judge Aaron Jaffe |
| Board member | Lee Gould (10/24/11 – present) Charles Gardner (7/1/10 – 10/23/11) |
| Board member | Michael Holewinski (10/24/11 – present) Rev. Eugene Winkler (7/1/10 – 10/23/11) |
| Board member | Marybeth Vander Weele (10/24/11 – present) Vacant (4/25/11 – 10/23/11) Judge James E. Sullivan (7/1/10 – 4/24/11) |
| Board member | Vacant (1/27/12 – present) Zaldwaynaka Scott (10/24/11 – 1/26/12) Joe Moore Jr. (7/1/10 – 10/23/11) |
| Administrator | Mark Ostrowski |
| General Counsel | Emily Mattison (3/8/13 – present) Vacant (11/16/12 – 3/7/13) Lynn Carter (8/22/11 – 11/15/12) Vacant (6/16/11 – 8/21/11) Michael Fries (7/1/10 – 12/15/10) |
| Acting General Counsel | Erin Alexander (12/16/10 – 6/15/11) |
| Deputy General Counsel | Vacant (3/8/13 – present) Emily Mattison (5/1/12 – 3/7/13) Vacant (11/1/11 – 4/15/12) (12/16/10 – 6/15/11) Erin Alexander (7/1/10 – 12/15/10) |
| Acting Deputy General Counsel | Emily Mattison (6/16/11 – 10/31/11) (4/16/12 – 4/30/12) William Bogot (6/16/11 – 10/31/11) |
| Deputy Administrators: | |
| Enforcement | Rancifer Robinson (8/4/12 – present) Patrick Kimes (10/1/11 – 8/3/12) Bruce Banks (7/1/10 – 9/30/11) |
| Investigations | Scott Deubel |
| Audit and Financial Analysis | Douglas Bybee |
| Finance and Administration | Kathy Spain |
| Chief Fiscal Officer | Mark Lewis |

Board offices are located at:

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Springfield, IL 62794

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Des Plaines, IL 60016

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Tinley Park, IL 60487



ILLINOIS GAMING BOARD

Pat Quinn • Governor Aaron Jaffe • Chairman Mark Ostrowski • Administrator

160 North LaSalle ♠ Suite 300 ♣ Chicago, Illinois 60601 ♥ tel 312/814-4700 ♦ fax 312/814-4602

MANAGEMENT ASSERTION LETTER

April 9, 2013

Honorable William G. Holland
Auditor General
State of Illinois
Iles Park Plaza
740 East Ash Street
Springfield, IL 62703-3154

Dear Mr. Holland:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the Illinois Gaming Board (Board). We are responsible for and we have established and maintained an effective system of internal controls over compliance requirements. We have performed an evaluation of the Board's compliance with the following assertions during the two-year period ended June 30, 2012. Based on this evaluation, we assert that during the years ended June 30, 2011 and June 30, 2012, the Board has materially complied with the assertions below.

- A. The Board has obligated, expended, received and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The Board has obligated, expended, received and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The Board has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. State revenues and receipts collected by the Board are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the Board on behalf of the State or held in trust by the Board have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Yours very truly,

Illinois Gaming Board



Mark Ostrowski, Administrator



Mark Lewis, Chief Fiscal Officer



Emily Mattison, General Counsel

STATE OF ILLINOIS
ILLINOIS GAMING BOARD
For the Two Years Ended June 30, 2012

COMPLIANCE REPORT

SUMMARY

The compliance testing performed during this examination was conducted in accordance with *Government Auditing Standards* and in accordance with the Illinois State Auditing Act.

ACCOUNTANTS' REPORT

The Independent Accountants' Report on State Compliance, on Internal Control Over Compliance and on Supplementary Information for State Compliance Purposes does not contain scope limitations, disclaimers, or other significant non-standard language.

SUMMARY OF FINDINGS

| <u>Number of</u> | <u>Current</u> | <u>Prior</u> |
|--|----------------|--------------|
| Findings | 12 | 8 |
| Repeated findings | 1 | 0 |
| Prior recommendations implemented or not repeated | 7 | 0 |

SCHEDULE OF FINDINGS

| <u>Item No.</u> | <u>Page</u> | <u>Description</u> | <u>Finding Type</u> |
|---|-------------|---|---------------------|
| FINDINGS (<i>GOVERNMENT AUDITING STANDARDS</i>) | | | |
| 12-1 | 14 | Inadequate Control over Financial Reporting | Material Weakness |
| 12-2 | 17 | Noncompliance with Statutory Payment Requirements | Material Weakness |
| 12-3 | 18 | Inadequate Controls over Fund Transfers | Material Weakness |
| 12-4 | 20 | Lack of Formalized Change Management Standard | Material Weakness |

FINDINGS (STATE COMPLIANCE)

| | | | |
|-------|----|---|---|
| 12-5 | 22 | Inadequate Reconciliation and Reporting of Property | Material Weakness Material Noncompliance |
| 12-6 | 27 | Failure to Adopt Formal Timesheet Policy | Significant Deficiency Noncompliance |
| 12-7 | 28 | Untimely Performance Evaluations | Significant Deficiency Noncompliance |
| 12-8 | 29 | Inadequate Controls over Agency Workforce Reports | Significant Deficiency Noncompliance |
| 12-9 | 31 | Failure to Ensure Employees are Licensed and Properly Insured | Significant Deficiency Noncompliance |
| 12-10 | 32 | Lack of Required Board Members | Significant Deficiency Noncompliance |
| 12-11 | 33 | Failure to Comply with the Identity Protection Act | Significant Deficiency Noncompliance |
| 12-12 | 34 | Weaknesses Regarding the Security and Control of Confidential Information | Significant Deficiency Noncompliance |

In addition, the following findings which are reported as current findings and questioned costs relating to *Government Auditing Standards* also meet the reporting requirements for State Compliance.

| | | | |
|------|----|---|---|
| 12-1 | 14 | Inadequate Control over Financial Reporting | Material Weakness Material Noncompliance |
| 12-2 | 17 | Noncompliance with Statutory Payment Requirements | Material Weakness Material Noncompliance |
| 12-3 | 18 | Inadequate Controls over Fund Transfers | Material Weakness Material Noncompliance |
| 12-4 | 20 | Lack of Formalized Change Management Standard | Material Weakness Noncompliance |

PRIOR FINDINGS NOT REPEATED

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| A | 36 | Central Communications System Procurement-Evaluation Certification | |
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| B | 36 | Central Communications System Procurement- Documenting Evaluation Meetings |
| C | 36 | Central Communications System Procurement- Evaluation Review |
| D | 37 | Inaccurate Quarterly Accounts Receivable Reporting |
| E | 37 | Inadequate Controls over Personal Services |
| F | 37 | Inadequate Controls over Contractual Agreements |
| G | 38 | Inadequate Internal Control over Cash Receipts |

EXIT CONFERENCE

The Illinois Gaming Board waived an exit conference in correspondence dated March 26, 2013. Responses to the recommendations were provided by Mark Lewis, Chief Fiscal Officer, in correspondence dated April 9, 2013.

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OFFICE OF THE AUDITOR GENERAL
WILLIAM G. HOLLAND

INDEPENDENT ACCOUNTANTS' REPORT ON STATE COMPLIANCE,
ON INTERNAL CONTROL OVER COMPLIANCE, AND ON
SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES

Honorable William G. Holland
Auditor General
State of Illinois

And

Judge Aaron Jaffe, Chairman
Illinois Gaming Board
160 North LaSalle St.
Suite 300
Chicago, IL 60601

Compliance

We have examined the State of Illinois, Illinois Gaming Board's compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, during the two years ended June 30, 2012. The management of the State of Illinois, Illinois Gaming Board is responsible for compliance with these requirements. Our responsibility is to express an opinion on the State of Illinois, Illinois Gaming Board's compliance based on our examination.

- A. The State of Illinois, Illinois Gaming Board has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The State of Illinois, Illinois Gaming Board has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The State of Illinois, Illinois Gaming Board has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

- D. State revenues and receipts collected by the State of Illinois, Illinois Gaming Board are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the State of Illinois, Illinois Gaming Board on behalf of the State or held in trust by the State of Illinois, Illinois Gaming Board have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the Audit Guide as adopted by the Auditor General pursuant to the Act; and, accordingly, included examining, on a test basis, evidence about the State of Illinois, Illinois Gaming Board's compliance with those requirements listed in the first paragraph of this report and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the State of Illinois, Illinois Gaming Board's compliance with specified requirements.

As described in finding 12-1, 12-2, 12-3, and 12-5 in the accompanying schedule of findings, the State of Illinois, Illinois Gaming Board did not comply with requirements regarding:

- B. The State of Illinois, Illinois Gaming Board has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions, or mandatory directions imposed by law upon such obligation, expenditure, receipt, or use.
- C. The State of Illinois, Illinois Gaming Board has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

Compliance with such requirements is necessary, in our opinion, for the State of Illinois, Illinois Gaming Board to comply with the requirements listed in the first paragraph of this report.

In our opinion, except for the noncompliance described in the preceding paragraph, the State of Illinois, Illinois Gaming Board complied, in all material respects, with the compliance requirements listed in the first paragraph of this report during the two years ended June 30, 2012. However, the results of our procedures disclosed other instances of noncompliance, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of findings as items 12-4, 12-6, 12-7, 12-8, 12-9, 12-10, 12-11, and 12-12.

Internal Control

Management of the State of Illinois, Illinois Gaming Board is responsible for establishing and maintaining effective internal control over compliance with the requirements listed in the first paragraph of this report. In planning and performing our examination, we considered the State

of Illinois, Illinois Gaming Board's internal control over compliance with the requirements listed in the first paragraph of this report as a basis for designing our examination procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Audit Guide issued by the Illinois Office of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois, Illinois Gaming Board's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency* in an entity's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with the requirements listed in the first paragraph of this report on a timely basis. A *material weakness in an entity's internal control over compliance* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material noncompliance with a requirement listed in the first paragraph of this report will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control over compliance as described in the accompanying schedule of findings as items 12-1 through 12-5 to be material weaknesses.

A *significant deficiency in an entity's internal control over compliance* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings as items 12-6 through 12-12 to be significant deficiencies.

As required by the Audit Guide, immaterial findings excluded from this report have been reported in a separate letter.

The State of Illinois, Illinois Gaming Board's responses to the findings identified in our examination are described in the accompanying schedule of findings. We did not examine the State of Illinois, Illinois Gaming Board's responses and, accordingly, we express no opinion on the responses.

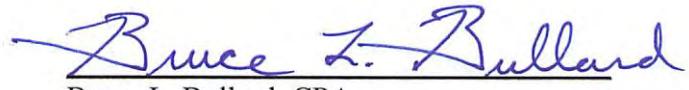
Supplementary Information for State Compliance Purposes

Our examination was conducted for the purpose of forming an opinion on compliance with the requirements listed in the first paragraph of this report. The accompanying supplementary information for the years ended June 30, 2012 and June 30, 2011 in Schedules 1 through 9 and the Analysis of Operations Section is presented for purposes of additional analysis. We have applied certain limited procedures as prescribed by the Audit Guide as adopted by the Auditor

General to the June 30, 2012 and June 30, 2011 accompanying supplementary information in Schedules 1 through 9. However, we do not express an opinion on the accompanying supplementary information.

We have not applied procedures to the June 30, 2010 accompanying supplementary information in Schedules 3 through 5, 7, and 8 and in the Analysis of Operations Section, and accordingly, we do not express an opinion or provide any assurance on it.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Illinois Gaming Board and Board management and is not intended to be and should not be used by anyone other than these specified parties.



Bruce L. Bullard, CPA
Director of Financial and Compliance Audits

April 9, 2013

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OFFICE OF THE AUDITOR GENERAL
WILLIAM G. HOLLAND

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable William G. Holland
Auditor General
State of Illinois

And

Judge Aaron Jaffe, Chairman
Illinois Gaming Board
160 North LaSalle St.
Suite 300
Chicago, IL 60601

We have audited the State Gaming Fund of the State of Illinois, Illinois Gaming Board, as of and for the year ended June 30, 2012, and have issued our report thereon dated April 9, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the State of Illinois, Illinois Gaming Board is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the State of Illinois, Illinois Gaming Board's internal control over financial reporting of the State Gaming Fund as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Illinois, Illinois Gaming Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois, Illinois Gaming Board's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings as items 12-1 through 12-4 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Illinois, Illinois Gaming Board, State Gaming Fund financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

State of Illinois, Illinois Gaming Board's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit State of Illinois, Illinois Gaming Board's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Illinois Gaming Board and Board management and is not intended to be and should not be used by anyone other than these specified parties.



Bruce L. Bullard, CPA
Director of Financial and Compliance Audits

April 9, 2013

STATE OF ILLINOIS
ILLINOIS GAMING BOARD
SCHEDULE OF FINDINGS
GOVERNMENT AUDITING STANDARDS
For the Two Years Ended June 30, 2012

12-1. **FINDING** (Inadequate Control over Financial Reporting)

The Illinois Gaming Board (Board) did not exercise adequate internal control over financial reporting, resulting in the auditors identifying inaccuracies and errors within the State Gaming Fund's (Fund) year-end reporting package submitted to the Office of the State Comptroller (Comptroller) and the Fund's draft financial statements.

Pursuant to Executive Order 5 (2009), the Board utilizes the services of the Department of Revenue's Administrative and Regulatory Shared Services Center (Shared Services) to perform certain accounting and financial reporting functions, including preparing the Fund's year-end reporting package to the Comptroller (GAAP Package) and the Fund's financial statements. While Shared Services prepares the Fund's GAAP Package and its financial statements, Board management is ultimately responsible for the presentation of the Fund's financial statements as stated in the Independent Auditors' Report on page 40 of this report.

During the audit of the June 30, 2012 Fund financial statements, the following exceptions were noted:

- The Board did not properly account for taxes receivable resulting from wagering and admission taxes earned and due to the State by the ten riverboat casinos as of June 30, 2012. When the Adjusting Journal Entries Form (SCO-548) was prepared for GAAP reporting purposes, two entries were incorrectly recorded which categorized \$5.721 million as both taxes receivable and other receivables. Further, the original taxes receivable adjusting journal entry included \$906 thousand for which the Board had already received the cash from the casinos as of June 30, 2012 and also included a mathematical error of \$45 thousand when the Board added the receivables amounts. As a result of these errors, the auditors proposed and the Board's management adjusted the overstatement of other receivables, the overstatement of other revenues and the understatement of cash for the amounts mentioned.
- The Board did not exercise adequate cash cut-off controls to ensure fiscal year-end cash collections deposited into the State Treasury were properly recorded. As mentioned above, the auditors noted the Board did not include cash receipts already received from the casinos as of June 30, 2012, totaling \$906 thousand, as cash on deposit in the State Treasury. Further, the auditors noted \$30 thousand in video gaming licensing fees received on June 29, 2012 were not recorded as cash in-transit as of June 30, 2012. As a result of this error, the auditors proposed and the Board's management adjusted the \$936 thousand understatement of cash equity within the State Treasury and the understatement in license and fee revenue of \$30 thousand.

STATE OF ILLINOIS
ILLINOIS GAMING BOARD
SCHEDULE OF FINDINGS
GOVERNMENT AUDITING STANDARDS
For the Two Years Ended June 30, 2012

- As a result of the combined errors noted in the preceding bullet points, the initial draft of the Fund's financial statements overstated the amount due to the Education Assistance Fund (EAF) by \$5.736 million (i.e. the \$5.721 million double journal entry for taxes receivable overstatement, plus the \$45 thousand mathematical error overstatement minus the \$30 thousand understatement in video gaming receipts).
- The Board did not properly classify expenditures incurred by the Department of Human Services from appropriations from the Fund for the treatment of problem gambling, as required by the Riverboat Gambling Act (230 ILCS 10/13(c)). The Board classified these expenditures as public protection and justice expenditures, instead of accounting for these expenditures as health and social services expenditures. As a result of this error, the auditors proposed and the Board's management adjusted an understatement of health and social services expenditures and an overstatement in public protection and justice expenditures of \$163 thousand.
- The auditors noted the Fund's cash balance and other tax revenue balance supporting documentation included fine and penalty amounts which pursuant to the Act (230 ILCS 10/23) belonged to the EAF.

In accordance with generally accepted accounting principles, all assets, liabilities, revenues, and expenses should be recorded and reported in the Fund's financial statements. Specifically, Governmental Accounting Standards Board Statement No. 33, Paragraph 16, *Accounting and Financial Reporting for Nonexchange Transactions*, states the Board should recognize assets from derived tax revenue transactions in the period when the exchange transaction on which the tax is imposed occurs or when resources are received, whichever occurs first.

Further, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system of internal fiscal control to provide assurance that revenues, expenditures and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of reliable financial reports.

In addition, the auditors noted the following errors and omissions from the Fund's draft financial statement 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 (230 ILCS 40).

STATE OF ILLINOIS
ILLINOIS GAMING BOARD
SCHEDULE OF FINDINGS
GOVERNMENT AUDITING STANDARDS
For the Two Years Ended June 30, 2012

- The Board’s growing and current liability to the Horse Racing Equity Fund and the 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.

Governmental Accounting Standards Board Statement No. 34, Paragraph 113, *Basic Financial Statements*, states the Board’s notes to the financial statements should communicate information essential for the fair presentation of the financial statements not displayed on the face of the financial statements.

Board management stated the errors were primarily attributable to human error and miscommunication between the Board and Shared Services regarding the process of recording year-end receivables.

Failure to accurately record and present financial information within the Fund’s financial statements in accordance with generally accepted accounting principles could have resulted, if not detected and corrected, in a material misstatement of the Fund’s financial position and negatively impacted the State’s financial statements. Further, delays in completing the Fund’s financial audit due to auditors noting several errors and omissions negatively impacts the timely completion of the State’s financial statements. (Finding Code No. 12-1)

RECOMMENDATION

We recommend 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.

BOARD RESPONSE

The Board agrees with the recommendation, and will coordinate efforts with Shared Services regarding the implementation of policies and procedures and cross-training to ensure the Fund’s GAAP Package and financial statements are accurate and fairly presented in accordance with GAAP.

STATE OF ILLINOIS
ILLINOIS GAMING BOARD
SCHEDULE OF FINDINGS
GOVERNMENT AUDITING STANDARDS
For the Two Years Ended June 30, 2012

12-2. **FINDING** (Noncompliance with Statutory Payment Requirements)

The Illinois Gaming Board (Board) was unable to comply with the requirements of the Riverboat Gambling Act (230 ILCS 10/13(c-5) and (c-25)) (Act), resulting in \$66.9 million in excess funds being retained in the State Gaming Fund's (Fund) cash balance at June 30, 2012.

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 in accordance with the Act. As of June 30, 2012, the auditors noted the Fund had outstanding liabilities due to the Horse Racing Equity Fund and Chicago State University in the amount of \$59.032 million and \$7.871 million, respectively.

Board management stated the Board did not have appropriations or other statutory authority to pay the amounts due to the Horse Racing Equity Fund and Chicago State University during Fiscal Year 2012.

Failure to issue the payments to the Horse Racing Equity Fund and to Chicago State University represents noncompliance with the Act. In addition, the Fund's cash balance is continually growing and could result in the misallocation of assets among State agencies and its component units, reducing the overall reliability of the State's financial information and reducing the amount of money readily available for use by the State. (Finding Code No. 12-2)

RECOMMENDATION

We recommend the Board continue to work with the Governor's Office of Management and Budget and the Illinois General Assembly to seek legislative remedy to address the growing cash balance within the State Gaming Fund.

BOARD RESPONSE

The Board agrees with the recommendation. The IGB will continue to work with GOMB and the General Assembly to seek a legislative remedy to this issue.

STATE OF ILLINOIS
ILLINOIS GAMING BOARD
SCHEDULE OF FINDINGS
GOVERNMENT AUDITING STANDARDS
For the Two Years Ended June 30, 2012

12-3. **FINDING** (Inadequate Controls over Fund Transfers)

The Illinois Gaming Board (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).

The Illinois Administrative Code (86 Ill. Admin. Code 3000.1071(q)) (Code) requires the Board to transfer excess cash resources in the SGF to the EAF pursuant to a cash-basis formula. As of the calculation date for a potential fund transfer, the Code requires the Board to transfer the difference between the SGF's cash balance and any outstanding obligations of the SGF to the EAF. The Code specifies outstanding obligations must include admission and wagering taxes due to each riverboat casinos' local government and 10th casino licensee obligations to Cook County, Chicago State University and the Horse Racing Equity Fund. Further, the Board's internal procedures require bi-monthly transfers from the SGF to the EAF to provide a timely flow of cash resources into the EAF.

During testing, the auditors noted the following:

- For 24 of 24 (100%) bi-monthly transfers calculated, the Board did not include all outstanding obligations due to Cook County as of the date the transfer was calculated.
- For 16 of 22 (73%) bi-monthly transfers made, the Board did not include all outstanding obligations for admission and wagering taxes due to local governments as of the date of the transfer was calculated. The auditors were unable to recalculate the total obligation amount used by the Board in its calculation for these 16 transfers.
- For nine of 22 (41%) bi-monthly transfers made, the Board did not include all receipts received by the Board and deposited into the SGF as of the date the transfer was calculated. The auditors were unable to recalculate the total receipt amount used by the Board in its calculation for these nine transfers.
- For eight of 22 (36%) bi-monthly transfers made, 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.
- For three of 22 (14%) bi-monthly transfers made, the Board did not ensure all previous SGF transfer obligations to the EAF were included as of the date the transfer was calculated.
- For three of 22 (14%) bi-monthly transfers made, the Board did not accurately account for cash disbursements paid by the Board as of the date the transfer was calculated.

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- For seven of 22 (32%) bi-monthly transfers made, 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.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Board to establish and maintain a system, or systems, of fiscal and administrative controls to provide assurance transfers of assets and resources are properly recorded and accounted for to maintain accountability over the State's resources. Additionally, the State Records Act (5 ILCS 160/8) requires the Board to preserve records containing adequate and proper documentation to support transactions.

Board management stated these errors were primarily attributable to human error as well as a deficiency in the initially established procedures, which have since been corrected.

Failure to exercise adequate internal control over transfers from the SGF to the EAF impacts the timing and amount of cash flow available to pay appropriated obligations of the EAF and represents noncompliance with the Code, the State Records Act and the Fiscal Control and Internal Auditing Act. (Finding Code No. 12-3)

RECOMMENDATION

We recommend the Board implement internal controls to timely prepare and accurately calculate transfers of excess cash resources from the SGF to the EAF.

BOARD RESPONSE

The Board agrees with the recommendation and procedures are in the process of being revised to strengthen controls regarding the fund transfers.

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12-4. **FINDING** (Lack of Formalized Change Management Standard)

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

The Board maintains sixteen applications in order to meet their mission of administering and regulating riverboat casino gambling and video gaming in Illinois.

During our review, we noted the Board had not developed a formal change management process to control modifications to their systems. In the event a change was required, an email would be sent to the applicable programmer requesting the change to be made. The programmer would complete the change; however, documentation was not always maintained. For example, the Electronic Wagering and Admission Reporting system was significantly modified and implemented in July 2011 without a formal change control process and with limited documentation supporting the changes.

Board management stated they do not have a structured change management standard to ensure adequate oversight to modifications of existing computer systems. Currently, change requests are submitted informally via e-mail or telephone by management or authorized users.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls.

In addition, generally accepted Information Technology guidance endorses the development of change management procedures to control changes to computer systems. Effective change management procedures reduce the risk of unauthorized, improper, or erroneous changes to computer systems.

The lack of controls over changes to systems could result in unauthorized changes effective data integrity. (Finding Code No. 12-4)

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RECOMMENDATION

We recommend the Board implement a structured change management standard to ensure adequate oversight of modifications to existing systems. The standard should include at a minimum:

- Procedures for formally requesting changes
- Management approval
- Testing requirements
- Documentation requirements
- Implementation reviews

BOARD RESPONSE

The Board agrees with the recommendation. The Board has already implemented a structured change management standard, effective January 1, 2013.

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12-5. **FINDING** (Inadequate Reconciliation and Reporting of Property)

The Illinois Gaming Board (Board) did not maintain sufficient controls over the reconciliation and reporting of its property. We noted the following:

- The Board did not adequately reconcile its property control records to the Agency Report of State Property (C-15) filed with the Comptroller. While the Board's FY11 and FY12 year-end amounts reported on the C-15s agreed to the Board's property records as of June 30, 2011 and June 30, 2012, respectively, the Board made unsupported adjustments to the balances in order to get them to reconcile. The errors noted below were identified by the auditors for each of the fiscal years:
 - The Board's June 30, 2011 C-15 contained an unsupported additions "miscellaneous adjustment", totaling \$8,962, in order to get the ending total to reconcile to the Board's property records. The auditors were able to reconcile all but \$743 of the unsupported amount through errors they noted during testing.
 - The Board's June 30, 2012 C-15 amounts were inaccurately reported with 3rd quarter data. On April 30, 2012, the Board originally reported only addition amounts, totaling \$14,955, on its 3rd quarter C-15. According to Board personnel, the Board's Property Control System contained an error and the Board could not timely fix the error before the due date to submit the 3rd quarter report to the Comptroller. A decision was made by Board management to report the totals it currently had and submit a revised 3rd quarter C-15 once the Board was able to correct the error in its Property Control System. Ultimately, the Board was able to fix the error in the system and, therefore, obtained updated information for amounts that should have been recorded in the 3rd quarter C-15. The amounts that should have been recorded are as follows: \$22,883 in additions, \$10,911 in transfers-out, and \$49,188 in adjustments. However, the Board decided not to submit a revised 3rd quarter C-15 and instead decided to report the totals as 4th quarter data in the 4th quarter C-15.

The Statewide Accounting Management System Manual (SAMS Manual) Chapter 29 establishes the procedures for how each agency is to prepare and complete its quarterly C-15s. Further, it states that when the report is properly completed, it should present the total cost of State property, by category, reflected on the agency's records as of the reporting date and reconcile the beginning balance of State property to the ending balance. In addition, the State Records Act (5 ILCS 160/8) requires the head of each agency to cause to be made and preserved records containing adequate and proper

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documentation of the decisions and essential transactions of the agency designed to furnish information to protect the legal and financial rights of the State and of persons directly affected by the agency's activities.

- The Board's property listing contained inadequate and inaccurate information. Auditors noted two equipment items selected for testing did not have their corresponding voucher numbers included on the property listing. Further, the auditors noted 17 pieces of equipment selected during testing in which the items were incorrectly classified on the Board's property listing. This includes 13 pieces of equipment misclassified as "assigned", "unassigned", or in "storage", and four pieces of equipment shown on the property listing as being located in a different geographical location than they were physically located.

The Illinois Administrative Code (44 Ill. Admin. Code 5010.230) requires the following to be entered correctly on property control records: identification number, location code number, description, date of purchase, purchase price, object code, and voucher number.

- During our testing of the property records and listings, we noted the following deficiencies:

| | |
|---|--------------------|
| Board Property Listing Total as of June 30, 2012: | \$2,050,824 |
| <ul style="list-style-type: none"> ▪ The Board incorrectly overstated the purchase price of 192 computers by \$22,080. | (22,080) |
| <ul style="list-style-type: none"> ▪ Two equipment items were transferred to other agencies but were not removed from the Board's property listing as required by the Illinois Admin Code. | (710) |
| Total Property Listing at June 30, 2012, as adjusted: | \$2,028,034 |

- The Board did not timely record equipment on its property listing. Specifically, the auditors noted 132 pieces of equipment, totaling \$109,611, were recorded between five to 209 days late.

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The Illinois Administrative Code (Code) (44 Ill. Adm. Code 5010.400) states that agencies shall adjust property records within 30 days of acquisition, change or deletion of equipment items.

- During our testing of the C-15's accuracy, we noted the following deficiencies:
 - The amounts reported as additions, deletions, or transfers-out by the Board did not agree to the support provided to the auditors for six of the eight quarters tested.
 - One commodity item, totaling \$175, was improperly included as an addition on the C-15. The item should have been reported as a deletion in the following quarter to correct the error; however, it was subtracted from the "miscellaneous adjustment" addition amount reported on the 4th quarter FY11 C-15.
 - Several equipment items, totaling \$3,549, that were purchased in prior periods, were either added to the property listing or had increased purchase prices on the Board's property listing during the current examination; however, the Board did not properly include these increases to its C-15s as additions related to prior years' acquisitions.
 - Three guns, totaling \$1,170, were not added to the property listing in the same fiscal year as reported on the C-15. The guns were added to the Board's property listing during the 2nd quarter of FY11, but were reported as transfers-in on the 4th quarter FY10 C-15.
 - The Board did not accurately report additions on its 3rd quarter FY11 C-15. Board personnel mistakenly transposed the reported addition amount, which understated the additions by \$360. In addition, the Board included \$1,425 worth of additions on the C-15 that were already reported as additions in the previous quarter. Finally, the Board did not report addition items, totaling \$3,529, on the C-15 which it had added to its property listing during the 3rd quarter, thereby understating its additions amount. The net effect of these errors resulted in a \$2,464 understatement of additions during the 3rd quarter of FY11.

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- The Board reported a transfer-out of the same asset, totaling \$500, on both the 3rd and 4th quarter FY11 C-15s, resulting in an overstatement of transfers-out of \$500.
- One equipment item, totaling \$590, was reported to CMS as missing on 8/21/2010 and the Board received approval to delete the item in December, 2010; however, the item was not reported as a deletion on the C-15 until the 3rd quarter of FY11.
- The Board incorrectly reported transfers-out made during the 3rd quarter of FY12, totaling \$10,911, as deletions, which were ultimately incorrectly reported as deletions on the 4th quarter of FY12 C-15.

SAMS Manual Procedure 29.20.10 requires agencies to enter, on the appropriate line, all additions, deletions and transfers to and from each asset category that occurred during the quarter being reported when preparing its quarterly C-15s. Amounts to be included are corrections related to increases/decreases for prior years not previously reported, which should also be separately identified on the C-15.

Board management stated these errors were primarily attributable to human error and lack of procedures related to reconciliation of property listings to quarterly reports.

Failure to exercise adequate control over property and maintain accurate property control records increases the risk of loss, misappropriation and inaccurate information being submitted to the State Comptroller. (Finding Code No. 12-5, 10-5)

RECOMMENDATION

We recommend the Board establish controls over property reporting and implement procedures to ensure:

- Equipment is entered timely and accurately on the property listing;
- Equipment additions are reconciled to purchases made by the Board;
- Quarterly reports are reconciled to property listings, reviewed for accuracy and adequate documentation is maintained;
- Property listings include all the required information in accordance with the Administrative Code; and
- The Board should work with the Comptroller to correct or properly adjust the discrepancies noted in its Quarterly and annual reporting to the Comptroller.

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BOARD RESPONSE

The Board agrees with the recommendation, and has now implemented property control procedures through review of the Administrative Code Title 44: Government Contracts, Procurement and Property Management, Subtitle D: Property Management and SAMS Manual Procedure 29.20.10.

The Board will enter equipment timely and accurately on the property listing.

The Board will reconcile additions to purchases, quarterly reports to property listings, review for accuracy and ensure that adequate documentation is maintained.

Property listings will include all the required information in accordance with the Administrative Code.

The Board will work with the Comptroller and Shared Services to correct or properly adjust the discrepancies noted in its Quarterly and annual reporting to the Comptroller.

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12-6. **FINDING** (Failure to Adopt Formal Timesheet Policy)

The Illinois Gaming Board (Board) did not comply with the State Officials and Employees Ethics Act regarding employee timekeeping requirements.

During testing, we noted the Board did not have a policy in place which required all employees to periodically submit timesheets documenting the time spent each day on official State business to the nearest quarter hour. The Board's timekeeping documentation consisted of sign in/sign out sheets, requested time off sheets, leave of absence documents, and other correspondence detailing deviations from scheduled working hours. Although employees were required to record time in when arriving at work and time out when leaving, there was no documentation of time spent on official State business.

The State Officials and Employees Ethics Act (Act) (5 ILCS 430/5-5(c)) requires each State agency to develop a written policy which includes work time requirements and documentation of time worked. Further, the Act requires State employees to periodically submit timesheets documenting the time spent each day on official State business to the nearest quarter hour.

Board management stated they were currently working on revising the Employee Handbook to include a comprehensive timesheet policy, but the project has taken longer than originally anticipated.

Failure to have a formal written policy is noncompliance with the Act and increases the risk that payments could be made for services not provided. (Finding Code No. 12-6)

RECOMMENDATION

We recommend the Board adopt a formal timesheet policy requiring employees to maintain timesheets in compliance with the State Officials and Employees Ethics Act.

BOARD RESPONSE

The Board agrees with the recommendation and will incorporate its formal timesheet policy into its revised Employee Handbook.

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12-7. **FINDING** (Untimely Performance Evaluations)

The Illinois Gaming Board (Board) did not conduct employee performance evaluations in accordance with the Illinois Administrative Code (Code) and the Board's Employee Handbook (Handbook).

During testing, we noted five of 20 (25%) personnel files tested did not contain performance evaluations that were completed in a timely manner. The evaluations were completed from five to 440 days after the employee's anniversary date.

The Code (80 Ill. Admin. Code 302.270) and the Handbook require certified employees to be evaluated annually.

Board management stated that Board supervisors are occasionally tardy when conducting performance evaluations due to heavy workloads; however, their failure to complete evaluations in a timely manner does not prevent bargaining unit employees from receiving step increases.

Annual performance evaluations are important to ensure all employees understand the duties and responsibilities assigned to them and that they are adequately performing the duties for which they are being compensated. Failure to conduct timely annual evaluations is noncompliance with the Code and the Handbook. (Finding Code No. 12-7)

RECOMMENDATION

We recommend the Board conduct timely annual performance evaluations for all certified employees.

BOARD RESPONSE

The Board agrees with the recommendation. It will continue to be the Board's goal to conduct timely performance evaluations for all certified employees.

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12-8. **FINDING** (Inadequate Controls over Agency Workforce Reports)

The Illinois Gaming Board (Board) did not include complete and accurate information on its FY11 Agency Workforce Report (Report) submitted to the Office of the Governor and the Office of the Secretary of State. In addition, the Board did not maintain supporting documentation for its FY10 Report.

During testing, we noted the following:

- The Board reported amounts on its FY11 Report which did not agree to supporting documentation provided to the auditors. Specifically, the auditors noted Board errors when reporting the statistical totals for employees who were hired, promoted, or were considered contractual employees during the fiscal year.
- The Board could not provide supporting documentation to the auditors for any of the amounts reported in its FY10 Report. As a result, the auditors could not confirm the accuracy of the Report.
- Finally, the Board inaccurately calculated percentage totals in both Reports filed during the examination period.

The State Employment Records Act (5 ILCS 410/15) (Act) requires State agencies to collect and maintain information and annually publish reports which include specified demographic and salary data regarding State employees.

Board management stated that Board staff did not file appropriate supporting documentation for the 1st quarter Report of FY11, which resulted in inaccurate numbers on the FY11 Report. Further, human error occurred when calculating percentages.

Failure to not include complete and accurate information on the Board's Reports could deter efforts by State officials, administrators, and residents to achieve a more diversified State workforce. In addition, failure to maintain supporting documentation used to prepare the reports is noncompliance with the Act. (Finding Code No. 12-8)

RECOMMENDATION

We recommend the Board collect and maintain complete information and annually publish accurate Reports. Further, the Board should file corrected reports within 30 days of audit release to the Secretary of State and the Office of the Governor as required by the Illinois State Auditing Act.

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BOARD RESPONSE

The Board agrees with the recommendation. The Board will collect and maintain the appropriate supporting documentation for its annual agency workforce report and in the event that future errors are made, the Board will submit a corrected report in accordance with the Illinois State Auditing Act.

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12-9. **FINDING** (Failure to Ensure Employees are Licensed and Properly Insured)

The Illinois Gaming Board (Board) did not properly certify license and automotive liability coverage for all employees assigned a State-owned vehicle during the examination period.

During testing we noted 12 of 89 (13%) employees who were personally assigned a State-owned vehicle did not submit the required annual liability and licensure certification to the Board's Administrator.

The Illinois Vehicle Code (625 ILCS 5/7-601(c)) (Code) requires employees who are assigned a specific State-owned vehicle on an ongoing basis to provide annual certification to the director or chief executive officer of his or her agency. The annual certification affirms the employee is duly licensed to drive the assigned vehicle and that the employee has liability insurance coverage extending to the employee when the assigned vehicle is used for other than official State business. In addition, the Code requires the certification to be provided during the period July 1 through July 31 of each calendar year or within 30 days of any new assignment of a vehicle, whichever is later.

Board management stated they believe all employees assigned a State-owned vehicle did properly certify license and automotive liability coverage. The Board believes these certifications were either lost or misplaced when transferring the Vehicle Coordinator function and respective files from Springfield to Chicago.

Failure to obtain certifications of employee licensure and automotive liability coverage is noncompliance with the Code and could result in increased risk of loss to the State due to injury or damage. (Finding Code No. 12-9)

RECOMMENDATION

We recommend the Board obtain proper certifications of licensure and automotive liability coverage for all employees assigned a State-owned vehicle as required by the Code.

BOARD RESPONSE

The Board agrees with the recommendation. The Board's Vehicle Coordinator will ensure that all drivers assigned a State-owned vehicle file a certification every July. The Vehicle Coordinator will also ensure that individuals who may drive a pool vehicle submit a certification every July.

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12-10. **FINDING** (Lack of Required Board Members)

The Illinois Gaming Board (Board) was not composed of the required number of members as required by the Riverboat Gambling Act (Act) (230 ILCS 10/5(a)(2)).

The Board is required to be comprised of five members per the Act. At June 30, 2012, the Board had four serving members.

Board management stated a board member resigned effective January 26, 2012.

Board members should be appointed in a timely manner in order to properly formulate the direction and policies of the Board as intended. A full board is necessary to properly conduct meetings and operate effectively and efficiently. Furthermore, failure of the Board to be comprised of the mandated number of members is in noncompliance with the Act. (Finding Code No. 12-10)

RECOMMENDATION

We recommend the Board work with the Governor's Office to ensure the Board vacancies are filled in a timely manner as required by the Act.

BOARD RESPONSE

230 ILCS 10/5 (a) (2) states "The Board shall consist of 5 members to be appointed by the Governor with the advice and consent of the Senate..." As this indicates, the sole responsibility for appointing members to the Illinois Gaming Board lies with the Governor and the Senate. Appointments to the Board are out of the Board's control. However, the Board and staff will continue to work with the Governor's Office regarding any vacancies.

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12-11. **FINDING** (Failure to Comply with the Identity Protection Act)

The Illinois Gaming Board (Board) failed to implement the provisions of the Identity Protection Act (Act).

The Identity Protection Act (5 ILCS 179) required the Board to draft and approve an identity-protection policy by June 1, 2011. Per the Act, the Policy must:

- Identify the Act.
- Require all employees identified as having access to social security numbers in the course of performing their duties to be trained to protect the confidentiality of social security numbers.
- Direct that only employees who are required to use or handle information or documents that contain social security numbers have access to such information or documents.
- Require that social security numbers requested from an individual be placed in a manner that makes the social security number easily redacted if required to be released as part of a public records request.
- Require that, when collecting a social security number or upon request by the individual, a statement of the purpose or purposes for which the agency is collecting and using the social security number be provided.

During our testing, we noted that the Board had not issued an identity-protection policy.

Board management stated they were not aware of this Act and its requirements.

Failure to implement provisions of the Act results in noncompliance with the Act, does not promote the security and control of social security numbers, and increases the likelihood of identity theft. (Finding Code No. 12-11)

RECOMMENDATION

We recommend the Board develop and approve an identity protection policy as required in the Identity Protection Act.

BOARD RESPONSE

The Board agrees with the recommendation. The Board has developed and approved an identify protection policy as required in the Identity Protection Act.

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12-12. **FINDING** (Weaknesses Regarding the Security and Control of Confidential Information)

During the review of the Illinois Gaming Board (Board), the following weaknesses were noted in regards to the Board's security and control of confidential information:

- Failure to perform a risk assessment of the Board's computer resources.
- Failure to install hard disk encryption software on the Board's laptop computers.
- Lack of formalized breach of security procedures.

As part of their responsibilities the Board obtained and stored (electronic and hardcopy) a significant amount of confidential information related to license applications. Specifically, the Board received:

- Personal Information; social security numbers, driver license numbers, passport data, arrest records, birth certificates, date of birth, addresses,
- Tax Information,
- Banking Information, and
- Background Information.

The hardcopy application and related hardcopy documentation was maintained in a file room. The file room was locked at night and on non-business days; however, it was unlocked during business days.

The Board's Licensing System contained confidential and sensitive information for approximately 84,000 applicants.

The Board had not performed a risk assessment of its computing resources to identify confidential or personal information to ensure such information is protected from unauthorized disclosure.

The Board had not installed disk encryption on its laptops; however, the Board had received new laptops with software that provides the option to enable encryption.

The Board had not developed formal policies and procedures to promote timely compliance with requirements outlined in the Personal Information Protection Act (815 ILCS 530), in the event of a breach of personal information.

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Board management stated they were not aware of the Personal Information Protection Act and its requirements.

The Board has the responsibility to ensure that confidential information is protected from accidental or unauthorized disclosure. Policies and procedures help ensure prompt notification of security breaches to all involved parties in an effort to minimize the potential impact and costs resulting from identity thefts. (Finding Code No. 12-12)

RECOMMENDATION

We recommend the Board:

- Perform a comprehensive risk assessment to identify all forms of confidential or personal information and ensure adequate security controls, including adequate physical and logical access restrictions, have been established to safeguard data and resources.
- Ensure confidential information is adequately secured with methods such as encryption or redaction.
- Develop policies and procedures to ensure timely compliance with the requirements outlined in the Personal Information Protection Act (815 ILCS 530), in the event of a breach of confidential information.

BOARD RESPONSE

The Board agrees with the recommendation. The Board will:

- Perform a comprehensive risk assessment to identify all forms of confidential or personal information and ensure adequate security controls, including adequate physical and logical access restrictions, have been established to safeguard data and resources.
- Ensure confidential information is adequately secured with methods such as encryption or redaction.

The Board has already developed policies and procedures regarding the requirements outlined in the Personal Information Protection Act, in the event of a breach of confidential information.

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PRIOR FINDINGS NOT REPEATED
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A. **FINDING** (Central Communications System Procurement-Evaluation Certification)

During the prior examination period, Illinois Gaming Board (Board) employees who evaluated the proposals for the Central Communications System (CCS) initial procurement opportunity failed to provide evidence of the date evaluations were conducted.

During the current examination period, auditors reviewed the procurement process for the award of the CCS announced on November 22, 2011. Our review found that Board employees properly dated the evaluations for the Administrative Review, Mandatory Requirements, Technical Evaluations, and the Price Evaluation. (Finding Code No. 10-2)

B. **FINDING** (Central Communications System Procurement- Documenting Evaluation Meetings)

During the prior examination period, Illinois Gaming Board (Board) procurement files did not contain adequate records to evidence that the Evaluation Committee for the Central Communications System (CCS) procurement met. Additionally, there was no documentation to show that significant scoring differences were discussed by committee members.

During the current examination period, auditors reviewed the procurement process for the award of the CCS announced on November 22, 2011. Our review of the procurement files still noted a lack of documentation for Evaluation Committee meetings; however, the scoring evaluations among the five team members showed very little disparity. (Finding Code No. 10-3)

C. **FINDING** (Central Communications System Procurement- Evaluation Review)

During the prior examination period, a lack of review for the scoring of pricing in the evaluation process of the Central Communications System (CCS) procurement opportunity resulted in the award to a vendor that was not the highest ranked.

During the current examination period, auditors reviewed the procurement process for the award of the CCS announced on November 22, 2011. Our review found that the Board Evaluation Committee had a team of five staff review the technical aspect of the proposals and two different staff to perform a review of the pricing submitted by the vendors. (Finding Code No. 10-4)

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D. **FINDING** (Inaccurate Quarterly Accounts Receivable Reporting)

During the prior examination period, the Illinois Gaming Board (Board) did not exercise adequate controls over accounts receivable reporting when preparing its fiscal year 2010 Quarterly Accounts Receivable Reports for the Illinois Comptroller.

During the current examination period, the Board improved controls over accounts receivable reporting. However, the auditors uncovered smaller, immaterial conditions of noncompliance that will be reported in the Letter of Immaterial Findings. (Finding Code No. 10-6)

E. **FINDING** (Inadequate Controls over Personal Services)

During the prior examination period, the Illinois Gaming Board (Board) did not have adequate controls over personal services. Specifically, we noted performance evaluations were not completed timely, adequate documentation was not maintained in employee files, support for time spent on “official State business” was not maintained, leave requests were not properly supported or approved and new employees did not received training on sexual harassment.

During the current examination period, the Board improved controls over personal services. However, the auditors noted an issue with employee evaluations and this issue has been included in the report as finding 12-7. (Finding Code No. 10-7)

F. **FINDING** (Inadequate Controls over Contractual Agreements)

During the prior examination, the Board did not have adequate controls over contractual and interagency agreements. Specifically, contracts and interagency agreements were not signed and approved prior to the start date of services or prior to the beginning date of the contract terms, and one interagency agreement was not properly filed with the Office of the Comptroller within 15 days of execution of the agreement.

During the current examination, the Board properly completed, authorized, and filed contractual agreements and interagency agreements as mandated. (Finding Code No. 10-8)

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G. **FINDING** (Inadequate Internal Control over Cash Receipts)

During the prior financial audit period, the Illinois Gaming Board (Board) did not perform reconciliations of its cash receipt journal to Board deposit records.

During the current financial audit and compliance examination, the auditors noted the Board updated its procedures and improved controls over its cash receipts to allow for reconciliations to be performed of its cash receipt journal to Board deposit records. (Finding Code No. 11-1)

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FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying financial statements of the Illinois Gaming Board's State Gaming Fund was performed by the Office of the Auditor General.

Based on their audit, the auditors expressed an unqualified opinion on the State Gaming Fund's financial statements.

SUMMARY OF FINDINGS

The auditors identified matters involving the Board's internal control over financial reporting that they considered to be material weaknesses. The material weaknesses are described in the accompanying Schedule of Findings listed in the table of contents as finding 12-1 *Inadequate Control over Financial Reporting*, finding 12-2 *Noncompliance with Statutory Payment Requirements*, finding 12-3 *Inadequate Controls over Fund Transfers*, and finding 12-4 *Lack of Formalized Change Management Standard*.

EXIT CONFERENCE

The Illinois Gaming Board waived an exit conference in correspondence dated March 26, 2013. Responses to the recommendations were provided by Mark Lewis, Chief Fiscal Officer, in correspondence dated April 9, 2013.

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OFFICE OF THE AUDITOR GENERAL
WILLIAM G. HOLLAND

INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland
Auditor General
State of Illinois

And

Judge Aaron Jaffe, Chairman
Illinois Gaming Board
160 North LaSalle St.
Suite 300
Chicago, IL 60601

We have audited the accompanying financial statements of the State Gaming Fund of the State of Illinois, Illinois Gaming Board, as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the State of Illinois, Illinois Gaming Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

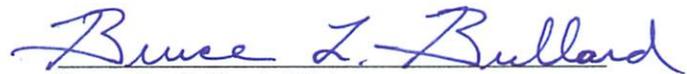
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State of Illinois, Illinois Gaming Board's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 2, the financial statements present only the State Gaming Fund and do not purport to, and do not, present fairly the financial position of the State of Illinois and the Illinois Gaming Board as of June 30, 2012, and its changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State Gaming Fund of the State of Illinois, Illinois Gaming Board, as of June 30, 2012, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 9, 2013 on our consideration of the State of Illinois, Illinois Gaming Board's internal control over financial reporting of the State Gaming Fund and on our tests of the State of Illinois, Illinois Gaming Board's compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Comptroller, the Illinois Gaming Board and Board management, and is not intended to be and should not be used by anyone other than these specified parties.



Bruce L. Bullard, CPA

Director of Financial and Compliance Audits

April 9, 2013

State of Illinois
Illinois Gaming Board - State Gaming Fund
Individual Nonshared Fund

Balance Sheet

June 30, 2012 (Expressed in Thousands)

| | <u>State Gaming Fund</u> |
|---|------------------------------|
| ASSETS | |
| Cash equity with State Treasurer | \$ 104,156 |
| Taxes receivable, net | 5,721 |
| Other receivables, net | 119 |
| Total assets | <u>\$ 109,996</u> |
| LIABILITIES | |
| Accounts payable and accrued liabilities | \$ 1,310 |
| Intergovernmental payables | 12,235 |
| Due to other State fiduciary funds | 200 |
| Due to other State funds | 88,380 |
| Due to component units | 7,871 |
| Total liabilities | <u>109,996</u> |
| FUND BALANCE | |
| Committed | - |
| Total fund balance | - |
| Total liabilities and fund balance | <u>\$ 109,996</u> |

The accompanying notes to the financial statements are an integral part of this statement.

State of Illinois
Illinois Gaming Board - State Gaming Fund
Individual Nonshared Fund

Statement of Revenues, Expenditures
and Changes in Fund Balance

For the Year Ended June 30, 2012 (Expressed in Thousands)

| | <u>State Gaming Fund</u> |
|--|------------------------------|
| Revenues: | |
| Riverboat taxes | \$ 489,289 |
| Licenses and fees | 1,829 |
| Other | 2 |
| Total revenues | <u>491,120</u> |
| Expenditures: | |
| Health and social services | 898 |
| Public protection and justice | 43,525 |
| Capital outlays | - |
| Intergovernmental | 106,281 |
| Total expenditures | <u>150,704</u> |
| Excess of revenues over expenditures | <u>340,416</u> |
| Other sources (uses) of financial resources: | |
| Transfers-out | (340,416) |
| Net other sources (uses) of financial resources | <u>(340,416)</u> |
| Net change in fund balance | - |
| Fund balance, July 1, 2011 | <u>-</u> |
| Fund balance, June 30, 2012 | <u><u>\$ -</u></u> |

The accompanying notes to the financial statements are an integral part of this statement.

**STATE OF ILLINOIS
ILLINOIS GAMING BOARD – STATE GAMING FUND
INDIVIDUAL NONSHARED FUND**

Notes to Financial Statements

June 30, 2012

(1) Description of Fund

The State Gaming Fund (the Fund) is administered by the Illinois Gaming Board (the Board). The Board is a part of the executive branch of government of the State of Illinois (State) and operates under the authority of and review by the Illinois General Assembly. The Board is subject to the authority of the Office of the Governor, the State's chief executive officer, and other departments of the executive and legislative branches of government (such as the Department of Central Management Services, the Governor's Office of Management and Budget, the State's Treasurer's Office, and the State Comptroller's Office) as defined by the Illinois General Assembly.

The purpose of the Fund is to receive and record taxes and fees obtained from owner's license applications for riverboat gambling and video gaming operations. Pursuant to appropriation, monies in the Fund are used to defray the costs associated with background investigations conducted by the Board, including personnel costs, enforcement of the Riverboat Gambling and Video Gaming Acts, and revenue sharing with units of local government. Excess funds are transferred to the Education Assistance Fund. All funds appropriated to the Board and all other cash received are under the custody and control of the State Treasurer.

(2) Summary of Significant Accounting Policies

The financial statements of the Fund, an individual nonshared fund of the Board, have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). To facilitate the understanding of data included in the financial statements, summarized below are the more significant accounting policies.

(a) Financial Reporting Entity

As defined by GAAP, the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

- 1) Appointment of a voting majority of the component unit's board and either (a) the primary government's ability to impose its will, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or
- 2) Fiscal dependency on the primary government.

Based upon the required criteria, the Fund has no component units and is not a component unit of any other entity. However, because the Fund is not legally separate from the State of Illinois, the financial statements of the Fund are included in the financial statements of the State of Illinois. The State of Illinois' Comprehensive Annual Financial Report may be obtained by writing to the State Comptroller's Office, Division of Financial Reporting, 325 West Adams Street, Springfield, Illinois, 62704-1871.

The financial statements of the State Gaming Fund are intended to present the financial position, and the changes in financial position of only that portion of the governmental activities of the State of

**STATE OF ILLINOIS
ILLINOIS GAMING BOARD – STATE GAMING FUND
INDIVIDUAL NONSHARED FUND**

Notes to Financial Statements

June 30, 2012

Illinois that is attributable to the transactions of the Fund. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2012 and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

(b) *Basis of Presentation*

In government, the basic accounting and reporting entity is a fund. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and/or other resources together with all related liabilities, obligations, reserves, and equities which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. A balance sheet and statement of revenues, expenditures, and changes in fund balance have been presented for the individual nonshared governmental fund administered by the Board.

The nonshared governmental funds is a special revenue fund. Transactions related to resources obtained from specific revenue sources (other than for expendable trusts) that are legally restricted for specified purposes are accounted for in special revenue funds. The Special Revenue Fund, Fund 129, is held in the State Treasury. The funds are appropriated by the General Assembly.

(c) *Measurement Focus and Basis of Accounting*

The individual nonshared governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues to be available if they are collected within 60 days of the end of the current fiscal year.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt obligations, claims and judgments, and compensated absences are recorded only when payment is due. General capital asset acquisitions are reported as expenditures. Proceeds of long-term debt obligations and acquisitions under capital leases are reported as other financing sources.

(d) *Cash and Cash Equivalents*

Cash and cash equivalents are defined as short-term, highly liquid investments readily convertible to cash with maturities of less than 90 days at the time of purchase. Cash and cash equivalents consist of deposits held in the State Treasury.

(e) *Interfund Transactions*

The Fund has the following types of interfund transactions between funds of other State agencies:

Services provided and used—sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used are reported as

**STATE OF ILLINOIS
ILLINOIS GAMING BOARD – STATE GAMING FUND
INDIVIDUAL NONSHARED FUND**

Notes to Financial Statements

June 30, 2012

revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as interfund receivables and payables in the governmental funds balance sheets or the government-wide statements of net assets.

Reimbursements—repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements are reported as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

Transfers—flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers.

(f) Fund Balance

In the fund financial statements, governmental funds report commitments of fund balances for amounts with self-imposed constraints or limitations that have been placed at the highest level of decision making. The Fund is comprised of a committed fund balance of \$0.0 as of June 30, 2012. Subsequent fund balances are restricted through enabling legislation and are subject to mandatory transfers to the Education Assistance Fund and therefore are classified as committed. These committed funds cannot be used for any other purpose unless the Illinois General Assembly removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

(g) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(3) Deposits

The State Treasurer is the custodian of the State's cash and cash equivalents for funds maintained in the State Treasury. Deposits in the custody of the State Treasurer are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act of the Illinois Compiled Statutes (15 ILCS 520/11). Funds held by the State Treasurer have not been categorized as to credit risk because the Board does not own individual securities. Detail on the nature of these deposits and investments is available within the State of Illinois' Comprehensive Annual Financial Report.

**STATE OF ILLINOIS
ILLINOIS GAMING BOARD – STATE GAMING FUND
INDIVIDUAL NONSHARED FUND**

Notes to Financial Statements

June 30, 2012

(4) Interfund Balances and Activity

(a) Balances Due to Other Funds

The following balances (amounts expressed in thousands) at June 30, 2012 represent amounts due to other funds:

| | | <u>Due to</u> | |
|-----------------------------|----|---------------|--|
| Other Department Funds | \$ | 88,114 | Due to other Department funds pursuant to statutory authority of the Riverboat Gambling Act. |
| Other State Funds | | 266 | Due to other State Funds for administrative cost reimbursements and payment for services related to riverboat security and video gaming enforcement. |
| Other State Fiduciary Funds | | 200 | Due to other State fiduciary funds for payment of retirement benefits. |
| | \$ | <u>88,580</u> | |

(b) Transfers to Other Funds

Interfund transfers out for the year ended June 30, 2012, totaled \$340.416 million, and represented transfers to the State's Educational Assistance Fund, an account of the General Fund, a major fund of the State, pursuant to statutory authority of the Riverboat Gambling Act.

(5) Taxes Receivable

Riverboat taxes receivable at June 30, 2012, totaled \$5.721 million, with no amounts reported as an allowance for uncollectible taxes.

(6) Other Receivables

Other receivables at June 30, 2012, totaled \$0.119 million. This is primarily comprised of video gaming application and licensing fees.

(7) Due to Other Funds and/or Component Units

On July 15, 2011, the tenth riverboat casino license became operational. This event triggered a statutory change where 15% and 2% of the tenth riverboat's adjusted gross receipts were to be paid by the Board to the Illinois Racing Board for deposit into the Horse Racing Equity Fund and Chicago State University for \$59.0 million and \$7.9 million, respectively. (The \$59.0 million due to the Horse Racing Equity Fund is a portion of the \$88.1 million due to Other Department funds listed in footnote 4a.) The Fund is retaining these proceeds, as the Board does not currently have appropriation authority authorizing these distributions. The Board is working with the Governor's Office and General Assembly on a legislative remedy.

**STATE OF ILLINOIS
ILLINOIS GAMING BOARD – STATE GAMING FUND
INDIVIDUAL NONSHARED FUND**

Notes to Financial Statements

June 30, 2012

(8) Pension Plan

Substantially all of the Board's full-time employees who are not eligible for participation in another state-sponsored retirement plan participate in the State Employees' Retirement System (SERS), which is a pension trust fund in the State of Illinois reporting entity. The SERS is a single-employer defined benefit public employee retirement system (PERS) in which State employees participate, except those covered by the State Universities, Teachers', General Assembly, and Judges' Retirement Systems. The financial position and results of operations of the SERS for fiscal year 2012 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2012. The SERS issues a separate CAFR that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255.

A summary of SERS benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the SERS' CAFR. Also included is a discussion of employer and employee obligations to contribute and the authority under which those obligations are established.

The Board pays employer retirement contributions based upon an actuarially determined percentage of their payrolls. For fiscal year 2012, the employer contribution rate was 34.190%.

(9) Post-employment Benefits

The State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Healthcare and Family Services along with the Department of Central Management Services. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employee's Retirement System do not contribute towards health, dental, and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health, dental, and vision benefits. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes \$5,000.

The total cost of the State's portion of health, dental, vision, and life insurance benefits of all members, including post-employment health, dental, vision, and life insurance benefits, is recognized as an expense by the State in the Illinois Comprehensive Annual Financial Report. The State finances the costs on a pay-as-you-go basis. The total costs incurred for health, dental, vision, and life insurance benefits are not

**STATE OF ILLINOIS
ILLINOIS GAMING BOARD – STATE GAMING FUND
INDIVIDUAL NONSHARED FUND**

Notes to Financial Statements

June 30, 2012

separated by department or component unit for annuitants and their dependents nor active employees and their dependents.

A summary of post-employment benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the financial statements of the Department of Healthcare and Family Services. A copy of the financial statements of the Department of Healthcare and Family Services may be obtained by writing to the Department of Healthcare and Family Services, 201 South Grand Ave., Springfield, Illinois, 62763-3838.

(10) Risk Management

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; workers compensation and natural disasters. The State retains the risk of loss (i.e. self insured) for these risks.

The Board's risk management activities are financed through appropriations to the Illinois Department of Central Management Services and are accounted for in the General Fund of the State. The claims are not considered to be a liability of the Board; and accordingly, have not been reported in the Fund's financial statements for the year ended June 30, 2012.

(11) Commitments and Contingencies

Litigation

The Board is routinely involved in a number of legal proceedings and claims that cover a wide range of matters. In the opinion of management, the outcome of these matters is not expected to have any material adverse effect on the financial position or results of operations of the Fund.

(12) Subsequent Event

On October 9, 2012 the Illinois Gaming Board announced that Video Gaming had commenced in licensed locations throughout the state. Application and licensing fees from vendors will be deposited into the State Gaming Fund. Taxes collected (30% of Net Terminal Income) will be deposited into the Capital Projects Fund and the Local Government Video Gaming Distributive Fund. Of the tax collected, 5/6th shall be deposited into the Capital Projects fund and 1/6th shall be deposited into the Local Government Video Gaming Distributive Fund.

STATE OF ILLINOIS
ILLINOIS GAMING BOARD
For the Two Years Ended June 30, 2012

SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES

SUMMARY

Supplementary Information for State Compliance Purposes presented in this section of the report includes the following:

- Fiscal Schedules and Analysis:
 - Schedule of Appropriations, Expenditures and Lapsed Balances FY 2012
 - Schedule of Appropriations, Expenditures and Lapsed Balances FY 2011
 - Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances
 - Schedule of Changes in State Property
 - Comparative Schedule of Cash Receipts
 - Reconciliation Schedule of Cash Receipts to Deposits Remitted to the State Comptroller
 - Analysis of Significant Variations in Expenditures
 - Analysis of Significant Variations in Receipts
 - Analysis of Significant Lapse Period Spending

- Analysis of Operations (Not Examined) :
 - Agency Functions and Planning Program (Not Examined)
 - Average Number of Employees (Not Examined)
 - Gaming Board Statistics (Not Examined)
 - Service Efforts and Accomplishments (Not Examined)

The accountants' report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states the auditors have applied certain limited procedures as prescribed by the Audit Guide as adopted by the Auditor General to the June 30, 2012 and June 30, 2011 in Schedules 1 through 9. However, the accountants do not express an opinion on the supplementary information. The accountants' report also states that they have not applied procedures to the Analysis of Operations Section, and accordingly, they do not express an opinion or provide any assurance on it.

STATE OF ILLINOIS
ILLINOIS GAMING BOARD
SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
For The Fiscal Year Ended June 30, 2012

| P.A. 97-0062 FISCAL YEAR 2012 | Appropriations (Net of Transfers) | Expenditures Through June 30 | Approximate | | Approximate | |
|--|---|---------------------------------|--|---|--|--|
| | | | Lapse Period Expenditures July 1 to August 31 | Total Expenditures 14 Months Ended August 31 | Approximate Total Expenditures 14 Months Ended August 31 | Approximate Balances Lapsed August 31 |
| APPROPRIATED FUNDS | | | | | | |
| STATE GAMING FUND - 0129 | | | | | | |
| Personal Services | \$ 10,926,500 | \$ 7,219,562 | \$ 390,666 | \$ 7,610,228 | \$ 3,316,272 | |
| State Contribution to State Employees' Retirement System | 3,735,800 | 2,470,611 | 133,665 | 2,604,276 | 1,131,524 | |
| State Contributions to Social Security | 655,600 | 282,903 | 14,856 | 297,759 | 357,841 | |
| Group Insurance | 1,905,000 | 1,446,309 | 63,933 | 1,510,242 | 394,758 | |
| Contractual Services | 700,000 | 325,272 | 19,682 | 344,954 | 355,046 | |
| Travel | 125,000 | 38,172 | 7,351 | 45,523 | 79,477 | |
| Commodities | 25,000 | 17,319 | 982 | 18,301 | 6,699 | |
| Printing | 11,500 | 2,347 | 57 | 2,404 | 9,096 | |
| Equipment | 75,000 | 9,620 | - | 9,620 | 65,380 | |
| Electronic Data Processing | 137,700 | 90,353 | 8,321 | 98,674 | 39,026 | |
| Telecommunications | 350,000 | 220,307 | 44,761 | 265,068 | 84,932 | |
| Operation of Auto Equipment | 100,000 | 66,016 | 14,762 | 80,778 | 19,222 | |
| Refunds | 50,000 | - | - | - | 50,000 | |
| Expenses related to IL State Police | 18,000,000 | 13,363,666 | 429,399 | 13,793,065 | 4,206,935 | |
| Distributions to Local Governments for admissions and wagering tax (including prior year costs) | 106,500,000 | 94,071,613 | 12,208,916 | 106,280,529 | 219,471 | |
| Costs associated with the implementation and administration of the Video Gaming Act | 17,500,000 | 8,222,885 | 422,473 | 8,645,358 | 8,854,642 | |
| Costs associated with Government Shared Services Center | 346,600 | 301,620 | 25,541 | 327,161 | 19,439 | |
| Total State Gaming Fund | \$ 161,143,700 | \$ 128,148,575 | \$ 13,785,365 | \$ 141,933,940 | \$ 19,209,760 | |

Note A: Appropriations, expenditures, and lapsed balances were obtained from Board records and have been reconciled to records of the State Comptroller.

Note B: Expenditure amounts are vouchers approved for payment by the Board and submitted to the State Comptroller for payment to the vendor.

Note C: Approximate lapse period expenditures do not include interest payments approved for payment by the Board and submitted to the Comptroller for payment after August.

STATE OF ILLINOIS
ILLINOIS GAMING BOARD
SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
For The Fiscal Year Ended June 30, 2011

| P.A. 96-0956 FISCAL YEAR 2011 | Appropriations (Net of Transfers) | Expenditures Through June 30 | Lapse Period | | Total Expenditures 18 Months Ended December 31 | Balances Lapsed December 31 |
|--|---|---------------------------------|--|-----------------------------|---|-----------------------------------|
| | | | Expenditures July 1 to December 31 | Expenditures December 31 | | |
| APPROPRIATED FUNDS | | | | | | |
| STATE GAMING FUND - 0129 | | | | | | |
| Personal Services | \$ 9,381,400 | \$ 6,408,806 | \$ 357,982 | \$ 6,766,788 | \$ 2,614,612 | |
| State Contribution to State Employees' Retirement System | 2,838,600 | 1,884,224 | 3,621 | 1,887,845 | 950,755 | |
| State Contributions to Social Security | 563,300 | 243,454 | 13,378 | 256,832 | 306,468 | |
| Group Insurance | 1,783,500 | 1,207,032 | 52,774 | 1,259,806 | 523,694 | |
| Contractual Services | 822,900 | 541,471 | 52,918 | 594,389 | 228,511 | |
| Travel | 140,500 | 51,346 | 4,604 | 55,950 | 84,550 | |
| Commodities | 29,000 | 13,501 | 1,383 | 14,884 | 14,116 | |
| Printing | 11,500 | 3,372 | - | 3,372 | 8,128 | |
| Equipment | 295,000 | 3,570 | - | 3,570 | 291,430 | |
| Electronic Data Processing | 149,500 | 92,718 | 10,365 | 103,083 | 46,417 | |
| Telecommunications | 376,000 | 334,204 | 41,413 | 375,617 | 383 | |
| Operation of Auto Equipment | 100,000 | 71,863 | 16,719 | 88,582 | 11,418 | |
| Refunds | 50,000 | - | - | - | 50,000 | |
| Expenses Related to IL State Police | 16,500,000 | 12,838,067 | 128,727 | 12,966,794 | 3,533,206 | |
| Distributions to Local Governments | 90,000,000 | 72,091,278 | 8,894,908 | 80,986,186 | 9,013,814 | |
| for admissions and wagering tax (including prior year costs) | | | | | | |
| Costs associated with the implementation | | | | | | |
| and administration of the Video Gaming Act | 14,000,000 | 5,030,585 | 246,303 | 5,276,888 | 8,723,112 | |
| Costs associated with Government Shared Services Center | 318,200 | 251,565 | 15,098 | 266,663 | 51,537 | |
| Total State Gaming Fund | \$ 137,359,400 | \$ 101,067,056 | \$ 9,840,193 | \$ 110,907,249 | \$ 26,452,151 | |

Note A: Appropriations, expenditures, and lapsed balances were obtained from Board records and have been reconciled to records of the State Comptroller.

Note B: Expenditure amounts are vouchers approved for payment by the Board and submitted to the State Comptroller for payment to the vendor.

STATE OF ILLINOIS
ILLINOIS GAMING BOARD
COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
For the Fiscal Years Ended June 30,

| | 2012 | 2011 | 2010 |
|--|-----------------------|-----------------------|---------------------------|
| | P.A. 97-0062 | P.A. 96-0956 | P.A. 96-0046 & 96-0819 |
| State Gaming Fund - 0129 | | | |
| Appropriations (Net of Transfers) | \$ 161,143,700 | \$ 137,359,400 | \$ 128,085,000 |
| <u>Expenditures</u> | | | |
| Personal Services | \$ 7,610,228 | \$ 6,766,788 | \$ 6,402,345 |
| State Contribution to State Employees' Retirement System | 2,604,276 | 1,887,845 | 1,818,819 |
| State Contributions to Social Security | 297,759 | 256,832 | 247,255 |
| Group Insurance | 1,510,242 | 1,259,806 | 1,165,760 |
| Contractual Services | 344,954 | 594,389 | 401,921 |
| Travel | 45,523 | 55,950 | 79,049 |
| Commodities | 18,301 | 14,884 | 10,373 |
| Printing | 2,404 | 3,372 | 6,357 |
| Equipment | 9,620 | 3,570 | 541,575 |
| Electronic Data Processing | 98,674 | 103,083 | 167,099 |
| Telecommunications | 265,068 | 375,617 | 242,490 |
| Operation of Auto Equipment | 80,778 | 88,582 | 58,957 |
| Refunds | - | - | 10,000 |
| Expenses Related to IL State Police | 13,793,065 | 12,966,794 | 12,150,804 |
| Distributions to Local Governments | | | |
| for admissions and wagering tax (including prior year costs) | 106,280,529 | 80,986,186 | 84,564,053 |
| Costs associated with the implementation | | | |
| and administration of the Video Gaming Act | 8,645,358 | 5,276,888 | - |
| Costs associated with Government Shared Services Center | 327,161 | 266,663 | - |
| Total State Gaming Fund | <u>\$ 141,933,940</u> | <u>\$ 110,907,249</u> | <u>\$ 107,866,857</u> |
| Lapsed Balances | <u>\$ 19,209,760</u> | <u>\$ 26,452,151</u> | <u>\$ 20,218,143</u> |

Note A: Appropriations, expenditures, and lapsed balances were obtained from Board records and have been reconciled to records of the State Comptroller.

Note B: Expenditure amounts are vouchers approved for payment by the Board and submitted to the State Comptroller for payment to the vendor.

Note C: For FY 2012 and FY 2010, expenditures and lapsed balances do not include interest payments approved for payment by the Board and submitted to the Comptroller for payment after August.

STATE OF ILLINOIS
ILLINOIS GAMING BOARD
SCHEDULE OF CHANGES IN STATE PROPERTY
For the Two Years Ended June 30, 2012

| | <u>Equipment</u> |
|--------------------------|---------------------|
| Balance at July 1, 2010 | \$ 1,448,390 |
| Additions | 587,882 |
| Deletions | (590) |
| Net Transfers | <u>(104,937)</u> |
| Balance at June 30, 2011 | <u>\$ 1,930,745</u> |
| Balance at July 1, 2011 | \$ 1,930,745 |
| Additions | 149,310 |
| Deletions | (1,864) |
| Net Transfers | <u>(27,368)</u> |
| Balance at June 30, 2012 | <u>\$ 2,050,823</u> |

Note: The above schedule has been derived from the Agency Report of State Property submitted to the Office of the State Comptroller. This schedule could not be reconciled to the Board records. See Finding # 12-5.

STATE OF ILLINOIS
ILLINOIS GAMING BOARD
COMPARATIVE SCHEDULE OF CASH RECEIPTS
For the Fiscal Years Ended June 30,

| <u>General Revenue Fund - 001</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> |
|--|------------------------------|------------------------------|------------------------------|
| Owners License Proceeds | \$ 72,550,000 | \$ - | \$ 47,500,000 |
| Total - Fund 001 | <u>\$ 72,550,000</u> | <u>\$ -</u> | <u>\$ 47,500,000</u> |
| | | | |
| <u>Educations Assistance Fund - 007</u> | | | |
| Civil Penalties | \$ 59,500 | \$ 454,610 | \$ 100,073 |
| Total - Fund 007 | <u>\$ 59,500</u> | <u>\$ 454,610</u> | <u>\$ 100,073</u> |
| | | | |
| <u>State Gaming Fund - 129</u> | | | |
| Admission Boat & Gambling Tax | \$ 47,506,987 | \$ 38,628,877 | \$ 41,853,013 |
| Riverboat Wagering Tax | 496,955,823 | 419,080,452 | 442,740,564 |
| Occupational License Fees | 769,960 | 543,035 | 500,355 |
| Riverboat Owner License Fees | 75,000 | 45,000 | 45,000 |
| Renewal License Fees | - | - | 155,000 |
| Supplier License Fees | 150,000 | 130,000 | - |
| Video Gaming Application Fees | 176,725 | 470,025 | 160,000 |
| Video Gaming License Fees | 558,100 | - | - |
| Miscellaneous | 2,091 | 624 | 1,302 |
| Total - Fund 129 | <u>\$ 546,194,686</u> | <u>\$ 458,898,013</u> | <u>\$ 485,455,234</u> |
| | | | |
| TOTAL RECEIPTS - ALL FUNDS | <u><u>\$ 618,804,186</u></u> | <u><u>\$ 459,352,623</u></u> | <u><u>\$ 533,055,307</u></u> |

STATE OF ILLINOIS
ILLINOIS GAMING BOARD
**RECONCILIATION OF CASH RECEIPTS TO DEPOSITS
REMITTED TO THE STATE COMPTROLLER**

For the Two Years Ended June 30,

| <u>General Revenue Fund - 001</u> | <u>2012</u> | <u>2011</u> |
|---|-----------------------|-----------------------|
| Receipts per Board records | \$ 72,550,000 | \$ - |
| Add: deposits in transit, beginning of year | - | - |
| Less: deposits in transit, end of year | - | - |
| Deposits recorded by Comptroller | <u>\$ 72,550,000</u> | <u>\$ -</u> |
| | | |
| <u>Education Assistance Fund - 007</u> | | |
| Receipts per Board records | \$ 59,500 | \$ 454,610 |
| Add: deposits in transit, beginning of year | - | - |
| Less: deposits in transit, end of year | - | - |
| Deposits recorded by Comptroller | <u>\$ 59,500</u> | <u>\$ 454,610</u> |
| | | |
| <u>State Gaming Fund - 129</u> | | |
| Receipts per Board records | \$ 546,194,686 | \$ 458,898,013 |
| Add: deposits in transit, beginning of year | 7,768,400 | 6,822,935 |
| Less: deposits in transit, end of year | 15,799,199 | 7,768,400 |
| Deposits recorded by Comptroller | <u>\$ 538,163,887</u> | <u>\$ 457,952,548</u> |

STATE OF ILLINOIS
ILLINOIS GAMING BOARD
ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES
For the Two Years Ended June 30, 2012

The following is a summary of explanations for significant variations in expenditures. Variations between fiscal years were considered significant if greater than \$5,000 and 20%.

ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES BETWEEN FISCAL YEARS 2012 AND 2011

STATE GAMING FUND (129)

State Contribution to State Employees' Retirement System

The increase in expenditures in Fiscal Year 2012 was due to a rate increase in the required employer contribution to the State Employees' Retirement System. During Fiscal Year 2012, the rate increased from 27.899% to 34.19 %.

Contractual Services

The decrease in expenditures in Fiscal Year 2012 was due to a portion of the Facilities Management Revolving Fund expenditures being re-allocated from the Illinois Gaming Board Video Gaming lump sum appropriation to the Illinois State Police.

Equipment

The increase in expenditures in Fiscal Year 2012 was due to the purchase of firearms and protective vests for new agents.

Telecommunications

During Fiscal Year 2011, the Illinois Gaming Board purchased a number of Motorola StarCom radios to be used by Video Gaming agents. The decrease in expenditures was due to no such purchase being made in Fiscal Year 2012.

Distributions to Local Governments for Admissions and Wagering Tax, Including Prior Year Costs

The increase in expenditures in Fiscal Year 2012 was attributable to the addition of a tenth riverboat casino beginning operations in Des Plaines, IL in July 2012.

Costs Associated with the Implementation and Administration of the Video Gaming Act

The increase in expenditures in Fiscal Year 2012 was due to additional staffing and office expenses associated with the implementation and enforcement of the Video Gaming Act.

Costs Associated with Government Shared Services Center

The increase in expenditures in Fiscal Year 2012 was due to the addition of staff due to the increased workload associated with Video Gaming and the addition of the tenth riverboat casino.

STATE OF ILLINOIS
ILLINOIS GAMING BOARD
ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES
For the Two Years Ended June 30, 2012

ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES BETWEEN FISCAL YEARS 2011 AND 2010

STATE GAMING FUND (129)

Contractual Services

The increase in expenditures in Fiscal Year 2011 was attributable to increased Facilities Management Consolidation costs associated with additional office space. The additional office space was procured to accommodate an increase in staff in order to implement Video Gaming.

Travel

The decrease in expenditures in Fiscal Year 2011 was due to travel costs for Video Gaming staff being paid from the Video Gaming lump sum appropriation line item during Fiscal Year 2011 rather than the travel appropriation line item.

Equipment

The decrease in expenditures was due to no vehicle purchases being made during Fiscal Year 2011. During Fiscal Year 2010 the Illinois Gaming Board purchased 28 vehicles to be used by Video Gaming agents.

Electronic Data Processing

The decrease in expenditures was due to fewer purchases of office computers during Fiscal Year 2011. During Fiscal Year 2010 the Illinois Gaming Board purchased a large number of office computers to accommodate the expected increase in staff due to the implementation of Video Gaming. During Fiscal Year 2011 fewer new office computers were needed.

Telecommunications

The increase in expenditures during Fiscal Year 2011 was due to the purchase of Motorola StarCom radios to be used by Video Gaming agents.

Operation of Automotive Equipment

The increase in expenditures during Fiscal Year 2011 was due to the costs associated with operating the 28 new vehicles purchased during Fiscal Year 2010.

Refunds

The decrease in expenditures was due to no refunds being issued during Fiscal Year 2011.

Costs Associated with the Implementation and Administration of the Video Gaming Act

The increase in expenditures was due to the Illinois Gaming Board receiving the lump sum appropriation for the first time in Fiscal Year 2011.

STATE OF ILLINOIS
ILLINOIS GAMING BOARD
ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES
For the Two Years Ended June 30, 2012

ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES BETWEEN FISCAL YEARS 2011 AND 2010 (Continued)

Costs Associated with Government Shared Services Center

The increase in expenditures was due to the Illinois Gaming Board receiving the lump sum appropriation for the first time in Fiscal Year 2011.

STATE OF ILLINOIS
ILLINOIS GAMING BOARD
ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS
For the Two Years Ended June 30, 2012

The following is a summary of explanations for significant variations in receipts. Variations between fiscal years were considered significant if greater than \$100,000 and 15%.

ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS BETWEEN FISCAL YEARS 2012 AND 2011

General Revenue Fund – 001

Owners License Proceeds

The increase was due to the Fiscal Year 2012 third and final installment payment for the purchase of the tenth riverboat license. An installment payment was not received during Fiscal Year 2011.

Education Assistance Fund – 007

Civil Penalties

The decrease was due to large fines levied against three casinos in Fiscal Year 2011 which were not fined in Fiscal Year 2012.

State Gaming Fund – 129

Admission Boat & Gambling Tax

The increase was due to the increased admissions from the tenth riverboat casino.

Riverboat Wagering Tax

The increase was due to the increased revenues from the tenth riverboat casino.

Occupational License Fees

The increase was due to the increased number of employees who needed to be licensed to work at the tenth riverboat casino.

Video Gaming Application Fees

The decrease was due to the decrease in applications submitted. The majority of applications were received in Fiscal Year 2011.

Video Gaming License Fees

The increase was due to Fiscal Year 2012 being the first year the Illinois Gaming Board granted video gaming licenses.

STATE OF ILLINOIS
ILLINOIS GAMING BOARD
ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS
For the Two Years Ended June 30, 2012

ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS BETWEEN FISCAL YEARS 2011 AND 2010

General Revenue Fund – 001

Owners License Proceeds

The decrease was due to the timing of the installment payments for the purchase of the tenth riverboat license. Installment payments were made in Fiscal Year 2010 and an installment payment was not received during Fiscal Year 2011.

Education Assistance Fund – 007

Civil Penalties

The increase was due to large fines levied against three casinos in Fiscal Year 2011 which were not fined in Fiscal Year 2010.

State Gaming Fund – 129

Video Gaming Application Fees

The increase was due to the majority of the video gaming applications being submitted to the Illinois Gaming Board during Fiscal Year 2011.

Occupational License Fees

The increase was due to Fiscal Year 2010 in-transit receipts of \$76,000 being deposited in Fiscal Year 2011.

STATE OF ILLINOIS
ILLINOIS GAMING BOARD
ANALYSIS OF SIGNIFICANT LAPSE PERIOD SPENDING
For the Two Years Ended June 30, 2012

The following is a summary of explanations for significant lapse period spending. Lapse period spending was considered significant if 20% or greater of total expenditures for the fiscal year occurred during the lapse period.

FISCAL YEAR 2012

We did not note any instances of significant lapse period spending during Fiscal Year 2012.

FISCAL YEAR 2011

We did not note any instances of significant lapse period spending during Fiscal Year 2011.

STATE OF ILLINOIS
ILLINOIS GAMING BOARD
ANALYSIS OF OPERATIONS
(NOT EXAMINED)

For the Two Years Ended June 30, 2012

AGENCY FUNCTIONS AND PLANNING PROGRAM

Mission Statement

To administer and regulate riverboat casino gambling and video gaming in Illinois through strict regulatory oversight as mandated by the Riverboat Gambling Act, the Video Gaming Act, and all applicable administrative rules.

Organization

The Illinois Gaming Board (Board) administers a regulatory and tax collection system for all legalized gaming in Illinois. The Board administers audit, legal, enforcement, investigative, operational and financial analysis activities to ensure the integrity of gaming in Illinois as mandated by the Riverboat Gambling Act (230 ILCS 10/1 et seq.), and the Video Gaming Act (230 ILCS 40/1 et seq.). The Board assures the integrity of gaming through the strict regulatory oversight and licensure of all gaming operations and personnel in Illinois. The Board also has comprehensive law enforcement responsibilities associated with legalized gaming in Illinois.

The Riverboat Gambling Act was enacted in February 1990, making Illinois the second state in the nation to legalize riverboat gambling. The Riverboat Gambling Act authorizes the Board to grant up to ten casino licenses. In Fiscal Year 2012 the tenth casino opened in Des Plaines, Illinois after the license had been awarded to Midwest Gaming, LLC.

In addition, the Board is responsible for implementation and administration of the Video Gaming Act, which allows for video gaming terminals to be placed in certain liquor establishments, truck stops, and fraternal organizations and veterans' clubs throughout the State. The Video Gaming Act authorizes the installation of up to five video gaming terminals in these licensed establishments.

The Board consists of a Chairperson and four other Board members who are appointed by the Governor and confirmed by the Illinois Senate. The Board's staff has approximately 257 employees that include a detail of 115 Illinois State Police personnel.

Internal Organization

The Board is organized functionally into the following program areas:

Audit and Financial Analysis – Reviews all financial aspects of owner and supplier applications; performs annual audits on various aspects of owner operations; creates, reviews, and ensures compliance with internal controls and financial reporting requirements; coordinates activities and reviews reports from independent financial auditors and internal auditors.

STATE OF ILLINOIS
ILLINOIS GAMING BOARD
ANALYSIS OF OPERATIONS
(NOT EXAMINED)

For the Two Years Ended June 30, 2012

Enforcement – Monitors the integrity of the riverboat gambling operations through staff assigned to be present whenever gambling is conducted.

Finance and Administration – Collects, deposits and transfers, as required by law, all riverboat gambling taxes and fees, fines and penalties; develops and distributes reports; and coordinates support services, including annual budget process, accounting, personnel and data processing.

Investigations – In order to ensure the integrity of the riverboat industry in Illinois, investigations staff conducts background investigations on all owners and key persons of riverboat operations and suppliers, as well as occupational licensees. In addition, they may perform follow-up investigations related to activity that occurs on the riverboat.

Legal – Provides general and specific legal advice to Board members and staff on implementation of the Riverboat Gambling Act; drafts legislation, policies and rules; consults with outside attorneys, the public, and the media on legal issues; and represents the Board in hearings and other legal proceedings.

Other functions reporting to the Administrator include Public Information, Legislative Services, and Affirmative Action.

Strategic Planning & Monitoring

The Illinois Gaming Board is committed to its mission and has established a strategic plan to help achieve its objectives. The Board's specific goals, objectives, and performance measures are developed every year and discussed at each Board meeting. The Board holds monthly meetings that are divided into separate Riverboat and Video Gaming sessions.

Monthly Board meetings consist of discussing pertinent issues and reviewing important performance documents such as monthly casino summaries, credit-check summaries, revenue and expenditure summaries, annual updates of casinos, major transactions, proposed complaints and disciplinary actions, as well as proposed rules for the Illinois Gaming Board.

STATE OF ILLINOIS
ILLINOIS GAMING BOARD
AVERAGE NUMBER OF EMPLOYEES
(NOT EXAMINED)
For the Two Years Ended June 30, 2012

AVERAGE NUMBER OF EMPLOYEES

The following table, prepared from Agency records, presents the average number of employees, by division, for the Fiscal Year ended June 30,

| <u>Division</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> |
|----------------------|-------------|-------------|-------------|
| Officials / Managers | 28 | 31 | 38 |
| Professionals | 47 | 57 | 81 |
| Para-Professionals | 6 | 5 | 8 |
| Office / Clerical | 2 | 4 | 3 |
| Total | <u>83</u> | <u>97</u> | <u>130</u> |

Note: In addition to the average number of employees for the Board noted above, the Board also pays the related salaries and expenses for approximately 115 Illinois State Police through an interagency agreement.

STATE OF ILLINOIS
ILLINOIS GAMING BOARD
GAMING BOARD STATISTICS
(NOT EXAMINED)

Calendar Year Summary of Illinois Riverboat Data

| Month/Year | Number of Admissions Total | AGR Total | Taxes Collected | | Net Proceeds Per Admission |
|------------|-------------------------------|------------------|-----------------|---------------|----------------------------|
| | | | State | Local | |
| 1991 Total | 308,783 | \$ 14,942,909 | \$ 2,550,219 | \$ 1,055,928 | \$ 48.39 |
| 1992 Total | 4,079,819 | 226,334,794 | 38,030,038 | 15,396,559 | 55.48 |
| 1993 Total | 10,679,490 | 605,684,483 | 101,532,162 | 40,963,714 | 56.71 |
| 1994 Total | 20,367,119 | 979,551,111 | 167,299,786 | 69,344,675 | 48.09 |
| 1995 Total | 24,835,833 | 1,178,311,827 | 201,582,607 | 83,751,424 | 47.44 |
| 1996 Total | 25,211,329 | 1,131,491,531 | 194,935,059 | 81,785,905 | 44.88 |
| 1997 Total | 24,972,139 | 1,054,573,793 | 183,158,208 | 77,700,829 | 42.23 |
| 1998 Total | 24,813,818 | 1,106,751,600 | 256,782,080 | 80,117,488 | 44.60 |
| 1999 Total | 21,991,689 | 1,362,931,231 | 328,665,137 | 90,132,196 | 61.97 |
| 2000 Total | 19,014,939 | 1,658,004,361 | 410,328,901 | 101,884,222 | 87.19 |
| 2001 Total | 18,808,281 | 1,783,958,166 | 447,228,898 | 107,975,415 | 94.85 |
| 2002 Total | 18,821,582 | 1,831,550,836 | 555,702,432 | 110,399,391 | 97.31 |
| 2003 Total | 16,597,552 | 1,709,943,480 | 617,797,595 | 102,060,624 | 103.02 |
| 2004 Total | 15,331,021 | 1,717,991,115 | 700,930,079 | 101,230,939 | 112.06 |
| 2005 Total | 15,323,166 | 1,798,912,344 | 644,462,903 | 105,282,514 | 117.40 |
| 2006 Total | 16,180,360 | 1,923,528,409 | 717,881,351 | 112,358,413 | 118.88 |
| 2007 Total | 16,525,437 | 1,983,386,762 | 718,157,094 | 115,727,277 | 120.02 |
| 2008 Total | 14,637,054 | 1,568,727,252 | 473,648,638 | 93,095,279 | 107.18 |
| 2009 Total | 14,418,760 | 1,428,923,092 | 409,510,245 | 85,885,708 | 99.10 |
| January | 1,164,458 | 115,513,192 | 13,763,062 | 6,938,392 | 99.20 |
| February | 1,160,870 | 114,198,827 | 16,914,131 | 6,872,015 | 98.37 |
| March | 1,253,888 | 125,766,294 | 24,038,505 | 7,543,715 | 100.30 |
| April | 1,162,947 | 118,121,291 | 26,780,186 | 7,072,767 | 101.57 |
| May | 1,219,351 | 121,280,465 | 31,739,422 | 7,281,695 | 99.46 |
| June | 1,123,359 | 109,234,065 | 31,026,017 | 6,587,981 | 97.24 |
| July | 1,272,881 | 120,557,832 | 37,052,634 | 7,305,746 | 94.71 |
| August | 1,186,855 | 115,371,403 | 38,562,930 | 6,955,190 | 97.21 |
| September | 1,126,361 | 109,517,907 | 39,139,379 | 6,605,557 | 97.23 |
| October | 1,147,269 | 116,555,476 | 43,223,426 | 6,980,379 | 101.59 |
| November | 1,029,788 | 105,288,404 | 40,958,111 | 6,295,956 | 102.24 |
| December | 986,387 | 102,016,741 | 40,323,649 | 6,112,608 | 103.42 |
| 2010 Total | 13,834,414 | \$ 1,373,421,897 | \$ 383,521,452 | \$ 82,552,001 | \$ 99.28 |
| January | 1,057,032 | 110,389,909 | 12,767,881 | 6,586,991 | 104.43 |
| February | 1,024,142 | 108,246,310 | 15,408,709 | 6,423,869 | 105.69 |
| March | 1,193,169 | 121,652,620 | 22,497,673 | 7,285,267 | 101.96 |
| April | 1,139,588 | 120,333,568 | 26,618,780 | 7,155,576 | 105.59 |
| May | 1,086,236 | 110,147,633 | 28,476,721 | 6,587,899 | 101.40 |
| June | 1,085,910 | 111,568,724 | 31,302,951 | 6,671,235 | 102.74 |
| July | 1,461,051 | 134,017,093 | 37,171,602 | 8,191,393 | 91.73 |
| August | 1,473,867 | 132,543,504 | 39,237,452 | 8,302,024 | 89.93 |
| September | 1,361,417 | 134,100,185 | 41,849,845 | 7,880,207 | 98.50 |
| October | 1,332,467 | 131,992,391 | 45,699,034 | 7,929,557 | 99.06 |
| November | 1,253,817 | 127,811,522 | 46,692,806 | 7,626,170 | 101.94 |
| December | 1,333,248 | 134,797,061 | 52,957,378 | 8,101,433 | 101.10 |
| 2011 Total | 14,801,944 | \$ 1,477,600,520 | \$ 400,680,832 | \$ 88,741,621 | \$ 99.82 |

STATE OF ILLINOIS
ILLINOIS GAMING BOARD
GAMING BOARD STATISTICS
(NOT EXAMINED)
Five Year Calendar Year Gaming Tax History

| Calendar Year Comparison | 2007 | 2008 | 2009 | 2010 | 2011 |
|------------------------------------|------------------|------------------|------------------|------------------|------------------|
| Number of Licensees | 10 | 10 | 10 | 10 | 10 |
| Adjusted Gross Receipts (AGR) | \$ 1,983,386,762 | \$ 1,568,727,252 | \$ 1,428,923,092 | \$ 1,373,421,897 | \$ 1,477,600,520 |
| Table Games | \$ 233,974,384 | \$ 199,666,168 | \$ 174,891,436 | \$ 171,545,773 | \$ 205,698,256 |
| Electronic Gaming Devices (EGD) | \$ 1,749,412,378 | \$ 1,369,061,084 | \$ 1,254,031,656 | \$ 1,201,876,124 | \$ 1,271,902,264 |
| Number of Admissions | 16,525,437 | 14,637,054 | 14,418,760 | 13,834,414 | 14,801,944 |
| AGR Per Admission | \$ 120 | \$ 107 | \$ 99 | \$ 99 | \$ 100 |
| Total Tax | \$ 833,884,371 | \$ 566,743,917 | \$ 495,395,953 | \$ 466,073,453 | \$ 489,422,453 |
| Wagering Tax | \$ 784,931,153 | \$ 523,523,703 | \$ 453,396,211 | \$ 425,952,813 | \$ 446,348,998 |
| Admissions Tax | \$ 48,953,218 | \$ 43,220,214 | \$ 41,999,742 | \$ 40,120,640 | \$ 43,073,455 |
| State Share | \$ 718,157,094 | \$ 473,648,638 | \$ 409,510,245 | \$ 383,521,452 | \$ 400,680,832 |
| Local Share | \$ 115,727,277 | \$ 93,095,279 | \$ 85,885,708 | \$ 82,552,001 | \$ 88,741,621 |

STATE OF ILLINOIS
ILLINOIS GAMING BOARD
GAMING BOARD STATISTICS
(NOT EXAMINED)
Calendar Year Comparison Statistics

| | Totals | | % Change |
|--|-------------------|-------------------|-----------------|
| | 2010 | 2011 | |
| Gross Receipts | \$ 1,373,421,897 | \$ 1,477,600,520 | 7.59 % |
| Adjusted Gross Receipts (AGR) | \$ 1,374,389,263 | \$ 1,476,988,473 | 7.47 % |
| Number of Table Games | 237 | 265 | 11.81 % |
| Table Drop | \$ 982,310,176 | \$ 1,228,098,082 | 25.02 % |
| Table AGR | \$ 171,545,773 | \$ 205,698,256 | 19.91 % |
| AGR/Table/Day | \$ 1,983 | \$ 2,276 | 14.75 % |
| Table Game AGR to Drop % | 17.5 % | 16.7 % | (4.57) % |
| Number of Electronic Gaming Devices (EGD) | 10,302 | 10,470 | 1.63 % |
| EGD Handle | \$ 14,916,138,894 | \$ 15,107,530,332 | 1.28 % |
| EGD AGR | \$ 1,201,876,124 | \$ 1,271,902,264 | 5.83 % |
| AGR/EGD/Day | \$ 320 | \$ 356 | 11.42 % |
| EGD AGR to Handle % | 8.1 % | 8.4 % | 3.70 % |
| Admissions | 13,834,414 | 14,801,944 | 6.99 % |
| AGR Per Admission | \$ 99 | \$ 100 | 0.54 % |
| Total Tax | \$ 466,073,453 | \$ 489,422,453 | 5.01 % |
| Wagering Tax | \$ 425,952,813 | \$ 446,348,998 | 4.79 % |
| Admission Tax | \$ 40,120,640 | \$ 43,073,455 | 7.36 % |
| 10th License Payment | \$ 47,500,000 | \$ 72,550,000 | |
| Other Revenues | \$ 805,788 | \$ 1,828,104 | 126.87 % |

STATE OF ILLINOIS
ILLINOIS GAMING BOARD
GAMING BOARD STATISTICS
(NOT EXAMINED)

2010 and 2011 Calendar Year Sources of Revenue

Table Games and Electronic Gaming Devices

2010

| Docksite | Total AGR | Table Games | % of Total | Electronic Gaming Devices | % of Total |
|---------------------------|-------------------------|-----------------------|---------------|---------------------------------|---------------|
| Alton Belle | \$ 77,352,471 | \$ 3,925,996 | 5.1% | \$ 73,426,475 | 94.9% |
| E. Peoria Par-A-Dice | 115,252,284 | 13,290,918 | 11.5% | 101,961,366 | 88.5% |
| Casino Rock Island | 79,406,313 | 6,016,189 | 7.6% | 73,390,124 | 92.4% |
| Joliet-Empress | 143,440,540 | 18,928,082 | 13.2% | 124,512,458 | 86.8% |
| Metropolis-Harrah's | 112,538,682 | 15,771,340 | 14.0% | 96,767,342 | 86.0% |
| Joliet-Harrah's | 246,417,859 | 26,530,152 | 10.8% | 219,887,707 | 89.2% |
| Aurora-Hollywood | 180,986,362 | 20,102,521 | 11.1% | 160,883,841 | 88.9% |
| E. St. Louis Casino Queen | 130,926,774 | 16,964,635 | 13.0% | 113,962,139 | 87.0% |
| Elgin Grand Victoria | 287,100,612 | 50,015,940 | 17.4% | 237,084,672 | 82.6% |
| Total | \$ 1,373,421,897 | \$ 171,545,773 | 12.5% | \$ 1,201,876,124 | 87.5% |

2011

| Docksite | Total AGR | Table Games | % of Total | Electronic Gaming Devices | % of Total |
|---------------------------|-------------------------|-----------------------|---------------|---------------------------------|---------------|
| Alton Belle | \$ 73,064,474 | \$ 3,589,638 | 4.9% | \$ 69,474,836 | 95.1% |
| E. Peoria Par-A-Dice | 115,460,022 | 13,428,496 | 11.6% | 102,031,526 | 88.4% |
| Casino Rock Island | 85,826,485 | 6,444,900 | 7.5% | 79,381,585 | 92.5% |
| Joliet-Empress | 146,401,419 | 18,858,484 | 12.9% | 127,542,935 | 87.1% |
| Metropolis-Harrah's | 95,750,024 | 12,477,635 | 13.0% | 83,272,389 | 87.0% |
| Joliet-Harrah's | 223,714,297 | 23,744,315 | 10.6% | 199,969,982 | 89.4% |
| Aurora-Hollywood | 173,306,999 | 22,799,179 | 13.2% | 150,507,820 | 86.8% |
| E. St. Louis Casino Queen | 130,165,501 | 15,750,464 | 12.1% | 114,415,037 | 87.9% |
| Elgin Grand Victoria | 257,132,464 | 44,133,292 | 17.2% | 212,999,172 | 82.8% |
| Des Plaines Rivers Casino | 176,778,835 | 44,471,853 | 25.2% | 132,306,982 | 74.8% |
| Total | \$ 1,477,600,520 | \$ 205,698,256 | 13.9% | \$ 1,271,902,264 | 86.1% |

STATE OF ILLINOIS
ILLINOIS GAMING BOARD
GAMING BOARD STATISTICS
(NOT EXAMINED)

Five Year Calendar Year History of Distribution of Gaming Taxes

| Distribution to Local Governments | | 2007 | 2008 | 2009 | 2010 | 2011 | % Change 2010 to 2011 |
|-----------------------------------|----|-------------|---------------|---------------|---------------|---------------|--------------------------|
| Alton | \$ | 7,724,803 | \$ 5,722,030 | \$ 5,369,552 | \$ 4,903,732 | \$ 4,598,774 | -6.22% |
| East Peoria | | 8,011,938 | 7,188,723 | 7,087,935 | 7,073,458 | 6,984,630 | -1.26% |
| Rock Island | | 2,411,087 | 2,387,351 | 4,779,745 | 5,354,352 | 5,625,633 | 5.07% |
| Joliet | | 36,168,333 | 28,335,882 | 23,573,344 | 22,975,414 | 21,810,944 | -5.07% |
| Metropolis | | 9,921,866 | 7,407,894 | 6,964,396 | 6,621,939 | 5,559,086 | -16.05% |
| Aurora | | 15,449,378 | 12,632,336 | 11,720,974 | 10,546,682 | 10,157,710 | -3.69% |
| East St. Louis | | 11,738,204 | 10,292,397 | 9,623,667 | 8,596,621 | 8,455,040 | -1.65% |
| Elgin | | 24,301,668 | 19,128,666 | 16,766,095 | 16,479,803 | 14,730,213 | -10.62% |
| Des Plaines | | | | | | 10,819,591 | |
| Total | \$ | 115,727,277 | \$ 93,095,279 | \$ 85,885,708 | \$ 82,552,001 | \$ 88,741,621 | 7.50% |

| State Share of Gaming Taxes | | Admission Tax | Wagering Tax | Total |
|-----------------------------|--|------------------|-----------------|--------------|
| 2010 | | 26,286,226 | 357,235,226 | 383,521,452 |
| 2011 | | 28,271,510 | 372,409,322 | 400,680,832 |
| % Change | | 7.55% | 4.25% | 4.47% |

| Local Share of Gaming Taxes | | Distribution | Admission Tax | Wagering Tax | Total |
|-----------------------------|--|--------------|------------------|-----------------|--------------|
| 2010 | | | 13,834,414 | 68,717,587 | 82,552,001 |
| 2011 | | | 14,801,945 | 73,939,676 | 88,741,621 |
| % Change | | | 6.99% | 7.60% | 7.50% |

STATE OF ILLINOIS
ILLINOIS GAMING BOARD
SERVICE EFFORTS AND ACCOMPLISHMENTS
(NOT EXAMINED)
For the Two Years Ended June 30, 2012

(Appropriated Spending in Thousands)

| | <u>Fiscal Year 2011</u> | | <u>Fiscal Year 2012</u> | |
|----------------------------------|-------------------------|------------------|-------------------------|------------------|
| | <u>Expenditures</u> | <u>Headcount</u> | <u>Expenditures</u> | <u>Headcount</u> |
| <u>Reporting Programs</u> | | | | |
| Gaming Board | \$110,907 | 96 | \$141,933 | 135 |
| Agency Totals | <u>\$110,907</u> | <u>96</u> | <u>\$141,933</u> | <u>135</u> |

The Illinois Gaming Board (Board) consists of five (currently four) members appointed by the Governor and confirmed by the Senate. The Board administers a regulatory and tax collection system for all legalized gaming in Illinois. The Board also has comprehensive law enforcement responsibilities associated with legalized gaming in Illinois. It is through strict regulatory oversight that the maximum amounts of revenue possible are realized as the integrity of gaming is preserved, as well as public confidence and trust in the credibility and integrity of the gambling operations and the regulatory process is maintained.

The Board's staff conducts audit, legal, enforcement, investigative, operational and financial analysis activities to ensure the integrity of gaming in Illinois as mandated by the Riverboat Gambling Act (RGA), [230 ILCS 10], and the Video Gaming Act (VGA), [230 ILCS 40]. The Board assures the integrity of gaming through the strict regulatory oversight and licensure of all gaming operations and personnel.

Riverboat Gambling in Illinois

The RGA (230 ILCS 10/1 et seq.) was enacted in February 1990, making Illinois the second state in the nation to legalize riverboat gambling. The RGA authorizes the Board to grant up to ten casino licenses. The Board provides regulatory and criminal law enforcement oversight for the existing ten riverboat casinos.

Each riverboat gaming operation is authorized to offer up to 1,200 gaming positions, consisting of a mix of electronic gaming devices and table games. In 1999, the RGA was amended to permit all riverboat gaming operations to permanently moor at dock sites, without conducting cruises on any waterway. Patrons visiting the casinos must be 21 years of age to be admitted to the gambling areas of each operation. The RGA requires that all wagering in the casinos be cashless.

STATE OF ILLINOIS
ILLINOIS GAMING BOARD
SERVICE EFFORTS AND ACCOMPLISHMENTS
(NOT EXAMINED)
For the Two Years Ended June 30, 2012

Video Gaming in Illinois

The Board is responsible for implementation and administration of the VGA (230 ILCS 40/1 et seq.), which allows for video gaming terminals to be placed in certain liquor establishments, truck stops, and fraternal organizations and veterans' clubs throughout the State.

Once fully implemented, the Board anticipates issuing over 15,000 - 20,000 licenses for manufacturers, distributors, suppliers, terminal operations, technicians, handlers, and locations for Video Gaming. The VGA authorizes the installation of up to five video gaming terminals in licensed establishments where liquor is served for consumption on the premises, as well as in licensed fraternal establishments, licensed veterans establishments, and licensed truck stops as defined in the legislation. Besides the very large number of machines that must be monitored, additional factors that add to the Board's regulatory challenge are the diffuse placement of the video gaming terminals in locations throughout the State, and the multiple layers of licenses involved.

Mission Statement: To administer and regulate riverboat casino gambling and video gaming in Illinois through strict regulatory oversight as mandated by the RGA, the VGA, and all applicable administrative rules.

Program Goals:

Objectives:

1. Ensure fair gaming in a safe environment.
2. Maintain the integrity of the tax and fee payment, collection and distribution process.
3. Ensure that individuals and entities engaged in riverboat gambling are suitable.
4. Effectively maintain the self-exclusion program, which allows individuals with gambling problems to ban themselves from all Illinois riverboat casinos.

Funds: State Gaming Fund

Statutory Authority: 230 ILCS 10 & 230 ILCS 40

STATE OF ILLINOIS
ILLINOIS GAMING BOARD
SERVICE EFFORTS AND ACCOMPLISHMENTS
(NOT EXAMINED)

For the Two Years Ended June 30, 2012

| | Fiscal Year 2010 Actual | Fiscal Year 2011 Actual | Fiscal Year 2012 Target/Projected | Fiscal Year 2012 Actual | Fiscal Year 2013 Target/Projected |
|--|-------------------------|-------------------------|-----------------------------------|-------------------------|-----------------------------------|
|--|-------------------------|-------------------------|-----------------------------------|-------------------------|-----------------------------------|

Input Indicators

| | | | | | |
|--|--------------|--------------|--------------|--------------|--------------|
| Total expenditures all sources (in thousands) | \$ 107,866.9 | \$ 110,907.2 | \$ 161,143.7 | \$ 141,933.9 | \$ 168,023.2 |
| Total expenditures - State appropriated funds (in thousands) | \$ 107,866.9 | \$ 110,907.2 | 161144 | \$ 141,933.9 | \$ 168,023.2 |
| Average monthly full-time equivalents | 77.0 | 95.5 | 220.0 | 135.0 | 220.0 |

Output Indicators

| | | | | | |
|--|-----|-------|--------|--------|--------|
| Applications Received | N/A | 3,490 | 15,000 | 7,313 | 13,000 |
| Criminal Background Investigations performed | N/A | 1,800 | 3,000 | 10,542 | 19,000 |
| Financial Investigations performed | N/A | 11 | 50 | 171 | 150 |
| Licenses Issued | N/A | 7,601 | 20,000 | 9,622 | 20,500 |

Outcome Indicators

| | | | | | |
|--|-----|--------------|--------------|--------------|--------------|
| Licensing revenue received (in thousands) | N/A | \$ 38,624.0 | \$ 47,750.0 | \$ 74,174.8 | \$ 1,550.0 |
| Admissions & Wagering tax received (in thousands) | N/A | \$ 419,324.4 | \$ 555,000.0 | \$ 536,479.6 | \$ 550,000.0 |
| Incident Reports | N/A | 5,525 | 5,500 | 5,131 | 7,500 |
| Arrests made | N/A | 796 | 800 | 913 | 1,000 |
| Disciplinary Complaints assessed | N/A | 35 | 50 | 36 | 50 |
| Fines/Penalties/Violations (in dollars) | N/A | \$ 453,750.0 | \$ 750,000.0 | \$ 60,500.0 | \$ 250,000.0 |
| Amount transferred to Educational Assistance Fund (in thousands) | N/A | \$ 324,150.0 | 441,606.3 | \$ 340,027.0 | \$ 375,000.0 |

Efficiency/Cost-Effectiveness

| | | | | | |
|---|-----|-------|-------|-------|-------|
| Percentage of revenues transferred to EAF | N/A | 70.8% | 73.2% | 63.2% | 68.0% |
|---|-----|-------|-------|-------|-------|