

1993-94 SESSION
COMMITTEE HEARING
RECORDS

Committee Name:

Joint Committee on
Finance (JC-Fi)

Sample:

Record of Comm. Proceedings ... RCP

- 05hrAC-EdR_RCP_pt01a
- 05hrAC-EdR_RCP_pt01b
- 05hrAC-EdR_RCP_pt02

➤ Appointments ... Appt

➤ **

➤ Clearinghouse Rules ... CRule

➤ **

➤ Committee Hearings ... CH

➤ **

➤ Committee Reports ... CR

➤ **

➤ Executive Sessions ... ES

➤ **

➤ Hearing Records ... HR

➤ **

➤ Miscellaneous ... Misc

➤ 93hrJC-Fi_Misc_pt61

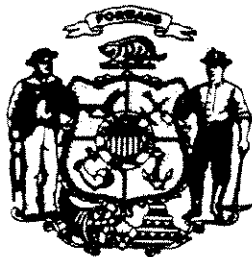
➤ Record of Comm. Proceedings ... RCP

➤ **

State of Wisconsin

SENATE CHAIR
JOE LEEAN

Room 119 South, State Capitol
P.O. Box 7882
Madison, WI 53707-7882
Phone: 266-0751



ASSEMBLY CHAIR
BARBARA J. LINTON

Room 127 South, State Capitol
P.O. Box 8952
Madison, WI 53708-8952
Phone: 266-7690

JOINT COMMITTEE ON FINANCE

January 3, 1994

*N.
See Copy*

Secretary James R. Klauser
Department of Administration
101 East Wilson Street, 10th Floor
Madison, WI 53702

Dear Secretary Klauser:

This is in response to three s. 16.505/.515 requests submitted to the Joint Committee on Finance in a letter dated December 9, 1993.

The DPI item for \$3,100 at the Wisconsin School for the Visually Handicapped will not receive further review by the Committee and is, therefore, approved.

The Department of Industry, Labor and Human Relations has requested expenditure authority of \$772,700 for a voice response system. Of this, the Committee approves \$622,700 to implement the continued claims portion of the voice response unit. The Committee encourages DILHR to seek federal automation funds for the other \$150,000 of the request which it intends to use for the initial claims portion of the voice response unit in the summer and fall of 1994. If federal funds become available for this purpose, they should be used instead of unemployment interest and penalties.

The Committee is concerned that an appropriate balance be maintained in the unemployment interest and penalties appropriation. During 1993-95 budget deliberations, DILHR indicated that a balance of at least \$1.5 to \$1.6 million should be maintained for potential audit exceptions, no-fault benefit payments and employer interest payments. Approval of \$622,700 of DILHR's request will decrease the balance to an estimated \$0.9 million on June 30, 1995. The Committee will monitor the unemployment interest and

Secretary James R. Klauser

January 3, 1994

Page 2

penalties appropriation balance to ensure that sufficient funds are maintained for audit exceptions, no-fault benefit payments, and employer interest payments.

If this modification to the DILHR item is not satisfactory, please notify us by January 10 and we will schedule a meeting to review the entire request.

It has been decided that the Gaming Commission's request for Indian Gaming should receive further review. Therefore, a meeting of the Committee will be scheduled to consider this item.

Sincerely,



JOE LEEAN
Senate Chair



BARBARA J. LINTON
Assembly Chair

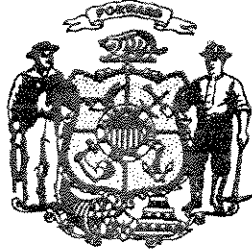
JL/BJL/ns

cc: Members, Joint Committee on Finance

State of Wisconsin

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JOINT COMMITTEE ON FINANCE

December 9, 1993

TO: JOINT COMMITTEE ON FINANCE MEMBERS

FROM: Senator Joe Leean
Representative Barbara J. Linton
Co-Chair, Joint Committee on Finance

Attached is a copy of a request from the Department of Administration dated December 9, 1993 pertaining to requests from the Department of Public Instruction, Department of Industry, Labor and Human Relations and the Wisconsin Gaming Commission.

Please review these items and notify Senator Leean's office not later than Tuesday, December 28, 1993 if you have any concerns about the requests or would like the Committee to meet formally to consider it.

Also, please contact us if you need additional information.

JL:BJL:ns

Attachments

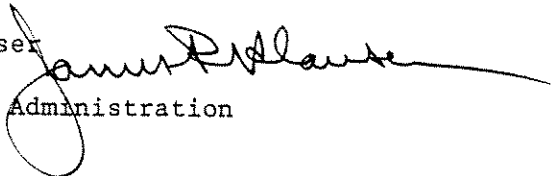
CORRESPONDENCE/MEMORANDUM

STATE OF WISCONSIN
Department of Administration

Date: Dec. 9, 1993

To: Honorable Joseph Leraan, Co-Chair
Honorable Barbara J. Linton, Co-Chair

From: James R. Klauser
Secretary
Department of Administration



Subject: s. 16.515/16.505(2) Requests

Enclosed are requests which have been approved by this department under the authority granted in s. 16.515 and s. 16.505(2). The explanation for each request is included in the attached materials. Listed below is a summary of each item:

<u>AGENCY</u>	<u>DESCRIPTION</u>	<u>1993-94</u>		<u>1994-95</u>	
		<u>AMOUNT</u>	<u>FTE</u>	<u>AMOUNT</u>	<u>FTE</u>
D.P.I. 20.255(1)(js)	State-owned Hsng. Maint.	\$ 3,100			
D.I.L.H.R. 20.445(1)(gf)	Voice Response	772,700			
W.G.C. 20.197(1)(h)	Indian Gaming	284,000	1.0	\$ 241,100	1.0

As provided in s. 16.515, this request will be approved on Jan. 3, 1994, unless we are notified prior to that time that the Joint Committee on Finance wishes to meet in formal session about this request.

Please contact Roger Grossman at 266-1072, or the analyst who approved the request in the Division of State Executive Budget and Planning, if you have any additional questions.

Attachments:

CORRESPONDENCE/MEMORANDUM

STATE OF WISCONSIN
Department of Administration

Date: December 8, 1993
To: James R. Klauser, Secretary
From: Robert G. Cramer, Policy and Budget Analyst
Subject: s. 16.515 request by the Department of Public Instruction

Request

The Department of Public Instruction (DPI) requests that the appropriation under s. 20.255 (1) (js), State-Owned Housing Maintenance, be increased by \$3,100 in fiscal year 1993-94 for installation of vinyl siding at the Wisconsin School for the Visually Handicapped.

Background

The Department of Public Instruction owns and maintains a residence for the superintendent of the Wisconsin School for the Visually Handicapped (WSVH). The superintendent pays rent for the use of the residence. The revenue is credited to the program revenue appropriation under s. 20.255 (1) (js).

At the end of fiscal year 1992-93, the unencumbered cash balance in the appropriation was \$5,883.97. The expenditure authority for fiscal year 1993-94 was set at \$3,500 in 1993 Act 16.

The department has requested that the expenditure authority for the maintenance appropriation be increased by \$3,100 in fiscal year 1993-94 to fund the installation of vinyl siding on the superintendent's residence at the WSVH. In previous years DPI has painted the residence. The department estimates that the cost of siding the residence will be \$5,285, based on a bid received in September. Of this, \$2,200 would be paid from the current appropriation level.

Analysis

The purpose for which this additional funding is requested is within the purposes of the appropriation under s. 20.255 (1) (js). This program revenue appropriation is for maintenance associated with state-owned housing. By siding the residence, the department is eliminating the need to continue to paint it on a periodic basis.

The level in the appropriation is sufficient for painting the residence. However, the department feels that installing vinyl siding is more appropriate.

The Department of Administration's Division of Facilities Development agrees that siding is preferable to painting for the residence. It will reduce future maintenance and the associated costs.

Recommendation

Approve the request to increase the appropriation under s. 20.255 (1) (js) by \$3,100 for fiscal year 1993-94 only.

CORRESPONDENCE/MEMORANDUM

-----State of Wisconsin
Department of Public Instruction

DATE: November 23, 1993
TO: Rob Cramer
State Budget Office
FROM: Faye J. Stark, Director, Bureau for Policy and Budget
Division for Management and Budget *Faye*
SUBJECT: S. 16.515 Request to Supplement State-owned Housing
Maintenance

NOV 20 1993

This is a request to supplement appropriation s. 20.255 (1)(js), state-owned housing maintenance, by \$3,100 in 1993-94. Revenues in this account are available to support the requested expenditure authority.

The WSVH wishes to replace the siding on the superintendent's residence, and the current appropriation amount--\$3,500--is not adequate to pay for the service.

When the 1993-95 biennial budget was prepared, we were not aware of the need for this expenditure and so did not budget for it. However, the house will need siding prior to 1995-96, the first year of the next budget.

Attached is more explanation from jacki Radecki, Business Administrator at WSVH. If you have any questions, please call her @ 758-6106.

Thank you for your attention to this request.

cc:

Wisconsin School for the Visually Handicapped &
Educational Services Center for the Visually Impaired

Department of Public Instruction/John T. Benson, State Superintendent
(608) 758-6100/FAX (608) 758-6161

William S. Koehler
Superintendent

Mailing Address:
1700 West State Street
Janesville, WI 53546

September 15, 1993

To: Faye Stark, Director
Bureau for Policy and Budget

From: Jacki Radecki *Jacki*
Business Administrator

Re: WSVH State-Owned Housing Allotment

The current level in the program revenue account for the Superintendent's Residence is \$3,500. We are recommending the spending authority for Account 100-255-6104-EN4 be re-established at \$6,600 for the 1993-4 fiscal year.

The increase in the Supplies & Services line would primarily fund the installation of vinyl siding and trim to the residence and attached garage at a cost of \$5,285. A copy of the bid information for the labor and materials involved is enclosed. We believe this is a better alternative to painting. The siding would cover exposed wood and chipped, delaminating paint, eliminate subsequent disbursements for painting and protect the State's investment in real estate property on the campus.

The unencumbered cash balance at the close of fiscal year 1992-3 was \$5,883.97. A receipt remittance of \$132.46 is deposited on a bi-weekly basis. Expenditures to date during this fiscal year total \$549.83, which includes the replacement cost for a leaking hot water heater and for a light fixture. It is estimated the \$765 supplement would cover any further changes for the remainder of the year.

If you need any additional information, please let me know. Thank you in advance, Faye, for processing our request.

cc: Dr. Juanita Pawlisch
Mr. William Koehler
Mr. Elroy Kendall

FILE:IRSIDING.REQ

ACTION: MODE: S DOCID: AP 255 MFAF0000057 USERID: DPI0 STATUS
 APRV: L# OVR: BATID: SECID: RH
 H- APPROPRIATION INPUT SCREEN
 APPR DATE: 11 10 93 ACCTG PRD: BUDGET FY: 94
 FUND: 100 AGENCY: 255 ORGN: NET APPR AMOUNT: 3,100
 NET EST RECEIPT AMT: 0

ACT	UNIT	TYPE	END DATE	APPROPRIATION NAME	SHORT NAME
01-	C	EN4	01	ST OWNED HOUSING MAINTENANCE	
		A	3,100 I PRO	S	1JS R
02-					

A--*CY41-APPROVED DOCUMENT
 H--*S404-READY FOR APPROVAL 4

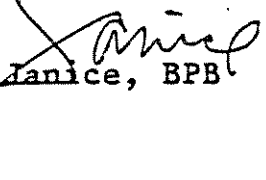
H--*S403-READY FOR APPROVAL 3
 H--*S405-READY FOR APPROVAL 5

September 20, 1993

Florence,

Would you please process an allotment request which would increase the WSVH State-Owned Housing appropriation for 1993-94 from \$3,500 to \$6,600 as described in the attached memo from Jacki? Please let me know if there will be any problem getting this done in the next day or so - I think Faye promised Jacki that we would get it over to DOA very quickly.

I am preparing a cover memo and will take care of getting the request to DOA. Thanks for your assistance.

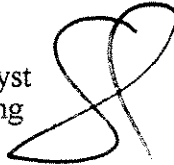

Janice, BPB

CORRESPONDENCE/MEMORANDUMSTATE OF WISCONSIN
Department of Administration

Date: 8 December, 1993

To: James R. Klauser, Secretary
Department of Administration

From: Steven C. Little, Executive Policy Analyst
Division of Executive Budget & Planning



Subject: s. 16.515 Request by the Department of Industry, Labor and Human Relations.

REQUEST:

The Department of Industry, Labor and Human Relations (DILHR) requests an expenditure authority increase under s. 16.515 of \$772,700 PRO in s. 20.445 (1)(gf) (Employment Security Administration) to purchase the necessary information technology equipment to create a voice response system for the Unemployment Compensation Division.

BACKGROUND:

The Unemployment Compensation Division (UC) within DILHR administers Wisconsin's unemployment system and laws. This program is designed to provide a source of income for workers during periods of temporary unemployment. Financing for the administration of the unemployment compensation system, including funding for benefit payments, is provided by the federal government through revenues from the federal unemployment tax. The federal government distributes funding to the states based on UC benefit workload and the state's unemployment level. Due to Wisconsin's relatively low unemployment rate when compared to the national average, the UC division has had to develop strategies which will allow the division to stay within its budget without compromising services such as the payment of benefits, collecting wage record data, and collecting taxes.

Some of the strategies developed by the UC division include reducing supplies and services spending, eliminating or delaying the purchase of computer and office equipment, and minimizing out-of-state travel. In August 1993, the Department of Administration approved a request made by DILHR under s. 16.54(8) for the conversion of 50 positions from permanent to four year project positions in anticipation of DILHR purchasing a voice response system. This conversion was necessary in light of the eventual elimination of 80 to 120 permanent positions by FY98 resulting from the creation of the voice response system. The FTE reduction will occur primarily through transfers and attrition.

The implementation of a voice response system is the primary strategy which will allow DILHR to maintain their high level of service in the face of declining federal support.

ANALYSIS:

Voice response technology will enable unemployment compensation claimants to file their initial and continued claims as well as obtain assistance and register for job service training from a touch tone phone instead of mailing weekly claims cards or registering at a local UC office to remain eligible for UC benefits. This technology will allow DILHR to consolidate the majority of their UC activities from their 25 local offices statewide into two "Call Centers" (one center will be located in Madison while the other center will be located in Milwaukee). The call centers will respond to inquiries from employers; the general public; house the voice response system; centrally process initial and weekly UC claims; perform job service activities; and perform

adjudication and issue resolution activities for Madison and Milwaukee. The satellite offices will adjudicate claims and conduct fraud investigations of UC claims for that particular region of the state.

DILHR estimates that the voice response system and the call centers will save the state \$2.5 million to \$3 million in the first five years of operation.

The request for \$772,700 will allow DILHR to purchase the equipment necessary to implement the continued claims process portion of the voice response system and to test and pilot the initial claims portion of the voice response system. The request does not include the remodeling cost of the call centers, programming, training, and maintenance costs. The department indicates that these costs will be offset by reallocations of local office staff and an overall reduction in operating costs. It is expected that the voice response system will be fully implemented throughout the state by April 1994.

The Department of Administration's Bureau of Information and Telecommunications Management (BITM) has reviewed DILHR's voice response request and concludes that the requested information technology equipment should meet the department's needs for the creation of a voice response system.

DILHR is requesting the use of program revenue funding generated from unemployment interest & penalties to purchase the information technology equipment instead of federal funding. Interest is assessed against employers who do not pay unemployment compensation taxes by the required quarterly dates, at the rate of 1% per month. Penalties are assessed against employers who do not file quarterly wage reports by the required due dates. These funds are generally used for the payment of audit exceptions and interest on appeal cases; to fund 27 UC staff positions; and provide funding for no fault benefits. Revenue generated by the Interest and Penalty Fund (I&P) is estimated at \$2.1 million annually. The projected I&P cash balance for FY94 is \$3,588,700 and \$1,700,000 in FY95.

Funding the one-time purchase of the voice response equipment will reduce the cash balance of the I&P fund to \$2,815,956 in FY94 and \$928,100 in FY95.

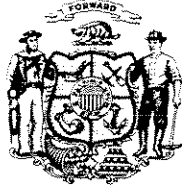
DILHR believes that using I&P revenue to purchase the voice response system is more appropriate than using federal funding. During the last four federal fiscal years, UC has experienced reductions in the amount of funding they receive from the federal government. DILHR attributes the reduced funding to federal formulas which appropriate funds based on workload statistics as well as other formulas devised by the federal Department of Labor (DOL) which DILHR feels are arbitrarily set to reduce the amount of funding given to the states and to allow the DOL to stay within its budget. It is likely that federal funding will continue to decline because the state's unemployment rate continues to remain low. Funding this one-time request from federal revenue will result in reductions in the number of employer audits, fraud detection or a deficit situation for UC. The department expects to obligate \$61.5 million of the \$61.9 million in FY94 of the federal funding and have restrictions placed on spending to avoid a deficit in FY95.

Based on the information provided, the request for additional expenditure authority is appropriate.

RECOMMENDATION:

Approve the request for \$772,700 PRO in FY94 to purchase equipment necessary to create a voice response system.

Tommy G. Thompson
Governor
Carol Skornicka
Secretary



Mailing Address:
201 E. Washington Avenue
Post Office Box 7946
Madison, WI 53707-7946
Telephone (608) 266-7552

State of Wisconsin Department of Industry, Labor and Human Relations

November 10, 1993

James R. Klauser, Secretary
Department of Administration
101 East Wilson Street, 10th Floor
Madison, Wisconsin 53707

Dear Secretary Klauser:

Under the provisions of s.16.515, I request an increase of \$772,700 in DILHR's authorization for s.20.445(1)(gf), Employment Security Administration, to acquire information technology hardware and software for the Unemployment Compensation Division's (UCD) Telephone Claims System. This initiative will improve client services and, in the long term, reduce costs.

Section 20.445(1)(gf) permits the appropriation of interest and penalty funds collected under ss.108.04(11)(c) and (13)(c) and 108.22 for the administration of the Unemployment Compensation and Job Service programs. The use of these funds for the Telephone Claims System is appropriate since the benefiting program is Unemployment Compensation.

We believe it is in the best interest of the state and our clients to fund this one time cost with interest and penalty funds; ongoing costs will be offset by reductions in local office staff and related costs. During this period of declining federal resources, it will permit the agency to maintain services to its customers and design and implement the initiative in a timely manner. Your support of this request will be appreciated.

If you have any questions concerning this request, please contact Eric Baker (266-2284) of the UC Division or Mike Mahoney (266-7895) of our Bureau of Strategic Planning, Budget and Policy Analysis.

Sincerely,

A handwritten signature in cursive script, appearing to read "Carol Skornicka".

Carol Skornicka
Secretary

Attachments

Department of Labor, Industry and Human Relations
Unemployment Compensation Division

Request for Supplemental Funding Under s. 16.515

Request:

Under the provisions of s.16.515, DILHR requests an increase of \$772,700 in s.20.445 (1)(gf), Employment Security Administration (Appropriation 133), to purchase hardware and software to take unemployment compensation claims by telephone rather than in local offices.

Background:

A rigorous process reengineering methodology was used to design a new claimstaking system consistent with the strategic directions of the department. The proposed system will both reduce long term costs and significantly improve customer service. Unemployed people filing unemployment compensation benefit claims will be able to do so from their homes using a telephone rather than being required to visit a local office to complete a paper form or to mail in a completed claim card. The requested funding is needed to pay for the one-time computer hardware and software costs required to implement the new system.

The telephone claims system has three parts: initial claims, continued claims and inquiries. The continued claims part will be implemented first. People filing for continued claims will call from a touch tone phone and enter the required information into a specialized computer (called a voice response unit or VRU). This process will replace the weekly claim card that is mailed to the Unemployment Compensation Division, electronically scanned and the information used to process a check. Under the second part, initial claims, claimants, using touch tone phones, will "establish" their claim by entering information into the VRU. If necessary, the claimant can obtain assistance from an operator in a call center. Two call centers will be created, one in Madison and one in Milwaukee, to handle these calls. In the third part, inquiries, members of the public will be able to use the system to make inquiries through the VRU or through staff in the call centers.

The UC Division is acquiring the hardware and software to implement the interactive voice response system described above. The continued claims part of the project will be piloted in four offices in late November, 1993; implementation for the balance of the offices is scheduled to be completed no later than April, 1994.

The equipment acquired for the continued claims process, with the addition of ports, telephone lines and workstations, will also be used by claimants to establish initial claims. The design and programming for the initial claims voice response process is

scheduled to be completed for testing in mid-summer 1994. The division will implement the inquires part of the system after the initial claims portion is completed.

Below is a list of the items for which the agency is requesting funding. These items are necessary for the implementation of the continued claims process and to begin the testing/pilot stage of the initial claims system. The list does not include costs for remodeling call center space, programming, developing procedures manuals, training staff on new procedures or ongoing costs such as claims assistance operators, equipment maintenance and telephone line and toll charges. The ongoing costs will be offset by reductions in local office staff and costs.

Continued Claims Implementation:

\$395,000	Interactive Voice Response Units (VRU); four in Madison and one in Milwaukee;
\$22,000	Consultation services by the VRU vendor;
\$7,200	Training of staff by the VRU vendor;
\$120,000	Call Path system including peripheral devices and training;
\$25,000	Equipment and line installation for the electronic connection between the Madison and Milwaukee sites;
\$35,000	Remote Network Management Software;
\$17,000	Installation of telephone lines (Area Code 800); and
\$1,500	FTP (File Transfer Protocol) Software.
<u>\$622,700</u>	Sub-Total

Initial claims design, testing and piloting:

\$80,000	Call Path system upgrade;
\$70,000	Additional PC workstations and telephone system changes;
<u>\$150,000</u>	Sub-Total
<u>\$772,700</u>	Total

The Call Path System is necessary to link the VRU, the mainframe, the telephone switching equipment and the claims assistance staff. It will monitor traffic, direct calls to claims assistance staff and provide mainframe based claimant data to claims assistance staff via their PC screens. The call path equipment is not needed for the continued claims process (as currently designed); however, it must be acquired this fall so that the agency can, before acceptance testing is completed for the VRU, evaluate the concept of using a call path system with the VRU. It will be required for testing and implementing the initial claims system. The division also plans to use call path in the inquiries system.

Remote Network Management Software will allow the management of out-state (remote) devices from Madison. With this software, staff will not be required to travel to remote sites to make changes to the network configuration.

The FTP software will allow programmers to access the VRUs from their workstations. Currently, when programmers need to test a concept, they must go to the VRU room to access a VRU.

Problem:

Funding \$772,700 in one-time hardware and software costs from the annual operating funds provided by DOL would have a detrimental effect on the program. Current service levels are already under pressure from funding reductions.

Funds for the administration of the unemployment compensation program are generated by a federal payroll tax on employers and are distributed to states on the basis of workloads. Funds are provided for a basic level of services that covers a base level estimate of benefit workload and administrative, tax and integrity activities. Above base funds are authorized when benefit workloads exceed those in the base level.

Both levels are determined using a series of complex formulas which are subject to federal manipulation to reduce funding.

In addition, revenues are reduced as the Wisconsin insured unemployment rate remains low and as the emergency unemployment compensation extensions end. The revenues will fall faster than costs.

The following chart illustrates recent UC funding history.

Column Two shows the "adjusted" formula allocation for each of five fiscal years. Although the amounts are workload sensitive, they have been arbitrarily adjusted downward to enable DOL to stay within budget. Column Three shows the "across-the-board" reduction incurred in addition to formula "adjustments" in each year. Column Five shows the net amount received.

Year	Adjusted Formula Allocation	Across-the Board Reduction	Net Allocation
FFY90	\$ 37,195,521	\$ - 651,050 -1.75%	\$36,544,471
FFY91	42,895,748	-1,975,988 -4.61%	40,919,760
FFY92	46,986,585	-1,267,383 -2.70%	45,719,202
FFY93	45,326,504	-1,699,954 -3.75%	43,626,550
FFY94	46,215,283	-1,503,196 -3.25%	44,712,087

The funding levels for FY94 are estimated and assume that the Emergency Unemployment Compensation program will be extended.

As a result, for the 15-month period beginning July 1, 1993 and ending September 30, 1994, DILHR expects to have \$61,914,090 in UI Grants funds available; \$17,202,003 in FFY93 funds and \$44,712,087 in FFY94 funds. DILHR expects to obligate about \$61,500,000. Spending restrictions are in place for salaries, supplies and services and capital to avoid a deficit on September 30, 1994.

For FFY95, DILHR projects a deficit of \$1,476,630 on September 30, 1995 if additional actions are not taken. The projections include some cost saving strategies. Other cost saving strategies will be implemented and IT initiatives delayed, as necessary, to enable the agency to stay within budget.

Over the years, the UC Division has developed a series of strategies to stay within budget when workloads and the resulting funding levels are low. The strategies recognize that the first priority for the UC Division is to provide core services such as the payment of unemployment compensation benefits, the collection of wage record data and the collection of taxes. The strategies provide for reductions in functions, such as employer audit and fraud detection and the diversion of staff from those functions to core functions and reductions in nonpersonal services. The nonpersonal services reductions include, but are not limited to, eliminating or delaying selected training conferences, eliminating or delaying the purchases of equipment and minimizing out of state travel. Personnel costs currently comprise 62% of the total cost of the program; PR-S, 17% and S&S/Permanent Property, 21%.

The cost savings strategies do have a negative effect on the

program and cannot be maintained indefinitely. For example, a reduction in employer audits, fraud detection and collections activities causes reductions in the trust fund balance which in turn could generate an increase in UC taxes; a reduction in enforcement activities could eventually lead to increases in claimant fraud; and reductions in staff training generate increased error rates. Furthermore, because of increased reliance on information technology in benefits processing, simply diverting staff temporarily to core functions may no longer be feasible or beneficial. Rather, it may be necessary in the future to reduce non-core staff so that funds could be available to cover IT nonpersonal services costs.

The department and the Unemployment Compensation Division (UCD) have completed an extensive strategic planning effort to address long term funding problems as well as customer service and efficiency issues. The strategic plan and the companion strategic information technology plan were part of the DOA strategic planning initiative.

Solution and Rationale:

The agency should use Interest and Penalty (I&P) funds rather than federal annual operating funds to acquire the VRU and related equipment. The reasons are:

1. The project is essential to the long-term financial stability and customer service goals of the UC program. The VRU system for initial and continuing claims will reduce long term operating costs while dramatically improving customer service. The project is the product of two and one half years of strategic planning and process reengineering.
2. Annual operating funds are insufficient to pay for one time acquisitions costs without inappropriate program service level reductions. Federal funds, in relationship to workloads, are declining and the department has already taken steps to reduce operating costs to stay within funding levels. Additional reductions would have undesirable consequences such as reducing employer audits, fraud detection, benefit overpayment collection, etc.
3. The use of I&P funds is appropriate for the project. The interest and penalty funds are collected during the administration of the Unemployment Compensation program and may only be used for Unemployment Compensation and Job Service programs. Sufficient funds exist in the appropriation to pay for the project (see Attachment A). Other information technology projects for UC have been and are currently funded from I&P.

CORRESPONDENCE/MEMORANDUM

STATE OF WISCONSIN
Department of Administration

Date: December 8, 1993

To: James R. Klauser, Secretary
Department of Administration

From: Sherrie Gates-Hendrix *Sherrrie*
State Budget Office

Subject: s. 16.515/505 Request of the Wisconsin Gaming Commission

Request

The Wisconsin Gaming Commission requests an increase of \$605,273 PRS in FY94 and \$658,200 in FY95 in its Indian gaming regulation appropriation, s. 20.197 (1) (h). The Commission also requests an additional 6.0 permanent FTE positions for the appropriation, reallocated from s. 20.197 (1) (q).

Background

The Office of Indian Gaming was created at the time the Gaming Commission was formed from the merger of the Racing Board, the Lottery Board and the Office of Charitable Gaming in 1991 Act 269. The Office is responsible for coordinating the state's regulatory activities regarding Indian gaming and functioning as a liaison between Indian gaming representatives, the general public and the state. As the successor to the Lottery Board, the Gaming Commission has responsibility to review audits performed by outside auditors, certify gaming-related contractors, maintain an inventory of electronic games for all casinos and review compliance with the compacts' regulations of card and electronic games.

1993 Act 16 created the Commission's s. 20.197 (1)(h) appropriation, Indian gaming regulation, to fund the costs of regulation of Indian gaming. The appropriation has three sources of program revenue: (1) \$350,000 program revenue annually from Indian tribes as reimbursement for state costs of regulation of Indian gaming. (2) Reimbursement for certification and background investigations from Indian gaming vendors. (3) If a tribe requests the Gaming Commission to perform a specific service, the Commission may also recover its costs of providing that service.

1993 Act 16 provided the Indian gaming regulation program with 4.0 FTE and an annual budget of approximately \$330,000 and 4.0 FTE. 3.0 FTE are currently located in the Office of Indian gaming and 1.0 FTE is in the Security Division.

Analysis

Office of Indian Gaming

The Office of Indian Gaming requests funds for the development and implementation of the standards and procedures for the financial and security audits required under the tribal state compacts.

Funding for development of the audit standards was approved in the 1993-95 biennial budget. 1993 Act 16 provided the Office of Indian Gaming with \$50,000 in FY94 for this purpose. The Office has entered into a consulting contract with Arthur Andersen for development of internal control standards and audit procedures for the financial and security audits. However, the actual cost of the contract is \$69,200, or \$19,200 over current budget.

The Commission requests resources to implement the new standards on a continuing basis. First, the Commission requests 1.0 FTE accountant to work with tribes in interpreting and using internal control standards and audit procedures and to review the financial and security audits that tribes are required to submit to the Commission. Second, to respond to requests from the tribes for special services such as investigations, audits and training the Commission requests \$8,750 in FY94 and \$15,000 in FY95. As these costs are difficult to predict with accuracy, this funding would be placed in unallotted reserve pending requests from the tribes.

Security Division

The Security Division requests \$387,668 for increased review of tribal compliance with the compacts and additional effort in conducting background investigations.

The Security Division is responsible for conducting background investigations of vendors and prospective vendors who wish to do gaming-related business with Indian tribes. State-tribal compacts require each vendor to obtain certification before doing business with a tribe. Conducting background investigations of these vendors is the primary focus of the Commission's work in granting certification. The Commission requires annual renewals of vendor certifications. The Security Division also makes periodic visits to casinos to review compliance with state-tribal compacts.

The Commission requests an additional 5.0 FTE for the Security Division (3 investigators, 1 compliance auditor and 1 Bureau Chief) to increase its presence through quarterly audits of casino financial data, on-site compliance and security audits of slot machine and blackjack operations. These staff would not be supervised through the Office of Indian Gaming.

In addition to permanent staff, the Commission requests \$100,000 in one-time funds for 7 LTEs to work for six months to increase the Commission's presence in casinos statewide. The LTEs would also assist in performing background investigations of gaming-related vendors.

This request also includes funding for travel, records search, and communication costs incurred in performing background investigations of gaming related vendors. The Commission charges vendors a fee to cover these costs. Working with the Department of Justice, the Commission has recently become much more aggressive in

its approach to background investigations, resulting in a much higher cost for this work. Estimated costs for travel, records search, phone charges and fingerprint checks include:

6 management company investigations @ \$4,196	\$ 25,176
25 equipment & finance company invs @ \$2,579	64,475
16 smaller company investigations @ \$1,573	<u>23,595</u>
TOTAL	\$113,246

Administrative Services Division

The Administrative Services Division provides general administrative services to the Indian gaming program. Its request funds overhead expenses for Indian Gaming regulation.

The first of these expenses covers a proposed relocation of the Indian Gaming functions to Wausau. This request includes office space for 8 FTE in Wausau to accommodate the new staff requested in both the Security Division and the Office of Indian Gaming. Locating these staff in Wausau would put them closer to most of the casinos in the state than would a Madison office.

The Commission also requests \$175,000 within the Administrative Services Division for a computer system to track the status and movement of slot machines within and outside of Wisconsin. Act 16 provided \$10,000 for such a system. The Commission has already begun development of an on-line system with significantly more capability for modification and expansion than was originally envisioned. A primary function of the system will be to help the Commission ensure that the computer chips in machines controlling payout and features of the games are authorized under the compacts. Requested funding includes:

On-going Costs

On-going programming from DHSS	\$50,000
Network connection to Wausau, etc.	\$15,000
Future contractor programming	\$10,000
E-mail	\$5,000
Disk and tape storage	\$5,000
CPU time	\$35,000
Hardware maintenance	\$3,000
Cables, Software, diskettes, etc.	<u>\$2,000</u>
TOTAL	\$125,000

One-time contractor programming for development \$50,000

Cost estimates for this project will be slightly lower once the base budget of \$10,000 and the amount of time left in the fiscal year are factored into the costs. Funding for on-going costs should be placed in unallotted reserve pending actual cost data.

Finally, the Administrative Services Division budget also includes a one-time funding request of \$18,100 for computers and printers for new staff, a fax for Wausau, a combination TV/VCR, and several cameras. The cameras and the TV/VCR would be used to document the status of games and equipment at casinos and to view video tapes taken by both Gaming Commission staff as well as surveillance cameras at the casinos.

Program Revenue Sufficiency

The Commission requests substantially more continuing expenditure authority than can be funded through continuing revenues.

The Commission's estimates of Indian gaming revenues can be summarized as follows:

<u>Source</u>	<u>Revenue Received</u>		<u>Estimated Revenue</u>	
	<u>FY92</u>	<u>FY93</u>	<u>FY94</u>	<u>FY95</u>
Tribes 91&92	139,580	77,080		
Vendors 91&92	142,000	65,000		
Tribes 93			350,000	
Vendors 93			322,400	
Tribes 94				350,000
Vendors 94				193,440
Total	\$281,580	\$142,080	\$672,400	\$543,440

The Gaming Commission has also estimated that an additional \$132,000 in FY95 and thereafter will come from Indian tribes for special services such as one-time audits of problem situations and training provided to the tribes by the Commission. Indian gaming receipts for FY92 and FY93 were not spent and remain available for one-time expenditures in the future.

Indian gaming expenditures, as requested by the Commission, can be summarized as follows:

	<u>FY94</u>	<u>FY95</u>
Current Ch. 20 Authority	330,800	329,000
s. 16.515 Request	605,300	658,200
Total	\$936,100	\$988,200

Of the \$605,300 requested in FY94, \$221,350 of this is one-time spending authority. One-time spending can be supported by the FY92 and FY93 revenues retained by the Commission, however the on-going spending of \$988,200 would result in on-going spending of approximately \$313,000 to \$445,000 above on-going revenue. The amount of overspending would vary with the amount of income received from tribes for special services.

Recommendation

Deny requested funding and positions for expansion of the Commission's Indian gaming regulation program. The Legislature, in 1993 Act 16, set the Commission's budget at the amount necessary for the level of regulatory effort it expects from the Commission.

Reduce the request to more reasonably match continuing expenditures to continuing revenues. Approve adjusted funding for the cost to continue the current program at \$284,000 PRS in FY94 and \$241,100 PRS in FY95. Approve 1.0 FTE accountant to be reallocated from vacant position authority within the Lottery Division.

Funding should be allocated as follows:

	<u>Commission Request</u>		<u>DOA Recommendation</u>	
	<u>FY94</u>	<u>FY95</u>	<u>FY94</u>	<u>FY95</u>
OFFICE OF INDIAN GAMING				
Permanent Salary (1.0 FTE)	\$ 20,575	35,275	16,300	32,600
Fringe Benefits	7,157	12,269	5,700	11,300
Supplies and Services	37,282	38,200	37,650	27,200
SECURITY DIVISION				
Permanent Salaries (5.0 FTE)	93,970	161,100	0	0
Fringe Benefits	32,683	56,031	0	0
Supplies and Services	161,015	210,474	114,350	66,100
LTEs	100,000	0	20,000	0
ADMINISTRATIVE SERVICES DIVISION				
Supplies and Services	134,491	144,850	83,900	103,900
Permanent Property	18,100	0	6,100	0
TOTAL	\$605,273	\$658,199	\$284,000	\$241,100

WISCONSIN GAMING COMMISSION

Tommy G. Thompson, Governor
 John M. Tries, Chairman
 Terence M. Dunleavy, Commissioner
 Lennie A. Weber, Commissioner

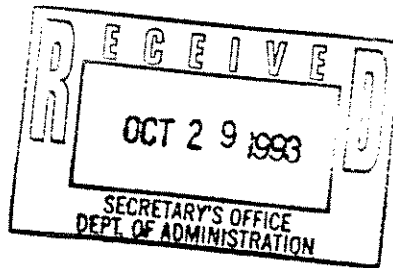


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October 27, 1993



James R. Klauser, Secretary
 Department of Administration
 101 E. Wilson Street, 10th Floor
 Madison, WI 53702

Dear Secretary Klauser:

The Wisconsin Gaming Commission requests an increase of \$608,884 in FY 94 and \$664,730 in FY 95 in appropriation s. 20.197(1)(H), Indian Gaming program revenue. This would include salary funding for 6 positions for Indian Gaming reallocated from within the Commission. There is no net position increase in the Gaming Commission.

The current allotment authority for this appropriation is \$330,800 for 4.0 FTE and related expenses. This requested increase would bring the total amount authorized for Indian Gaming regulation in FY 94 to \$939,684 and \$993,730 in FY 95.

	FY 94 (7 mos.)	ANNUAL
Current Authorized	330,800	329,000
Requested	608,884	664,730
TOTAL	939,684	993,730
Projected Revenue Available	1,113,067	1,025,440
NET DIFFERENCE	173,383	31,710

The basis for the need of the additional allotment authority is the direct result of the legislative creation of the Office of Indian Gaming within the Wisconsin Gaming Commission. The compacts signed with the Indian tribes require extensive regulatory functions of the Commission performed by the Office of Indian Gaming and the Division of Security. To date, the majority of the regulatory activities of the Office of Indian Gaming have not been adequately funded or staffed. The concept of the oversight of Native American gaming operations is a new responsibility for the Commission and has a significant potential for change and future increased regulatory costs.

The enclosed s. 16.515 request provides specifics regarding the need for the funding and the reallocated staffing. Please contact me or my staff if you have questions regarding this request.

Sincerely,



John M. Tries
Chairman

Attachments: 16.515 Request
Letter from LAB

cc: Legislative Fiscal Bureau
Legislative Audit Bureau

WISCONSIN GAMING COMMISSION Indian Gaming Regulation

A. SUMMARY OF REQUEST

In accordance with s. 16.515, the Gaming Commission requests an increase of \$608,884 (including \$221,346 one-time financing) and \$664,730 in FY 95 in appropriation s. 20.197(1)(h) Indian Gaming Regulation. This would include funding for 6.0 reallocated positions. Funding is requested for seven months of FY 94. **No new position authority is requested.**

EXPENDITURE ITEM	FY 94 (7 mos.)	ANNUALIZED
Permanent Position Salaries (6.0 FTE)	117,314	201,224
LTEs	100,000	
Fringe Benefits	40,802	69,986
Supplies and Services		
On-going	229,422	393,520
One-time	103,246	
Permanent Property	18,100	
TOTALS	608,884	664,730

PERMANENT POSITIONS REALLOCATED TO BE FUNDED

- 1.0 Accountant Adv.
- 1.0 Administrative Officer 2 (Bureau Chief)
- 2.0 Auditor Advanced
- 2.0 Regulation and Compliance Investigators

- 6.0 Total

Funding for 6.0 positions reallocated from Lottery SEG are included in this request. The Lottery SEG position funding cannot be reduced because salary funding from the vacant positions will need to be used to pay vendor and other costs for ticket delivery which the positions were previously doing.

B. BACKGROUND

When gaming compacts were signed with Wisconsin Indian tribes in 1991 and 1992, they provided that the Wisconsin Lottery Board was responsible for the state's regulatory role under the compacts. Under 1991 Act 269 (Chapter 569), an Office of Indian Gaming was created under the Wisconsin Gaming Commission to assume responsibility, in place of the Lottery Board, for the coordination and regulation of all of the state's activities relating to Indian gaming.

The office was statutorily staffed by the transfer of two Lottery SEG positions -- an office director and an assistant. However, no appropriation authority was provided for expenditure of Indian Gaming revenue to support these positions. As a result, the Lottery fund continued to pay for these positions and related expenses through FY 93. Similarly, as a result of the biennial budget structure, the Lottery fund will also need to continue to pay the overhead costs for Indian Gaming services provided by the Administrative Services Division and Commissioner's Office through FY 95.

The Gaming Commission was created October 1, 1992 and the biennial budget submission was due October 1992. As a result, there was not an adequate opportunity to develop a sufficient plan for staffing and funding Indian Gaming regulation in the biennial budget. However, it was clear at that time that at least an appropriation needed to be established for Indian Gaming and funding provided for the two positions in the Office of Indian Gaming. In addition, funding for two additional positions was included. The position numbers were to be reallocated from Racing positions as a result of efficiencies achieved from creation of the Commission. This totaled a FY 94 appropriation of \$330,800 PR.

The Commission is now in a position where significant regulation is expected and it is without appropriation authority or staffing to provide for the regulation of Indian Gaming. The regulation required includes:

General Responsibilities

- *To protect against organized crime and other corrupt influences.*
- *To assure that Class III gaming is operated fairly and honestly.*
- *To provide oversight over gaming as permitted under compact.*

Specific Responsibilities

- *Approve all Class III games being offered at casinos.*
- *Approve additional games to meet essential tribal needs.*
- *Issue gaming-related contractor certificates and renewals:*
 - *Criminal histories of applicants and key persons.*
 - *Determine threats to effective regulation.*
 - *Validate all submitted information for accuracy.*
 - *Determine actual ownership of applicants.*
 - *Conduct periodic updates of certificates.*
 - *Determine compliance with compact requirements.*
- *Approve all management contracts and methods of determining fees and actual payments.*
- *Inspect on a periodic basis tribal accounting, daily cash transaction, electronic machine analytical, contracts, enforcement and audit records.*
- *Review and comment upon all financial and security annual audits conducted by independent auditors.*
- *Audit compliance with Wisconsin income tax withholdings.*
- *Maintain inventory and control of more than 10,000 electronic machines for all authorized casinos:*
 - *testing and approval of electronic games;*
 - *prototypes of video games of chance;*
 - *testing of video games;*
 - *reporting on test results;*
 - *modifications to previous approved games;*
 - *conformity to technical standards;*
 - *standardization of machine identification.*

- *Tracking of all machines in Wisconsin:*

 - *installation and operations;*
 - *removal from play.*

- *Compliance review of all hardware requirements of the machines (17 specific points).*
- *Compliance review of all software requirements of the machines (8 specific points).*
- *Declaring and removal of all non-complying games.*
- *Compliance review of Blackjack play in accordance with compact regulations (approximately 7,500 casino hours of Blackjack offered per month).*
- *Collect annual \$350,000 payments and other costs incurred in providing the requested services to tribes, and billing and collection of certification fees.*

C. ANALYSIS OF NEED/REGULATION

Wisconsin Statutes charge the Commission with regulating Indian Gaming in Wisconsin and the compacts have significant requirements in the areas of audits and enforcement. However, the Commission does not have staff or funding to meet these requirements. In addition, there is a perception by Wisconsin citizens that Indian gaming is being regulated by the State, while in fact, unless funding and staff are provided, such regulation is not occurring.

Audit and Records Requirements

An independent financial audit of the books and records of all Indian gaming operations is required to be performed by a certified public accountant at the close of each tribal fiscal year. The audit is required to be completed within 90 days of the close of the fiscal year, and copies of any audit reports and management letters must be forwarded to the Gaming Commission and the state auditor (Legislative Audit Bureau).

A security audit to review and evaluate the effectiveness, adequacy and enforcement of the systems, policies and procedures relating to the security of all aspects of the tribe's gaming operations is required to be performed every two years by a qualified independent auditor. The audit is required to be completed within 90 days, and copies of any audit reports and management letters must be forwarded to the Gaming Commission and the state auditor.

Under the compacts, the state also has the right to submit written comments or objections regarding the engagement letters between the tribes and their auditors, to consult with the auditors prior to or following an audit, to have access, upon written request, to the auditors' work papers and to submit written comments or suggestions for improvements regarding the accounting or audit procedures.

The compacts also specify that the state has the right to inspect and copy a variety of tribal gaming records including: (a) accounting and financial records; (b) records relating to the conduct of games; (c) contracts and correspondence relating to contractors and vendors; (d) enforcement records; and (e) personnel information on gaming employes. The tribes have provided the state with the right to inspect and copy these records and, in return, the state pledges that all such records will not be disclosed to any member of the public except as needed in a judicial proceeding to interpret or enforce the terms of the compacts.

Enforcement Requirements

The Gaming Commission and the Department of Justice have the right, under the compacts, to monitor each tribe's Class III gaming to insure compliance with the compacts. Agents of the Commission and DOJ are granted access, with or without notice, to all gaming facilities, storage areas, equipment and records. The Commission and DOJ are authorized to investigate the activities of tribal officers, employes, contractors or gaming participants who may affect the operation or administration of the tribal gaming.

Suspected violation of state or federal law or tribal ordinances are required to be reported to the appropriate prosecution authorities; suspected violations of the compacts must be reported to the Gaming Commission. Both the Commission and DOJ are authorized to issue a subpoena, in accordance with state law, to compel the production of

evidence relating to an investigation. The Attorney General is provided jurisdiction to commence prosecutions relating to Class III gaming for violations of any applicable state civil or criminal law or provision of a compact.

The State of New Jersey has organized its regulation and enforcement of casinos in a similar manner as proposed by the Wisconsin Gaming Commission. All of the regulation of casino activities in New Jersey is the responsibility of the New Jersey Casino Control Commission. All of the security and enforcement is the responsibility of the Department of Law and Public Safety, Division of Gaming Enforcement. A body of rules and regulations have been promulgated by the Commission. A copy of the table of contents is enclosed. The organization of the Division is shown in the attached chart. In the Bureau of Licensing and the Bureau of Compliance, New Jersey's Division of Gaming Enforcement has 16 supervisory and/or management positions as of June 1993. The actual number of positions below supervisory/management level varies depending on function. For example, the Electronic Games Section which is responsible for inspecting, testing and accounting for all electronic machines in the casinos has two supervisory/management positions and approximately twenty (20) other FTE's.

D. REVENUE

	FY 94	ANNUAL
<i>Previous Collections</i>		
<i>Tribal (startup \$25,000 each)</i>	216,667	
<i>Vendor</i>	224,000	
<i>FY 93 Tribal (to be billed)</i>	350,000	
<i>FY 94 Tribal (to be billed)</i>		350,000
<i>FY 95 Tribal</i>		350,000
<i>Vendor (background applications)</i>	322,400	193,440
<i>Special Services</i>		132,000
TOTALS	1,113,067	1,025,440

The tribes must jointly provide \$350,000 annually to the state as reimbursement for the costs of regulation under the compacts. Each tribe's share of this total reimbursement amount will be calculated annually, based on each tribe's relative share of the total amount wagered on tribal gaming statewide during the previous fiscal year. In addition each tribe is required to directly reimburse the Gaming Commission and the Department of Justice (DOJ) for their actual and necessary costs of providing services and assistance at the request of the tribe. An additional source of revenue is that vendors are required by the compacts to reimburse the Commission for the cost of application processing/background investigations.

Request for Services from Tribes

As provided in Section XXIV(D) of the compacts, payments shall be made to the Commission for necessary and actual costs incurred in providing services and assistance requested by the tribe. To date, due to the limited resources available either within the Division of Security or the Office of Indian Gaming, only minimal services have been provided to the tribe. The majority of the services requested were investigative in nature by Commission personnel or special reports on gaming-related contractors requested by the tribes. A cost recovery system has not been implemented due to above-mentioned factors. Lastly, the Legislative Audit Bureau has been providing technical accounting and audit advice to independent auditors engaged by the tribes and to the tribes directly in the financial monitoring areas.

It is anticipated that as both the Division and the Office secure adequate resources, the tribes will increase their requests for services and assistance. Specialized investigative efforts are expected to continue in conjunction with special audits to address particular tribal needs. Due to the economy of scale of statewide computer systems and networks, electronic machine and occupational investigative reporting should have universal appeal to the majority of the tribes in order to meet the requirements of the compacts. Lastly, financial consulting services are expected to continue.

E. ANALYSIS OF NEED/PROGRAM STAFFING

The Indian Gaming funding will be allocated to three different functional areas within the Commission -- the Office of Indian Gaming, the Division of Security and the Division of Administrative Services. Below is a description of the use of the funding in each area.

Security Division (+5.0 positions)

The goal of the Security Division in the area of Indian Gaming is to ensure that the tribes are considering the terms of the compacts while engaged in Class III gaming. In an effort to achieve this goal, the Security Division would have the following staff assigned to Indian Gaming (1.0 RCI previously provided by biennial budget):

- 1.0 Bureau Chief
- 2.0 Compliance Auditors
- 3.0 Regulation Compliance Investigators
- 6.0 Total Staff

Blackjack Investigator (1.0 FTE): This position will be responsible for reviewing security video tapes of Blackjack games which are required under the compacts. This review will be beneficial in terms of compliance audit as well as informational for the tribe. The Investigator will also monitor games to ensure all terms of the compact are met as it relates to the rules of the game.

Based on a monthly 1.5% review of total hours played, the Blackjack Investigator would take a minimum of 101 hours reviewing surveillance tapes and observing live play. In addition, 16 hours of report writing and 16 hours of travel will be required each month. This will equate to 1,596 hours per year or 78%. The remaining 444 hours or 22% will be spent on special investigations and all other compact issues relating to the operation of Blackjack. Section XVI,D,4 of the compact requires each casino to keep surveillance tapes for 30 days. The 1.5% review was derived by using 14 casinos offering Blackjack 16 hours per day (224 hours) times 30 days (6,720 hours).

NOTE: These figures are based on casinos currently offering Blackjack. With the construction of three new casinos due to open by the first of the year, the number of Blackjack hours will increase.

Electronic Games Investigator (2.0 FTE): Investigators will be responsible for the identification of video slots. After identification, the investigator will ensure that the game has not been modified and the EPROM matches the game. Verification of safety devices, backup ability and cabinet security can be accomplished at the same time.

Based on a 50% review, the electronic games investigators would verify EPROMS and payout percentages as specified in Section XV of the compacts. Currently there are more than 8,000 games registered with the Office of Indian Gaming. Allowing 30 minutes to verify each machine amounts to 4,000 hours. The Investigators would verify 50% of the on-line slots which amounts to 2,000 hours per year or 50%. Travel and report writing would be 768 hours or 19%. The remaining time, 31%, would be used for travel, spot checking the other 50%, verifying movement of slots and all other compliance issues as stated in Section XV of the compacts.

NOTE: Currently there are over 8,000 slot machines registered with this office. By opening three new casinos within the next few months, the on-line slot machines should exceed 10,000.

Compliance Auditors (2.0 FTE) will perform a variety of auditing functions including, but not limited to: Blackjack, Video Slots, Accounting and Operational. They will be responsible for monitoring coin drops, analyzing financial data from on-line reports, slot variation analysis, verification of procedures relating to fills and credits of Video Slots as well as numerous physical audits of game tables and game procedures.

Conducting a quarterly audit, the Compliance Auditors (2.0 + Bureau Chief) would take a minimum of 56 hours for each casino audit (40 hours on-site, 8 hours travel, 8 hours report writing); this will be done at least quarterly. Based on 17 casinos, the total yearly staff time will be 3,808 hours or 62%. The remaining 2,312 hours or 38% will be spent on special audits, investigations and monitoring the independent CPA firms required by compact to perform yearly financial and bi-yearly security audits.

NOTE: These figures are based on casinos currently operating within the state. The number of on-site hours will increase with future casinos scheduled to open by the first of the year.

Office of Indian Gaming (+1.0 position)

The Office of Indian Gaming would include three primary functional areas. The Office of Indian Gaming will be staffed by a total of 4.0 FTE (3.0 FTE funded by the biennial budget).

- 1.0 Office Director
 - 1.0 Accountant
 - 1.0 Administrative Officer
 - 1.0 Program Assistant
- 4.0 Total Staff

Electronic Machine Control Contractor Liaison

The compacts are uniform on the state's responsibility as to accounting for the existence and movement of all electronic gaming devices which are utilized by Indian tribes in their casinos. A computer system needs to be developed to effectively control the movement of electronic games and their components within the State of Wisconsin and confirm the legitimacy of the respective games. It would be the responsibility of the position assigned to electronic game control to manage the inventory control and accountability for all games. In addition, all contractors providing goods and services that are gaming related, who have economic considerations with the tribe exceeding \$10,000 per year, must file an application with the Office of Indian Gaming and pay appropriate fees. Certificates that are provided by the Gaming Commission are annual in nature and will require renewals. This activity would incorporate the control over the gaming-related contract, certificates and payment of fees.

Financial Analysis

The financial analysis is a joint responsibility between the Office of Indian Gaming and the Legislative Audit Bureau. To date, the Office of Indian Gaming has lacked the resources and the technical expertise to respond to the requirements as contained within the compacts. Therefore, the Legislative Audit Bureau has been providing this accounting technical liaison to the public accounting firms and the tribes to fulfill the financial reporting requirements of the compact and the audit reports. The Legislative Audit Bureau is desirous of removing itself from providing these ongoing services and has indicated that these services should be provided by the Office of Indian Gaming (see attached letter). LAB estimates that providing the ongoing technical services would require between one-quarter to one-half of a senior accountant or financial auditor position.

In addition, the compacts require that the Office of Indian Gaming provide annual reviews of required financial audits by the tribes, including, but not limited to, an investigation of work papers and procedures used by the independent auditors. It is estimated that this would require approximately one-quarter of a position to analyze the 11 annual financial audits that are required by the compacts.

Last, the compacts require a financial disclosure made by the gaming-related contractors contractor applicants, which must be analyzed by the Office of Indian Gaming. This would be the last function of the financial management activity within the Office of Indian Gaming.

Contract Compliance/Tribal Relations

This requires a review of the reports being generated by the Division of Security on a monthly basis of its reviews and audits of the casinos. Second, the compacts require filing of periodic reports and other requirements by the tribes on a periodic basis. This task ensures that the necessary filings as required by the compacts are, in fact, made. Last, many complaints and questions are posed to the Office of Indian Gaming regarding various compacts and other issues relating to Indian gaming in the State of Wisconsin. It is necessary to communicate the concerns and complaints to the respective Indian nations and seek resolution to these issues, plus maintain open lines of communication with all levels of both the management agents of the Indian nations and the respective tribal organizations.

The compacts contain provisions, i.e., Section XXIV(D) which requires the Office of Indian Gaming to provide services and assistance requested by the tribe. Since the compacts require the payment of necessary and actual costs relating to the requested services, the Office of Indian Gaming would also be responsible for maintaining the documentation to support the staff billings to the requesting tribes.

The Office of Indian Gaming will also be requiring special audits conducted by independent auditing firms which may be needed to identify developing situations within Indian gaming activity here in Wisconsin. Compacts permit the Office of Indian Gaming to request an audit to be conducted, with payment made by the respective gaming-related contractors or tribes. The Commission will

establish the scope and content of the audits and select auditing firm and vendors/tribes will pay for audits direct to auditing firm.

Administrative Services

The Division of Administrative Services provides general support services for the entire Commission. As a result, data processing, general permanent property (furniture, personal computers, calculators, phones, etc.) are budgeted for and managed by this Division. The budget request here includes funding for development of an Indian Gaming computer system on DOA's Info-Tech system, funds for contract programmers to develop the system, on-going operating costs and funding for lease costs for an office in Wausau for the Security Division.

The computer system will track machine transactions and components and will allow tracking the movement of electronic games into, within and out of Wisconsin. There will be an on-line record of where the machine is, what type of game it is, the serial numbers, the computer chip numbers and other identification data. The system will assist in verifying that the computer chips in electronic games are authorized by the contracted lab. The cost of the system is based on the Commission's experience with the Racing System on Infotech.

*Attachments: New Jersey Table of Contents
Legislative Audit Bureau Letter*



State of Wisconsin \ LEGISLATIVE AUDIT BUREAU

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STATE AUDITOR
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131 WEST WILSON STREET
MADISON, WISCONSIN 53703
(608) 286-2818
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September 1, 1993

Mr. Terence Dunleavy, Commissioner
Wisconsin Gaming Commission
150 East Gilman Street
Suite 1000
Madison, WI 53708

60 SEP 1 PM 3:31

Dear Mr. Dunleavy:

As you know, the Audit Bureau is currently assisting Gaming Commission staff in several administrative functions related to Indian gaming, including: 1) taking the lead role in reviewing engagement letters, financial audit reports, and security audit reports that are submitted by the Tribes; 2) drafting joint letters to the Tribes in response to the submitted documents; 3) forwarding the draft joint letters to the Office of Indian Gaming for staff review and approval; 4) sending the joint letters to the tribal leaders and auditing firms; 5) monitoring the status of the Tribes compliance with tribal-state compact provisions related to the required audits; and 6) answering audit related questions posed by the tribal representatives and Office of Indian Gaming staff.

During our meeting on June 14, 1993, with Commissioner Weber, you, Ron Yates and me, it was agreed that these administrative functions are more appropriately the responsibility of the Office of Indian Gaming. It was further agreed that at some time in the future these administrative duties should be transferred to the Office of Indian Gaming.

We suggest transferring the following administrative functions to the Office of Indian Gaming, effective October 1, 1993:

- drafting, coordinating, finalizing, and sending to the Tribes in a timely manner letters in response to submitted documents;
- monitoring the status of the Tribes' compliance with tribal-state compact provisions related to audits and following up with those Tribes not in compliance with the compact; and
- answering audit related questions posed by tribal representatives.

The October 1, 1993, date is appropriate for several reasons. First, the date represents a new fiscal year. For all Tribes, a fiscal year ends either September 30, 1993, or sometime between then and June 30, 1994. Second, the Office of Indian Gaming will have additional staff. It is my understanding that the Office has either hired or soon will be hiring two additional staff—an auditor and an investigator. Finally, Shirley Eckes-Meyer has been the lead person from the Legislative Audit Bureau regarding the Commission-related administrative items. Shirley will be the auditor in charge when we conduct the statutorily required audit of the Commission, which we expect to begin on October 4. It would not be appropriate for Shirley to be taking a lead role in the referenced administrative activities at the same time she is leading the audit.

Mr. Terence Duncavy

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September 1, 1993

However, the transfer of administrative functions raises questions and concerns that need to be resolved. For example, should we continue to issue joint letters? Also, what procedures need to be in place to ensure that both Commission and Audit Bureau staff receive all audit related documents from tribal officials and auditing firms?

I will contact you to arrange a meeting to discuss the proposed time frame and the areas needing to be resolved.

Sincerely,

A handwritten signature in cursive script, appearing to read "Dale Cattanach".

Dale Cattanach
State Auditor

DC/d

SUPPLEMENTED TO Jan 19, 1993
DATED April 1993
TRANSMITTAL 1993 - #3

NEW JERSEY CASINO CONTROL COMMISSION
RULES AND REGULATIONS
N.J.A.C. 19:40-1.1 et seq.

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DIVISION OF GAMING ENFORCEMENT
DGE-192 (5/93)

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