

## **Department of Audit**

### **Agency Information:**

#### **Director:**

Jeffrey C. Vogel

#### **Contact Person:**

Dennis Grenier, Administrator  
2300 Capitol Avenue  
Hathaway Building, 2ND Floor  
Cheyenne, WY 82002  
(307) 777-6600

#### **Website:**

<http://audit.wyo.gov>

#### **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

### **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 16-4-125: 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.

### **Basic Information:**

#### **Number of Employees:**

102

#### **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, 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.

## **Boards and Commissions**

### **State Banking Board**

#### **Agency to Which Your Group Reports:**

Department of Audit, Division of Banking

#### **Number of Members:**

Seven

#### **Meeting Frequency**

As needed, generally twice per year

### **COLLECTION AGENCY BOARD**

#### **Agency to Which Your Group Reports:**

Department of Audit, Division of Banking

#### **Number of Members:**

Three

#### **Meeting Frequency:**

Monthly

## **Budget Information/Expenditures for FY18**

The biennial budget for 2017-2018 is \$23.4 million. The budget consists of \$12.7 million in general funds, \$5.1 million federal funds and \$5.6 million other (fee) income.

Expenditures for fiscal year 2018 were:

General Funds	\$ 5,610,885
Federal Funds	\$ 2,778,761
Other Funds	<u>\$ 2,743,297</u>
<b>Total</b>	<b>\$11,132,943</b>

## **Core Business/Primary Functions:**

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

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. Without audits, there would be no verification of monies paid to the state or additional collections. 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 utilizing risk analysis, which identifies high-risk tax and royalty payers with low compliance percentages.

**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 the Cost of Government. This provides assurance that funds and assets are properly accounted for and information provided leadership is accurate. Without these audits, federal funds could be at risk. The use of technology has been increased and has allowed a significant amount of the work to be completed in the office.

**Financial:** The integrity of the state banking system and individual banks are maintained through the administration of Title 13, and federal banking regulations. The Division of Banking supervises all state-chartered financial institutions and is responsible for their safety and soundness examinations. The Division also licenses and examines various grantors of consumer credit to ensure compliance with consumer protection statutes. The Division of Banking is self-funded through the collection of supervisory and licensing fees.

## **Performance Highlights/Major Accomplishments of FY2018**

### **Revenue:**

- The performance measure for the Revenue function is the percentage of state revenue paid correctly. The percentage of state revenue paid correctly for FY18 was 99.7%. The compliance for the revenue function includes the Mineral Audit Division and the Excise Tax Division.
- Revenue compliance for the Mineral Audit Division was 99.7% for FY18. Twenty-eight (28) audits were completed and \$2.5 million was assessed. Collections for FY18 totaled \$4.4 million. The Mineral Audit Division completed 20 oil and gas audits and 8 coal audits. Due to the current complex nature of the majority of our Federal royalty audits, and the additional time needed to gather the extensive data for the mineral valuation, the time necessary to complete the audit process has been lengthened. Since our tax audits also rely on the information calculated in the royalty audits, their completion times have been extended as well. This has resulted in the completion of fewer audits in FY18.
- There are approximately 969 mineral producers in the state. Severance and gross products taxes and state and federal royalty dollars remain a key component of risk

determination, resulting in high-value companies and properties being selected for audit. So the emphasis is to analyze these taxpayers.

- The revenue compliance for the Excise Tax Division was 99.8% for FY18. The Division completed 285 audits and \$1.2 million was assessed as well as possible refunds totaling \$1.1 million. The compliance ratio for FY18 is 98.39% if you do not include credit assessment amounts due to refund request audits from the Department of Revenue. Collections for FY18 totaled \$1.1 million. Of the 285 audits completed, there were 176 sales tax audits, 61 International Registration Plan (IRP) audits, 39 International Fuel Tax Agreement (IFTA) audits, 8 fuel tax audits and 1 tobacco tax audits. The number of audits completed for FY18 decreased, from previous years, as a result of the loss of three positions due to budget reductions.
- 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 Division is responsible for a licensed audit population of over 37,000 as well as over 295,000 Revenue identification (RID) numbers assigned to individuals throughout the State of Wyoming and the international jurisdictions (US States/Canadian Provinces).
- There is a rapidly growing problem of businesses suppressing sales in this country. The Excise Tax Division has taken a proactive stance and has taken 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. Training and the use of technology has paid off with the discovery of significant sales suppression in our state during FY18.
- The Department of Revenue (DOR) occasionally receives refund requests from taxpayers. DOR then asks the Excise Tax Division to audit these refund requests to true up to what the refund should actually be. Although \$1.1 million was refunded, the state saved \$1.1 million compared to the \$2.2 million originally requested. These audits continue to prove the amount of refunds requested to be less than the amounts applied for.

The Revenue Function is constantly exploring ways to audit more efficiently. This includes: Providing continuing education to auditors as required by Generally Accepted Government Auditing Standards (GAGAS) to stay current on audit techniques and issues; Using technology, both hardware and software, to audit more cost-effectively which allows for greater audit coverage, the ability to analyze large amounts of data and in determining risk; Membership in state and federal associations and commissions and working with Federal counterparts.

### **Accounting:**

- The performance measure for the Accounting function is the Percentage of government entities complying with accounting requirements and regulations. 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 FY18 was at 87%.

- The Accounting compliance for the school finance audits section was 97% for FY18.

Three school districts had complete audits of the funding model to ensure that all high risk elements reported were accurate. Additionally focused audits were completed on two elements of the funding model for all districts except those that had complete audits performed.

- During FY18, audits of twelve (12) independent state boards were conducted.
- The accounting compliance for local government reporting was 77%.

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.

Four (4) local governmental entities were audited and preliminary and final budgets were processed for approximately 550 special districts.

Special audits were completed in FY18 at the request of law enforcement and other state officials. Several of these requests are completed each year.

## **Financial**

- The condition of financial services providers remains satisfactory. The overall bank health index rating remained steady in FY18 at 1.5 (scale of 1-5 with 1 being strong and 5 being critically deficient).
- There are 4,915 charters and licenses; however, only 1,400 are eligible for examination consisting of 25 banks and 55 branches, 12 trust companies, 672 mortgage companies and branches, 602 Uniform Consumer Credit Code (UCCC) entities, and 89 money transmitters. One hundred fourteen (114) examinations were conducted in FY18 consisting of 11 bank, 3 trust company, 69 mortgage lender/broker, 24 UCCC entity, and 7 money transmitter examinations, or 8.1% of the charters and licenses eligible for examination. There are also 3,473 licensed mortgage loan originators and 42 licensed Rent-to-Own entities that are not examined. The Division of Banking also provides administrative support of 506 debt collector licenses for the Collection Agency Board. No examinations of these companies are conducted.

During FY18 the Federal Reserve raised interest rates three times. Prior to the three most recent rate increases, financial service providers were operating in an environment of historically low interest rates for seven years. Given the long duration of no interest rate changes, financial service providers positioned their balance sheet to benefit from a rising

rate environment as interest rates were effectively zero. Financial service providers (including banks) remain in satisfactory to strong financial condition. Banks continue to grow with improving earnings and increasing capital levels. The weak agriculture sector has impacted banks throughout the state resulting in a small increase in nonperforming loans. However, the level of nonperforming loans is considered to be at a manageable level.

In November 2017, the Conference of State Bank Supervisors (CSBS) conducted a review of the banking and mortgage areas within the division to determine if the bank and mortgage regulatory programs continue to meet the accreditation standards. Areas reviewed were administration and finance, personnel and training, examination, supervision and licensing, and legislative powers. On January 22, 2018, the banking and mortgage area received their re-accreditation from CSBS.

Technological advances have aided the division in maintaining the overall cost of supervision. The division utilizes an automated examination platform which allows for secure file exchanges and in-office bank reviews, thereby lowering travel cost. The Division of Banking also utilizes the Nationwide Multistate Licensing System (NMLS) for processing all non-depository license applications and renewals collection agency licenses. The database streamlines the review process by rejecting unacceptable or incomplete applications.

