

LEGISLATIVE AUDIT COMMISSION



Review of
Illinois Racing Board
Year Ended June 30, 2010

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**REVIEW: 4365
ILLINOIS RACING BOARD
YEAR ENDED JUNE 30, 2010**

FINDINGS/RECOMMENDATIONS - 8

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

**REPEATED RECOMMENDATIONS - NA
PRIOR AUDIT FINDINGS/RECOMMENDATIONS - NA**

This review summarizes the auditors' report on the Illinois Racing Board for the year ended June 30, 2010, filed with the Legislative Audit Commission on September 22, 2011. 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 27 inter-track wagering facilities and four advance deposit wagering licensees operating since 2009.

Some of the Board's responsibilities include allocation of racing dates, licensing of entities and individuals involved in horse racing, investigation of alleged violations, 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 tax 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 FY10, the Agency had, on average, 59 employees, including one part-time and 15 full-time employees in the central office, 32 per diem employees at upstate racetracks and 11 per diem employees at downstate racetracks.

Expenditures From Appropriations

The General Assembly appropriated \$8,932,900 from the Horse Racing Fund to the Racing Board in FY10. Total expenditures were \$6,990,321. Since the Racing Board operated completely within the Department of Revenue in FY09, comparative data for fiscal years prior to July 1, 2009 is unavailable. The Horse Racing fund receives 15% of tax collections from the tenth casino license. The Illinois Gaming Board issued a decision to award the tenth license on January 14, 2009; however, the casino is not yet operating. Appendix A summarizes the appropriations and expenditures by object for the period under review.

Cash Receipts

Appendix B summarizes the cash receipts of the Board for FY10. Total cash receipts were \$28,447,579. The audit report stated that the Board's receipt codes do not adequately describe the cash collections of the Board and auditors could not determine if receipt records were complete. (See Finding No. 2 for additional information).

Illinois Handle Totals

Appendix C provides a summary of the total handle wagered in Illinois from thoroughbred and harness racing in calendar year 2010. The total handle wagered from both thoroughbred and harness racing was \$716,628,911 in FY10. 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 \$20.1 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 2010, there were 14,071 blood and urine tests administered revealing 33 prohibited drug positive horses.

Accountants' Findings and Recommendations

Condensed below are the eight findings and recommendations included in the compliance examination. The following recommendations are classified on the basis of updated information provided by Jackie Clisham, CFO and Director of Labor and Personnel in a memo dated November 10, 2011.

Partially Accepted or Not Accepted

2. **Work with the Office of the State Comptroller and Office of the State Treasurer to determine a deposit process which is efficient and expedites cash receipts to the State Treasury in accordance with statute; record cash in-transit amounts from the racetracks to accurately report cash balances; work with the Office of the State Comptroller to review and update the Board's receipt codes; and, enhance internal controls over receipts by ensuring the receipt date is collected for all receipts and Receipt Deposit Transmittals are properly completed.**

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 fieldwork, auditors noted the following:

- 11 of 25 receipts tested, totaling \$739, were deposited into the State Treasury between one and seven business days late. These receipts were all collected by Board staff at the racetracks. Further, the Board would send several days of cash receipts to the Department of Revenue in one mailing. \$25,546 of \$26,826 (95%) of cash receipts within the mailing bundles containing the tested receipts were deposited between one and 17 business days late.
- The Board executed an interagency agreement with the Department of Revenue to continue performing the Board's receipt deposit process during FY10. The Board mailed a FedEx package containing checks to the Department of Revenue's Springfield office. While the Board expended \$1,201 for this service from the racetracks during FY10, this amount would have been significantly higher had the Board complied with the State's receipt deposit timelines.
- At June 30, 2010, the Board reported no deposits in transit for the General Revenue Fund and the Illinois Racing Board Fingerprint License Fund. During the year, the Board reported cash collections into both of these funds from fees and fines remitted by licensees. The Board's ledger system was maintained by the Department of Revenue, and only reflects receipts received and recorded by the Department and in-transit to the State Treasury at the end of the fiscal year.

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

Board personnel stated the Board does not have sufficient staff to perform all administrative functions, with management picking up the additional work since the separation. The Board is unable to increase headcount to compensate for employee losses from when the Board originally integrated into the Department of Revenue.

Partially Accepted or Not Accepted - concluded

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Updated Response: **Processing - Not Accepted** The Board and the Comptroller's office are both in disagreement with the auditor's statement that the Board is not turning over receipts in compliance with the State Officers and Employees Money Disposition Act. All of the Board's receipts – which are collected and deposited by Revenue - are listed and covered under a deposit extension in effect from 12/31/09 through 12/31/11.

Reporting - Implemented. As for the proper recording of cash receipts in transit at fiscal year end, Revenue/Shared Services has full access to the PITS system for reporting purposes. They stated they will begin providing quarterly reports.

As to the expense of overnighting receipts to Springfield, the Board has evaluated the option of depositing (at time of receipt) small checks received by the licensing office at the tracks via check scanners from 5/3 Bank. There would be an up-front cost to the Board of approximately \$5,000 for the necessary equipment at 5 racetracks. It is unclear at this time whether this would actually save the Board money over time, as it would take the Board 5 years to offset this expense through lower delivery costs.

Source Codes - Implemented. Receipt Source Codes have been evaluated and updated on the Comptroller's system.

- 8. Complete a risk assessment of the physical and computing environment to ensure adequate security controls are applied, ensure all confidential information is properly secured (encrypted), and comply with the notification requirements outlined in the Personal Information Protection Act.**

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

- 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 walkthrough of Balmoral Park, auditors noted a Steward's Ruling posted in a hallway where an individual's Social Security Number was not appropriately redacted and was still visible. Upon notification, Board employees redacted the information and reposted the ruling.
- The Board routinely sends confidential and personal information over the internet, primarily to the Administrative and Regulatory Shared Services Center at the Department of Revenue, without securing (encrypting) the information.

Updated Response: Not Accepted. The Board's Director of Field Operations has been handling I.T. functions within the Board. He has reached out to CMS-BCCS for confirmation that information being sent between the Board and Shared Services is not exposed to the internet, but travels via the State intranet. Physical information is secured by lock and key; and electronic information is secured via password requirements set by BCCS.

Accepted, Implemented or Under Study

- 1. Work with the Department of Revenue's Administrative and Regulatory Shared Services Center to delineate and reduce to writing each entity's responsibilities in performing the daily operations of the Board.**

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

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

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

- During accounts receivable testing, auditors noted the Board does not make any attempts to collect past-due receivables, place debts owed to the State on the State Comptroller's Offset System, or refer delinquent debt to the Department of Revenue's Debt Collection Bureau. The Board stated the collection of past due debt was the responsibility of Shared Services, while Shared Services stated they were responsible for preparing the Board's quarterly accounts receivable reports to the State Comptroller (see Finding 10-4 for additional information).
- 21 of 113 vouchers tested were not approved within 30 days of the Board's receipt of a proper bill. Board management stated the invoices were sent to Shared Services timely; however, Shared Services did not process the invoice in a timely manner (see Finding 10-7 for additional information).
- Board management and Shared Services' management disagreed upon the proper amount to voucher for an expenditure relating to an employee reimbursement, with Shared Services ultimately submitting a voucher for payment to the Office of the State Comptroller for an amount \$184 above the expenditure amount verified by the Board. This reimbursement above the amount requested by the employee and verified to Shared Services by the Board was ultimately reimbursed to the State (see Finding 10-7 for additional information).

Accepted, Implemented or Under Study – continued

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- In response to inquiries regarding which employees have access to enter account adjustments, the Board's Chief Fiscal Officer stated any employee could potentially cancel or make adjustments to an account; however, this would not be a concern due to adjustments to accounts receivable that are performed by Shared Services.

In following up with Shared Services, they stated they did not adjust accounts and only prepared the quarterly accounts receivable reports (see Finding 10-4 for additional information).

- During voucher testing, the auditors noted three vouchers, totaling \$5,314, were not expenditures of the Board. Per the vouchers, the Board's management did not approve the expenditures and the vouchers were approved by staff at the Department of Revenue. The Board and Department of Revenue ultimately submitted an expenditure adjustment to the Office of the State Comptroller to apply the expenditure to the proper fund and agency (see Finding 10-7 for additional information).
- One of four contracts tested was not filed timely with the Office of the State Comptroller. At the time, the Illinois Procurement Code required the Board submit professional and artistic contracts involving an expenditure of more than \$5,000 to the Office of the State Comptroller within 15 days of execution. The Board stated the contract was sent to Shared Services; however, they were unaware Shared Services had not filed the contract.

Prior to separation from the Department of Revenue (Department), all fiscal, personnel, and labor functions for the Board were handled by the Department. Due to a lack of communication prior to and during the separation, the Board did not have a clear understanding of what services were previously performed by Shared Services and what services were provided by the Department, but not as a Shared Services function. Further, Board personnel stated the multi-party agreement entered into by the Board with Shared Services was not tailored to the Board's needs.

Updated Response: Under Study. Although the Board works diligently with Shared Services to ensure timely and accurate processing in all areas, there is a much larger issue of accountability. The Board has no control over the work product of Shared Services. And although the Board is accountable for the work performed by Shared Services, it is unclear where Shared Services' accountability lies.

A perfect example is the voucher cited with the \$184 difference. This voucher was submitted for \$105.00. Shared Services was accustomed to seeing similar vouchers come in at \$289.00. They reached out to verify the amount. We stated the reasons this voucher was different and that the correct amount was \$105.00. They paid \$289.00 regardless.

Shared Services has also threatened not to pay legitimate vouchers. The Board's CFO spent two entire days ensuring that the Board was in compliance with the Travel Rules. It was determined that the Shared Services employee felt that Board employees should

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be subject to Department of Revenue policy, and not the Board's or the Travel Control Board's Rules.

Additionally, the Board was notified during the audit that the previous CFO for Shared Services admitted to the auditors that Shared Services was not performing tasks for the Board that Shared Services knew they were responsible for performing.

- 3. Deposit and distribute Inter-Track Wagering Location admission fees due to local governments from the Horse Racing Fund as required by State law, or seek a legislative remedy to the statutory requirement; deposit Inter-Track Wagering Location license fees into the Horse Racing Fund as required by State law; and, conform fingerprint operations to existing law, or seek a legislative remedy to the statutory requirement.**

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

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

- The Illinois Horse Racing Act of 1975 requires the Board to collect and distribute the Admission Fee on behalf of local governments imposing the fee. During FY10, receipts totaling \$580,875 were deposited by the Board into the Illinois Racing Board Grant Fund. The Act requires money be deposited into the Horse Racing Fund.
- As the Board deposited collections from the Admission Fee into the nonappropriated Illinois Racing Board Grant Fund, the Board distributed moneys due to the local governments, totaling \$582,724 during FY10, from the Illinois Racing Board Grant Fund. These expenditures should have been paid from the Horse Racing Fund pursuant to appropriation.
- Further, this section of the Act was amended in 1992 and removed any statutory reference, receipts, or disbursements for the Illinois Racing Board Grant Fund, a State Trust Fund. Board personnel stated the Board cannot deposit and pay admission fees to local governments from the Horse Racing Fund, as the Horse Racing Fund is currently on cash management and amounts due to local governments may then be used to meet the Board's payroll. A fund on cash management has expenditures controlled to ensure the fund can meet payroll obligations to State employees. After meeting the fund's payroll obligations, the remaining cash balance is used to pay the other remaining obligations of the fund. If cash is insufficient to pay both payroll and other vouchers presented for payment, the State Comptroller will hold vouchers to continue meeting payroll.

Accepted, Implemented or Under Study – continued

\$500 Inter-Track Wagering Location License Fees

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- The Illinois Horse Racing Act requires the Board collect a \$500 inter-track wagering location license fee. During FY10, receipts totaling \$14,000 were deposited by the Board into the General Revenue Fund while the Act requires the Board deposit moneys into the Horse Racing Fund.

Fingerprint Fee

Auditors noted the following noncompliance and internal control deficiencies:

- The Board collects a \$45 fee and deposits the fee into the Illinois Racing Board Fingerprint Fund. The Act does not authorize the Board to collect a fee.
- The Board makes expenditures from the Illinois Racing Board Fingerprint Fund. The Act requires “all expenses of the Board incident to the administration of this Act” to be paid from the Horse Racing Fund.
- The Department bills the Board \$34.25 for an electronic fingerprint check (\$39.25 for paper forms) against State and FBI criminal history record databases. Fingerprint fees collected have exceeded actual costs. As a result, the Illinois Racing Board Fingerprint Fund has developed an excess cash balance of \$102,672 at June 30, 2010.

Board personnel stated the Act only places a limitation on the fee’s amount imposed by the Department of State Police, not on the amount the Board can charge for the fee. In addition, Board personnel stated electronic fingerprinting requires expensive LiveScan machines, which the Board believes they can pay for through the excess funds. The auditors noted that even if the Board can impose an additional amount for the fingerprint fee, the amount must be deposited into the General Revenue Fund.

Updated Response: **Fund Issues—Accepted.** The money collected on behalf of Chicago and Cook County will be diverted through the Horse Racing Fund beginning in FY13. An increased appropriation is required to cover this expenditure. After the Grant Fund (280) is cleared, it will be abolished. It is worth repeating, however, that such diversion through the Horse Racing Fund puts these receipts at risk of being used for other Board expenditures (payroll) once commingled, due to declining tax revenues. (Accepted)

License Fee—Implemented. The \$500 OTB license fees have been transferred for FY11, to the Horse Racing Fund; and FY12 fees are being deposited into the Horse Racing Fund in FY12 as they are collected from the licensees. (Implemented)

Finger Print Fee—Under Study. The issues with the Fingerprint Fund are part of a bigger issue that the Board has been trying to resolve through amendment to the Horse Racing Act. The Act requires that ALL of the Board’s expenditures be paid from the Horse Racing Fund, but non-tax revenues generated by the Board are not received by the Horse Racing Fund. Currently, the only money that is to be deposited into the Horse Racing Fund are pari-mutuel taxes, and OTB license fees and admission fees. The OTB admission fees are statutorily encumbered to Chicago and Cook. All other money

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collected by the Board is deposited into GRF. If the Board does not deposit the fingerprint fees into the Fingerprint Fund, it will not have the revenues collected to pay the accompanying expenditure to ISP for processing. Adoption of our recommended amendment would allow the Board's revenues to support the Board's directly associated expenditures.

- 4. Implement procedures to pursue the collection of receivables due to the State; report receivables to the State Comptroller according to SAMS provisions; and, implement controls to ensure account adjustments are only entered by employees approved by management with adequate supervisory review.**

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

- The Board does not appear to make any attempts to collect past-due receivables, place debts owed to the State on the State Comptroller's Offset System, or refer delinquent debt to the Department of Revenue's Debt Collection Bureau.
- The Board does not complete accounts receivable reports for the Horse Racing Equity Trust Fund for wagering taxes paid by casinos. These quarterly reports should show taxes earned on the last three days of each quarter that have not yet been received by the Board. The following table shows the amounts the Board should have reported as receivables for wagering taxes paid by casinos into the Horse Racing Equity Trust Fund:

	Quarter 1	Quarter 2	Quarter 3	Quarter 4
taxes earned, but not received	\$177,467	\$265,571	\$214,574	\$190,346

Further, the Board did not complete accounts receivable reports or notify other agencies of receivables amounts for other funds with similar activity. The Board does not report receivables for the Illinois Racing Board Charity Fund for charity assessments billed to organizational licensees. The Board does not report any receivables for returned non-sufficient funds checks in either the General Revenue Fund or Illinois Racing Board Fingerprint Fund for fees imposed upon licensees.

During testing of the Board's quarterly accounts receivable reports for fines due to the General Revenue Fund, the Board did not file a *Quarterly Summary of Accounts Receivable* (Form C-97) for "in-protest" fines imposed for rule violations by the Board's stewards.

Accepted, Implemented or Under Study – continued

The Board did not provide support from the Pari-Mutual Information and Tracking System for

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protested rulings or unpaid fines in the Second and Third Quarters and payments, outstanding fines, and new fines for the Second Quarter.

The Board's final receivables balance for the Third Quarter was \$29,459; however, the Board's supporting documentation listed the outstanding receivables as \$44,259. In addition, the Board reported collections during the Third Quarter of \$27,925; however, supporting documentation listed collections as \$25,325. The Board did not report two outstanding fines, totaling \$2,600, as gross receivables during the First and Fourth Quarters.

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

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

Response: Past-due Receivables – Fines imposed are recorded and tracked by the Stewards' office. Typically, licensees are given 10 days to remit payment or make arrangements. If they do not, their license is suspended until payment is received by the Board. More often than not, if a licensee owes us money and is not paying, they will leave the state and not return. Although the receivable is eventually written off as bad debt for financial reporting purposes, the fine remains on the system as a red flag in the event the individual returns. No license will be issued as long as there is a past due balance. The Board will make arrangements to place debts owed to the State on the State Comptroller's Offset System as well as refer to DOR for collection.

Horse Racing Equity Trust Fund – This fund is no longer receiving money from casinos, therefore there is no remedy going forward.

Racing Board Grant Fund – This fund will be abolished after FY12. The Board will see that the Quarterly reports reflect these receivables going forward.

Horse Racing Fund, Quarter Horse Purse Fund, and the Quarter Horse Breeders Fund – This information has been and is available to DOR. The Board will work with Shared Services to ensure that this information is being provided in quarterly receivables reports.

Racing Board Charity Fund – Assessments are issued in June, totaling \$750,000. Checks are received in July. The Board will ensure that year-end reports reflect this receivable and payable.

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NSFs – The Board will ensure that this information is included in quarterly receivables reports.

In-Protest Fines – This information has been and is available. The Board will work with Shared Services to ensure that this information is being provided in quarterly receivables reports.

Wrong agency code – The same spreadsheets that were being used by DOR were being used after the split and were eventually corrected by Shared Services to reflect the Board's agency code.

A/R Adjustments – The PITS database administrator alone has access to change, add or remove any record in any database. When making adjustments for staff he keeps a copy of the request on file.

Auditor's Comment: *In regards to adjustments to accounts receivable, the Board does not have adequate controls over identifying individuals with the authority to adjust accounts. In the Board's response to the past due receivables, they state the Stewards' Office is entering accounts receivable, and during the Exit Conference the Board's management was unable to identify the process for adjusting an account receivable in the event a fine imposed through a Steward's Ruling was adjusted by the voting membership of the Illinois Racing Board. The Board needs to identify and monitor employees making adjustments to accounts receivable in order to ensure accurate accounting of accounts receivable.*

Updated Response: Partially Implemented. As for the proper recording of cash receipts in transit at fiscal year end, Revenue/Shared Services has full access to the PITS system for reporting purposes. They stated they will begin providing quarterly reports.

Receipt Source Codes have been evaluated and updated on the Comptroller's system.

- 5. Enter into formal, written grant agreements with grantees receiving moneys from the Illinois Racing Board Charity Fund and the Quarter Horse Purse Fund to comply with the Illinois Grant Funds Recovery Act; require charitable organizations seeking a Racing Board Charitable Grant file a grant application by October 1 of each year as required by law; require charitable organizations who received a Racing Board Charitable Grant file an audited annual report within 120 days of the close of the grantee's fiscal year as required by State regulations; establish appropriate internal controls related to the functions regarding the Racing Board Charitable Grant; accurately distribute moneys**
- Accepted, Implemented or Under Study – continued**

from the Horse Racing Equity Trust Fund to the racetracks within 10 days of receipt; and, require OTB licensee's collecting the \$1 Inter-Track Wagering Location Admission Fee to prepare and submit a report similar to the "I.R.B. Admission Tax and Daily License Fee Report" for the State Director of Mutuels

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to reconcile cash payments sent to the Department of Revenue to amounts required to be remitted by the licensees.

Finding: The Board did not exercise adequate control over Awards and Grants. During testing, auditors noted:

- The Board did not enter into a grant agreement with two grantees requiring a formal, written grant agreement. The two grants were paid from the Illinois Racing Board Charity Fund and the Quarter Horse Purse Fund.
- The Board did not exercise adequate controls over the annual charity distribution to a non-profit organization(s) that provides medical and family services to persons on the backstretch of racetracks by requiring the application for the Grant to be completed and filed by October 1. Also, the Board did not require the grantee to file audited financial statements no later than 120 days after the end of its fiscal year. The audited financial statements were submitted 173 days late.
- The Board did not timely distribute moneys from the Horse Racing Equity Trust Fund. Specifically, auditors noted:
 - The Board distributed cash receipts and transfers-in from the Protest Fund, totaling \$113,202,385, to the racetracks between two and 10 days late.
 - The Board incorrectly calculated the June 28, 2010 cash distribution, resulting in a \$30,000 underpayment to the racetracks.
- The Board did not request Inter-Track Wagering Location (OTB) licensees who are required to remit the \$1 Inter-Track Wagering Location Admission Fee to the Board for distribution to local governments to prepare a report similar to the "I.R.B. Admission Tax and Daily License Fee Report." The State Director of Mutuels uses the "I.R.B. Admission Tax and Daily License Fee Report" to reconcile cash payments sent to the Department of Revenue to amounts required to be remitted by the licensees.

Response: Grant Agreements for Charity Fund and Quarter Horse Purse Fund – The Board has been overseeing the charity fund for 30 years. The Board will generate grant agreements for this year's Charity grant and subsequent Quarter Horse disbursements.

Controls Over Charity Fund – The Board agrees to enforce grant deadlines.

Horse Racing Equity Trust Fund Distributions – The Board and Shared Services did everything in their respective powers to execute the initial payments in a timely manner. Due to the fact that these moneys had to be placed in trust accounts pursuant to court order and not be spent, after 6 years of litigation, this created difficulties in processing especially for the Comptroller. There was too much uncertainty as to what was going to be done (by the courts) to know what had to be done by the Board and the tracks. As soon as the order was received, the Board and Shared Services processed documents to facilitate EFT transfers. There were system compatibility issues between AIS and the Comptroller that ultimately

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required paper warrants to be issued in the end and thereafter. Once the initial process was set, however, no other distributions were late.

OTB Admission Fee Reporting – The Board will ensure that the OTB's submit a similar report for the \$1.00 admission fee as the tracks do for the \$0.15 tax.

Updated Response: Implemented. Unfortunately, the Board has gone 30 years without ever having done a Grant agreement for the Charity Grant. This is the first audit that ever took issue with that fact. The Board has already drafted an agreement for the upcoming 2011 Charity Grant distribution and will incorporate the agreement going forward. The Board has also drafted a grant agreement for purse distributions under the Quarter Horse Purse Fund.

The \$30,000 discrepancy in the reporting of the Horse Racing Equity Trust Fund made by DOR has been corrected and the money disbursed.

6. **Implement appropriate controls to ensure employees receive required performance evaluations in a timely manner; timekeeping policies are adhered to and documented in a timely manner; written policies are developed for employees to submit timesheets and retain those timesheets in accordance with the law; payroll vouchers are accurate and supported by appropriate documentation; and, employee fringe benefits are calculated and associated taxable income is accurate.**

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

- All 14 employees tested did not complete an annual employee performance evaluation in a timely manner.
- The Board did not maintain adequate controls over employee attendance and related recordkeeping.
- The Board did not maintain adequate controls over payroll processing. Specifically, one of 16 employees tested federal and State withholding allowances differed between the payroll voucher and employee's Form W-4; and, five employees with the personal use of a State vehicle did not have the proper value of the fringe benefit included in the employee's taxable income.

Accepted, Implemented or Under Study – concluded

Board personnel stated the Board lacks sufficient staff to efficiently and timely manage timekeeping duties, such as the processing of attendance documents. Further, Board personnel stated CTAS generated quarterly reports for Board employees prior to April 2010 did not include all of the pages of the reports reflecting time usage for the quarter. In

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addition, fringe benefits reporting for State vehicles were not returned to the Board until December 2009.

Response: Evaluations – The Board is trying to stay on top of all administrative tasks despite having no extra headcount after separation.

Attendance and Related Recordkeeping – Beginning in December of 2009, staff were issued directives regarding the continued requirements for requesting time off and reporting time worked. These issues were greatly diminished immediately and any remaining issues were addressed with discipline. As for CTAS reports, I noticed after I arrived here that we were receiving quarterly CTAS reports, rather than monthly reports. In addition, they did not include all activity pages. For example, we would receive only some of the pages for the quarter but not all, which is why it looks like there are days missing on the reports tested. My first reporting period here was October-December 2009. By the time we received the reports and I had time to investigate, we were unable to begin monthly reporting until April. This was corrected within the fiscal year.

Withholding Error – Updated documentation has been secured.

Fringe Benefits Reporting – The numbers tested represent commutes for October and November for the 5 individuals in question. This was another task that was done by Revenue and not transferred back properly.

Updated Response: Implemented. Timekeeping policies were strongly reinforced and subsequently enforced through discipline prior to the commencement of the audit.

7. **Implement appropriate controls to ensure proper bills are approved within 30 days as required by the Administrative Code; vouchers are only presented to the State Comptroller for the Board's expenses; vouchers are charged to the proper fiscal year and obligation documents are complete; vouchers are processed and paid at an amount approved by the Board; vouchers are mathematically accurate and comply with applicable travel regulations; payments are processed and paid only once; and, use (sales) tax is not paid by the Board.**

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

- 21 of 113 vouchers tested, totaling \$318,845, were determined to be proper bills and approved for payment between three and 191 days late.
- Three of 113 vouchers tested, totaling \$5,314, were not expenditures of the Board. Per the vouchers, the Board's management did not approve the expenditures and the vouchers were approved by staff at the Department of Revenue. The Board and Department of Revenue ultimately submitted an expenditure adjustment to the Office

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of the State Comptroller to apply the expenditure to the proper fund and agency.

- One of 113 vouchers tested, totaling \$8,970, was charged to the incorrect fiscal year.
- One of 113 vouchers tested, totaling \$289, overpaid the employee reimbursement by \$184. Board management and Shared Services management disagreed upon the proper amount to voucher for expenditure relating to an employee reimbursement, with Shared Services ultimately submitting a voucher for payment to the Office of the State Comptroller for an amount \$184 above the expenditure amount verified by the Board. The \$184 overpayment was ultimately reimbursed to the State.

Board personnel stated the invoices were sent to Shared Services in a timely manner; however, Shared Services did not process the invoices in a timely manner. Further, Board personnel stated the other noted exceptions were due to human error.

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

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

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

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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 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 FY10, 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 June 2010 and indicated that no employees spent more than 50% of their time working at a location other than official headquarters.