



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

ILLINOIS GAMING BOARD

Financial Audit - State Gaming Fund for the Year Ended June 30, 2014 and Compliance Examination for the Two Years Ended June 30, 2014

Release Date: May 28, 2015

FINDINGS THIS AUDIT: 15	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	2	0	2	2012		14-2, 14-5	14-14
Category 2:	6	6	12			14-8, 14-9	
Category 3:	0	1	1	2010		14-12	
TOTAL	8	7	15			14-6	
FINDINGS LAST AUDIT: 12							

SYNOPSIS

- (14-1) The Board lacked adequate internal controls over the billing of Video Gaming Terminal Licenses.
- (14-2) The Board had inadequate controls over the calculation of its transfers to the Education Assistance Fund from the State Gaming Fund.
- (14-3) The Board failed to obtain or perform internal control reviews of external service providers used to process video gaming revenue and casino staff finger prints.
- (14-6) The Board failed to maintain sufficient controls over the recording and reporting of its property.

Category 1: Findings that are **material weaknesses** in internal control and/or a **qualification** on compliance with State laws and regulations (material noncompliance).
Category 2: Findings that are **significant deficiencies** in internal control and **noncompliance** with State laws and regulations.
Category 3: Findings that have **no internal control issues but are in noncompliance** with State laws and regulations.

{Financial information and Activity Measures are summarized on next page.}

ILLINOIS GAMING BOARD
FINANCIAL AUDIT - STATE GAMING FUND
For the One Year Ended June 30, 2014
AND COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2014

EXPENDITURE STATISTICS	2014	2013	2012
Total Expenditures.....	\$ 145,355,146	\$ 146,302,890	\$ 141,933,940
OPERATIONS TOTAL.....	\$ 48,532,544	\$ 42,747,279	\$ 35,653,411
% of Total Expenditures.....	33.4%	29.2%	25.1%
Personal Services.....	9,339,952	8,348,605	7,610,228
Other Payroll Costs (FICA, Retirement).....	6,205,646	5,653,247	4,412,277
All Other Operating Expenditures.....	32,986,946	28,745,427	23,630,906
AWARDS AND GRANTS.....	\$ 96,822,602	\$ 103,555,611	\$ 106,280,529
% of Total Expenditures.....	66.6%	70.8%	74.9%
Total Receipts.....	\$ 674,079,549	\$ 604,225,577	\$ 618,804,186
Average Number of Employees (Not Examined).....	159	148	130
STATE GAMING FUND			
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE (in thousands)			
	2014	2013	2012
Revenues			
Riverboat taxes.....	\$ 516,540	\$ 593,982	\$ 489,289
Licenses and fees.....	4,357	2,742	1,829
Other.....	1	1	2
Total.....	<u>520,898</u>	<u>596,725</u>	<u>491,120</u>
Expenditures			
Public protection and justice.....	46,934	36,476	43,525
Intergovernmental.....	96,823	103,556	106,281
Health and social services.....	843	862	898
Total.....	<u>144,600</u>	<u>140,894</u>	<u>150,704</u>
Other sources (uses) of financial resources			
Transfers-out to Education Assistance Fund.....	(376,298)	(455,831)	(340,416)
Net change in fund balance.....	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
STATE GAMING FUND			
BALANCE SHEET (in thousands)			
	2014	2013	2012
Assets			
Cash equity with State Treasurer.....	\$ 45,908	\$ 170,473	\$ 104,156
Taxes and other receivable, net.....	1,856	7,424	5,840
Total.....	<u>\$ 47,764</u>	<u>\$ 177,897</u>	<u>\$ 109,996</u>
Liabilities			
Accounts payable and accrued liabilities.....	\$ 1,058	\$ 1,036	\$ 1,310
Intergovernmental payables.....	10,066	11,164	12,235
Due to State fiduciary funds.....	289	259	200
Due to other funds.....	36,287	163,838	88,380
Due to component units.....	64	1,600	7,871
Total.....	<u>47,764</u>	<u>177,897</u>	<u>109,996</u>
Committed Fund Balance.....	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
SELECTED ACTIVITY MEASURES			
(Not Examined)			
	Calendar Year	Calendar Year	Calendar Year
	2013	2012	2011
Number of Riverboat Licenses.....	10	10	10
Gross Receipts.....	\$ 1,551,311,772	\$ 1,638,167,885	\$ 1,477,600,520
Number of Admissions.....	14,891,745	16,157,869	14,801,944
Riverboat Taxes			
State Share.....	\$ 444,205,433	\$ 476,246,146	\$ 400,680,832
Local Share.....	92,493,705	98,090,275	88,741,621
Total Riverboat Taxes.....	<u>\$ 536,699,138</u>	<u>\$ 574,336,421</u>	<u>\$ 489,422,453</u>
BOARD ADMINISTRATOR			
During the Audit Period and Currently: Mr. Mark Ostrowski			

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

**INADEQUATE INTERNAL CONTROLS OVER VIDEO
GAMING TERMINAL LICENSES**

The Board did not develop adequate internal controls over the billing of Video Gaming Terminal (VGT) Licenses. As a result, the Board did not have a sufficient process in place to ensure proper revenue recognition related to VGT Licenses when preparing the State Gaming Fund's (Fund) year-end reporting package submitted to the Office of the State Comptroller and the Fund's draft financial statements.

During testing, the auditors noted the following weaknesses:

**Lack of internal policies for timely
billing**

- The Board did not develop adequate internal policies and procedures to ensure the timely billing of VGT Licenses during the audit period.
- The Board did have an adequate mechanism in place to ensure the timely billing of VGT License fees, including "renewal" fees not billed up to three months after the renewal period and "initial" fees delayed for billing.
- As a result of the delayed billings and certain improper recording of "initial" fees mentioned above, the Board did not accurately record \$238,000 and \$191,000 in License and Fees revenue in the Fund's FY13 and FY14 financial statements, respectively. The Board did not correct the Fund's financial statements for the respective amounts as they were deemed immaterial to the financial statements taken as a whole. The lack of correction by the Board did not result in a modification to our opinion on the Fund financial statements.

**\$238,000 of FY13 and \$191,000 of
FY14 revenues not accurately
reported in financial statements**

Failure to establish adequate internal controls and develop appropriate rules could result in material financial reporting errors and limits the ability of the Board's management to monitor the Board's activities. In addition, the establishment of formal business rules provides a basis for the proper and consistent accounting of the essential transactions of the Board. (Finding 1, pages 12-14)

We recommended the Board develop and implement adequate policies and procedures governing the billing of VGT Licenses. These policies and procedures should include a process to ensure proper revenue recognition relating to VGT Licenses is completed when preparing the Fund's year-end reporting package and financial statements.

Board agrees with auditors

Board management agreed with the recommendation and stated they are in the process of documenting policies and procedures that will include proper revenue recognition.

INADEQUATE CONTROLS OVER FUND TRANSFERS

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

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

- For 10 of 12 (83%) monthly transfers made, the Board inaccurately double counted the \$5,530,000 liability to the School Infrastructure Fund in accordance with the Board's EAF Transfer Methodology.
- For 1 of 12 (8%) monthly transfers made, the Board incorrectly included a receipt of \$10,000,000 that was deposited in the General Revenue Fund as part of its transfer calculation from the SGF.
- The Board has not updated its Administrative Directive (86 Ill. Admin. Code 3000) to agree with changes brought forth by P.A. 098-0018. Specifically, Section 3000.1071(q) has not been updated to include obligations to the Chicago State University Education Improvement Fund or the School Infrastructure Fund as required by the Riverboat Gambling Act (230 ILCS 10/13(c-25) and (c-35)).

Administrative rules not updated

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 Act and the Fiscal Control and Internal Auditing Act. (Finding 2, pages 15-16) **This finding was first reported in 2012.**

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

Board agrees with auditors

Board management agreed with the recommendation and stated they had already adjusted their process at the beginning of FY15 to accurately calculate the transfer of funds to the EAF. (*For the previous Board response, see Digest Footnote #1.*)

INTERNAL CONTROL REVIEWS OF EXTERNAL SERVICE PROVIDERS NOT OBTAINED OR PERFORMED

The Board did not obtain or perform internal control reviews of external service providers used to process video gaming revenue and casino staff finger prints.

The Board utilizes an external service provider to design, develop, implement, operate, maintain and support the secure communication of approximately 60,000 video gaming

No Service Organization Internal Control Report obtained

terminals across the State. However, the Board had not obtained a Service Organization Internal Control Report or conducted an internal control review over the secure communication. The Board received approximately \$29,347,064 and \$137,335,925 in FY13 and FY14, respectively in video gaming revenue.

In addition, the Board utilizes a vendor to obtain and transmit potential casino employees and Board employee's annual background checks, via finger print match with various State and Federal databases. However, the Board had not obtained a Service Organization Internal Control Report or conducted an internal control review of this vendor. (Finding 3, pages 17-18)

We recommended the Board obtain or perform independent reviews of internal controls associated with outsourced systems or operations at least annually.

Board agrees with auditors

Board management agreed with the recommendation and stated the Board has obtained an internal control review from the vendor related to video gaming revenues. The Board did not seek a review from the vendor related to finger prints, as the Board was in the process of contracting with a new vendor.

INADEQUATE RECORDING AND REPORTING OF PROPERTY

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

Property not located where recorded

- Four of 80 (5%) equipment items selected for testing, totaling \$1,605, were shown on the property listing as being located in a different geographical location than they were physically located.
- Eight of 80 (10%) equipment items selected for testing, totaling \$4,665, were not correctly recorded on the Board's property listing to reflect the current assigned/unassigned status.

Property records not updated timely

- The Board did not timely record equipment additions and deletions on its property listing. Specifically, the auditors noted 20 equipment items, totaling \$33,990, were recorded between 4 to 984 days late.
- A gun was included on the Board's property listing for more than two and a half years after it was transferred to another agency. It was also noted by the auditors that the gun was never included as a missing item on the Board's certification of Inventory and discrepancy reports that were filed annually with the Department of Central Management Services during the examination

period.

- Deficiencies were noted during testing of the Agency Report of State Property accuracy, which is filed with the Office of the State Comptroller. (Finding 6, pages 23-24) **This finding has been repeated since 2010.**

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

- Equipment is entered timely and accurately on the property listing; and
- Quarterly reports are reconciled to property listings, reviewed for accuracy and adequate documentation is maintained.

Board agrees with auditors

Board management agreed with the recommendation and stated the Board is revising its procedures accordingly. (*For the previous Board response, see Digest Footnote #2.*)

OTHER FINDINGS

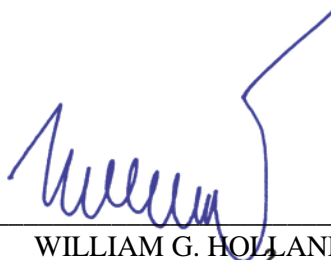
The remaining findings are reportedly being given attention by the Board. We will review the Board's progress toward implementation of our recommendations in our next examination.

AUDITOR'S OPINION

The auditors stated the financial statements of the Board's State Gaming Fund as of and for the year ended June 30, 2014 were fairly presented in all material respects.

STATE COMPLIANCE EXAMINATION - ACCOUNTANT'S REPORT

The auditors qualified their report on State Compliance for findings 2014-001 and 2014-003. Except for the noncompliance described in these findings, the auditors state the Board complied, in all material respects, with the requirements described in the report.



WILLIAM G. HOLLAND
.. Auditor General

WGH:SKM

AUDITORS ASSIGNED

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

DIGEST FOOTNOTES

#1 – INADEQUATE CONTROLS OVER FUND TRANSFERS

2013: The Board agrees with the recommendation and procedures are in the process of being revised to strengthen controls regarding the fund transfers.

#2 - INADEQUATE RECORDING AND REPORTING OF PROPERTY

2012: 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.