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HOUSE OF REPRESENTATIVES

HOUSE GAMING OVERSIGHT COMMITTEE

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HEARING ON
HOUSE BILLS 939 (VULAKOVICH)
AND 2002 (DAY)

BEFORE:

HONORABLE CURT SCHRODER, MAJORITY CHAIRMAN

HONORABLE ROSITA YOUNGBLOOD, MINORITY CHAIRMAN

HONORABLE KAREN BOBACK

HONORABLE MICHELE BROOKS

HONORABLE DOM COSTA

HONORABLE PAUL COSTA

HONORABLE TINA DAVIS

HONORABLE DANIEL DEASY

HONORABLE GEORGE DUNBAR

HONORABLE FLO FABRIZIO

HONORABLE MIKE FLECK

HONORABLE NEAL GOODMAN

HONORABLE MARCIA HAHN

HONORABLE JERRY KNOWLES

HONORABLE DAVID MILLARD

HONORABLE KEVIN MURPHY

HONORABLE DONNA OBERLANDER

HONORABLE MICHAEL O'BRIEN

HONORABLE TODD STEPHENS

HONORABLE ROSEMARIE SWANGER

HONORABLE RANDY VULAKOVICH

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CHAIRMAN SCHRODER: Good morning, I'd like to welcome everyone to this hearing of the House Gaming Oversight Committee. Our first hearing and official meeting of the new year, so welcome all the committee members back as well as those who are with us today in the audience. This morning we will be hearing from Pennsylvania Auditor General Jack Wagner who we are honored to have with us. And the subject will be House Bills 939 and 2002, these are bills that provide and require a regularly scheduled audit of the Pennsylvania Gaming Control Board as well as the funding for those audits. Before we hear from Auditor General Wagner and my Co-Chairman Representative Rosita Youngblood I'll ask Carolyn to take the roll.

(Roll call was taken.)

CHAIRMAN SCHRODER: Without further ado we will hear the testimony and remarks of the Auditor General of Pennsylvania, the Honorable Jack Wagner. General Wagner we welcome you to the House Gaming Oversight Committee and you may begin when you're ready.

AUDITOR GENERAL WAGNER: Thank you Chairman Schroder and Chairwoman Youngblood and members of the committee. I appreciate the opportunity to discuss two important pieces of legislation related to the States gaming industry. Also, I'd like to thank Chairman Schroder for agreeing to move the two bills at the same time and for understanding the importance of balancing mandates with current financial constraints of the Commonwealth.

The Department of Auditor General produces thousands of audits each year. We audit the State's 500 school districts, 650 liquor stores, 27 State correctional facilities, and 14 universities under the State System of Higher Education, as well as all State Executive Branch agencies and thousands of municipal liquid fuel, pension funds, volunteer firefighters relief associations, and local government offices such as magisterial district justices that collect funds on behalf of the State.

I am proud of the record of accomplishment of the Department of the Auditor General and what it has achieved during my 7 years in office. We have never ducked the tough issues and we have taken on the subjects of greatest concern to taxpayers, such as the hidden cost of buying out school superintendent contracts and the millions on wasted on no-bid government contracts.

I am here today to urge this committee to allow the Department of Auditor General to be reimbursed for our audits related to the gaming industry. Currently, the Gaming Control Board pays the State Police, the Attorney General's Office, and the Department of Revenue for their oversight. This amounts to approximately \$19 million for the State Police alone, \$1 million for the Attorney General, and \$9.5 million for the Department of Revenue. This amount is allocated annually for each of those agencies. Our role in ensuring that Pennsylvania's gaming industry operates legally and that it provides all the property tax revenue that has been promised the taxpayers is just as essential as other agencies of State government. In fact, our Department provides a unique perspective on the structure and effectiveness of the Board that the oversight agencies do not focus on in their reviews. Taxpayers should not pay for these audits; the gaming industry itself through the gaming control board should be financially accountable.

In the last few years, we have added new auditing responsibilities to the Department of Auditor General, including dozens of additional municipal pension plans and over 150 charter and cyber charter school audits, as well as Pennsylvania Gaming Control Board, all of this while our staff complement has steadily shrunk due to some serious budget constraints that all of you are very familiar with.

Since casino gaming began and became legal in Pennsylvania in 2004, the Department of the Auditor General has made it a priority to oversee the Gaming Control Board and gaming in Pennsylvania in general. Since 2009, we have completed two special performance audits of the

Board, one on the Board's hiring practices which was very controversial at the start, and the sharing of the background information of gaming applications, and the second on the Boards procurement process and travel expenses.

My Department released its first audit of the Gaming Control Board in May 2009, in which we sought to determine whether Pennsylvanians were hired for most casino jobs, and whether there was racial and gender diversity in the process. As of December 31, 2008, the Board reported that 94 percent of casino employees were State residents; 49 percent were women and 18 percent were minorities. We also found that the Gaming Control Board itself hired State residents within the Board itself and promoted diversity. In fact, 93.6 percent of the Board employees as of May 2007 were Commonwealth residents at the timing of hiring. As of December 31, 2008, the Board reported that 44 percent of its employees were women, and 13 percent were minorities.

Both the Gaming Control Board and casinos hired over 90 percent Pennsylvania residents. Women and minorities are employed at percentages above the averages in the State government. We thought that was vitally important at the beginning of the process of the gaming industry, most importantly because so many of the gaming locations were close to the borders of the joining States, so it was a great concern to us, I know it is to you, and basically we found that the gaming industry was doing a relatively good job in that area.

Our special performance audit also found that there was a flaw in the gaming law with regard to the sharing of background information about casino owners and employees. Specifically, the law did not clearly define the roles and responsibilities of investigative agencies in sharing of background information. I know this is something the Chairman has talked about in

the past. This led to the awarding of a casino license that was later changed, which damaged public confidence in the Gaming Control Board and its vetting process.

Our findings highlighted a flaw in the overlapping roles of investigating agencies. Our audit noted that the law designates the Gaming Control Board's Bureau of Investigations and Enforcement as a criminal justice agency, but the Pennsylvania State Police and the FBI do not recognize that designation and instead has said they cannot share all their information with Gaming Control Board investigators. As a result, the Gaming Control Board could be licensing casino owners and gaming employees without processing all relevant information. Around that time, there was a pending perjury investigation of one of the license awardees, but charges were dropped after the licensee agreed to transfer ownership of the casino to a family member.

Our second audit, released in December 2010, found that the Gaming Control Board failed to adhere to State procurement procedures and failed to comply with the Sunshine Act in awarding of \$8.7 million in contracts for legal and other professional services through the competitive sealed bid, emergency, and sole-source contracts.

Our review of 23 professional service contracts awarded by the Gaming Control Board found serious flaws, including the Board's failure to hold open meetings for the awarding of contracts, and its failure to ensure that sufficient records of justification were maintained to support contracting decisions. The Sunshine Act, as all of you know, mandates that open meetings are held for official action and deliberations regarding decisions of agency business, including the creation of a liability by contract, and the substance of such decisions must be disclosed in open meetings and outlined in meeting minutes. We found that at least 19 of 23 service contracts did not comply with the Sunshine Act.

In that audit, we also found that the Gaming Control Board spent excessively on travel during the 3 year audit period, with spending reaching nearly \$2 million. Among those expenditures governing Board members and some top staff unnecessarily claimed meal reimbursements at two-and-one-half times more than the State's standard reimbursement rate. We also found that four governing Board members and a staff executive spent a least \$33,000 on a trip to Rome. We also found that the governing Board members did not justify their stays at expensive hotels and received reimbursements for rooms paid for guests who traveled with the gaming officials.

We have also worked to ensure that all homeowners in Pennsylvania are receiving the property tax relief from gaming that they were promised when slots and gaming became law. In February, 2010 we released a special report. Not an audit, but a special report, we did two audits, two special performance audits, we also did a special report on property tax relief. We found that potentially hundreds of thousands of Pennsylvania homeowners are not receiving the tax relief from slots casinos revenue because the State has created a very complicated, fragmented, and cumbersome application process that discourages participation in the process.

Gaming revenues fund two types of property tax relief: restricted eligibility for low-income homeowners, mostly senior citizens; and open eligibility, for homeowners of all ages and incomes, but our report found that many property owners are not even aware that they are eligible for tax relief. It is impossible to estimate precisely how many eligible Pennsylvania homeowners have not received the property tax relief to which they are entitled because of the fractured system. We do know that based on the review of information provided by 49 counties, at least hundreds of thousands and I repeat, hundreds of thousands of the three million residential properties in those 49 counties had not received any tax reduction through January 2010. The

primary reason as to why Pennsylvania homeowners are missing out in property tax relief is that it is not automatic; homeowners must apply for it. We found that some homeowners never received applications and some homeowners who did not were confused by the one page applications. Why? The principle cause of confusion was the use of the antiquated words on the application, such as homestead and farmstead which erroneously led some homeowners to conclude that they were not eligible. In fact, any homeowner that resides in their residence in Pennsylvania qualifies for property tax relief. And that simple fact really was not out there, now it does exclude Philadelphia County, that was written into the legislation because in Philadelphia they received a personal income tax reduction rather than a property tax reduction. But in those 66 other counties in Pennsylvania hundreds of thousands of Pennsylvanians had not qualified, we have brought that to their attention repeatedly over the last couple of years as a result of this special report that we completed on property tax relief.

We recommended in that report, and still recommend, that one single agency, such as the Department of Revenue, should be responsible for making sure that the property tax relief program operates as it was intended by the Taxpayer Payer Relief Act and the Pennsylvania Race Horse Development and Gaming Act so everyone gets the property tax relief they were promised with the passage of gaming legislation.

These audits and our special report are just the beginning of the work associated with gaming that the Department of the Auditor General will complete. I can assure this committee with continued monitoring, my Department will keep taxpayers informed and their interests protected by reviewing the work of the Gaming Control Board.

As to the two bills under consideration by this committee, I would like to express my full support for both, and offer my thanks to Representative Gary Day and Representative Randy Vulakovich for sponsoring these important bills.

With regard to HB 2002 printer's number 2746, which would require the Department of Auditor General to audit the Gaming Control Board every 2 years, I truly believe that ongoing performance audits of the board are a great way to ensure that it is following the gaming law and other important laws, such as the Commonwealth Procurement Code and the Sunshine Act. We also have a responsibility to make sure that the Commonwealth and taxpayers are getting their fair share of gaming revenues. As long as I am auditor general, this Department will continue to make these audits a priority. Whether or not we are reimbursed for our audits, we will continue to make it a priority.

HB 939 printer's number 1007 would allow the Department of Auditor General to be reimbursed by the Gaming Control Board for our gaming audits. This is something I have been asking for since our first gaming audit. The Department of Auditor General plays an important role in making sure that Pennsylvania's gaming industry operates legally and is transparent, and that it provides all the property tax relief that has been promised to taxpayers. As indicated previously, the Board pays the State Police, the Attorney General, and the Department Of Revenue for their oversight and I would argue that our role is as important, or more important, than those agencies when it comes to the issue of gaming, especially as the last few casinos continue to come online and the gaming industry to be fully operated. Taxpayers should not pay for our audits of the gaming industry. HB 939 would not give special treatment to the Department of Auditor General; it would give equal treatment with other agencies that are paid for for their gaming related work by the gaming entities.

I especially appreciate the opportunity to come in front of this committee and I can't stress enough of the importance of the work done by our Department whether it's me as Auditor General or anyone else as Auditor General.

And I would just end by saying the grand jury report that came out within the last year on gaming, the number two recommendation creates specific statutory authority vesting in independent State agencies such as the Auditor General with the responsibility of annually auditing and inspecting of the Pennsylvania Gaming Control Board to help ensure adherence to the obligations of the gaming act which all of you passed. That was their second recommendation out of a whole slew of recommendations.

Their seventh recommendation specifically related to us also in terms of the proper oversight accountability of contracts of following the procurement codes. So I can't stress enough the role that the Department of Auditor General plays of with keeping a good oversight of the Pennsylvania Gaming Control Board and the gaming industry in general. Thank you very much.

CHAIRMAN SCHRODER: Thank you General Wagner and I certainly concur with your points about the report of the grand jury. The importance of the role of the Auditor General in this process, and I certainly commend you and your Department for the work you have done thus far in this particular area and the good reports that you have produced and things that you have uncovered. I have a couple questions, specific questions related to your testimony.

In a letter that you sent to me addressed November 10, 2011, fairly recent letter, you state in there that you're cost for the performance audits have averaged about \$350,000 an audit. I guess my question to you, is that the figure that were looking at here as far as an annual appropriation or perhaps every 2 years in cooperation and conjunction with the Auditor

General's Office we amended the bill to make it an audit every 2 years in recognition of the length of time that it takes to perform these audits. So is 350 the number we are looking at here or what would you say?

AUDITOR GENERAL WAGNER: Well yes, that is the approximate number in terms of reimbursement. First off, it's very few audits that we are reimbursed for; I can give you another example, we are mandated by law to audit the Pennsylvania Turnpike Commission every 4 years, we are reimbursed for that audit based on the number of hours that it takes to do the audit and what we would suggest is yes, that's a ball park number because that's our approximate cost in the past. Some of these audits take an entire year with four or five people assigned to the audit process. There are piles and piles of paperwork to substantiate the positions you take in audits. So what we would actually request Mr. Chairman is reimbursement of the hours involved in the audit process, we think that's approximately \$350,000 every 2 years.

CHAIRMAN SCHRODER: Right, I understand the request is for the hours actually spent and I was just looking for that sort of ball park figure for purposes of moving forward as to what we can expect that. And you also point out that the industry pays \$29.8 million to the other state agencies that provide oversight to it and this \$350,000 figure is a relatively small addition to that. Now with regards to the two special performance audits that you have performed since 2009, I guess my question is this, just understand how they occurred or the basis upon which they are done. I take it the Auditor General was not required by law to perform them but you did have authorization under law to perform them, could you clarify that?

AUDITOR GENERAL WAGNER: Yes, we have the authorization by law to audit any State agency, any State agency that has a responsibility related to the use of public dollars, of State taxpayer dollars. And obviously the Pennsylvania Gaming Control Board has multiple

responsibilities in terms of oversight of a very important new industry in the Commonwealth of Pennsylvania and the collection and distribution of dollars that come into that agency. So the two audits that we performed initially and they were special performance audits and my bureau director Helen Weigel knows the details of those audits far greater than I do, they were both excellent audits. We picked certain issues at that time based on the issues that we perceived all of you and the public would think are important. If you recall, with the creation of the gaming industry there was tremendous controversy related to the hiring processes – the vetting process of licensees, of employees, who these employees were, where they came from, whether or not if they were Pennsylvanians, whether or not there were background checks being done on them et cetera, et cetera. So we made that issue a priority issue when the gaming industry got up and running. And to be quite frank with you, there were very few licensees up and running. Consequently there was very little to audit in a substantive way about the process overall. So we focused in on the hiring process, and again, our audits are not all negative, I mean we complemented the gaming industry itself and the Gaming Control Board because they put a priority on hiring Pennsylvanians, precisely what we wanted them to do. And we will continue to monitor that going forward but that was pretty much our choice as to what to audit and I hope I'm getting to your question. And then with the special performance audit we completed we got more into the intricacies of how the Gaming Control Board functions such as how they deal with contracts, why? Because a lot of contracts have been let. How the investigation agencies were looking at things. So as the gaming industry continues to mature we will look at more overall and more complex areas based on what we think is important and what all of you think is important.

CHAIRMAN SCHRODER: You suggest in your testimony that as long as you're Auditor General the Department will continue to make these audits priority. Do I correctly read into that

these audits will continue on either a regular basis or an as needed basis? What was your thoughts there?

AUDITOR GENERAL WAGNER: Well presently we're doing a special performance audit approximately every 2 years. We will continue on that schedule. And the reason why I come here and ask for reimbursement is that I became Auditor General 7 years ago, I was fortunate to be re-elected, we had 755 employees then, today we have 600 employees. Our budget was greater 7 years ago than it is today. We have been very responsible fiscally and so when new auditing requirements come on board, 165 charter cyber charter schools, one example. The gaming industry, a whole new industry. Obviously we're taking people from other areas and what's happening is the audits in other areas are not being done every 2 years or 3 years, they are now being done every 3 years or 4 years. Consequently we're pushing other audits that are also important a little bit off to the side to do the Gaming Control Board industry. Now if we were reimbursed for doing those audits, that wouldn't happen.

CHAIRMAN SCHRODER: And, I don't want to wade into politics of the political cycle but your term expires?

JACK WAGNER: January of 2013.

CHAIRMAN SCHRODER: Okay, so this is your final year you would be in office, so there is no guarantee, the point that I'm trying to get to I guess there's no guarantee that once you are no longer Auditor General that these audits will continue if they are not required by law. Will that be accurate?

JACK WAGNER: Yes it is accurate; Mr. Chairman, but all of you can mandate it by law.

CHAIRMAN SCHRODER: Well that's the point, exactly. Alright, those are all my questions; I thank you for your responses. Chairman Youngblood.

CHAIRMAN YOUNGBLOOD: Good morning Auditor General. Has the Gaming Board cooperated with you fully and throughout the audits or any investigations that have been done by your office and you got to forgive me, I'm having a hard time trying to breathe and I'm trying to stop sneezing too at the same time.

JACK WAGNER: Chairwoman Youngblood, generally speaking, yes, they have been cooperative. There have been times that I'm sure Helen Weigel would tell you they're not responding as quickly as we would like them to with information because the audit process is one in which you're seeking information, you do that in writing and sometimes you would like a quicker turnaround time. But generally speaking yes, in generally speaking the Board has been responsive to us and the Executive Director or whatever that precise title is, and they have responded positively generally speaking to our findings and recommendations in our audits, and that's a good thing. If not, you would see me having news conferences talking about it and so this has been a, I think a positive process of a growing industry that is growing and I think is getting better but it still needs oversight from an independent agency. And the State Police do not provide that, they provide the whole security component, the Attorney General does in terms of similar kind of support with the State Police and with the role of the Attorney General. The Department of Revenue kind of does the checks and balances as they come in. We take a whole different look, I mean; nobody in all of our government was looking at whether or not Pennsylvania property owners are getting the tax relief that was promised with the legislation. And that is a big flaw in this process, I mean, when you're talking about hundreds of thousands of property owners that really isn't a responsibility that is totally within the Gaming Control Board. I mean, they produce the dollars, they turn them over to the Department of Revenue and there is a reason why in our audit were just not auditing the Gaming Control Board, we're

sending a message to the Department of Revenue. More has to be done here to educate the public that you need to fill out a form called a homestead exemption or farmstead exemption. Who would think, which one of us if you're not a farmer would think you have to fill out a farmstead exemption for property tax relief? But that in fact is what is required to qualify. Consequently that's also responsibility of another agency, the Department of Revenue, so yes they have been cooperative.

CHAIRMAN YOUNGBLOOD: Well my next question is, what measures has the Department of Revenue taken to ensure that homeowners can receive the property tax? I know in the city of Philadelphia the Mayor had asked for wage tax relief and a lot of residents would love to have property tax relief because last night I was reading a letter that was sent to me from one of the seniors that's 80 years old, a husband and wife, and they said they cannot afford to pay their property taxes, unfortunately in Philadelphia when you received your bill and I showed my staff, you have to pay the whole lump sum before a certain period or you're penalized. This couple, they're 80 years old, they live on Rancocas Street in Chestnut Hill, their property taxes were I think about \$8,900 and there's no way they could afford to pay that in one lump sum and they're asking me, which I can't do anything about it, why can't it be broken down into payments because they can't afford it? So that's why in Philly I'm really thinking about doing legislation to take it away from wage tax and go directly because it's affecting a lot of our citizens.

AUDITOR GENERAL WAGNER: Well Representative, the point you're making is a good one, it was as you know I voted for a gaming as a State Senator and it was the will of pretty much the Philadelphia delegation to put those moneys to wage tax at the time and I think we basically, those who voted supported it. Your initial question was who is accountable within the

Department of Revenue and are they doing enough in terms of the property tax relief. And my quick answer to that is they're not doing enough. And I'm not pointing the finger at any administration, I'm saying that Department of Revenue can do a far better marketing job to make sure people are getting property tax relief and we have a specific recommendation that was part of our audit and I'm going to ask Helen Weigel if she could further explain that recommendation.

HELEN WEIGEL: What we recommended in our special report was to, because it was such a fragmented system, because there are many players in that whole property tax relief process, Department of Revenue only being one player it's also the county tax assessment office's, the school districts, that also play a role in that process and without any one State oversight agency, the process became so fragmented and cumbersome that it led to the number of homeowners that weren't eligible to receive it. So our recommendation was since the Department of Revenue was already involved in the process, they should be the one to take the lead and do what the Auditor General just said in terms of better marketing, better education of the public to help them get them this property tax relief that was promised.

AUDITOR GENERAL WAGNER: And if there is something that needs to be done legislatively for them to make a recommendation to all of you. Thank you.

CHAIRMAN SCHRODER: Thank you Chairman Youngblood. Representative Millard.

REPRESENTATIVE MILLARD: General Wagner, thank you for being here today. I listened very intently with your comments on performance audits and the frequency of doing those audits and everything, quite impressive with the recommendations that you've made and the findings that you come up with. But my question, and I'm not inferring that anything is wrong, but I do have a question, as you're doing the audits and the breakdown of the gaming

dollars that come into Pennsylvania, have you, would you, would you like to do any type of audit on Pennsylvania Race Horse Development Fund? There's a lot of money that obviously every week out of gaming goes into that fund and there are a lot of fingers involved in that fund that get feathered out in a variety of directions for the equine industry and the list goes on and on. And I don't believe that I've seen a overall comprehensive all inclusive audit of that particular direction of funding.

AUDITOR GENERAL WAGNER: Representative, it's an issue that number one, I appreciate you bringing it up; it's an issue that's been discussed for some time with others. It's an issue that we have not looked at in terms of a special performance audit but it's on our radar screen. And it's of concern to others, and if you would like to sit and talk with us about your specific concerns and the fact that we would be more than interested to put that on our radar screen in terms of looking into those concerns, whether it's a special performance audit or specific look at an area in which you're concerned about. We'd be happy to do that and as another reason why we continue to ask for the revenue in terms of reimbursement because we know there's other areas of interest to all of you that need attention.

REPRESENTATIVE MILLARD: Thank you, I look forward to that.

CHAIRMAN SCHRODER: Thank you Representative Millard, Representative O'Brien.

REPRESENTATIVE O'BRIEN: Thank you Mr. Chairman, General, thank you for your testimony. If I can, just a couple brief clarifying questions, so, this bill will codify the relationship between your Department and the Board for the purposes of auditing, correct?

AUDITOR GENERAL WAGNER: Yes.

REPRESENTATIVE O'BRIEN: Now as you go through the audit process, does it at any point bring your Department into contact with license entities?

AUDITOR GENERAL WAGNER: We as an auditing entity audit the agency that has oversight of those licensees, so our audit is done of the Pennsylvania Gaming Control Board and whether or not the mandate for oversight legislatively and through regulation is being adhered to by them.

REPRESENTATIVE O'BRIEN: So, while you're always welcome in the fish town section of Philadelphia, you won't be coming in to do an audit of SugarHouse, correct?

AUDITOR GENERAL WAGNER: No, but we will look at not specifically at SugarHouse, it's not to say that our auditors would not walk through the casino if they had a particular concern about something or would not meet with the manager of that operation.

REPRESENTATIVE O'BRIEN: Would they ask for access of the books?

AUDITOR GENERAL WAGNER: We would do that generally speaking through the Pennsylvania Gaming Control Board.

REPRESENTATIVE O'BRIEN: So your request would be of the Board, not of the licensed entity?

AUDITOR GENERAL WAGNER: Generally speaking, yes.

REPRESENTATIVE O'BRIEN: Thank you General, I appreciate that.

CHAIRMAN SCHRODER: Thank you Representative O'Brien. Representative Brooks.

REPRESENTATIVE BROOKS: Thank you very much for being here today and I also have appreciated your audits, they've been very helpful on some of the legislation that we've put through. I wanted to ask you about the property tax relief, are there particular areas of the State that you have noticed that haven't applied for those exclusions or discounts or are they statewide?

AUDITOR GENERAL WAGNER: That's another good question and I'm going to have Helen Weigel to please jump in here, but there is a process by which, if I'm not mistaken, is it the controller office at the county level?

HELEN WEIGEL: County tax assessment

AUDITOR GENERAL WAGNER: County tax assessment, and various counties have done, across the board they've done a pretty good job notifying the people within respective counties that they qualify for property tax relief. And they have a better handle on that than anyone seems to and some have been more insistent to get their residents to apply for the property tax relief. I'm going to ask Helen if she could add to that.

HELEN WEIGEL: I was just going to say that it's kind of a problem across the Commonwealth, I wouldn't say that we recognize any one particular area versus another where there were less homeowners that applied. The problem becomes every tax assessment office while they, the process is generally the same, everybody kind of has a different way of going about it but when they send out the applications in December as the General stated earlier so many people were confused by the application itself and they're not realizing what it is and a lot of them just tossed it aside. Some counties actually have a process where they'll do a follow-up for those properties, residential properties that have not applied for their relief yet, they will go ahead and do a follow-up application or follow-up contact, other counties that don't have that process in place. So, when we were calling for a recommendation of a State oversight that would one of the things that could be addressed, a more uniform process to ensure that all eligible homeowners do actually apply for that and receive it.

REPRESENTATIVE BROOKS: Well most certainly our goal would be that every homeowner that is qualifying is on the program and receives that property tax relief. In reaching

that goal I would ask any recommendations that we don't create some other framework that is a half a million dollars or 3 or 400 thousand dollars and implementing that, that we kind of defeat our purpose.

AUDITOR GENERAL WAGNER: And we appreciate that comment, we are not for more bureaucracy if it's not necessary. But at the same time, we think there can be better oversight, better direction given from State government to make sure more people who qualify actually submit the application.

REPRESENTATIVE BROOKS: Thank you again for your comment, thank you also for the important audits that you have done.

AUDITOR GENERAL WAGNER: Thank you.

CHAIRMAN SCHRODER: Thank you Representative Brooks. Representative Murphy.

REPRESENTATIVE MURPHY: Thank Mr. Chairman. Good morning General Wagner.

JACK WAGNER: Good morning Representative.

REPRESENTATIVE MURPHY: Before I get started with my questions, I think in full disclosure I have to share with everyone that I worked for the Auditor General, I worked for the Department of the Auditor General for 7 plus years under current Senator Robert Casey and then General Wagner, so it's a pleasure to work for you and I understand first hand and I've cleaned a lot of insight within the Department as far as your work ethic and what you expect of your auditors within the Department of the Auditor General and for most of that time I've served as liquor store examiner and audited liquor stores throughout 22 counties and warehouses in Pittsburgh, Philadelphia, and Scranton. So I am quite familiar with your commitment in ensuring that the Department is a watchdog for all Departments within the Commonwealth of Pennsylvania on behalf of the citizens of Pennsylvania. And I believe under the liquor auditing

responsibilities of the Auditor General you were reimbursed for auditing hours through the PLCB (Pennsylvania Liquor Control Board), is that correct, Mr. General?

AUDITOR GENERAL WAGNER: Yes.

REPRESENTATIVE MURPHY: And I think that's important because what the Office is trying to do is ensure that proper oversight and proper taxes are being paid and to ensure that minor challenges are being done and not only on a financial level but also a responsibility and an enforcement level with regards to the PLCB, and that's an argument for another day but that's one of the reasons that I was vehemently opposed to the privatization of liquor stores. But it's one of the reasons also that I'm in favor of reimbursement to the Department of the Auditor General for the \$350,000 every 2 years to audit the gaming oversight.

And I think it's particularly important in the audits that already conducted; number one that over 94 percent of employees within the gaming here in Pennsylvania are Pennsylvanians; I think that's very important. I think it's important that your primary objective is ensuring that the gaming industry operates legally and that all property tax revenue that has been promised to taxpayers goes to taxpayers. And it's particularly important because a lot of people and representatives throughout Pennsylvania are asked where my gaming dollars going, I don't see any benefit to the gaming industry as far as property tax reduction, my property tax bill.

And one thing that has to be considered is a lot of times throughout Pennsylvania because of the difficult and reduced appropriations on a local level, to local school districts and is very clear this past budget year with the \$800 million dollars or so or plus that was reduced in appropriations to local school districts, it was a collateral effect that caused local school boards to raise their school property taxes, so as gaming and Homestead Act, Farmstead Act; contributions from gaming go to property tax reduction, sometimes expediently local school

property taxes go up and that's another reason in addition to the reason that was pointed out for your audit and that people don't understand the farmstead or homestead because they're archaic type terminology and that the Department of Revenue should be responsible, along with the rest of us, and if legislation's necessary legislation's necessary and I think it's important because some, the same taxpayers that may be picking up the tab for the \$350,000 every 2 years to audit gaming, many of whom don't even understand that they are eligible for benefits from gaming.

So I guess I have more comments than I have questions, so I think that was important to bring to light through your audits. And I'd also like to compliment you because this isn't an agent giving these economic times; everybody is supposed to do more with less and I don't think there's a department within Pennsylvania that has done more with less as you have done and your auditors have done within the Department of the Auditor General. Going from 755 employees when you took office to 600 today and the work that you've done and the commitment that you've displayed in trying to protect taxpayers. I'd just like to commend you and I really don't have anything further at this time Mr. Chairman, thank you, General.

AUDITOR GENERAL WAGNER: Thank you.

CHAIRMAN SCHRODER: Thank you Representative Murphy, now not to go too far afield here, I would just point out that school boards have raised property taxes in times of increasing State revenue to the school districts as well as in times of decreasing. I'm for one am not convinced that there's necessarily a correlation there, but as I said not to go too far afield.

Representative Swanger.

REPRESENTATIVE SWANGER: Thank you General Wagner for your comments, they were very informative.

AUDITOR GENERAL WAGNER: Thank you.

REPRESENTATIVE SWANGER: I have one question, it probably is for staff because you did state in your comments the Department of Revenue receives \$9.5 million dollars from the gaming operation for its work but in HB 939 I don't see that Department mentioned, the others were. Do you know why that's not in 939? It mentions Attorney General, Auditor General, State Police, but I don't see Department of Revenue anywhere.

HELEN WEIGEL: It's referenced as Department, we don't call it Department of Revenue.

REPRESENTATIVE SWANGER: Oh, just the Department, okay.

AUDITOR GENERAL WAGNER: I can assure you they're getting their cash.

REPRESENTATIVE SWANGER: I know they're getting their cash but I didn't want to write them out.

But, just a comment, you have given me a very good idea, I probably have done this in the past but I want to re-enter on my Web site and my Facebook to remind taxpayers who's eligible for this relief and how they can go about applying for it, so I think we should do that on our information so that we can get the word out to taxpayers that way at least. Thank you.

AUDITOR GENERAL WAGNER: Anyone that owns a residence and it's their location, their primary residence, they live there, no matter what their income is, they qualify.

CHAIRMAN SCHRODER: Thank you Representative Swanger, Representative Paul Costa.

REPRESENTATIVE P. COSTA: Thank you Mr. Chairman and General thank you for being here. I had to run out for a voting committee meeting so I apologize if this question has been asked already. But when you were doing the audits of the Gaming Board, were they cooperative with you?

AUDITOR GENERAL WAGNER: Generally speaking, yes.

REPRESENTATIVE P. COSTA: Good, that's good to know. And as far as these issues that you brought up, have they address them or what is the status of all the issues you brought up?

AUDITOR GENERAL WAGNER: Well in regard to a kind of a list, I'm going to ask Helen Weigel if she has, keep in mind our second audit we have not followed up on yet, our findings and our recommendation, but we have on our first audit. So Helen, what is, have all the findings and recommendations of the first audit been completed by the Gaming Control Board?

HELEN WEIGEL: Several of them but not all of them, some of them, primary one being with the whole background investigation process as we know still being talked about in terms of the responsibilities between BIE or taking Bureau of Investigation and Enforcement within the Gaming Board or taking that out, so that's probably the biggest one that's still being talked about since the background investigations are still being conducted within house within the Gaming Control Board. We had a lot of positive findings in that report as well so we continue to follow-up on that in terms of hiring and diversity and things of that nature. So they implemented most of our recommendations. And also while we haven't done an official follow-up for the second report just the responses throughout our audit process were letting the entity know findings as they come to light and throughout the process the Board had already implementing some of our recommendations and you'll see in their responses to our report, the changes that they already made even before the audit was officially completed and released. So, yes we got good cooperation and several of our recommendations have been implemented.

REPRESENTATIVE P. COSTA: Well that's good to hear, I'm glad that you're doing the audits and giving them some advice and I'm also glad to hear that they are actually working with you. So, thank you very much.

AUDITOR GENERAL WAGNER: Thank you.

CHAIRMAN SCHRODER: Thank you Representative Costa, our last questioner will be Representative Vulakovich.

REPRESENTATIVE VULAKOVICH: Thank you Mr. Chairman. It's more of a statement, we really appreciate the testimony today it was good to hear that our watch dog is doing a good job. I've always looked at the Auditor General as the watch dog of our fiscal business in the State and Attorney General's Office is the watch dog over law enforcement and to make sure things are done right. And, I was really surprised a few years ago you sent a letter out and that's why I responded with this piece of legislation last session. I just didn't understand why those agencies, the other State Police and everybody else was getting reimbursed and the Auditor General wasn't, because I talked to my personal income tax quite some time ago when all these new laws are coming out, I don't even want to mess with those numbers and to bring all those numbers in and make it all balance and I know when I used to work in a retail business you had to balance the books every night and sometimes a penny or two, you would spend hours trying to find that.

So, I really have great respect for what auditors do and I certainly hope the legislature will support this house bill as Representative Days' because I think, I can just imagine if we have to go too long with these audits on something so complex and every month we get these statements with all these numbers of millions of dollars that they take in and it's just overwhelming. And I think that the good compromise with every 2 years is good, I think being

reimbursed is the right thing to do and because with the gaming industry it's here and there's the old stories about it and everything but it's quite different today. But we want to make sure in Pennsylvania, because we've done so much with gaming, it's expanded so much that you know, we keep it clean, we keep it transparent, we keep it as efficient as we can and certainly keep it legal.

And you know maybe eventually we'll get back to the primary purpose with all the money split up with property tax relief, that's an issue in itself. But, I certainly thank you for coming here today and I hope that the committee here if we bring this up for a vote we'll support these two pieces of legislation, I think they're really good.

AUDITOR GENERAL WAGNER: Thank you, could I comment Mr. Chairman? I agree Representative that they are good pieces of legislation but having another set of eyes is always a good thing when there's public money involved and that's really all this is, and as Helen just indicated, we know we have a receptive auditee when we're doing an audit and we identify something that's wrong. I mean it may be months before the audit is released and the auditee is saying, you're right and they're correcting it before it's even out the door. Well, that's a good thing, then we don't have a lot to talk about. But, we see things that they don't see, we see things that all of you don't see, and the role of the Auditor General is the fiscal watch dog and we don't catch everything, but having another set of eyes especially with a new industry, a new industry that can be controversial is in the best interest of the industry, and that's what I don't think the industry gets here. This is, we're not a negative force, we're a positive force and there is resistance to funding this within the Department of Auditor General and guess where that resistance comes from? The industry, because the industry will have to kick up some additional dollars through the Pennsylvania Gaming Control Board for the Department of Auditor General

to be reimbursed. But at the same time, look at our audits, they've been positive. Getting money back to people of Pennsylvania for property tax relief is in the best interest of the industry, that's what it was intended to do. So yes, sometimes we're tough in our audits but the far majority of the times we're working with all of you and with the auditee to improve the process for the taxpayers of Pennsylvania.

REPRESENTATIVE VULAKOVICH: And I agree because I do know just when I handled some pensions and things with my police department that you know there were things that got back to you, hey you're not doing this right, we're not done with the audit yet, so you want to start thinking about this because we found something you're doing wrong. And that makes a big difference and I agree with wholeheartedly that the industry, this is good for the industry. I mean, you may see extra dollars coming out; this is business, but PR wise and being the right thing to do, responsible thing to do. This is the way we should go.

AUDITOR GENERAL WAGNER: Thank you.

REPRESENTATIVE VULAKOVICH: Thank you.

CHAIRMAN SCHRODER: Well I think those are great comments both by Representative Vulakovich and Auditor General Wagner upon which to conclude this hearing this morning. I would just point of for the record that representatives of the casinos of the Commonwealth were invited to participate in today's hearing and offer their thoughts and comments on this piece of legislation, however, none of them took us up on the offer to testify. I'm not sure what we can or cannot read into that but I just wanted to make that known. Auditor General Wagner, I'd like to thank you for being here today, your comments, your testimony and for the work you have done over the years on behalf of the citizens of the Commonwealth of Pennsylvania. So thank you very much.

AUDITOR GENERAL WAGNER: Thanks Mr. Chairman.

CHAIRMAN SCHRODER: And this meeting is adorned.

(Whereupon, the meeting adjourned at 10:33 AM)

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