



STATE OF ILLINOIS  
**OFFICE OF THE  
AUDITOR GENERAL**

William G. Holland, Auditor General

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**SUMMARY REPORT DIGEST**

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**ILLINOIS GAMING BOARD**

**FINANCIAL AUDIT OF THE STATE GAMING  
FUND AND COMPLIANCE EXAMINATION  
For the Year Ended: June 30, 2010  
Release Date: June 28, 2011**

**Summary of Findings:**

<b>Total this audit:</b>	<b>8</b>
<b>Total last audit:</b>	<b>0</b>
<b>Repeated from last audit:</b>	<b>0</b>

**SYNOPSIS**

- The Board did not have formal written procedures and supporting documentation detailing the calculation for the transfers made to the Education Assistance Fund. Actual transfers made totaled \$383,000,000 during fiscal year 2010.
- Board employees who evaluated the proposals for the Central Communications System failed to provide evidence of the date evaluations were conducted.
- Board procurement files did not contain adequate records to evidence that the Evaluation Committee for the Central Communications System procurement met. Additionally, there was no documentation to show that significant scoring differences were discussed by committee members.
- Lack of review for the scoring of pricing in the evaluation process of the Central Communications System procurement resulted in the award to a vendor that was not the highest ranked.
- The Board did not maintain sufficient controls over the accuracy and reporting of its property.

{Expenditures and Activity Measures are summarized on the reverse page.}

**ILLINOIS GAMING BOARD**  
**FINANCIAL AUDIT - STATE GAMING FUND (129)**  
**AND COMPLIANCE EXAMINATION**  
**For The Year Ended June 30, 2010**

<b>EXPENDITURE STATISTICS</b>	<b>2010</b>
<b>Total Expenditures.....</b>	<b>\$ 107,866,857</b>
OPERATIONS TOTAL.....	\$ 23,302,804
% of Total Expenditures.....	21.6%
Personal Services.....	6,402,345
Other Payroll Costs (FICA, Retirement).....	3,231,834
All Other Operating Expenditures.....	13,668,625
AWARDS & GRANTS.....	\$ 84,564,053
% of Total Expenditures.....	78.4%
<b>Average Number of Employees.....</b>	<b>83</b>
<b>STATE GAMING FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE (in thousands)</b>	<b>2010</b>
Revenues	
Riverboat taxes.....	\$ 483,091
Licenses and fees.....	766
Other.....	1
Total.....	<u>\$ 483,858</u>
Expenditures	
Public protection and justice.....	\$ 22,974
Intergovernmental.....	84,564
Other.....	1,235
Total.....	<u>\$ 108,773</u>
Other sources (uses) of financial resources	
Transfers-out to Education Assistance Fund.....	\$ (375,085)
Change in fund balance.....	\$ -
<b>STATE GAMING FUND BALANCE SHEET (in thousands)</b>	<b>2010</b>
Assets	
Cash and cash equivalents.....	\$ 13,848
Taxes receivable and Other, net.....	2,588
Total.....	<u>\$ 16,436</u>
Liabilities	
Accounts payable and accrued liabilities.....	\$ 991
Intergovernmental payables.....	8,984
Due to State fiduciary funds.....	97
Due to other State funds.....	6,364
Total.....	<u>\$ 16,436</u>
Fund Balance.....	\$ -
<b>SELECTED ACTIVITY MEASURES (Unaudited)</b>	<b>Calendar Year 2009</b>
Number of Riverboat Licenses.....	10
Adjusted Gross Receipts (AGR).....	\$ 1,428,923,092
Number of Admissions.....	14,418,760
Total Riverboat Taxes.....	\$ 495,395,953
State Share.....	\$ 409,510,245
Local Share.....	\$ 85,885,708
<b>BOARD ADMINISTRATOR</b>	
During the Audit Period and Currently: Mr. Mark Ostrowski	

## **FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS**

### **LACK OF CONTROLS GOVERNING THE TRANSFER REQUIRED BY THE ILLINOIS ADMINISTRATIVE CODE**

#### **Lack of supporting documentation**

The Board did not have formal written procedures and supporting documentation detailing the calculation for the transfers made to the Education Assistance Fund (EAF). In addition, the Board did not have adequate segregation of duties to approve the final amount transferred to the EAF. Actual transfers made totaled \$383,000,000 during Fiscal year 2010.

#### **None of the actual transfers made during FY10 reconciled to reports prepared by Board personnel**

The auditors noted that while the Board did use the required formula to prepare its Fund Balance Report (Report), which is used to determine the amount that is to be transferred to the EAF, none of the actual transfers made during FY10 reconciled to the Reports prepared by Board personnel. As a result, the statutory mandated transfers could be potentially understated by \$9,300,000 for FY10.

We recommended the Board implement formal documented procedures regarding the calculation of the transfer. We further recommended the Board designate an individual to review the transfer documentation who is independent of the transfer calculation and transfer initiation documents. (Finding 1, pages 12-13)

#### **Board agrees with auditors**

Board officials accepted the recommendation and stated the Board has already formalized procedures regarding the calculation of the transfer. In addition, another management employee now reviews, approves and authorizes the transfer documentation who is independent of the calculation of the transfer initiation documents.

### **CENTRAL COMMUNICATIONS SYSTEM PROCUREMENT - LACK OF EVALUATION CERTIFICATION**

The Board employees who evaluated the proposals for the Central Communications System (CCS) failed to provide evidence of the date evaluations were conducted.

During our review of the procurement processes utilized by the Board in selecting a vendor to provide a CCS, we examined the procurement files maintained by the Board. We found:

#### **None of the five reviews indicated the date that the reviewer performed the review**

- **Administrative Review:** The Board's Administrative Review Form provides sections for the reviewer to sign and date the review. While the reviewer did sign the Form, none of the five reviews indicated the date that the reviewer performed the review.

**Four of 6 reviewers did not complete the evaluation for one proposal**

- **Mandatory System Requirements Review:** The Board’s Mandatory System Requirements Form provides sections for the reviewer to determine whether requirements were met or not, comment on the ratings, and to date when the evaluation was conducted. There were six reviewers and five proposals to review. Sixty-seven percent of the reviews (20 of 30) were not dated by the reviewers. Additionally, for one proposal, 4 of the 6 reviewers did not complete the evaluation and one of those forms did not even identify who the reviewer was. None of the Forms have a section where the reviewer can certify the ratings via reviewer signature.

**No indication of when the review took place on all 24 evaluations conducted by the evaluation team**

- **Technical Evaluation Review:** The Board’s Technical Review Form provides sections for the reviewer to assign a point value to specific criteria and provide comments for those ratings. The Form does not provide a section for the reviewer to identify when the review was completed. None of the 24 evaluations conducted by the evaluation team indicated when the review took place. None of the Forms have a section where the reviewer can certify the ratings via reviewer signature.

We recommended the Board direct staff that review procurement opportunities to date the evaluations to increase transparency in the process. Additionally, the Board should revise evaluation forms to include a section for the reviewer to certify the ratings with their signature. (Finding 2, pages 14-15)

**Board agrees with auditors**

Board officials accepted the recommendation. In future procurements, the Gaming Board will direct staff that review procurements to date their evaluations. The Gaming Board will further revise its evaluation forms for future procurements to include a section for the reviewer to certify the ratings with their signature.

## **CENTRAL COMMUNICATIONS SYSTEM PROCUREMENT - LACK OF DOCUMENTATION**

The Board procurement files did not contain adequate records to evidence that the Evaluation Committee for the Central Communications System (CCS) procurement met. Additionally, there was no documentation to show that significant scoring differences were discussed by committee members.

**The file did not contain documentation to support meetings, either who attended or what topics were discussed**

During our review of the procurement processes utilized by the Board in selecting a vendor to provide a CCS, we examined the procurement files maintained by the Board. The file did contain a summary memo dated April 29, 2010, stating, “The committee met on multiple occasions.” However, there was no documentation in the file to support those meetings, either who attended or what topics were discussed.

The Board reported that “although the procurement files maintained by the Board with respect to the FY10 CCS RFP do not adequately document the dates the Evaluation Team met, who was present and what was discussed, the Evaluation Team did meet on multiple occasions and discussed all aspects of the proposals, including scoring and differences in scoring. The Evaluation Team’s evaluation sheets reflect those discussions.”

We recommended the Board document evaluation committee meetings including dates, who attended, and what was discussed. Additionally, the Board should follow CMS Guidelines and ensure that: major differences in scores are discussed to determine if an error was made or an evaluator missed or misinterpreted a vendor’s proposal; and rating points are supported with thorough and appropriate comments. (Finding 3, pages 16-17)

### **Board agrees with auditors**

Board officials accepted the recommendation and stated that the Board will direct the Evaluation Team to document its meetings including dates, who attended and what was discussed. The Gaming Board will also direct any future Evaluation Teams to support their points through more thorough comments.

## **CENTRAL COMMUNICATIONS SYSTEM PROCUREMENT - LACK OF REVIEW**

Lack of review for the scoring of pricing in the evaluation process of the Central Communications System (CCS) procurement resulted in the award to a vendor that was not the highest ranked. The Board reported they have since vacated the award, terminated the contract and rebid the solicitation. Further, the legislation authorizing the Board to seek a central communications system is currently under review by the Illinois Supreme Court.

During our review of the procurement processes utilized by the Board in selecting a vendor to provide a CCS, we examined the procurement files maintained by the Board, including the technical and pricing evaluation scoring of the proposals. We found:

- A Board staff member, who was not part of the team that scored the technical aspect of the procurement, was responsible for opening the pricing component of the proposals and completing a scoring matrix with the assignment of points.
- No one from the Board reviewed the ratings assigned to the pricing component, resulting in only one set of eyes reviewing and interpreting the pricing information.
- A calculation error resulted in Intralot’s 2nd scenario proposal to be overstated by \$11 million.
- The Board incorrectly added in subcontractor payments on the Intralot pricing proposals resulting in an overstated total

**No one from the Board reviewed the ratings assigned to the pricing component**

**A calculation error resulted in Intralot’s 2<sup>nd</sup> scenario proposal to be overstated by \$11 million**

contract price.

- The Board allowed one vendor (Scientific Games) to submit pricing based on 12,500 site locations while the other two vendors priced 10,000 site locations – the Board did not clarify the different figure with Scientific Games.
- Other areas existed in pricing where assumptions had to be made by the Board employee (i.e., calculating Scientific Games price over 66 months as opposed to 72 months for the other vendors), which he did not clarify with the vendor prior to completing the assignment of pricing points.
- The Board was not aware of the price scoring problems until Intralot submitted its 5th protest of the award on September 3, 2010. The Board forwarded the information to officials at CMS for them to review. A CMS official responded to this inquiry on September 9, 2010.

**A Board employee indicated that the Board was under pressure to move forward with the contract**

A Board employee, who performed the pricing calculations for the procurement, indicated that the Board was under pressure to move forward with the contract and that any steps backward would have been “frowned upon.” Additionally, the RFP did not make it clear how the proposers were to provide the responses.

We recommended the Board develop procedures for oversight review of scoring evaluations for procurement activity completed by the Board. (Finding 4, pages 18-20)

**Board agrees with auditors**

Board officials accepted the recommendation and stated that it should develop procedures for oversight review of scoring evaluations for procurement activity completed by the Board. However, the Board did not agree that “pressure” was an underlying cause for either the lack of review, the miscalculation or any assumptions that were made and stated it cannot document whether the wrong vendor was awarded the contract.

## **INADEQUATE RECONCILIATION AND REPORTING OF PROPERTY**

The Board did not maintain sufficient controls over the accuracy and reporting of its property. Some of the conditions noted follow:

- The Board did not adequately reconcile its property control records to the Agency Report of State Property (C-15) filed with the Comptroller.
- The auditor was unable to determine reconciling differences between the Board prepared C-15’s and Property Listing. The Board could not provide support for numbers presented on the C-15.
- The Board’s property listing contained inadequate and inaccurate information.
- The Board did not properly record pieces of equipment on its property listing.
- The Board did not timely record equipment on its property

**The Board could not provide support for numbers presented**

**The Board’s property listing contained inadequate and inaccurate information**

listing.

We recommended the Board 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;
- The Board should work with the IOC to correct or properly adjust the discrepancies noted in their Quarterly and annual reporting to the IOC. (Finding 5, pages 21-24)

### **Board agrees with auditors**

Board officials accepted the recommendation and stated that the Board has addressed the discrepancies the auditor noted and is working to correct/adjust the discrepancies in our Quarterly and Annual reports to the IOC. In addition, the Board will draft formal policies and procedures to ensure compliance with the Property Control Act, Administrative Code and SAMS requirements.

### **OTHER FINDINGS**

The remaining findings are reportedly being given attention by the Board. We will review the Board's progress towards the implementation of our recommendations in our next engagement.

### **AUDITORS' OPINION**

Our auditors stated the State Gaming Fund Financial Statements of the Illinois Gaming Board as of and for the year ended June 30, 2010 are fairly stated in all material respects.

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WILLIAM G. HOLLAND  
Auditor General

WGH:CL:jv

### **AUDITORS ASSIGNED**

The financial audit and attestation engagement was performed by the Office of the Auditor General's staff.