

Department of Audit

Agency Information:

Director:

Jeffrey C. Vogel

Contact Person:

Dennis Grenier, Administrator
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(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
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 16-4-125: 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 FY17

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 2017 were:

General Funds	\$ 6,072,409
Federal Funds	\$ 2,368,035
Other Funds	<u>\$ 2,347,484</u>
Total	\$10,787,928

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 FY2017

Revenue:

- The performance measure for the Revenue function is the percentage of state revenue paid correctly. The percentage of state revenue paid correctly for FY17 was 99.1%. The compliance for the revenue function includes the Mineral Audit Division and the Excise Tax Division.
- Revenue compliance for the Mineral Audit Division was 99.1% for FY17. Sixty-one (61) audits were completed and \$13.8 million was assessed. Collections for FY17 totaled \$9.8 million. The Mineral Audit Division completed 49 oil and gas audits and 12 coal audits.

There are approximately 982 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 98.0% for FY17. The division completed 335 audits and \$2.6 million was assessed as well as possible refunds totaling \$1.0 million. Collections for FY17 totaled \$2.9 million. Of the 335 audits completed,

there were 186 sales tax audits, 52 Secretary of State (SOS) Audits, 46 International Registration Plan (IRP) audits, 45 International Fuel Tax Agreement (IFTA) audits, 3 fuel tax audits and 3 tobacco tax audits. The number of audits completed for FY17 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 FY17.

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 \$1.0 million was refunded, the state saved several hundred thousand dollars compared to what was 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 FY17 was at 76%.
- The Accounting compliance for the school finance audits section was 95% for FY17.

Seven school districts had complete audits of the funding model to ensure that all high risk elements reported were accurate.

- There were four compliance audits of state agency performance measurements completed for FY17 with an accuracy of 54%. In addition to the audits of performance measures, audits of the state boards in A&I and one other independent board were conducted for a total of 25 reports.
- The accounting compliance for local government reporting was 79%.

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.

With the loss of three positions, due to budget reductions, resources that could have been assigned to local government audits were redirected to performance measurement audits and independent board audits. The Public Funds Division is working on a report to the legislature concerning the audits of local governments.

Special audits were completed in FY17 at the request of law enforcement and other state officials. The Division assists or requests the assistance of law enforcement in the completion of forensic audits and the prosecution of criminal cases. Several of these requests are completed each year.

Financial

- The condition of financial services providers remains satisfactory. The overall bank health index rating decreased slightly in FY17 from 1.46 to 1.53 (scale of 1-5 with 1 being strong and 5 being critically deficient).

There are 4,364 charters and licenses; however, only 1,272 are eligible for examination consisting of 26 banks and 57 branches, 10 trust companies, 637 mortgage companies and branches, 521 Uniform Consumer Credit Code (UCCC) entities, and 78 money transmitters. One hundred twenty-eight examinations were conducted in FY17 consisting of 7 bank, 2 trust company, 98 mortgage lender/broker, 17 UCCC entity, and 4 money transmitter examinations, or 10.7% of the charters and licenses eligible for examination. There are also 3,051 licensed mortgage loan originators and 42 licensed Rent-to-Own entities that are not examined. The Division of Banking also provides administrative support of 497 debt collector licenses for the Collection Agency Board. No examinations of these companies are conducted.

While interest rates began increasing in FY17, financial services providers continued to operate in an environment of historically low interest rates. Financial companies responded to the FY16 Wyoming economic downturn with only a slight deterioration in FY17 and providers (including banks) remain in satisfactory to strong financial condition despite the low interest rates and state economic challenges. Banks continue to grow in size and locations. Three companies took advantage of recent legislation and applied for public trust company charters as Limited Liability Companies (LLCs) in FY17.

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

As the administrative agency responsible for the CAB additional efficiencies could be realized if all the collection agency licenses were to be processed through the NMLS, which requires legislative action.

