

General Information

Department of Audit

Director

Jeffrey C. Vogel, Director

Agency Contact

Dennis Grenier, Administrator

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<http://audit.state.wy.us>

Other Locations

Casper, Wyoming, one Mineral Audit Division Field Inspector

Evanston, Wyoming, one Excise Tax Division Audit Position

Sheridan, Wyoming, one Excise Tax Division Audit Position and one Mineral Audit Division Field Inspector

Houston, Texas, one Excise Tax Division Audit position

Statutory References

Title 9: W.S. 9-1-403: W.S. 9-1-507 through 9-1-513: W.S. 9-2-2003: W.S. 16-4-101 through 16-4-124: W.S. 17-16-1631: W.S. 21-2-203: W.S. 28-1-115: W.S. 31-18-201: W.S. 33-11-101 through 33-11-116: W.S. 35-1-627: Title 39; W.S. 39-11-102: W.S. 39-15-102: W.S. 39-16-102: W.S. 39-17-102: W.S. 39-17-202: W.S. 39-17-208: W.S. 39-18-107: Title 13: W.S. 40-14-101 through 40-14-702: W.S. 40-19-101 through 40-19-120: W.S. 40-22-101 through 40-22-129: and W.S. 40-23-101 through 40-23-123.

Clients Served

The Administration Division serves the Department of Audit. The Mineral Audit Division serves the general public, the Federal government, the Department of Revenue, Office of State Land and Investments, mineral taxpayers, active state and federal lessees. The Excise Tax Division serves the general public, the Departments of Revenue and Transportation, the Secretary of State, International Registration Plan, Inc., International Fuel Tax Association, Inc., Wyoming Vendors and Consumers, U.S. States and Canadian provinces. The Public Funds Division serves the general public, state and local government entities. Clients served by the Division of Banking are providers and users of financial services.

Budget Information

General Funds	\$ 6,417,619
Federal Funds	\$ 2,234,221
Other Funds	\$ <u>2,057,448</u>
Total	\$10,709,288

BOARDS AND COMMISSIONS

STATE BANKING BOARD

Agency to Which Your Group Reports

Department of Audit, Division of Banking

Number of Members

Seven

Meeting Frequency

Quarterly

COLLECTION AGENCY BOARD

Agency to Which Your Group Reports

Department of Audit, Division of Banking

Number of Members

Three

Meeting Frequency

Monthly

DIRECTOR

**ADMINISTRATION
DIVISION**

**DIVISION OF
BANKING**

**PUBLIC FUNDS
DIVISION**

**MINERAL AUDIT
DIVISION**

**EXCISE TAX
DIVISION**

Name of Department/Division/Program: Department of Audit

Report Period: FY2014 (July 1, 2013 through June 30, 2014)

Wyoming Quality of Life Result:

The Department of Audit supports Wyoming state government as a responsible steward of state assets and effectively responds to the needs of residents and guests.

Contribution to Wyoming Quality of Life:

To contribute to prosperity, the Department will audit and regulate to promote compliance with state revenue collections, state and local government accounting requirements and the regulation of financial service providers.

Basic Facts:

The Department of Audit had 110 authorized positions as of June 30, 2014. The biennial budget for 2013-2014 is \$23.9 million after the transfer of IT positions to Enterprise Technology Services, 8% Budget Reductions and Health Insurance Reductions. The budget consists of \$13.9 million in general funds, \$5.1 million federal funds and \$4.9 million other (fee) income.

The Department is in the compliance business with three primary functional areas:

Revenue: Supports revenue collection by conducting audits to verify payments of the state's self-reporting taxes, fees and royalties at a cost of \$12.7 million for the 2013-2014 biennium including \$5.1 million in federal funds. Without audits, there would be no verification of monies paid to the state or additional collections of \$44.5 million in mineral payments or \$14.9 million in the excise tax payments over the last three years (FY12, FY13, FY14).

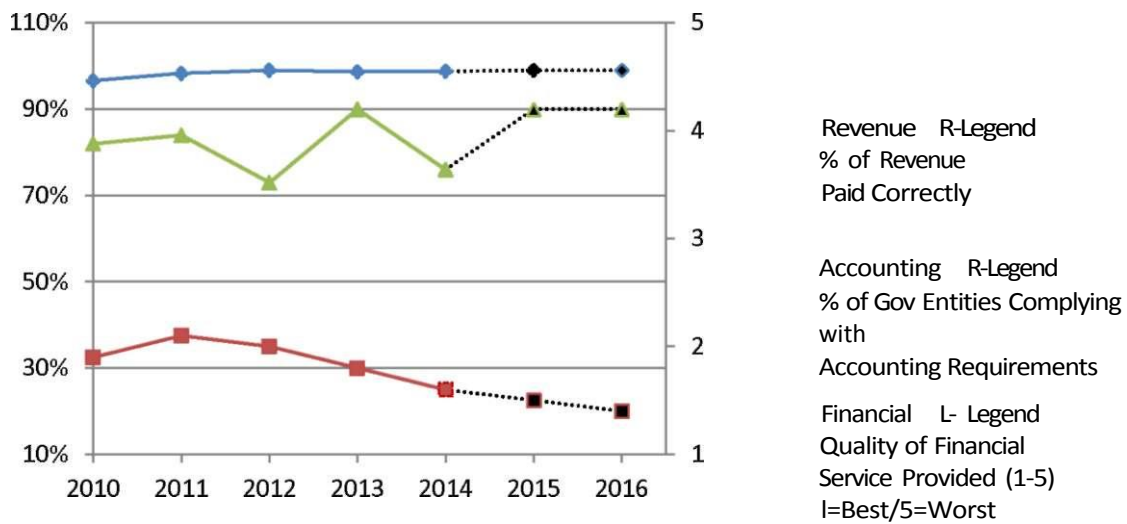
Accounting: Is responsible for the State's single audit and its comprehensive annual financial report, which are performed through contract audits. Audits are performed of school districts and state agency performance measures to verify the accuracy of the reporting. Financial reports submitted by local government entities are monitored for accuracy and completeness and are compiled into an annual report. This provides assurance that funds and assets are properly accounted for and information provided leadership is accurate. Training is also provided to local governments. The cost is \$6.2 million for the 2013-2014 biennium. Without these audits, federal funds could be at risk as well as the accuracy of accounting information reported to the legislature, state and federal agencies, and the general public.

Financial: Regulation and examination of state chartered banks and licensed credit providers protect Wyoming consumers and support the availability of safe and sound financial services at a cost of \$5.0 million for the 2013-2014 biennium. This area is self-funded through licensing fees, examination fees, volume fees, and assessments on the assets of state chartered banks.

Performance Measures

The performance measures most important to our work are:

- 1: Percentage of State revenue paid correctly.
- 2: Percentage of government entities complying with accounting requirements and regulations.
- 3: Quality of financial service providers (1-5 ranking with 1 being a high quality provider).



Story Behind The Last Year of Performance:

Revenue: The Excise Tax Division and Mineral Audit Division monitor the taxes assessed through audits and compare the audited taxes to the amount of taxes paid to the administrative agencies by periodic tax returns. Risk-based audits are performed based upon various factors that contribute to the probability that an error in paying taxes and royalties will exist. Risk-based audits are determined by utilizing risk analysis, which identifies high-risk tax and royalty payers with low compliance percentages. Access to the administrative agencies (Department of Revenue, Department of Transportation, Office of Natural Resources and Revenue, Wyoming Oil and Gas Commission and Wyoming State Lands) databases, provides taxpayer information and provides improved risk analysis. The top 100 mineral taxpayers make up 95% of mineral taxable value so the emphasis is to analyze these taxpayers. The Mineral Audit Division is required to audit bentonite producers every four years. The Excise Tax Division is mandated to audit 3% of both the IFTA and IRP programs; however, the overall audit coverage is less than one percent of the total audit population. The Mineral Audits Division completed 56 audits and the Excise Tax Division completed 458 audits for FY 14.

Accounting: The overall compliance for the Accounting function includes three factors: school finance audits; state agency performance measures audits; and local government reporting. The overall compliance for FY 14 was at 76% which is down from the previous year. The School Finance section is charged with auditing the K-12 school finance system. Ten full school districts were audited last year to ensure all high risk elements reported were accurate. The remaining districts had an element audit completed that focuses on one element of the funding model. An element audit that focuses on one element of the funding model was performed on the remaining school districts that focused on the percentage of student use of multi-purpose vehicles. These audits are able to determine, in a one year period, what issues exist with a particular element and whether or not the data reported by school districts for school foundation funding is accurate. Three state agencies were audited for compliance with performance measures in FY 14 with a compliance ratio of 67%. A review of financial controls is also completed for each agency audited. A self-assessment process is to be performed by agencies to help improve the accuracy of the performance measures and help in the collection and maintenance of the data. Local government entities compliance with reporting requirements as well as their timeliness of reporting has been fairly constant. Annual training is provided to conservation districts and to local governments at

every opportunity. Based on new legislation, rules were established for special districts to submit proposed budgets to the department as well as county commissioners. In addition to the regular audits completed, legislative designated audits are performed as well as audits and additional services at the request of other state officials. We assist or request assistance of law enforcement in forensic audits in the completion and prosecution of criminal cases. We complete several of these requests each year and will try to complete all requests within the constraints of the budgets.

Financial: The condition of financial services providers has been satisfactory with a health index rating of 1.6 (scale of 1-5 with 1 being strong and 5 being critically deficient). The downturn in the economy and prolonged recovery strained the condition of the banking and mortgage industry as well as the division's resources. A significant number of mortgage companies and consumer credit companies abruptly exited the business during the last housing and overall economic recession. The number of new licensees has increased but not near the number that abandoned the state. Banking conditions slow improvement continues to require expanded safety and soundness and consumer protection supervision and examinations. With statutorily mandated examinations of state chartered banks and periodic examinations of licensed credit providers, overall financial, managerial, and compliance performance has been satisfactory.

What Has Been Accomplished?

Revenue: For FY14, revenue compliance was at 98.8 percent for entities audited and assessed \$5.41 for every dollar spent. The revenue area assessed \$27.8M which is more than the three year average of \$23.6M and is a reflection of the risk analysis. Collections for last year totaled \$20.5M which is above the three year average of \$19.8M. The number of mineral audits for FY14 decreased to 56 due to reduced stripper audits and compliance reviews for the Federal royalty audit program. Excise Tax Division completed 458 audits which are up from the three year average of average of 406. Improved risk analysis has increased the focus on high-risk business sectors with low compliance percentages. The divisions continue to provide technical training to auditors as required by Government Auditing Standards. The use of sampling techniques allows for greater coverage of complex companies while reducing costs. A paperless file system allows remote access to data by auditors, allows "real time" updates and timely supervisory reviews of audit data.

There is a rapidly growing problem of businesses suppressing sales in this country. This problem prompted the Excise Tax Division to be proactive and take action to combat this issue. Auditors are being educated and provided tools to help them detect sales suppression in restaurants and other businesses using point of sale (POS) systems in the state.

Accounting: For FY14, the percent of government entities complying with accounting requirements fell from 90 percent to 76 percent. Two of the three factors used to measure accounting compliance were down for FY14. Ten school districts had complete audits of the funding model to ensure that all high risk elements reported were accurate. An element audit that focuses on one element of the funding model was performed on the remaining school districts that focused on the percentage of student use of Multi-purpose Vehicles (MPVs). The element audit of MVPs resulted in a decline in compliance to 87 percent. This was due to deficiencies in the school district's systems for accounting for MVPs. Performance audits were completed on three state agencies in FY14 with a compliance ratio of 67 percent. The sample of state agencies audited for performance measures each year is small so the reporting percentage is dependent on the compliance of a few agencies. For FY14, the decreased compliance ratio was due to the agencies reviewed not following statutes related to annual reporting and updating strategic plans. Compliance with reporting requirements for local government entities remained at 73 percent. Compliance with reporting requirements as well as timeliness of reporting for local governments has been fairly constant. Training was provided for each county in the use of the budget form based on new

legislation and rules. Four special audits were completed in FY14 at the request of law enforcement and other state officials.

Financial: The division continued to perform quality examinations of state chartered and licensed financial institutions to ensure the availability of quality financial services for Wyoming residents. One hundred twelve safety and soundness, and consumer credit examinations were conducted which is approximately 10 percent of licensees, excluding individuals. The division continued its examinations of mortgage lenders and brokers under the Wyoming Residential Mortgages Practices Act to ensure consumer protection against predatory lending practices and identifying mortgage fraud within the industry. Work and training continued on expanding examination scope and coverage for all financial institutions to ensure compliance with anti-money laundering and anti-terrorism financing requirements, identity theft prevention measures, and Internet banking security, and high standards of corporate governance. The examination scope of consumer credit providers was expanded to include safety and soundness reviews of financial conditions while ensuring consumer protection against predatory and unfair and deceptive lending practices.