

LEGISLATIVE AUDIT COMMISSION



Review of
Illinois Racing Board
Two Years Ended June 30, 2016

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**REVIEW: 4489
ILLINOIS RACING BOARD
TWO YEARS ENDED JUNE 30, 2016**

FINDINGS/RECOMMENDATIONS - 21

**IMPLEMENTED - 10
ACCEPTED - 11**

REPEATED RECOMMENDATIONS - 9

PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 15

This review summarizes the auditors' report on the Illinois Racing Board for the two years ended June 30, 2016, filed with the Legislative Audit Commission on May 3, 2018. The auditors conducted a compliance examination in accordance with *Government Auditing Standards* and State law and expressed an adverse opinion due to the significance and pervasiveness of the Board's noncompliance.

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 with the advice and consent of the Senate. Currently, the Board oversees live racing at three racetracks, the Illinois State Fair, the DuQuoin State Fair, and the Brown County Fair. In addition, the Board is responsible for regulation of 22 inter-track wagering facilities and six advance deposit wagering licensees.

The Board's duties include enforcing the Horse Racing Act and associated regulations through disciplinary action, civil penalties, and legal action; allocating racing dates; verifying the accuracy of taxes paid by licensees to the Department of Revenue; licensing of entities and individuals involved in horse racing; promulgating rules and regulations to govern wagering; testing of horses for illegal drugs and prohibited substances; investigating allegations of animal abuse; collecting and processing various revenues associated with horse racing; distributing and monitoring grants to licensees and non-profit organizations; and ejecting or excluding from meetings or facilities persons whose conduct or reputation may call into question the integrity of wagers.

Mr. Marc Laino was Executive Director of the Racing Board during the first six months of the audit period through December 31, 2014. The current Executive Director is Mr. Domenic DiCera who replaced Mr. Laino on January 1, 2015. Mr. DiCera previously served as Director of Operations for the Illinois Racing Board since December 2003. During FY16, the Agency had, on average, 48 employees, including 13 full-time employees and one part-time employee in the central office, 25 per diem employees at upstate racetracks, and nine per diem employees at downstate racetracks.

Expenditures From Appropriations

During FY16, the Board operated without enacted appropriations until Public Act 99-0524 was signed into law on June 30, 2016. During the budget impasse, the Circuit Court of St. Clair County in *AFSCME Council 31 v. Munger* ordered the Comptroller to draw and issue warrants for wages of State employees at their normal rates of pay. The Board incurred non-payroll obligations which it was unable to pay until the passage of the Public Act listed above. The Public Act also authorized the Board to pay FY16 costs using its FY17 appropriations for non-payroll expenditures. The Board had no unpaid invoices from FY16, so the Board did not plan to use FY17 appropriations to pay its FY16 costs. The Board incurred \$3,001 in Prompt Payment interest.

As summarized in Appendix A, the Racing Board expended about \$6.3 million from the Horse Racing Fund in FY16 compared to almost \$8.2 million from the Fund in FY15. Expenditures were less in FY16 across most lines due to the shutdown of Maywood Park and Balmoral Park during FY16, which resulted in less infrastructure costs, less lab testing, and less payroll costs. The Fingerprint Fund ended after FY14 and the Board now collects fingerprint fees from licensees and pays the State Police for completed background checks. Total expenditures were \$30.1 million in FY14 due to a one-time \$23 million distribution to the racetracks, purse accounts, and the State's fairs, which came from a transfer from the State Gaming Fund.

Lapse period expenditures in FY16 were \$1.7 million, or 30%, of FY16 total expenditures due to the Board processing invoices received during FY16 after the appropriation bill became law on the last day of the 2016 fiscal year.

Cash Receipts

Appendix B summarizes the cash receipts of the Board for FY16 and FY15. Total cash receipts were \$2.24 million in FY16 compared to \$2.37 million in FY15. The decrease is due to the declining number of racing opportunities within the State.

Illinois Handle Totals

Appendix C provides a summary of the total handle wagered in Illinois from thoroughbred and harness racing in calendar year 2015 and 2014. The total handle wagered from both thoroughbred and harness racing was \$449 million in 2015, which was a decrease of \$38.2 million, or 7.8%, compared to 2014. The total handles in 2013 was \$542 million. 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 \$144 million to the total handle in 2015.

Service Efforts and Accomplishments

The Racing Board conducts post-race drug testing at all sanctioned race meets. The laboratory performed at 90% accuracy in FY16. There were 8,161 blood and urine tests administered which found 68 instances of performance enhancing substances. There were a total of 314 steward rulings issued in FY16.

Accountants' Findings, Recommendations, and Opinion

Condensed below are the 21 findings and recommendations included in the compliance examination. The following recommendations are classified on the basis of updated information provided by the Agency in a memo received via email on October 9, 2018. The accountants expressed an adverse opinion related to the compliance examination

Accepted or Implemented

- 1. Develop a centralized listing of each individual receipt with all of the elements required by State law, ensure receipts are deposited timely, prepare Receipt Deposits Transmittal forms (RDTs) in accordance with SAMS, review Chart of Accounts on a routine basis to identify any needed changes and submit those changes to the Comptroller for approval and submit accurate receipt deposit extension requests to the Treasurer and Comptroller. (Repeated-2010)**

Finding: The Illinois Racing Board (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 testing, auditors noted the following:

- The Board does not have a centralized listing of each individual cash receipt received with a detailed itemized account of all moneys showing the date of receipt, the payor, purpose and amount, and the date and manner of disbursement. Further, the Board does not have a centralized tracking system to both document each receipt's revenue source code and record the date of each receipt's:
 - Arrival at the Board's Chicago office for receipts collected at the racetracks;
 - Deposit into the clearing account established by the State Treasurer with a bank;
 - Arrival of the Treasurer's Draft;
 - Remittal of the Treasurer's Draft with a Receipt Deposits Transmittal Form (RDT) or other acceptable remittance to the State Comptroller;
 - Acceptance by the State Comptroller and posting to accounts within the State Treasury; and,
 - Activity relating, if necessary, the correction of an error, such as a Receipt Transfer Request (Form SCO-102).

REVIEW: 4489

Accepted or Implemented – continued

- The Board's cash receipts journal does not report the date when a receipt is actually received by a Board official or employee; rather, it only reports the date when the Board actually deposited a collection of receipts into the Board's clearing accounts at a bank.
- Three of 33 RDTs tested, totaling \$778,180, included seven individual receipts, totaling \$760,560, which were deposited into the State Treasury between one and two business days late.
- The Board's RDTs were not prepared in accordance with the requirements of the Statewide Accounting Management System (SAMS).
- The Board lacked adequate internal controls over receipt account codes.

Board officials stated these problems were due to a lack of resources and the lack of a centralized management system.

Response: The Board agrees with the auditor that it needs a centralized receipt system and is working with the Department of Innovation and Technology (DoIT) and the Enterprise Resource Planning (ERP) team to develop a new system in FY19. However, the Board strongly disagrees with the auditor regarding whether the Board tracks receipts. Each check received in the office is properly recorded and coded in a separate Excel file that was available for the auditor's review.

Because of an audit finding from the FY13 and FY14 compliance audit, the Board purchased a check scanner in late FY15 and started immediately depositing checks it received instead of forwarding checks to the Department of Revenue for deposit. The \$760,560 late deposit was in early FY15 and no deposit was late in FY16.

Regarding the Board's RDTs, as directed by the Comptroller, the agency submits five (5) copies of Receipt Deposit Transmittals (RDT) for each draft printed from the Treasurer's portal. The Comptroller requires that only the first copy 'white copy' be signed by the agency. The other four copies are not required by the Comptroller to be signed. The agency files the sixth copy with a copy of the draft and supporting documentation. (See SAMS Procedure 25.20.10 heading, "Transmitting Deposit to Comptroller", which states "copy 1 (white) must contain an original signature of authorized agency official.")

In addition, heading "Agency Notification" states, "If any errors are detected on the transmittal before the deposit is made, the deposit will be returned to the agency." It also provides, "If an error is discovered after the deposit is made, the Comptroller's Office will work with the agency and/or Treasurer's Office to either correct the transaction or return it to the agency." Thus, SAMS does not require all copies to be executed, in fact, it merely requires an original signature on Copy 1 to the Comptroller. In addition, the provisions under "Agency Notification" confirm that all RDTs with errors, whether discovered before or after deposit may be returned to the agency or corrected; however, no RDTs have been returned

REVIEW: 4489

to the Board for not having copies 2-5 signed. Since the Comptroller has not returned any RDTs to the Board for failing to sign copies 2-5, it means the Board is in compliance with the Comptroller's SAMS section.

The Comptroller and not the Board is ultimately responsible for entering the date it receives the RDT. The Comptroller does this by stamping its receipt date on the RDT. In any event, the Board stopped entering a received date in the Comptroller's section in April 2016 and will not in the future.

Auditors Comment: The State Officers and Employees Money Disposition Act (30 ILCS 230/2(a)) states, "Every officer, board, ... or agency ... shall keep in proper books a detailed itemized account of all moneys received for or on behalf of the State of Illinois, showing the date of receipt, the payor, and purpose and amount, and the date and manner of disbursement ...". As noted above, the Board agrees it does not maintain a centralized listing of receipts with all of the various data elements required by this statute. As opposed to the Board's contention that we reported the Board does not track receipts at all, we were able to eventually conclude the Board's receipt records were sufficiently reliable, accurate, and complete for our purposes under the professional standards (AT-C § 205.35). However, we had to expend significant extra effort to reconcile pages of paper deposit records from the racetracks, various spreadsheets, cash receipt journals, and certain computer-generated reports from the Pari-Mutuel Information and Tracking System (PITS). Further, we were unable to test receipts from initial transaction to a transaction recorded by the State Comptroller and instead had to work backwards from the State Comptroller's records to test all of the receipts that comprised that transaction, which significantly increased the total individual cash receipts we had to test during the examination.

Updated Response: Implemented. Board is following auditors' recommendation.

2. Review payroll process and make changes to ensure:

- 1) source documentation is obtained in a timely manner;**
- 2) leave requests are properly submitted and approved in a timely manner;**
- 3) records are retained for the duration of the approved retention period;**
- 4) payroll adjustments are minimized, with any necessary adjustments entered into Central Time and Attendance System (CTAS) promptly to facilitate the production of complete and accurate Monthly Timekeeping Reports;**
- 5) employees promptly review Monthly Timekeeping Reports to either certify an accurate report or make notations of incorrect information on the report, so corrections can be made before certifying a revised report;**
- 6) supervisors promptly review Monthly Timekeeping Reports to certify they agree with the employee's time report; and,**
- 7) the timekeeper certifies the close of the monthly payroll cycle by certifying only complete and accurate Monthly Timekeeping Reports approved by the employee and the employee's supervisor.**

Accepted or Implemented – continued

Further, implement internal controls where the timekeeper has a process to notate a source document has been entered into CTAS and reviews of information recorded in CTAS are performed by an individual independent of the timekeeper. Finally, the Board should ensure each employee's performance is timely reviewed in accordance with the provisions of the Code. (Repeated-2010)

Finding: The Board lacked control over its personal services functions. During the examination period, the Board expended \$9,184,709 for payroll.

Auditors tested the Board's payroll expenditures for nine per diem and six full time employees during six selected months during the examination period. Due to the seasonal nature of the Board's operations and separations, not all of the employees worked during each month. The following are some of the more significant issues noted during testing:

The Board either did not receive, or did not retain, accurate and timely source information from its employees. For the 15 employees tested, auditors identified 59 instances of benefit leave time taken during the six months tested and noted the following:

Documentation Problems

- For 9 of 59 leave days, the Board either did not receive or did not retain leave requests from five of nine per diem employees tested. As such, the Board did not have documentation to support entries recorded within CTAS.
- For two of 59 leave days, the employee's supervisor did not approve the employee's use of vacation time until 5 and 23 days after the day off.
- For 15 of 59 leave days, the employee's supervisor never approved the employee's use of benefit time.

In following up on these exceptions with Board personnel, it was determined these leave slips were for "dark" periods where the employee was not scheduled to work at a racetrack. According to Board officials, the Board did not have a procedure requiring approval of these dark benefit days by Board management prior to the benefit time being entered into CTAS for payment.

Errors within Attendance Records

The Board's timekeeper did not accurately and timely enter data from the punch clock records and leave request forms into CTAS. Auditors noted the following:

- One employee who was sick on a day where CTAS records indicated the individual worked at a race, which resulted in the employee's sick leave balances being overstated by one day.

REVIEW: 4489

- One employee who did not have any information records within CTAS took a vacation day. It appears the employee was underpaid by \$162 and the employee's vacation leave balance was overstated by one day.
- One employee was not paid for a double shift, which resulted in an underpayment of \$162.
- One employee was not paid the correct differential for holiday pay on Labor Day, which resulted in an overpayment of \$195.
- One employee was paid for a shift where the employee did not work, which resulted in an overpayment of \$440.

Payroll Adjustments

- The Board did not post payroll adjustments in a timely manner. During testing of six months of payroll, auditors noted the Board posted 76 prior period adjustments for five of the nine (56%) per diem employees tested.
- For the immediately preceding payroll period, 10 of the 76 (13%) adjustments were performed between two to five pay periods after the pay period covering the date with an adjustment. Given this condition, each employee's Monthly Timekeeping Report for the period with the adjusted day was inaccurate and they did not certify all of their time spent on official State business, as required by the State Officials and Employees Ethics Act.

Monthly Timekeeping Reports

- For 22 of 60 (37%) Monthly Timekeeping Reports tested, the Board either did not receive or did not retain the employee's report.
- For 34 of the 60 (57%) Monthly Timekeeping Reports tested, auditors noted the following problems:
 - Twenty-one of the 60 (35%) Monthly Timekeeping Reports were not approved by the employee within a reasonable period of time, with reports approved between 1 and 326 days late.
 - Eight of the 60 (15%) Monthly Timekeeping Reports were not reviewed by the employee's supervisor or certified by the timekeeper within a reasonable period of time, with reports signed off on between 1 and 25 days late.
 - One of the 60 Monthly Timekeeping Reports tested was never approved by the employee.
 - Sixteen of the 60 Monthly Timekeeping Reports tested were either not reviewed by the employee's supervisor, certified by the timekeeper, or both.

Accepted or Implemented – continued

- One of the 60 Monthly Timekeeping Reports tested was certified by the timekeeper prior to the employee approving the report, indicating any adjustments noted by the employee would not have been noticed by the timekeeper.
- One employee reported errors on their Monthly Timekeeping Report from CTAS on two of the 60 monthly reports, which were not investigated or resolved by the Board.

The *Racing Board Policy Manual* (Policy 3.2.1) provides if the employee notes their Monthly Timekeeping Report is not accurate, they should report it to the timekeeper so a corrected report can be prepared.

Due to all of the foregoing problems, auditors concluded the Board did not ensure its employees certified their time spent on official State business.

Evaluations

- During testing of the 24 annual evaluations required for the 15 employees tested, auditors noted 20 of 24 evaluations were not performed and 3 of 24 evaluations were completed between 82 to 161 days late.

Board officials stated these exceptions were due to human error and the lack of a timekeeping system adequate to manage the Board's employee structure.

Response: The Board has spent considerable time and effort creating internal controls over payroll and personal services processes, especially alongside the dissolution of the Shared Services Center. In January of 2016, the Board began using the Department of Central Management Service's eTime application for use of recording time for salaried employees. This has eliminated all paper and increased accuracy and efficiency.

Prior to October of 2017, the Board had no control of payroll processes. Shared Services personnel were resolute in the administration of their procedures to Board payroll processes. Since assuming all responsibility in October of 2017, the Board has instituted procedural processes that address the number of adjustments to payroll as well as the timing of payment.

The other main area of concern for the auditors was the certification and retention of timekeeping documents. Most of the Board's employees are paid in a manner which does not fit within the State's Central Timekeeping and Attendance System's (CTAS) functionality. They are per diem employees, paid by the day or shift, and not by the hour. Prior to October of 2016, the timekeeping process was an entirely manual and paper process. In October of 2016, the Board implemented electronic time clocks which produce a daily report from which the Timekeeper can enter time into CTAS. This has eliminated the need for the submission of paper time sheets from off-site locations to the Central Office. Additionally, the Board has

REVIEW: 4489

implemented clear procedures for submission of requests for benefit time on both work days and non-work days. The Board's goal is to continue to reduce entry errors and paper retention errors; however, as long as the process is completely manual and paper-driven, we expect a small margin of error.

The certification of time by per diem/field employees was also a concern for the auditors. With the implementation of eTime for salaried employees, this problem no longer exists as employees certified their time electronically. However, per diem employees cannot utilize eTime and the Board's timekeeper must distribute monthly timekeeping reports to the field employees for their review and signature. These employees work anywhere from zero to four days per week, generally. The Board has taken steps to reduce the turnaround time on these reports as much as it can, given the limitations imposed by the work schedules of these employees. The Board allows approximately 10 business days for employees to review and return their reports while they are actively working. Employees who receive a report by mail due to the fact that they are on seasonal layoff tend to pose the biggest problem in returns, with some returning their reports when they return to work up to six months later.

Updated Response: Accepted and Partially Implemented. The Board will continue to work with DoIT on implementing a bridge with the new ERP system to eliminate the manual entry of time.

3. **(1) Monitor the racetracks to ensure the Complimentary User Entity Controls (CUECs) are in place and functioning; (2) monitor and document the operation of the CUECs relevant to the Board's operations; (3) either obtain and review SOC reports for subservice organizations or perform alternative procedures to satisfy the Agency that the existence of the subservice organization would not impact its internal control environment; and (4) document review of the SOC reports and review all significant issues with the totalizator company to ascertain if a corrective action plan exists and when it will be implemented, any impacts to the data processed, and any compensating controls.**

Finding: The Board did not exercise adequate control over service organization controls (SOC) reports received from the totalizator companies during the examination period.

During the examination period, the Board had three totalizator companies who provided the computerized systems to run pari-mutuel wagering systems, commonly known as totalizators. The totalizator systems process wagering transactions made by patrons either at the racetracks or online through advance deposit wagering (ADW) licensees, ensure the correct pricing for each wagering transaction, and handle distributions of proceeds from the pools such as validating a winning ticket. In addition, these totalizator systems serve as the Board's primary source of information for verifying the completeness and accuracy of pari-mutuel tax receipts deposited by the Department of Revenue into the Horse Racing Fund, the Illinois Racing Quarter Horse Breeders Fund, the Quarter Horse Purse Fund, and the Standardbred Purse Fund.

Accepted or Implemented – continued

According to the Board's annual reports, the total value of wagering transactions processed by the totalizator companies (referred to as "handle") within the State was \$623.98 million, \$593.42 million, and \$570.51 million during Calendar Year 2014, Calendar Year 2015, and Calendar Year 2016, respectively.

During testing, auditors noted the following:

- The Board did not monitor the racetracks to ensure the Complementary User Entity Controls (CUECs) identified in the various SOC reports covering the totalizator systems were implemented and functioning during the examination period. Further, the Board did not monitor or document the operation of the CUECs relevant to the Board's operations.
- The Board did not obtain or review SOC reports for subservice organizations or perform alternative procedures to satisfy itself that the existence of the subservice organization would not impact its internal control environment.
- The Board needs to improve its monitoring of SOC reports to ensure all significant issues are reviewed with the totalizator company to ascertain if a corrective action plan exists and when it will be implemented, any impacts to the data processed, and any compensating controls. Further, the Board needs to document this review and conclude as to whether and why noted deviations were not significant to the Board's operations or regulatory responsibilities.

Board officials stated the Board did not realize all of the monitoring requirements and nuances involved in understanding SOC reports.

Response: The Board does analyze the SOC reports as it had been instructed by a previous IT auditor. Further analysis to supplemental levels was never anticipated but the Board will include that in future audits. The tote companies are already paying major CPA firms (Deloitte, Grant Thornton, etc.) to conduct the audit, but then it is subject to audit two-fold thereafter.

Auditors Response: According to the American Institute of Certified Public Accountants (AICPA), the SOC 1 (Type 2) reports received by the Board have been specifically designed to meet the needs of both an entity using a service organization and that entity's auditors in evaluating the effectiveness of controls at the service organization on the user entity's financial information. The report from the Independent Service Auditor is limited to whether management at the service organization has (1) fairly presented its description of its system and (2) whether the design and operating effectiveness of the controls in the description during the period examined were achieved during the period. Each totalizator company, as allowed for by the AIPCA, described certain CUECs that must be in place and operating effectively at both the Board and the racetracks to ensure the pari-mutuel betting system can be relied upon to provide accurate processing of transactions and

REVIEW: 4489

related financial data. Our testing indicated the Board has not conducted an analysis to determine if the CUECs described by each totalizator company have been put into place and were operating effectively during the examination period at the racetracks or for its own operations.

Additionally, some of the totalizator companies, as allowed for by the AICPA, identified sub-service organizations that described the services provided; however, the controls of these sub-service organizations were excluded from the totalizator's Description of the System. Therefore, the sub-service organizations were not examined by each totalizator's Independent Service Auditor. It is the Board's responsibility to assess the impact of the sub-service organizations' services on the processing of transactions and financial information generated by the totalizators and whether the sub-service organization requires its own SOC report or if the Board can apply alternative procedures to understand and conclude the controls of the sub-service organization were put into place and operating effectively to ensure the pari-mutuel betting system can be relied upon to provide accurate financial data.

Finally, it is imperative for the Board to review all significant issues reported by the Independent Service Auditor. These types of problems need to be considered by the Board (1) in assessing the potential impact a noted problem could have on the reliability of financial information from the totalizators and (2) as a component of its regulation of pari-mutuel wagering. This type of analysis is the responsibility of the Board as a user of the Independent Service Auditor's report and is not a responsibility of the Independent Service Auditor.

Updated Response: Accepted. The Board is working with DoIT compliance staff (Pat Blair and Doug Tinch) to assist with guidance and review of SOC reports.

- 4. Work with each of the racetracks to limit the number of door keys to the minimum necessary to ensure the Board's operations can be conducted and all individuals with access to the Board's offices are known and approved in advance by the Board.**

Finding: The Board lacked control over physical access to the Board's offices at the racetracks.

During testing, auditors noted the Board's offices at a racetrack were burglarized. Items reported missing included a breathalyzer stored in a box and an empty cash box bolted into a desk used to store checks prior to their delivery to the State Treasury. During the police investigation, detectives noted (1) there was no damage to the points of entry into the Board's offices and (2) the lock on the door into the Board's office was a "master key" which approximately 30-50 racetrack employees have access to use.

Board officials stated this problem was due to oversight.

Accepted or Implemented – continued

Updated Response: Implemented. Pursuant to auditors' recommendation, the Board requested locks changed on IRB offices at the race tracks, with limited access to necessary staff only. Security cameras have been installed in IRB race track office.

- 5. Take action to obtain required documentation from the licensee and implement controls to monitor the racetrack's allocation of moneys derived from simulcast wagering and inter-track wagering for compliance with the law. Further, the Board should work with the Governor and the General Assembly to ensure the Act provides for an allocation of funds in all foreseeable situations.**

Finding: The Board did not adequately monitor a racetrack's allocation of moneys derived by the racetrack from simulcast wagering and inter-track wagering. Further, the statutory allocation for these proceeds within the Illinois Horse Racing Act of 1975 does not address three possible scenarios.

During testing, some of the problems noted included:

- The Board did not monitor a racetrack's allocation of moneys derived by the racetrack from simulcast wagering and inter-track wagering. The Horse Racing Act required the allocation of the purse account's share of these receipts between 6:30 a.m. through 6:30 p.m. to be allocated 100% to the racetrack's thoroughbred purse account and receipts between 6:30 p.m. through 6:30 a.m. to be allocated 80% to the racetrack's thoroughbred purse account and 20% to the Illinois Colt Stakes Purse Distribution Fund, a locally held fund of the Department of Agriculture.
- The Board did not monitor the racetrack's deposits of receipts into the Fund. The Act requires the racetrack to remit these receipts within two weeks after the day the receipts were generated.

While discussing these conditions with Board officials on August 25, 2017, they stated the Board had been unable to obtain these records from the racetrack subsequent to the end of the examination period to substantiate (1) the allocations to the thoroughbred purse account and the Fund and (2) whether payments to the Fund were made timely.

The Act vests the Board with all powers necessary and proper to fully and effectively execute the provisions of the Act, including entering the facilities and other places of business of any licensee to determine the licensee has complied with applicable laws, rules, and regulations. In addition, the Act requires licensees to submit any other financial or related information the Board deems necessary to effectively administer this Act and all rules, regulations, and final decisions promulgated under the Act.

REVIEW: 4489

- While reviewing the allocation methodology established within the Act, auditors noted the provisions of the Act did not specify how receipts should be handled in three different situations:
 - 1) If no live thoroughbred racing occurs within the State between January 1 and the third Friday in February each year, the Act requires allocation of the purse account's share pursuant to another citation within the Act which reads "(Blank)."
 - 2) If the racetrack in a given year has requested fewer race dates than the number of race dates conducted during Calendar Year 2000 and standardbreds are not run at the racetrack, the Act does not specify what to do with 80% of the proceeds.
 - 3) If the racetrack in a given year has requested fewer race dates than the number of race dates conducted during Calendar Year 2000 and thoroughbreds are not run at the racetrack, the Act does not specify what to do with 80% of the proceeds.

Board officials stated these problems were due to oversight.

Updated Response: Accepted. Pursuant to auditors' recommendation the Board continues to work with the G.A. on SB 3387. In addition, the IRB ordered Fairmount Park at its June 2018 public Board meeting, and Fairmount Park complied with segregating the applicable simulcast funds into a separate account until a legislative remedy is achieved. The IRB is working with DoIT to develop an automated platform to perform pari-mutuel testing, including timely and accurate allocations to the Colt Fund by Fairmount Park.

6. **Notify the Department of Revenue and the Department of Agriculture of accounts receivable from pari-mutuel taxes, develop a reasonable estimate of uncollectible accounts receivable, ensure the Board's underlying records and supporting documentation agrees with the Board's quarterly reports, and update policies for extracting information from the Pari-Mutuel Information and Tracking System (PITS). (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, auditors noted the following:

- The Board did not notify the Department of Revenue or the Department of Agriculture of receivables for the Horse Racing Fund, the Illinois Racing Quarter Horse Breeders Fund, the Quarter Horse Purse Fund, and the Standardbred Purse Fund for pari-mutuel taxes earned during the last days of each quarter that had not been received by the Department of Revenue.

Accepted or Implemented – continued

- The Board has not reviewed its accounts receivable process to determine whether its method of estimating uncollectible accounts is fair and reasonable. The Board's current methodology of assuming all accounts are collectible until one year has passed is not a reasonable estimation methodology.
- The Board has internal control weaknesses over accounts receivable, including:
 - Until January 5, 2016, the Board's Pari-Mutuel Information and Tracking System (PITS) considered all imposed fines as past-due, even though the Board allows licensees 30 days to pay a fine following the date of the Steward's Ruling. On and after January 5, 2016, the Board implemented a new report from PITS that correctly reflected current receivables; however, the new report from PITS did not classify past due receivables into the reporting categories called for by SAMS. Shared Services and the Board must perform manual adjustments to reports from PITS each quarter to properly prepare the Board's accounts receivable reports. During testing, auditors noted these adjustments were not always accurate. Six of eight quarterly reports had 22 instances where the information reported on the quarterly report did not agree with the Board's supporting documentation. There were errors in reporting the total number of accounts receivable outstanding, accounts receivable balances, and collection activity.
 - The Board's *Collection of Accounts Receivable for Fines and Penalties Procedure* does not address the timely posting of information within PITS and the Board does not have a process to ensure all information has been posted within PITS for the preceding quarter before running the quarterly reports from PITS.

Board officials stated these problems were due to a lack of resources.

Response: The Board is already notifying the Department of Revenue of accounts receivable from pari-mutuel taxes and will develop a reasonable estimate of uncollectible accounts receivable as recommended by the auditor. The Board will provide the Department of Agriculture notice of accounts receivable from pari-mutuel taxes. However, the Board disagrees with the auditor's statement that the PITS considers all fines as past due. The Board has provided the auditor with printouts from the PITS to show otherwise. All fines received are timely recorded and posted in the Fines module of the PITS and the Board's receipt file.

Auditors Comment: As noted in the finding above, PITS was reprogrammed in January 2016 to reflect the Board's allowance of 30 days for licensees to pay a fine. However, we noted this reprogramming to PITS does not allow it to report past due accounts receivable amounts into the various reporting elements required by SAMS. Our concerns about how data is reported from PITS stems from the number of manual adjustments necessary for the

REVIEW: 4489

Board to prepare accurate quarterly reports, which resulted in (1) many errors and (2) significant additional time and effort spent by the Board's fiscal staff to make these manual adjustments that may have been avoided if PITS was properly programmed.

Updated Response: Accepted. Following the Auditor's recommendation, the Board is working on improving its fine collection and aging process with the new State Wide SAP system.

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

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

During the Board's examination for the two years ended June 30, 2012, auditors noted the Board had ceased activity within the Illinois Racing Board Grant Fund at the close of FY12 and began depositing inter-track wagering location admission fees into the Horse Racing Fund, as required by the Illinois Horse Racing Act of 1975. However, as a result of prior period fund transfers into the General Revenue Fund, the Board lacked sufficient cash after ceasing activity within the Illinois Racing Board Grant Fund to pay its remaining obligations due to Cook County, totaling \$43,809, and the City of Chicago, totaling \$1,118.

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

Board officials stated they have been unable to identify a member of the General Assembly to sponsor a legislative remedy.

Updated Response: Implemented. Supplemental appropriation passed and monies distributed.

- 8. Take action to ensure compliance by employees and licensees with State laws, rules, and regulations governing horse racing, including developing an appropriate process to monitor racetrack operations for instances of noncompliance, and appropriately address any identified noncompliance. (Repeated-2014)**

Accepted or Implemented – continued

Finding: The Board did not comply with, or enforce compliance with, provisions of the Illinois Horse Racing Act of 1975 and the Illinois Administrative Code at the racetracks. The following are some of the more significant issues auditors noted during testing:

- The Board did not ensure race officials at the racetrack had active licenses prior to the first race day at the racetrack. These individuals oversee certain race-related functions at the racetracks, with some of the functions with exceptions noted during testing including individuals serving as the racetrack’s general manager, racing secretary, Association Steward, security managers, placing judges, and outriders not having a license at the start of their racetrack’s meet. Specifically,
 - Fourteen of 25 (56%) race officials at one thoroughbred racetrack obtained their annual occupation license from the Board between three to 82 days late.
 - Sixteen of 27 (59%) race officials at a racetrack which runs both thoroughbred and standardbred races obtained their annual occupation license from the Board between three to 251 days late.
 - Five of 14 (36%) race officials at one thoroughbred racetrack obtained their annual occupation license from the Board between three and 27 days late.

The Code states no person shall serve as a racing official unless they have an active occupation license. Further, the Act states “occupation licenses will be obtained prior to persons engaging in their vocation” at locations regulated by the Board.

Also, the Board, and any person or persons to whom it delegates this power, is vested with the authority to investigate alleged violations of the provisions of this Act, its reasonable rules and regulations, orders, and final decisions; *the Board shall take appropriate disciplinary action against any licensee or occupation licensee for violation thereof* or institute appropriate legal action for the enforcement thereof.

- One of three (33%) racetracks did not accurately report its racing officials to the Board. Auditors noted one individual, an out-rider, did not obtain a license for its 2016 meet.
- One of three (33%) racetracks tested had two individuals acting in an official racing capacity without being approved by the Board. The Board eventually obtained all of the necessary documentation to approve these persons 13 days after the start of the racetrack’s meet, which was 73 days after the deadline established within the Code.
- At one of three (33%) racetracks tested, the Board did not maintain adequate control over the collection and processing of urine and blood samples taken from each race’s winning horse and any other selected horse(s) by the stewards for laboratory testing. At the standardbred racetrack, the Board did not require the horse’s owner, trainer,

REVIEW: 4489

or representative to remain to witness the collection or sealing of the horse's urine and blood samples.

- At three of three (100%) racetracks tested, the racetracks were not requiring individuals in the stable area to have their Board-issued photo identification.
- The Board has not adequately defined what an entrance, exit, or credit location is under the Act through its regulations. Under the Act, each racetrack must post signage at each entrance, exit, and credit location with (1) a statement provided by the Department of Human Services regarding obtaining assistance with gambling problems and (2) a statement provided by the Department of Healthcare and Family Services about involuntary withholding of delinquent child support. During testing, auditors noted disputes about whether the entrances or exits meant the initial ticket/admission gate to the grounds of the racetrack, the points of ingress and egress of only the building where wagers are placed, or any entrances or exits to external areas where wagers can be made on automated machines. Additionally, the terminology of a credit location is ambiguous and may include certain types of automated teller machines (ATMs).
- At two of two (100%) thoroughbred racetracks tested, the Board is not monitoring the arrival time of the Association Steward to determine they arrive at least three hours prior to the first race.
- The Board does not appear to have any rules or regulations governing the time when the Association Steward is required to be performing their duties at the standardbred racetrack.

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

Response: The Board will remedy this finding by amending Section 422.20 of the Code to allow for a more reasonable time period. Sixty days is difficult to enforce considering the employment opportunities racing officials have outside of Illinois. In some cases, racing officials commit to working at an Illinois racetrack, but before the meet starts, they have found a better job at another racetrack.

The Board will continue to work with its licensees to limit the number of non-Board staff with access to its offices to safeguard records.

The Board continues to remedy this finding during the examination and will continue to implement processes to monitor its employees and the operations of its organizational licensees and occupation licensees.

Updated Response: Accepted and Partially Implemented. Issues have been addressed with track management or rule changes. The Board monitors the arrival time of the association steward through racetrack time records.

Accepted or Implemented – continued

9. **Ensure specimens are reported in sequential order and properly classified under the Board's *Lab Test Definitions*, with documentation for each positive specimen produced and preserved. Further, follow written laboratory procedures, retain documentation supporting procedures performed and results, and discuss all deviations with the University and document any planned corrective action. Finally, comply with the State Officers and Employees Money Disposition Act regarding the collection of moneys for "Green Dot" tests and work with the University to develop a procedure which complies with State law and generates and sends invoices for testing paid for by the horse's representatives. (Repeated-2014)**

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

During the examination period, the Board contracted with the University of Illinois at Chicago's Animal Forensic Toxicology Laboratory (University) to perform this laboratory analysis, for which the Board paid \$2,112,086.

Specimen Testing

During testing, auditors noted the Board's process for sending individual samples to the University was for the Board's field staff to collect the sample and record the collection on a Form 30-M, which includes information about the race, horse, collection procedure, and the unique identifying tag number associated with the sample. One copy of the Form 30-M is sent to the University without identifiable information about the horse and one copy of the Form 30-M is sent to the Board's Central Office in Chicago. Auditors noted the following internal control problems:

- The Board did not keep its unique specimen sample tags in sequential order, increasing the level of effort needed to perform reconciliations between the Board's records and the University's records.
- The Board's staff did not ensure proper reporting of various sample types, particularly with the proper reporting of "Blue Dot" and "Green Dot" samples. In accordance with the Board's *Lab Test Definitions*, a "Blue Dot" test occurs when a Board official suspects a horse has been doped; therefore, this test would be part of the Board's overall regulatory process and would be paid for by the Board. Conversely, a "Green Dot" under the Board's *Lab Test Definitions* is a clearance sample, which is not part of the Board's regulatory process and is paid for by the horse's representatives.
- The Board did not ensure the University's records were adequately secured to prevent against changes after a record's creation.

REVIEW: 4489

Quarterly Laboratory Testing

The Board's procedures call for a quarterly review of the University's activities to help provide assurance the University is processing the Board's sample specimens in accordance with the terms of the Agreement. During testing, auditors noted the following:

- The Board was unable to timely provide its procedures for performing the quarterly tests prior to January 2016 due to the departure of a key employee. The key employee's replacement did not establish written protocols for the quarterly tests performed after January 2016 until February 8, 2017, after a request for the procedures. While the Board did eventually find the old protocols, the inability to provide them to us within a reasonable period of time supports these procedures were not used to guide the testing conducted by the Board during FY15 and FY16.
- The Board did not have documentation showing the Board had consulted with the University about exceptions identified during the quarterly tests performed covering the first and second quarters of FY15.

Walkthroughs of the University's Facility and Procedures

Auditors performed walkthroughs of the University's facility and procedures with University officials and noted the freezer where the Board's specimen samples are stored was not adequately secured during the day, as it was opened for all employees to access and not specifically monitored. Further, the freezer only has two keys, with one key kept "on their person" by an employee and another key was hidden in a secret location within the facility known only to two chemists after hours.

"Green Dot" Cash Receipts

Auditors noted the Board's employees routinely receive checks and money orders to cover the University's cost of laboratory testing of "Green Dot" specimen samples submitted by owners and trainers. The Board and the University have developed an informal process where checks are not deposited by the Board and remitted to the University by the Board's employees with all of the test samples taken on a given race day to the University. Upon arrival, the University will identify and deposit the check. The Board's employees are not maintaining a detailed itemized accounting of all moneys showing the date of receipt, payor, purpose, amount, and the date and manner of disbursement. In addition, the Board is not depositing the gross amount of moneys so received. Further, the University staff indicated they are generating invoices for these "Green Dot" specimen samples to satisfy the University's records policy; however, the University does not have a procedure to send these invoices to either the Board or the horse's representative.

Board officials stated these problems were due to oversight and human error.

Response: The Board's reconciliation system, between Board records and Lab records, which we currently have in place is consistent and precise. Whether our unique specimen sample tags are in sequential order or on occasion not in sequential order would not change

Accepted or Implemented – continued

the accuracy of this process. However, we will consider changing the system per the auditor's request as it would better serve the auditing process.

The Board will continue to work with the University of Illinois to ensure compliance with State Laws, the Board's rules, and the terms of the testing Agreement. The Board is working with the University of Illinois to develop a sample numbering system to ensure the complete sample population for testing. The University and Board addressed several of the issues in this finding in its third amendment (effective July 1, 2017) to the testing agreement and in its testing agreement for calendar year 2018, before these issues were raised by the auditors.

Auditors Comment: Our testing records indicate 377 of 772 race dates (49%) which occurred during the examination period did not have samples submitted by the Board to the University in sequential order. We noted unexplained skips in the numerical sequence where the numbering order jumped forward or fell backwards for no apparent reason and situations where sample numbers appeared to be missing. Sequential numbering is a basic internal control procedure designed to provide reasonable assurance each sample was tested, missing items have been considered and are excluded based upon a documented reason, and potential risks have been mitigated. We continue to recommend the Board require sequential numbering of its samples to improve its overall control environment and reduce the level of effort required to manually determine specimens taken during each month have been tested by the University.

Updated Response: Accepted. Board continues to work with lab to implement required procedures and controls.

10. Enforce the law's requirements to withhold delinquent child support from winning wagers subject to reporting to the Internal Revenue Service and withholding on a Form W-2G, or seek a legislative remedy.

Finding: The Board did not enforce requirements for advance deposit wagering (ADW) licensees to withhold delinquent child support due from certain winning wagers.

During testing, auditors noted the ADW licensees had not implemented a process to withhold delinquent child support from winning wagers subject to reporting to the Internal Revenue Service and withholding on a Form W-2G. This requirement was effective on February 26, 2014, 855 days prior to the end of the examination period on June 30, 2016.

According to the Board's annual reports, ADW licensees paid out \$107.94 million, \$114.47 million, and \$132.04 million in winning wagers to the public during Calendar Year 2014, Calendar Year 2015, and Calendar Year 2016, respectively.

REVIEW: 4489

Board officials stated the ADW licensees use a closed encrypted system that instantly pays out winnings into a winner's account as soon as the race is declared official, which has made the ADW licensee's implementation of the requirements of the Act difficult.

Response: The Board will continue to work with the Department of Healthcare and Family Services ("HFS") and the Board's advanced deposit wager ("ADW") licensees to ensure compliance with the Illinois Horse Racing Act of 1975. HFS is currently working with an ADW licensee to implement a pilot program with electronic checks to comply with this requirement, before rolling it out to the remaining ADW licensees.

Updated Response: Accepted. HFS Beta testing with one of the Board's licensed ADWs has been completed and a rollout schedule is being proposed.

11. Implement monitoring controls to provide reasonable assurance OTBs are remitting amounts due to counties and municipalities across the State from the 2% handle tax.

Finding: The Board did not monitor the remittance of taxes due from inter-track wagering location licensees to counties and municipalities throughout the State.

During testing, auditors noted the Board did not monitor inter-track wagering location licensees to ensure each entity remitted 2% of its handle at each location to the county and/or municipality where the location was situated. According to the Board's annual reports, inter-track wagering location licensees should have paid \$5.6 million, \$5.3 million, and \$5.1 million in taxes to counties and municipalities across the State during Calendar Year 2014, Calendar Year 2015, and Calendar Year 2016, respectively.

Board officials stated this problem was due to a lack of resources.

Response: The Board will continue to strengthen its process and internal controls to ensure the inter-track wagering licensees are remitting to local government the proper amounts. However, the Board has had a process in place that not once in 28 years has a local municipality complained to the Board of any discrepancy between their receipts and the 1% of handle it receives. The Board publishes monthly on its website and annually in its Annual Report, also available on the Board's website, handle reports. The local governments calculate 1% of the Board's posted handle amounts to confirm they received the proper amount from each inter-track wagering licensee. Every municipality knows exactly what is due to them and there are many sources of documentation made available by the Board. If such amounts do not reconcile, the local government would contact the Board to review any potential discrepancies.

Auditors Comment: External parties, such as the local governments, are not a component of the Board's internal control structure and do not have authority to enforce the Act. Under the Act (230 ILCS 5/9(c)), the Board is vested with the power to determine whether its licensees have complied with the provisions of the Act. Good internal controls over

Accepted or Implemented – continued

regulation include developing a process to determine, with reasonable assurance, at least on a test basis, that each licensee complied with the Act and not to place undue reliance on external parties who may or may not know the Board has posted handle information online.

Updated Response: Accepted. The Board is developing a proactive process to ensure municipalities are tracking their allocated handle percentage and reporting to the Board when there is a discrepancy.

12. Implement controls to provide assurance travel vouchers are timely submitted, vouchers are properly coded, purchase/requisition orders are complete and accurate, Agency File Balancing Reports are signed, expenditures are supported by adequate and proper documentation, invoices are timely reviewed, invoices are date stamped upon receipt at the Board, dates are properly entered into AIS, all required interest due under the Act is paid, and expenditures incurred are reasonable and necessary. (Repeated-2010)

Finding: The Board lacked adequate controls over its expenditure processing.

During the examination period, the Board had 669 non-payroll, non-laboratory, non-grant expenditures, totaling \$711,742. During testing, auditors examined 60 of these vouchers, totaling \$166,832, and noted the following:

- (1) Four of 60 vouchers tested, totaling \$2,905, were travel vouchers not submitted in a timely manner. The vouchers were submitted between 67 and 315 days after the travel occurred.
- (2) One of 60 vouchers tested, totaling \$172, had a purchase/requisition order that was not internally consistent regarding the number of items ordered and received.
- (3) One of 60 vouchers tested, totaling \$2,099, was included on an Agency File Balancing Report with a total of 12 vouchers, totaling \$29,462, which was not signed by a Board official to authorize payment by the State Comptroller.
- (4) Three of 60 vouchers tested, totaling \$2,430, were for the payment of fuel invoices where all the supporting receipts lacked license plate numbers of the State vehicle and most of the receipts did not include the name of the individual purchasing the fuel.
- (5) Eight of 60 vouchers tested, totaling \$33,907, were not reviewed by the Board within 30 days of receiving the vendor's invoice. The vouchers were reviewed between 33 and 133 days after the invoice was received by the Board.

REVIEW: 4489

(6) Two of 60 vouchers tested, totaling \$1,215, did not have evidence of the Board's review of the voucher; therefore, auditors were unable to determine when the invoice was reviewed by the Board's staff.

(7) Three of 60 (5%) vouchers tested, totaling \$10,911, did not have evidence of the date when the Board received the vendor's invoice; therefore, auditors were unable to determine whether the Board's review of the voucher was timely or if interest was due to the vendor under the State Prompt Payment Act.

(8) Seven of 60 vouchers tested, totaling \$35,329, had an underpayment of prompt payment interest on the voucher's corresponding interest payment.

(9) One of 60 vouchers tested, totaling \$15, was charged to an incorrect detail object code.

(10) During a reconciliation of the Board's property listing to expenditures paid by the State Comptroller, 10 vouchers, totaling \$4,190, for refurbished toners, blank badge cards, and fingerprint ribbons were charged against the wrong detail object code, electronic data processing supplies.

(11) In performing analytical reviews of mileage reimbursements paid, auditors noted the Board paid one individual \$358 in mileage reimbursements while the individual had an individually-assigned State vehicle. The Board did not provide an explanation for why paying a mileage reimbursement was the most economical mode of transportation available and was a reasonable and necessary expenditure of State funds.

(12) During analytical reviews, auditors identified significant variances within the Board's FY15 electronic data processing expenditures. In following up on this variance, auditors concluded the Board's internal control structure did not identify three invoices, totaling \$13,015, from the Department of Central Management Services (Department) for services provided by the Statistical Services Revolving Fund. Upon discussing this matter with Board officials, it was determined the Board was unaware the Department had changed systems to provide agencies with invoices electronically, as opposed to mailing out paper invoices. These invoices were vouchered by the Board between 1 to 43 days late.

Board officials stated these problems were due to human error and records retention issues between the Board and the Administrative and Regulatory Shared Services Center at the Department of Revenue (Shared Services).

Response: Partially Not Accepted.

1) Board disagrees. Audit staff misstates what IRS Publication 463, Chapter 6, provides. It does not require receipts to be submitted within 60 days after the day of travel. It provides "reasonable period of time" depends on the facts and circumstances of

REVIEW: 4489

Accepted or Implemented – continued

your situation. It further provides that adequately accounting for your expenses within 60 days after they were paid or incurred is a safe harbor, but not a requirement.

- 2) The Board considers this not to be material. Mistype on P.O. on quantity received. The agency ordered 3 boxes of paper and received 3 boxes of paper. All other information on the PO is correct.
- 3) The Board disagrees. The original balancing report that was sent to the IOC by Shared Services was appropriately signed. It had to be signed to be accepted by the IOC and for the vouchers to be paid. Only the copy given to us by Shared Services was not signed. The IOC will have the signed copy for your review. Copies of the documents are not required to be signed.
- 4) Board disagrees. Board provided access to the original auditor requesting fuel receipts at the moment of the request and not at the time of the exception listing. Please note, the auditor authoring this listing is not the original requestor of the receipts. The Board adheres to its vehicle policy by submitting and attesting to the fuel and maintenance occurrences submitted with the receipts to each assigned vehicle on the form prescribed by CMS. The Board considers signing the CMS form with all the receipts behind it as complying with its rules to sign each receipt.
- 5) The Board agrees. This was due to staffing issues that have been rectified.
- 6) The Board disagrees. In order for the voucher to be processed by Shared Services, they would have required a signed copy. That date is recorded in AIS. The signed invoice was not returned to the Board.
- 7) The Board disagrees. In order for the voucher to be processed by Shared Services, they would have required a signed copy. That date is recorded in AIS. The signed invoice was not returned to the Board.
- 8) The Board disagrees. The Board does not calculate Prompt Pay Interest, nor does it have the ability to alter the payment calculation. All dates are recorded accurately in AIS. The Board uses a Goods Acceptance Date of when the Board has officially reviewed an invoice and has determined all components are accurate. This is consistent with the Administrative Code regarding payment.
- 9) The Board considers this not to be material, though the Board agrees, the incorrect DOC was used.
- 10) The IOC paid the invoice with the DOC we used.

REVIEW: 4489

- 11) Employee requested to use personal vehicle after discovering a leak in the fuel system on the day of travel. Former Executive Director approved considering the safety of the employee and potential cost with any related towing or damages.
- 12) The Board agrees. The Board is now retrieving vouchers online.
- 13) The Board agrees and has made the correction.

Auditors Comment: In regards to #1, the Board has yet to provide a reasonable explanation for exactly why the Board's staff and members could not submit their travel vouchers earlier than between 67 and 315 days after the travel occurred. Instead, they point to IRS guidance not cited by us as merely a "safe harbor". In our opinion, State agencies should implement controls now to comply with IRS guidance as opposed to waiting for the IRS to note the problem.

In regards to #2, purchase requisitions should properly report the quantity of goods received by the Board so it can be matched up to the vendor's invoice. This basic internal control mechanism calls for further inquiry when the reported quantity delivered does not agree with the quantity ordered, with any errors corrected before an invoice is submitted to the State Comptroller for payment to the vendor.

In regards to #3, SAMS (Procedure 17.10.20) notes electronic voucher submissions still require a signed Agency Filing Balancing Report to be submitted to the State Comptroller and that the agencies are still responsible for maintaining all supporting documentation necessary to support the transaction. The Board states they maintain a copy of this document. We could not ascertain the approval/authorization of the Agency Filing Balancing Report due to the lack of a signature and we do not hold that the "copy" retained by the Board as documentation supported what the Board purportedly submitted to the State Comptroller.

In regards to #4, the Board's response does not address the problem identified in our examination. First, the eight vouchers were not related to fuel purchases. Second, these eight vouchers were not cited for not being provided to us timely; these eight vouchers were noted for not having been reviewed by the Board in a timely manner when the vendor originally submitted its invoice to the Board. To the extent the response then addresses the subsequent bullet point, the Board's own *Vehicle Use Policy* requires the Board's staff to handle fuel receipts in the manner described in the finding. If the Board wants to follow a different process, the Board should redraft its *Vehicle Use Policy* and resubmit it to the Department of Central Management Services in accordance with the State Vehicle Use Act (30 ILCS 617/10(b)).

In regards to #6 and #7, we do not understand the point the Board is attempting to make. The first bullet point notes the voucher's supporting documentation did not have evidence of review by the Board, which should have happened before the vendor's invoice was sent to Shared Services. The second exception addresses the date of when the Board received an invoice from the vendor, which the Board must record to both determine the start date of

Accepted or Implemented – continued

interest accrual under the State Prompt Payment Act and show compliance with voucher processing timeframes set by the Illinois Administrative Code.

In regards to #8, the Board is solely responsible for the calculation and payment of interest accrued to vendors under the State Prompt Payment Act (30 ILCS 540/3-2).

In regards to #9 and #10, the Board did not code the noted vouchers correctly to properly report its expenditure data. It is not relevant whether the State Comptroller processed the voucher.

Updated Response: Implemented. The Board has addressed auditors' concern with updated travel and vehicle policies. The Board has also added staff to ensure a more accurate and complete accounting process.

13. Appoint a Director of inter-track wagering and simulcast wagering by inter-track licensees and inter-track wagering location licensees and define that individual's powers, authority, and duties by administrative rule, or seek a legislative remedy.

Finding: The Board has not appointed a Director to oversee non-live racing and has not adopted administrative rules specifying the Director's method of appointment and powers, authority, and duties.

Board officials stated they believe this position is already covered by the State Director of Mutuels.

Response: Board officials stated the position has been occupied and believe this position is covered by the State Director of Mutuels, who oversees all forms of pari-mutuel wagering, including inter-track wagering, simulcast wagering, and advanced deposit wagering.

With enactment of the Illinois Horse Racing Act of 1975, the State Director of Mutuels oversaw all aspects of pari-mutuel wagering for live horse racing. Upon amendment of the Illinois Horse Racing Act of 1975 in 1994 to enact simulcast and inter-track wagering, such pari-mutuel related responsibilities were included under the State Director of Mutuels title. Again, in 2009 when advanced deposit wagering was enacted, such pari-mutuel wagering responsibilities were also included under the purview of the State Director of Mutuels. The same individual has been the State Director of Mutuels for the Board since 1975, thus, although the Illinois Horse Racing Act of 1975 requires rules to hire the individual that oversees simulcast and intertrack wagering, they were not needed because no new director has been hired since then. In addition, the State Director of Mutuels' job description includes all of the responsibilities covered by this finding. However, the Board will either pursue a legislative change or rulemaking required by the Illinois Horse Racing Act of 1975.

Auditors Comment: In the Act, the General Assembly has specifically defined the Director of Mutuels' position and responsibilities in supervising and verifying pari-mutuel pools (230 ILCS 5/3.04) and established the Director of Mutuels' appointment process by the Board (230 ILCS 5/9(h)). If the General Assembly had intended for this position to be filled by the Director of Mutuels, it would have stated such in the statute. The primary responsibility of State agencies is to administer the functions given to them by the General Assembly in accordance with State law as written. If the Board believes this position does not need to exist, it should seek a legislative remedy.

Updated Response: Accepted and Partially Implemented. On May 29, 2018, the IRB appointed an acting Director of Pari-mutuels, to oversee all Pari-mutuel, Inter-track and Simulcast wagering. The Board has begun the rule process to propose required rules and will incorporate them into its ongoing review and revision of the Board's entire administrative code, which exceeds 500 pages.

14. Perform an analysis of the Board's vehicles to determine whether each vehicle can be justified as the most cost effective solution for the Board's specific operational needs without incurring excessive commuting miles.

Finding: The Board incurred excessive commuting mileage on its vehicles.

During testing, the Board reported the following business mileage and commuting mileage to the Department of Central Management Services, by driver:

Fiscal Year	Business Miles	Commuting Miles	Total Miles	Commuting Percentage
2015	3,972	5,636	9,608	59%
2015	945	7,562	8,507	89%
2015	7,849	4,608	12,457	37%
2015	5,995	10,164	16,159	63%
2015	11,392	6,555	17,947	37%
2016	4,010	6,426	10,436	62%
2016	6,760	7,751	14,511	53%
2016	4,690	10,923	15,613	70%
2016	6,819	4,896	11,715	42%
	52,432	64,521	116,953	55%

Further, auditors were not provided with an analysis of the Board's vehicles to determine whether maintaining each vehicle represents the best interests of the State given the Board's specific operating needs. While auditors did not note any reimbursement to the State for these costs, auditors did note the Board followed Internal Revenue Service guidance on including the commuting mileage as a taxable fringe benefit.

Accepted or Implemented – continued

The Illinois Administrative Code only authorizes commuting miles for the Board's employees when the Board's Executive Director determines in writing that an "employee's work assignment requires traveling to numerous locations over a considerable territory with infrequent stops at the employee's headquarters". In addition, the Governor's *Policy Regarding Individual Assignment of State Vehicles* notes "as a general matter, unless it is in the best interests of the State, commuting miles should not exceed 30% of miles driven."

Board officials stated this problem was due to oversight.

Response: In accordance with Illinois Administrative Code (44 Ill. Admin. Code 5040.350(a)(7)), the Board's Executive Director has determined that "an employee's work assignment requires traveling to numerous locations over considerable territory with infrequent stops at the employee's headquarters." The weekend and evening race schedules creates the need for employees to attend to security, pari-mutuel, or racing regulated matters when called on by the Board's field managers. The Board continues to analyze the use efficiency of State-assigned vehicles. The Board analyzed its cost to reimburse its employees for business-related miles versus the cost of the Board's current vehicle maintenance program. The approximate cost for mileage reimbursement is \$28,612.08 versus approximately \$34,800 for the Board's maintenance program. The variance does not allow for the need to travel to various locations in a day or evening or on short notice as required, thus making the current arrangement most effective solution for the Board. The Board has not incurred excessive costs as outlined in this finding.

Updated Response: Implemented. Pursuant to auditors' recommendation the Board performs monthly analysis to monitor operational needs of the agency.

15. Implement a process to ensure all personnel assigned to a vehicle owned or leased by the State provide their personal liability insurance certifications to the Board's Executive Director in the manner required by the Illinois Vehicle Code.

Finding: The Board did not exercise adequate control over personal liability insurance certifications from personnel assigned a State vehicle.

During testing, auditors noted the following problems with four of the ten required instances where a personal liability insurance certification was required to be filed by Board personnel during the examination period:

- One individual's FY15 certification was filed 322 days late and their FY16 certification was filed 229 days late.
- One individual did not file their FY15 certification.
- One individual did not file a new certification upon receiving a new vehicle assignment.

Board officials stated these problems were due to oversight.

REVIEW: 4489

Updated Response: Implemented. Vehicle policy updated and a vehicle coordinator has been assigned.

16. Perform reconciliations in accordance with requirements established within SAMS.

Finding: The Board did not comply with reconciliation requirements for the Monthly Appropriation Status Report (SB01) or the Monthly Cash Report (SB05) established within the Statewide Accounting Management System (SAMS).

During testing, auditors noted the following:

Standardbred Purse Fund (217), Illinois Racing Board Charity fund (271), and Quarter Horse Purse Fund (785)

- Three of 30 SB01 reconciliations for June 2016 through August 2016 were not prepared by the Board until April 2017.
- One of 30 SB01 reconciliations for September 2016 was not prepared by the Board.
- One of 24 SB05 reconciliations for June 2016 was not prepared by the Board until June 2017.

Horse Racing Fund (632)

- 14 of 30 (47%) SB01 reconciliations from July 2015 through August 2016 were not prepared by the Board until April 2017.
- One of 30 (3%) SB01 reconciliations for September 2016 was not prepared by the Board.
- One of 24 (4%) SB05 reconciliations for June 2016 was not prepared by the Board until June 2017.

Board officials stated these problems were due to oversight.

Updated Response: Implemented. The Board is performing required reconciliations.

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

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

While auditors noted significant improvements in the Board's monitoring of statutory racing requirements at standardbred races since the last examination, auditors continued to note several exceptions at the thoroughbred racetracks during testing of 25 weeks (70 unique days) of thoroughbred racing as follows:

REVIEW: 4489

Accepted or Implemented – continued

- For six of 25 race weeks tested, two racetracks did not offer six races a week limited to Illinois-bred horses.
- For one of 25 race weeks tested, the Board did not document within the Stewards' daily minutes that six races were offered by the racetrack during the week limited to Illinois-bred horses.
- For four of 70 race dates tested, the Board did not document within the Stewards' daily minutes either that two races were offered by the racetrack limited to Illinois-bred horses or its consent to eliminate and/or substitute races for Illinois-bred horses on a given day due to insufficient competition among the horse population, as allowed for by the Illinois Horse Racing Act.

Board officials stated these problems were due to human error.

Response: The Board continues to remedy this finding during the examination and will continue to implement processes to monitor its employees and the operations of its organizational licensees (racetracks) and occupation licensees.

For instance, the Board has had the following procedure in place to ensure compliance with the Illinois restricted race statutory requirements: The Racing Secretary for both breeds is required to submit to the Stewards, prior to the draw, a Board generated form for insuring Illinois restricted race compliance.

This Board form indicates the following:

- The number of restricted races for the given card.
- The conditions of those races.
- The races requested to be waived due to insufficient competition.

The Stewards are required to approve/disapprove the requests and certify the rule compliance. This information is then recorded in the daily minutes.

Updated Response: Implemented. The Board continues to monitor and enforce.

18. Review records retention schedule, update it to reflect the Board's current environment, and submit it to the State Records Commission.

Finding: The Racing Board has not updated its records retention schedule.

During testing, auditors noted the Board's latest records retention schedule was approved by the State Records Commission (Commission) on August 15, 1990.

Board officials stated this problem was due to other competing priorities.

REVIEW: 4489

Response: The Board will continue to review its record retention schedule again and request updates. The Board began its most recent record retention review in 2017 before this issue was raised by the auditors.

Updated Response: Accepted. The Board has dedicated staff and will be working with the appropriate state agencies/departments to update its records retention schedule.

19. File accurate Agency Fee Imposition Reports. (Repeated-2012)

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

During testing, auditors noted the Board incorrectly reported cash receipts generated by its fees, as noted below:

FY	Fee Imposition Reports		Cash Receipts Journals		Difference
	Name	Amount	Name	Amount	
2015	Organization Fee	\$ 84,160	Organization License	\$ 84,260	(100)
2015	Occupation Fee	\$ 170,725	Occupation License	\$ 175,375	(4,650)
2015	Photo Fee	\$ 140	Photo Identification Fee	\$ 145	(5)
2015	Fingerprint Fee	\$ 26,572	Fingerprint Fees	\$ 27,756	(1,184)
2016	Occupation Fee	\$ 148,300	Occupation License	\$ 148,950	(650)
2016	Fingerprint Fee	\$ 21,085	Fingerprint Fees	\$ 21,179	(94)

Board officials stated these problems are due to the Board not having its receipt records finalized in time to meet this reporting requirement.

Updated Response: Accepted. The Board continues to ensure accurate and complete fee imposition reports.

20. Work with the State’s Chief Information Officer to post information about grant awards on the website data.illinois.gov.

Finding: The Racing Board did not work with the State’s Chief Information Officer to post information about its grant awards on the website data.illinois.gov. for the following grant programs:

- Purse Supplement Grants from the Quarter Horse Purse Fund, with total grant awards of \$159,500 during the examination period;
- Purse Supplement Grants from the Standardbred Purse Fund, with total grant awards of \$695,147 during the examination period; and
- Annual charity grants for medical, dental, social, addiction, and compulsive gambling services from the Illinois Racing Board Charity Fund, with total grant awards of \$1,500,000 during the examination period.

Accepted or Implemented – concluded

Board officials stated these problems were due to delays arising from difficulties in obtaining assistance in learning to navigate and load information to the website.

Response: The Board is now publishing grant awards in data.illinois.gov. However, the Board disagrees with the auditor that it failed to work with the State’s Chief Information Officer. The Board provided the auditor with correspondence and attempts by the Board to access the portal.

Please note, Section 10 of the Grant Information Collection Act also states in pertinent part, “The Chief Information Officer of the State, as designated by the Governor, shall coordinate with each State agency to develop...”

Updated Response: Implemented.

21. Ensure applicants for grant funds submit a grant application, as required by the Illinois Grant Funds Recovery Act.

Finding: The Illinois Racing Board (Board) did not require grant applicants to submit an application, as required by the Illinois Grant Funds Recovery Act (Act).

During testing, the Board did not require grant applicants to submit an application for distributions from the Quarter Horse Purse Fund, totaling \$159,500, and the Standardbred Purse Fund, totaling \$695,147, during the examination period.

The Grant Funds Recovery Act requires any person or organization desiring to receive grant funds from the Board to submit a grant application on forms prescribed by the Board.

Board officials stated they did not originally consider these transactions grants.

Response: In addition to the Board’s application for annual race dates, which requests such information from all Organization Licensee applicants, the Board has prepared and will require applicants to complete grant specific applications or include such questions in its annual race dates application.

Updated Response: Implemented.

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

REVIEW: 4489

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 FY15 and FY16, 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 did not file the required reports during FY16; however reports filed in January 2015 and November 2017 indicated that no employees spent more than 50% of their time working at a location other than official headquarters.