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☛ Details: Legislative Audit Bureau Report 07-12: An Evaluation: Division of Gaming, Department of Administration

(FORM UPDATED: 08/11/2010)

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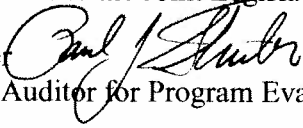
STATE OF WISCONSIN

Legislative Audit Bureau

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DATE: September 20, 2007

TO: Lewis Rosser and Pamela Matthews
Committee Clerks to the Joint Legislative Audit Committee

FROM: Paul J. Stuibert 
Deputy State Auditor for Program Evaluation

SUBJECT: Report 07-12: An Evaluation of the Division of Gaming

Janice Mueller
State Auditor

Enclosed is our evaluation of the Division of Gaming within the Department of Administration. This report fulfils our requirement under s. 13.94(1)(eg), Wis. Stats., to perform a biennial program evaluation of the Division. 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. In FY 2005-06, the State received \$118.7 million from ten tribes.

Compacts between the State and the tribes 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 believes most of these differences were caused by computer programming errors.

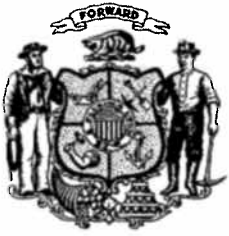
We found that the Division has not routinely used the Data Collection System to identify differences between amounts recorded by electronic meters and amounts counted by casino staff. These data are important in identifying potential irregularities in gaming operations and financial reporting that cannot be identified from other controls the Division reviews. Also, 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 these differences, as required by their compacts.

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 the track decreased from \$98.0 million in FY 2002-03 to \$71.0 million in FY 2005-06. It is unlikely Dairyland will be able to remain in operation if wagering continues to decline.

The report will be released on Friday, September 21st, at 9:00 a.m. If you have any questions, please contact us.

PS/bm

Enclosures

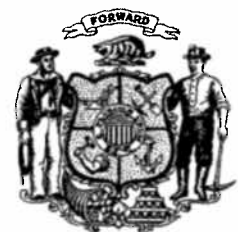


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**Report 07-12
September 2007**

An Evaluation

Division of Gaming

Department of Administration

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From the Department of Administration's Division of Gaming



STATE OF WISCONSIN

Legislative Audit Bureau

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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:

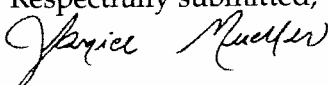
We have completed a biennial performance evaluation of the Department of Administration's Division of Gaming, as required by s. 13.94(1)(eg), Wis. Stats. The Division oversees Indian gaming, pari-mutuel racing, and charitable gaming activities in Wisconsin. In fiscal year (FY) 2005-06, its expenditures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

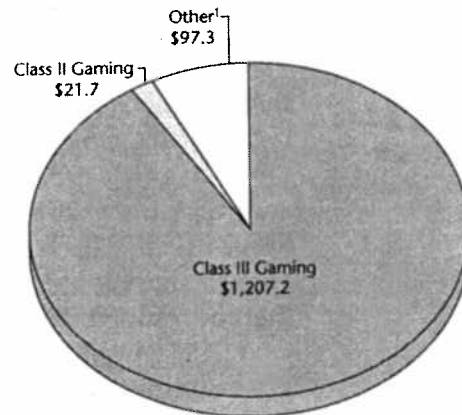
The Potawatomi withheld \$43.6 million that was due in 2005 until October 2006, when that tribe and the State agreed to a compact duration of 25 years. The Ho-Chunk continue to withhold \$30.0 million that was due in June 2005, as well as payments based on their share of net tribal revenue from Class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

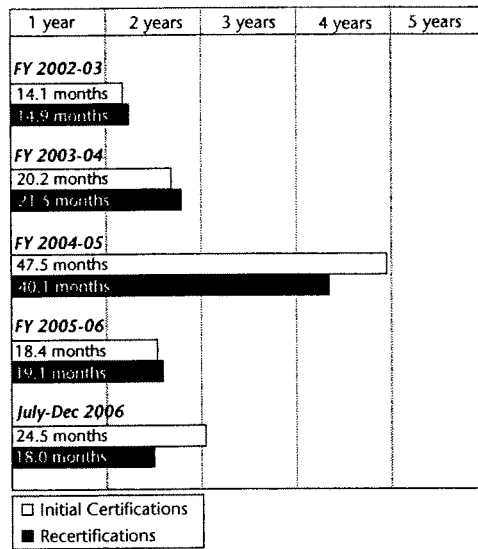
The compacts and statutes require DOA to certify the vendors that provide casinos with gaming-related products and services. The Division requires vendor recertification every two years. As shown in Figure 2, the average time required by the Division to complete initial certifications increased from 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 \$98.0 million in FY 2002-03 to \$71.0 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*).

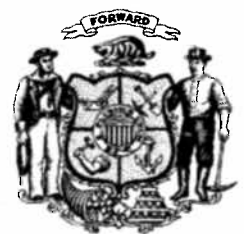
We also include a recommendation for the Division, in every casino audit, to:

- ☑ 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*).

■ ■ ■ ■



WISCONSIN STATE LEGISLATURE



Division of Gaming Oversight Of Casino Gaming Machines

There are over 15,000 machines in Wisconsin's Indian gaming casinos. Each machine updates over 200 fields, every two to five seconds into a database that is downloaded on a weekly basis to the Division of Gaming's Data Collection System.

The Division uses information from some of those fields on a regular basis to determine casino revenue, to monitor machine payout percentage and to select devices to be audited in the field audits.

The information from the Data Collection System is only one tool that the Division employs to monitor machines and gaming operations. Strict controls are in place at every Indian gaming operation to monitor access to machines and money and to require oversight by multiple, independent departments. Below are the steps required at the casinos to prevent diversion of funds, preserve reliable records and accounts of transactions and provide for the fairness of the games.

STEP ONE—COIN IN

The customer puts money in the machine.

There is camera surveillance throughout the casino. Recordings of all surveillance are maintained for at least 7 days.

The machine's meter counts the money coming in, called "coin in."

The money is stored in a locked box in a locked compartment in a locked machine. Access is monitored and reported electronically

The total amount of coin in for the day goes to the database that is sent to the Data Collection System at the Division of Gaming and used in the monthly calculation of the payout percentage and revenue.

STEP TWO—COIN OUT

The customer starts play and may receive a payout or will eventually request cash out.

If the customer cashes out, it is in the form of a ticket. The ticket has a bar code and can only be used once, either for another game or to receive the amount registered on the ticket as cash.

If there is a payout, the amount goes into the database that is sent to the Data Collection System at the Division of Gaming and it is monitored to calculate the net win for the day. Payouts are deducted from the coin in to determine the net win each day.

STEP THREE—THE DROP

At the end of the day the locked money box in the machine is collected.

The Drop Team is always accompanied by security.

Keys to the machines and drop boxes are secured. The drop teams uses a swipe card to access the keys to the machines. They only have access to the keys to the machines and do not have access to the keys that unlock the money boxes.

The Drop Team calls the Surveillance Room to notify them that the drop is starting and they record all movements with cameras. The surveillance employees are hired by the Gaming Commission, not the casino. They are responsible for reporting issues of non-compliance by drop team members to the Gaming Commission.

The locked money boxes are placed in a locked cart that is wheeled to the Count Room.

The database that is sent to the Data Collection System records the opening and closing of the machine door and the opening and closing of the door that holds the locked money box. This information is used by the Division of Gaming when they do their on site compliance audit of the casino.

STEP FOUR—THE COUNT

The locked money boxes move to the Count Room.

Surveillance continues monitoring in the Count Room.

The Count Team members are different from the Drop Team members.

Employees on both the Count Team and the Drop Team are required to wear uniforms that have no pockets.

The Count Team only has access to the keys that open the locked money boxes and not to the keys that open the machines.

Tables in the count room must be clear and are usually made of Plexiglas.

There are cameras fixed directly over stations where the boxes are opened and the money is counted.

1. One person opens the box and pulls out the money.
2. The box is shown to the camera and the members of the Count Team to show it is completely empty.
3. Currency from the box is run through the counting machine twice and recorded electronically. The system requires that the two counts agree or the count for that box will not be accepted.
4. The counting machines are regularly calibrated to ensure accuracy.

The amount recorded from the currency counting machine for each box goes to the database that is sent to the Data Collection System. The Division of Gaming audits this amount on a monthly basis to determine the revenue owed and billed to the Tribes every month.

STEP FIVE—TOTAL DROP

The total amount is counted 2 times, under surveillance.

The currency is then handed to another member of the count Team who physically counts the money and they manually record the total drop collected from all the boxes.

A second count team member re-counts the entire drop and signs off that they have agreed on the count.

The manual totals are reviewed in the Division of Gaming's annual financial audit and the annual financial audit by an outside firm.

STEP SIX—THE VAULT

The money is counted and recorded before going in the vault, always under surveillance.

When the count is complete, the Vault Cashier enters the Count Room and independently counts the entire drop.

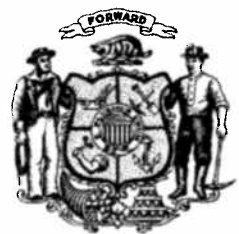
The Vault Cashier's total and signature is added to the day's manual count sheet.

If the totals do not agree, the entire team stays in the room while the variances are investigated. No one leaves the room until the count is agreed upon and the final amount in the vault is verified.

Upon completion, surveillance is notified and the funds are transferred to the vault by the Vault Cashier.

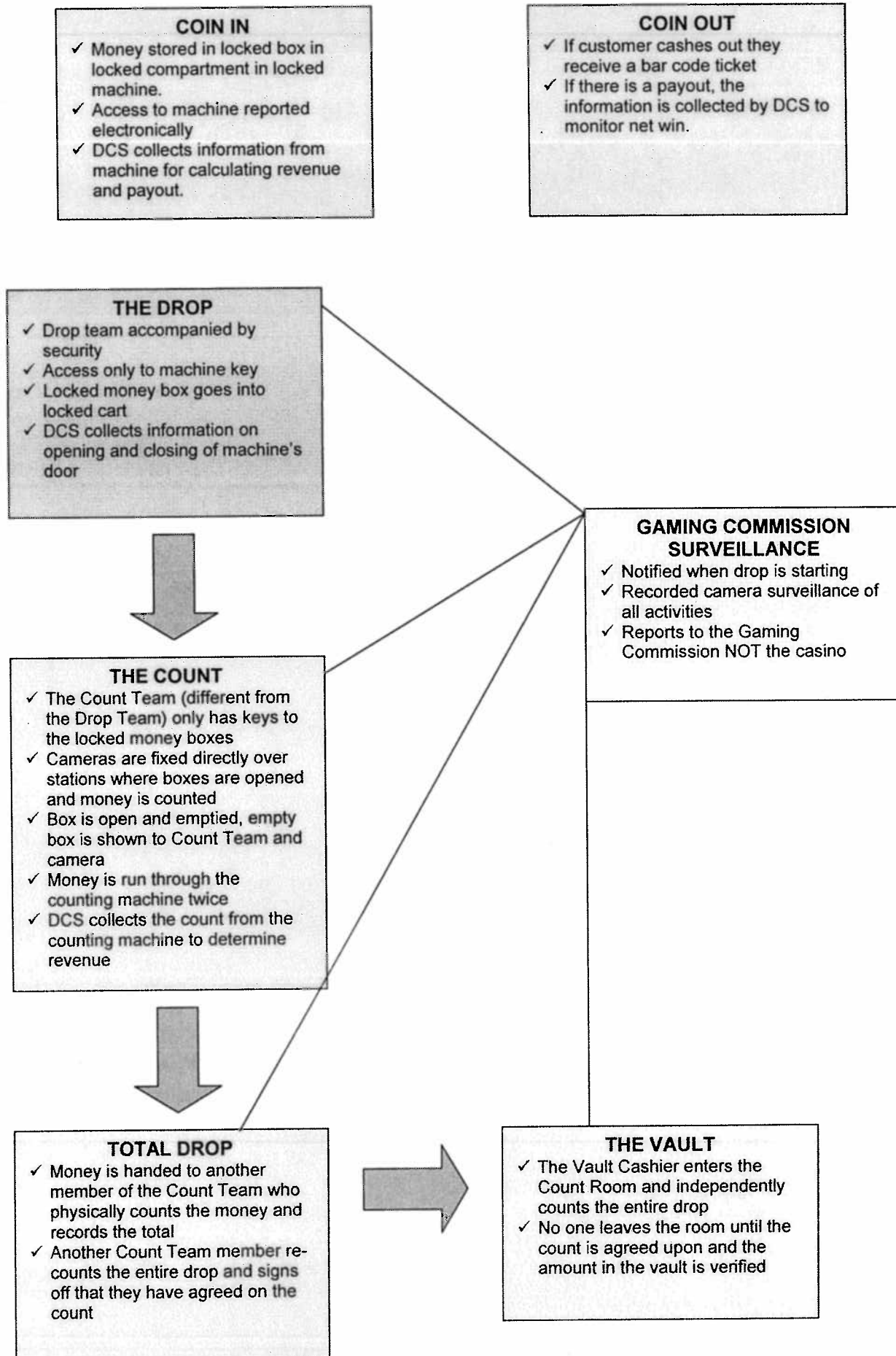


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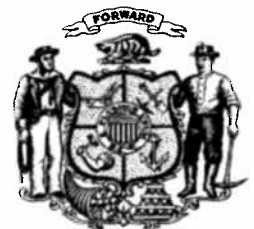
SECURITY PROTOCOLS

For Casino Gaming Machines in Wisconsin





WISCONSIN STATE LEGISLATURE



http://www.casinogamblingweb.com/gambling-news/casino-gambling/wisconsin_gambling_audit_show_discrepancies_in_tribal_reports_46967.html



Wisconsin Gambling Audit Show Discrepancies in Tribal Reports

A state audit was released on Friday and the outcome could have just been a glitch in a computer program, or it could indicate foul play somewhere, something that will be extremely hard to determine.

Fraud or theft at the state casinos could be relatively easy if all of the gambling transactions are not monitored, which in turn means that money that could be going to the state is going into individuals pockets.

The officials from the state insist that the problem arose from a malfunction in the program they use to track the casinos numbers. They claim to have corrected the problem.

State Representative Suzanne Jeskewitz had this to say about the apparent state error, "I am cautiously optimistic that the division has implemented appropriate programming and oversight changes necessary to correct this problem."

The problems that were found between the state numbers and everyday hand counts occurred during a one year span May 2006 to April 2007. Auditors finally brought out the idea that the numbers were not being monitored and that triggered a review of the numbers.

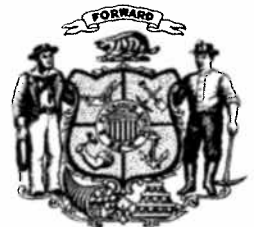
Other data that was released from the audit included a revenue of \$1.3 billion in 2006, which increased from \$1 billion in 2002.

September 21, 2007

Posted By Terry Goodwin
Staff Editor, CasinoGamblingWeb.com
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WISCONSIN STATE LEGISLATURE





Markets

Sept. 21, 2007, 2:43PM

Wis.: Gaming Audit Finds Discrepancies

By **TODD RICHMOND** Associated Press Writer
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MADISON, Wis. — Electronic records of gambling transactions in Wisconsin's tribal casinos didn't match hand counts every day for more than a year but the state's gambling officials were unaware of it, a state audit released Friday found.

Not tracking such discrepancies can mean theft or fraud at the casinos goes undetected.

The Legislative Audit Bureau's report found the state Division of Gaming didn't review tribal data to determine whether the tribes had identified or investigated the discrepancies between March 2006 and April 2007, even though the data was transmitted to the state's computers weekly.

Reviews finally began in May 2007 after auditors pointed out that no one was looking at the data, State Auditor Jan Mueller said.

State gaming officials blamed the discrepancies on programming errors in the system that records the casinos' data, the report said. Gaming Division Administrator Robert Sloey said in a letter to the audit bureau that reviews are now a routine part of the division's protocol.

Auditors couldn't quantify how much money the discrepancies involved, Mueller said.

State Rep. Suzanne Jeskewitz, R-Menomonee Falls, co-chairwoman of the Joint Legislative Audit Committee, issued a statement saying she was disturbed the division was unaware of the "programming flaws."

"I am cautiously optimistic that the Division has implemented appropriate programming and oversight changes necessary to correct this problem," she said.

Sen. Jim Sullivan, D-Wauwatosa, the audit committee's other co-chairman, said the audit bureau and the committee will have to keep a close eye on the division's reviews.

The audit also found:

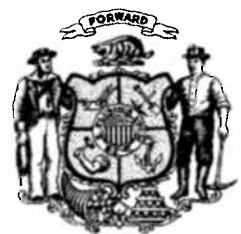
- _ The tribes collected \$1.3 billion in gambling revenue in 2006, up from \$1 billion in 2002.
- _ State revenue from tribal gaming grew from \$28.5 million in fiscal year 2002-03 to \$121.3 million in fiscal year 2005-06, largely because of new compacts that allowed the tribes to offer Las Vegas-style card games in exchange for higher payments to the state.
- _ Wagering at Dairyland Greyhound Park, the state's lone remaining dog track, fell from \$69 million in fiscal year 2002-03 to about \$58 million in fiscal year 2005-06.

COMMENTS

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WISCONSIN STATE LEGISLATURE



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State regulators don't have handle on gambling, lawmakers say

By MARK PITSCH 608-252-6145
September 21, 2007

Taxpayers deserve more accountability from state casino regulators after an audit revealed officials weren't aware of discrepancies in their own computer records of the amount of money collected by tribal gambling machines, a key lawmaker said.

State Rep. Suzanne Jeskewitz, the Menomonee Falls Republican who co-chairs the legislative audit committee, said she hopes to hold a hearing within six weeks to find out if the state Division of Gaming has fixed the problem.

"I'm real concerned about accountability," Jeskewitz said. "I'm real concerned about oversight."

State Sen. Jim Sullivan, D-Wauwatosa, the other audit committee co-chair, said he was "disappointed" the problem wasn't detected earlier and said a hearing in the coming weeks could help alleviate lawmakers' concerns about the gaming division.

The Legislative Audit Bureau's biennial review of the gaming division found that at least once on every day last year the electronic counts of coins collected from slot machines at tribal casinos didn't match separate hand counts.

Those counts are reported electronically to the state and maintained in a state database that tracks casino revenues and pay outs.

The audit also found that between March 2006 and April 2007, the state had not reviewed casino data to find out if tribes had identified, investigated and documented differences in the two counting methods.

Those are key controls to insure that the casinos are making accurate payments to the state and meeting minimum pay out requirements to patrons, said state auditor Jan Mueller.

They also are used to help uncover possible fraud or theft, she said.

Bob Sloey, gaming division director, blamed the accounting discrepancy on a "computer glitch" involving the collection of data from the more than 15,000 slot machines in the state's 25 tribal casinos. The discrepancy involved one database field that regulators weren't using, he said, while they focused on the parts of the database recording revenues and pay outs.

He said the accounting discrepancy had no impact on the payments made to the state or payouts to patrons, and that regulators used other collection data supplied by the casinos—hand-counts by casino employees—to verify that those amounts were accurate.

"We are 100 percent confident in our revenue calculations," Sloey said.

Mueller said she couldn't say if the accounting differences had an impact on payments to the state or pay outs to patrons.

Nevertheless, Sloey said the division is working to make sure its computer program collects the most accurate data possible from the casinos and that when accounting differences are discovered they will be checked out.

When regulators audit casinos they also will check to make sure that tribes have investigated any discrepancies in accounting from gambling machines. Regulators conduct a financial audit of casinos on average of once every 18 months, according to the audit bureau.

In June the State Journal reported that despite having some of the largest payouts from tribal casinos in the country, Wisconsin spent much less than some other states that have a comparable number of casinos.

At the time, Sloey said Wisconsin can be more efficient than other states because it collects information electronically about the amounts spent at gambling machines.

It takes longer

Eleven tribes run 25 casinos under "compacts" with the state. In exchange for operating them, tribes make multi-million dollar payments to the state.

The audit also found that the average amount of time it took state officials to do background checks on companies and individuals that do business with casinos increased from about 14 months in 2002-03 to more than 47 months two years later.

In the final six months of 2006, the state took nearly 25 months on average to complete the checks.

Long delays in certifying vendors could allow problem vendors to operate on a temporary basis. Vendors are reviewed to make sure their owners or partners haven't been convicted of felonies or gambling-related offenses and that they don't pose a threat to the public or to gambling regulation.

The state has recently hired two employees to conduct the checks and hopes to hire two more, pending the outcome of the state budget, said Linda Barth, a spokeswoman for the Department of Administration, which includes the gaming division.

"We're making good progress there," she said.

Other findings

- Tribal gaming revenue increased from \$1 billion in 2002 to \$1.3 billion in 2006 while expenses increased from \$559 million to \$770 million over the same period.
- State gaming revenue jumped from \$28.5 million in 2002-03 to \$121.3 million in 2005-06, mostly because of changes in the gaming compacts between tribes and the state that led to bigger payments to state government.
- The Lac du Flambeau tribe has withheld payments to the state since 2004, when its compact with the state was extended automatically for five years. Sloey said negotiations over those payments could be concluded by the end of the month. The Ho-Chunk tribe and the state are in litigation over the tribe's payments to the state.
- Ten instances in which state regulators found overpayments or underpayments to the state.
- The amounts wagered at Dairyland Greyhound Park, Wisconsin's only racetrack, dropped from \$69.5 million in 2002-03 to \$58.5 million in 2005-06. The park will likely close if the trend continues, the audit said.

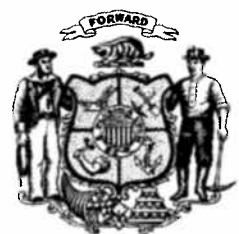
A summary and the full report can be found at
<http://www.legis.wisconsin.gov/lab>

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State's casino oversight falls short, audit says

Discrepancies in daily revenue go unnoticed

By STEVE SCHULTZE and PATRICK MARLEY
sschultze@journalsentinel.com

Posted: Sept. 21, 2007

As spending and profits at the state's 25 casinos rise to record levels, state oversight has fallen short, a state audit released Friday says.

The casinos were a \$1.3 billion enterprise last year, with \$556 million of that - 43% of the total - in profits for the 11 tribes that operate them.

The state's Division of Gaming failed to notice discrepancies in daily casino revenue figures between the state's computer monitoring system and tallies done by the casinos, the Legislative Audit Bureau report says. The auditors found discrepancies in the numbers for every day of 2006, the report says. The report does not say how far off the numbers were or break them out by tribe or casino.

The state blamed the differences on programming problems with state and Indian computer systems. Bob Sloey, the state's gaming administrator, said the state has other controls over casinos that worked properly to ensure the tribes paid the state what it was owed.

Confidentiality provisions in the compacts governing casinos prevent the state from publicly releasing financial data for individual tribes or specific casinos.

Auditors said the only way to identify certain financial irregularities was to compare the amounts hand-counted by the tribes and the amounts tallied by the electronic meters linked to slot machines. But the state Division of Gaming did not routinely review those amounts. The agency also did not review data kept by the casinos to see whether the tribes investigated those differences, as required by their agreements with the state.

Paul Stuibler, who coordinated the audit of the Gaming Division, said there were large variances in what the state's metering system showed in casino slot machines' daily "drop counts" and what the tribes reported based on their counts.

Those variances were not included in the report "because we believe the numbers are meaningless," Stuibler said. "The numbers were just wild. It varied all across the board on any particular day."

Assembly Majority Leader Jeff Fitzgerald (R-Horicon) said the state needs to beef up its scrutiny of tribal

casinos.

"I think it's very alarming," he said. "You look at the Division of Gaming, and it really looks like they haven't been doing their job over the course of the last year."

Data from all the slot machines in Wisconsin casinos are electronically reported to a state database, but for two tribes, the database recorded some of the wrong information, creating discrepancies, Sloey said. Other tribes' numbers were off because they count their takes every other day - leading to differences with the meters that make daily counts.

Sloey said the problem was not detected because workers in his office were focused on other numbers in the database with 200 types of information.

"This is just one small tool," Sloey said, adding that the technology problem could be sorted out in a week or so.

Recent technology

Auditors reviewed the state's use of the computer monitoring system for the first time in the latest audit because 2006 was the first year all tribes were using it, Stuiber said. The audit bureau reviews state casino regulation every two years.

The Gaming Division had about 16 people assigned to monitoring the tribal casinos in the last fiscal year, down from 18 two years earlier. Wisconsin's casino regulatory staff size is about average among the states with tribal casinos, though the numbers vary greatly, the report notes. Arizona, with two fewer casinos than Wisconsin, has 100 regulators, while Michigan had three regulators for its 17 casinos.

Wisconsin spends about \$1.5 million a year monitoring casinos.

The audit also found that five tribes failed to complete or document investigations into discrepancies between the expected and actual payouts of slot machines, as required by state gaming compacts. In addition, three tribes didn't report winnings of casino patrons to the state Revenue Department, as required by federal law. The report did not identify those tribes.

Wisconsin continues to rank near the top among states in the amount of revenue it gets from casinos. Wisconsin's \$112.7 million in casino revenue collected during the last fiscal year ranked third, behind Connecticut (\$445 million) and California (\$317.4 million), the report says. Gov. Jim Doyle allowed tribes to expand their operations in 2003 in exchange for quadrupling their payments to the state, but Republicans have criticized the deals as not lucrative enough.

Casino revenue rose 26.4% during the period since 2003, the report says.

Ho-Chunk tribal spokeswoman Sherry Wilson said she was confident that any revenue discrepancies were dealt with properly. Tribal casinos are subject to three levels of regulation: state and federal monitoring, as well as internal auditing by the tribes, she noted.

Wilson said the computerized tracking systems provided some possibility for error, but said, "We try to keep them working as well as possible."

Oneida tribal spokeswoman Bobbi Webster said tribal officials needed time to digest the lengthy audit report before commenting. Officials from the Forest County Potawatomi tribe, which operates the Milwaukee casino, didn't return calls.

Legislative oversight

Fitzgerald, the Assembly Republican leader, said the audit findings bolstered the case for giving the Legislature a role in approving casino deals with tribes.

"When you have oversight as a Legislature, you can head these problems off before they occur," Fitzgerald said. Democrats have blocked several Republican efforts to add a legislative role in approving casino compacts.

Assembly Minority Leader Jim Kreuser (D-Kenosha) said the state needed to be more rigorous in its oversight so the state gets all the money owed to it "and so the consumer is protected against any cloud of doubt they may have about payout at a given casino." The audit was silent on the issue of slot machine payouts.

Rep. Sue Jeskewitz (R-Menomonee Falls), co-chairwoman of the Audit Committee, said she wanted to hold a hearing on the audit in the next six weeks. She said she was frustrated that the problem was rooted in a computer error. In April, the audit bureau documented widespread computer problems across state government.

"I read that (casino audit) and I thought, 'Oh, no, not another computer problem,' " Jeskewitz said.

The report also notes the continued declining fortunes of the state's only remaining pari-mutuel dog racing track. Revenue at Dairyland Greyhound Park in Kenosha dropped to \$58 million in 2005-'06, down from \$69.5 million three years earlier. The track posted losses of \$2.8 million in 2006.

Auditors said it was unlikely Dairyland could continue operating in the face of such declines. Track owners have unsuccessfully lobbied for legalizing slot machines at the track but also have agreed to sell the property for a proposed tribal casino in Kenosha.

[Buy a link here](#)

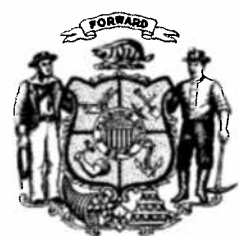
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WISCONSIN STATE LEGISLATURE



Matthews, Pam

From: Handrick, Diane
Sent: Friday, September 28, 2007 9:08 AM
To: 'Jim Jeskewitz'
Subject: Wisconsin State Journal editorial on Gaming oversight

THU., SEP 27, 2007 - 5:05 PM

Bet on better casino oversight

A Wisconsin State Journal editorial

Now that an analysis of Wisconsin's regulation of tribal casinos has uncovered lapses and foul-ups, it's up to the state Division of Gaming to promptly correct the problems.

To its credit, the division is already on track to fix most of the snafus before the end of the year.

But lawmakers should still provide close oversight because the analysis also revealed just how many opportunities there are for something to go wrong.

It is important to note that the analysis, conducted by the Legislative Audit Bureau, did not suggest that the state is being shortchanged in the money it receives from tribal casinos, now over \$100 million a year. Nor did it suggest widespread fraud in the \$1.3 billion in annual revenue collected at the state's 25 tribal casinos.

Multiple layers are built into casino regulation to guard against shortchanging the state or stealing and cheating within the casinos, and enough of the layers are working.

However, the analysis found that some important layers of protection failed. And those failures pose a serious risk.

Among the chief problems uncovered was a computer programming error that left the Division of Gaming clueless that the state's computer monitoring system of daily casino revenues was not matching up with the electronic tallies conducted by the casinos.

Other layers of cross-checks were showing that no money was actually missing from what the casinos were required to send to the state. But the daily discrepancies between the state's monitoring system and the casinos' tallies represented a glaring regulatory failure. And the fact the computer glitch prevented the state from knowing about the problem was even more glaring.

State auditors also found that the Division of Gaming had stopped reviewing written reports that cross-checked the casinos' electronic tallies with hand counts. That neglect cost the division a valuable layer of monitoring.

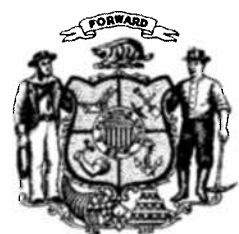
The Audit Bureau report contains specific recommendations that the Gaming Division should follow. Lawmakers, who plan to conduct a hearing on the recommendations this fall, should hold the division accountable for making the required changes.

But the audit provides another valuable lesson. When you combine the chance for human error with the chances of computer interface and mapping problems, you understand why multiple layers of cross-checks are needed.

The odds that something will go wrong mean that the division should increase its vigilance, and lawmakers should continue to keep an eye on casino regulation



WISCONSIN STATE LEGISLATURE





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Joint Legislative Audit Committee

Committee Co-Chairs:
State Senator Jim Sullivan
State Representative Suzanne Jeskewitz

For Immediate Release

September 21, 2007

Audit Identifies Ways to Improve Oversight of Gaming Activities

(Madison) Today, the nonpartisan Legislative Audit Bureau (LAB) released its evaluation of the Division of Gaming in the Department of Administration. The Division oversees the gaming operations of 11 tribes that have negotiated compacts with the State, pari-mutuel racing at one remaining dog track in Wisconsin, charitable bingo and raffles, and other games subject to state regulation. In fiscal year (FY) 2005-06, the Division was authorized 35.35 full-time equivalent positions and spent \$3.3 million to regulate all types of gaming activities. LAB found that the State's revenue from all gaming activities regulated by the Division increased from \$28.5 million in FY 2002-03 to \$121.3 million in FY 2005-06. In FY 2005-06, 10 of 11 tribes that operate casinos made payments to the State totaling \$118.7 million.

Compacts between the State and the tribes 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. LAB 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 was unaware of most of these differences, but believes they were caused by computer programming errors. In its report, LAB recommends that the Division take steps to ensure the State's Data Collection System and the casinos' electronic accounting systems are recording and calculating gaming revenue correctly.

"I am very disturbed that the Division was unaware of the apparent programming flaws in the State's Data Collection System prior to the auditors bringing it to their attention," said Co-chair Suzanne Jeskewitz (R-Menomonee Falls). "However, I am cautiously optimistic that the Division has implemented appropriate programming and oversight changes necessary to correct this problem going forward, and will be vigilant in its follow-up as we will with the audit's recommendations."

From March 2006 through April 2007, LAB also found that 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, as required. LAB recommends that the Division incorporate procedures into every casino audit to address these differences.

"I am concerned the Division of Gaming's monitoring of variances in gambling machine meters had lapsed for 14 months. That monitoring is the state's procedure to prevent the diversion of revenues," said Co-Chair Jim Sullivan (D-Wauwatosa). "Although I'm pleased the Division's administrator has assured LAB that they have corrected the data collection problems and renewed its routine monitoring of machine variances, the LAB and the Audit Committee will need to closely review the ongoing progress of these improvements in our state's regulatory oversight of gambling in Wisconsin."

Tribes generate gaming revenue primarily through Class III gaming, which includes electronic gaming devices such as slot machines and table games such as blackjack. 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 reviewed by LAB and totaled \$1.2 billion in 2006. Tribal gaming profits, or revenue in

excess of expenses, increased from \$490.8 million in 2002 to \$555.9 million in 2006, or by 13.3 percent.

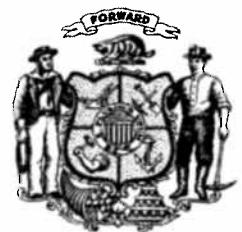
LAB also noted that Dairyland Greyhound Park, which conducts live greyhound races and broadcasts horse and greyhound races from tracks in other states, has seen steady declines in the amounts wagered at the track. Wagers decreased from \$69.5 million in FY 2002-03 to \$58.5 million in FY 2005-06.

Copies of the audit report may be obtained from LAB's Web site at www.legis.wisconsin.gov/lab or by calling (608) 266-2818. A podcast of the report highlights for report 07-12 is also available on LAB's Web site.

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Pg. 35 - Pari-Mutuel Racing
- 20% decline in revenue to state (Pg. 39)

Pg. 10 State Gaming Revenue

Pg. 19 - Tribal Gaming Revenue

- State does not receive money from Class II games (Bingo)

Pg. 20 Tribal Gaming Profits

Serious Concern

Pg. 26

- big issue is the Dept's lack of concern over the variances - not important enough
- Has been Key Staff turnover
 - 1 yr. vacancy of Admin
 - currently
- Don Schoof
 - other controls compensate for this finding (Required by state to provide oversight, compact - not this level of specificity in state or law but National standards for gaming do so)
- "Vigilant on follow-up"
 - contract
 - maintained by DoA
 - poor programming