

An Evaluation

Division of Gaming

Department of Administration

2007-2008 Joint Legislative Audit Committee Members

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CONTENTS

Letter of Transmittal	1
Report Highlights	3
Introduction	9
Division Staffing	10
Division Revenue and Expenditures	11
Other States' Revenue from Indian Gaming	14
Tribal Revenue and Expenses	17
Tribal Gaming Revenue	17
Indian Gaming Oversight	21
Oversight of Casino Operations	21
Financial Audits	24
Compliance Audits	27
Vendor Certification	28
Vendor Certification Revenue	30
Timeliness of Vendor Certifications	31
Department of Justice Gaming Enforcement Activities	33
Pari-Mutuel Racing	35
Trends in Attendance and Wagering	35
Distribution of Pari-Mutuel Racing Revenue	37
Payments to the Racetrack Association	37
Payments to Greyhound Owners	38
Payments to the State	39
Payments to Local Governments	40
Oversight Responsibilities	40
Steward Rulings	40
Greyhound Adoptions	42
Charitable Gaming and Crane Games	45
Bingo	45
Raffles	48
Crane Games	50

Appendices

- Appendix 1—Percentage Used to Calculate Tribal Payments to the State
from Net Revenue of Class III Gaming
- Appendix 2—Indian Gaming Casinos
- Appendix 3—Most Common Pari-Mutuel Racing Violations

Response

From the Department of Administration's Division of Gaming



STATE OF WISCONSIN

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Janice Mueller
State Auditor

September 21, 2007

Senator Jim Sullivan and
Representative Suzanne Jeskewitz, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Sullivan and Representative Jeskewitz:

We have completed a biennial performance evaluation of the Department of Administration's Division of Gaming, as required by s. 13.94(1)(eg), Wis. Stats. The Division oversees Indian gaming, pari-mutuel racing, and charitable gaming activities in Wisconsin. In fiscal year (FY) 2005-06, its expenditures to regulate all three types of gaming activities totaled \$3.3 million in program revenue.

Indian gaming represents the most significant gaming activity in Wisconsin. In 2006, tribal gaming revenue was \$1.3 billion, tribal gaming expenses were \$770.3 million, and tribal gaming profits were \$555.9 million. The 2003 compacts between the State and the tribes expanded the types of games that tribes may offer, lengthened the duration of the compacts, and changed the method tribes use to calculate payments they make to the State. In FY 2005-06, the State received \$118.7 million from ten tribes. Compact disputes with several tribes remain unresolved.

Compacts contain several provisions designed to ensure the integrity of Indian gaming in Wisconsin and compliance with regulations. One important control requires tribes to identify instances in which amounts recorded by electronic meters in electronic gaming devices differ from amounts collected from those devices and counted by casino staff. We reviewed 2006 data maintained by the Division in the State's Data Collection System and found differences in these amounts for every day of the year. The Division asserts most of these differences were caused by programming errors in the Data Collection System and the casinos' electronic accounting systems.

Although the Division reviews many important financial controls implemented by casinos, it has not routinely used the Data Collection System to identify differences between amounts recorded by electronic meters and amounts counted by casino staff. These data are important in identifying potential irregularities in gaming operations and financial reporting that cannot be identified from other controls the Division reviews. Moreover, we found that from March 2006 through April 2007, the Division did not review data maintained by casinos to determine whether the tribes identified, investigated, and documented these differences, as required by their compacts.

We appreciate the courtesy and cooperation extended to us by the Division. The Division's response follows the appendices.

Respectfully submitted,

Janice Mueller
State Auditor

JM/PS/ss

Report Highlights ■

The State's revenue from gaming totaled \$121.3 million in FY 2005-06.

Tribal gaming revenue increased from \$1.0 billion in 2002 to \$1.3 billion in 2006.

The Division has not routinely reviewed all information that could identify potential theft or fraud at casinos.

Wagers at racetracks and the State's revenue from pari-mutuel racing have declined in recent years.

The Division of Gaming in the Department of Administration (DOA) oversees the gaming operations of 11 tribes that have negotiated compacts with the State. The compacts permit Indian gaming in Wisconsin and define regulations for tribal gaming operations. The Division also regulates pari-mutuel racing at one remaining dog track in Wisconsin, charitable bingo and raffles, and other games that are subject to regulation by the State. In fiscal year (FY) 2005-06, it was authorized 35.35 full-time equivalent (FTE) positions and spent \$3.3 million to regulate all types of gaming activities.

Under s. 13.94(1)(eg), Wis. Stats., the Legislative Audit Bureau is required to conduct a biennial performance evaluation of the Division. As part of this evaluation, we reviewed:

- the State's revenue and expenditures related to the regulation of Indian gaming, pari-mutuel wagering, and charitable gaming, as well as funding allocations for staff positions in the Division;
- tribal revenue and expenses related to gaming activities;
- oversight activities of the Division's Office of Indian Gaming, including the timeliness of its efforts to certify the vendors that provide gaming-related services or equipment to casinos;
- pari-mutuel racing, including racetrack attendance and amounts wagered, the Division's oversight at the racetrack, and its greyhound adoption program; and

- trends in charitable gaming and crane games, which are amusement devices in which a player maneuvers a crane or claw to obtain toys or novelties worth \$5 or less.

State Gaming Revenue

State revenue from all gaming activities regulated by the Division—including Class III gaming at tribal casinos, pari-mutuel racing, and charitable and crane games—increased from \$28.5 million in FY 2002-03 to \$121.3 million in FY 2005-06, largely because of changes to tribal-state gaming compacts that were negotiated in 2003. The renegotiated compacts significantly increased annual payments due from tribes to the State.

Class III gaming is the State's largest source of gaming revenue. In FY 2005-06, 10 of 11 tribes that operate casinos made payments to the State totaling \$118.7 million.

However, a duration provision in seven tribal-state compacts that were signed in 2003 was invalidated by the Wisconsin Supreme Court in 2004. As a result, two tribes stopped making payments to the State.

The Potawatomi withheld \$43.6 million that was due in 2005 until October 2006, when that tribe and the State agreed to a compact duration of 25 years. The Ho-Chunk continue to withhold \$30.0 million that was due in June 2005, as well as payments based on their share of net tribal revenue from Class III gaming that were due in June 2006 and June 2007. The State and the Ho-Chunk are in litigation to resolve the matter.

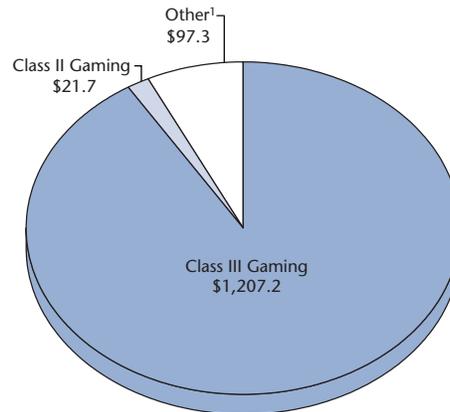
A third tribe, the Lac du Flambeau, has not made any payments since 2004 because payments are not required under an extension of that tribe's compact with the State.

Tribal Gaming Revenue

As shown in Figure 1, tribes generate gaming revenue primarily through Class III gaming, which includes electronic gaming devices such as slot machines and table games such as blackjack. Compacts require each tribe to contract for an annual independent audit of its gaming operations and to submit the audit report to the Division and our office. We may release financial information only in aggregated form.

Figure 1

Sources of Tribal Gaming Revenue
2006
(in Millions)



¹ Includes revenue from hotels, entertainment and convention facilities, gift shops, food and beverage sales, and investment earnings.

In aggregate, tribal gaming revenue from all sources increased from \$1.0 billion in 2002 to \$1.3 billion in 2006. It should be noted, however, that while most tribes' gaming-related revenue increased, some tribes' did not.

In aggregate, net tribal revenue from Class III gaming, which excludes amounts paid out in winnings, increased 24.4 percent over the five-year period we reviewed. It totaled \$1.2 billion in 2006.

Aggregate tribal gaming revenue increased in part because the 2003 compacts authorized new types of table games, such as baccarat, craps, poker, and roulette. However, electronic gaming devices are the source of most tribal revenue from Class III gaming.

Tribes incur gaming expenses for general operations, including employee salaries and fringe benefits; promotion and marketing; and depreciation. In aggregate, tribal gaming expenses increased 37.9 percent during the period we reviewed, from \$558.7 million in 2002 to \$770.3 million in 2006. Tribal gaming profits, or revenue in excess of expenses, increased 13.3 percent, from \$490.8 million in 2002 to \$555.9 million in 2006.

Enforcement Efforts

Regulation of Indian gaming protects the interests of casino patrons, who expect the games to be fair, as well as both the tribes and the State, which depend on accurate accounting of revenue from Class III gaming activities to determine payments required under the compacts.

The Division conducts financial and compliance audits to ensure that the tribes comply with provisions of their compacts. Compacts require tribes to identify instances in which amounts recorded by a meter in an electronic gaming device differ by at least 3.0 percent and more than \$25 from amounts counted by casino staff. When tribes identify such differences, compacts require them to investigate and document the cause, because differences may identify potential theft or fraudulent activity at casinos.

We examined 2006 daily revenue recorded in the State's Data Collection System, which stores information on the transactions of electronic gaming devices, and found differences between amounts recorded by electronic meters and amounts counted by casino staff for every day of the year. In discussing this issue with the Division, we found that it was unaware of almost all of the differences we identified. The Division asserts that most of the differences we identified were caused by programming errors in the Data Collection System and the casinos' electronic accounting systems.

Although the Division reviews many important financial controls implemented by casinos, it has not routinely used the Data Collection System to identify differences between amounts recorded by electronic meters in the gaming devices and amounts collected and counted by casino staff. These data are important in identifying potential irregularities in gaming operations and financial reporting that cannot be identified from other controls the Division reviews.

Moreover, we found that from March 2006 through April 2007, the Division did not review data maintained by casinos to determine whether the tribes had identified, investigated, and documented differences between amounts recorded by electronic meters and amounts counted by casino staff. In May 2007, as we were conducting our fieldwork, the Division began conducting these reviews again.

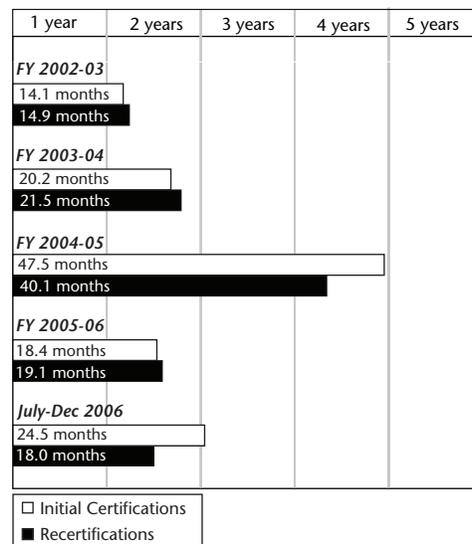
The compacts and statutes require DOA to certify the vendors that provide casinos with gaming-related products and services. The Division requires vendor recertification every two years. As shown in Figure 2, the average time required by the Division to complete initial certifications increased from 14.1 months in FY 2002-03 to

nearly a full four years in FY 2004-05, then decreased to 24.5 months in the first half of FY 2006-07.

During the period shown, the Division issued decisions on 117 applications, 93 of which were approved, and collected \$1.1 million in vendor certification fees.

Figure 2

Average Time to Complete Certifications of Indian Gaming Vendors



Other Gaming Activities

Dairyland Greyhound Park, Wisconsin’s one remaining racetrack, conducts live greyhound races and broadcasts horse and greyhound races from racetracks in other states. The amounts wagered at Dairyland decreased from \$69.5 million in FY 2002-03 to \$58.5 million in FY 2005-06.

It is unlikely Dairyland will be able to remain in operation if wagering continues to decline. Declines are expected because the market for pari-mutuel racing continues to diminish. State revenue from pari-mutuel racing decreased from \$2.7 million in FY 2002-03 to \$1.9 million in FY 2005-06.

The Division also licenses charitable organizations that conduct bingo and raffles and registers crane games. The State's revenue from bingo activities totaled \$2.0 million from FY 2002-03 through FY 2005-06. During the same period, its revenue from raffle license fees totaled \$772,400, and its revenue from crane games totaled \$77,600.

Recommendations

Our report includes recommendations for the Division to report to the Joint Legislative Audit Committee by January 31, 2008, on steps it has taken to:

- ☑ ensure the State's Data Collection System and the casinos' electronic accounting systems are recording and calculating gaming revenue correctly ([p. 27](#)); and
- ☑ continue to improve the timeliness of vendor certifications ([p. 32](#)).

We also include a recommendation for the Division, in every casino audit, to:

- ☑ incorporate procedures for determining whether tribes are appropriately identifying, investigating, and documenting differences between amounts recorded by electronic meters and amounts counted by casino staff ([p. 27](#)).

■ ■ ■ ■

Introduction ■

DOA's Division of Gaming oversees and regulates the gaming activities of 11 tribes.

DOA's Division of Gaming has been responsible for overseeing Indian gaming activities, which are governed by tribal-state compacts, since 1997. The Governor is authorized by statutes to negotiate and approve the compacts that permit Indian gaming in Wisconsin and to establish the types of games permitted, regulations for their operation, and standards for the oversight of tribal gaming activities. The first tribal-state compacts were negotiated in 1991 and 1992. In 1998 and 1999, new compacts included requirements for each tribe to make additional payments to the State. Every tribe except the Lac du Flambeau again negotiated compacts with the State in 2003.

In FY 2005-06, the Division was authorized 35.35 FTE positions.

In FY 2005-06, the Division was authorized 35.35 FTE program revenue-funded positions to provide gaming regulation and oversight. They include:

- Indian gaming program staff, who are responsible both for conducting on-site compliance and financial audits to determine whether casino operations and finances are conducted in accordance with the compacts and for certifying the vendors that provide gaming-related services and equipment to casinos;
- pari-mutuel racing program staff, such as racing stewards who ensure racing requirements are followed, and veterinary staff who ensure the humane treatment of the greyhounds; and

- charitable gaming program staff, who are responsible for licensing and conducting financial reviews of bingo and raffle organizations and registering crane games.

In conducting the evaluation, we examined financial records, regulatory data maintained by the Division, data on the operation of casino games, and staffing levels and positions. In addition, we interviewed managers and staff in the Division and Department of Justice (DOJ) staff responsible for prosecuting violations of gambling laws in Wisconsin, and we observed on-site procedures of gaming operations at one casino and pari-mutuel racing at the Dairyland racetrack.

Division Staffing

As shown in Table 1, the Indian gaming program was authorized 15.75 FTE positions in FY 2005-06. They include 5.0 FTE positions filled by staff who conduct on-site audits of casinos and 5.0 FTE positions for conducting vendor certifications. Since FY 2002-03, 8.0 positions have been eliminated from the pari-mutuel racing program, largely because of the closure of the St. Croix Meadows Greyhound Park in August 2001 and the Geneva Lakes Greyhound Track in April 2006.

Table 1

Authorized FTE Positions in the Division of Gaming

Program Area	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06
Indian Gaming	14.00	18.00	16.00	15.75
Pari-Mutuel Racing	22.10	20.30	20.30	14.10
Charitable Gaming ¹	6.75	5.75	5.75	5.50
Total	42.85	44.05	42.05	35.35

¹ Includes authorized staff positions for the regulation of bingo, raffles, and crane games.

Among the states, staffing for regulatory oversight and enforcement varies considerably. For example, the Arizona Department of Gaming employs approximately 100.0 FTE staff, most of whom are responsible for overseeing and enforcing gaming regulations at 23 casinos. Alternatively, the Michigan Gaming Control Board employs 3.0 FTE staff to conduct regulatory oversight at 17 casinos.

2007 Senate Bill 40, the 2007-09 biennial budget bill, would authorize 2.0 additional positions in the Indian gaming program to conduct investigations related to vendor certifications. The Division would no longer use a contractor to provide some investigation services if the additional positions were approved.

Division Revenue and Expenditures

As shown in Table 2, the State receives revenue from:

- Indian gaming, which includes payments tribes make under the terms of their compacts with the State;
- pari-mutuel racing, which includes a pari-mutuel tax on amounts wagered at racetracks, racing fees and fines, and unclaimed racetrack winnings; and
- charitable gaming, which includes taxes on the revenue of bingo organizations and suppliers of bingo cards and materials, and licenses and permit fees for bingo, raffles, and crane games.

The State's gaming revenue increased from \$28.5 million in FY 2002-03 to \$121.3 million in FY 2005-06.

The State's total gaming revenue increased from \$28.5 million in FY 2002-03 to \$121.3 million in FY 2005-06, primarily because of new payment provisions in compacts negotiated between the State and tribal governments in 2003. However, revenue from pari-mutuel racing has decreased, largely because the Geneva Lakes racetrack ended live racing in November 2005 and simulcast racing in April 2006.

Table 2
State Gaming Revenue

Program Area	FY 2002-03	FY 2003-04	FY 2004-05 ¹	FY 2005-06 ²	Percentage Change
Indian Gaming	\$25,054,200	\$69,836,100	\$27,380,500	\$118,691,700	373.7%
Pari-Mutuel Racing	2,716,500	2,662,100	2,388,600	1,909,900	(29.7)
Charitable Gaming ³	729,400	756,400	711,800	694,600	(4.8)
Total	\$28,500,100	\$73,254,600	\$30,480,900	\$121,296,200	325.6

¹ Indian gaming revenue decreased in FY 2004-05 because of payments in that year that were not made by the Ho-Chunk and Potawatomi.

² Indian gaming revenue increased in FY 2005-06, in part, because of a \$30.0 million lump-sum payment made by the Ho-Chunk that was due in a previous fiscal year.

³ Includes revenue from licenses and permit fees for bingo, raffles, and crane games.

Under their negotiated compacts, each of the ten tribes is required to pay the State based on a percentage of its net revenue from Class III gaming. New payment provisions went into effect for some tribes beginning in FY 2003-04. All ten tribes that signed new compacts in 2003 are required to pay the State based on a percentage of their net revenue from Class III gaming beginning in FY 2006-07. This payment system replaced the previous lump-sum payments. Appendix 1 provides information on the percentage used by each tribe to calculate its payments to the State.

However, a duration provision in seven of the ten compacts signed in 2003 was found to be invalid by the Wisconsin Supreme Court in 2004. As a result, two tribes—the Potawatomi and the Ho-Chunk—stopped making payments to the State. The Potawatomi withheld a \$43.6 million lump-sum payment due in 2005 until October 2006, when the tribe and State agreed to a compact duration of 25 years. The Ho-Chunk withheld a \$30.0 million lump-sum payment in June 2005, as well as payments based on a percentage of net revenue from Class III gaming that were due in June 2006 and June 2007.

The State and the Ho-Chunk have been unable to agree to a new compact duration or the amount to be paid by the tribe. The State and the Ho-Chunk remain in litigation over the appointment of an arbitrator.

The State is negotiating new compact durations with several tribes.

The State is currently negotiating new duration provisions with four of the tribes affected by the 2004 Wisconsin Supreme Court decision. The Bad River, Lac Courte Oreilles, Menominee, and Sokaogon have continued to make payments to the State while their negotiations

continue. The Division reported that the Red Cliff believe their compact to be valid and have chosen not to renegotiate. When the Lac du Flambeau and the State did not successfully negotiate a new compact in 2003, the tribe's 1998 compact, which would have expired on July 1, 2004, was automatically extended for an additional five years, under existing compact provisions. However, the extension did not include a provision requiring the tribe to make payments to the State, and the tribe has not done so. By extending the duration of the compact without also extending the tribe's required payments, the State could potentially lose revenue and create inequities with other tribes. The State could have prevented the automatic extension by serving the tribe with written notice of non-renewal at least 180 days prior to the expiration of the compact, but it did not do so. The State and the Lac du Flambeau continue to negotiate a new compact. Division staff anticipate that a new compact will include a provision for back payments.

Three of the 2003 compacts—with the Oneida, the St. Croix, and the Stockbridge-Munsee—specified that if the duration provision were found invalid, the term of the compacts would default to expiration dates approximately 99 years from the date the compacts were signed.

The State's gaming revenue is distributed to various state agencies and the General Fund.

After deductions for the Division's expenditures, the State's gaming revenue is distributed through the budget process to various state agencies and the General Fund. As shown in Table 3, the Division's expenditures decreased from \$3.4 million in FY 2002-03 to \$3.3 million in FY 2005-06. Approximately two-thirds of the Division's expenditures are for the salaries and fringe benefits of the state staff who oversee gaming operations.

Table 3

Division of Gaming Expenditures

Program Area	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	Percentage Change
Indian Gaming	\$1,406,000	\$1,566,400	\$1,470,400	\$1,552,000	10.4%
Pari-Mutuel Racing	1,642,500	1,608,900	1,515,200	1,389,500	(15.4)
Charitable Gaming ¹	390,700	379,200	408,900	397,200	1.7
Total	\$3,439,200	\$3,554,500	\$3,394,500	\$3,338,700	(2.9)

¹ Includes expenses related to the regulation of bingo, raffles, and crane games.

In FY 2005-06, after deducting the Division's regulatory expenditures, \$117.1 million of Indian gaming revenue remained, of which:

- \$88.9 million was lapsed to the General Fund;
- \$28.1 million was distributed to 16 state agencies for programs that benefit Native Americans or a broader range of citizens; and
- \$123,300 was distributed to DOJ for gaming enforcement.

The Division must also transfer any unencumbered balances remaining in the general program operation appropriations for pari-mutuel racing and bingo to the Lottery Fund for property tax relief at the end of each fiscal year, as required by a 1999 amendment to the Wisconsin Constitution. In addition, both Article X, Section 2 of the Wisconsin Constitution and statutes require the Division to transfer 50.0 percent of all fines and forfeitures collected by the pari-mutuel racing program to the Common School Fund. In FY 2005-06, the Division transferred \$640,100 to the Lottery Fund for property tax relief and \$1,935 to the Common School Fund.

Other States' Revenue from Indian Gaming

The 28 states that permit Indian gaming have adopted a range of agreements with tribes. As shown in Table 4, a recent survey by the Legislative Fiscal Bureau, conducted in cooperation with the National Conference of State Legislatures, found that Wisconsin is one of five states that negotiated to receive a percentage of Indian gaming revenue in addition to payments for oversight and regulation of Indian gaming operations in FY 2006-07. Wisconsin's estimated \$112.3 million in additional tribal payments is more than amounts expected to be received by Arizona or New Mexico. However, Connecticut estimates that it will receive \$435.0 million in additional Indian gaming revenue in FY 2006-07, and California estimates that it will receive \$297.8 million.

Most state legislatures have little or no authority to negotiate compacts, including negotiating to expand Class III gaming to locations outside of tribal lands; instead, this action rests with governors. However, a few states, including California, Connecticut, Kansas, and New Mexico, have passed laws requiring legislative approval of compacts. 2007 Assembly Bill 205, which was passed by the Assembly in April 2007, would require the Wisconsin Legislature to concur, by joint resolution, with the Governor's approval of any

expansion of Class III gaming to locations outside of tribal lands. The provisions in Bill 205 have also been included in the Assembly's amendment to 2007 Senate Bill 40, the 2007-09 biennial budget bill, but are not in the Joint Finance Committee's or the Senate's versions.

Table 4

States' Estimated Revenue from Indian Gaming¹
FY 2006-07

State	Number of Tribes with Compacts	Number of Casinos	Annual Tribal Payments for Regulation	Additional Annual Tribal Payments	Estimated Total Annual Tribal Payments to the State
Connecticut	1	2 ²	\$10,000,000	\$435,000,000	\$445,000,000
California	66	58	19,600,000	297,800,000	317,400,000
Wisconsin	11	25	350,000	112,300,000³	112,650,000
Arizona	21	23	8,000,000	78,000,000	86,000,000
New Mexico	13	18	1,300,000	51,500,000	52,800,000
Washington	27	25	3,260,000	0	3,260,000
Oregon	9	9	1,800,000	0	1,800,000
Kansas	4	4	1,700,000	0	1,700,000
Louisiana	3	3	1,500,000	0	1,500,000
Michigan ⁴	11	17	383,500	–	–
Minnesota	11	17	150,000	0	150,000
North Dakota	5	5	65,000	0	65,000
South Dakota	8	8	12,500	0	12,500
Iowa	3	3	Actual costs	0	Actual costs

¹ Estimated revenue from Indian gaming in other states was obtained from a survey conducted by the National Conference of State Legislatures and the Legislative Fiscal Bureau.

² An additional casino in Connecticut operates under federal regulations, rather than under a tribal-state compact.

³ FY 2005-06 tribal payments exceed estimates for FY 2006-07 because of a \$30.0 million lump-sum payment made by the Ho-Chunk that was due in a previous fiscal year.

⁴ Tribes may be required to make additional payments pending a court ruling.

Tribal Revenue and Expenses ■

Compacts require each tribe to contract for an annual independent financial audit of its gaming operations and to submit the audit report to the Division and our office. In 1996, an informal opinion issued by the Attorney General indicated the Audit Bureau may release audited financial information in aggregate form, provided that nothing in the disclosure could lead to the identification of a tribe, its members, employers, or operations. Consequently, as we have done in prior years, this report presents aggregated information related to tribal revenue, expenses, and profits from gaming activities governed by the tribal-state compacts.

Tribal Gaming Revenue

Tribes generate gaming revenue through:

- Class III gaming, which includes electronic gaming devices and table games, such as blackjack and poker;
- Class II gaming, which includes bingo; and
- other activities associated with gaming, such as the operation of hotels, restaurants, and gift shops.

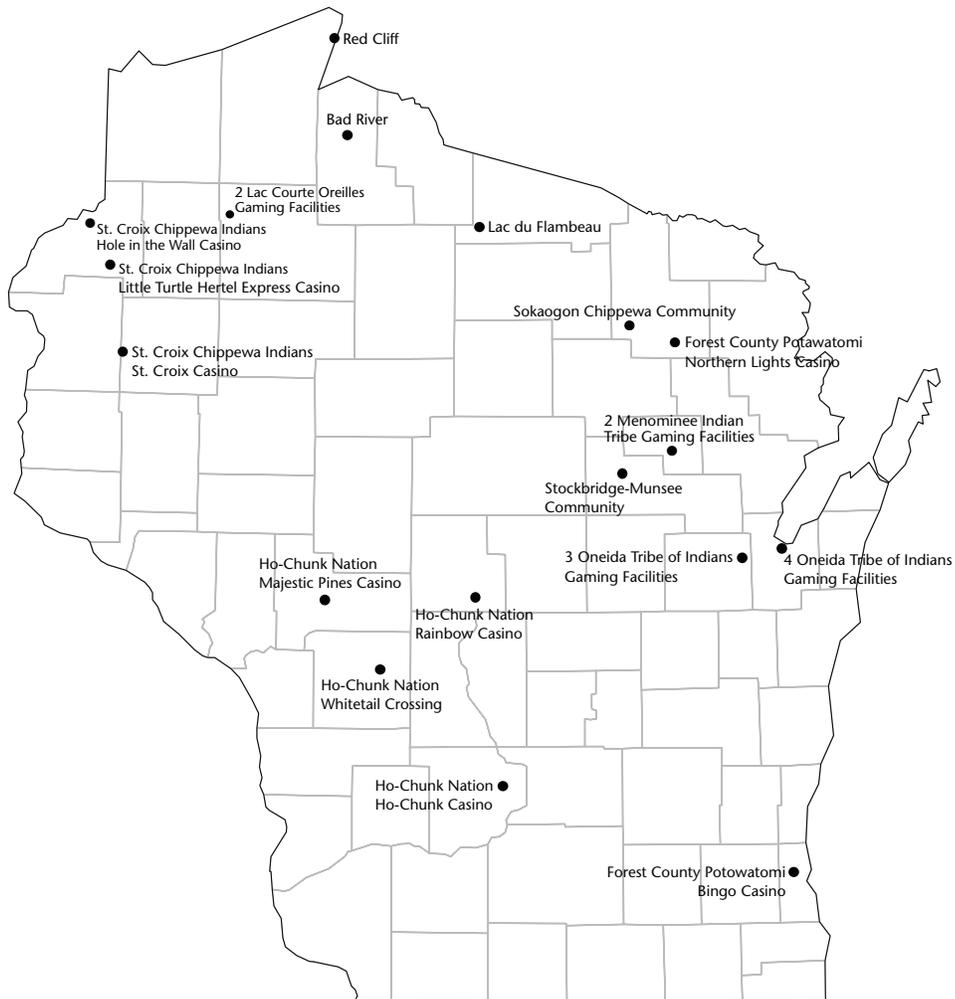
Class I gaming, which includes social and traditional games related to Indian ceremonies and celebrations, is within the exclusive jurisdiction of the tribes, and is not subject to regulation by the State.

In 2006, 11 tribes operated 25 casinos in Wisconsin.

The compacts do not require tribes to report Class II gaming activities to the State, although 7 of the 11 tribes did so in 2006. As shown in Figure 3, 11 tribes operated a total of 25 casinos in 2006, including 16 casinos that offer electronic gaming devices and table games, and 9 casinos that offer only electronic gaming devices. Appendix 2 provides additional information on the location and size of these casinos. In May 2007, the Oneida opened a sixth casino in Ashwaubenon that offers only electronic gaming devices.

Figure 3

Tribal Casinos in Wisconsin



Tribal gaming revenue increased 26.4 percent from 2002 through 2006.

As shown in Table 5, tribal gaming revenue increased 26.4 percent from 2002 through 2006. After winnings are deducted, net tribal revenue from Class III gaming during that period increased from \$970.4 million to \$1.2 billion, in part because the 2003 compacts authorized the tribes to operate new types of Class III table games, such as baccarat, craps, poker, and roulette. However, electronic gaming devices continue to be the source of the majority of net tribal revenue from Class III gaming. Non-gaming revenue increased by 66.9 percent, in part because of the establishment of additional hotels and entertainment and convention venues at casinos. It should be noted that while most tribes experienced increases in their revenue, some tribes did not.

Table 5
Tribal Gaming Revenue¹

Type	Amount in Millions					Percentage Change
	2002	2003 ²	2004	2005	2006	
Class III Gaming	\$ 970.4	\$ 993.6	\$1,117.9	\$1,150.6	\$1,207.2	24.4%
Class II Gaming ³	20.8	21.8	22.4	20.3	21.7	4.3
Other ⁴	58.3	58.8	87.6	90.8	97.3	66.9
Total	\$1,049.5	\$1,074.2	\$1,227.9	\$1,261.7	\$1,326.2	26.4

¹ Based on the most recent independent financial audits of the casinos, which may include certain audit adjustments to amounts reported in prior years.

² Includes data for one tribe that submitted only nine months of financial information because of a change in its fiscal year.

³ Includes bingo revenue from eight tribes in 2002, 2003, and 2005, and seven tribes in 2004 and 2006.

⁴ Includes revenue from hotels, entertainment and convention facilities, gift shops, food and beverage sales, and investment earnings.

As shown in Table 6, tribal gaming expenses increased 37.9 percent, from \$558.7 million in 2002 to \$770.3 million in 2006. In each year, general operations costs, such as employee salaries and fringe benefits, rent, equipment, maintenance, and supplies, made up approximately two-thirds of total expenses. Other expenses include payments to the State under the compacts, and nonoperating expenses such as intra-tribal charges.

Table 6
Tribal Gaming Expenses¹

Type	Amount in Millions					Percentage Change
	2002	2003 ²	2004	2005	2006	
General Operations	\$376.0	\$387.2	\$438.6	\$468.3	\$463.7	23.3%
Promotion and Marketing	115.2	116.4	143.5	136.6	148.2	28.6
Depreciation	48.7	45.4	49.4	66.2	65.6	34.7
Other	18.8	26.6	99.8	13.3	92.8	393.6
Total	\$558.7	\$575.6	\$731.3	\$684.4	\$770.3	37.9

¹ Based on the most recent independent financial audits of the casinos, which may include certain audit adjustments to amounts reported in prior years.

² Includes data for one tribe that submitted only nine months of financial information because of a change in its fiscal year.

Tribal gaming profits increased from \$490.8 million in 2002 to \$555.9 million in 2006.

As shown in Table 7, in aggregate, tribal profits from gaming, or revenue in excess of expenses, increased 13.3 percent from 2002 to 2006, from \$490.8 million to \$555.9 million. Despite the significant increase overall, some tribes experienced declining profits over this period.

Table 7
Tribal Gaming Profits¹

	Amount in Millions					Percentage Change
	2002	2003 ²	2004	2005	2006	
Net Revenue	\$1,049.5	\$1,074.2	\$1,227.9	\$1,261.7	\$1,326.2	26.4%
Expenses	(558.7)	(575.6)	(731.3)	(684.4)	(770.3)	37.9
Profits	\$ 490.8	\$ 498.6	\$ 496.6	\$ 577.3	\$ 555.9	13.3

¹ Based on the most recent independent financial audits of the casinos, which may include certain audit adjustments to amounts reported in prior years.

² Includes data for one tribe that submitted only nine months of financial information because of a change in its fiscal year.

Indian Gaming Oversight ■

Regulation of Indian gaming protects the interests of casino patrons, who expect the games to be fair, as well as both the State and the tribes, which depend on accurate accounting of revenue from Class III gaming activities to determine the payments that are required under the compacts. We reviewed the Division's efforts to oversee gaming activities, including:

- the extent to which it conducts on-site audits of casinos;
- its use of electronic data systems to monitor casino operations and independently verify tribal gaming revenue; and
- its certification of businesses proposing to be Indian gaming vendors.

Oversight of Casino Operations

Statutes authorize DOA to oversee tribes' compliance with the compacts.

Section 569.03, Wis. Stats., authorizes DOA to oversee tribes' compliance with the compacts, and each tribe's compact grants DOA and DOJ access to casinos and the authority to review casino operations. This authority provides a mechanism to ensure both the integrity of gaming and proper financial reporting by the tribes. The compacts allow the State to initiate dispute resolution processes if it believes a tribe has failed to comply with its compact, but the Division does not have authority to compel tribes to correct areas of noncompliance.

In order to comply with statutory oversight requirements and the regulatory language in the compacts, the Division's 5.0 FTE staff who are responsible for conducting on-site reviews of casinos conduct both:

- financial audits, which verify the accuracy of tribes' payments to the State through a review of the tribes' financial statements and determine whether accounting standards used at casinos are consistent with the compacts; and
- compliance audits, which determine whether casino operations are conducted in accordance with the compacts.

The Division always provides the tribes with advance notice of its regulatory visits.

Each review requires one to three weeks to complete. The Division always provides the tribes with advance notice, which enables them to gather necessary documents and schedule the appropriate personnel for interviews but eliminates an element of surprise. The Division believes this practice of advance notice is a more effective use of staff resources and encourages greater tribal cooperation.

To better monitor casino operations and independently verify revenue from Class III gaming, the Division created two electronic systems—the Data Collection System and the Gaming Device Inventory System—with the help of AE Business Solutions, an information technology consulting firm based in Wisconsin.

The Data Collection System was established in 2000. The system stores transactions and operations information sent by each casino's electronic accounting system, including:

- the amount contained in the drop box of each electronic gaming device, which is both recorded electronically by a meter inside each device and counted manually by casino staff;
- the payout rates for each electronic gaming device, which the compacts require to be set at a minimum of 80.0 percent for games not affected by player skill and at a minimum of 83.0 percent for games that are affected by player skill;
- the status of each electronic gaming device, including whether it has been opened and the computer chip that controls play has been removed, which could identify games that have been tampered with or that may malfunction; and

- information on table games, such as the opening and closing inventory of chips at each table for blackjack and poker, which is sent electronically by casino staff to the Division.

As shown in Table 8, all tribes have begun submitting data to the Data Collection System. The last tribe to do so was the Oneida, in August 2006.

Table 8

Implementation Dates for the Data Collection System

	Installation Date	Date of Initial Data Submission
Lac du Flambeau Band of Lake Superior Chippewa Indians	February 2001	December 2001
Red Cliff Band of Lake Superior Chippewa Indians	May 2001	December 2001
St. Croix Chippewa Indians of Wisconsin	September 2001	December 2001
Menominee Indian Tribe of Wisconsin	March 2001	January 2002
Bad River Band of Lake Superior Chippewa Indians	June 2001	February 2002
Forest County Potawatomi Community of Wisconsin–Potawatomi Bingo Casino ¹	January 2002	June 2002
Stockbridge-Munsee Community	November 2001	September 2002
Forest County Potawatomi Community of Wisconsin–Northern Lights Casino ¹	January 2002	January 2003
Sokaogon Chippewa Community	November 2003	February 2004
Ho-Chunk Nation	June 2001	April 2004
Lac Courte Oreilles Band of Lake Superior Chippewa Indians	October 2003	April 2004
Oneida Tribe of Indians of Wisconsin	April 2004	August 2006

¹ Two Potawatomi casinos submit data separately.

The Division contracted for the Gaming Device Inventory System in 1998. The system allows casinos and vendors to electronically submit and update information such as:

- the date an electronic gaming device was installed or removed by the tribe;
- the device type and its serial number;
- the manufacturer of the device and the name of the vendor that sold it to the casino; and
- the identification number of the computer chip that controls play.

Compacts do not require the tribes to use the Gaming Device Inventory System.

However, not all casinos have regularly updated their information in the system, and the compacts do not require the tribes to use it. For example, the Division's records indicate Oneida casinos did not use the system to notify it of inventory changes in 2006. Instead, the Division received paper inventory updates, which were not subsequently entered into the system by its staff. In addition, the system cannot automatically identify electronic gaming devices with computer chips that are no longer valid. Consequently, the Division performs on-site audits to determine whether invalid computer chips are present within a casino's electronic gaming devices.

The Division paid AE Business Solutions \$653,000 to provide continued maintenance of the systems from FY 2002-03 through FY 2005-06 under a contract that was not renewed. DOA's Division of Enterprise Technology now maintains both systems and estimates that maintenance costs totaled \$338,400 from April 2005, when it began providing maintenance and support services for the systems, through December 2006.

Financial Audits

Because the 2003 compacts require tribes to make additional payments to the State based on a percentage of net revenue from Class III gaming, the Division began in 2005 to independently verify for each tribe the total amount wagered on Class III gaming. That amount is used to calculate each tribe's share of the regulatory fees paid to the State, as well as net revenue from Class III gaming, which is used to calculate the additional payments due the State. In addition, the Division oversees the tribes' compliance with the accounting standards required by the compacts to help determine whether revenue from electronic gaming devices and tables games have been accounted for accurately.

The Division conducted 60 financial audits from July 2002 through December 2006.

From July 2002 through December 2006, the Division conducted 60 financial audits, including at least 2 financial audits at each of the 25 casinos operating in Wisconsin. On average, each casino received a financial audit every 18.2 months during this period. The Division identified ten instances in which tribes overpaid or underpaid the State because of inaccurate calculations of net revenue from Class III gaming in 2005 and 2006:

- two tribes over-reported annual net gaming revenue, resulting in overpayments to the State totaling \$111,319;
- one tribe over-reported annual net gaming revenue in two successive years, resulting in overpayments totaling \$16,732;
- two tribes under-reported annual net gaming revenue, resulting in underpayments totaling \$903,386; and
- two tribes under-reported annual net gaming revenue in two successive years, resulting in underpayments totaling \$23,758.

The Division found a variety of reasons for the difference in net revenue from Class III gaming. For example, some tribes over-reported net gaming revenue because they did not take into account all amounts paid out as winnings. Some tribes under-reported net gaming revenue because, for example, their calculations inappropriately included promotional items given to players.

When the Division identifies an overpayment or an underpayment to the State, it issues a payment or an invoice to the tribe. Tribes typically make payment to the State once they receive an invoice. However, the Potawatomi disagree with the Division's calculation of their net revenue from Class III gaming and have not paid the State the amount the Division says is owed. Discussions to resolve the amount of the underpayment are ongoing.

Some tribes have not consistently followed all accounting standards.

The Division has also found that some tribes have not consistently followed all accounting standards. For example, five tribes did not complete or document investigations into differences between the expected and actual payouts of winnings of electronic gaming devices, and three tribes did not report the winnings of casino patrons to the Department of Revenue, as required by federal law, including winnings of \$1,200 or more.

Compacts require tribes to identify instances in which amounts recorded by an electronic meter in an electronic gaming device differ by at least 3.0 percent and more than \$25 from amounts counted by casino staff. This standard is common in the gaming industry, and the Institute of Internal Auditors and the American Institute of Certified Public Accountants recommend that internal and external auditors of the gaming industry follow it. When tribes identify differences between amounts, compacts require them to investigate and document the cause of each difference, because differences may identify potential theft or fraudulent activity.

The Division was unaware of numerous differences in amounts recorded by electronic meters and amounts counted by casino staff.

As part of our audit, we examined 2006 daily revenue recorded in the State's Data Collection System and found instances for every day of the year in which amounts recorded by electronic meters differed from amounts counted by casino staff by at least 3.0 percent and more than \$25. In discussing this issue with the Division, we found that it was unaware of almost all of the differences we identified and could not readily determine their causes. However, after conducting additional research and consulting with the Division of Enterprise Technology and the vendors responsible for maintaining the tribes' electronic accounting systems, the Division asserts that most of the differences we identified were caused by programming errors in the Data Collection System and the casinos' electronic accounting systems.

One of the primary reasons the Legislature and Governor authorized the expenditure of approximately \$1.0 million for the development and support of the Data Collection System through FY 2006-07 was to assist the Division in ensuring the integrity of Indian gaming by allowing it to readily identify instances in which amounts recorded by electronic meters in the gaming devices differ from amounts collected and counted by casino staff. Although the Division reviews many important financial controls implemented by casinos, it has not routinely used the Data Collection System to identify these differences, which are important in identifying potential irregularities in gaming operations and financial reporting that cannot be identified from other controls the Division reviews. Moreover, we found that from March 2006 through April 2007, the Division did not review data maintained by casinos to determine whether the tribes routinely identified, investigated, and documented differences between amounts recorded by electronic meters and amounts counted by casino staff, as compacts require. In May 2007, as we were conducting our fieldwork, the Division began conducting these reviews again.

☑ Recommendation

We recommend the Division of Gaming:

- *incorporate into every casino audit it conducts procedures for determining whether tribes are appropriately identifying, investigating, and documenting instances in which amounts recorded by an electronic meter in an electronic gaming device differ by at least 3.0 percent and more than \$25 from amounts counted by casino staff; and*
- *report to the Joint Legislative Audit Committee by January 31, 2008, on the steps it has taken to ensure that the State's Data Collection System and the casinos' electronic accounting systems related to the recording and calculation of gaming revenue are operating correctly.*

Compliance Audits

The Division follows a systematic workplan when performing its compliance audits. For example, during each compliance audit it:

- counts all electronic gaming devices and table games on the casino floor;
- tests a random sample of electronic gaming devices and the computer chips controlling their play to determine whether the chips are approved and functioning properly;
- observes table game play to determine whether proper procedures are followed by dealers and players;
- determines whether all employees have undergone the necessary criminal background checks;
- observes the security measures followed during the collection of money from electronic gaming devices and the counting of collected money, which typically occurs daily; and
- reviews the casino's surveillance capabilities.

We reviewed compliance audits conducted from July 2002 through December 2006. During this period, the Division conducted 52 compliance audits, including at least 2 audits at every casino except for the Ho-Chunk's Whitetail Crossing Casino, which the Division has audited once since it opened in July 2004. On average, each casino received a compliance audit every 18.9 months from July 2002 through December 2006.

Typical findings from the Division's compliance audits in 2005 and 2006 included:

- blackjack dealers not following proper dealing procedures;
- electronic gaming devices with computer chips that were no longer approved for play;
- employees entering and exiting the currency counting room during counting without notifying surveillance; and
- casino staff employed for more than 60 days before the National Indian Gaming Commission, which is the federal regulatory agency responsible for overseeing Indian gaming, was notified.

Tribes have not always addressed all problems identified in the Division's compliance audits.

The Division indicates tribes generally address some types of findings from compliance audits in a timely manner. For example, when tribes were notified of invalid computer chips in electronic gaming devices, the chips were typically replaced immediately. However, not all identified problems are always addressed. For example, in 2005 the Division conducted one-day reviews of 15 casinos operated by five tribes and found that 24 of 53 compliance audit findings it had previously identified such as failure to post rules of play for some casino games had not been fully corrected.

Vendor Certification

DOA is statutorily required to certify vendors that provide gaming-related services and equipment to casinos.

The compacts and s. 569.04, Wis. Stats., require DOA to certify vendors that provide casinos with gaming-related services and equipment, such as management consulting services and electronic gaming devices. Under the original compacts negotiated in 1991 and 1992, vendors were required to be certified before conducting more than \$10,000 annually in business with a tribe. The 2003 compacts increased this amount to:

- \$25,000 annually for the Bad River, Lac Courte Oreilles, Menominee, Red Cliff, Sokaogon, and Stockbridge-Munsee; and
- \$50,000 annually for the Oneida and St. Croix.

The amount did not change for the Ho-Chunk and Potawatomi, and it has not changed for the Lac du Flambeau, which did not successfully negotiate a new compact with the State in 2003. A certified vendor may conduct business with any tribe once it receives certification.

Certification requires a financial review and background check of a vendor.

To determine whether a vendor will receive certification, the Division or an outside investigator under contract with the Division performs a financial review of the vendor and conducts personal background checks of the vendor's owners, partners, and other personnel who will have significant contact with gaming operations. DOJ conducts criminal background checks for relevant vendor personnel, which generally take 30 to 60 days, and provides the Division with the results. The compacts prohibit the certification of a business if its owners, partners, or other personnel have been convicted of felonies or gambling-related offenses, or if their prior activities and associations pose a threat to the public interest or the effective regulation of gaming.

The Division summarizes the findings of the financial review and the personal and criminal background checks and creates a final report. The Director of Indian Gaming reviews the final report and issues a recommendation to approve or deny an application, and the Division Administrator makes the final decision. The Division's policies do not require the Division Administrator to take action on a recommendation within a specified number of days, nor do statutes or compacts.

The Division requires vendors to be recertified every two years.

The compacts require each vendor's certification to be reviewed periodically. To meet this requirement, the Division implemented an annual vendor recertification procedure. Because it often took the Division more than one year to complete recertifications, some vendors had multiple applications pending. To address this issue, the Division revised its procedure in September 2005 and now requires recertification every two years. It contacts vendors eight months before the expiration of their certificates to initiate the recertification process.

We noted in 2002 (report 02-20) that the Division had difficulty in completing certifications in a timely manner. We reviewed the Division's progress in addressing this issue as part of this evaluation.

The compacts permit the Division to grant a temporary certificate to a vendor that has completed a full application, obtained a letter from a tribe requesting the vendor’s temporary certification, and obtained a license from another state that the Division has determined to perform adequate background investigations of vendors, such as New Jersey or Nevada. A vendor may continue to provide services and equipment to the tribe under a temporary certificate until the Division issues its decision on an application. Vendors must receive separate temporary certificates for each tribe with which they intend to do business. From July 2002 through December 2006, the Division issued eight temporary certificates to seven vendors, including one vendor that received temporary certificates to provide services to two tribes.

Vendor Certification Revenue

Vendors pay the State an initial certification or recertification fee that is based on the type of service they are seeking to provide and whether they are located in Wisconsin or out of state. The initial certification fee ranges from \$2,700 to \$10,800; the recertification fee ranges from \$1,000 to \$5,800. The Division uses these fees to cover the costs of conducting investigations. If investigation costs exceed the fee, vendors are charged for any additional costs.

The Division collected \$1.1 million in vendor certification fees from July 2002 through December 2006.

As shown in Table 9, the Division collected a total of \$1.1 million in vendor certification fees from July 2002 through December 2006. Additional charges accounted for more than one-half of amounts collected.

Table 9

Vendor Certification Fees Collected

Fiscal Year	Initial Certification Fees	Recertification Fees	Additional Charges ¹	Total
2002-03	\$ 35,700	\$ 36,300	\$124,600	\$ 196,600
2003-04	94,900	41,600	128,400	264,900
2004-05	51,200	74,500	161,800	287,500
2005-06	29,500	83,900	156,400	269,800
2006-07 ²	25,200	3,400	85,500	114,100
Total	\$236,500	\$239,700	\$656,700	\$1,132,900

¹ Includes investigation costs not covered by certification fees.

² July through December 2006

Timeliness of Vendor Certifications

From July 2002 through December 2006, the Division approved 93 of 117 vendor certification applications.

From July 2002 through December 2006, the Division issued decisions on 117 applications, including 39 initial certification requests and 78 recertification requests, some of which were submitted by vendors before July 2002. As shown in Table 10, the Division approved 93 of the 117 vendor certification applications, or 79.5 percent, from July 2002 through December 2006. Vendors withdrew 15 of the 24 applications that were not approved. At least 5 of the 15 applications were withdrawn because the vendor received notification from the Division that certification would be denied. The Division intended to deny certification for nine vendors but subsequently closed its investigation because these vendors could not be located or the firms had been sold.

Table 10

Disposition of Applications July 2002 through December 2006

Outcome	Number of Applications			Percentage of Total
	Initial	Recertification	Total	
Application Approved	26	67	93	79.5%
Application Not Approved				
Application Withdrawn	9	6	15	12.8
Investigation Closed with Intent to Deny	4	5	9	7.7
Subtotal	13	11	24	20.5
Total	39	78	117	100.0%

As shown in Table 11, the Division's average time to complete initial certifications increased from 14.1 months in FY 2002-03 to 24.5 months during the first half of FY 2006-07. The average time to complete recertifications increased from 14.9 months in FY 2002-03 to 18.0 months during the first half of FY 2006-07. Although average times are higher than in FY 2002-03, they have improved in recent years. However, in FY 2004-05, the Division did not approve 16 certifications that had been pending for three years or more.

Table 11

Average Time to Complete Initial Certifications and Recertifications

Fiscal Year	Initial Certifications		Recertifications	
	Number Completed	Average Number of Months	Number Completed	Average Number of Months
2002-03	1	14.1	3	14.9
2003-04	10	20.2	27	21.5
2004-05	14	47.5	15	40.1
2005-06	13	18.4	30	19.1
2006-07 ¹	1	24.5	3	18.0

¹ July through December 2006

In most cases, vendor certification decisions were not timely because previous Division Administrators took several years to issue them after final reports had been completed. In addition, some delays were caused by turnover in the Division Administrator position, which was vacant for one year from November 2004 through November 2005.

More recently, as of December 31, 2006, the Division had 13 initial certifications pending for an average of 19.1 months. In addition, 19 recertifications had been pending for an average of 11.2 months. No vendor had multiple recertification applications pending.

Continued monitoring of the Division's vendor certification and recertification practices may be needed. Significant delays in the process compromise the integrity of Indian gaming because questionable vendors may be able to continue to provide services. Conversely, legitimate vendors may be unfairly denied access to gaming business opportunities. Further, because recertifications typically require more than eight months to complete, the Division's practice of initiating them eight months before expiration may not enable it to consistently complete recertifications every two years.

Recommendation

We recommend the Division of Gaming closely monitor vendor certification decisions to ensure that timeliness concerns are being adequately addressed and report to the Joint Legislative Audit Committee by January 31, 2008, on its efforts to increase timeliness in issuing vendor certifications.

Department of Justice Gaming Enforcement Activities

DOJ's Gaming Enforcement Bureau, which is part of the Division of Criminal Investigation, is responsible for law enforcement related to gaming and gambling activities. It is staffed by a director and four special agents. 2005 Wisconsin Act 25, the 2005-07 Biennial Budget Act, provided DOJ with \$586,400 for gaming enforcement in FY 2006-07, including \$140,100 in pari-mutuel wagering funds, \$121,100 in Indian gaming funds, and \$325,200 from the Lottery Fund.

DOJ's gaming enforcement responsibilities include:

- investigating the activities of all individuals who may affect the operation or administration of Indian gaming and prosecuting violations of the compacts and civil or criminal law;
- investigating the activities of DOA and its employees and contractors, as well as violations by vendors and their employees and contractors;
- conducting criminal background investigations of Indian gaming and pari-mutuel vendors;
- investigating allegations of the embezzlement of bingo and raffle funds and initiating civil or criminal action in circuit court for violations of bingo or raffle laws when necessary; and
- investigating written complaints related to crane games, investigating and prosecuting violations of crane game law, and seizing crane games owned by individuals convicted of violations.

***In 2006, DOJ opened
37 cases related to
gaming activities.***

In 2006, DOJ opened 37 cases related to complaints of illegal gambling made by citizens, law enforcement officials, and Division of Gaming officials when gaming issues fell outside of their purview. Cases are opened for investigation only if DOJ has reason to believe criminal activity has taken place. Most complaints and cases have been related to illegal electronic gaming devices operated by businesses other than tribal casinos or individuals, illegal pull-tabs, and sports betting.

Examples of Indian gaming investigations completed by DOJ in recent years include investigations of:

- individuals working or playing in casinos using false identities;
- individuals who issued bad checks or used stolen credit card numbers to purchase casino gift certificates; and
- allegations of cheating, fraud, or embezzlement at casinos by patrons and casino staff.

■ ■ ■ ■

Pari-Mutuel Racing ■

To assess the status of pari-mutuel racing, we reviewed trends in attendance and amounts wagered, the number of violations and fines assessed by DOA's Division of Gaming in carrying out its regulatory responsibilities, and the Division's greyhound adoption program. Since 1987, four of the five racetracks licensed to operate in Wisconsin have closed because they were no longer profitable. Dairyland, Wisconsin's one remaining racetrack, conducts live greyhound races and broadcasts horse and greyhound races from racetracks in other states, and wagers can be placed on the results of these live or simulcast races.

Trends in Attendance and Wagering

Racetrack attendance declined 35.7 percent from FY 2002-03 through FY 2005-06.

In the past four fiscal years, racetrack attendance has declined 35.7 percent. As shown in Table 12, it totaled 567,638 in FY 2002-03 and 365,082 in FY 2005-06. Geneva Lakes stopped offering live races in November 2005 and closed entirely in April 2006, following consistent declines in attendance and revenue. During the first six months of FY 2006-07, attendance at Dairyland totaled 145,323.

Table 12

Racetrack Attendance

Fiscal Year	Geneva Lakes ¹	Dairyland	Total	Percentage Change
2002-03	173,475	394,163	567,638	–
2003-04	161,797	373,324	535,121	(5.7)%
2004-05	148,532	317,402	465,934	(12.9)
2005-06	60,213	304,869	365,082	(21.6)

¹ Geneva Lakes Greyhound Track ended live racing in November 2005 and simulcast racing in April 2006.

Amounts wagered at racetracks decreased from \$98.0 million in FY 2002-03 to \$71.0 million in FY 2005-06.

As shown in Table 13, amounts wagered at racetracks decreased from \$98.0 million in FY 2002-03 to \$71.0 million in FY 2005-06. This decline occurred because of the closure of Geneva Lakes and continued declines in amounts wagered at Dairyland. During the first six months of FY 2006-07, amounts wagered at Dairyland totaled \$27.9 million.

Table 13

Amounts Wagered at Racetracks

Fiscal Year	Geneva Lakes ¹	Dairyland	Total	Percentage Change
2002-03	\$28,511,300	\$69,470,000	\$97,981,300	–
2003-04	26,610,500	69,207,500	95,818,000	(2.2)%
2004-05	22,912,300	61,702,900	84,615,200	(11.7)
2005-06	12,495,100	58,542,400	71,037,500	(16.0)

¹ Geneva Lakes Greyhound Track ended live racing in November 2005 and simulcast racing in April 2006.

Before July 26, 2003, statutes allowed simulcast wagering to be conducted only as long as it did not supplant live race wagering or was not a racetrack's primary source of wagering revenue. However, 2003 Wisconsin Act 33, the 2003-05 Biennial Budget Act,

temporarily repealed statutory restrictions on simulcast wagering, and 2005 Wisconsin Act 245 made the repeal permanent. Since FY 1999-2000, simulcast wagers have made up the majority of wagers at Dairyland, but they decreased from \$44.9 million in FY 2002-03 to \$40.6 million in FY 2005-06.

An independent financial audit completed in March 2007 found that Dairyland's losses in 2006 were \$2.8 million. Operating expenses continue to be supported with loans. It is unlikely Dairyland will be able to remain in operation if attendance and wagering continue to decline. Indian gaming is one factor in the reduced consumer interest in pari-mutuel wagering, since many of those who enjoy gambling as a form of entertainment are more likely to visit casinos, which are typically open 24 hours most days of the year and offer a broader range of gaming activities.

Distribution of Pari-Mutuel Racing Revenue

Almost all revenue from pari-mutuel racing is generated from wagers.

Although almost all revenue from pari-mutuel racing is generated from wagers, some is generated from racetrack entrance fees and fines assessed by the State on racetrack operators and on greyhound owners and trainers. Racing revenue is distributed among:

- those placing winning wagers;
- the racetrack association, which owns and manages the track;
- greyhound owners;
- the State, which retains a portion of amounts wagered to fund regulation of pari-mutuel racing; and
- the City and County of Kenosha, where Dairyland is located.

The amount distributed as winnings is based on total wagers, less payments to all other parties. From FY 2002-03 through FY 2005-06, winnings have averaged 77.5 percent of total wagers. As racetrack attendance and wagering have decreased, so too have payments to racing associations, greyhound owners, the State, and local governments.

Payments to the Racetrack Association

For bets involving wagers on a single dog, the racetrack association receives 20.0 percent of total wagers. For bets involving wagers on

more than one dog, such as betting on which dogs will finish first and second in a single race, or betting on the outcomes of more than one race, the racetrack association receives 25.0 percent of amounts wagered. From these amounts, the association pays set percentages to greyhound owners and the State, as required by statutes. It retains the remainder, which has averaged 17.0 percent of total wagers since 1997. In addition, the association receives all funds from the rounding down of payouts to the public and one-half of all admission fees, which have been \$1 per person since the racetracks first opened.

Revenue retained by racetrack associations decreased by 28.0 percent from FY 2002-03 to FY 2005-06.

As shown in Table 14, revenue retained by racetrack associations decreased in each year from FY 2002-03 through FY 2005-06. Over the four-year period shown, the decline was 28.0 percent.

Table 14

Racetrack Association Revenue

Fiscal Year	Geneva Lakes ¹	Dairyland	Total	Percentage Change
2002-03	\$4,858,500	\$11,935,800	\$16,794,300	–
2003-04	4,483,500	11,763,400	16,246,900	(3.3)%
2004-05	3,816,200	10,542,500	14,358,700	(11.6)
2005-06	2,054,400	9,997,200	12,051,600	(16.1)

¹ Geneva Lakes Greyhound Track ended live racing in November 2005 and simulcast racing in April 2006.

Payments to Greyhound Owners

Racing dogs are ranked in speed classes from A (for the fastest runners) to E (for the slowest runners), as well as maiden racing dogs, which have not yet won an official race. An owner’s share of total wagers is based on points assigned according to each dog’s speed class and its race placing. The amounts paid to greyhound owners as winnings are called purses and are distributed once each week. Purses consist of:

- 4.5 percent of total wagers for all live and simulcast dog races; and

- 2.75 percent of total wagers on simulcast horse races if there were live dog races at Wisconsin racetracks during the performance period during which the horse race was simulcast, or 2.0 percent of total wagers on simulcast horse races if there were no live dog races during the performance period.

Payments to greyhound owners decreased from \$3.6 million in FY 2002-03 to \$2.5 million in FY 2005-06.

Payments to greyhound owners decreased from \$3.6 million in FY 2002-03 to \$2.5 million in FY 2005-06, largely because attendance and amounts wagered at tracks decreased. During this four-year period, greyhound owners received an average of 3.6 percent of total wagers.

Payments to the State

Racing revenue received by the State funds the Division’s regulation of pari-mutuel racing and DOJ’s enforcement of pari-mutuel racing laws. The State receives from 2.0 percent to 8.67 percent of total wagers for live or simulcast greyhound races and up to 3.0 percent of total wagers for simulcast horse races, as required by statutes. It also receives revenue from fees for track oversight and supervision, including a per race payment for the services of stewards who preside over all live races, as well as amounts collected in fines and various licensing and associated fees. Previously, the State received all unclaimed winnings. However, as of July 2002 it receives 50.0 percent of unclaimed winnings and the racetrack association retains 50.0 percent, as required by 2001 Wisconsin Act 16, the 2001-03 Biennial Budget Act.

The State’s revenue from pari-mutuel racing decreased 29.7 percent from FY 2002-03 through FY 2005-06.

The State’s revenue from pari-mutuel racing decreased each year from FY 2002-03 through FY 2005-06, as shown in Table 15, and 29.7 percent over the four-year period.

Table 15

State Revenue from Pari-Mutuel Racing

Fiscal Year	Amount	Percentage Change
2002-03	\$2,716,500	–
2003-04	2,662,100	(2.0)%
2004-05	2,388,600	(10.3)
2005-06 ¹	1,909,900	(20.0)

¹ Geneva Lakes Greyhound Track ended live racing in November 2005 and simulcast racing in April 2006.

Payments to Local Governments

Admission fees are also a source of revenue for the racing associations that own greyhound racetracks and for local governments. Of every \$1 in fees charged, the racing association pays \$0.25 to the county and \$0.25 to the municipality in which the racetrack is located, to defray the costs of local law enforcement, traffic control, and other expenditures related to racing. The racing association retains the remaining \$0.50. From FY 2002-03 through FY 2005-06, payments to local governments decreased 35.7 percent, from \$283,800 to \$182,500.

Everyone who enters Dairyland, whether to view a live dog race or a simulcast race, pays the \$1 admission fee. When Geneva Lakes operated, the racing association chose to not collect admission fees when only simulcast racing occurred.

Oversight Responsibilities

In FY 2005-06, the Division was authorized 14.1 FTE positions to regulate racing activities.

Statutes provide the Division with authority to promulgate rules for pari-mutuel racing, ensure the humane treatment of the animals, and issue licenses for pari-mutuel racing-related occupations. In order to protect the integrity of pari-mutuel racing and to exercise its authority, the Division was authorized 14.1 FTE positions in FY 2005-06, which include three stewards, a veterinarian, and a licensing clerk who have offices at the Dairyland racetrack.

Steward Rulings

Stewards ensure that pari-mutuel racing requirements are followed and settle disputes. They are authorized to suspend the license of any violator of pari-mutuel racing rules for a maximum of 90 days; to impose a maximum fine of \$2,000; and to request that the Division Administrator impose more severe penalties, including license revocation.

Violations at Dairyland decreased from a total of 156 in 2002 to 61 in 2005, then increased to 105 in 2006. Seven types of violations that are listed in Table 16 made up nearly 70.0 percent of all violations during the period shown. These seven violations are defined in Appendix 3.

Table 16

Pari-Mutuel Racing Violations at Dairyland Greyhound Park

	2002	2003	2004	2005	2006	Five-Year Total
Most Common Violations						
Dog Over or Under Racing Weight	28	51	42	31	42	194
Positive Drug Test	32	8	1	2	14	57
Expired Vaccination	6	25	8	0	0	39
Failure to Pay Fine	21	2	2	2	3	30
Possession of Substance not Prescribed	20	0	0	0	0	20
Failure to Present Dog at Weigh-In	6	7	0	3	3	19
Violating the Integrity of Racing ¹	11	1	0	1	2	15
Subtotal	124	94	53	39	64	374
Other Violations	32	49	20	22	41	164
Total	156	143	73	61	105	538

¹ Includes activities that may be harmful to the pari-mutuel racing program, such as a racing teller helping a bettor avoid paying taxes on winnings.

The Division reported that it began conducting regular inspections of kennels in 2001 and 2002, which initially resulted in more fines but also increased compliance with pari-mutuel racing regulations. The Division retains 50.0 percent of revenue from fines to help pay for the regulation and enforcement of pari-mutuel racing. The other 50.0 percent is deposited in the State’s Common School Fund.

From 2002 through 2006, the Division assessed \$48,772 in fines for violations at Dairyland.

As shown in Table 17, the Division assessed a total of \$48,772 in fines for violations at Dairyland from 2002 through 2006. A total of \$20,250, or 41.5 percent of fines assessed, remained unpaid at the end of the year of assessment. Failure to pay results in suspension from the Wisconsin racing industry until payment is made or the Division revokes the individual’s license.

Table 17

Unpaid Racetrack Fines at Dairyland Greyhound Park

Year	Fines Assessed	Unpaid Fines	Percentage of Fines Unpaid ¹
2002	\$25,217	\$11,425	45.3%
2003	6,870	500	7.3
2004	2,745	800	29.1
2005	3,875	75	1.9
2006	10,065	7,450	74.0
Total	\$48,772	\$20,250	41.5

¹ Represents the percentage that was unpaid at the end of each year.

In addition, a license may be suspended or revoked at the request of the Department of Revenue for delinquent taxes. The Division indicates that many individuals choose to leave the pari-mutuel racing industry rather than pay outstanding fines. During our review period, 16 individuals did not pay their fines, and the Division subsequently revoked their licenses. The licenses of six other individuals were revoked for delinquent taxes.

Greyhound Adoptions

Statutes require that pari-mutuel racing be operated in a humane manner.

Section 562.001, Wis. Stats., requires that all pari-mutuel racing and related programs be operated in a humane manner. In 1989, when applications for Wisconsin's first pari-mutuel racetracks were being submitted, the Racing Board—a predecessor of the Division—required on-site adoption programs for retired greyhounds. An extensive application process matches greyhounds with potential owners, and information on those adopting dogs is collected and reported to the Division. A \$175 adoption fee is charged to cover the cost of an examination, vaccinations, and spaying or neutering. In order to identify any systematic concerns with dog placement and well-being, the Division annually selects all adoptions that have occurred during a three- or six-month period and determines the ownership and locations of the dogs adopted from racetrack kennels.

Individuals can also adopt greyhounds through private, off-site adoption facilities where greyhound owners can place their animals. Division policies require owners of off-site adoption facilities to complete extensive applications and to register with the State. The application process includes reviews of the facilities' finances and background checks of the owners. Once registered, all owners must provide the Division with a list of all Wisconsin greyhounds received, provide descriptions of the greyhounds' health every six months, and maintain placement records for the Division's review.

From 2002 through 2006, 4,371 greyhounds were adopted from racetrack kennels and off-site adoption facilities.

As shown in Table 18, 4,371 greyhounds were adopted from racetrack kennels and off-site adoption facilities from 2002 through 2006. The number of adoptions has increased each year from 2002 through 2005. Most adoptions occurred in 2005, the year that the Geneva Lakes racetrack stopped offering live greyhound races. The Division reports that while live races at Geneva Lakes ended in November 2005, efforts to place the dogs at other racetracks and at off-site adoption facilities continued into early 2006.

Table 18

Number of Greyhound Adoptions

Year	Geneva Lakes ¹	Dairyland	Off-Site Facilities	Total
2002	70	110	529	709
2003	63	113	567	743
2004	101	121	697	919
2005	141	121	958	1,220
2006	0	91	689	780
Total	375	556	3,440	4,371

¹ Geneva Lakes Greyhound Track ended live racing in November 2005 and simulcast racing in April 2006.



Charitable Gaming and Crane Games ■

***Charitable bingo games
and raffles were made
legal in Wisconsin in
the 1970s.***

Amendments to the Wisconsin Constitution made charitable bingo games legal in 1973 and raffles legal in 1977. The Division's Office of Charitable Gaming is responsible for developing policies and administrative rules related to bingo, raffles, and crane games, excluding Indian gaming, and for administering the legal requirements for conducting these games. Organizations must be licensed to conduct bingo or raffles, and all crane games must be registered with the Division. We reviewed the Division's regulation of these activities and the revenue they generated.

Bingo

Religious, charitable, service, fraternal, and veterans' organizations, as well as any organizations for which contributions are deductible for state and federal income tax purposes, are eligible to receive licenses to operate bingo-playing sessions in Wisconsin. With the exception of community-based residential facilities, community centers for senior citizens, and adult family homes, eligible organizations must have been in existence for at least three years, have established funding sources, and have at least 15 members.

The Division grants regular and limited-period bingo licenses. A regular license allows an organization to hold an unlimited number of bingo sessions in the licensed year. The combined cost of admission and any playing card cannot exceed \$1.00. A limited-period license allows an organization to conduct bingo sessions

during no more than four of five consecutive days in a year. Organizations obtaining limited-period licenses may not charge admission.

In 2006, the maximum prize value for any single bingo game increased from \$250 to \$500.

2005 Wisconsin Act 247 increased the maximum prize value for a single bingo game from \$250 to \$500 and the total prize value for any playing session from \$1,000 to \$2,500. It also increased the maximum fee that organizations with limited-period licenses can charge for a single bingo card from \$0.50 to \$1.00, and it allowed licensed organizations to conduct progressive jackpot bingo, in which the prize is carried over to a succeeding game if no player wins. The starting prize must be either a specified amount that does not exceed \$500 or 50.0 percent of the card sales for the first game.

As shown in Table 19, both the number of bingo licenses issued and the number of bingo sessions conducted have decreased in each year since FY 2002-03.

Table 19

Licenses Issued to Conduct Bingo Sessions¹

Fiscal Year	Number of Bingo Licenses Issued	Percentage Change	Number of Bingo Sessions	Percentage Change
2002-03	651	–	19,204	–
2003-04	556	(14.6)%	17,856	(7.0)%
2004-05	546	(1.8)	16,402	(8.1)
2005-06	504	(7.7)	15,463	(5.7)

¹ Excludes Indian gaming bingo, which is not subject to regulation by the State.

Bingo license fees are \$10 for each proposed bingo session and \$5 annually for each member responsible for handling gross bingo receipts, except for community-based residential facilities, senior citizen centers, and adult family homes, which pay only the \$5 annual license fee. Licensed organizations must also pay a 1.0 percent tax on the first \$30,000 of gross receipts and 2.0 percent on all gross receipts that exceed \$30,000. Suppliers of bingo equipment are also required to be licensed. They pay the State an annual fee of \$25 and a supplementary fee ranging from \$10 to \$1,000, based on gross annual bingo supply sales.

The State’s revenue from bingo activities totaled \$2.0 million from FY 2002-03 through FY 2005-06.

As shown in Table 20, the State’s revenue from bingo activities totaled \$2.0 million from FY 2002-03 through FY 2005-06. Approximately two-thirds of these funds were from the bingo gross receipts tax. Gross receipts reported by licensed bingo organizations for FY 2005-06 totaled \$19.4 million and averaged \$38,500 per licensed organization.

Table 20

State Revenue from Bingo Activities

Fiscal Year	Revenue	Percentage Change
2002-03	\$ 525,600	–
2003-04	544,100	3.5%
2004-05	498,900	(8.3)
2005-06	472,700	(5.3)
Total	\$2,041,300	

Licensed organizations must allow their bingo records to be open for inspection by local law enforcement or the Division at any time. In FY 2005-06, the Division conducted financial reviews of the receipts and expenditures of 30 licensed organizations. It attempts to review each licensed organization at least once every three years and to annually review organizations with gross receipts of over \$1.0 million, although there were no such organizations in FY 2005-06.

The Division has the authority to suspend or revoke bingo licenses.

The Division has the authority to suspend or revoke bingo licenses for offenses such as participation of minors without a legal guardian, workers participating in a game, failure to clearly announce and show chosen letters and numbers, and failure to post a list of prizes before the game. It can report suspected criminal activity, such as embezzlement of bingo funds, to DOJ for investigation and further action. If a bingo organization is found to have violated statutes related to the conduct of bingo sessions, a circuit court can impose a fine of up to \$10,000, a sentence of up to nine months in prison, or both. Other violations may generate fines up to \$5,000 and a jail sentence of up to 90 days. The Division does not keep records of the number or types of violations issued in a given year, but it indicates that no serious bingo violations have been identified in recent years.

Raffles

Raffle licenses may be obtained by the same types of charitable organizations eligible to obtain bingo licenses, but the organizations are required to have been in operation for only one year. A \$25 annual license fee allows an organization to conduct up to 200 raffles and one calendar raffle, which is a raffle in which multiple drawings are made on specified dates.

The Division issues two types of raffle licenses:

- Class A raffle licenses limit the ticket price to a maximum of \$100 and allow tickets to be sold before the day of the drawing. Winners need not be in attendance at the drawing.
- Class B raffle licenses limit the ticket price to no more than \$10, and tickets must be sold on the same day as the drawing. Winners are required to be in attendance at the drawing.

The number of licenses issued to conduct raffles has remained fairly constant in the past four years.

As shown in Table 21, the number of licenses issued to conduct raffles has remained fairly constant in the last four years. In FY 2005-06, 7,733 licenses were issued.

Table 21

Licenses Issued to Conduct Raffles

Fiscal Year	Number of Raffle Licenses	Percentage Change
2002-03	7,641	–
2003-04	7,768	1.7%
2004-05	7,810	0.5
2005-06	7,733	(1.0)

The State received \$772,400 in revenue from raffle license fees from FY 2002-03 through FY 2005-06.

As shown in Table 22, the State received \$772,400 in revenue from raffle license fees from FY 2002-03 through FY 2005-06, and its annual revenue increased over this four-year period.

Table 22

State Revenue from Raffle License Fees

Fiscal Year	Revenue	Percentage Change
2002-03	\$185,800	–
2003-04	192,800	3.8%
2004-05	195,400	1.3
2005-06	198,400	1.5
Total	\$772,400	

Gross receipts reported by raffle organizations for FY 2005-06 totaled \$63.8 million and averaged \$8,300 per organization. While the State receives \$25 annually for each license to conduct raffles, it does not impose additional fees on revenue from raffles.

Statutes do not require unencumbered balances from the raffle and crane game operations appropriation to be transferred to the State Lottery Fund. Revenue from raffle licensing fees is deposited in an appropriation that jointly funds the Division’s general operations related to raffles and crane games. However, 2005 Wisconsin Act 25, the 2005-07 Biennial Budget Act, directed DOA to make lapses to the General Fund from unspecified accounts totaling \$71.2 million in FY 2005-06. In response, DOA transferred \$100,000 from the raffle and crane game operations appropriation to the General Fund.

The Division conducted financial reviews of 126 raffle organizations in FY 2005-06.

In FY 2005-06, the Division conducted financial reviews of the receipts and expenditures of 126 raffle organizations. These organizations are required to report annually on the number of raffles conducted and prizes awarded, to provide detailed revenue and expenditure information relating to raffles, and to submit a list of all persons who won over \$100 when raffle revenue exceeded \$50,000. The licenses of organizations that fail to accurately report information may be suspended or revoked. Violations of raffle regulations, which are imposed by circuit courts, can result in a maximum fine of \$1,000 and 30 days in jail. The Division does not maintain information on the number or disposition of fines and other enforcement actions. It deals with small infractions but refers serious violations to DOJ for investigation and prosecution. According to the Division, licenses are rarely revoked or suspended.

Crane Games

Crane games are amusement devices in which a player maneuvers a metal crane or claw to obtain toys or novelties worth \$5 or less. The Division is responsible for monitoring crane game owners' compliance with statutes, reviewing crane game operations, investigating suspected violations of law, and reporting suspected gaming-related criminal activity to DOJ for investigation.

A crane game may not be operated unless an owner is registered with the Division and an identification number is affixed to the game. The one-time registration fee is \$120 per device, and the registration is valid until the Division cancels it with the advice and consent of DOJ, or the registered owner withdraws the game because, for example, it no longer works correctly or has been moved out-of-state. The Division must be notified of any movement of a game within Wisconsin. In December 2006, there were 3,191 crane games registered to operate in Wisconsin.

From FY 2002-03 through FY 2005-06, the State's revenue from crane game licenses totaled \$77,600.

As shown in Table 23, the State's revenue from crane game licenses totaled \$77,600 from FY 2002-03 through FY 2005-06.

Table 23

State Revenue from Crane Game Licenses

Fiscal Year	Revenue	Percentage Change
2002-03	\$17,000	-
2003-04	19,600	15.3%
2004-05	17,500	(10.7)
2005-06	23,500	34.3
Total	\$77,600	

Violations of crane game regulations can result in fines of up to \$5,000, which are imposed by circuit courts, and they may result in games being seized by DOJ. However, the Division does not conduct regular checks of registered crane games or seek out unregistered games. Instead, all staff are encouraged to check for game registration when they see crane games and to notify the Office of Charitable Gaming if unregistered games are found. After an owner is notified that a game must be registered, noncompliance will result in seizure by DOJ. No crane games were seized in 2006.

Appendix 1

**Percentage Used to Calculate Tribal Payments to the State
from Net Revenue of Class III Gaming¹**
Beginning in FY 2006-07

Indian Tribe or Band	Percentage Range	Percentage Used
Bad River Band of Lake Superior Chippewa Indians ²	1.75 percent to 5.0 percent	Varies based on the amount of net revenue
Forest County Potawatomi Community of Wisconsin–Potawatomi Bingo Casino ³	6.0 percent to 8.0 percent in 2007 through 2011, then 6.5 percent in each year thereafter	Varies by year
Forest County Potawatomi Community of Wisconsin–Northern Lights Casino ³	3.0 percent or 5.0 percent	Varies based on the amount of net revenue
Ho-Chunk Nation	7.0 percent in 2007, then 6.0 percent in each year thereafter	Varies by year
Lac Courte Oreilles Band of Lake Superior Chippewa Indians ²	1.75 percent to 5.0 percent	Varies based on the amount of net revenue
Menominee Indian Tribe of Wisconsin ²	1.75 percent to 5.0 percent	Varies based on the amount of net revenue
Oneida Tribe of Indians of Wisconsin	4.0 percent or 5.0 percent in 2007 through 2011, then 4.5 percent in each year thereafter	Varies by year
Red Cliff Band of Lake Superior Chippewa Indians ²	1.75 percent to 5.0 percent	Varies based on the amount of net revenue
Sokaogon Chippewa Community ²	1.75 percent to 5.0 percent	Varies based on the amount of net revenue
St. Croix Chippewa Indians of Wisconsin	4.5 percent to 5.0 percent	Varies based on the amount of net revenue
Stockbridge-Munsee Community	2.25 percent to 5.0 percent	Varies based on the amount of net revenue

¹ The Lac du Flambeau's extended compact does not require it to make payments to the State.

² The compact does not require the tribe to make a payment to the State if its net revenue from Class III gaming is \$5.0 million or less.

³ The Potawatomi casinos have different revenue sharing requirements under the 2003 compacts.

Appendix 2

Indian Gaming Casinos

Indian Tribe or Band and Facility	Location	Electronic Gaming Devices	Table Games ¹	Date Updated by Division
Bad River Band of Lake Superior Chippewa Indians				
Bad River Casino	Ashland	457	8	July 2007
Forest County Potawatomi Community of Wisconsin				
Potawatomi Bingo Casino	Milwaukee	1,721	55	May 2007
Northern Lights Casino	Carter	500	17	June 2007
Ho-Chunk Nation				
Ho-Chunk Casino	Baraboo	2,461	61	January 2007
Rainbow Casino	Nekoosa	682	11	February 2007
Majestic Pines Casino	Black River Falls	621	9	March 2007
Whitetail Crossing	Tomah	96	0	March 2007
Lac Courte Oreilles Band of Lake Superior Chippewa Indians				
Lac Courte Oreilles Casino	Hayward	679	16	May 2006
Grindstone Creek	Hayward	80	0	May 2006
Lac du Flambeau Band of Lake Superior Chippewa Indians				
Lake of the Torches Casino	Lac du Flambeau	809	14	April 2007
Menominee Indian Tribe of Wisconsin				
Menominee Nation Casino	Keshena	806	17	February 2006
Crystal Palace Bingo	Keshena	44	0	February 2006
Oneida Tribe of Indians of Wisconsin				
Oneida Bingo and Casino	Ashwaubenon	989	25	November 2005
Irene Moore Activity Center	Ashwaubenon	905	0	November 2005
Mason Street Casino	Green Bay	682	10	November 2005
Highway 54 Convenience Store	Hobart	152	0	November 2005
Oneida Travel Center	Oneida	150	0	November 2005
Highway E and EE Convenience Store	Green Bay	78	0	November 2005
Radisson Hotel and Conference Center	Ashwaubenon	32	0	November 2005

Indian Tribe or Band and Facility	Location	Electronic Gaming Devices	Table Games ¹	Date Updated by Division
Red Cliff Band of Lake Superior Chippewa Indians				
Isle Vista Casino	Bayfield	247	3	October 2005
Sokaogon Chippewa Community				
Mole Lake Regency Resort Casino	Mole Lake	499	9	August 2007
St. Croix Chippewa Indians of Wisconsin				
St. Croix Casino	Turtle Lake	1,222	45	July 2006
Hole in the Wall Casino	Danbury	362	12	August 2006
Little Turtle Hertel Express	Hertel	99	0	August 2006
Stockbridge-Munsee Community				
Mohican North Star Casino	Bowler	1,109	16	April 2006
Total		15,482	328	

¹ Includes table games, such as poker, craps, baccarat, and roulette. Compacts do not limit the number of tables, and tribes are not required to inform the Division when they change the number in operation.

Appendix 3

Most Common Pari-Mutuel Racing Violations

Dairyland Greyhound Park

Violation	Description
Dog Over or Under Racing Weight	Includes greyhounds weighing over or under their designated racing weights. This may indicate improper care of a dog, whose meals and food portions should be carefully prescribed and monitored.
Positive Drug Test	Includes administering an improper substance to a dog meant to alter its racing performance, such as cocaine or methamphetamines. Also included is the presence of any medication within a dog's bloodstream not on a list of authorized medications for that dog, whether or not the medication affects performance.
Expired Vaccination	Includes the expiration of vaccinations against diseases such as distemper or rabies, which could allow an animal to become infected and perhaps transmit the diseases to other dogs or to humans.
Failure to Pay Fine	Failure to pay fines assessed for violations such as an overweight dog, or failure to pay an imposed forfeiture resulting from a violation.
Possession of Substance not Prescribed	Includes possession of a substance that is not on the list of permitted canine medications or for medications for which they do not have a prescription.
Failure to Present Dog at Weigh-In	Failure of a dog owner to bring the dog to weigh-in prior to the beginning of a race.
Violating the Integrity of Racing	A violation not in the best interest of the racing industry, such as a racing teller helping a bettor avoid paying taxes on winnings. This includes any activity that is not defined in statutes or administrative code, but may be harmful to the racing program.



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September 13, 2007

Janice Mueller, State Auditor
Legislative Audit Bureau
22 East Mifflin Street, Suite 500
Madison, WI 53703

Dear Ms. Mueller:

Thank you for the opportunity to respond to the Legislative Audit Bureau's performance evaluation of the Department of Administration, Division of Gaming. We recognize and appreciate the substantial time and effort of the members of the audit team throughout the evaluation. Your review of our operations is an important part of the regulation of gaming in Wisconsin.

The Division of Gaming (Division) takes very seriously its responsibility to oversee gaming and works to ensure compliance to the provisions negotiated in the compacts with Wisconsin's Tribes. The Division's focus is on strict internal controls that safeguard assets, prevent diversion of revenue, preserve reliable records and accounts of transactions and protect the fairness of the games. These measures serve to both restrict and monitor physical access to sensitive areas and materials. They also ensure that oversight and audit trails are created by multiple, independent departments when access is allowed.

The Data Collection System is an integral tool for the Division in the discharge of its oversight responsibilities. Each slot machine accounting system maintained by the casinos has nearly 200 data fields. The system provides all that information to the Data Collection System weekly. The Division does use the information from the Data Collection System to calculate revenue and monitor the payout percentage for each machine.

The Division of Gaming has reviewed the findings identified by the Legislative Audit Bureau and has implemented changes in our procedures and in the Data Collection System database, as recommended in the report:

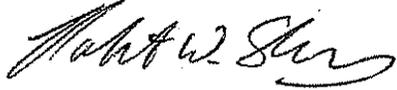
- The Division has already taken steps to correct the data problems with the drop meter fields and has added review of this data to our routine regulatory monitoring procedures.
- The Division is also, again, routinely monitoring reports from Tribes that show they are appropriately identifying, investigating and documenting variances in meters in gaming machines.

Janice Mueller, State Auditor
September 13, 2007
Page 2 of 2

In addition, the Legislative Audit Bureau has recommended more timely vendor certification decisions. Reducing vendor certification review time is a priority for the Division and we are making gains. In July 2007, the Division added two LTE investigators to help reduce the time needed to conduct the reviews. Two full time positions were proposed in the 2007-09 state budget bill, as well. We expect to see continued reductions in times to process the applications while still maintaining standards for extensive investigations that ensure the fitness of the applicants

I appreciate the opportunity you have provided for me to respond to the audit and for the careful examination of the Division of Gaming by the Legislative Audit Bureau.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert W. Sloey". The signature is fluid and cursive, with a prominent loop at the end.

Robert W. Sloey
Administrator