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Details: Legislative Audit Bureau Report 08-4: An Audit: Division of Gaming, Department of Administration

(FORM UPDATED: 08/11/2010)

WISCONSIN STATE LEGISLATURE ... PUBLIC HEARING - COMMITTEE RECORDS

2007-08

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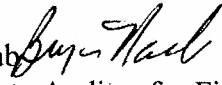
STATE OF WISCONSIN
Legislative Audit Bureau

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Janice Mueller
State Auditor

DATE: March 19, 2008

TO: Nicole Hudzinski and Pamela Matthews
Committee Clerks to the Joint Legislative Audit Committee

FROM: Bryan Naab 
Deputy State Auditor for Financial Audit

SUBJECT: Report 08-4: An Audit of the Division of Gaming, Department of Administration

As required by s. 13.94(1)(eg), Wis. Stats., we have completed our audit of the Division of Gaming within the Department of Administration. We have issued an unqualified opinion on the Division's budgetary financial schedules for the three programs it administers—Indian Gaming, Racing, and Charitable Gaming—for fiscal year (FY) 2004-05 through FY 2006-07.

Because the Division is accounted for in several program revenue appropriations within the General Fund, the Division's financial schedules are unique and are prepared in accordance with budgetary accounting rules, rather than generally accepted accounting principles.

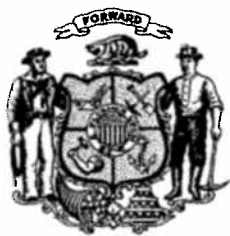
The Indian Gaming program is the largest of the Division's three programs and accounts for the revenues that Indian tribes pay to the State. After expenditures, encumbrances, and statutorily required transfers, the remaining amounts are transferred to the General Fund as general purpose revenue. Because of fluctuations in the timing of payments from the tribes, the amounts transferred to the General Fund have fluctuated and were \$3.8 million in FY 2004-05, \$88.9 million in FY 2005-06, and \$22.1 million in FY 2006-07. One reason for the fluctuation is the dispute regarding the amendment to the compact between the State and the Ho-Chunk. This dispute is currently in litigation. While the Ho-Chunk made a good faith payment to the State in FY 2005-06, similar payments were not made during FY 2004-05 and FY 2006-07.

Racing revenues have declined, largely because of the closing of the dog track in Delavan during FY 2005-06, while charitable gaming revenues have remained relatively constant. As required by the Constitution and state statutes, during the three-year period, the Division transferred \$2.0 million to the Lottery Fund for property tax relief, representing the unencumbered balances in the appropriations used for racing and bingo.

The audit will be released on Thursday, March 20, at 9:00 a.m. Please contact us if you have any questions regarding the report.

BN/kc

Enclosures

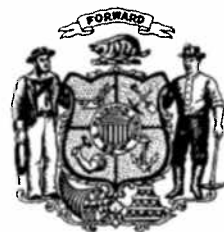


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State of Wisconsin - Legislative Reference Bureau
1 East Main Street, Suite 200
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An Audit

Division of Gaming

Department of Administration

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The Bureau is a nonpartisan legislative service agency responsible for conducting financial and program evaluation audits of state agencies. The Bureau's purpose is to provide assurance to the Legislature that financial transactions and management decisions are made effectively, efficiently, and in compliance with state law and that state agencies carry out the policies of the Legislature and the Governor. Audit Bureau reports typically contain reviews of financial transactions, analyses of agency performance or public policy issues, conclusions regarding the causes of problems found, and recommendations for improvement.

Reports are submitted to the Joint Legislative Audit Committee and made available to other committees of the Legislature and to the public. The Audit Committee may arrange public hearings on the issues identified in a report and may introduce legislation in response to the audit recommendations. However, the findings, conclusions, and recommendations in the report are those of the Legislative Audit Bureau. For more information, write the Bureau at 22 E. Mifflin Street, Suite 500, Madison, WI 53703, call (608) 266-2818, or send e-mail to leg.audit.info@legis.wisconsin.gov. Electronic copies of current reports are available on line at www.legis.wisconsin.gov/lab.

State Auditor – Janice Mueller

Audit Prepared by

Bryan Naab, *Deputy State Auditor and Contact Person*

Dana Klauk

Desiree De Thier

CONTENTS

Letter of Transmittal	1
Opinion	3
Independent Accountant's Report on the Financial Schedules of the Department of Administration's Division of Gaming	
Management's Discussion and Analysis	5
Financial Schedules	11
Schedule of Revenues, Expenditures, and Changes in Program Balances— Budgetary Basis of Accounting, for the Year Ended June 30, 2007	12
Schedule of Revenues, Expenditures, and Changes in Program Balances— Budgetary Basis of Accounting, for the Year Ended June 30, 2006	13
Schedule of Revenues, Expenditures, and Changes in Program Balances— Budgetary Basis of Accounting, for the Year Ended June 30, 2005	14
Notes to the Financial Schedules	15



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Janice Mueller
State Auditor

March 20, 2008

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 examined the Indian Gaming, Racing, and Charitable Gaming programs administered by the Division of Gaming in the Department of Administration, as required by s. 13.94(1)(eg), Wis. Stats. We have issued an unqualified opinion on the Division's budgetary financial schedules for the three-year period from fiscal year (FY) 2004-05 through FY 2006-07.

In September 2007, we issued Report 07-12, which was our biennial program evaluation of the Division of Gaming, as required by s.13.94(1)(eg), Wis. Stats. We will report on the Division's efforts to address recommendations made in that report during the next program evaluation, which is expected to be completed in 2009.

As shown in the financial schedules, the payments the Indian tribes made to the State were \$27.4 million in FY 2004-05, \$118.7 million in FY 2005-06, and \$49.8 million in FY 2006-07. These amounts fluctuated in part because of the timing of payments received from tribal governments. However, payments have also been affected because compact disputes with several tribes remain unresolved.

Indian Gaming revenues that are not expended, encumbered, or distributed to other agencies based on statutory requirements are transferred to the State's General Fund as miscellaneous receipts available for legislative appropriation. Because Indian gaming payments to the State have fluctuated over the three-year period, the amounts transferred to the General Fund have also fluctuated and were \$3.8 million in FY 2004-05, \$88.9 million in FY 2005-06, and \$22.1 million in FY 2006-07.

From FY 2004-05 through FY 2006-07, revenues generated from the Racing program have declined as another racetrack closed during FY 2005-06, while bingo revenues have remained relatively stable. In total during the three-year period, these sources provided nearly \$2.0 million to the Lottery Fund for property tax relief.

We appreciate the courtesy and cooperation extended to us by the Department of Administration's Division of Gaming.

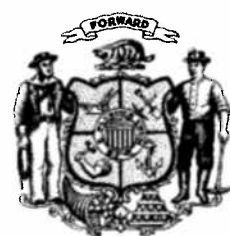
Respectfully submitted,

Janice Mueller
State Auditor

JM/BN/ss



WISCONSIN STATE LEGISLATURE





**WISCONSIN DEPARTMENT OF
ADMINISTRATION**

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GOVERNOR

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SECRETARY

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ADMINISTRATOR

DIVISION OF GAMING
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January 31, 2008

Senator Jim Sullivan
State Capitol 115 South
Representative Suzanne Jeskewitz
State Capitol 314 North
Madison, WI 53703

Dear Senator Sullivan and Representative Jeskewitz:

The Wisconsin Department of Administration, Division of Gaming, believes the biennial Legislative Audit Bureau evaluation of gaming oversight is an integral part of gaming regulation in Wisconsin that has led to improved policies and practices.

We appreciate the audit process in the most recent biennial Audit Bureau review and we were happy to report to you last October about the steps we took to implement the recommendations of the Audit Bureau report. Although the information we have provided here is similar to the testimony we provided last fall, the audit report called on us to report to you on January 31, 2008, regarding our progress and we are pleased to, again, take this opportunity to provide that information.

The Division of Gaming closely monitors drop variance reports and the accuracy of the data in the Data Collection System.

As of June 2007, the Division of Gaming has implemented changes to the field audit program to verify compliance of tribal gaming operations with drop variance investigation standards, and this has been a part of each field compliance audit going forward. Upon identification of this issue by the audit bureau, the Division of Gaming field auditors conducted drop variance audits at each of the locations at which this had not been previously performed. Auditors were able to determine that drop variance investigations were and continue to be conducted at all Wisconsin tribal gaming operations.

In addition, subsequent to the release of the audit report, the Division of Gaming worked closely with the Division of Enterprise Technology and tribal accounting system vendors to evaluate and address inaccuracies in the report data. As of January 2008, all major report discrepancies have been corrected. Finally, procedures were developed and processes have been implemented for the ongoing evaluation and verification of DCS report data outside of the regularly scheduled audits and monthly verification of revenue. Division of Gaming auditors conduct weekly reviews of DCS data to address data irregularities and track variances occurring in the field.

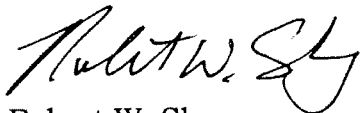
The Division of Gaming has significantly reduced the investigation time for vendor certification and the number of pending applications.

The Division of Gaming has taken steps to increase the timeliness of gaming-related contractor certifications. In July 2007, the Division of Gaming added two LTE investigator positions to address the issue and has received approval to add two FTE positions in the SFY 08-09 budget. The new staff have already attended training and current investigative staff are being given additional training. The two permanent FTE investigators will be hired by March 2008.

In addition, the internal policies and procedures have been rewritten and contain new standards for completion of contractor investigations. As a result, the average completion time for original applications was reduced during 2007 from the 24.5 months identified in the report to 12.1 months, and the average time to process renewal applications has been reduced from 18 months to 16.7 months. The Division of Gaming has also reduced the number of pending applicants during 2007 from 32 to 15 and reduced the average pending time from 15.2 months to 10.7 months. These reductions have increased since our original response to the audit and we expect to see continued reductions in times to process these applications during 2008.

I appreciate the opportunity to report our progress in meeting the recommendations contained in the audit of the Division of Gaming. Should there be any questions regarding our response or if additional information is required, please do not hesitate to contact me directly at (608) 270-2560.

Sincerely,



Robert W. Sloey
Administrator

cc: Janice Mueller





WISCONSIN STATE LEGISLATURE

Joint Legislative Audit Committee

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

May 13, 2008

Mr. Michael Morgan, Secretary
Department of Administration
101 East Wilson Street, 10th Floor
Madison, Wisconsin 53701

Dear Mr. Morgan:

Michael

As the legislative session draws to a close, we write to acknowledge receipt of your January 2008 follow-up report concerning the recommendations offered by the nonpartisan Legislative Audit Bureau in its audit of the Division of Gaming (report 07-12).

We are pleased to note that, as of January 2008, all major drop variance report discrepancies have been corrected. The Department's efforts to evaluate and address inaccuracies in the report data and to establish ongoing evaluation and verification processes are essential steps taken in response to the audit recommendations.

We also recognize the steps taken to increase the timeliness of gaming-related contractor certifications. Based on newly implemented standards for completion of contractor investigations, we anticipate that the Legislative Audit Bureau will report improved timeliness when it conducts its next biennial audit of the Division of Gaming in 2009.

Thank you for your timely response to the audit recommendations.

Sincerely,

Senator Jim Sullivan, Co-chair
Joint Legislative Audit Committee

Representative Suzanne Jeskewitz, Co-chair
Joint Legislative Audit Committee

cc: Mr. Robert W. Sloey, Administrator
Division of Gaming
Department of Administration

Janice Mueller
State Auditor