

LEGISLATIVE AUDIT COMMISSION



Review of
Illinois Gaming Board
Year Ended June 30, 2012

622 Stratton Office Building
Springfield, Illinois 62706
217/782-7097

**REVIEW: 4401
ILLINOIS GAMING BOARD
YEAR ENDED JUNE 30, 2012**

FINDINGS/RECOMMENDATIONS - 12

**IMPLEMENTED - 9
ACCEPTED - 2
UNDER STUDY - 1**

**REPEATED RECOMMENDATIONS - 1
PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 8**

This review summarizes the auditors' reports on the Illinois Gaming Board for the year ended June 30, 2012, filed with the Legislative Audit Commission on April 25, 2013. The auditors performed a compliance examination in accordance with *Government Auditing Standards* and State statute. The auditors also conducted a financial audit of the State Gaming Fund for the year ended June 30, 2012 and stated the financial statements of the Gaming Fund were fairly stated. The Gaming Board was established on July 1, 2009 pursuant to Executive Order 09-5, and pursuant to this Order all associated powers, duties, rights and responsibility of the Illinois Gaming Board that were provided by the Department of Revenue were transferred to the Gaming Board as a separate agency.

The mission of the Gaming Board is to administer and regulate riverboat casino gambling and video gaming in Illinois through strict regulatory oversight as mandated by statute and applicable administrative rules. The Gaming Board consists of five members appointed by the Governor and confirmed by the Senate. The Board administers a regulatory and tax collection system for casino gambling and also has comprehensive law enforcement responsibilities.

Mr. Mark Ostrowski is the Board Administrator, serving in that position since November 2005. Previously he served the Gaming Board as general counsel from November 2001 until November 2005. The average number of Board employees by division at June 30, 2012 was as follows:

Division	FY12	FY11	FY10
Officials/Managers	38	31	28
Professionals	81	57	47
Para-Professionals	8	5	6
Office/Clerical	3	4	2
TOTAL	130	97	83

The Board also pays the related salaries and expenses for approximately 115 Illinois State Police through an interagency agreement.

Expenditures From Appropriations

The General Assembly appropriated \$161,143,700, all from the State Gaming Fund, to the Board in FY12 compared to \$137,359,400 in FY11. Appendix A summarizes the appropriations and expenditures by object for the period under review. Total expenditures for the Board were \$141.9 million in FY12 compared to \$110.9 million in FY11. The increase in personal services lines was due to the increase in employees. Also, the additional distribution to local governments was due to the addition of the tenth riverboat casino beginning operations in Des Plaines.

Cash Receipts

Appendix B summarizes the cash receipts of the Board for FY10-12. Total cash receipts were \$618.8 million in FY12 compared to \$459.3 million in FY11. The increase is due primarily to increased revenues and admissions from the tenth riverboat casino. FY12 was the first year the Gaming Board granted video gaming licenses; however, most of the application fees were paid in FY11.

Property and Equipment

According to the Agency Report of State Property submitted to the Office of the State Comptroller, the Gaming Board has about \$2 million in equipment. However, the schedule could not be reconciled to Board records, as reported in Finding No. 5.

Service Efforts and Accomplishments

In FY12, the number of operating riverboats in Illinois was ten. Total 12-month attendance at riverboat casinos during calendar 2011 was about 14.8 million compared to 13.8 million in 2010 and 14.4 million in 2009. Total gaming tax distributions to local governments was \$88.7 million and \$400 million to the State during calendar 2011. In FY12, there were 9,622 licenses issued for video gaming and \$74 million was received in licensing revenue and \$536 million was received in admissions and wagering tax.

Accountants' Findings and Recommendations

Condensed below are the 12 findings and recommendations included in the audit report. One finding was repeated from the previous audit. The following recommendations are classified on the basis of updated information provided by Mark Ostrowski, Board Administrator, and Mark Lewis, Chief Fiscal Officer, via email on August 1, 2013.

Under Study

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

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

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

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

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

The hardcopy application and related hardcopy documentation was maintained in a file room. The file room was locked at night and on non-business days; however, it was unlocked during business days. The Board's Licensing System contained confidential and sensitive information for approximately 84,000 applicants.

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

Updated Response: Under Study. The Board agrees with the recommendation, but has yet to perform a comprehensive risk assessment. The Board has taken steps to ensure confidential information is adequately secured with methods such as encryption or redaction. The Board has already developed policies and procedures regarding the requirements outlined in the Personal Information Protection Act, in the event of a breach of confidential information.

Accepted or Implemented

1. **Work with Shared Services to implement procedures and cross-training measures to ensure the Fund's GAAP Package and financial statements are accurate and fairly presented in accordance with generally accepted accounting principles.**

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

- The Board recorded adjusting journal entries which incorrectly categorized \$5.721 million as both taxes receivable and other receivables on its June 30, 2012 GAAP reporting forms. Further, the original taxes receivable included \$906,000 for which the Board had already received the cash. The entry included a \$45,000 mathematical error when the Board added receivable amounts.
- The Board did not record \$30,000 in video gaming licensing fees that were received on June 29, 2012 as cash in-transit as of June 30, 2012.

These combined errors resulted in an overstatement of the amount due to the Education Assistance Fund by \$5.736 million in the initial draft of the Fund's financial statements.

In addition, the auditors noted the following errors and omissions from the Fund's draft financial statement disclosure notes:

- The Board's "Description of the Fund" and "Interfund Balance" footnotes did not reflect the Board's current operating environment and responsibilities under the Video Gaming Act.
- The Board's growing and current liability to the Horse Racing Equity Fund and the Chicago State University were inaccurately included as a "Commitment" disclosure footnote.
- The Board did not include a subsequent event footnote regarding video gaming terminals going "live" in October 2012.

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

Updated Response: Accepted. The Board has initiated efforts with Shared Services to assist with the review process to ensure the Fund's GAAP Package and financial statements are accurate and fairly presented in accordance with GAAP.

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- 2. Continue to work with the Governor's Office of Management and Budget and the Illinois General Assembly to seek legislative remedy to address the growing cash balance within the State Gaming Fund.**

Finding: The Gaming Board was unable to comply with the requirements of the Riverboat Gambling Act resulting in \$66.9 million in excess funds being retained in the State Gaming Fund's cash balance at June 30, 2012.

On July 15, 2011, the tenth riverboat casino license became operational in Des Plaines, Illinois. When this occurred, a statutory change required the Board to pay 15% and 2% of the tenth riverboat casino's adjusted gross receipts to the Illinois Racing Board for deposit into the Horse Racing Equity Fund and to Chicago State University, respectively in accordance with the Act. As of June 30, 2012, the auditors noted the Fund had outstanding liabilities due to the Horse Racing Equity Fund and Chicago State University in the amount of \$59.032 million and \$7.871 million, respectively.

Board management stated the Board did not have appropriations or other statutory authority to pay the amounts due to the Horse Racing Equity Fund and Chicago State University during FY12.

Updated Response: Implemented. Public Act 98-0018, effective June 7, 2013, requires specific distributions from the State Gaming Fund, attempted to remedy this issue.

- 3. Implement internal controls to timely prepare and accurately calculate transfers of excess cash resources from the State Gaming Fund (SGF) to the Educational Assistance Fund (EAF).**

Finding: The Gaming Board did not exercise adequate internal control over the calculation of its transfers to the Education Assistance Fund (EAF) from the State Gaming Fund (SGF). During testing, the auditors noted the following:

- For all 24 bi-monthly transfers calculated, the Board did not include all outstanding obligations due to Cook County as of the date the transfer was calculated.
- For 16 of 22 bi-monthly transfers made, the Board did not include all outstanding obligations for admission and wagering taxes due to local governments as of the date of the transfer was calculated. The auditors were unable to recalculate the total obligation amount used by the Board in its calculation for these 16 transfers.
- For nine of 22 bi-monthly transfers made, the Board did not include all receipts received by the Board and deposited into the SGF as of the date the transfer was calculated. The auditors were unable to recalculate the total receipt amount used by the Board in its calculation for these nine transfers.
- For eight of 22 bi-monthly transfers made, the Board did not include all outstanding obligations due to the Horse Racing Equity Fund and the Chicago State University as of the date the transfer was calculated.

Accepted or Implemented - continued

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- For three of 22 bi-monthly transfers made, the Board did not ensure all previous SGF transfer obligations to the EAF were included as of the date the transfer was calculated.
- For three of 22 bi-monthly transfers made, the Board did not accurately account for cash disbursements paid by the Board as of the date the transfer was calculated.
- For seven of 22 (32%) bi-monthly transfers made, the Board did not maintain supporting documentation for cash disbursements paid by the Department of Human Services pursuant to an appropriation from the SGF for programs related to the treatment of problem gambling.

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

Updated Response: Implemented. The Board has implemented procedures that properly reflect the timely preparation and mathematical accuracy of the fund transfers.

- 4. Implement a structured change management standard to ensure adequate oversight of modifications to existing systems. The standard should include at a minimum:**
- **Procedures for formally requesting changes**
 - **Management approval**
 - **Testing requirements**
 - **Documentation requirements**
 - **Implementation reviews**

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

The Board maintains sixteen applications in order to meet their mission of administering and regulating riverboat casino gambling and video gaming in Illinois. Auditors noted, in the event a change was required, an email is sent to the applicable programmer requesting the change. The programmer would complete the change; however, documentation was not always maintained.

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

Updated Response: The Board implemented a structured change management standard, effective January 1, 2013, and is currently in use.

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5. Establish controls over property reporting and implement procedures to ensure:

- **Equipment is entered timely and accurately on the property listing;**
- **Equipment additions are reconciled to purchases made by the Board;**
- **Quarterly reports are reconciled to property listings, reviewed for accuracy and adequate documentation is maintained;**
- **Property listings include all the required information in accordance with the Administrative Code; and**
- **The Board should work with the Comptroller to correct or properly adjust the discrepancies noted in its Quarterly and annual reporting to the Comptroller. (Repeated-2010)**

Finding: The Gaming Board did not maintain sufficient controls over the reconciliation and reporting of its property. Some of the conditions noted by the auditors are as follows:

- The Board did not adequately reconcile its property control records to the Agency Report of State Property (C-15) filed with the Comptroller.
- The Board could not provide support for numbers presented on the C-15.
- The Board's June 30, 2012 C-15 amounts were inaccurately reported with 3rd quarter data.
- The Board's property listing contained inadequate and inaccurate information.
- The Board did not properly record pieces of equipment.
- The Board improperly included a commodity item as part of an asset's value.
- The Board did not record equipment items on the C-15 during the same quarter that the items were added, transferred or deleted.
- The Board improperly reported transfers-out as deletions.
- The Board reported a transfer-out of the same asset on two successive C-15s.

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

Updated Response: Accepted and partially implemented. The Board has implemented 4 of the 5 points mentioned. Adding required fields to PCS will require IT enhancements.

6. Adopt a formal timesheet policy requiring employees to maintain timesheets in compliance with the State Officials and Employees Ethics Act.

Finding: The Gaming Board did not comply with the State Officials and Employees Ethics Act regarding employee timekeeping requirements.

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Accepted or Implemented - continued

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

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

Updated Response: Implemented. The Board implemented a formal timesheet policy to employees via e-mail and will include the Policy in its revised Employee Handbook.

7. Conduct timely annual performance evaluations for all certified employees.

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

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

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

Updated Response: Implemented. The Board implemented a Policy on June 25, 2013 and distributed an email to Supervisors making them aware of their responsibilities.

8. Collect and maintain complete information and annually publish accurate reports. Further, file corrected reports within 30 days of audit release to the Secretary of State and the Office of the Governor as required by the Illinois State Auditing Act.

Finding: The Gaming Board did not include complete and accurate information on its FY11 Agency Workforce Report submitted to the Office of the Governor and the Office of

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the Secretary of State. In addition, the Board did not maintain supporting documentation for its FY10 Report.

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

Updated Response: Implemented. The Board has maintained appropriate supporting documents for its annual agency workforce report. In the event of any future errors, the Board will submit a corrected report.

9. Obtain proper certifications of licensure and automotive liability coverage for all employees assigned a State-owned vehicle as required by the Code.

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

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

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

Updated Response: Implemented. All employees assigned a State-owned vehicle properly certified license and automotive liability coverage by July 31.

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

Finding: The Gaming Board was not composed of the required number of members as required by the Riverboat Gambling Act. The Board is required to be comprised of five members per the Act. At June 30, 2012, the Board had four serving members.

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

Updated Response: Implemented. The Board and staff continue to work with the Governor's Office regarding the existing vacancy.

11. Develop and approve an identity protection policy as required in the Identity Protection Act.

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Accepted or Implemented - concluded

Finding: The Gaming Board failed to implement the provisions of the Identity Protection Act. Auditors noted that the Board had not issued an identity-protection policy.

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

Updated Response: Implemented. The Board developed and approved an identify protection policy as required in the Identity Protection Act.

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 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 FY11-12, the Illinois Gaming 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 1 employee was assigned to a location other than official headquarters.