

LEGISLATIVE AUDIT COMMISSION



Review of
Illinois Racing Board
Two Years Ended June 30, 2012

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**REVIEW: 4428
ILLINOIS RACING BOARD
TWO YEARS ENDED JUNE 30, 2012**

FINDINGS/RECOMMENDATIONS - 16

**IMPLEMENTED - 10
ACCEPTED - 4
NOT ACCEPTED - 1
UNDER STUDY - 1**

**REPEATED RECOMMENDATIONS - 6
PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 8**

This review summarizes the auditors' report on the Illinois Racing Board for the year ended June 30, 2012, filed with the Legislative Audit Commission on August 6, 2013. The auditors conducted a compliance examination in accordance with *Government Auditing Standards* and State law. Effective July 1, 2009, Executive Order 5 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 five racetracks, the Illinois State Fair, the DuQuoin State Fair, and the Brown County Fair. In addition, the Board is responsible for regulation of 25 inter-track wagering facilities and four advance deposit wagering licensees operating since 2009.

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, and he has served in that position since June 2003. Mr. Laino has been employed by the Racing Board since 1987. During FY12, the Agency had, on average, 50 employees, including two part-time and 15 full-time employees in the central office, 28 per diem employees at upstate racetracks and seven per diem employees at downstate racetracks.

Expenditures From Appropriations

The General Assembly appropriated \$8,611,600 from the Horse Racing Fund to the Racing Board in FY12. Total expenditures were \$6,750,319 in FY12 compared to \$6,237,847 in FY11.

Cash Receipts

Appendix B summarizes the cash receipts of the Board for FY12 and FY11. Total cash receipts were \$2.8 million in FY12 compared to \$27.1 million in FY11 due to a large distribution from the protest fund pursuant to court order. 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 2011 and 2010. The total handle wagered from both thoroughbred and harness racing was \$578 million in 2011, which was a decrease of \$49.5 million, or 7.9%, compared to 2010. 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 \$109.4 million to the total handle.

Service Efforts and Accomplishments

The Racing Board conducts post-race drug testing at all sanctioned race meets. The laboratory performed at 100% accuracy. In 2012, there were 15,260 blood and urine tests administered revealing 47 prohibited drug positive horses.

Accountants' Findings and Recommendations

Condensed below are the 16 findings and recommendations included in the compliance examination. The following recommendations are classified on the basis of updated information provided by Marc Laino, Executive Director, in a memo received via email on November 3, 2014.

Not Accepted

- 4. Establish a reporting mechanism for racetracks to report the use of Horse Racing Equity Trust Fund moneys apart from each racetrack's private resources and sufficient transaction information for the Board to perform detail reviews of all racetrack transactions involving moneys from the Horse Racing Equity Trust**

Fund. Further, verify – at minimum, on a test basis – that moneys were used by the racetracks for eligible statutory purposes as required by the Illinois Administrative Code.

Finding: The Board did not adequately monitor the expenditure of grant funds by organization licensees (racetracks) received from the Horse Racing Equity Trust Fund.

In 2006 and 2008, the General Assembly found that riverboat gambling operations had a negative impact on the State's horse racing industry. To address this matter, the General Assembly enacted an additional 3% tax on casinos with adjusted gross receipts exceeding \$200 million in Calendar Year 2004 for deposit into the Horse Racing Equity Trust Fund. The Board collected and remitted these receipts into the State Treasury between May 26, 2006, through May 25, 2008, and December 15, 2008, through July 18, 2011, when the Rivers Casino in Des Plaines, Illinois began operations. After depositing the cash within the State Treasury, the Board was required to distribute the collected tax receipts from the casinos, plus accrued interest, to the racetracks within 10 days.

Pursuant to the Illinois Horse Racing Act of 1975, moneys deposited into the Horse Racing Equity Trust Fund remitted to the racetracks were to be split where 60% of the moneys were to supplement purses and 40% of the moneys were "to improve, maintain, market, and otherwise operate its racing facilities to conduct live racing, which shall include backstretch services and capital improvements." Further, the Act required the Board monitor the racetracks to ensure moneys paid to the racetracks were distributed by the racetracks as provided by State law. In addition, the Board's adopted regulations state "the Board shall verify that moneys distributed to the organization licensee are used to improve, maintain, market, and otherwise operate its racing facilities to conduct live racing, which shall include backstretch services and capital improvements."

As of June 30, 2012, the racetracks had received approximately \$141.8 million from the Horse Racing Equity Trust Fund.

During a review of the Board's monitoring process for the 40% of Horse Racing Equity Trust Fund moneys due to the racetracks, the auditors noted the following:

- During Fiscal Year 2012, each racetrack filed a single report with the Board reporting its usage of moneys from the Horse Racing Equity Trust Fund.
- The Board did not establish a reporting mechanism for racetrack expenditures to gather sufficient expenditure transaction information to allow for Board reviews. Three of the four racetracks each submitted a one to two page report with amounts reported in broad transaction categories, such as marketing, supplies, maintenance, and payables, without describing or providing any supporting documentation for the underlying transactions comprising the transaction category amounts reported to the Board.

Not Accepted - continued

- The Board did not require the racetracks to detail the disposition of all moneys received by the racetracks, including amounts paid into the purse accounts. Three of four racetracks did not report total cash received from the Horse Racing Equity Trust Fund that could be reconciled back to Board disbursements from the Horse Racing Equity Trust Fund recorded by the Office of the State Comptroller. One racetrack reported cash disbursements greatly in excess of its cash receipts and another racetrack's report appears to overstate funds received for the racetrack's use by \$79,942.
- One of the four racetracks submitted one report to the Board which apparently included all expenditures made by the racetrack and did not segregate and separately report on distributions received by the racetrack from the Horse Racing Equity Trust Fund from the racetrack's private funds.
- The Board did not engage in verifying any uses of Horse Racing Equity Trust Fund moneys reported by the racetracks. The extent of the Board's monitoring was receiving and filing the reports from the racetracks.

During a review of the Board's monitoring process for the 60% of Horse Racing Equity Trust Fund moneys due to the purse accounts, the auditors noted the following:

- The Board did not establish a reporting mechanism for racetrack expenditures to gather sufficient expenditure transaction information to allow for Board reviews. The auditors noted the various racetracks do not have a consistent methodology for reporting the addition and use of Horse Racing Equity Trust Fund moneys within their purse accounts.
- During a review of the racetracks' purse account reports submitted to the Board, the auditors noted the Board did not reconcile the amounts distributed to the racetracks back to the amounts reported by the racetracks as receipts. The auditors noted the following:
 - One of the four racetracks (25%) did not report a beginning balance that reconciled with the amounts distributed by the Board for purses, with an unreconciled difference of \$2,695,981. The Board did not follow up on this difference when the Board received the racetrack's report.

Following notification from the auditors, the Board contacted the racetrack to obtain an explanation for the difference. The racetrack provided a new calculation, which – while the beginning balance now agreed to amounts distributed by the Board – did not report an ending balance at the conclusion of the 2012 horse race meeting that agreed with amounts previously reported by the racetrack to the Board. The unreconciled difference totaled \$627,364.

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Following further discussions with the racetrack, the racetrack reported it submitted estimated numbers to the Board and did not report actual data to the Board until auditor inquiry.

- One of the four racetracks did not report a beginning balance that reconciled with the amounts distributed by the Board for purses, with an unreconciled difference of \$10,998,560. The Board did not follow up on this difference when the Board received the racetrack's report.

Following notification from the auditors, the Board contacted the racetrack to obtain an explanation for the difference. The racetrack explained it had entered into an agreement with the relevant horseman's group prior to the passage of Public Act 94-0804 to modify recapture amounts on purses with the ability for the racetrack to recover 50% of the modified recapture amounts when an "alternative revenue" source was identified in the future.

During discussions with Board officials on this matter, they indicated the purpose of the program was to get cash to the racetracks to help them through difficult financial times. It was their opinion that as no time limit existed for the use of moneys from the Horse Racing Equity Trust Fund and the racetracks constantly incur expenses that could have been eligible, therefore further monitoring was not necessary.

Response: Not Accepted. The General Assembly was clear in its intent and purpose to allow the racetracks to apply funds derived from the Horse Racing Equity Trust Fund (HRETF) (40% of \$144,216,396 equaling \$57,686,558 collectively) to *"improve, maintain, market, and otherwise operate its racing facilities to conduct live racing, which shall include backstretch services and capital improvements related to live racing and the backstretch."* In February 2010, the Board amended Part 452 of its Administrative Rules (11 Ill. Admin. Code 452.30) to require each racetrack to submit annually, a report detailing eligible expenditures from the HRETF. All racetracks have been compliant and timely in their annual reporting and have provided detailed expenditure information. Additionally, the rule allowed the application of funds retroactive to December 13, 2009 (the date the Treasurer transferred funds from the Protest Fund to the HRETF). Beginning in 2010 and through 2013, racetracks collectively have incurred HRETF eligible expenses in excess of approximately \$472 million. In total, racetracks received \$57,686,558 in HRETF to be applied toward \$472 million in eligible expenses and capital improvements. In addition to the annual HRETF expenditure reports, racetracks submitted annual certified audited financial statements in support of the HRETF expenses. In the first year of HRETF expenditure reporting alone, racetrack eligible expenses were double the HRETF amounts received. Board Rule 452.30 (e) states that "If the Board so requests, verification of payment, including, but not limited to, cancelled checks and/or invoices." With the known racetrack operating expenses, supported by annual racetrack certified financial statements, and yearly submission of HRETF expenditures, the Board felt it was unnecessary to deploy its limited resources and personnel for the purpose of verifying cancelled checks and/or invoices for known reoccurring eligible expenses related to conducting live race meet operations.

Not Accepted - concluded

Concerning the purse accounts, the racetracks accurately credited the purse accounts with the Board's HRETF distributions. Each track had a unique situation with regard to overpayments to their horsemen and purse recapture implications; therefore, a net reporting of the Impact Fee due to purses was often used. The \$627,364 discrepancy in the Hawthorne purse account is completely unrelated to the HRETF distribution, and is a normal end-of-meet inter-state pari-mutuel settlement adjustment.

Auditors' Comment: The General Assembly mandated the Board monitor organization licenses to ensure moneys distributed from, and used by, the racetracks from the Horse Racing Equity Trust Fund were used in compliance with the Illinois Horse Racing Act of 1975 (230 ILCS 5/54.75(b)). 230 ILCS 5/54.75(c). The Board's response indicates, contrary to the mandatory direction of the General Assembly and its own rules at 11 Ill. Admin. Code 452.30(d), the Board chose not to monitor the expenditures in detail simply because the racetracks have certain "known racetrack operating expenses."

Additionally, the State's post audit program is not and should not be considered an internal control mechanism for any operational activity at a State agency. While the racetracks provided explanations for, at times, multi-million dollar discrepancies within the purse accounts, these discrepancies were not identified and no explanations were obtained by the Board until after auditor inquiry. Further, the \$627,364 discrepancy directly impacted the remaining balance of Horse Racing Equity Trust Fund moneys within the purse account of the racetrack in question.

Updated Response: Not Accepted.

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 that the Administrative and Regulatory Shared Services Center at the Department of Revenue performs on behalf of the Racing Board to identify and correct internal control deficiencies. (Repeated-2010)**

Finding: The Illinois Racing Board (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 continue using Shared Services for any functions previously provided by Shared Services.

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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 prior examination to "delineate and reduce to writing each entity's responsibilities in performing the daily operations of the Board."

The auditors noted improved communications between the Board and Shared Services since the previous audit. However, problems continue 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.
- The Board and Shared Services do not have an adequate process to ensure all invoices submitted for payment by the Board are actually processed by Shared Services and presented as a proper voucher to the State Comptroller.
- The Board and Shared Services do not have an adequate reconciliation and review process to monitor unusual trends or account balances within the Board's financial records to identify and correct errors.
- 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 12-2 for more information).
- The Board and Shared Services continued to have difficulty processing vouchers within the timeframes for the approval of vouchers.
- The Board's upper management was unaware of and disputed that the Board had received, deposited, and ordered receipts of \$26,683,101 into the Horse Racing Equity Trust Fund within the State Treasury. These receipts arose from the 3% additional tax on casinos with adjusted gross receipts exceeding \$200 million in Calendar Year 2004, pursuant to the Riverboat Gambling Act. The auditors noted Shared Services was completely performing the entire receipt deposit process on behalf of the Board.

Board officials stated 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. According to the officials, the paperwork received was limited as to specific functions.

Response: The Board has been working with Shared Services (ARSSC) to understand what processes and tasks are being done by Shared Services and what portions need to be done by the Board. The ARSSC has since provided a much more detailed list of the duties and responsibilities of the Center. The Board will send a fiscal representative to Springfield for training in various systems in order to monitor funds, receipts, accounts payable, etc. The ARSSC will review July receipts in order to adequately determine cash in transit versus

Accepted or Implemented - continued

accounts receivable at year end. Additionally, the Board's Chief Fiscal Officer will monitor invoices submitted for payment via a spreadsheet log and will start electronically submitting all invoices for payment to ARSSC.

Updated Response: Accepted and partially implemented. The Board has and continues to work with Shared Services Fiscal Division to reduce to writing all responsibilities and functions. The Human Resource area is still a work in progress and additional meetings have been scheduled to reestablish the duties and responsibilities contained in the IGA between the Board and Shared Services. These meetings are expected to take place before the end of calendar year 2014.

2. Establish and implement internal controls over the Board's receipt process, including:

- **developing cash management procedures designed to timely and efficiently expedite cash collections into the State Treasury;**
- **maintaining adequate take action supporting documentation that reconciles to deposit records and ensure all receipts are properly recorded on the Board's books and records;**
- **timely submitting Receipt Deposit Transmittal Forms 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 the error;**
- **ensuring receipts and licensee applications received at the racetracks are properly secured and, if necessary, directly transported from one Board office to another Board office in a secure manner;**
- **ensuring licensee overpayments are processed through the State Treasury; and,**
- **ensuring all employees deposit the gross amount of all moneys received into the State Treasury, as required by State law.**

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

During testing, the auditors noted the following:

- 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 \$4,412,440.

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- Fourteen of 60 receipts tested, totaling \$1,228,231, were deposited into the State Treasury between one and 41 business days late following the Board exhausting any applicable receipt deposit extensions.
- Four of 60 receipts tested, totaling \$68,498, did not have adequate supporting documentation detailing the date the receipts were received by the Board. The auditors were unable to determine if these receipts were timely deposited by the Board into the State Treasury.
- One of 60 receipt deposit transmittals tested, totaling \$6,020, was remitted to the State Comptroller between 35 and 37 days after the Board received the State Treasurer's Draft.
- The Board lacked adequate internal controls over the cash receipt process. During testing, the auditors noted the following:
 - Four of 60 receipts tested, totaling \$37,909, did not agree with the receipt's amount reported within the Board's supporting documentation.
 - Three organization licensee fines, totaling \$31,850, which were incorrectly recorded by the Administrative and Regulatory Shared Services Center at the Department of Revenue to the organization licensee receipt account instead of the fines and penalties receipt account.
 - The auditors noted four unusual deposits of cash receipts in amounts other than whole dollars into the \$1 inter-track wagering location admission fee account. In following up on this matter with an official with the Administrative and Regulatory Shared Services Center at the Department of Revenue, the official indicated the amounts were not equal to whole dollars because they were correcting an earlier \$17,000 receipt deposit transmittal that was erroneously recorded to the wrong revenue receipt code.
- During walkthroughs at Balmoral Park, the auditors noted the following:
 - One Board employee routinely takes and transports receipt collections and licensee applications, including certain personal and confidential information, from Maywood Park to the employee's personal residence overnight to Balmoral Park the next day.
 - Another Board employee routinely takes and transports receipt collections and licensee applications, including certain personal and confidential information, from Balmoral Park to the employee's home where the receipts and licensee applications are stored before they are delivered to the Board's Central Office in Chicago. These items are stored overnight in the employee's car in a garage.

Accepted or Implemented - continued

- The Board is not processing licensee overpayments for cash refunds through the State Treasury. A Board employee receives mail sent to the Board at Balmoral Park from the racetrack and processes applications. In the event an application has an overpayment, the employee signs the check over to the Horseman's Guarantee Corporation of America and gets a new check for the correct amount of the application and then calls the licensee to explain the transaction.
- The Board does not have adequate internal control over receipts received in the mail. In the event of an underpayment, a Board employee checks with the Horseman's Guarantee Corporation of America to see if the licensee has available funds to make the payment in their account and will then call for permission to get the full amount paid. If the licensee agrees, the Horseman's Guarantee Corporation of America generates a new check for the proper amount and the old check was either mailed back to the licensee or shredded.
- During walkthroughs at the Arlington International Racecourse, the auditors noted a \$1,000 fine payment from a Stewards' Ruling stapled in the Board's fine receipt ledger. In following up on this matter, Board staff members indicated the fine was being appealed through the Board's internal processes and the check was being held until the appeal's final disposition.
- The Board and the Administrative and Regulatory Shared Services Center at the Department of Revenue 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. For the month ending June 30, 2012, the Administrative and Regulatory Shared Services Center at the Department of Revenue incorrectly reported, at least, \$8,819 as receivables that were actually cash in transit to the State Treasury.

Board officials stated the Board's receipt deposit process was dependent on mailing documentation to the Department of Revenue in Springfield, often delaying deposits into the State Treasury. Further, the other exceptions were due to staff oversight and error.

Due to these limitations, the auditors were unable to conclude whether the Board's cash receipt records at June 30, 2011, and June 30, 2012, were complete and appropriately reported.

Response: The Board has taken steps to expedite deposits into the State Treasury. Beginning in May of 2012, all receipts are processed in the Central Office at the James R. Thompson Center and are scanned electronically by the Department of Revenue into a Racing Board clearing account. Additionally, all documentation and support for those receipts are stored at the Board's Central Office. Since the Shared Services Center began the responsibility of certain deposit functions for the Board, additional review procedures

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have been added to help prevent discrepancies when the RDT forms are submitted. Following the Auditor's recommendation, the Board will formalize a procedure for receipts and ensure that all employees that handle receipts adhere to that policy. This procedure will address sending all receipts and applications to the Central Office via FedEx in a timely fashion as well as depositing gross receipt amounts to the State Treasury in instances of an overpayment and issuing refunds as needed.

Updated Response: Implemented.

- 3. Implement procedures to pursue the collection of receivables due to the State; report all accounts receivable to the Office of the State Comptroller in accordance with the Statewide Accounting Management System; notify other State agencies of receivables related to pari-mutuel taxes; implement internal controls to provide assurance Stewards' Rulings are recorded in a timely manner in PITS; ensure PITS is programmed to process receivables in accordance with Board policy; properly report cash on-hand and in-transit to the State Treasury; and, review the Board's methodology for estimating uncollectible accounts receivable. (Repeated-2010)**

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

During testing, the auditors noted the following:

- The Board does not appear to make adequate attempts to collect past-due receivables, place debts owed to the State on the State Comptroller's Offset System, or refer delinquent debt to the Department of Revenue's Debt Collection Bureau.
- The Board does not report receivables from returned non-sufficient funds checks for fees imposed upon licensees.
- The Board did not notify the Department of Revenue or the Department of Agriculture of receivables for the Horse Racing Fund, Quarter Horse Purse Fund, or the Illinois Racing Quarter Horse Breeders Fund for pari-mutuel taxes earned during the last days of each quarter that have not been received by the Department of Revenue.
- The Board has internal control weaknesses over accounts receivable, including:
 - The Board does not have an adequate process for ensuring all Stewards' Rulings with a financial penalty for an alleged violation of the Board's rules and regulations are recorded within the Board's Pari-Mutuel Information and Tracking System (PITS).

Accepted or Implemented - continued

- The Board does not have an adequate process for reporting certain categories of accounts receivable data to the Office of the State Comptroller, such as the age of receivables upon collection and the number and amount of long-term accounts receivable.
- The Board's PITS considers all imposed fines as past due, even though the Board allowed licensees thirty days to pay a fine following the date of the Steward's Ruling during the examination period.
- The Board's quarterly report for March 31, 2012, did not report receivables arising from the \$1 inter-track wagering location admission fees earned on March 30 and March 31 that were not paid to the Board until the subsequent quarter.
- While the Board took corrective action during Fiscal Year 2012 to address certain accounts receivable reporting errors noted during the Board's prior examination, the Board and the Administrative and Regulatory Shared Services Center at the Department of Revenue 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.
- 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 the Board lacked formal fiscal procedures to work in correlation with other State agencies to pursue past due receivables as well as a formal procedure with the Administrative and Regulatory Shared Services Center at the Department of Revenue in regards to aging receivables.

Due to these limitations, the auditors were unable to conclude whether the Board's accounts receivable records at June 30, 2011, and June 30, 2012, were complete and appropriately reported.

Response: Accepted. The Board is currently reporting past due receivables to the State Comptroller's Offset System. In addition, the Board is working with Shared Services to ensure that future reporting of accounts receivable is prepared in compliance with current provisions of the Statewide Accounting Management System (SAMS).

Updated Response: Implemented.

5. 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.

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

During testing, the auditors noted the Board lacked sufficient cash after ceasing transactions within the Illinois Racing Board Grant Fund to pay remaining obligations to Cook County, totaling \$43,809, and the City of Chicago, totaling \$1,118.

Board officials stated prior period fund transfers to the General Revenue Fund transferred cash needed to pay amounts due to local governments.

Updated Response: Accepted/Under Study. For FY16, the Board will work with GOMB to seek restoration of the swept funds through a GRF transfer to the Horse Racing Fund to satisfy this outstanding obligation. If a GRF supplemental transfer is unsuccessful, the Agency will budget and request spending authority to satisfy this obligation with existing Horseracing Fund appropriations in FY's 16, 17, and 18.

6. Conform fingerprint operations to State law and initiate the fund dissolution process to determine an appropriate disposition for the excess cash balance within the Illinois Racing Board Fingerprint Fund, or seek a legislative remedy.

Finding: The Board did not comply with fingerprint fee requirements or properly cease the operation of the Illinois Racing Board Fingerprint Fund.

During testing, the auditors noted the following:

- The Board collected a \$45 fingerprinting fee, which exceeded the fingerprinting fee charged to the Board by the Department of State Police by \$13.50 for an electronic fingerprint check and \$8.50 for a fingerprint check on paper forms. Due to fingerprint fees exceeding actual costs, the Illinois Racing Board Fingerprint Fund has developed an excess cash balance of \$134,908 at June 30, 2012.
- The Board did not notify the Office of the State Comptroller that the Illinois Racing Board Fingerprint Fund, a State Trust Fund, was no longer needed in order to initiate the fund dissolution process and determine an appropriate disposition for the excess cash balance of \$134,908.

Board officials stated that failure to charge the correct fingerprint fee and take steps to dissolve the Illinois Racing Board Fingerprint Fund was due to employee oversight.

Response: The absence of a Director of Licensing in previous years led to an oversight with respect to the fingerprint fee charges. The Board currently has a Director of Licensing

Accepted or Implemented - continued

who will work in conjunction with the Illinois State Police to ensure that the Board properly charges for fingerprint submissions. Furthermore, following the Auditor's recommendation, the Board will pursue efforts with GOMB and the Comptroller to properly dissolve the Fingerprint Fund (248) and seek legislation to transfer the remaining balance of \$134,907.66 to the Horse Racing Fund.

Updated Response: Implemented.

7. Implement internal controls to provide assurance amounts deposited into the Illinois Racing Quarter Horse Breeders Fund by the Department of Revenue are accurate and in accordance with State law.

Finding: The Board did not establish and maintain adequate internal control over deposits into the Illinois Racing Quarter Horse Breeders Fund. During testing, the auditors noted the following:

- The Department improperly accrued the amount of pari-mutuel tax that would have otherwise been collected and deposited into the Illinois Racing Quarter Horse Breeders Fund if the organization licensees (racetracks) were not exhausting their pari-mutuel tax credits allowed under the Illinois Horse Racing Act of 1975.
- The Board and Department did not ensure information extracted from the Board's Pari-Mutuel Information and Tracking System (PITS) to allocate cash receipts among the Horse Racing Fund and the Illinois Racing Quarter Horse Breeders Fund were complete. The auditors noted the Department frequently retrieved handle information, which is the total dollar amount of all wagers, to complete fund allocations and deposits from PITS prior to the Board entering all of the handle information into PITS.

Due to these limitations, the auditors were unable to conclude whether the cash deposits into the Horse Racing Fund and the Illinois Racing Quarter Horse Breeders Fund were complete and appropriately reported.

Board officials stated the noted exceptions were due to oversight.

Response: Pursuant to the Auditor's recommendation, the Board has notified the Department of Revenue not to accrue Illinois Racing Quarter Horse Breeders Fund monies for the period of the calendar year when racetracks are allowed to apply their real estate tax credit against pari-mutuel tax liabilities. The Illinois Racing Quarter Horse Breeders Fund will not accrue funds until the racetracks resume paying pari-mutuel taxes. Furthermore, Board staff and the Department of Revenue agreed to a method to extract data from PITS midweek, rather than on Mondays, to ensure that all data is properly entered into the system.

Updated Response: Implemented.

8. Require all racetracks remit the annual charitable contribution within 30 days of receiving notice from the Board, or seek a legislative remedy.

Finding: The Board did not require an organization licensee (racetrack) pay the annual charity assessment in a timely manner.

During testing, the auditors noted one of six racetracks did not remit the racetrack's annual charitable contribution in FY11, totaling \$159,165, by the statutory due date. The licensee made two installment payments 20 and 29 days late.

The Illinois Horse Racing Act of 1975 requires each racetrack remit, within 30 days after receiving notice from the Board, its annual assessed charitable contribution for non-profit organizations providing medical, counseling, and similar services to persons who reside or work on the backstretch of racetracks.

Further, the Illinois Horse Racing Act of 1975 (230 ILCS 5/9(c)) vests the Board with all powers necessary and proper to fully and effectively execute the provisions of the Illinois Horse Racing Act of 1975, including entering the facilities and other places of business of any licensee to determine the licensee has complied with applicable laws, rules, and regulations.

Board officials stated the assessed contribution was not collected timely because the licensee asked for an extension from the Executive Director.

Response: Accepted. The Board will assure that all future Annual Charity Assessments are paid by the racetracks by the statutory due date. No extension of time will be granted.

Updated Response: Implemented.

9. Implement controls to adequately document and safeguard Stewards' Rulings. Further, timely record all Stewards' Rulings into the Pari-Mutuel Information and Tracking System.

Finding: The Board did not exercise adequate internal control over Stewards' Rulings. The stewards – two Board employees and one racetrack employee – supervise each horse race meeting and enforce the rules and regulations of the Board by imposing civil penalties, including fines and suspensions, upon licensees.

During walkthroughs at a thoroughbred racetrack, the auditors noted the Board had several weeks of torn loose-leaf sheets with handwritten Stewards' Rulings imposing penalties, including one noted five-day suspension, unsecured on a desk. A Stewards' Ruling is not

Accepted or Implemented - continued

effective until the penalty has been entered into the Board's Pari-Mutuel Information and Tracking System (PITS), a formal typewritten Stewards' Ruling is generated and signed by the stewards, and notice is formally given to the licensee. The auditors noted the following internal control weaknesses:

- The stewards do not use pre-numbered forms for recording the handwritten Stewards' Rulings, which would create an audit trail to provide assurance all penalties imposed by the stewards have been recorded into PITS.
- The Board did not adequately protect the rulings, as they were left unsecured on a desk and could have been either lost by Board employees or intentionally interfered with by individuals from the racetrack entering the Board's offices after hours.
- The Board did not timely input handwritten Stewards' Rulings into the Board's computer system.

Board officials stated the individual responsible for entering the Stewards' Rulings into PITS was unable to work at this particular track due to other competing tasks requiring his presence at another racetrack.

Updated Response: Implemented. The Board and its Stewards have implemented new procedures to record and track all Stewards' Rulings. Each ruling is recorded on 3-part paper which is on a pre-numbered form. A copy is kept by the Stewards, the Stewards' Assistant, and the Central Office. Board staff reconciles these rulings on a monthly basis to ensure all rulings have been entered into the PITS system.

10. Implement controls to timely and accurately file the Board's Agency Fee Imposition Report with the Office of the State Comptroller.

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

During testing, the auditors noted the Board was unable to provide a reconciliation of the Board's FY11 and FY12 Agency Fee Imposition Reports to the State Comptroller's Monthly Revenue Status Report. The auditors noted the following discrepancies:

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FY	Fee Imposed by the Board	Recorded Receipts		Unreconciled Difference
		Agency Fee Imposition Report	State Comptroller's Records	
11	Organization Fee - Racing	\$ 97,670	\$ 135,043	\$ (37,373)
11	Occupation License Fee - Racing	\$ 184,445	\$ 170,035	\$ 14,410
11	Photo Fee - Racing	\$ 3,421	\$ 4,384	\$ (963)
11	Fingerprint Fee - Racing	\$ 54,720	\$ 53,640	\$ 1,080
12	Organization Fee - Racing	\$ 102,570	\$ 83,495	\$ 19,075
12	Occupation License Fee - Racing	\$ 155,420	\$ 191,460	\$ (36,040)
12	Photo Fee - Racing	\$ 3,237	\$ 2,338	\$ 899
12	Fingerprint Fee - Racing	\$ 64,125	\$ 68,760	\$ (4,635)

Further, the auditors noted the Board filed the FY11 Agency Fee Imposition Report with the Office of the State Comptroller two days late.

Board officials stated the Board lacked sufficient staff when the report was due.

Response: Accepted. The Board is now tracking all of its receipts at its Central Office. Additionally, the Board keeps hard copies of all monies deposited into its receipt accounts so it can accurately complete the Agency Fee Imposition Report with the Office of the Comptroller.

Updated Response: Implemented.

11. Implement a formal monitoring process to ensure racetracks comply with State law and maintain records documenting the Stewards' conclusion that a required race may be waived due to insufficient competition.

Finding: The Board did not enforce specific statutory racing requirements for thoroughbred and standardbred racetracks.

The Illinois Horse Racing Act of 1975 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.

During testing, the auditors noted the following:

- The Board did not have a process to monitor the racetracks to ensure they carded (offered) the appropriate number of races for Illinois-bred horses.
- The Board did not require the racetracks provide a minimum of two races per day and six races per week limited to Illinois-bred horses.

Accepted or Implemented - continued

- The Board did not document its consent to eliminate and/or substitute races for Illinois-bred horses on any given day due to insufficient competition among the horse population, as allowed for by the Illinois Horse Racing Act.

Board officials stated the lack of a formal monitoring process or documentation to support the Stewards' decisions was due to oversight.

Response: Pursuant to the Auditor's recommendation, the Board has directed the Stewards to record within the Steward Daily Minutes, cases where the minimum number of Illinois Conceived and Foaled (ICF) races per day (2) are waived as a result of insufficient competition. The minutes will reflect: 1) which ICF races were run, 2) which ICF races were cancelled, and 3) the reasoning for a cancelled ICF race.

Updated Response: Implemented.

12. Perform annual evaluations of internal fiscal and administrative controls and timely file the required annual internal control certification with the Auditor General.

Finding: The Board did not comply with the Fiscal Control and Internal Auditing Act. During testing, the auditors noted the following:

- In FY11, the Board did not perform an evaluation of its internal fiscal and administrative controls and the Board's Executive Director did not prepare and file the required annual internal control certification with the Auditor General.
- In FY12, the Board's Executive Director filed the annual certification with the Auditor General on May 17, 2012, 16 days late.

Board officials stated the evaluation and certification was not completed in FY11 and FY12 certification was filed late due to oversight and staff shortages.

Updated Response: Implemented. The Board has filed both FY13 and FY14 FCIAA reports with the Comptroller in a timely manner.

13. Implement controls to timely and accurately distribute moneys from the Horse Racing Equity Trust Fund to the racetracks.

Finding: The Board did not exercise adequate internal control over distributions from the Horse Racing Equity Trust Fund. During testing, the auditors noted the following:

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- Five of 55 receipts deposited into the Horse Racing Equity Trust Fund by the Board during the examination period, totaling \$2,379,725, were not distributed by the Board to the racetracks.
- Nineteen of 55 receipts deposited into the Horse Racing Equity Trust Fund by the Board during the examination period, totaling \$8,605,096, were not timely distributed by the Board to the racetracks. These receipts were distributed between one and 23 days late.
- The Board did not distribute interest deposited into the Horse Racing Equity Trust Fund by the State Treasurer, totaling \$9,122, to the racetracks.

Further, the auditors noted the Board and the Administrative and Regulatory Shared Services Center at the Department of Revenue only identified these unpaid amounts following the opening of the tenth riverboat casino in Des Plaines in July 2011, which triggered a statutory change ceasing the tax supporting receipts into the Horse Racing Equity Trust Fund.

As of June 30, 2012, the Fund is holding \$2,412,997 in undistributed receipts from the exceptions noted above pursuant to a subsequent court order from the Circuit Court of Cook County.

Board officials stated that various cash receipts, including interest, were not distributed because the Administrative and Regulatory Shared Services Center at the Department of Revenue did not notify the Board of these receipts. On August 9, 2011, the Circuit Court of Cook County ordered the remaining cash within the fund held, after which the Administrative and Regulatory Shared Services Center at the Department of Revenue noted these moneys had not been distributed. In regards to the late distributions, they occurred due to delays in processing accounts payable.

Response: Although the Horse Racing Equity Trust Fund has been completely disbursed and no funds remain for distribution, the Board and the Administrative and Regulatory Shared Services Center will work together to timely and accurately distribute any future funds within the statutorily directed deadline. Additionally, Board staff will notify Shared Services of any similar high priority payout.

Updated Response: Accepted. The Horse Racing Equity Trust Fund has been entirely distributed and there is no reoccurring funding expected in the future.

14. Improve internal controls to ensure employees timely receive required performance evaluations and the Board's timekeeping policies are adhered to and documented in a timely manner. (Repeated-2010)

Finding: The Board did not exercise adequate internal control over personal services. During testing, the auditors noted the following:

Accepted or Implemented - continued

- Seven of nine employees tested requiring an annual performance evaluation did not have evaluations completed.
- The Board did not maintain adequate controls over employee attendance and related recordkeeping.

Board officials stated the Board lacked a full-time human resources employee to ensure all personal services functions were being performed.

Updated Response: Accepted and partially implemented. The Board has completed the vast majority of the overdue employee evaluations and has corrected errors and procedures regarding timekeeping. The Board continues to pursue the hiring of a full time HR Manager.

15. Implement controls to ensure all proper bills are approved within 30 days, the receipt date for invoices is recorded, vouchers are tracked from receipt to payment by the State Comptroller to identify any unpaid obligations of the Board, and required interest is paid in accordance with the State Prompt Payment Act. (Repeated-2010)

Finding: The Board did not exercise adequate internal control over voucher processing. During testing of 144 invoice vouchers, the auditors noted the following:

- Ten of 144 vouchers tested, totaling \$20,475, were not approved within 30 days of receipt. These vouchers were approved for payment between one to 38 days late.
- Two of 144 vouchers tested, totaling \$1,016, were not date stamped with the invoice's receipt date at the Board. The auditors were unable to determine if these vouchers were timely approved for payment by the Board.
- One of 144 (1%) vouchers tested, totaling \$223, was lost in transit between the Board and the Administrative and Regulatory Shared Services Center at the Department of Revenue in October 2010. The Board submitted an invoice voucher to pay this invoice in August 2011, 305 days after the Board initially sent the invoice. Further, the Board did not calculate or pay any interest on this invoice.
- Two of 144 vouchers tested, totaling \$2,451, were improperly completed by the Board.

Board officials stated these errors were due to staff oversight. Further, the Board attributed some of the delays in processing vouchers due to a transition period that occurred when the Board's Chief Fiscal Officer left the Board in May 2012.

Updated Response: Implemented. The Board has worked closely with the Shared Services Voucher Processing division to ensure that all vouchers are paid within the 30-day time frame. The Board has implemented an internal General Ledger that tracks the number of days an invoice is held before it is sent to Shared Services. As stated earlier, the Board now scans and emailing all invoices to Shared Services to cut down on time those bills is in the mail. Board staff is also monitoring and reconciling when bills are paid in the AIS system and contacting Shared Services when bills have not been paid.

16. 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) and ensure compliance with the requirements of the Personal Information Protection Act. Furthermore, control access to systems through the use of unique identifiers. User IDs and passwords should not be shared. (Repeated-2010)

Finding: The Board did not adequately secure and control confidential and personal information. During testing, the auditors noted the following:

- The Board sends confidential and personal information over the State's Intranet, primarily to the Administrative and Regulatory Shared Services Center at the Department of Revenue, without securing (encrypting) the information. Fingerprint scans are also sent to the Illinois State Police and the Federal Bureau of Investigation unencrypted over the Internet.
- The Board failed to utilize redaction when displaying confidential information within computer-based applications. Furthermore, social security numbers were printed on license application receipts. Social security numbers were also included in e-mails between employees.
- Licensing clerks at the racetracks share a User ID and password to the Photo Identification system. This system houses confidential and personal information including names, birthdates, social security numbers, and signatures.
- 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.
- During a walk-through at Balmoral Park, auditors noted User IDs and passwords were written down and attached to computers. These User IDs allowed access to critical Board systems.

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

Accepted or Implemented - concluded

Response: Accepted. The Board will address the encryption issue with recommended risk assessment of the physical and computing environment. The Board intends to be compliant with the Personal Information Protection Act (815 ILCS 530).

The Board has since addressed the redaction issue and the Photo ID system weakness has been addressed by procuring and installing the Assure ID photo system. This allows multiple workstations to share a common database over the LAN, which is maintained by CMS. Each user has a unique username and password access. Each work station is username and password protected.

Update Response: Accepted and partially implemented. The Board has addressed the issue of redacting confidential information. In February of 2014, IRB moved to a uniform operating platform for all Central Office and field locations, thus providing all users with individual accounts and unique passwords. The Board anticipates doing a full risk assessment in FY16.

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 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

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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 FY11 and FY12, 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 2012 and indicated that no employees spent more than 50% of their time working at a location other than official headquarters.

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YEAR ENDED JUNE 30, 2012

APPENDIX B

Cash Receipts

	<u>FY12</u>	<u>FY11</u>
General Revenue Fund	\$ 456,803	\$ 493,713
Racing Board Fingerprint License Fund	69,885	54,000
Racing Board Charity Fund	750,000	750,000
Racing Board Grant Fund	357,271	433,029
Racing Equity Trust Fund	1,187,626	25,419,765
Horse Racing Fund	<u>14,750</u>	<u>203</u>
TOTAL RECEIPTS	<u>\$ 2,836,335</u>	<u>\$ 27,150,710</u>

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APPENDIX A

Summary of Appropriations and Expenditures

	<u>FY12</u>	<u>FY11</u>
<u>Appropriations</u>		
Horse Racing Fund	\$ 8,611,600	\$ 9,232,500
Total Appropriations	\$ 8,611,600	\$ 9,232,500

Expenditures by Object

All Divisions		
Personal services	\$ 929,713	\$ 927,684
Retirement	318,713	260,508
Social Security	69,321	69,233
Group insurance	214,122	173,056
Contractual services	144,894	149,618
Travel	19,705	7,905
Commodities	2,872	2,299
Printing	257	307
Equipment	-	228
EDP	55,577	42,342
Telecommunications	80,787	92,931
Automotive	13,436	17,548
Expenses related to the Laboratory Program	1,728,957	1,682,602
Expenses related to the Regulation of Racing Program	3,091,187	2,754,379
Expenses related to Shared Services	80,778	57,207
Total	\$ 6,750,319	\$ 6,237,847

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APPENDIX C

Total Handle Wagered

<u>Source</u>	<u>2011</u>	<u>2010</u>
Thoroughbred -		
On track	\$ 98,710,541	\$ 107,833,704
Intertrack	94,635,166	102,196,110
Off track	<u>225,392,427</u>	<u>242,492,453</u>
Total Thoroughbred	<u>418,738,134</u>	<u>\$ 452,522,267</u>
Harness -		
On track	20,995,522	\$ 22,219,165
Intertrack	43,751,564	48,978,683
Off track	<u>94,944,603</u>	<u>104,269,095</u>
Total Harness	<u>159,691,689</u>	<u>\$ 175,466,943</u>
Total -		
On track	119,706,064	\$ 130,052,869
Intertrack	138,386,731	151,174,792
Off track	<u>320,337,030</u>	<u>346,761,547</u>
Total Handle	<u>\$ 578,429,825</u>	<u>\$ 627,989,208</u>
Total Handle - All Meets	\$ 578,429,824	\$ 627,989,208
Total Handle - Advance Deposit Wagering	<u>109,470,066</u>	<u>97,803,750</u>
	\$ 687,899,890	\$ 725,792,958
