

## 98-5 Division of Gaming, Department of Administration

### Summary

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The Division of Gaming within the Department of Administration administers and regulates the State's racing, Indian gaming, and charitable gaming activities. We completed an audit of the Division to fulfill our audit responsibilities under s. 13.94(1)(eg), Wis. Stats., and have issued an unqualified opinion on its financial statement for the Racing, Indian Gaming, and Charitable Gaming programs for the years ended June 30, 1997 and 1996. As part of our audit, we also analyzed gaming revenues and expenditures for these years and identified two areas of concern:

- a significant decrease in the Racing program's pari-mutuel tax revenue; and
- questions about whether the Division's cost allocation process accurately reflects each program's full costs.

The Racing program's pari-mutuel tax revenue, which is calculated as a percentage of the amount wagered at racetracks, declined by approximately 45 percent since fiscal year (FY) 1994-95, when it was \$4.7 million. In FY 1996-97, it was \$2.6 million, and the Division estimates that pari-mutuel tax revenue will decline further, to \$2.3 million, in FY 1997-98.

The Division attributes this decline primarily to increased competition from other gaming opportunities. Unlike pari-mutuel tax revenue, Charitable Gaming program revenue has remained relatively stable since FY 1994-95. The Division of Gaming also currently receives a total of \$350,000 annually from the 11 tribes as reimbursement for the State's regulatory costs.

We reviewed the Division's administrative cost allocation process and found that the Indian Gaming and Charitable Gaming programs are not assessed their full share of administrative costs. For example, although the Division's administrative staff have responsibilities related to all gaming programs, their salary and fringe benefit expenditures are charged solely to the Racing program. Therefore, Racing expenditures are higher than necessary because the program absorbs some administrative costs that should have been assessed against the Indian Gaming and Charitable Gaming programs. We estimate that if employee-related costs had been allocated according to work effort, an additional \$164,500 in racing proceeds would have been available for transfer as required by statute, first to programs that aid local fairs and for educational programs related to livestock, and then to the General Fund. However, it should be noted that the Indian Gaming and Charitable Gaming programs have not had sufficient expenditure authority to pay all of the administrative costs that properly could have been allocated to them, even though their program balances have been adequate to do so.

While a more accurate allocation of administrative costs would have allowed for additional FY 1996-97 transfers to local fair aid and educational programs related to livestock and to the General Fund if expenditure authority had been available, the proper identification of program costs will become even more important in the future, as the State's revenues related to the Indian Gaming program increase with the renegotiated gaming compacts. As noted, the State currently receives an annual total of \$350,000 from the tribes as reimbursement for its regulatory costs; however, with the renegotiation of the first 3 of 11 existing compacts, the State is expected to receive at least \$5.5 million annually beginning in FY 1999-2000. Before determining how the additional funds should be appropriated, the Legislature will first need assurance that all costs associated with regulating gaming activities have been identified. Therefore, we include a recommendation that the Department of Administration develop an equitable process for allocating administrative costs currently financed by the Racing program among all Division of Gaming programs and seek the necessary expenditure authority from the Legislature to cover these costs.

