

**STATE OF ILLINOIS  
ILLINOIS GAMING BOARD**

FINANCIAL AUDIT  
FUND 129 – STATE GAMING FUND  
For the Year Ended June 30, 2013

STATE OF ILLINOIS  
ILLINOIS GAMING BOARD  
FINANCIAL AUDIT – STATE GAMING FUND  
For the Year Ended June 30, 2013

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STATE OF ILLINOIS  
ILLINOIS GAMING BOARD  
FINANCIAL AUDIT – STATE GAMING FUND  
For the Year Ended June 30, 2013

**BOARD OFFICIALS**

**ILLINOIS GAMING BOARD**

<b>Chairman</b>	Judge Aaron Jaffe
<b>Board member</b>	Lee Gould
<b>Board member</b>	Michael Holewinski
<b>Board member</b>	Marybeth Vander Weele
<b>Board member</b>	Vacant (7/1/12 – present)
<b>Administrator</b>	Mark Ostrowski
<b>General Counsel</b>	Emily Mattison (3/8/13 – present) Vacant (11/16/12 – 3/7/13) Lynn Carter (7/1/12 – 11/15/12)
<b>Deputy General Counsel</b>	Vacant (3/8/13 – present) Emily Mattison (7/1/12 – 3/7/13)
<b>Deputy Administrators:</b>	
Enforcement	Rancifer Robinson (8/4/12 – present) Patrick Kimes (7/1/12 – 8/3/12)
Investigations	Scott Deubel
Audit and Financial Analysis	Douglas Bybee
Finance and Administration	Kathy Spain
<b>Chief Fiscal Officer</b>	Mark Lewis

**Board offices are located at:**

160 North LaSalle St.  
Suite 300  
Chicago, Illinois 60601

801 S. 7<sup>th</sup> Street  
Suite 400 – South  
Springfield, IL 62703

9511 West Harrison  
Des Plaines, IL 60016

8151 W. 183<sup>rd</sup> Street  
Tinley Park, IL 60487

STATE OF ILLINOIS  
ILLINOIS GAMING BOARD  
FINANCIAL AUDIT - STATE GAMING FUND  
For the Year Ended June 30, 2013

**FINANCIAL STATEMENT REPORT**

**SUMMARY**

The audit of the accompanying financial statements of the Illinois Gaming Board's State Gaming Fund was performed by the Office of the Auditor General.

Based on their audit, the auditors expressed an unmodified opinion on the State Gaming Fund's financial statements.

**SUMMARY OF FINDINGS**

The auditors identified matters involving the Board's internal control over financial reporting that they considered to be material weaknesses. The material weaknesses are described in the accompanying Schedule of Findings on pages 17-22 of this report as item 2013-001, *Inadequate Control over Financial Reporting*, and item 2013-002, *Inadequate Controls over Fund Transfers*.

**EXIT CONFERENCE**

The Illinois Gaming Board waived an exit conference in correspondence dated February 4, 2014. Responses to the recommendations were provided by Mark Lewis, Chief Fiscal Officer, in correspondence dated February 18, 2014.

SPRINGFIELD OFFICE:  
ILES PARK PLAZA  
740 EAST ASH · 62703-3154  
PHONE: 217/782-6046  
FAX: 217/785-8222 • TDD: 217/524-4646



CHICAGO OFFICE:  
STATE OF ILLINOIS BUILDING · SUITE S-900  
160 NORTH LASALLE · 60601-3103  
PHONE: 312/814-4000  
FAX: 312/814-4006

OFFICE OF THE AUDITOR GENERAL  
WILLIAM G. HOLLAND

## INDEPENDENT AUDITOR'S REPORT

Honorable William G. Holland  
Auditor General  
State of Illinois

And

Judge Aaron Jaffe, Chairman  
Illinois Gaming Board  
160 North LaSalle St.  
Suite 300  
Chicago, IL 60601

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the State Gaming Fund of the State of Illinois, Illinois Gaming Board, as of and for the year ended June 30, 2013, and the related notes to the financial statements, as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud

INTERNET ADDRESS: [AUDITOR@MAIL.STATE.IL.US](mailto:AUDITOR@MAIL.STATE.IL.US)

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or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State Gaming Fund of the State of Illinois, Illinois Gaming Board, as of June 30, 2013, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 2, the financial statements present only the State Gaming Fund and do not purport to, and do not, present fairly the financial position of the State of Illinois or the State of Illinois, Illinois Gaming Board, as of June 30, 2013, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Other Matters***

Management has omitted a management's discussion and analysis for the State Gaming Fund that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 20, 2014, on our consideration of the State of Illinois, Illinois Gaming Board's internal control over financial reporting of the State Gaming Fund and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Illinois, Illinois Gaming Board's internal control over financial reporting of the State Gaming Fund and its compliance.

**Restricted Use of this Auditor's Report**

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Comptroller, and agency management and is not intended to be and should not be used by anyone other than these specified parties.



BRUCE L. BULLARD, CPA

Director of Financial and Compliance Audits

Springfield, Illinois

February 20, 2014

**State of Illinois**  
**Illinois Gaming Board - State Gaming Fund**  
**Individual Nonshared Fund**

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**Balance Sheet**

June 30, 2013 (Expressed in Thousands)

	<u>State Gaming Fund</u>
<b>ASSETS</b>	
Cash equity with State Treasurer	\$ 170,473
Taxes receivable, net	7,308
Other receivables, net	116
<b>Total assets</b>	<u>177,897</u>
<b>LIABILITIES</b>	
Accounts payable and accrued liabilities	\$ 1,036
Intergovernmental payables	11,164
Due to other Board funds	42,772
Due to other State funds	121,066
Due to other State fiduciary funds	259
Due to component units	1,600
<b>Total liabilities</b>	<u>177,897</u>
<b>FUND BALANCE</b>	
Committed	-
<b>Total fund balance</b>	<u>-</u>
<b>Total liabilities and fund balance</b>	<u>\$ 177,897</u>

The accompanying notes to the financial statements are an integral part of this statement.

**State of Illinois**  
**Illinois Gaming Board - State Gaming Fund**  
**Individual Nonshared Fund**

**Statement of Revenues, Expenditures**  
**and Changes in Fund Balance**

For the Year Ended June 30, 2013 (Expressed in Thousands)

	<b>State Gaming Fund</b>
Revenues:	
Riverboat taxes	\$ 593,982
Licenses and fees	2,742
Other	1
<b>Total revenues</b>	<u>596,725</u>
Expenditures:	
Health and social services	862
Public protection and justice	36,476
Intergovernmental	103,556
<b>Total expenditures</b>	<u>140,894</u>
<b>Excess of revenues over expenditures</b>	<u>455,831</u>
Other sources (uses) of financial resources:	
Transfers-out	<u>(455,831)</u>
<b>Net other sources (uses) of financial resources</b>	<u>(455,831)</u>
Net change in fund balance	-
Fund balance, July 1, 2012	<u>-</u>
Fund balance, June 30, 2013	<u>\$ -</u>

The accompanying notes to the financial statements are an integral part of this statement.

**STATE OF ILLINOIS  
ILLINOIS GAMING BOARD – STATE GAMING FUND  
INDIVIDUAL NONSHARED FUND**

Notes to Financial Statements

June 30, 2013

**(1) Description of Fund**

The State Gaming Fund (Fund) is administered by the Illinois Gaming Board (Board). The Board is a part of the executive branch of government of the State of Illinois (State) and operates under the authority of and review by the Illinois General Assembly. The Board is subject to the authority of the Office of the Governor, the State's chief executive officer, and other departments of the executive and legislative branches of government (such as the Department of Central Management Services, the Governor's Office of Management and Budget, the State's Treasurer's Office, and the State Comptroller's Office) as defined by the Illinois General Assembly.

The purpose of the Fund is to receive and record taxes and fees obtained from owner's license applications for riverboat gambling and video gaming operations. Pursuant to appropriation, monies in the Fund are used to defray the costs associated with background investigations conducted by the Board, including personnel costs, enforcement of the Riverboat Gambling and Video Gaming Acts, and revenue sharing with units of local government. Excess funds are transferred to the Education Assistance Fund. All funds appropriated to the Board and all other cash received are under the custody and control of the State Treasurer.

**(2) Summary of Significant Accounting Policies**

The financial statements of the Fund, an individual nonshared fund of the Board, have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). To facilitate the understanding of data included in the financial statements, summarized below are the more significant accounting policies.

**(a) Financial Reporting Entity**

As defined by GAAP, the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

- 1) Appointment of a voting majority of the component unit's board and either (a) the primary government's ability to impose its will, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or
- 2) Fiscal dependency on the primary government.

Based upon the required criteria, the Fund has no component units and is not a component unit of any other entity. However, because the Fund is not legally separate from the State of Illinois, the financial statements of the Fund are included in the financial statements of the State of Illinois. The State of Illinois' Comprehensive Annual Financial Report may be obtained by writing to the State Comptroller's Office, Division of Financial Reporting, 325 West Adams Street, Springfield, Illinois, 62704-1871.

The financial statements of the State Gaming Fund are intended to present the financial position, and the changes in financial position of only that portion of the governmental activities of the State of Illinois that is attributable to the transactions of the Fund. They do not purport to, and do not, present

**STATE OF ILLINOIS  
ILLINOIS GAMING BOARD – STATE GAMING FUND  
INDIVIDUAL NONSHARED FUND**

Notes to Financial Statements

June 30, 2013

fairly the financial position of the State of Illinois as of June 30, 2013 and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**(b) Basis of Presentation**

In government, the basic accounting and reporting entity is a fund. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and/or other resources together with all related liabilities, obligations, reserves, and equities which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. A balance sheet and statement of revenues, expenditures, and changes in fund balance have been presented for the individual nonshared governmental fund administered by the Board.

The nonshared governmental fund is a special revenue fund. Transactions related to resources obtained from specific revenue sources (other than for expendable trusts) that are legally restricted for specified purposes are accounted for in special revenue funds. The Special Revenue Fund, Fund 129, is held in the State Treasury. The funds are appropriated by the General Assembly.

**(c) Measurement Focus and Basis of Accounting**

The individual nonshared governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues to be available if they are collected within 60 days of the end of the current fiscal year.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt obligations, claims and judgments, and compensated absences are recorded only when payment is due. General capital asset acquisitions are reported as expenditures. Proceeds of long-term debt obligations and acquisitions under capital leases are reported as other financing sources.

**(d) Cash and Cash Equivalents**

Cash and cash equivalents are defined as short-term, highly liquid investments readily convertible to cash with maturities of less than 90 days at the time of purchase. Cash and cash equivalents consist of deposits held in the State Treasury.

**(e) Interfund Transactions**

The Fund has the following types of interfund transactions between funds of other State agencies:

**Services provided and used**—sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used are reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are

**STATE OF ILLINOIS  
ILLINOIS GAMING BOARD – STATE GAMING FUND  
INDIVIDUAL NONSHARED FUND**

Notes to Financial Statements

June 30, 2013

reported as interfund receivables and payables in the governmental funds balance sheets or the government-wide statements of net assets.

**Reimbursements**—repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements are reported as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

**Transfers**—flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers.

**(f) Fund Balance**

In the fund financial statements, governmental funds report commitments of fund balances for amounts with self-imposed constraints or limitations that have been placed at the highest level of decision making. The Fund is comprised of a committed fund balance of \$0.0 as of June 30, 2013. Subsequent fund balances are restricted through enabling legislation and are subject to mandatory transfers to the Education Assistance Fund and therefore are classified as committed. These committed funds cannot be used for any other purpose unless the Illinois General Assembly removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

**(g) Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**(h) Current Adoption of GASB Statements**

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, was effective for the Board beginning with its year-end June 30, 2013. The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in FASB pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, was effective for the Board beginning with its year-end June 30, 2013. The objective of this statement is to provide financial reporting guidance for deferred outflows and inflows of resources and to rename the residual measure from "Net Assets" to "Net Position."

The Board has determined that these statements do not have a material impact on financial reporting.

**STATE OF ILLINOIS  
ILLINOIS GAMING BOARD – STATE GAMING FUND  
INDIVIDUAL NONSHARED FUND**

Notes to Financial Statements

June 30, 2013

**(i) Future Adoption of GASB Statements**

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, will be effective for the Board beginning with its year-end June 30, 2014. The objective of this statement is to establish accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, will be effective for the Board beginning with its year-end June 30, 2015. The objective of this statement is to improve accounting and financial reporting by state and local governments for pensions.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, will be effective for the Board beginning with its year-end June 30, 2015. The objective of this statement is to address issues regarding the application of the transition provisions of Statement No. 68.

The Board has determined that these statements will not have a material impact on financial reporting.

**(3) Deposits**

The State Treasurer is the custodian of the State's cash and cash equivalents for funds maintained in the State Treasury. Deposits in the custody of the State Treasurer are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act of the Illinois Compiled Statutes (15 ILCS 520/11). Funds held by the State Treasurer have not been categorized as to credit risk because the Board does not own individual securities. Detail on the nature of these deposits and investments is available within the State of Illinois' Comprehensive Annual Financial Report.

**STATE OF ILLINOIS  
ILLINOIS GAMING BOARD – STATE GAMING FUND  
INDIVIDUAL NONSHARED FUND**

Notes to Financial Statements

June 30, 2013

**(4) Interfund Balances and Activity**

**(a) Balances Due to Other Funds**

The following balances (amounts expressed in thousands) at June 30, 2013 represent amounts due to other funds:

	<u>Due to</u>	
Other Board Funds	\$ 42,772	Due to other Board funds pursuant to statutory authority of the Riverboat Gambling Act.
Other State Funds	121,066	Due to other State funds pursuant to statutory authority of the Riverboat Gambling Act, as well as reimbursement of administrative costs and payment for services related to riverboat security and video gaming enforcement.
Other State Fiduciary Funds	259	Due to other State fiduciary funds for payment of retirement benefits.
	<u>\$ 164,097</u>	

**(b) Transfers to Other Funds**

Interfund transfers out for the year ended June 30, 2013, totaled \$455.831 million, and represented transfers to the State's Educational Assistance Fund, School Infrastructure Fund, and Horse Racing Equity Fund pursuant to statutory authority of the Riverboat Gambling Act.

**(5) Taxes Receivable**

Riverboat taxes receivable at June 30, 2013, totaled \$7.308 million, with no amounts reported as an allowance for uncollectible taxes.

**(6) Other Receivables**

Other receivables at June 30, 2013, totaled \$0.116 million. This is primarily comprised of video gaming application and licensing fees.

**(7) Due to Other Funds/Component Units**

On July 15, 2011, the tenth riverboat casino license became operational. This event triggered a statutory change where 15% and 2% of the tenth riverboat's adjusted gross receipts were to be transferred by the Board to the Horse Racing Equity Fund and Chicago State University. Public Act 98-0018, effective June 7, 2013, authorized the Board to distribute the proceeds on July 1, 2013, to the Chicago State University Education Improvement Fund, the Horse Racing Equity Fund, as well as the School Infrastructure Fund. At June 30, 2013, the Board is retaining \$136.6 million of tenth riverboat proceeds. These proceeds are a portion of the \$42.8 million due to Other Board funds and the \$121.1 million due to Other State funds listed in footnote 4a as well as the \$1.6 million reported as due to component units.

**STATE OF ILLINOIS  
ILLINOIS GAMING BOARD – STATE GAMING FUND  
INDIVIDUAL NONSHARED FUND**

Notes to Financial Statements

June 30, 2013

**(8) Pension Plan**

Substantially all of the Board's full-time employees who are not eligible for participation in another state-sponsored retirement plan participate in the State Employees' Retirement System (SERS), which is a pension trust fund in the State of Illinois reporting entity. The SERS is a single-employer defined benefit public employee retirement system (PERS) in which State employees participate, except those covered by the State Universities, Teachers', General Assembly, and Judges' Retirement Systems. The financial position and results of operations of the SERS for fiscal year 2013 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2013. The SERS issues a separate CAFR that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255.

A summary of SERS benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the SERS' CAFR. Also included is a discussion of employer and employee obligations to contribute and the authority under which those obligations are established.

The Board pays employer retirement contributions based upon an actuarially determined percentage of their payrolls. For fiscal year 2013, the employer contribution rate was 37.987%.

**(9) Post-employment Benefits**

The State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Central Management Services. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes \$5,000.

The total cost of the State's portion of health, dental, vision, and life insurance benefits of all members, including post-employment health, dental, vision, and life insurance benefits, is recognized as an expense by the State in the Illinois Comprehensive Annual Financial Report. The State finances the costs on a pay-as-you-go basis. The total costs incurred for health, dental, vision, and life insurance benefits are not separated by department or component unit for annuitants and their dependents nor active employees and their dependents.

A summary of post-employment benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the financial statements of the Department of Central Management Services. A copy of the financial statements of the Department of Central Management Services may be obtained by writing to the Department of Central Management Services, 401 S Spring Street, Stratton Bldg Rm 704, Springfield, Illinois, 62706.

**STATE OF ILLINOIS  
ILLINOIS GAMING BOARD – STATE GAMING FUND  
INDIVIDUAL NONSHARED FUND**

Notes to Financial Statements

June 30, 2013

**(10) Risk Management**

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; workers compensation and natural disasters. The State retains the risk of loss (i.e. self insured) for these risks.

The Board's risk management activities are financed through appropriations to the Illinois Department of Central Management Services and are accounted for in the General Fund of the State. The claims are not considered to be a liability of the Board; and accordingly, have not been reported in the Fund's financial statements for the year ended June 30, 2013.

**(11) Commitments and Contingencies**

*Litigation*

The Board is routinely involved in a number of legal proceedings and claims that cover a wide range of matters. In the opinion of management, the outcome of these matters is not expected to have any material adverse effect on the financial position or results of operations of the Fund.

**(12) Subsequent Event**

Public Act 98-0018, as referenced in footnote 7, authorized the Board to distribute tenth riverboat proceeds effective July 1, 2013, to the Chicago State University Education Improvement Fund, the Horse Racing Equity Fund, and the School Infrastructure Fund. Pursuant to the Act, the Board made one-time transfers in July 2013 of \$92 million to the School Infrastructure Fund and \$23 million to the Horse Racing Equity Fund. Beginning July 2013, the Board is required to transfer \$1.6 million annually to the Chicago State University Education Improvement Fund and \$5.53 million monthly to the School Infrastructure Fund. From time to time, the Board is required to transfer any remaining monies to the Education Assistance Fund.

SPRINGFIELD OFFICE:  
ILES PARK PLAZA  
740 EAST ASH · 62703-3154  
PHONE: 217/782-6046  
FAX: 217/785-8222 • TDD: 217/524-4646



CHICAGO OFFICE:  
STATE OF ILLINOIS BUILDING · SUITE S-900  
160 NORTH LASALLE · 60601-3103  
PHONE: 312/814-4000  
FAX: 312/814-4006

OFFICE OF THE AUDITOR GENERAL  
WILLIAM G. HOLLAND

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable William G. Holland  
Auditor General  
State of Illinois

And

Judge Aaron Jaffe, Chairman  
Illinois Gaming Board  
160 North LaSalle St.  
Suite 300  
Chicago, IL 60601

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the State Gaming Fund of the State of Illinois, Illinois Gaming Board, as of and for the year ended June 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated February 20, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the State of Illinois, Illinois Gaming Board's internal control over financial reporting (internal control) of the State Gaming Fund to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Illinois, Illinois Gaming Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois, Illinois Gaming Board's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the fund's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings as items 2013-001 and 2013-002 to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the State of Illinois, Illinois Gaming Board, State Gaming Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **State of Illinois, Illinois Gaming Board's Response to Findings**

The State of Illinois, Illinois Gaming Board's responses to the findings identified in our audit are described in the accompanying schedule of findings. The State of Illinois, Illinois Gaming Board's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State of Illinois, Illinois Gaming Board's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Illinois, Illinois Gaming Board's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



BRUCE L. BULLARD, CPA  
Director of Financial and Compliance Audits

Springfield, Illinois

February 20, 2014

STATE OF ILLINOIS  
ILLINOIS GAMING BOARD  
SCHEDULE OF FINDINGS  
**GOVERNMENT AUDITING STANDARDS**  
For the Year Ended June 30, 2013

2013-001. **FINDING** (Inadequate Control over Financial Reporting)

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

Pursuant to Executive Order 5 (2009), the Board utilizes the services of the Administrative and Regulatory Shared Services Center (Shared Services) at the Department of Revenue to perform certain accounting and financial reporting functions, including preparing the Fund's year-end reporting package to the Comptroller (GAAP Package) and the Fund's financial statements. While Shared Services prepares the Fund's GAAP Package and its financial statements, Board management is ultimately responsible for the presentation of the Fund's financial statements as stated in the Independent Auditor's Report on page 3 of this report.

During the audit of the June 30, 2013 Fund financial statements, the auditors noted the Board reported material overstatements/understatements in each of the following transaction classes. The auditors proposed and the Board made these adjustments to the Fund's financial statements.

	Original Financial Statement amount (thousands)	Final Financial Statement amount (thousands)	Overstatement/ (Understatement) (thousands)
Cash equity	\$165,921	\$170,473	(\$4,552)
Due to other Board funds	\$31,554	\$42,772	(\$11,218)
Due to other State funds	\$121,130	\$121,066	\$64
Due to component unit	\$8,202	\$1,600	\$6,602
Riverboat taxes	\$547,667	\$593,982	(\$46,315)
License and fees	\$38,769	\$2,742	\$36,027
Health and social services	\$1,183	\$862	\$321
Public protection and justice	\$42,815	\$36,476	\$6,339
Transfers out	\$438,883	\$455,831	(\$16,948)

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The misstatements noted above resulted from multiple errors in accounting which should have been identified by Board management during its review of the Fund's GAAP Package and its underlying support prior to its submission to the Comptroller.

Specifically, the auditors noted the following:

- The Board did not exercise adequate cash cut-off controls to ensure fiscal year-end cash collections deposited into the State Treasury were properly recorded. The auditors noted the Board calculated its cash-in-transit amount by duplicating and then rounding its accounts receivable amounts for wagering and admission taxes. The Board also did not include cash received prior to June 30, 2013, in its calculation of cash equity, totaling \$4,552,000.
- The Board misclassified the prior year and current year accrual journal entries on the Fund's Reclassifying Journal Entries Form (SCO-547) and Adjusting Journal Entries Form (SCO-548) for amounts due to the Horse Racing Equity Fund. The prior year decrease in revenue was originally accrued to License and Fees instead of to Riverboat Taxes. Conversely, the current year decrease in revenue was originally accrued to Riverboat Taxes instead of to Licenses and Fees. In addition, the Board incorrectly classified \$5,000 in Licenses and Fees as Riverboat Taxes in its agency records.
- The Board incorrectly calculated the Fund's current year liability due to Chicago State University, totaling \$1,600,000, on the Fund's SCO-548. The liability was originally accrued for \$8,200,000. Public Act 098-0018, effective June 7, 2013, eliminated the additional \$6,600,000 liability to Chicago State University.
- In combination with the inaccurate calculation of the amount due to Chicago State University noted above, the auditors noted the Board did not correctly calculate the Fund's FY13 expenditures and liabilities totals. The Board duplicated an accrual of \$64,000 in expenditures due to the Illinois State Police, misclassified \$4,000 in Court of Claim expenditures and did not calculate \$192,000 worth of expenditures correctly.
- The Board did not consider prior year auditor adjustments, totaling \$5,929,000, in its calculation of the Fund's FY13 revenues, expenditures and transfers-out totals.
- The Board did not include the Fund's Current or Future Adoption of GASB Pronouncements in the Fund's draft financial statement disclosure notes.

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The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system of internal fiscal control to provide assurance that revenues, expenditures and transfers of assets, resources or funds applicable to operations are properly recorded and accounted for to permit the preparation of reliable financial reports and to maintain accountability over the State's resources. Good internal control procedures require adequate management oversight and review of accounting policies and procedures as well as an overall review of financial reporting for accuracy and compliance with generally accepted accounting principles.

In addition, Governmental Accounting Standards Board Statement No. 34, Paragraph 113, *Basic Financial Statements*, states the Board's notes to the financial statements should communicate information essential for the fair presentation of the financial statements not displayed on the face of the financial statements.

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

Failure to accurately record and present financial information within the Fund's financial statements in accordance with generally accepted accounting principles could have resulted, if not detected and corrected, in material misstatements of the Fund's financial position and negatively impacted the State's financial statements. Further, delays in completing the Fund's financial audit due to auditors noting several errors and omissions negatively impacts the timely completion of the State's financial statements. (Finding Code No. 2013-001, 12-1)

**RECOMMENDATION**

We recommend the Board work with Shared Services to implement procedures and cross-training measures to ensure the Fund's GAAP Package and financial statements are accurate and fairly presented in accordance with generally accepted accounting principles. Furthermore, we recommend the Board implement procedures to ensure the Fund's GAAP Package and financial statements are adequately reviewed prior to submission to the Comptroller.

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**BOARD RESPONSE**

The Board agrees with the recommendation and will coordinate efforts with Shared Services regarding the implementation of policies and procedures and cross-training to ensure the Fund's GAAP Package and financial statements are accurate, fairly presented in accordance with GAAP, and adequately reviewed prior to submission to the Comptroller.

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2013-002. **FINDING** (Inadequate Controls over Fund Transfers)

The Illinois Gaming Board (Board) did not exercise adequate internal control over the calculation of its transfers to the Education Assistance Fund (EAF) from the State Gaming Fund (SGF).

The Illinois Administrative Code (Code) (86 Ill. Admin. Code 3000.1071(q)) requires the Board to transfer excess cash resources in the SGF to the EAF pursuant to a cash-basis formula. As of the calculation date for a potential fund transfer, the Code requires the Board to transfer the difference between the SGF's cash balance and any outstanding obligations of the SGF to the EAF. The Code specifies outstanding obligations must include admission and wagering taxes due to each riverboat casinos' local government and tenth casino licensee obligations to Cook County, Chicago State University and the Horse Racing Equity Fund. Further, the Board's internal procedures require bi-monthly transfers from the SGF to the EAF to provide a timely flow of cash resources into the EAF.

During testing, the auditors noted the following:

- For 8 of 22 (36%) bi-monthly transfers made, the Board did not include all receipts received by the Board and deposited into the SGF as of the date the transfer was calculated. The Board could not provide and the auditors were unable to recalculate the total receipts amounts used by the Board in its calculation for seven of these transfers.
- For 3 of 22 (14%) bi-monthly transfers made, the Board did not ensure all previous SGF transfer obligations to the EAF were included as of the date the transfer was calculated.
- For 1 of 22 (5%) bi-monthly transfers made, the Board did not include all outstanding obligations for admission and wagering taxes due to local government as of the date the transfer was calculated.
- The Board's EAF Transfer Methodology lacks information that the Board should use in its calculation for the semi-monthly available funds calculation. The methodology did not include a line subtraction for the 2% obligation totals due each period to Cook County.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Board to establish and maintain a system, or systems, of fiscal and administrative controls to provide assurance transfers of assets and resources are properly recorded and accounted for to maintain accountability over the State's resources.

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Additionally, the State Records Act (5 ILCS 160/8) requires the Board to preserve records containing adequate and proper documentation to support transactions.

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

Failure to exercise adequate internal control over transfers from the SGF to the EAF impacts the timing and amount of cash flow available to pay appropriated obligations of the EAF and represents noncompliance with the Code and the Fiscal Control and Internal Auditing Act. (Finding Code No. 2013-002, 12-3)

**RECOMMENDATION**

We recommend the Board implement internal controls to timely prepare and accurately calculate transfers of excess cash resources from the SGF to the EAF.

**BOARD RESPONSE**

The Board agrees with the recommendation and procedures are in the process of being revised to strengthen controls regarding the fund transfers.

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**PRIOR FINDINGS NOT REPEATED**  
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A. **FINDING** (Noncompliance with Statutory Payment Requirements)

During the prior financial audit period, the Illinois Gaming Board (Board) was unable to comply with the requirements of the Riverboat Gambling Act, resulting in \$66.9 million in excess funds being retained in the State Gaming Fund's (Fund) cash balance at June 30, 2012.

During the current financial audit period, the General Assembly passed and the Governor signed Public Act 098-0018, which instructed the Board to pay out amounts which the Board had previously accrued. Public Act 098-0018 instructed the Board to distribute the previously accrued funds to additional recipients and in different amounts than those which were originally specified. The payment of the accrued funds is sufficient to keep this issue from being deemed material for Governmental Auditing Standards purposes. However, the auditors noted some of the original statutory provisions for accruals remain in the Riverboat Gambling Act (230 ILCS 10/13(c-5)) creating a potential conflict which will be followed up during the Board's next State Compliance Examination. (Finding Code No. 12-2)

B. **FINDING** (Lack of Formalized Change Management Standard)

During the prior financial audit period, the Illinois Gaming Board (Board) had not developed an effective change management process to control modifications to computer applications to ensure changes were properly approved, tested and documented.

During the current financial audit period, the Board developed and implemented an Information Technology Project Request Form which improved the Board's change management process. This improvement was sufficient to keep this issue from being deemed material for Governmental Auditing Standards purposes. However, the auditors noted other issues with the Board's change management process which will be followed up during the Board's next State Compliance Examination. (Finding Code No. 12-4)