

AN AUDIT

Division of Gaming

Department of Administration

99-19

December 1999

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December 9, 1999

Senator Gary R. George and
Representative Carol Kelso, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator George and Representative Kelso:

We have completed a financial and program evaluation audit of the Division of Gaming within the Department of Administration, as required by s. 13.94(1)(eg), Wis. Stats. The Division administers and regulates the State's racing, Indian gaming, and charitable gaming activities. We have issued an unqualified opinion on the Division's budgetary-based financial statements for fiscal year (FY) 1998-99 and FY 1997-98.

Revenues from pari-mutuel racing and charitable gaming have declined significantly in recent years, in part as a result of declining consumer interest in gaming. Tax revenue generated by pari-mutuel racing declined from \$4.7 million in FY 1994-95 to \$2.2 million in FY 1998-99, or by 53.2 percent. Charitable gaming revenue has decreased largely as a result of a decline in bingo tax revenues, which have fallen from \$566,000 in FY 1994-95 to \$490,000 in FY 1998-99, or by 13.4 percent.

We focused our program review on Indian gaming, both because it represents the most significant gaming activity in Wisconsin and because the State's revenues for Indian gaming will increase from \$350,000 in FY 1996-97 to an expected \$22.1 million in FY 1999-2000 as a result of renegotiated tribal gaming compacts.

Despite increases in the number of staff positions, we found that the number of field audits completed by the Office of Indian Gaming declined from 1996 through 1999. In addition, the Office has experienced backlogs in the processing of vendor certification applications. In part, these problems are the result of difficulties the Office has had in recruiting and retaining staff.

To improve its ability to monitor gaming activities, the Office plans to purchase a computerized system to monitor slot machine activity at casinos and will soon implement a new inventory system intended to maintain an up-to-date listing of gaming devices approved for use in Wisconsin casinos.

We appreciate the courtesy and cooperation extended to us by the Department of Administration. The Department's response is the Appendix.

Respectfully submitted,

Janice Mueller
State Auditor

JM/PS/DA/bm

SUMMARY

The Division of Gaming within the Department of Administration administers and regulates the State's pari-mutuel racing, Indian gaming, and charitable gaming activities. The fiscal year (FY) 1999-2000 budget for the Division is \$4.69 million, and total authorized staffing is 42.85 full-time equivalent positions. We completed an audit of the Division to fulfill our financial and program evaluation responsibilities under s. 13.94(1)(eg), Wis. Stats., and have issued an unqualified opinion on its budgetary-based financial statements for the Racing, Indian Gaming, and Charitable Gaming programs for the fiscal years ended June 30, 1999 and 1998. As part of our audit, we also examined enforcement activities within the Office of Indian Gaming.

The Racing program's pari-mutuel tax revenue, which is calculated as a percentage of the amount wagered at racetracks, has declined in recent years, dropping from \$4.7 million in FY 1994-95 to \$2.2 million in FY 1998-99, or by 53.2 percent. The Division attributes this decrease to declining consumer interest in racing; a reinterpretation of state statutes establishing the tax payment formula; the closure of one of four remaining greyhound tracks in 1996; and a trend toward simulcast horse races, which are taxed at a lower rate than live dog races. Like pari-mutuel tax revenue, charitable gaming revenue has also declined, largely as the result of a decrease in bingo tax revenues, which have fallen from \$566,000 in FY 1994-95 to \$490,000 in FY 1998-99. In part, the drop in revenues can be attributed to a decrease in the rate at which bingo revenues are taxed.

In contrast, state revenue from Indian gaming is expected to increase by more than \$20 million annually with the renegotiation of tribal-state compacts. Payments by the tribes totaled \$350,000 in FY 1996-97 and are expected to total \$22.1 million in FY 1999-2000. The Legislature appropriated the majority of these additional funds in 1999 Wisconsin Act 9. Because of the scope of Indian gaming activities and the substantial increase in Indian gaming revenues, we focused our analysis on enforcement efforts by the Office of Indian Gaming within the Division of Gaming.

By statute, the Office monitors Indian gaming operations' compliance with the provisions of the compacts signed by the State and the tribes that operate gaming establishments in Wisconsin. The Office also has several enforcement responsibilities, including certifying vendors that wish to conduct gaming-related business with tribal casinos, maintaining an inventory of electronic gaming devices and blackjack

tables approved for use in Wisconsin, conducting announced and unannounced field audits at casinos, and reviewing financial and security statements provided by the tribes.

We found that the number of field audits, which are intended to ensure that day-to-day casino operations are being conducted according to the requirements of the gaming compacts, has declined markedly in the past four years, despite substantial increases in staffing levels. In 1996, a total of nine field audits were completed; however, the number conducted has declined each year since that time. As of November 1, 1999, only two had been completed for the year. In addition, the Office has experienced backlogs in the completion of vendor certifications, which are required before businesses can provide gaming-related goods or services totaling more than \$10,000 annually to a tribe. Earlier this year, the Office had a backlog of 12 applications for which processing had not begun. To address this backlog, the Office has contracted with private investigation firms and hired a limited-term employe to complete some investigations, at a cost of \$121,000 between FY 1995-96 and FY 1998-99.

Officials report that other workload demands have affected the Office's ability to meet its enforcement responsibilities. In response, the Legislature increased the Office's authorized staffing from 3.75 to 10.0 full-time equivalent positions in October 1997. However, the Office has had difficulty recruiting and retaining staff. At the beginning of each of the past four calendar years, at least 30 percent of the Office's positions were vacant, and as of November 1, 1999, two of the ten authorized positions were vacant. Three additional positions—an auditor, a regulation compliance investigator, and a program assistant—were approved in the 1999-2001 biennial budget and will also need to be filled.

To improve its ability to monitor gaming activities, the Office is purchasing, at a cost of \$880,000, a computerized system to monitor slot machines at casinos, and it will soon implement a new inventory system intended to maintain an up-to-date listing of gaming devices approved for use in Wisconsin casinos. The slot machine accounting system is expected to allow the Office to collect and analyze gaming device activity on a daily basis, which will improve the timeliness of analyses intended to detect any unusual activity.

To ensure that the Office of Indian Gaming is able to fully meet its regulatory responsibilities, we include a recommendation that it report to the Joint Legislative Audit Committee on its plans for filling vacant positions in a timely manner, completing vendor certification applications, and establishing field audit goals.

INTRODUCTION

The Division of Gaming oversees racing, charitable gaming, and Indian gaming activities.

Since 1992, Wisconsin's racing, charitable gaming, and Indian gaming activities have been under the management of three state agencies: the Wisconsin Gaming Commission (until July 1996), the Wisconsin Gaming Board (until October 1997), and the Department of Administration. The Division of Gaming in the Department of Administration is responsible for the regulation of all activities relating to racing, on-track pari-mutuel wagering, and charitable gaming. In addition, the Division is responsible for monitoring and regulating tribal gaming operations. For fiscal year (FY) 1999-2000, the Division has a budget of \$4.69 million and 42.85 authorized full-time equivalent (FTE) positions.

As part of our audit responsibilities under s. 13.94 (1)(eg), Wis. Stats., the Legislative Audit Bureau is charged with completing both an annual financial audit and a biennial performance evaluation of the Division of Gaming. We have issued an unqualified opinion on the Division's financial statements of revenues, expenditures, and changes in the program balances—budgetary basis for the Racing, Indian Gaming, and Charitable Gaming programs for the fiscal years ended June 30, 1999 and 1998. In addition, this report evaluates staffing and technology issues related to the enforcement efforts of the Office of Indian Gaming.

In completing this evaluation, we examined:

- staffing levels in the Office of Indian Gaming;
- staffing requests and recruitment efforts made by the Office;
- the number and types of field audits performed by the Office; and
- the Office's requests for new technology to assist in its role in monitoring Indian gaming, as well as its plans for integrating this new technology into its staffing and workload decisions.

Pari-mutuel Racing

Two of the five greyhound tracks in Wisconsin have closed in recent years.

Greyhound racing in Wisconsin began after the 1987 approval of a constitutional amendment creating an exception to the State's prohibition of gambling. Subsequently, the Legislature adopted 1987 Wisconsin Act 354, which authorized regulated on-track pari-mutuel betting. The first authorized pari-mutuel greyhound race in Wisconsin was conducted in 1990, and five greyhound racetracks were operating at the peak of pari-mutuel activity in the state. However, two tracks have since closed—one in 1993, and one in 1996—leaving three in operation: Dairyland Greyhound Park in Kenosha, Geneva Lakes Kennel Club in Delavan, and St. Croix Meadows Greyhound Park in Hudson.

The Division of Gaming's responsibilities related to greyhound racetracks include:

- licensing all track owners, managers, and individuals in racing-related occupations, such as dog trainers, track association employees, and kennel operators;
- determining the types of racing and wagering permitted at licensed tracks;
- protecting the public from unfair or illegal gaming activity; and
- ensuring humane treatment of greyhounds on and off the racetrack.

The Division's expenditures for racetrack regulation, which totaled approximately \$2.0 million in FY 1998-99, are funded by racing revenues from wagers that are made by track patrons. From 2.0 percent to 8.67 percent of a day's wagers collected by a racetrack are remitted to the State as pari-mutuel tax revenue, depending on the total amount wagered at the track on all previous race days in that year. Portions ranging from 17 to 23 percent are retained by track owners and must be used, in part, to pay dog owners as well as to pay the pari-mutuel tax. The remaining 77 to 83 percent must be paid to winning ticket holders. State revenues from pari-mutuel racing also include various taxes, license and other fees, and unclaimed prizes.

Pari-mutuel tax revenue has declined significantly.

Pari-mutuel tax revenue, which is deposited directly into the State's General Fund, has declined from \$4.7 million in FY 1994-95 to \$2.2 million in FY 1998-99, or by 53.2 percent. Division of Gaming staff attribute this decline to four factors:

- the closure of the Wisconsin Dells Greyhound Park in September 1996;
- declining consumer interest, resulting in fewer patrons and fewer wagers;
- changes in the formula by which tax payments are made, which allow race track operators to keep a larger share of the wagers and required a one-time refund of \$467,000 to the racetracks; and
- a trend toward live dog races being replaced with simulcast horse races, which are taxed at a lower rate.

Expected revenue from the Racing program in FY 1999-2000 is approximately \$2.1 million.

Charitable Gaming

Charitable gaming license, tax, and fee revenue totaled \$892,000 in FY 1998-99.

Charitable gaming includes bingo, raffles, and crane games, which are amusement devices that reward a player's skill with toys or novelties worth \$5 or less. The Division of Gaming licenses charitable organizations to hold bingo games and to conduct raffles, and it registers crane games. License, tax, and fee revenues received for these activities totaled \$892,000 in FY 1998-99, a decline of 6.4 percent from the FY 1994-95 total of \$953,000.

The largest portion of charitable gaming revenue is the bingo tax. Like pari-mutuel tax revenues, bingo tax revenues have declined, falling from \$566,000 in FY 1994-95 to \$490,000 in FY 1998-99, or by 13.4 percent. This decline can be attributed in part to a legislative change, effective January 1, 1999, which decreased the tax rate on the first \$30,000 in gross bingo revenues generated by a charitable organization. Current tax rates are 1.0 percent on the first \$30,000 in revenues, and 2.0 percent on all gross revenues beyond that. Revenues from the bingo tax are estimated to total \$247,000 in FY 1999-2000.

Indian Gaming

Indian gaming was authorized with the passage of the federal Indian Gaming Regulatory Act in 1988, and 1989 Wisconsin Act 196 authorized the Governor to enter into gaming compacts with tribal governments in Wisconsin that are recognized as sovereign nations. These compacts permit tribal gaming as a means of promoting tribal economic development and self-sufficiency. Provisions of the compacts

are intended to determine which types of gaming are permitted, assure that games are operated according to a standard set of regulations, and ensure effective tribal regulation and oversight of gaming. The Office of Indian Gaming regulates gaming activity at 26 casino sites operated by 11 tribes that have entered into compacts with the State.

INDIAN GAMING ENFORCEMENT EFFORTS

The State's revenues from tribal gaming are expected to increase to \$22.1 million.

Our evaluation of the Division's enforcement efforts focused on Indian gaming both because it represents the most significant gaming activity in Wisconsin and because the State's revenues from it are expected to increase substantially—from \$350,000 in FY 1996-97 to \$22.1 million in FY 1999-2000—as a result of renegotiated tribal gaming compacts. The Legislature designated the use of these funds in 1999 Wisconsin Act 9.

Chapter 569, Wis. Stats., requires the Division to certify and conduct background investigations of individuals proposing to be Indian gaming vendors. Statutes also provide the Division discretion to:

- provide security services for Indian gaming operations;
- monitor the regulatory compliance of Indian gaming operations included in statutes and under the Indian gaming compacts;
- investigate suspected violations; and
- report suspected gaming-related criminal activity to the Department of Justice for investigation.

New computer systems are expected to aid in the State's enforcement efforts.

Although the Department does not provide security for any Indian gaming operation, the Office of Indian Gaming does monitor Indian gaming operations' compliance with the provisions of compacts signed by the State and the tribes that operate gaming establishments in Wisconsin. To improve its ability to monitor gaming activities, the Office is purchasing a computerized system to monitor slot machine activity, and it will soon implement a new system to maintain inventory information for electronic gaming devices. To ensure that adequate resources are devoted to enforcement efforts, the 1999-2001 biennial budget authorized three additional positions for the Office—an auditor, a regulation compliance investigator, and a program assistant. Although the Office has obtained additional technical and staff resources to aid in its enforcement activities, accomplishing its objectives in a timely and effective manner will require it to establish enforcement goals and to develop a strategy for filling vacant positions promptly.

Enforcement Responsibilities

To enforce compliance with the provisions of the tribal-state gaming compacts, the Office of Indian Gaming:

- certifies and conducts background checks of vendors wishing to do business with the tribes, as required by statute;
- reviews data on slot machine activity and financial and security audit information made available by the tribes;
- maintains an inventory of electronic gaming devices and blackjack tables permitted to be used in Wisconsin; and
- conducts on-site audits of gaming activities at the 26 casino sites currently operating in Wisconsin.

Vendor Certification

Vendors providing gaming-related services or equipment to tribes must be certified by the Office.

Certification of vendors is required by both s. 569.04, Wis. Stats., and the gaming compact agreements between the State and each tribe. The established certification process requires the Office to screen vendors with which the tribes seek to do business. Any company that provides gaming-related services or equipment, such as management consulting services or slot machines, to a tribal casino must receive certification by the Office before conducting business totaling more than \$10,000 in a calendar year. The initial vendor certification process includes criminal background checks of key personnel, which are performed by the Office of Indian Gaming with the assistance of the Department of Justice, as well as review of each vendor's financial statements. The Office receives an average of four to five new applications each year. Applicants pay certification fees ranging from \$2,700 to \$10,800 per year; renewal fees range from \$1,000 to \$5,800 per year.

Officials indicate that the initial certification process takes between eight months and two years, depending upon the complexity of the application and the timeliness with which applicants respond to requests for additional information. As of November 1999, 75 applications for certification or certification renewal were pending. In June 1999, officials in the Office reported that a backlog of 12 vendor certification applications existed, which had not begun to be processed. Because the Office has experienced some delays in application processing, it has contracted with private investigation firms and hired a limited-term

employe to complete some investigations. Between FY 1995-96 and FY 1998-99, it spent \$121,000 on these services.

All certified vendors must be re-certified annually, a process that typically takes three to six months, depending on the number and type of changes in a firm's personnel and operations since the previous certification. There are 36 vendors currently certified to conduct business with tribes in Wisconsin; another 3 vendors have received temporary certification, which is granted when a vendor has completed the application process, has been recommended for approval by the Office of Indian Gaming, and is awaiting formal certification from the Division of Gaming.

The Legislature appropriated an additional \$30,000 in FY 1999-2000 to assist the Office in reducing its investigation backlog.

A total of 5.0 FTE positions are devoted to vendor certification duties; however, of these positions, 1.5 FTEs have been vacant since 1996. During the 1999-2001 biennial budget process, the Legislature appropriated an additional \$30,000 for a FY 1999-2000 contract with a private investigation firm to reduce the backlog of vendor certification applications. This brings authorized annual funding for private investigation services to \$172,000 for FY 1999-2000. Although the Department of Justice conducts background investigations, officials indicate current staffing levels in that Department's Indian gaming enforcement bureau do not permit background investigations to be conducted for the Division of Gaming. Department of Justice officials believe their staff are needed to investigate and prosecute gaming violations.

Gaming Equipment Inventory Maintenance

The Office maintains an inventory of all electronic games of chance, such as slot machines, in play at tribal casinos. Under the gaming compact agreements, each tribe is required to notify the Office whenever it acquires, modifies, or removes an electronic game of chance from one of its casinos. In addition, game manufacturers must notify the Office upon selling a machine for use in Wisconsin.

The inventory system is a means for the Office to have a current count of machines in operation and to verify that the computer chips regulating the payout rates in each machine have been approved for use in Wisconsin. For example, chips must be tested by an independent laboratory to ensure that the percentage of payout for each machine meets minimum levels set by the tribal-state compacts. In addition, by keeping records of the number of machines a tribe has in play, auditors can determine if casinos are operating additional machines and if all machines in play have been examined for approval. Keeping an accurate, current inventory of electronic gaming devices is an integral part of the Office's role in ensuring that gaming is operated according to the requirements of the compacts.

Review of Casino Operations

The Office conducts announced and unannounced field audits of casinos.

Authorization for the Office to conduct field audits is provided by each of the tribal-state gaming compacts and falls under the Office's responsibility to ensure compliance with compact provisions by monitoring casino operations. The Office currently devotes 1.8 FTE positions to compliance reviews. Casino sites vary greatly in size and may thus require differing amounts of staff time for the announced and unannounced field audits the Office conducts.

The Office provides tribes with up to six weeks' advance notice when audits are announced. These audits usually require four or five staff to spend approximately one week on site to:

- review inventory, machine access, and financial information;
- interview key personnel at the casino;
- test all machines and the computer chips controlling their play; and
- review operations and security measures at the facility, including the emptying and filling of slot machines and the counting of money collected.

Unannounced audits are less extensive and usually entail two staff who spend three days on site. During unannounced audits, staff test a random sample of machines and computer chips to determine if they are legal for play in Wisconsin and check employees' identification and certification for work in casinos.

Since 1996, the number of field audits completed has decreased from nine per year to two per year.

The Office has not established goals for the number of announced and unannounced field audits it will conduct annually. However, as shown in Table 1, the number of field audits conducted by the Office has declined significantly in the past four calendar years, even as the number of filled positions in the Office has increased. A total of nine field audits were completed in 1996. As of November 1, a total of two field audits had been completed during 1999. During that same time period, the number of filled positions increased from 2.0 FTE in January 1996 to 7.0 FTE in January 1999.

Table 1

Filled Positions and Field Audits Completed
1996 through 1999

<u>Year</u>	<u>FTE Positions Filled *</u>	<u>Number of Announced Audits Completed</u>	<u>Number of Unannounced Audits Completed</u>	<u>Total Number of Audits Completed</u>
1996	2.0	8	1	9
1997	1.75	2	5	7
1998	4.0	2	2	4
1999	7.0	1	1	2 **

* As of January 1 of each year

** As of November 1, 1999

Officials in the Office cite three main factors that have contributed to the decline in the number of field audits completed:

- recruiting difficulties, including long-standing position vacancies and staff turnover;
- the significant amount of staff time devoted to compact negotiations with the tribes in 1998; and
- the time staff devoted to unplanned, lengthy audits at casinos where irregular activity has been found.

For example, numerous violations of state and federal law, including theft and money laundering, were found in May 1997 at the Mole Lake Casino operated by the Mole Lake Chippewa band. Officials in the Office indicate that staff spent over four months at this casino after closing it for investigation, and they were involved in assisting federal regulators and the Wisconsin Department of Justice in collecting evidence and preparing the case for trial.

Although the number of field audits has declined, officials in the Department believe the Office has largely maintained its ability to review gaming operations through the use of slot machine data provided by the tribes, analyses of financial and security statements, reviews of complaints submitted by casino patrons, and communication with tribal gaming commissions and the independent laboratory. Nevertheless, while these activities do allow the Office to provide some oversight, they are limited because they do not permit an examination of machines

and facilities or establish an on-site audit presence for the State. For example, field audits allow the Office to review casino operations, including testing slot machines and the computer chips controlling their play, and to observe the emptying of machines and counting of cash.

In addition to reviews conducted by the Office, each tribe is required to have its gaming operations independently audited. Each tribe is required to submit copies of an annual financial audit, conducted by an independent certified public accountant, and a biennial casino security audit, conducted by an independent auditor, to the Office and to the State Auditor. The State Auditor has the option of commenting on audit engagement letters and accounting and audit procedures.

Staff in the Office review the financial audits primarily by checking for irregular or unusual entries. Staff may also compare data generated through their own audits with data from the tribes' accounting systems and conduct follow-up with tribes and their accounting firms as needed. Similarly, the Office reviews biennial security audits by first analyzing any significant findings and then conducting any needed follow-up with the tribes and accounting firms. Both types of audits—financial and security—provide the Office with information used to set priorities for visiting casinos during field audits, as well as information useful in determining where to concentrate overall enforcement efforts.

Use of Technology

The Office of Indian Gaming will soon implement two new computer systems. The first, which will be operational in early 2000, will automate the process of receiving and maintaining inventory records for gaming devices. The second, which is planned for implementation in mid-2000, will allow the Office to receive information about gaming device activity automatically, on a daily basis, rather than intermittently as it is submitted by the tribes. In light of these new computer systems, the Office will need to re-assess staff workloads and set priorities for its work to meet enforcement responsibilities effectively.

Bar Code Inventory System

A bar-coding system developed by the Department of Administration for the Office of Indian Gaming is intended to automate the process of receiving and updating gaming device inventory data. Currently, one staff person is responsible for entering and updating machine information received from the tribes, the gaming device manufacturers, and the independent testing laboratory that verifies chips for use in Wisconsin based on their payout rates. Officials indicate that position vacancies and competing priorities have caused the Office to fall several

A new inventory system is expected to track all gaming devices installed in casinos.

months behind in its maintenance of the inventory database. Although inventory records are being received, the information is in a hard-copy format and has not been entered into the database used by auditors. Because of the lack of current records, staff auditing on site at the casinos are not able to determine in a timely manner if the gaming devices comply with compact stipulations or whether they have been approved for use in Wisconsin.

The new computer system, which will require that bar code stickers be placed on all gaming devices, will automatically track inventory additions, deletions, and changes. This will permit field audit staff to use hand-held scanners to determine immediately if all equipment is registered with the State and contains computer chips authorized for use in Wisconsin casinos.

The system is being developed by the Department of Administration with the assistance of outside programmers. Hardware for the system, including hand-held scanners and a printer, is estimated to cost \$7,700, while the outside programming costs have totaled \$56,000 to date.

Gaming Information System

The Division of Gaming also plans to implement a computerized slot machine monitoring system that will allow for gaming activity data to be collected and analyzed on a daily basis and will provide for daily transmission of information to the Office's computer systems. There it would be analyzed for unusual activity occurring in slot machines, such as a marked drop in payouts. All slot machines in tribal casinos would be connected to the system, which would transmit information without requiring tribal involvement. In contrast, the current system provides data to the Office on an intermittent basis as it is made available by the tribes. To fund the initiative, the Legislature approved \$880,000 in funding for FY 1999-2000 to purchase the slot machine accounting system, and \$151,000 for operation and maintenance in FY 2000-01.

The number of slot machines in Wisconsin is expected to grow from 13,000 in mid-1999 to 15,000 by the end of 1999.

Officials in the Office indicate that the new computerized system has a number of advantages that will help to address growth in the number of slot machines operating in Wisconsin, which the Division expects to increase from 13,000 in mid-1999 to 15,000 by the end of 1999. First, the system will increase the speed and regularity with which the State receives information from the tribes. Second, it will automate the process of receiving and analyzing the data collected from all tribal slot machines in the state, thus freeing staff for other duties. Third, the new system will automatically analyze data to provide information on where auditors should concentrate their efforts. Currently, staff time is required to determine if exceptions or unusual activity are present.

Staffing Issues

In October 1999, the Legislature authorized 3.0 additional positions for the Office.

To increase the Office of Indian Gaming's ability to meet its enforcement responsibilities, the Legislature increased staffing from 3.75 to 10.0 FTE positions in October 1997. In addition, the Office has, as noted, contracted for additional investigative work. In the 1999-2001 biennial budget, the Legislature approved an additional 3.0 FTE positions for the Office of Indian Gaming, including 1.0 auditor, 1.0 regulation compliance investigator, and 1.0 program assistant. Each of the three positions will be transferred from the Division of Gaming's racing program. These new positions, with the assistance of the private investigation firm, may enable the Office to better meet its enforcement obligations.

However, the Office has not been successful in filling all of its authorized positions in the past. In order to fulfill the duties that would normally be handled by the vacant positions, it has contracted for services and used other staff in the Division of Gaming. For example:

- the responsibilities of one of the vacant auditor positions were met by a Racing Program employee between fall 1996 and fall 1998;
- the duties of the second vacant auditor position have been filled through contracts with private investigation services and the use of a limited-term employee since early 1997; and
- the duties of the financial supervisor position were covered from spring 1997 to fall 1998 by reassignment of the Racing Program's accountant. When that employee left the Division of Gaming, a private firm was employed to handle these responsibilities.

Officials in the Division state that these reassignments and contracts with private firms were necessary because of the important regulatory responsibilities of the positions, as well as difficulty in recruiting qualified applicants. However, as noted in Legislative Audit Bureau report 98-5, issued in May 1998, Racing Program employees had been used without appropriately allocating their costs to the Office of Indian Gaming or to the Charitable Gaming program. The reassignment of staff between programs in the Division of Gaming without reallocation of costs has ended.

As shown in Table 2, at least 30 percent of the Office's positions have been vacant at the beginning of each of the past four calendar years. As

of November 1, 1999, two of the ten authorized positions in the Office—vacancies in the Indian Gaming Auditing and Vendor Certification Section—remained unfilled. In addition to these unfilled positions, the Office will soon need to fill the three additional positions approved as part of the 1999-2001 biennial budget if it is to be fully staffed.

Table 2

Full-time Equivalent Positions in the Office of Indian Gaming
1996 to 1999

	<u>Authorized Positions</u>	<u>Vacant Positions</u>
January 1996	3.75	1.75
January 1997	3.75	2.00
January 1998	10.00	6.00*
January 1999	10.00	3.00

* Represents positions authorized in October 1997 as part of the 1997-99 biennial budget.

The Office has not been fully staffed since October 1997.

Officials in the Office plan to fill all position vacancies as quickly as possible. With full staffing, they believe that the Office will be able to complete existing vendor certification applications and inventory system updates, utilize the new inventory and slot machine accounting systems, and increase the number of field audits performed annually. However, it is important to note that the Office not been fully staffed since October 1997, and officials report that recruiting and retention efforts have been affected by higher salaries that casinos and other private sector businesses can offer to skilled job seekers, as well as a generally competitive labor market. For example, the Office has attempted two separate recruiting efforts for the auditor and financial supervisor positions now currently vacant but has been unable to fill them with qualified candidates. Officials in the Office indicate that they now plan to take a more aggressive approach by hiring the best candidates available and providing on-the-job training to help them develop the skills necessary for their positions.

Because the Office may not find it possible to fill all positions quickly, it may find it useful to set priorities for its recruiting goals and, in the

short term, to consider increasing its level of contracting with outside investigation firms for some positions not required to be filled immediately with full-time employees. Regardless of the success of recruiting efforts, the Office will need to begin addressing the significant backlogs in meeting its enforcement responsibilities.

Establishing Enforcement Priorities

It is important for the Office to establish enforcement and recruiting priorities.

The Office of Indian Gaming is likely to experience a number of changes to its workload and staffing levels in coming months. To ensure that it is prepared to meet its responsibilities, it is important for the Office to establish priorities for filling vacant positions and to develop goals for meeting its enforcement responsibilities. In light of changes resulting from additional staff and increased computer resources, achieving full staffing levels may require a re-evaluation of existing workload to determine how best to assign duties among staff. The implementation of new computer systems will reduce workload in certain areas but increase it in others, also requiring the Office to prioritize its efforts.

If the Office is to be successful in its mission of ensuring the integrity of Indian gaming in Wisconsin, it will have to focus on making efficient and effective use of its current resources, as well as those that will become available in the near future. Specifically, the Office will need to address the following areas:

- Recruiting and retaining staff—If fully staffed, the Office could make effective use of the computer system improvements being implemented, or it should consider using contracted staff to meet some of its enforcement responsibilities in the short term if positions cannot be filled quickly.
- Updating and maintaining the equipment inventory—Because complete and current information on machines in play at casinos is required for completion of full-scale announced audits, the Office will need to make implementation and maintenance of the new inventory and bar-code scanning system a priority to ensure that this information is available and accurate.

- Determining audit priorities—The Office needs to develop goals for the number of announced and unannounced field audits it will conduct. For example, it could choose to complete announced, full-scale audits at eight casinos each year, before moving on to a number of smaller-scale, unannounced audits. Alternatively, the Office could choose to determine which audits will be conducted first, using information provided by the new computerized slot machine monitoring system. Regardless of how the Office chooses to prioritize its duties, it will need to develop a plan to address its workload and ensure field audits are conducted on a regular basis.

To ensure that Indian gaming operations in Wisconsin are monitored by the State in an effective manner, *we recommend the Office of Indian Gaming report to the Joint Legislative Audit Committee by March 31, 2000, on:*

- *its plans to fill all authorized positions in a timely manner;*
- *the number of announced and unannounced field audits it plans to complete in 2000 and 2001, as well as its plans for prioritizing which audits to complete first; and*
- *the effect of its efforts to reduce backlogs in the gaming device inventory and in vendor certifications, as well as its plans for addressing any remaining backlogs that may exist at that time.*

Regardless of how the Office chooses to address its enforcement responsibilities, it appears that careful consideration and planning for the best use of its additional resources, as well as the establishment of priorities for addressing backlogs in field audits, gaming device inventory maintenance, and vendor certifications, will be necessary to ensure its enforcement responsibilities are met.

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF THE DEPARTMENT OF ADMINISTRATION^{3/4} DIVISION OF GAMING

We have audited the accompanying statements of revenues, expenditures, and changes in program balances—budgetary basis of the Department of Administration's Division of Gaming—Racing, Indian Gaming, and Charitable Gaming programs for the years ended June 30, 1999 and 1998. These financial statements are the responsibility of the Division of Gaming's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the financial statements present only the activity of the Division of Gaming—Racing, Indian Gaming, and Charitable Gaming programs and are not intended to present fairly the financial position of the State of Wisconsin and the results of operations of its governmental fund types in conformity with generally accepted accounting principles.

As described in Note 2, the financial statements are presented using a budgetary basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the budgetary revenues, expenditures, and changes in program balances of the Division of Gaming—Racing, Indian Gaming, and Charitable Gaming programs for the years ended June 30, 1999 and 1998, on the basis of accounting described in Note 2.

The required supplementary information on year 2000 is not a required part of the basic financial statements, but is supplementary information required by Governmental Accounting Standards Board technical bulletin 99-1. We have applied certain limited procedures, which

consisted principally of inquiries of management regarding the methods of measurement and presentation of supplementary information. However, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurance that the Division of Gaming is or will become year 2000 compliant, that the Division of Gaming's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Division of Gaming does business are or will become year 2000 compliant.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 1999 on our consideration of the Division of Gaming's internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations.

LEGISLATIVE AUDIT BUREAU

November 17, 1999 by Diann Allsen
Audit Director

Department of Administration--Division of Gaming
Racing, Indian Gaming, and Charitable Gaming Programs
Statement of Revenues, Expenditures, and Changes in Program Balances--Budgetary Basis
for the Year Ended June 30, 1999

	Racing	Indian Gaming	Charitable Gaming	Memorandum Only Totals
Revenues				
Pari-mutuel Tax	\$ 2,190,477			\$ 2,190,477
Special Program Tax	1,198,238			1,198,238
Unclaimed Prizes	814,127			814,127
Licensing Fees	476,027			476,027
Racing Supervision Fees	372,740			372,740
Fines and Forfeitures	22,715			22,715
Tribal Regulation Revenues		\$ 260,380		260,380
Tribal Investigation Revenues		139,200		139,200
Bingo Tax			\$ 489,639	489,639
Bingo Licensing Fees			204,524	204,524
Raffle Licensing Fees			174,128	174,128
Crane Game Licensing Fees			23,819	23,819
Miscellaneous Revenue	33	805	121	959
Total Revenues	<u>5,074,357</u>	<u>400,385</u>	<u>892,231</u>	<u>6,366,973</u>
Expenditures				
Salaries and Fringe Benefits	1,406,515	436,440	207,337	2,050,292
Supplies and Services	612,740	221,329	100,188	934,257
Total Expenditures	<u>2,019,255</u>	<u>657,769</u>	<u>307,525</u>	<u>2,984,549</u>
Transfers and Appropriations				
Appropriations to the General Fund	(2,190,477)		(489,639)	(2,680,116)
Transfer to the Common School Fund	(11,358)			(11,358)
Transfer to the Department of Justice	(103,400)	(79,700)		(183,100)
Transfer to the Department of Agriculture, Trade and Consumer Protection	(611,931)			(611,931)
Transfer to the Department of Health and Family Services	(14,000)	(50,000)		(64,000)
Total Transfers and Appropriations	<u>(2,931,166)</u>	<u>(129,700)</u>	<u>(489,639)</u>	<u>(3,550,505)</u>
Increase (Decrease) in Program Balance	123,936	(387,084)	95,067	(168,081)
Program Balance				
Program Balance, Beginning of Year	857,737	678,173	629,785	2,165,695
Program Balance, End of Year	<u>\$ 981,673</u>	<u>\$ 291,089</u>	<u>\$ 724,852</u>	<u>\$ 1,997,614</u>
Reserved for Encumbrances	\$ 479	\$ 4,079	\$ 166	\$ 4,724
Unreserved	\$ 981,194	\$ 287,010	\$ 724,686	\$ 1,992,890

The accompanying notes are an integral part of this statement.

Department of Administration--Division of Gaming
Racing, Indian Gaming, and Charitable Gaming Programs
Statement of Revenues, Expenditures, and Changes in Program Balances--Budgetary Basis
for the Year Ended June 30, 1998

	<u>Racing</u>	<u>Indian Gaming</u>	<u>Charitable Gaming</u>	<u>Memorandum Only Totals</u>
Revenues				
Pari-mutuel Tax	\$ 2,354,755			\$ 2,354,755
Special Program Tax	1,215,400			1,215,400
Unclaimed Prizes	804,069			804,069
Licensing Fees	507,524			507,524
Racing Supervision Fees	371,520			371,520
Fines and Forfeitures	21,445			21,445
Tribal Regulation Revenues		\$ 612,120		612,120
Tribal Investigation Revenues		118,600		118,600
Bingo Tax			\$ 536,640	536,640
Bingo Licensing Fees			207,917	207,917
Raffle Licensing Fees			176,053	176,053
Crane Game Licensing Fees			33,000	33,000
Miscellaneous Revenue	401	884	(285)	1,000
Total Revenues	5,275,114	731,604	953,325	6,960,043
Expenditures				
Salaries and Fringe Benefits	1,454,485	277,391	180,519	1,912,395
Supplies and Services	737,277	307,104	62,545	1,106,926
Total Expenditures	2,191,762	584,495	243,064	3,019,321
Transfers and Appropriations				
Appropriations to the General Fund	(2,354,755)		(536,640)	(2,891,395)
Transfer to the Common School Fund	(10,748)			(10,748)
Transfer to the Department of Justice	(96,976)	(75,820)		(172,796)
Transfer to the Department of Agriculture, Trade and Consumer Protection	(573,941)			(573,941)
Total Transfers and Appropriations	(3,036,420)	(75,820)	(536,640)	(3,648,880)
Increase in Program Balance	46,932	71,289	173,621	291,842
Program Balance				
Program Balance, Beginning of Year	810,805	606,884	456,164	1,873,853
Program Balance, End of Year	<u>\$ 857,737</u>	<u>\$ 678,173</u>	<u>\$ 629,785</u>	<u>\$ 2,165,695</u>
Reserved for Encumbrances	\$ 24,212	\$ 12,689	\$ 466	\$ 37,367
Unreserved	\$ 833,525	\$ 665,484	\$ 629,319	\$ 2,128,328

The accompanying notes are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

1. Description of the Racing, Indian Gaming, and Charitable Gaming Programs

The Division of Gaming within the Department of Administration was created at the beginning of fiscal year (FY) 1997-98 by 1997 Wisconsin Act 27, the 1997-99 Biennial Budget Act. The Division of Gaming administers three programs: Racing, Indian Gaming, and Charitable Gaming. Prior to the creation of the Division of Gaming, these programs were managed by various state agencies, including the Racing Board and the Department of Regulation and Licensing until October 1992, a three-member Gaming Commission until July 1, 1996, and a five-member Gaming Board until October 14, 1997. All but the Department of Regulation and Licensing have been dissolved.

The activities of the Division of Gaming's three programs are presented in the accompanying financial statements. In FY 1998-99 and FY 1997-98, Racing, Indian Gaming, and Charitable Gaming were budgeted and accounted for as program revenue in the State's General Fund. All three programs are part of the State of Wisconsin financial reporting entity.

Pari-mutuel greyhound racing was authorized by 1987 Wisconsin Act 354. During FY 1998-99 and FY 1997-98, three race tracks were operated: Geneva Lakes Kennel Club, Dairyland Greyhound Park, and St. Croix Meadows Greyhound Park. The Division of Gaming's regulatory responsibilities in reference to pari-mutuel wagering and racing are set forth in ch. 562, Wis. Stats.

The State and each of 11 tribal governments in Wisconsin recognized as sovereign nations have previously entered into tribal-state compacts allowing tribally operated casino-style games. As provided in the compacts, 26 casino sites were in operation during FY 1998-99 and FY 1997-98. The Division of Gaming is responsible for the coordination of the State's oversight activities regarding Indian gaming, along with other responsibilities provided by ch. 569, Wis. Stats.

Charitable gaming includes bingo, raffles, and crane games, which are amusement devices that reward a player's skill with prizes of toys or novelties worth \$5 or less. As provided by chs. 563 and 564, Wis. Stats., the Division of Gaming is responsible for making policies and rules relating to charitable gaming, as well as regulating and licensing these games.

2. Summary of Significant Accounting Policies

The financial statements of the Racing, Indian Gaming, and Charitable Gaming programs have been prepared using a budgetary basis of accounting, which demonstrates compliance with Wisconsin statutes for budgetary purposes. Statutes require that revenues and expenditures be recognized in the fiscal year in which they are received or paid. The State's accounting records remain open until July 31 to permit state departments to record revenues and expenditures applicable to the fiscal year ended June 30. However, the recording of charges and encumbrances applicable to the prior year is limited by the available appropriation balances of that year and cut-off dates established by the Department of Administration.

Beginning with FY 1997-98, the Division of Gaming records revenue received as of June 30 and applicable expenditures paid through July 15 to the fiscal year ended June 30. Prior to FY 1997-98, the Division's predecessor, the Gaming Board, had recorded both applicable revenues and expenditures received or paid through July 31 to the fiscal year ended June 30.

3. Transfers and Appropriations

- A. Appropriations to the General Fund—Since the Division of Gaming has no statutory authority to encumber or expend the Racing program's pari-mutuel tax or the Charitable Gaming program's bingo tax, these revenues are deposited in the State's General Fund as miscellaneous receipts available for legislative appropriation.
- B. Transfer to the Common School Fund—As required by Article X, Section 2 of the Wisconsin Constitution, 50 percent of all fines and forfeitures collected by the Racing program must be deposited into the Common School Fund.

- C. Transfer to the Department of Justice—According to ss. 20.455(2)(g) and 20.455(2)(gc), Wis. Stats., the Division of Gaming is required to transfer revenues to the Department of Justice for the performance of gaming law enforcement responsibilities.

- D. Transfer to the Department of Agriculture, Trade and Consumer Protection (DATCP)—Prior to amendment of constitutional provisions pertaining to distribution of gaming proceeds in April 1999 and enactment of related legislation in July 1999, s. 20.505(8)(g), Wis. Stats., required available proceeds from the operation of the Racing program to be transferred to DATCP. Based on available funds, transfers to DATCP were to be made in the following sequence: 1) up to \$650,000 to provide aid to counties and agricultural societies, associations or boards, and incorporated dairy or livestock associations; and 2) up to \$50,000 to provide aid to the Wisconsin Livestock Breeders Association for the conduct of junior livestock shows and other educational programs related to livestock. Remaining available racing proceeds were to be lapsed to the General Fund.

Since the financial statements are prepared on a budgetary basis and the Division of Gaming did not make the transfer of available proceeds until the following year, the transfer amounts presented in the financial statements relate to fiscal activity and proceeds from the previous year. The transfer of \$573,941 reflected in the FY 1997-98 financial statement relates to FY 1996-97 fiscal activity and proceeds, and the transfer of \$611,931 reflected in the FY 1998-99 financial statement relates to FY 1997-98 fiscal activity and proceeds. Because the available proceeds were not sufficient to reach the initial threshold, no transfers were made to DATCP for the purpose of the Wisconsin Livestock Breeders Association. As further discussed in Note 4, the constitutional amendment no longer allows racing proceeds to be used for such purposes.

- E. Transfer to the Department of Health and Family Services (DHFS)—Prior to amendment of constitutional provisions pertaining to distribution of gaming proceeds in April 1999 and enactment of related legislation in July 1999, ss. 20.505(8)(g) and 20.505(8)(h), Wis. Stats., required that certain racing and Indian gaming proceeds be transferred to DHFS for compulsive gambling awareness campaigns. The required transfer amount for Racing was 14 percent of the amount appropriated in s. 20.435(7)(kg), Wis. Stats., and for Indian Gaming was 50 percent of the appropriated amount. For FY 1998-99, the appropriation amount was \$100,000, and transfers of \$14,000 and \$50,000 were made from the Racing and Indian Gaming programs, respectively, for DHFS's compulsive gambling awareness campaigns. No funds were appropriated for FY 1997-98. As further discussed in Note 4, the constitutional amendment no longer allows racing proceeds to be used for such purposes.

4. Subsequent Events

- A. Constitutional Amendment—On April 6, 1999, Wisconsin voters approved a constitutional amendment that requires net proceeds received by the State from bingo games and pari-mutuel on-track betting to be used for property tax relief for Wisconsin residents. 1999 Wisconsin Act 5, which was enacted July 28, 1999 to institute the amendment, eliminates transfers of racing proceeds to DATCP and DHFS, establishes a separate appropriation for bingo, and requires that unencumbered balances remaining in general program operations appropriations for racing and bingo at the end of each fiscal year be transferred to the Lottery Fund. In addition, Act 5 requires that the DHFS appropriation for compulsive gambling awareness campaigns will be solely funded by a transfer from the Indian Gaming program.
- B. Tribal-State Compacts—The State and each of the 11 tribal governments in Wisconsin recognized as sovereign nations have completed the renegotiations of the tribal-state compacts, which allow tribally operated casino-style games. Beginning in FY 1999-2000, the revenues to be collected from the tribal governments under the renegotiated compacts are expected to increase significantly from \$350,000 to an expected \$22.1 million in FY 1999-2000.

The year 2000 issue is the result of shortcomings in many electronic data-processing systems and other equipment that may adversely affect operations in the year 1999 and beyond. Many computer programs use only the last two digits to refer to a year (i.e., 1999 uses 99). When the year 2000 arrives, using the last two digits “00” may cause computer programs, data files, and electronic equipment with computer chips to fail or create errors.

The State of Wisconsin’s Department of Administration (DOA), which has overall responsibility for the coordination of information technology in state government, is coordinating the State’s year 2000 compliance efforts.

The State has created a central year 2000 test environment for use by State agencies to verify the effectiveness of year 2000 compliance activities. This environment addresses both mainframe and desktop systems and applications. The State maintains a web site that provides specific technical information to assist agency year 2000 compliance efforts. Within the Department, DOA has created its own year 2000 test environment to test desktop systems.

DOA created an interagency executive taskforce to advise on ways to coordinate year 2000 compliance oversight activities. This approach allows the State to focus on the highest-priority year 2000 compliance needs. DOA is requiring agencies, including the Division of Gaming, to report monthly on efforts to ensure operation of critical business functions. The reporting on information technology systems measures progress in four stages: (1) awareness, (2) assessment, (3) remediation, and (4) validation/testing. Within DOA, the department has named its own planning group to assess readiness for DOA divisions and programs and is tracking progress.

The Division of Gaming is subjecting its critical systems to the following processes to address year 2000 compliance:

- awareness stage—establishing a budget and project plan for dealing with the year 2000 issue;
- assessment stage—identifying the systems and components for which year 2000 compliance work is needed;

- remediation stage—making changes to systems and equipment; and
- validation/testing stage—validating and testing the changes that were made during the remediation stage.

The Division of Gaming’s critical systems are in the following stages of work. C means complete and P means in process.

<u>Critical Systems</u>	<u>Awareness</u>	<u>Assessment</u>	<u>Remediation</u>	<u>Validation/ Testing</u>
Charitable gaming	C	C	C	C
Racing	C	C	C	P
Indian gaming	C	C	C	P
WiSMART	C	C	C	C
Personal computers	C	C	C	C
Fax machines	C	C	C	C
Security systems	C	C	C	C

The Division of Gaming has not, to date, identified any significant year 2000 consequences or unbudgeted costs to make the critical business applications year 2000 compliant. The costs to the Division of Gaming to become year 2000 compliant have been and will continue to be absorbed within the existing base operating budget, because most year 2000 compliance work is being completed by the Division of Gaming as part of ongoing maintenance and upgrades previously identified and budgeted for by the Division of Gaming.

The Division of Gaming has notified the race tracks and tribal agencies of their responsibilities and potential issues with systems failures. The Division of Gaming has also required that the race tracks develop contingency plans to ensure the health and welfare of the patrons, employees, and animals at the race tracks in case of systems failures.

The State cannot provide absolute assurances that all year 2000 problems will be corrected by January 1, 2000. There remains a possibility that some year 2000 problems will not be identified or corrected by January 1, 2000. However, the actions that the State is currently completing should minimize such potential problems, especially for critical business applications.

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

We have audited the financial statements of the Department of Administration's Division of Gaming—Racing, Indian Gaming, and Charitable Gaming programs for the fiscal years ended June 30, 1999 and 1998, which are prepared on a budgetary basis, and have issued our report thereon dated November 17, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Division of Gaming's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Division of Gaming's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Division's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

As requested by the Division of Gaming, we conducted in 1998 a special review of processing controls for the licensing and revenue subsystems of the Wisconsin Pari-Mutuel System (WPS). WPS is a local area network-based system that processes financial data for the Division's racetracks and is a source of information for its financial statements. We identified several areas in which improvements could be made to improve controls for the WPS system, including data security controls over background investigation fees, procedures to use if the system becomes unavailable, and general controls over the local area network, which were further discussed in a January 21, 1999 letter to the Division of Gaming.

As part of our recent financial audit, we found that the Division has taken steps to implement recommended improvements that were under its power to address and took initial steps to request the Department of Administration's Office of Computer Services (OCS) to implement the other recommendations. Although many of the recommended improvements have not yet been implemented by OCS, the Division of Gaming reports that OCS has agreed to hire a consultant to address the Division's priorities. As a user of the local area network, we encourage the Division of Gaming to monitor and regularly communicate with OCS on its progress in ensuring proper controls are in place for the Division's system.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions discussed above is a material weakness.

This report is intended solely for the information and use of the Division's management, the Department of Administration, and the Wisconsin Legislature. This restriction is not intended to limit the distribution of this report, which, upon submission to the Joint Legislative Audit Committee, is a public document. However, because we do not express an opinion on compliance or provide assurance on internal control over financial reporting, this report is not intended to be used by anyone other than these specified parties.

LEGISLATIVE AUDIT BUREAU

November 17, 1999

by
Diann Allsen
Audit Director

APPENDIX

STATE OF WISCONSIN
DEPARTMENT OF ADMINISTRATION

TOMMY G. THOMPSON
GOVERNOR

GEORGE LIGHTBOURN
ACTING SECRETARY

F. SCOTT SCEPANIAK
DIVISION ADMINISTRATOR



DIVISION OF GAMING

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December 8, 1999

Janice Mueller, State Auditor
Legislative Audit Bureau
131 W. Wilson Street, Suite 402
Madison, WI 53703

Dear Ms. Mueller:

On behalf of the Wisconsin Department of Administration, Division of Gaming, thank you for the opportunity to respond to the Legislative Audit Bureau's financial and program evaluation as required by s. 13.94(1)(eg) of the Wisconsin Statutes. Before proceeding, the Division of Gaming wishes to recognize the time and effort put forth by the members of the audit team throughout the conduct of the review. As in prior audits, Legislative Audit Bureau staff participating in the performance of the review took the time to become familiar with the issues and exhibited professionalism that fostered a cooperative relationship between the respective staff in the development of the final report.

Staff from the Division of Gaming has reviewed the noted findings and recommendations. As a result of this review the Division of Gaming will address each recommendation and describe the efforts that will be initiated to fulfill the recommendations as set forth in the audit. Also, the Division of Gaming will address a few specific issues regarding the program performance of the Office of Indian Gaming and Regulatory Compliance.

In response to the three recommendations developed by the Legislative Audit Bureau, the Division of Gaming is committed to implement the following plan of action for each item.

The first recommendation is to develop a plan to fill all authorized positions in a timely manner. To meet this recommendation, the Division of Gaming will continue to work closely with the Department of Administration's Bureau of Personnel staff in an effort to fill the vacant positions and evaluate additional recruitment options based on the recognized past recruitment difficulties.

For specific positions which require candidates to have gaming related experience, advertisements in industry publications and nationwide recruitments will continue to be pursued in the effort to fill these vacancies. In other positions where a gaming background is desirable but not mandatory, the Division of Gaming will increase its efforts to attract qualified individuals that may be trained in the areas of gaming regulation and compliance.

Currently, the Division of Gaming has made an offer to a candidate to fill the Financial Supervisor position. This had been one of the outstanding vacant positions noted in the audit. Also, the Division of Gaming wants to assure the Legislative Audit Bureau that it recognizes the importance of the positions most recently authorized in the budget, and is committed to moving in a timely manner and making their recruitment a priority.

The second recommendation addresses developing a plan for the performance of announced and unannounced audits and prioritizing which audits to complete first. The Division of Gaming will be in a better position to establish specific field audit goals upon the implementation of the Slot Accounting Remote Monitoring System (SARMS), which received funding in the budget. SARMS will automate a number of the functions currently performed by staff and will permit more flexibility for staff to conduct field audits of gaming facilities. During the interim period of SARMS development, the Division of Gaming will prioritize and develop a plan for announced audits based upon the date of the last audit of the gaming facilities for the year 2000.

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The final recommendation addresses what efforts will be implemented to reduce backlogs in the gaming device inventory and gaming related vendor certifications. In regards to the inventory of gaming devices, with the assistance of a contractor, the Division of Gaming is nearing the completion of the development of an automated system that will electronically maintain the inventory of the games of chance located at tribal gaming facilities. Along with the electronic notification from vendors of the tribes' purchases of games of chance, the system provides the mechanism to track and monitor the placement and performance of each electronic game of chance at casinos. At the present time, a backlog exists in this area due to the volume of information received from the tribes that requires the manual keying into the existing inventory system.

The second portion of the final recommendation addresses the backlog of gaming related vendor certificates. To reduce the backlog and remain current, the Division of Gaming will continue to address the gaming related vendor certificates through the contracting of services and will aggressively attempt to fill the authorized vacant positions. The management of the Division of Gaming has recognized this backlog and has made a concentrated effort to closely monitor the status of each investigation. Also, staff has been assigned performance goals in regards to the completion of background investigations.

The Division of Gaming accepts the LAB audit findings and is providing additional information regarding the program performance of the Office of Indian Gaming and Regulatory Compliance. The audit report discusses the decline in on-site field audits from prior years, despite an increase in the number of positions.

With the number of staff allocated to conduct field audits and the number and locations of the gaming facilities, Division of Gaming management determined to focus on specific audit activities that could be performed in-house. Staff analyzes the same data that would be reviewed during an on-site audit. Conducting audits in-house protects the integrity of the games on a statewide basis and allows for the review of compliance with the state/tribal compacts.

Janice Mueller, State Auditor
December 8, 1999
Page 3

The Division of Gaming acknowledges the importance of on-site audits. The passage of the budget authorizes an additional three positions and funding for the development and implementation of an automated monitoring system. With these additional resources, the Division of Gaming will increase the number of on-site audits and have the ability to monitor the daily operations of the casinos.

In closing, again thank you for the opportunity to respond to this audit and for the careful examination conducted by the Legislative Audit Bureau of the issues confronting the Division of Gaming, especially in the area of Indian Gaming. The review and recommendations provided will assist the Division of Gaming to improve its operational performance in fulfilling its regulatory responsibilities in an effective manner. The Division of Gaming is fully committed to implement the necessary measures to meet the objectives of the recommendations contained in the report.

Sincerely,

F. Scott Scepaniak
Administrator

cc: George Lightbourn