

# LEGISLATIVE AUDIT COMMISSION



Review of  
Illinois Racing Board  
Two Years Ended June 30, 2014

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**REVIEW: 4458  
ILLINOIS RACING BOARD  
TWO YEARS ENDED JUNE 30, 2014**

**FINDINGS/RECOMMENDATIONS - 15**

**IMPLEMENTED - 6  
ACCEPTED - 9**

**REPEATED RECOMMENDATIONS - 10**

**PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 16**

This review summarizes the auditors' report on the Illinois Racing Board for the two years ended June 30, 2014, filed with the Legislative Audit Commission on September 10, 2015. The auditors conducted a compliance examination in accordance with *Government Auditing Standards* and State law. An Executive Order (2009) followed by statute transferred all of the functions and associated powers, duties, rights and responsibilities of the Illinois Racing Board that were provided by the Department of Revenue, except for any functions provided by the Administrative and Regulatory Shared Service Center at the Department of Revenue, to the Illinois Racing Board as a separate agency.

The Illinois Racing Board is a State agency charged with ensuring public confidence and trust in the credibility and integrity of racing operations and the regulator process. The agency is administered by an eleven-member board, appointed by the Governor. Currently, the Board oversees live racing at three (formerly five) racetracks, the Illinois State Fair, the DuQuoin State Fair, and the Brown County Fair. In addition, the Board is responsible for regulation of 27 inter-track wagering facilities and five advance deposit wagering licensees.

Some of the Board's responsibilities include allocation of racing dates, verifying the accuracy of taxes paid by licensees to the Department of Revenue, licensing of entities and individuals involved in horse racing, investigation of alleged violations, promulgating rules and regulations to govern wagering, disciplinary actions against licensees, testing of horses for illegal drugs and prohibited substances, imposition of fines, and steward supervision of racing programs. The Board oversees the collection and allocation of various revenues associated with horse racing.

Mr. Marc Laino was Executive Director of the Racing Board during the audit period through December 31, 2014. Mr. Laino was replaced by Mr. Domenic DiCera on January 1, 2015. Mr. DiCera was previously Director of Operations at the Illinois Racing Board since December 2003. During FY14, the Agency had, on average, 49 employees, including 14 full-time employees in the central office, 23 per diem employees at upstate racetracks and 12 per diem employees at downstate racetracks.

### **Expenditures From Appropriations**

The General Assembly appropriated \$31.5 million from the Horse Racing Fund, Horse Racing Equity Fund, and Racing Board Fingerprint Fund to the Racing Board in FY14. Total expenditures were \$30.1 million in FY14 compared to \$7.4 million in FY13. The increase in expenditures was due to a one-time \$23 million distribution to the racetracks, purse accounts, and the State's fairs, which came from a transfer from the State Gaming Fund.

### **Cash Receipts**

Appendix B summarizes the cash receipts of the Board for FY14 and FY13. Total cash receipts were \$2.1 million in FY14 compared to \$1.5 million in FY13 due to a one-time transfer of the remaining cash within the Racing Board Fingerprint Fund after the Board settled the Racing Board Fingerprint Fund's final obligations. The audit report stated that the Board's receipt records contain errors and discrepancies as noted in Finding No. 2.

### **Illinois Handle Totals**

Appendix C provides a summary of the total handle wagered in Illinois from thoroughbred and harness racing in calendar year 2013 and 2012. The total handle wagered from both thoroughbred and harness racing was \$542 million in 2013, which was a decrease of \$8.7 million, or 1.6%, compared to 2012. Advance Deposit Wagering (ADW) allows Illinois patrons to place funds into an account and then wager on races using a telephone or internet device. ADW added \$75.9 million to the total handle in 2013.

### **Service Efforts and Accomplishments**

The Racing Board conducts post-race drug testing at all sanctioned race meets. The laboratory performed at 75% accuracy. In FY14, there were 12,652 blood and urine tests administered revealing 43 prohibited drug positive horses.

### **Accountants' Findings and Recommendations**

Condensed below are the 15 findings and recommendations included in the compliance examination. The following recommendations are classified on the basis of updated information provided by Vitto Ezeji-Okoye, Chief Fiscal Officer, in a memo received via email on August 5, 2016.

**Accepted or Implemented**

- 1. Work with the Administrative and Regulatory Shared Services Center at the Department of Revenue to delineate and reduce to writing each entity's responsibilities in performing the daily operations of the Board. Further, continuously monitor the activities Shared Services performs on its behalf to identify and correct internal control deficiencies. (Repeated-2010)**

**Finding:** The Board did not have adequate detailed procedures with the Administrative and Regulatory Shared Services Center at the Department of Revenue (Shared Services) detailing each entity's responsibilities for the daily operations of the Board.

When the Board separated from the Department of Revenue on July 1, 2009, Executive Order 5 (2009) required the Board to continue using Shared Services for any functions being provided by Shared Services.

During fieldwork, the auditors reviewed the inter-agency agreement between the Board and Shared Services. The auditors noted the Board has not implemented the auditors' recommendation from the past two prior examinations to "delineate and reduce to writing each entity's responsibilities in performing the daily operations of the Board."

Auditors continued to note problems arising from confusion regarding the Board and Shared Services' responsibilities for the Board's operations, including:

- The Board and Shared Services did not accurately report cash receipts in transit to the State Treasury (see Finding 2014-002 for more information). Furthermore, the Board's accounts receivable amounts were overstated by the amount of in-transit receipts (see Finding 2014-007 for more information).
- The Board and Shared Services did not ensure all receipts were deposited into the correct receipt account and did not properly document the correction of receipt deposit errors (see Finding 2014-002 for more information).
- Shared Services did not extract per diem information from the Central Time and Attendance System and accurately enter the total number of per diems worked by Board employees into the 260-day tracking sheet maintained by Shared Services (see Finding 2014-003 for more information). Shared Services personnel, however, stated this function was not the responsibility of Shared Services.
- The Board and Shared Services did not report adjusting payroll entries to the State Comptroller in a timely manner as required by the Agreement between the State and the American Federation of State, County, and Municipal Employees Council 31 (see Finding 2014-003 for more information).

**Accepted or Implemented - continued**

- The Board and Shared Services continued to have difficulty processing vouchers within the timeframes for voucher approval (see Finding 2014-014 for more information).

Board officials stated the Board disagreed with the finding as the Board has continued to reach out to Shared Services to receive a detailed breakdown of the day to day functions that Shared Services performs on behalf of the Board and they had received a spreadsheet from Shared Services detailing their functions. The auditors reviewed the spreadsheet noting it was prepared during January 2014 and it only listed the funds where Shared Services reconciles State Comptroller reports, prepares deposit summary and returned check information, prepares quarterly accounts receivable and property reports for the State Comptroller, and prepares the annual GAAP reporting packages.

The auditors concluded the spreadsheet had the following deficiencies:

- The spreadsheet did not address any human resources functions performed by Shared Services for the Board;
- The spreadsheet did not address the voucher processing functions performed by Shared Services for the Board;
- The spreadsheet did not include any detail, in either a narrative or flowchart format, delineating responsibility for tasks among Shared Services and Board personnel; and,
- The spreadsheet lacks any specific tasks or directions necessary to complete a task, such as who at the Board maintains records Shared Services will need to accurately prepare a report for the Board.

**Updated Response:** Accepted. The Board had been working with Shared Services to ensure the division of daily operating responsibilities is clearly communicated in writing; however, Shared Services was dismantled and since July 1, 2016, all duties, except payroll, are now the responsibility of the Board. The Board is working on allocating such responsibilities among its current and new staff.

**2. Take action to establish and implement controls over the Board's receipt process by:**

- **developing a centralized receipt listing with a detailed itemized account of all moneys showing the date of receipt, the payor, purpose, and amount, and the date and manner of disbursement that tracks the significant events in depositing a receipt into the State Treasury;**

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- **developing cash management procedures designed to timely and efficiently expedite cash collections to the State Treasury;**
- **maintaining adequate supporting documentation that reconciles to deposit records and ensures all receipts are properly recorded on the Board's books and records;**
- **submitting receipt deposit transmittals (RDTs) in a timely manner to the State Comptroller;**
- **ensuring receipts are deposited into the proper account and the correction of errors is performed in a manner that establishes adequate audit trails and accountability by documenting the correction of an error;**
- **preparing a proper reconciliation of receipts, including in-transit cash, to the State Comptroller's records;**
- **ensuring fine receipts are processed in accordance with Board policy and the Board issues receipts to the payer; and,**
- **developing a procedure manual for the Board's employees at the racetracks and training those employees on the Board's procedures. (Repeated-2010)**

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

During the examination period, the Board sought and received a 30-day receipt deposit extension from the State Treasurer and State Comptroller for receipts collected by the Board at the racetracks from licensees.

During testing, the auditors noted the Board lacked adequate cash management procedures designed to timely and efficiently expedite cash collections into the State Treasury. The auditors tested 60 receipts, totaling \$1,960,263.

- Thirteen of 60 receipts tested, totaling \$1,455,784, were deposited into the State Treasury between one and 46 business days late after exhausting any applicable receipt deposit extensions.
- Seven of 60 receipts tested, totaling \$104,529, did not have adequate supporting documentation detailing the date the receipts were received by the Board.
- Two of 60 receipts selected for testing, totaling \$21,282, were not provided to the auditors for testing, as the Board did not have documentation to support the receipt transaction.

**Accepted or Implemented - continued**

- Three of 60 receipt deposit transmittals (RDTs) tested, totaling \$8,613, were not timely remitted to the State Comptroller within a reasonable period of time. The RDTs were remitted to the State Comptroller between 32 and 37 days after the Board received a State Treasurer's Draft.
- Four of 60 (7%) receipts tested, totaling \$114,815, did not trace to the Board's Cash Receipt Journals. In following up on this matter with an official with the Administrative and Regulatory Shared Services Center at the Department of Revenue (Shared Services), the official indicated Shared Services was correcting prior errors by incorrectly posting subsequent receipts to the wrong receipt account.
- The Board does not have a centralized listing of each individual cash receipt received by the Board with a detailed itemized account of all moneys showing the date of receipt, the payor, purpose, and amount, and the date and manner of disbursement.
- The Board does not prepare a proper reconciliation of its receipts to the State Comptroller's Monthly Revenue Status Report.

Board officials stated the deficiencies noted were due to staff oversight, human error, and the Department of Revenue not always timely depositing Board receipts.

**Updated Response:** Accepted. The Board will continue to implement procedures to reduce the processing time for receipts collected in the field. Since the examination period, the Board has acquired a check scanner and has been processing and depositing all checks from its Central Office.

**3. Take action to implement internal controls designed to reasonably assure:**

- **the Board's staff submit signed punch clock records from the racetracks and approved leave request forms to the timekeeper in a timely manner;**
- **the Board accurately and timely enters data into CTAS;**
- **payroll information, including adjustments, are timely submitted to both Shared Services and the Office of the State Comptroller;**
- **the information extracted from CTAS is accurately entered into the 260-day tracking sheet maintained by Shared Services;**
- **Monthly Timekeeping Reports are accurate, timely reviewed by Board staff, and submitted to Shared Services; and,**

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- **Board employees receive timely performance evaluations. (Repeated-2010)**

**Finding:** The Board lacked control over its personal services expenditures, totaling \$9,711,238, during the examination period. The auditors tested the Board's payroll expenditures for nine per diem and three full time employees during six selected months during the examination period. Due to the seasonal nature of the Board's operations and separations, not all of the employees worked during each month. During testing, some of the more significant internal control deficiencies noted by the auditors included the following:

- Four of nine per diem employees tested did not have signed punch clock records from the racetracks to support the employee had worked four per diem days recorded by the Board within the State's Central Time and Attendance System (CTAS). The Board paid these employees for these noted days.
- For 15 of 40 leave days, the Board did not either receive or retain leave requests from five of nine per diem employees and two of three (67%) full time employees tested. As such, the Board did not have documentation to support entries recorded within CTAS.
- Four of nine per diem employees tested did not have the employee's use of benefit time recorded within CTAS, which reported the employees had been working at a racetrack. As a result, each employee's accrual of benefit time is overstated by one per diem day each.
- One of nine per diem employees tested had one per diem shift not entered into CTAS, resulting in the employee not being paid for a shift he had worked, totaling \$144.
- Two of nine (22%) per diem employees tested had one extra per diem shift entered into CTAS, resulting in the employees being overpaid for two shifts they had not worked, totaling \$460.
- Shared Services did not extract per diem information from CTAS and accurately enter the total number of per diems worked by Board employees into the 260-day count tracking sheet. The 260-day count tracking sheet is used to determine the proper rate of pay for per diem employees pursuant to the union agreement.
- The Board's timekeeper inserts one hour placeholders into CTAS to indicate instances where an employee had been scheduled to work, but either the Board had not received the timesheet as of the payroll close date or the scheduled event has not happened. Shared Services pays the employee for these dates even though the employee may not have worked or some other employee actually worked the shift. This procedure created cascading errors throughout the Board's payroll system, necessitating manual adjusting entries and raising the risk of inaccurate paychecks and benefit accruals.

**Accepted or Implemented - continued**

- For seven of the nine (78%) per diem employees tested, the auditors noted the Board was not submitting payroll adjustment information to Shared Services in a timely manner and Shared Services was not submitting this information to the State Comptroller for payment timely. The auditors identified 39 per diems worked by employees during the six months tested where the employee was not paid for their day worked on the payroll voucher purporting to pay employees for work performed during the payroll period. In 25 of these 39 instances (64%), the employee was not paid for the day worked by the Board even in the subsequent semi-monthly payroll. In those 25 instances, the Board reported the adjustment to Shared Services an average of 27 days (between two and 75 days) after the close of the subsequent period's payroll. Upon notification of the error, Shared Services paid the amount due to the employee on the Board's next regular payroll voucher submitted to the State Comptroller for payment.
- Due to the impact of the preceding errors and the auditors noting CTAS is not corrected in a timely manner prior to the Board generating each employee's Monthly Timekeeping Report from CTAS (typically printed about two weeks after month end), the Monthly Timekeeping Reports were inaccurate. These reports represent a key internal control mechanism because each employee, the employee's supervisor, and the timekeeper certifies the accuracy of the information recorded within CTAS. In addition to providing a verification that the information within CTAS is accurate, this report represents the sole document where the employee certifies their time spent on official State business, as required by the State Officials and Employees Ethics Act.
- For seven of the 64 tested months where employees worked, the employee's supervisor reviewed and approved the employee's Monthly Timekeeping Report between 179 and 194 days after month end, which was not a reasonable lapse in time to identify and correct payroll errors.
- For four of the 64 tested months where employees worked, the employee performed the supervisor review of their own Monthly Timekeeping Report.
- None of the 12 employees tested had an annual performance evaluation performed during either FY13 or FY14.

Board officials stated these exceptions were due to human error.

**Response:** The Board will continue to streamline processes for gathering documents from field employees to address these issues. Additionally, the timekeeping software utilized by Shared Services is incompatible with the timekeeping needs for per diem employees, which requires all timekeeping to be entered manually. The Board will continue to seek more suitable timekeeping software within its affordability range that will allow for the timely recording and review of all timekeeping data with less need for manual input, thus reducing

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human error. This will address the remaining issues around adjustments, timeliness of entries and the ability of staff to review and return timekeeping reports.

The Board no longer utilizes the one-hour placeholder. It should be noted that the practice was put in place to adhere to the payroll cutoff dates. The Board is working to change the cutoff dates.

**Updated Response:** Implemented. The Board has fully implemented the Auditor's recommendations and will continue to streamline processes for gathering documents from field employees to address these issues.

#### **4. Conduct an analysis to ascertain why the occupational licensee records retained in the Pari-Mutuel Information Tracking System (PITS) did not reconcile with its external records and take corrective action to ensure data extractions from PITS are complete and accurate.**

**Finding:** The Board was unable to provide adequate records substantiating the population of individuals who received occupation licenses during the examination period.

During testing, the auditors requested the Board provide the population of individuals who had received occupation licenses during the examination period to test compliance with the licensing and fee provisions of the Illinois Horse Racing Act of 1975 (230 ILCS 5/15). In response to the auditors' request, the Board made three distinct attempts to provide the auditors with the population of licenses issued by extracting the information from its computer system, the Pari-Mutuel Information and Tracking System (PITS). For each of the populations provided by the Board, the auditors attempted to ascertain the completeness of the population by comparing and reconciling the information to other records maintained by the Board and the Office of the State Comptroller; however, the auditors were unable to get any of the Board's lists to agree with other records.

After the three attempts, the auditors met with Board officials and an employee of the Department of Revenue who maintains PITS pursuant to an intergovernmental agreement. Per the Department of Revenue's employee, he noted PITS was cutting off some records when he extracted the information from PITS and he was unsure if he had maintained consistency in programming PITS on what information to extract. The auditors offered the Board one additional opportunity to provide a complete population that would reconcile with other records maintained by the Board and the Office of the State Comptroller, but the Board declined this offer.

Therefore, as the auditors were unable to substantiate the completeness of the Board's records, the auditors were unable to test the Board's compliance with the licensing and fee provisions of the Illinois Horse Racing Act.

**Accepted or Implemented - continued**

Board officials stated PITS is antiquated and needs to be replaced; however, the Board currently lacks sufficient financial resources to replace PITS.

**Updated Response:** Implemented. The Board has made changes to its PITS reporting system to address this issue.

**5. Implement controls to monitor the submission of taxes due from licensees for timeliness, timely distribute taxes collected on behalf of local governments, update and adopt regulations to reflect its current environment, and receive sworn, itemized, and signed admission tax statements.**

**Finding:** The Board lacked sufficient internal control over the collection of taxes due to the State and the remittance of taxes collected on behalf of local governments. During testing of local government taxes, the auditors noted the following:

- The Board did not require its inter-track wagering location licensees (off-track betting parlors) to remit admission taxes due to the City of Chicago and Cook County in a timely manner. Six of nine payments tested, totaling \$29,460, were deposited by the inter-track wagering licensees by electronic remittance into the State Treasury between one and 734 days late.
- The Board's internal controls did not detect an inter-track wagering location licensee (off-track betting parlor) that opened in June 2012 in Cook County was not remitting the \$1 locally-imposed admission taxes due to the Board until September 2012.
- 26 of 48 distributions of collections of the \$1 locally-imposed admission taxes to the City of Chicago and Cook County, totaling \$329,946, occurred between three and 60 days after the last date of the month subsequent to the month when the dates of attendance occurred. All of the late distributions occurred during months prior to the monthly distribution for tax receipts collected for September 2013.

During testing of State taxes, the auditors noted the following internal control deficiencies:

- The Board has set two different time periods for remitting the 15¢ admission tax due to the Board for thoroughbred licensees, which requires payment of admission taxes due on the Thursday after the close of the prior Sunday-Saturday week, conflicts with the Board's current guidance that payment is due on either Monday or Tuesday after the close of the prior Sunday-Saturday week.
- The Board did not require a sworn, itemized, and signed statement for the admission tax filing on the Admission Tax and Daily License Fee Report.

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- The Board has not adopted a formal regulation similar to the thoroughbred regulation to establish the time period for remitting the 15¢ (fifteen cents) admission tax due to the Board from standardbred (harness) licensees.

Board officials stated the noted deficiencies were due to human error.

**Updated Response:** Implemented. The Board has addressed the issue with all organization licensees by providing additional notice of collection and remittance requirements and has implemented additional internal controls to ensure timely and correct receipt.

### **6. Implement controls to provide assurance amounts deposited into funds receiving an allocation of pari-mutuel tax receipts by the Department of Revenue are accurate and in accordance with State law. (Repeated-2012)**

**Finding:** The Board did not ensure the proper allocation of receipts between the Horse Racing Fund and the Illinois Racing Quarter Horse Breeders Fund.

While the Department of Revenue is responsible for receiving and depositing pari-mutuel tax, the Board is responsible for verifying the completeness and accuracy of pari-mutuel tax receipts deposited into the Horse Racing Fund, the Illinois Racing Quarter Horse Breeders Fund, the Quarter Horse Purse Fund, and the Standardbred Purse Fund.

During testing, the auditors noted the following:

- The Department did not deposit 8.5% of taxes received by the State from quarter horse racing paid by Advance Deposit Wagering (ADW) licensees into the Illinois Racing Quarter Horse Breeders Fund. Since inception until December 31, 2014, the Department erroneously deposited \$19,524 from ADW into the Horse Racing Fund.
- The auditors continued to note internal control deficiencies, including the following:
  - The Board's Pari-Mutuel Information and Tracking System (PITS) was not programmed during FY13 to calculate the proper tax rate for one organizational licensee.
  - The Board and Department did not ensure information extracted from PITS to allocate cash receipts among the Horse Racing Fund and the Illinois Racing Quarter Horse Breeders Fund was complete.
  - The Board and the Department did not perform a fiscal year end reconciliation process to determine whether receipt allocation errors existed between the Horse Racing Fund and the Illinois Racing Quarter Horse Breeders Fund.

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The net impact of the errors noted above is an overstatement of receipts into the Horse Racing Fund and an understatement of receipts into the Illinois Racing Quarter Horse Breeders Fund, totaling \$17,593.

Board officials stated the exceptions were due to PITS not calculating the correct tax on one racetrack's handle, the Department pulling receipt information from PITS prior to the Board entering the information, oversight, and human error.

**Response:** Accepted. The Board will continue to work with the Department of Revenue to ensure the proper amounts are deposited into funds in accordance with State law.

- 7. Refer qualifying delinquent debt to the Department of Revenue's Debt Collection Bureau; notify both the Department of Revenue and the Department of Agriculture of receivables from pari-mutuel taxes due to the Horse Racing Fund, the Illinois Racing Quarter Horse Breeders Fund, the Quarter Horse Purse Fund, and the Standardbred Purse Fund; do not consider cash in transit to the State Treasury as accounts receivable; review PITS for potential modifications to reduce the number of manual adjustments performed to prepare the quarterly accounts receivable reports; implement controls to ensure accounts receivable reports are accurate and agree with proper and complete supporting documentation; and, review methodology for estimating uncollectible accounts to determine if it is fair and reasonable. (Repeated-2010)**

**Finding:** The Board did not exercise adequate internal control over accounts receivable collection activities or preparing its Quarterly Summary of Accounts Receivable (quarterly report) for the Office of the State Comptroller. During testing, the auditors noted the following:

- The Board did not refer delinquent debt to the Department of Revenue's Debt Collection Bureau (Bureau). According to documentation provided by the Board to the auditors, the Bureau in April 2013 referred the Board to five external debt collectors under contract with the Bureau to attempt to collect delinquent debts; however, the Board may have only reached out to one of the external debt collectors around September 2013 and ultimately did not place any delinquent debt during FY13 or FY14 with any of the Bureau's external collectors.
- For seven of eight quarters, the Board and the Department of Revenue's Administrative and Regulatory Shared Services Center (Shared Services) improperly considered cash on-hand and in-transit to the State Treasury from collections by the Board's staff at the racetracks to the Department of Revenue as accounts receivable (see Finding 2014-002 for more information).
- The Board did not notify the Department of Revenue or the Department of Agriculture of receivables for the Horse Racing Fund, the Illinois Racing Quarter Horse Breeders Fund, the Quarter Horse Purse Fund, and the Standardbred Purse Fund for pari-

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mutuel taxes earned during the last days of each quarter that have not been received by the Department of Revenue. The Board, in accordance with the Illinois Horse Racing Act, is responsible for verifying the completeness and accuracy of organizational licensee (racetrack) payments into all four funds.

- The Board has internal control weaknesses over accounts receivable, including:
  - The Board's Pari-Mutuel Information and Tracking System (PITS) considers all imposed fines as past-due, even though the Board allows licensees 30 days to pay a fine following the date of the Steward's Ruling. Due to this condition, the auditors noted Shared Services must perform manual adjustments to reports from PITS each quarter to properly prepare the Board's quarterly reports.
  - PITS is not identifying all payments of fines received by the Board that occurred before the date reports are generated from PITS to prepare the Board's quarterly report. Due to this condition, the auditors noted Shared Services must perform manual adjustments to reports from PITS each quarter to properly prepare the Board's accounts receivable reports.
- The Board has not reviewed its accounts receivable process to determine whether its method of estimating uncollectible accounts is fair and reasonable.

Board officials stated they do not have a process in place to work in correlation with other State agencies to pursue past due receivables as well as a formal procedure with Shared Services to age receivables.

**Updated Response:** Implemented. The Board takes debt collection seriously, sending out notices to licensees and submitting all past-due debts to the Comptroller's offset system. The Board has adopted a new Debt Collection Policy to help ensure adequate internal controls exist, increase amounts collected and more timely and accurate reporting of receivables. The Board will continue to work with the Department of Revenue and its vendors to pursue third-party collection of debt not retrieved through the Comptroller. Since July 1, 2016, the Board has taken full control of reporting from Shared Services and will continue to work to ensure timely reporting and proper classification of cash in transit and receivables.

8. **Work with the Governor and General Assembly to seek a legislative remedy to pay the outstanding obligations due to Cook County and the City of Chicago. Further, ensure all liabilities are reported to the Office of the State Comptroller to facilitate accurate financial reporting. (Repeated-2012)**

**Finding:** The Board was unable to distribute all inter-track wagering location admission fees to the City of Chicago and Cook County.

**Accepted or Implemented - continued**

During the prior examination, the auditors noted the Board had ceased activity within the Illinois Racing Board Grant Fund at the close of FY12 and began depositing inter-track wagering location admission fees into the Horse Racing Fund, as required by the Illinois Horse Racing Act. However, as a result of prior period fund transfers, the Board lacked sufficient cash after ceasing activity within the Illinois Racing Board Grant Fund to pay its remaining obligations due to Cook County, totaling \$43,809, and the City of Chicago, totaling \$1,118.

During the current examination, the auditors noted the Board had not paid these obligations due to Cook County and the City of Chicago. Further, the auditors noted the Board had not reported these outstanding liabilities to the Office of the State Comptroller for consideration in preparing the State's Comprehensive Annual Financial Report.

Board officials stated they have neither requested nor received an appropriation to pay these outstanding obligations and the Board did not report the liability due to oversight and human error.

**Updated Response:** Accepted. The Board drafted legislation to address this issue, however, the Board was unable to obtain the support of any House or Senate Sponsors to introduce a bill. The Board will continue to obtain legislative sponsors and introduce a bill next legislative session.

**9. Take action to ensure compliance by employees and licensees with State laws, rules, and regulations governing horse racing, including developing an appropriate process to monitor racetrack operations for instances of noncompliance.**

**Finding:** The Board did not comply with, or enforce compliance with, provisions of the Illinois Horse Racing Act and the Illinois Administrative Code at the racetracks. During the current examination, the auditors conducted walkthroughs at one standardbred and two thoroughbred racetracks. During testing, some of the issues noted by the auditors were as follows:

- During auditor observation of a Board-licensed veterinarian administering furosemide to horses entered in the fourth race at a thoroughbred racetrack with one document for recording the required signatures and injection information for all of the horses running in a race that day, the auditors noted the veterinarian had pre-signed off on his administration of furosemide to horses in the fifth through eighth races. As the time period for administering furosemide to these horses had not come up and the veterinarian had not actually administered furosemide to the horses, it was not possible for him to verify the timely administration of furosemide.

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- At the standardbred racetrack tested, the auditors noted one instance where the horse's owner, trainer, or representative was not present during the Board's collection of a urine sample from the horse.
- At all three racetracks tested, the Board did not require the horse's owner, trainer, or representative to remain to witness the sealing of the horse's urine and blood samples.
- At two of two (100%) thoroughbred racetracks tested, the stewards - two State employees and one racetrack employee who oversee the race and enforce the rules and regulations of the Board - did not arrive at their office on the grounds of the racetrack three hours prior to the first race. The auditors noted two State stewards arrived 23 and 61 minutes late and one association steward (the racetrack's steward and employee) arrived 43 minutes late. Further, the auditors noted the Board does not have a system in place to monitor the arrival of the racetrack's steward to ensure compliance with its regulations.
- All three racetracks tested did not have signs posted at each entrance and exit with contact information for obtaining assistance with gambling problems.
- At all three racetracks tested, the Board did not have adequate control over the Board's controlled substances, including euthanasia drugs. The auditors noted the following:
  - At the thoroughbred racetracks, the auditors noted both racetracks used removable tackle boxes for the Board's drugs. Further, the tackle box at one of the racetracks was not locked.
  - At the standardbred racetrack, the auditors noted the Board did not store its emergency medication within a locked box in the Board's veterinarian's office within the Detention Barn. The auditors observed the Board's drugs in the veterinarian's unlocked lunch box (an Igloo cooler) by the horse warm-up viewing area, which happens to be in a cafeteria.

After the race, Board officials stated this was an isolated instance due to the auditors visiting the racetrack on the biggest night of racing on the standardbred schedule. They stated the Board's veterinarians' standard practice is to store the emergency medication in the Board's veterinarian's office within the Detention Barn.
- At the standardbred racetrack tested, the auditors noted the racetrack was not limiting admission to the paddock area to authorized persons under the Board's regulations and was admitting individuals with guest passes to the paddock area.

Board officials stated these exceptions were due to oversight and a need to update the Board's rules and regulations within the Code.

**Accepted or Implemented - continued**

**Response:** The rules and regulations of the Board are undergoing a comprehensive review in order to adapt them to the needs of the present racing environment. The changes in the industry have rendered some rules untenable or unnecessary.

In response to the auditors' concerns:

- The rule requiring verification of furosemide administration by the practicing veterinarian no later than one hour prior to the race in which the horse is entered is being met. The licensed, practicing veterinarian signs and turns over the affidavit to track security, which radios the information to Board personnel within the parameters required by the rule. Thereafter, the signed veterinarian affidavit is physically delivered to the appropriate Board personnel. The rule does not state how the verification is to be conveyed once completed, and the Board believes that its current procedure meets the requirements of the rule. A veterinarian's failure to comply with the rule subjects the horseman to a fine, and the horse may be scratched from the race. The Board has reviewed the execution of procedures and processes around the rule and made adjustments where otherwise necessary to the form of the affidavit.
- Regarding the presence of a horse owner, representative, etc. at the draw and sealing of blood and urine samples, the Board will address any rule violations as well as the rule itself. This rule is an example of one that has become untenable in the current racing environment due to a lack of available horseman personnel.
- The Board will also review the requirement that thoroughbred stewards be present three hours before race time.

The Board continues to address all other issues observed by the auditors.

- 10. Sequentially number samples sent to the University, properly classify blue dot and green dot test samples, receive the results of all samples, and reconcile test results between the University's invoices and the Board's records. Further, work with the University to ensure confidentiality and conflict of interest procedures are in place for University employees. In addition, work with the University to develop a cash management process designed to timely and efficiently expedite cash collections to the University with appropriate recordkeeping. Finally, timely perform its quarterly reviews of the University and document any issues and corrective actions taken.**

**Finding:** The Board failed to exercise adequate internal control over the testing of blood, urine, and other specimens (samples) collected from racehorses for laboratory analysis.

## REVIEW: 4458

During the examination period, the Board contracted with the University of Illinois at Chicago's Animal Forensic Toxicology Laboratory (University) to perform this laboratory analysis, for which the Board paid \$3,167,604.

During testing, the auditors noted the following deficiencies:

- The Board did not ensure samples collected by its employees for 533 of 967 (55%) race dates during the examination period were labeled and sent to the University in sequential numerical order.
- The University's invoices to the Board only includes the total number of samples tested and does not include detail on the individual sample numbers tested during the period.
- The Board did not ensure its employees properly classified blue dot and green dot samples to assist in providing assurance the proper parties are billed for laboratory services performed by the University. The auditors identified several instances where the University received payment from horse owners and trainers for blue dot samples.
- The Board's employees routinely receive checks and money orders to cover the University's cost of laboratory testing of green dot samples submitted by owners and trainers. The auditors noted the Board's employees are not maintaining a detailed itemized accounting of all moneys showing the date of receipt, the payor, purpose, and amount, and the date and manner of disbursement.
- The Board did not ensure the University's written procedures included requirements that employees maintain confidentiality over test results.
- The Board did not ensure the University had a method for ensuring employees and family members did not have a conflict of interest as provided in the contract.
- The Board did not perform reviews of the University's performance under the Agreement pursuant to the Board's internal review process entitled *Lab Procedures*.

Board officials stated these exceptions were due to human error.

**Updated Response:** Accepted. The Board will continue to work with the University of Illinois to ensure compliance with State laws and Board rules and is currently in the process of amending its agreement.

### **11. Implement controls to accurately file the Board's Agency Fee Imposition Report with the Office of the State Comptroller. (Repeated-2012)**

**Finding:** The Board did not submit accurate Agency Fee Imposition Reports to the Office of the State Comptroller.

**Accepted or Implemented - continued**

As opposed to reporting the actual cash receipts collected by the Board, the Board provided each fee's cash deposits recorded by the State Comptroller on the State Comptroller's Monthly Revenue Status Report (SB04) for June 2013 and June 2014. By reporting the cash deposits recorded by the State Comptroller, the Board did not account for deposits in transit.

The auditors were unable to quantify the error due to the deposits in transit issue as described in Finding No. 2 and the Board's difficulty in generating a complete population of licenses issued during the engagement period as described in Finding No. 6.

Board officials stated the Board misunderstood the recommendation contained in the Board's prior examination and mistakenly reported the deposits recorded by the State Comptroller within its Agency Fee Imposition Reports.

**Updated Response:** Implemented. The Board has since corrected its method of reporting and current reports reflect the correct filing requirements.

**12. Implement a formal monitoring process to ensure the racetracks comply with State law and maintain records documenting the Stewards' conclusion that a required race may be waived due to insufficient competition. (Repeated-2012)**

**Finding:** The Board did not enforce specific statutory racing requirements for thoroughbred and standardbred organization licensees (racetracks).

Statute requires racetracks provide a minimum of two races per day and six races per week limited to thoroughbred and standardbred horses conceived and/or foaled within the State and registered with the Department of Agriculture (Illinois-bred horses).

During testing of 15 weeks (54 unique days) of thoroughbred racing, the auditors noted the following:

- For one of 54 race days tested, the Board did not record within the steward's minutes the number of races offered and ran limited to Illinois-bred horses.
- For 29 of 54 race days tested, the Board did not document its consent to eliminate and/or substitute races for Illinois-bred horses on the given day due to insufficient competition among the horse population.
- For two of 15 race weeks tested, one racetrack did not offer six races limited to Illinois-bred horses.

## REVIEW: 4458

During testing of nine weeks (22 unique days) of standardbred racing, the auditors noted the following:

- For two of 22 race days tested, the Board did not record within the steward's minutes the number of races offered and ran limited to Illinois-bred horses.
- For 15 of 22 race days tested, the Board did not document its consent to eliminate and/or substitute races for Illinois-bred horses on the given day due to insufficient competition among the horse population.

Board officials stated these issues were due to human error.

**Response:** Accepted. Procedures are in place to ensure the proper tracking and documentation of Illinois races not run due to the lack of horse population. Any omissions of documentation were in error and not due to a lack of proper procedure in canceling a race. The Board will continue to develop internal controls to ensure all changes/cancellations are properly documented.

**13. Perform an analysis of the Board's vehicles to determine whether each vehicle can be justified as the most cost effective solution for the Board's specific operational needs; implement controls to maintain accurate odometer records and retain records related to the Board's vehicles; prepare accurate reports when required for CMS; draft and submit a vehicle use policy in accordance with the provisions of the State Vehicle Use Act to CMS; and implement controls to assure vehicles undergo regular maintenance and receive an annual inspection.**

**Finding:** The Board did not maintain adequate control over its State-owned vehicles. During the examination period, the Board owned five vehicles. Some of the issues noted by the auditors during testing follows:

- The Board did not submit accurate vehicle information to the Department of Central Management Services (CMS) regarding odometer readings; annual change in mileage; and unreconciled discrepancies in odometer readings ranging from 2,090 to 25,846 miles.
- The Board has not performed an analysis of the Board's vehicles to determine whether maintaining each vehicle represents the best interests of the State given the Board's specific operating needs. This analysis should include an analysis of reimbursing the employee's mileage, using the State's car sharing service under master contract with CMS, or maintaining a shared motor pool.

During the examination period, the Board incurred expenditures of \$22,640 for fuel and maintenance costs for its State-owned vehicles.

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### Accepted or Implemented - continued

- The Board did not draft and submit a vehicle use policy to the Division of Vehicles within CMS. In addition, the Board did not adopt a policy concerning take-home vehicles or establish procedures regarding daily vehicle use logs and mileage recording.
- The Board did not have a monitoring process in place to ensure all of its vehicles underwent regular service and/or repair in order to maintain the vehicles in a road worthy and safe operating condition.
- The Board was unable to provide two of 10 Annual Vehicle Inspection Reports certifying the Board's vehicles were inspected at least once a year by CMS or an authorized vendor.
- The Board did not report a change in vehicle information to CMS when the Board assigned a Board employee to a new vehicle during FY14.
- The Board was unable to locate and provide the July 2012 Monthly Cost Reports for two of five of the vehicles.

Board officials stated the exceptions were due to human error.

**Updated Response:** Implemented. The Board's assigned vehicles are utilized in accordance with 44 Ill. Admin. Code 5040.350. Vehicles are used for inspection and regulatory purposes, to provide support and supervision in the field, and to carry out responsibilities over field staff. The Board has reduced its assigned vehicles by one employee; that employee having had the least business usage. The Board continues to annually review fleet mileage to ensure that assigned vehicles are the best economic method.

Regarding the Vehicle Use Policy and maintenance monitoring procedure, the Board has been following all requirements put forth by the Department of Central Management Services and the Governor's Office. The Board has issued a CMS-approved Vehicle Use Policy to all Board employees.

- 14. Timely revoke signature authority for separated employees, including employees with signature authority for the Board who worked for other State agencies. Also, implement controls to ensure all proper bills are supported by adequate documentation, reviewed by appropriate personnel, approved for payment within 30 days, and properly coded to the correct appropriation and detail object code; and, ensure auditor requests to examine purchases are fulfilled. (Repeated-2010)**

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**Finding:** The Board lacked adequate controls over expenditure processing. During testing, the auditors noted the following:

- One of eight individuals with signature authority for vouchers processed against the Board's expenditure accounts within the State Treasury had separated from the Department of Revenue's Administrative and Regulatory Shared Services Center (Shared Services) on November 30, 2011, 943 days prior to June 30, 2014.
- The auditors examined 147 invoice vouchers, totaling \$850,044, and noted the following exceptions:
  - 18 of 147 vouchers tested, totaling \$213,434, were not approved within 30 days of receipt. These vouchers were approved for payment between two and 59 days late.
  - Three of 147 vouchers tested, totaling \$27,815, were for the purchase of electronic data processing equipment which the auditor was unable to physically examine and, therefore, was unable to determine the validity of the transaction. The Board did not provide auditors with the tag numbers or the location for the items purchased for inspection by the auditors.

In reviewing reconciling items for equipment items capitalized within the Board's property listing and the State Comptroller's records, the auditors identified a safe purchased in FY14, totaling \$285, that was improperly charged against the Board's commodities appropriation using a commodities detail object code as opposed to the Board's equipment appropriation using an equipment detail object code.

In performing analytical reviews of the Board's grants, the auditors noted the Board changed its past practice of coding grants paid from the Quarter Horse Purse Fund to one racetrack as "nontaxable grants and awards, not elsewhere classified" to "shared revenue payments" in FY14. SAMS (Procedure 11.50.30) limits the classification of grants as "shared revenue payments" to the distribution by the State of "taxes collected on behalf of other governmental units, including local governments." As the racetrack is a corporation and not a government, this grant expenditure classification, totaling \$40,500, was improper.

Board officials stated the voucher processing exceptions noted by the auditors were caused by human error and misunderstanding.

**Updated Response:** Accepted. The Board has taken over the processing of expenditures from Shared Services on July 1, 2016. The Board is in the process of hiring necessary staff to ensure proper controls and timely processing.

**Accepted or Implemented - concluded**

- 15. Complete a formal risk assessment of the physical and computing environment to ensure adequate security controls are applied. Ensure all confidential information is properly secured (encrypted during transmission and at rest) and ensure compliance with the requirements of the Identity Protection Act. (Repeated-2010)**

**Finding:** The Board did not adequately secure and control confidential and personal information.

During testing, the auditors noted the following:

- The Board failed to utilize redaction when displaying confidential information within computer-based applications. Furthermore, social security numbers were printed on license application receipts and some internal reports.
- The Board does not encrypt laptops or other portable media.
- The Board had not performed a risk assessment of its physical space or computing resources to identify confidential or personal information to ensure such information is protected from unauthorized disclosure.
- Confidential and personal information is sent in clear text over the State's Intranet, primarily to the Administrative and Regulatory Shared Services Center at the Department of Revenue. Although the information, if properly coded, is secured during transmission, emails and attachments that are not encrypted could be exposed within the in- or out-boxes and on backup media and archives.

Board officials stated they lack sufficient resources to staff an individual to consistently manage and monitor noted control areas.

**Updated Response:** Accepted. The Board will continue to work with the Department of Innovation and Technology to assess risk and needs for the purpose of ensuring personal information protection of vendors and employees.

### **Emergency Purchases**

The Illinois Procurement Code (30 ILCS 500/) states, "It is declared to be the policy of the State that the principles of competitive bidding and economical procurement practices shall be applicable to all purchases and contracts..." The law also recognizes that there will be emergency situations when it will be impossible to conduct bidding. It provides a general exemption when there exists a threat to public health or public safety, or when immediate expenditure is necessary for repairs to State property in order to protect against further loss of or damage to State Property, to prevent or minimize serious disruption in critical State

## **REVIEW: 4458**

services that affect health, safety, or collection of substantial State revenues, or to ensure the integrity of State records; provided, however that the term of the emergency purchase shall not exceed 90 days. A contract may be extended beyond 90 days if the chief procurement officer determines additional time is necessary and that the contract scope and duration are limited to the emergency. Prior to the execution of the extension, the chief procurement officer must hold a public hearing and provide written justification for all emergency contracts. Members of the public may present testimony.

Notice of all emergency procurement shall be provided to the Procurement Policy Board and published in the online electronic Bulletin no later than 3 business days after the contract is awarded. Notice of intent to extend an emergency contract shall be provided to the Procurement Policy Board and published in the online electronic Bulletin at least 14 days before the public hearing.

A chief procurement officer making such emergency purchases is required to file an affidavit with the Procurement Policy Board and the Auditor General. The affidavit is to set forth the circumstance requiring the emergency purchase. The Legislative Audit Commission receives quarterly reports of all emergency purchases from the Office of the Auditor General. The Legislative Audit Commission is directed to review the purchases and to comment on abuses of the exemption.

During FY13 and FY14, the Illinois Racing Board filed no affidavits for emergency purchases.

### **Headquarters Designations**

The State Finance Act requires all State agencies to make semiannual headquarters reports to the Legislative Audit Commission. Each State agency is required to file reports of all of its officers and employees for whom official headquarters have been designated at any location other than that at which their official duties require them to spend the largest part of their working time.

The Board filed the required report in July 2014 and indicated that no employees spent more than 50% of their time working at a location other than official headquarters.

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ILLINOIS RACING BOARD  
YEAR ENDED JUNE 30, 2014**

**APPENDIX A**

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**Summary of Appropriations and Expenditures**

	<u>FY14</u>	<u>FY13</u>
<b><u>Appropriations</u></b>		
Horse Racing Fund	\$ 8,431,300	\$ 8,579,200
Horse Racing Equity Fund	23,000,000	-
Racing Board Fingerprint Fund	135,000	\$ -
	<u>                    </u>	<u>                    </u>
<b>Total Appropriations</b>	<b>\$ 31,566,300</b>	<b>\$ 8,579,200</b>

**Expenditures by Object**

<b>All Divisions</b>		
Personal services	\$ 983,623	\$ 963,797
Retirement	397,879	367,368
Social Security	72,040	71,612
Group insurance	295,481	318,549
Contractual services	156,911	170,012
Travel	24,333	20,273
Commodities	2,873	1,308
Printing	664	637
EDP	59,934	54,278
Telecommunications	79,341	81,589
Automotive	10,836	11,784
Refunds	250	-
Expenses related to the Laboratory Program	1,457,743	1,709,861
Expenses related to the Regulation of Racing	2,991,215	3,296,338
Distributions to Local Government	320,469	291,660
Expenses related to Shared Services	105,107	88,661
Horse Racing Equity Fund disbursements to tracks	23,000,000	-
Racing Board Fingerprint Fund expenditures	134,908	-
	<u>                    </u>	<u>                    </u>
<b>Total</b>	<b>\$ 30,093,607</b>	<b>\$ 7,447,727</b>

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**REVIEW: 4458**  
**ILLINOIS RACING BOARD**  
**YEAR ENDED JUNE 30, 2014**

**APPENDIX B**

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**Cash Receipts**

	<u>FY14</u>	<u>FY13</u>	<u>FY12</u>
General Revenue Fund	\$ -	\$ 53,303	\$ 456,803
Racing Board Fingerprint License Fund	-	14,580	69,885
Racing Board Grant Fund	-	3,478	357,271
Racing Equity Trust Fund	-	-	1,187,626
Racing Board Charity Fund	750,000	750,000	750,000
Horse Racing Fund	1,301,375	737,988	14,750
Quarter Horse Purse Fund	52,387	-	-
<b>TOTAL RECEIPTS</b>	<b><u>\$ 2,103,762</u></b>	<b><u>\$ 1,559,349</u></b>	<b><u>\$ 2,836,335</u></b>

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**REVIEW: 4458  
ILLINOIS RACING BOARD  
TWO YEARS ENDED JUNE 30, 2014**

**APPENDIX C**

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**Total Handle Wagered**

<b><u>Source</u></b>	<b><u>2013</u></b>	<b><u>2012</u></b>
Thoroughbred -		
On track	\$ 91,344,003	\$ 95,366,910
Intertrack	87,559,469	88,893,629
Off track	<u>216,273,586</u>	<u>213,357,069</u>
<b>Total Thoroughbred</b>	<b><u>395,177,058</u></b>	<b><u>\$ 397,617,608</u></b>
Harness -		
On track	19,637,561	\$ 21,422,600
Intertrack	38,088,964	40,197,934
Off track	<u>89,103,496</u>	<u>91,496,905</u>
<b>Total Harness</b>	<b><u>146,830,021</u></b>	<b><u>\$ 153,117,439</u></b>
Total -		
On track	110,981,564	\$ 116,789,510
Intertrack	125,648,433	129,091,563
Off track	<u>305,377,081</u>	<u>304,853,973</u>
<b>Total Handle</b>	<b><u>542,007,078</u></b>	<b><u>\$ 550,735,046</u></b>
<b>Total Handle - All Meets</b>	<b>\$ 542,007,078</b>	<b>\$ 550,735,046</b>
<b>Total Handle - Advance Deposit Wagering</b>	<b><u>75,936,632</u></b>	<b><u>122,167,920</u></b>
	<b><u>\$ 617,943,710</u></b>	<b><u>\$ 672,902,966</u></b>

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