

AN AUDIT

Division of Gaming

Department of Administration

02-11

July 2002

2001-2002 Joint Legislative Audit Committee Members

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July 18, 2002

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

Dear Senator George and Representative Leibham:

We have completed a financial audit of the Division of Gaming within the Department of Administration, as required by s. 13.94(1)(eg), Wis. Stats. The Division 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 years (FYs) 2000-01 and 1999-2000. Later this year, we will issue an evaluation of the Division's oversight and regulatory authority.

In both FY 2000-01 and FY 1999-2000, the Division's revenues from gaming activities and its transfers to other state programs were significantly affected by two events: the tribal-state compacts were renegotiated, and a constitutional amendment relating to the use and distribution of gaming proceeds was approved.

The State renegotiated gaming compacts with each of 11 Native American tribes in Wisconsin in 1998 and 1999. Under the previously negotiated tribal-state compacts, the State received a total of \$350,000 annually in tribal regulation revenue. Under the new compacts, the tribes have agreed to pay the State an additional \$21.7 million in FY 1999-2000 and \$24.0 million in FY 2000-01. The Division received \$21.8 million in FY 1999-2000 and \$24.4 million in FY 2000-01.

A constitutional amendment passed by Wisconsin voters and implemented with 1999 Wisconsin Act 5 requires that state revenues from pari-mutuel racing and charitable bingo be used for property tax relief. Consequently, any unencumbered balances remaining in the general program operation appropriations for racing and bingo are transferred to the Lottery Fund at the end of the fiscal year. The Division transferred a total of approximately \$6.5 million to the Lottery Fund in FYs 2000-01 and 1999-2000.

We appreciate the courtesy and cooperation extended to us by the Department of Administration during the audit.

Respectfully submitted,

A handwritten signature in cursive script that reads 'Janice Mueller'.

Janice Mueller
State Auditor

JM/JG/ss

Independent Auditor's Report on the Financial Statements of the Department of Administration—Division of Gaming

We have audited the accompanying statements of revenues, expenditures, and changes in program balances of the Department of Administration's Division of Gaming—Racing, Indian Gaming, and Charitable Gaming programs for the years ended June 30, 2001 and 2000. These financial statements, which are prepared on a budgetary basis, 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 auditing standards generally accepted in the United States 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 accounting principles generally accepted in the United States.

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 accounting principles generally accepted in the United States.

In our opinion, the financial statements referred to above present fairly, in all material respects, the revenues, expenditures, and changes in program balances on a budgetary basis of the Division of Gaming—Racing, Indian Gaming, and Charitable Gaming programs for the years ended June 30, 2001 and 2000, on the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 8, 2002, 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

July 8, 2002

LEGISLATIVE AUDIT BUREAU

by
Julie Gordon
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, 2001

	<u>Racing</u>	<u>Indian Gaming</u>	<u>Charitable Gaming</u>	<u>Memorandum Only Totals</u>
Revenues				
Pari-mutuel Tax	\$ 1,577,182			\$ 1,577,182
Special Program Tax	949,183			949,183
Unclaimed Prizes	706,387			706,387
Licensing Fees	422,941			422,941
Racing Supervision Fees	354,000			354,000
Fines and Forfeitures	15,460			15,460
Tribal Regulation Revenues		\$ 24,385,021		24,385,021
Tribal Investigation Revenues		192,671		192,671
Bingo Tax			\$ 379,308	379,308
Bingo Licensing Fees			190,235	190,235
Raffle Licensing Fees			179,495	179,495
Crane Game Licensing Fees			18,480	18,480
Miscellaneous Revenue	3,368	3,664	29	7,061
Total Revenues	<u>4,028,521</u>	<u>24,581,356</u>	<u>767,547</u>	<u>29,377,424</u>
Expenditures				
Salaries and Fringe Benefits	1,346,296	748,024	360,963	2,455,283
Supplies and Services	680,098	1,191,773	88,083	1,959,954
Equipment and Furniture	32,785	0	0	32,785
Total Expenditures	<u>2,059,179</u>	<u>1,939,797</u>	<u>449,046</u>	<u>4,448,022</u>
Transfers				
Transfer to the Lottery Fund	(4,469,303)		(671,128)	(5,140,431)
Transfer to the Common School Fund	(7,730)			(7,730)
Transfer to the Department of Justice— Gaming Law Enforcement	(140,700)	(108,700)		(249,400)
Transfer of Tribal Payments to:				
Department of Administration		(1,800,000)		(1,800,000)
Arts Board		(25,200)		(25,200)
Department of Commerce		(5,513,000)		(5,513,000)
Department of Health and Family Services		(3,511,600)		(3,511,600)
Higher Educational Aids Board		(1,179,800)		(1,179,800)
Wisconsin Historical Society		(170,100)		(170,100)
Department of Justice		(777,400)		(777,400)
Department of Natural Resources		(4,279,805)		(4,279,805)
Department of Public Instruction		(203,000)		(203,000)
Department of Tourism		(4,000,000)		(4,000,000)
Department of Veterans Affairs		(68,000)		(68,000)
Department of Workforce Development		(950,000)		(950,000)
Total Transfers	<u>(4,617,733)</u>	<u>(22,586,605)</u>	<u>(671,128)</u>	<u>(27,875,466)</u>
Increase (Decrease) in Program Balance	(2,648,391)	54,954	(352,627)	(2,946,064)
Program Balance				
Program Balance, Beginning of Year	2,649,398	1,033,201	691,239	4,373,838
Program Balance, End of Year	<u>\$ 1,007</u>	<u>\$ 1,088,155</u>	<u>\$ 338,612</u>	<u>\$ 1,427,774</u>
Reserved for Encumbrances	\$ 1,007	\$ 154,208	\$ 0	\$ 155,215
Unreserved	\$ 0	\$ 933,947	\$ 338,612	\$ 1,272,559

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, 2000

	Racing	Indian Gaming	Charitable Gaming	Memorandum Only Totals
Revenues				
Pari-mutuel Tax	\$ 1,933,143			\$ 1,933,143
Special Program Tax	1,104,813			1,104,813
Unclaimed Prizes	784,682			784,682
Licensing Fees	496,223			496,223
Racing Supervision Fees	371,000			371,000
Fines and Forfeitures	16,866			16,866
Tribal Regulation Revenues		\$ 21,806,024		21,806,024
Tribal Investigation Revenues		101,200		101,200
Bingo Tax			\$ 409,345	409,345
Bingo Licensing Fees			193,546	193,546
Raffle Licensing Fees			173,293	173,293
Crane Game Licensing Fees			12,360	12,360
Miscellaneous Revenue	1,782	1,879	43	3,704
Total Revenues	4,708,509	21,909,103	788,587	27,406,199
Expenditures				
Salaries and Fringe Benefits	1,223,533	590,515	326,133	2,140,181
Supplies and Services	695,742	567,626	91,667	1,355,035
Total Expenditures	1,919,275	1,158,141	417,800	3,495,216
Transfers				
Transfer to the Lottery Fund	(981,676)		(404,400)	(1,386,076)
Transfer to the Common School Fund	(8,433)			(8,433)
Transfer to the Department of Justice— Gaming Law Enforcement	(131,400)	(105,500)		(236,900)
Transfer of Tribal Payments to:				
Department of Administration		(1,400,000)		(1,400,000)
Arts Board		(25,200)		(25,200)
Department of Commerce		(4,392,700)		(4,392,700)
Department of Health and Family Services		(2,950,300)		(2,950,300)
Higher Educational Aids Board		(1,179,800)		(1,179,800)
Wisconsin Historical Society		(170,100)		(170,100)
Department of Justice		(770,400)		(770,400)
Department of Natural Resources		(3,799,950)		(3,799,950)
Department of Public Instruction		(198,000)		(198,000)
Department of Tourism		(4,000,000)		(4,000,000)
Department of Veterans Affairs		(66,900)		(66,900)
Department of Workforce Development		(950,000)		(950,000)
Total Transfers	(1,121,509)	(20,008,850)	(404,400)	(21,534,759)
Increase (Decrease) in Program Balance	1,667,725	742,112	(33,613)	2,376,224
Program Balance				
Program Balance, Beginning of Year	981,673	291,089	724,852	1,997,614
Program Balance, End of Year	<u>\$ 2,649,398</u>	<u>\$ 1,033,201</u>	<u>\$ 691,239</u>	<u>\$ 4,373,838</u>
Reserved for Encumbrances	\$ 0	\$ 829,038	\$ 0	\$ 829,038
Unreserved	\$ 2,649,398	\$ 204,163	\$ 691,239	\$ 3,544,800

The accompanying notes are an integral part of this statement.

1. Description of the Department of Administration—Division of Gaming’s Racing, Indian Gaming, and Charitable Gaming Programs

The Division of Gaming within the Department of Administration was created on July 1, 1997, 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 June 30, 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 fiscal year (FY) 1999-2000 and FY 2000-01, 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’s financial reporting entity.

Pari-mutuel greyhound racing was authorized by 1987 Wisconsin Act 354. During FY 1999-2000 and FY 2000-01, three race tracks were licensed for operation: Geneva Lakes Kennel Club, Dairyland Greyhound Park, and St. Croix Meadows Greyhound Park. However, in August 2001, St. Croix Meadows Greyhound Park closed. The Division of Gaming’s regulatory responsibilities regarding 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, 24 Indian gaming casinos were in operation during FY 1999-2000 and FY 2000-01. 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 a date late in July, as determined by the Secretary of the Department of Administration, 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.

3. Transfers

- A. Transfer to the Lottery Fund - On April 6, 1999, Wisconsin voters approved a constitutional amendment that requires net proceeds received by the State from pari-mutuel on-track betting and bingo games be used for property tax relief for Wisconsin residents. 1999 Wisconsin Act 5, which was enacted on July 28, 1999, to implement this amendment, requires any unencumbered balances remaining in the general program operation appropriations for racing and bingo to be transferred to the Lottery Fund at the end of each fiscal year.
- 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 of Tribal Payments to Various State Agencies - The Division of Gaming collects tribal regulation revenues under the current tribal-state compacts. In accordance with 1999 Wisconsin Act 9, the State's 1999-2001 biennial budget, the Division of Gaming is required to transfer these funds to several state agencies for a variety of purposes.

4. Subsequent Events

- A. Track Closing - The St. Croix Meadows Greyhound Park closed in August 2001. Since the Division of Gaming receives revenue from the race tracks through pari-mutuel taxes, special program taxes, and various fees, this closing will reduce the amount of revenue collected in

future years. In FY 1999-2000 and FY 2000-01, St. Croix Meadows Greyhound Park paid the Division of Gaming \$655,691 and \$558,220, respectively.

- B. Unclaimed Prizes - Under 2001 Wisconsin Act 16, the Division of Gaming will receive 50 percent of unclaimed prize money from the race tracks beginning in FY 2002-03. Since the Division received 100 percent of the unclaimed prize money prior to FY 2002-03, this change will reduce the Division's future revenue. In FY 2000-01, excluding the St. Croix Meadows Greyhound Park, the Division of Gaming received \$608,617 in unclaimed prizes.

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, 2001 and 2000, which are prepared on a budgetary basis, and have issued our report thereon dated July 8, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This independent auditor's report is intended for the information and use of the Division's management, the Department of Administration, and the Wisconsin Legislature. This independent auditor's report, upon submission to the Joint Legislative Audit Committee, is a matter of public record and its distribution is not limited. 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



by

Julie Gordon
Audit Director

July 8, 2002