

**STATE OF ILLINOIS
ILLINOIS GAMING BOARD**

FINANCIAL AUDIT
FUND 129 – STATE GAMING FUND
For the Year Ended June 30, 2014

STATE OF ILLINOIS
ILLINOIS GAMING BOARD
FINANCIAL AUDIT – STATE GAMING FUND
For the Year Ended June 30, 2014

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STATE OF ILLINOIS
ILLINOIS GAMING BOARD
FINANCIAL AUDIT – STATE GAMING FUND
For the Year Ended June 30, 2014

BOARD OFFICIALS

ILLINOIS GAMING BOARD

Chairman	Judge Aaron Jaffe
Board member	Lee Gould
Board member	Michael Holewinski
Board member	Marybeth Vander Weele
Board member	Vacant
Administrator	Mark Ostrowski
General Counsel	Emily Mattison
Deputy General Counsel	Vacant
Deputy Administrators:	
Enforcement	Isaiah Vega (3/18/14 – 6/30/14) Rancifer Robinson (7/1/13 – 3/17/14)
Investigations	Scott Deubel
Audit and Financial Analysis	Douglas Bybee
Chief Fiscal Officer	Mark Lewis

Board offices are located at:

160 North LaSalle Street
Suite 300
Chicago, IL 60601

801 South 7th Street
Suite 400 – South
Springfield, IL 62703

9511 West Harrison Street
Des Plaines, IL 60016

8151 West 183rd Street
Tinley Park, IL 60487

STATE OF ILLINOIS
ILLINOIS GAMING BOARD
FINANCIAL AUDIT - STATE GAMING FUND
For the Year Ended June 30, 2014

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 significant deficiencies. The significant deficiencies are described in the accompanying Schedule of Findings on pages 17-21 of this report as item 2014-001, *Inadequate Internal Controls over Video Gaming Terminal Licenses*, and item 2014-002, *Inadequate Controls over Fund Transfers*.

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Board personnel at an exit conference on January 20, 2015.

Attending were:

Illinois Gaming Board

Mark Ostrowski, Administrator

Mark Lewis, Chief Fiscal Officer

Douglas Bybee, Deputy Administrator, Audit and Financial Analysis

Elizabeth Engelman, Revenue Manager

Office of the Auditor General

Janis Van Durme, Audit Manager

Christian Rodriguez, Auditor

Responses to the recommendations were provided by the Chief Fiscal Officer in correspondence dated January 28, 2015.

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OFFICE OF THE AUDITOR GENERAL
WILLIAM G. HOLLAND

INDEPENDENT AUDITOR'S REPORT

Honorable William G. Holland
Auditor General
State of Illinois

And

The Board Members of the
Illinois Gaming Board

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, 2014, 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 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, 2014, 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, 2014, 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 January 28, 2015, 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

January 28, 2015

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

Balance Sheet

June 30, 2014 (Expressed in Thousands)

	<u>State Gaming Fund</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	
Cash equity with State Treasurer	\$ 45,908
Taxes receivable, net	1,741
Other receivables, net	115
Total assets and deferred outflows of resources	<u><u>47,764</u></u>
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	
Accounts payable and accrued liabilities	\$ 1,058
Intergovernmental payables	10,066
Due to other Board funds	35,945
Due to other State funds	342
Due to other State fiduciary funds	289
Due to component units	64
Total liabilities and deferred inflows of resources	<u><u>47,764</u></u>
FUND BALANCE	
Committed	-
Total fund balance	<u><u>-</u></u>
Total liabilities, deferred inflows of resources and fund balance	<u><u>\$ 47,764</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

Statement of Revenues, Expenditures
and Changes in Fund Balance

For the Year Ended June 30, 2014 (Expressed in Thousands)

	State Gaming Fund
Revenues:	
Riverboat taxes	\$ 516,540
Licenses and fees	4,357
Other	1
Total revenues	<u>520,898</u>
Expenditures:	
Health and social services	843
Public protection and justice	46,934
Intergovernmental	96,823
Total expenditures	<u>144,600</u>
Excess of revenues over expenditures	<u>376,298</u>
Other sources (uses) of financial resources:	
Transfers-out	<u>(376,298)</u>
Net other sources (uses) of financial resources	<u>(376,298)</u>
Net change in fund balance	-
Fund balance, July 1, 2013	<u>-</u>
Fund balance, June 30, 2014	<u><u>\$ -</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, 2014

(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 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 fairly the financial position of the State of Illinois as of June 30, 2014 and the changes in financial

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

Notes to Financial Statements

June 30, 2014

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

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

Notes to Financial Statements

June 30, 2014

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, 2014. 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. 65, *Items Previously Reported as Assets and Liabilities*, was 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. 66, *Technical Corrections – 2012 – An Amendment of GASB Statements No. 10 and No. 62*, was effective for the Board beginning with its year-end June 30, 2014. The objective of this statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.

GASB Statement No. 67, *Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25*, was effective for the Board beginning with its year-end June 30, 2014. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

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

Notes to Financial Statements

June 30, 2014

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, was effective for the Board beginning with its year-end June 30, 2014. The objective of this statement is to improve accounting and financial reporting for state and local governments that either offer or receive nonexchange financial guarantees.

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

(i) Future Adoption of GASB Statements

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. 69, *Government Combinations and Disposals of Government Operations*, will be effective for the Board beginning with its year-end June 30, 2015. The objective of this statement is to provide specific accounting and financial reporting guidance for combinations and disposals in the governmental environment.

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 not yet determined the impact on its financial statements as a result of adopting these statements.

(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, 2014

(4) Interfund Balances and Activity

(a) Balances Due to Other Funds

The following balances (amounts expressed in thousands) at June 30, 2014 represent amounts due to other funds:

	<u>Due to</u>	
Other Board Funds	\$ 35,945	Due to other Board funds pursuant to statutory authority of the Riverboat Gambling Act.
Other State Funds	342	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	289	Due to other State fiduciary funds for payment of retirement benefits.
	<u>\$ 36,576</u>	

(b) Transfers to Other Funds

Interfund transfers out for the year ended June 30, 2014, totaled \$376.298 million, and represented transfers to the State’s Educational Assistance Fund, School Infrastructure Fund, and Chicago State University Education Improvement Fund pursuant to statutory authority of the Riverboat Gambling Act.

(5) Taxes Receivable

Riverboat taxes receivable at June 30, 2014, totaled \$1.741 million, with no amounts reported as an allowance for uncollectible taxes.

(6) Other Receivables

Other receivables at June 30, 2014, totaled \$0.115 million with no amounts reported as an allowance for uncollectible receivables. This is primarily comprised of video gaming application and licensing fees.

(7) 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 2014 are included in the State of Illinois’ Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2014. The SERS issues a separate CAFR that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255.

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

Notes to Financial Statements

June 30, 2014

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 its payrolls. For fiscal year 2014, the employer contribution rate was 40.312%. Effective for pay periods beginning after December 31, 1991, the State opted to pay the employee portion of retirement for most State agencies (including the Board) for certain classes of employees covered by the State Employees' and Teachers' Retirement Systems. However, effective with the fiscal year 2004 budget, the State opted to stop paying the portion or a part of the portion of retirement for many State agencies (including the Board) for certain classes of employees covered by the State Employees' and Teachers' Retirement Systems. The pickup, when applicable, is subject to sufficient annual appropriations and those employees covered may vary across employee groups and State agencies.

Public Act 98-0599, signed into law by the Governor on December 5, 2013, provides for significant pension reform, and was scheduled to become effective on June 1, 2014. Several lawsuits were subsequently filed to challenge the constitutionality of Public Act 98-0599 and in May 2014, the court issued a temporary injunction that delays the implementation of the new law until the court rules on the consolidated lawsuit.

(8) Post-Employment Benefits

The State, under the State Employees Group Insurance Act of 1971 ("Act") 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 these other post-employment benefits ("OPEB") if they eventually become annuitants of one of the State sponsored pension plans. Historically, the health, dental, and vision benefits provided to and contribution amounts required from annuitants have been the result of collective bargaining between the State and the various unions representing the State's and the university component units' employees in accordance with the limitations established in the Act. Therefore, the benefits provided and contribution amounts are subject to periodic change. 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. The State also provides life insurance benefits for annuitants equal to their annual salary as of the last day of employment until age 60, at which time the benefit amount becomes \$5,000.

Public Act 97-0695, effective July 1, 2012, alters the contributions to be paid by the State, annuitants, survivors, and retired employees under the Act. Public Act 97-0695 requires the Director of the Department of Central Management Services to, on an annual basis, determine the amount that the State should contribute. The remainder of the cost of coverage shall be the responsibility of the annuitant, survivor, or retired employee. The costs were assessed beginning July 1, 2013. On August 28, 2014, the Sangamon County Circuit Court directed the State Employee Retirement System to discontinue withholding, as soon as possible, the retiree and survivor health insurance premiums that were in effect since July 2013. The refunding of premiums paid since July 2013 is unresolved pending court decision.

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

Notes to Financial Statements

June 30, 2014

A summary of post-employment benefits 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, 715 Stratton Building, 401 South Spring Street, Springfield, Illinois, 62706-4100.

(9) 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, 2014.

(10) 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.

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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

The Board Members of the
Illinois Gaming Board

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, 2014, and the related notes to the financial statements, and have issued our report thereon dated January 28, 2015.

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.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as items 2014-001 and 2014-002 that we consider to be significant deficiencies.

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 one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which is described in the accompanying schedule of findings as item 2014-001.

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

January 28, 2015

STATE OF ILLINOIS
ILLINOIS GAMING BOARD
FINANCIAL AUDIT – STATE GAMING FUND
SCHEDULE OF FINDINGS
GOVERNMENT AUDITING STANDARDS
For the Year Ended June 30, 2014

2014-001. **FINDING** (Inadequate Internal Controls over Video Gaming Terminal Licenses)

The Illinois Gaming Board (Board) did not develop adequate internal controls over the billing of Video Gaming Terminal (VGT) Licenses. As a result, the Board did not have a sufficient process in place to ensure proper revenue recognition relating to VGT Licenses when preparing 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.

The Board is mandated by the Video Gaming Act (Act) (230 ILCS 40/45(g)(7)) to establish and collect an annual fee of \$100 for each VGT licensed by the Board. The Board procedures are to bill for VGT License “initial” fees at the end of the month once the device has been associated with a Terminal Operator. VGT License “renewal” fees are billed the month prior to annual date of its “initial” fee.

During testing, the auditors noted the following weaknesses:

- The Board did not develop adequate internal policies and procedures to ensure the timely billing of VGT Licenses during the audit period.
- The Board did not have an adequate mechanism in place from October 2012 to May 2013 to ensure the timely billing of VGT License “initial” fees. Auditors noted that while “initial” bills were sent out during the months from October 2012 to May 2013, there were instances in which bills were sent out up to four month after the timeframe they should have been. In May 2013, the Board implemented the Request to Transport (RTT) System which improved the timeliness in billing for “initial” fees. According to Board personnel, the RTT System is an extension of the Video Gaming Device Inventory (VGDI) System that was developed to track the large number of device movements within Illinois and to assist with the inventory of each device at all the Distributor, Terminal Operator and Licensed locations throughout Illinois. Prior to the RTT System, the data in VGDI was manually entered from paper documentation and prone to error. Therefore, it was decided by Board management to delay the billing of the VGT Licenses until it could verify the accuracy of the information entered into VGDI.
- The Board delayed billing for May 2013 “initial” fees until September 2013. May 2013 “initial” fees would have needed to be billed in June 2013. According to Board personnel this was the result of the Board putting the RTT System into production during May 2013.

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- The Board did not begin billing for “renewal” fees until Dec 2013/Jan 2014. Video gaming went live on October 9, 2012; therefore, some renewals would have needed to be billed in October and November of 2013.
- The Board delayed billing for May 2014 “initial” fees until July 2014. May 2014 “initial” fees would have needed to be billed in June 2014.
- The Board did not accrue for “initial” fees in June 2013 or June 2014 until July 2013 and July 2014, respectively. Therefore, the “initial” fees that were earned at the end of each fiscal year did not get recorded on the Fund's financial statements.
- As a result of the delayed billings and certain improper recording of “initial” fees mentioned above, the Board did not accurately record \$238,000 and \$191,000 in License and Fees revenue in the Fund’s FY13 and FY14 financial statements, respectively. The Board did not correct the Fund’s financial statements for the respective amounts as they were deemed immaterial to the financial statements taken as a whole. The lack of correction by the Board did not result in a modification to our opinion on the Fund financial statements.

The Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements*, requires revenues to be recognized in the accounting period in which they become susceptible to accrual when they become both measurable and available to finance expenditures of the fiscal period. “Available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. In accordance with this guidance, the Board should establish procedures and controls that govern which VGT Licenses are included or excluded from revenues for financial reporting purposes.

Additionally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls, which shall 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 accounts and reliable financial and statistical reports and to maintain accountability over State resources. All relevant data should be reviewed on an ongoing basis in connection with GAAP reporting to ensure the data and assumptions used to recognize revenue are current, reasonable and accurate.

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Board management stated they attribute these errors to the decision to delay VGT billing until a process could be thoroughly tested and implemented to ensure accurate and timely billing of VGT fees.

Failure to establish adequate internal controls and develop appropriate rules could result in material financial reporting errors and limits the ability of the Board's management to monitor the Board's activities. In addition, the establishment of formal business rules provides a basis for the proper and consistent accounting of the essential transactions of the Board. (Finding Code No. 2014-001)

RECOMMENDATION

We recommend the Board develop and implement adequate policies and procedures governing the billing of VGT Licenses. These policies and procedures should include a process to ensure proper revenue recognition relating to VGT Licenses is completed when preparing the Fund's year-end reporting package and financial statements.

BOARD RESPONSE

The Board agrees with the recommendation and is in the process of documenting policies and procedures that will include proper revenue recognition.

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2014-002. **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 Riverboat Gambling Act (230 ILCS 10/13(d)) requires the Board to transfer the SGF's excess cash resources to the EAF. The Board utilizes a cash-basis methodology. As of the calculation date for a potential fund transfer, the Board transfers the difference between the SGF's cash balance and any outstanding obligations of the SGF to the EAF. Outstanding obligations include admission and wagering taxes due to each riverboat casinos' local government, tenth casino licensee obligations to Cook County, the annual Chicago State University Education Improvement Fund transfer and the monthly School Infrastructure Fund transfers. Further, the Board's internal procedures require 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 10 of 12 (83%) monthly transfers made, the Board inaccurately double counted the \$5,530,000 liability to the School Infrastructure Fund in accordance with the Board's EAF Transfer Methodology.
- For 1 of 12 (8%) monthly transfers made, the Board incorrectly included a receipt of \$10,000,000 that was deposited in the General Revenue Fund as part of its transfer calculation from the SGF.
- The Board has not updated its Administrative Directive (86 Ill. Admin. Code 3000) to agree with changes brought forth by P.A. 098-0018. Specifically, Section 3000.1071(q) has not been updated to include obligations to the Chicago State University Education Improvement Fund or the School Infrastructure Fund as required by the Riverboat Gambling Act (230 ILCS 10/13 (c-25) and (c-35)).

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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Board management stated these errors were primarily due to a misunderstanding by staff and a deficiency in the established procedures. Staff has been retrained on the transfer process and procedures have been updated accordingly.

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 Act and the Fiscal Control and Internal Auditing Act. (Finding Code No. 2014-002, 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 had already adjusted their process at the beginning of FY15 to accurately calculate the transfer of funds to the EAF.

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A. **FINDING** (Inadequate Control over Financial Reporting)

During the prior financial audit period, 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.

During the current financial audit period, the Board improved its internal controls over financial reporting. The auditors noted immaterial errors within the Fund’s year-end reporting package and draft financial statements which are reported in Finding 2014-001. (Finding Code No. 2013-001, 12-1)