

DEPARTMENT OF AUDIT STRATEGIC PLAN

Plan Period: FY2017-2018 (July 1, 2016 through June 30, 2018)

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. (Result #6 Government)

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 has 110 authorized positions as of July 1, 2015. The biennial budget for 2015-2016 is \$23.7 million. The budget consists of \$12.8 million in general funds, \$5.0 million federal funds and \$5.9 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. There are 885 mineral taxpayers, 1,323 active state leases and 8,200 federal leases.

This area provides audit support for the following agencies:

Department of Revenue (DOR) - Auditing taxes, severance taxes and ad valorem taxes on oil, gas, coal, trona, and uranium, sales and use tax, lodging tax and tobacco.

Office of Natural Resources Revenue (ONRR) - Auditing federal royalties on oil, gas, coal, and trona.

Office of State Lands and Investments (OSL&I) - Auditing state royalties on oil, gas, coal, and trona.

The Department of Transportation (DOT) – Auditing fuel tax, rental car surcharge, International Fuel Tax Agreement (IFTA) and International Registration Plan (IRP).

Secretary of State (SOS) – Auditing corporate fees.

Without audits, there would be no verification of monies paid to the state or additional collections of \$31.4M in mineral payments or \$17.2M in the excise tax payments over the last three years (FY13, FY14, FY15). The funding for this area for the 2015-2016 biennium was 12.7M including 6.5M in general funds, 5.0M in federal funds and \$1.1M in other funds.

Accounting:

Is responsible for the State's single audit and its comprehensive annual financial report, which are performed through contract audits. Without these audits, federal funds would be withheld. This contract was bid in 2015 for FY16, FY17, FY18 and FY19. Audits are also performed on 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 report. There are approximately 1,260 state and local entities. The Division provides training to local governments. The Division is cost effective in providing the public with financial

information not available from any other level of government. The discontinuance of these programs would leave the decision makers without adequate information. The funding for this function for the 2015-2016 bienium was 6.0M in general funds.

Financial:

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. There are 26 state banks and 55 branches, 5 trust companies, 71 money transmitters, 873 licensed consumer credit providers and 1,895 individual mortgage loan originators. Approximately 125 examinations are performed each year. The average percentage of examinations to the number of charters and licensees (excluding individuals) is 13%. The Division of Banking is self-funded through the collection of supervisory fees and licensing. The Division budget for the 2015-2016 biennium is \$5.0 million in other funds.

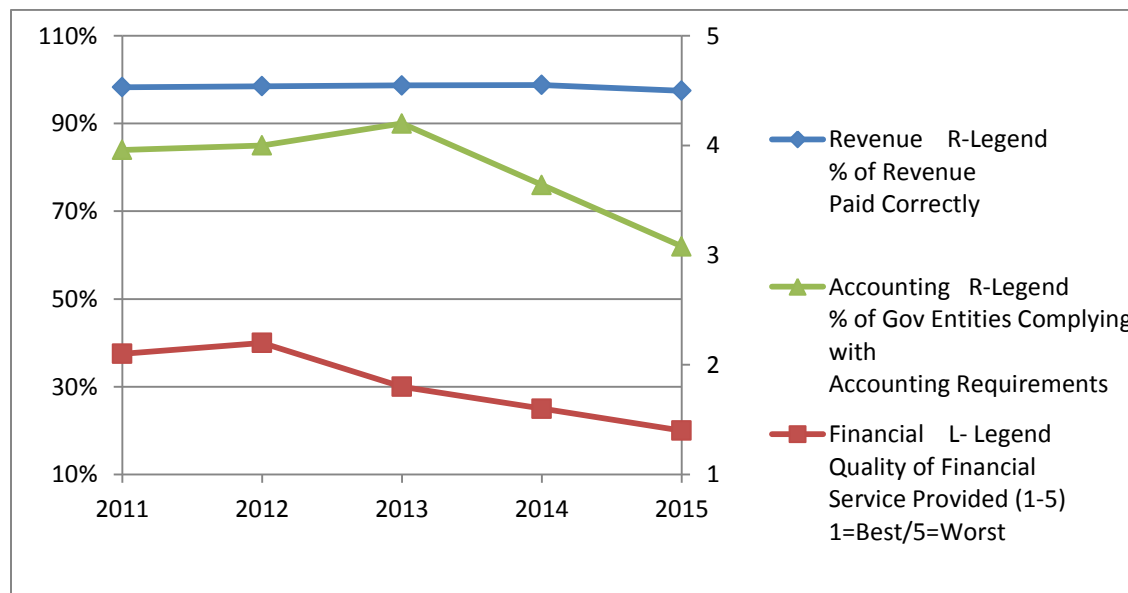
Performance:

The performance measures most important to our work are:

Revenue: Percentage of state revenue paid correctly. The percentage of state revenue paid correctly for FY15 was 97.5%. The compliance for the revenue function includes the Mineral Audit Division and the Excise Tax Division.

Accounting: Percentage of government entities complying with accounting requirements and regulations. The overall compliance for FY15 was at 62% and includes three factors: school finance audits; state agency performance measures audits; and local government reporting.

Financial: Quality of financial services provided (1-5 ranking with 1 being a high quality). The overall bank health index rating has improved to 1.44 (scale of 1-5 with 1 being strong and 5 being critically deficient) and is satisfactory.



Story Behind The 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 a low compliance percentage. The use of sampling techniques allows for greater coverage of complex companies while reducing costs. The divisions compare the cost of performing audits to corresponding audit assessments. The comparison reveals a positive assessment to cost ratio. The divisions track auditor hours, travel costs, and other expenses for each audit performed. For the last three fiscal years (FY13, FY14, FY15) the average recovery ratio is over \$4.00 assessed to \$1 spent in this area.

Revenue compliance for the Mineral Audit Division was 99.6% for FY15. There are approximately 885 mineral taxpayers and 9,523 active state and federal leases in the state. The top 100 mineral taxpayers make up more than 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. Sixty-five (65) audits, including 11 bentonite audits, were completed and \$6.6 million was assessed as well as possible refunds totaling \$3.1 million. Collections for FY15 totaled \$10.3 million with refunds of \$3.8 million. The average assessments for the last three years are \$13.7 million and average collections of \$10.5 million.

The revenue compliance for the Excise Tax Division was 95.4% for FY15. There is a licensed audit population of over 251,000 as well as over 500,000 individuals throughout the State of Wyoming and the international jurisdictions (US States/Canadian Provinces). The Division completed 450 audits and \$4.4 million was assessed as well as possible refunds totaling \$0.2 million. Collections for FY15 totaled \$8.4 million. The average assessments for the last three years are \$8.0 million and average collections of \$5.7 million. The Excise Tax Division is mandated to audit 3% of both the IFTA and IRP programs; however, the overall audit coverage for Division's total audit population is less than 1%. The Division has taken a proactive stance to combat the growing problem of sales tax suppression providing education and tools to detect sales tax suppression in restaurants and other businesses using point-of-sale systems.

Accounting:

The School Finance section is charged with auditing the K-12 school finance system and audits are focused on the Wyoming Funding Model. Full audits of up to ten school districts per year have helped identify specific funding model elements that may have higher risk of incorrect reporting. These higher risk areas have then been audited for all districts statewide. For FY15, full audits were performed on 9 school districts. In these types of audits, all high risk elements reported are audited for accuracy. Also, on an annual basis, an element audit is performed on the remaining districts. In this type of audit, one element of the funding model is the focus. An element audit of average daily membership was completed for FY15. Compliance for FY15 was 94%. Element audits have highlighted the need for more specific rules and regulations, which has led the Department of Education to revise and/or expand guidance relating to district reported data for use in the funding model. This should help to ensure data used in the funding model is more consistent from district to district.

Agencies are required to perform a self-assessment of their strategic plans to improve the accuracy of the performance measures and help in the collection and maintenance of the data. Agencies are identified from these self-assessments for audits of their strategic plans and subsequent reports. A review of the financial controls is included for each agency audited. Audits along with the continued use of the self-assessment process should result in more accurate reporting of measures that are valuable to users. This will also improve and help agencies in the collection and maintenance of the data. Performance audits

were completed for two state agencies during FY15. The compliance ratio for FY15 was 11%. The two agencies audited had not completed the self-assessment until requested which is reflected in the low compliance ratio. 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. Since there are only a few performance audits each year, resources have been redirected toward audits of local governments where there is more risk.

Local government entities compliance with reporting requirements as well as their timeliness of reporting has increased due to our persistent effort in training and follow-up with entities prior to submission. Training was provided to various local governments which included Conservation Districts and Weed & Pest Districts. Training will continue to be offered as requested in either a formal setting or one-on-one. New handbooks were provided to Municipalities and Special Districts. A new version of the Wyoming Government Entity Budgeting, Accounting and Reporting Manual was published.

We assist law enforcement in forensic audits in the completion and prosecution of criminal cases. We will work with all levels of law enforcement including the FBI, IRS, DCI, local sheriff and city police. This is at the request of the associated law enforcement or if we find irregularities in our audits where we have requested assistance from law enforcement.

Audits and other services are performed at the request of other state officials. These include looking at the records of contractors who receive state funds. We complete several of these requests each year and will try to complete all requests within the constraints of the budget.

Financial:

The condition of financial services providers is satisfactory and overall bank health has returned to levels seen prior to the economic downturn. The downturn in the economy and prolonged recovery strained the condition of the banking and mortgage industry as well as the division's resources. There are 2,870 charters and licensees. On average 125 examinations are performed each year. The average percentage of examinations to the number of charters and licensees (excluding individuals) is 13%. The Division of Banking also provides administrative support of 461 debt collector licenses for the Collection Agency Board. No examinations of these companies are conducted.

A large number of mortgage companies and consumer credit companies abruptly exited the business during the last housing and overall economic recession. Under the Secure and Fairness Enforcement Act (SAFE Act) Wyoming was federally mandated to enact statutes to regulate and license mortgage loan originators. Banking conditions weakened as well creating the need for additional safety and soundness and consumer protection supervision, examinations and visitations. As banking conditions have improved, bank supervision and examinations have returned to a normal schedule.

With statutorily mandated examinations of state banks and periodic examinations of trust companies, licensed credit providers, overall financial, managerial, and compliance performance is satisfactory and continues to improve.

What do you propose to do to improve performance in FY2017-2018?

Revenue:

The revenue area will continue to improve audit coverage and enhance risk assessment capabilities through the use of data-based compliance reviews in conjunction with traditional audit methods. We will continue to increase focus on high-risk business sectors with low compliance percentages and companies that move in and out of the state. Increased use of sampling techniques will allow greater coverage of

complex companies while reducing costs. The Divisions will continue to work with administrative agencies to provide consistent and complete taxpayer information which will enable improvement in risk analysis to more easily identify at-risk taxpayers. The Divisions will work to maintain its focus on technology to keep pace with changes in the business community. To accomplish this, the divisions will continue to provide technical training, improve sampling techniques and update computer hardware and software.

Accounting:

The School Finance Section will implement IT audits of school district information systems to increase the efficiency and reliability of data. Presentations will be made at the Department of Education Business Manager's (WASBO) training and the Legislature concerning common audit findings, specifically addressing vocational education. The Section will follow-up on prior audit findings and corrective action plans. A high risk element audit of the funding model will be conducted on an annual basis for all 48 school districts. The section will work with Department of Education to resolve issues at the state level to ensure consistency of application of laws and regulations.

The performance measures area will continue implementing the audit process to all state agencies using the self-assessment tool as well as continue to audit internal controls on fiscal and IT procedures. Follow-up procedures will be conducted on those agencies that had a statutory or constitutional violation. Pursue opportunities to conduct training sessions on the planning process. Opportunities will be pursued to conduct training sessions on the strategic planning process.

To ensure the accuracy of reporting by local governments, opportunities to speak and teach at any forum will continue. Reminders of report deadlines will be sent to entities that have not reported on time. Submitted budgets will be reviewed for inconsistencies and inaccuracies which may result in additional information being requested or the cross check of reported numbers with third parties to resolve differences.

Financial:

The finance area will continue with quality and robust examinations of state chartered and licensed financial institutions to ensure the availability of quality financial services for Wyoming residents. Continue to enhance examination scope and coverage for all financial institutions to ensure compliance with anti-money laundering and anti-terrorism financing requirements, cyber-fraud prevention measures, Internet banking security, and high standards of corporate governance. The scope of examination of consumer credit providers is being expanded to include safety and soundness reviews of financial conditions, while ensuring consumer protection against predatory and unfair and deceptive lending practices.

All Functions

There is an increase in the nature and volume of auditing standards coming from the federal government and other standard setting bodies. Continuing education is mandatory and critical to each functional area to ensure that auditors are current on procedures and techniques of auditing. Auditors are encouraged to seek professional certifications as professional designations are beneficial to the state by increasing the credibility of the Department. The replacement of aging equipment and programs are essential for technological compatibility with auditees and federal agencies.

Link to budget: Provide detail on priorities identified above which show in the current or proposed budget.

The Department had a turnover ratio in excess of 15% for FY14 and FY15. As positions were filled, we were able to reduce our overall salaries by \$46,707 for the 2017-2018 biennium. The Department will continue its efforts to promote staff to reflect increasing skills and job proficiency.

The Department is requesting funds to upgrade hardware and software to replace aging equipment and applications to maintain compatibility with clients and federal counterparts and ensure that client information is secure. The total request for all performance measures for information technology upgrades is \$552,806.

The Department's standard budget as well as the zero based budgeting for various series, will ensure that sufficient staff is available to maximize audits and ensure quality audits are conducted using risk assessment tools as well as comply with regulatory mandates. Staff will receive training to increase auditing skills and job proficiency in accordance with various industry standards. Current technological tools and support will be provided to provide efficiency and to maintain compatibility with our partners and clients. It is imperative that the state maintains a proven audit presence to encourage compliance by all auditees.