

DEPARTMENT OF AUDIT STRATEGIC PLAN

Plan Period: FY2019-2020 (July 1, 2018 through June 30, 2020)

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 101.5 authorized positions as of July 1, 2017. 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 funds.

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.

The Mineral audit division has 39.5 positions and the Excise Tax Division has 17 positions and are responsible for an audit population of approximately 982 Mineral Producers with 1,312 Active state leases and 8,188 active federal leases, 37,000 licensed tax payers and 295,000 Revenue identification (RID) numbers assigned to individuals. The funding for the revenue function for the 2017-2018 biennium was 12.2M including 6.8M in general funds, 5.1M in federal funds and \$0.3M in other funds.

This area provides audit support for the following agencies:

Department of Revenue (DOR) - Auditing taxes, severance taxes and gross product taxes on oil, gas, coal, trona, bentonite, uranium and other minerals, sales and use tax, lodging tax and tobacco tax.

Wyoming Counties - Auditing Gross Products taxes on oil, gas, coal, trona, bentonite, uranium, and other minerals

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

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

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

By providing audit support for these state agencies, an equal playing field is maintained for Wyoming businesses. Businesses' are educated and held accountable for the right to do business in the state of Wyoming.

Accounting:

The Public Funds Division 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 four years. Audits are also performed on school districts to ensure compliance with the funding model 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.

The Public Funds Division serves approximately 1,260 state and local entities and provides the public with financial information from these entities that is not available from any other level of government. The Division provides training to local governments on accounting issues and to ensure information reported is accurate. The discontinuance of these programs would leave decision makers without adequate information or a cost-effective means of obtaining the information since it is not available from any other level of government. The Division has 17 positions and funding for this function for the 2017-2018 biennium was 5.7M in general funds.

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.

There are currently 4,365 charters and licensees. However, only 1,272 are eligible for examination. Charters and licensees eligible for examination include 26 banks and their 57 branches, 10 trust companies, 637 mortgage companies and branches, 521 Uniform Consumer Credit Code (UCCC) entities, and 78 money transmitters. 128 examinations were conducted in FY17 consisting of 7 bank, 2 trust company, 98 mortgage lender/broker, 17 UCCC, and 4 money transmitter examinations, or 10.07 percent of the charters and licenses eligible for examination. There are also 3,051 licensed mortgage loan originators and 42 rent-to-own entities that are not examined. The Division also provides administrative support to 497 debt collector licenses for the Collection Agency Board. No examinations of these companies are conducted. The Division is self-funded through the collection of supervisory fees and licensing fees. The Division budget for the 2017-2018 biennium is \$5.5 million in other funds.

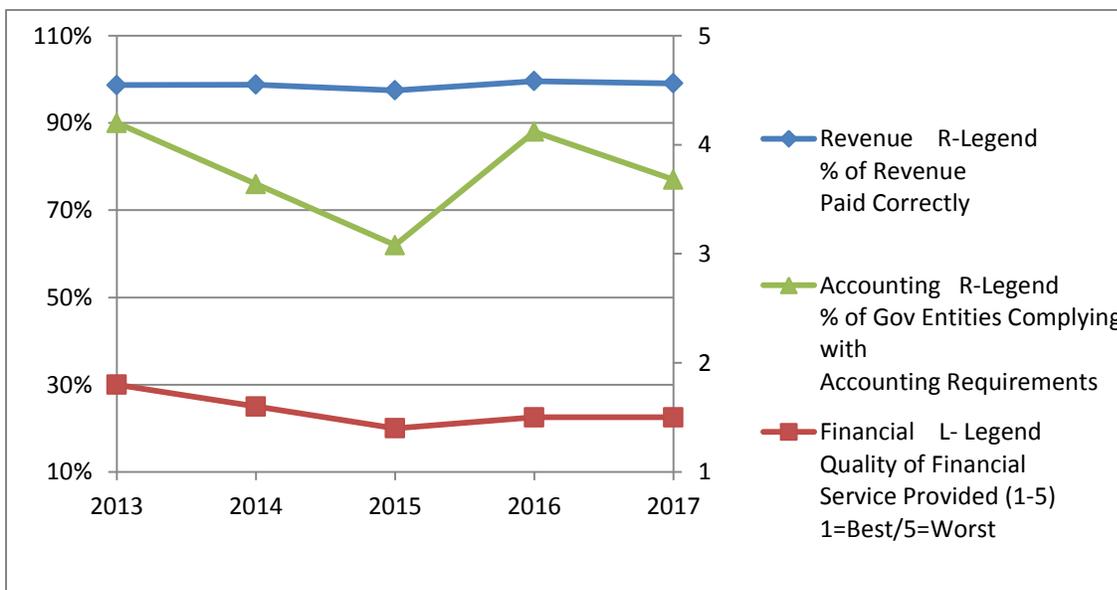
Performance:

The performance measures most important to our work are:

Revenue: Percentage of state revenue paid correctly. The percentage of state revenue paid correctly for FY17 was 99.1%. 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 FY17 was at 76% and includes three primary groups: 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 was 1.53 (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 FY17 the recovery ratio was approximately \$3.34 assessed to every \$1 spent in this area.

Revenue compliance for the Mineral Audit Division was 99.1% for FY17. There are approximately 982 mineral producers and 9,500 active state and federal leases in the state. Severance and Gross Products

taxes and State and Federal Royalty dollars remain a key component of risk determination, resulting in high-revenue companies and properties being selected for audit. So the emphasis is to analyze these taxpayers. The Mineral Audit Division is required to audit bentonite producers every four years. Sixty-one (61) audits (49 oil and gas and 12 coal) were completed with \$13.8 million being assessed. Collections for FY17 totaled \$9.8 million. The average assessments for the last three years are \$7.4 million and average collections of \$6.5 million.

The revenue compliance for the Excise Tax Division was 98% for FY17. There is a licensed audit population of over 37,000 as well as over 295,000 individuals throughout the State of Wyoming and the international jurisdictions (US States/Canadian Provinces). DOR audits have shown a higher compliance ratio for licensed taxpayers versus unlicensed contractors or companies. Audits have shown most large retail sales companies are compliant when remitting sales tax for their sales but are not nearly as compliant when remitting taxes to their vendors on purchases. DOT fuel tax audits have shown fuel taxes are generally collected and remitted for sales of fuel purchased and delivered within the State of Wyoming. Fuel tax audits increase the fuel tax compliance of businesses purchasing fuel outside the state and bringing the product into the state for consumption.

The Division completed 335 audits (205 sales/use tax and 130 fuel tax) with \$1.6 million being assessed. Collections for FY17 totaled \$8.4 million. The average assessments for the last three years are \$2.4 million and average collections of \$4.8 million. The Excise Tax Division is mandated to audit 3% of both the IFTA and IRP programs based on an overall average over five years. The average percentage of audits over the last 3 years for IFTA is over 4% and IRP is over 5%; however, the overall audit coverage for Division's total audit population was .007%. This coverage of the audit population decreased because of the loss of three positions through budget reductions. The Division utilizes information from the Department of Revenue, Department of Transportation and from audits to identify high risk industries or companies.

Accounting:

The School Finance section is charged with auditing the K-12 school finance system and the audits are focused on the Wyoming Funding Model. For FY17, full audits were performed on 8 school districts with 7 of those completed by fiscal year end. 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. Element audits of reimbursable retention and retirement, as well as vocational education were started and were still in progress at the end of the fiscal year. Compliance for FY17 was 95%. This should help to ensure data used in the funding model is more consistent from district to district.

Four state agency performance measure audits were completed in FY17 with a compliance rating of 54%. State agencies will be encouraged to continue the self-assessment process. If this process is followed, it is anticipated the accuracy of the performance measures will improve and help agencies in the collection and maintenance of the data. We continue to include a review of the financial controls for each agency audited. In FY16 efforts were concentrated on local government where there was more risk; however, in FY17, with the loss of 3 positions and other budget reductions, resources that could have been assigned to local governments were redirected to auditing state agency performance measures. All of the state boards overseen by A&I plus one additional independent board were audited in FY17. Audits will continue to be performed on state agency performance measures, state boards and local governments based on a risk level.

Local government entities compliance with reporting requirements as well as their timeliness of reporting was 79% for FY17. Training was provided to various local governments which included Conservation

Districts and Weed & Pest Districts. Training will continue to be offered to other local governments when the opportunity is presented. The Division will continue to address legislative requests to help improve evaluation methods for local governments.

The Division assists law enforcement in forensic audits in the completion and prosecution of criminal cases. All levels of law enforcement are worked with including the FBI, IRS, DCI, local sheriff and city police. This is at the request of the associated law enforcement or where irregularities are found in our audits and the Division requests 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. Several of these requests are completed each year and all requests are fulfilled within the constraints of the budget.

Financial:

The condition of financial services providers is satisfactory. The bank health rating had a small increase from 1.46 to 1.53 during FY17. 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. Increased use of technology in the examination process (e.g. electronic loan file review electronic workpapers) continues to improve coverage and efficiency.

What do you propose to do to improve performance in FY2019-2020?

Revenue:

The Revenue Function will continue to explore ways to audit more efficiently and keep a flexible approach allowing us to change our audit focus quickly in response to changing business trends and circumstances with reduced staffing levels. The focus is to improve efficiencies by providing continuing education as required by Generally Accepted Government Auditing standards (GAGAS) to remain current on audit techniques and issues. The Divisions continue to research and implement technology to improve the audit process. The Divisions are actively engaged in obtaining usable information and documents electronically from auditees. Data currently received from administrative support agencies is already in an electronic format. Hardware and software will continue to be updated as the budget allows. Various software suites and applications allows for the analysis of large amounts of data, improved sampling techniques, enhanced risk assessment and allows greater audit coverage at reduced costs. Membership in state and federal associations and commissions and working with federal counterparts provides information on current and changing industry trends and issues. This approach will allow the Revenue Function to lower the risk of nonpayment of taxes and increase the overall tax compliance.

Accounting:

The School Finance Section will continue IT audits of school district information systems to increase the efficiency and reliability of data reporting. Presentations will be made at the Department of Education Business Manager's (WASBO) training and the Legislature concerning common audit findings, specifically addressing recurring issues. The Section will follow-up on prior audit findings and highlight repeat findings in audit reports. 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 Section 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. Public Funds will pursue opportunities to conduct training sessions on the planning process. Statute changes and performance measure requirements will be evaluated for future audits. Independent state boards will continue to be audited.

To ensure the accuracy of reporting by local governments, opportunities to speak and teach at any forum will continue. Additional information will be requested from entities when reported numbers look inaccurate. Reminders of report deadlines will be sent to entities that have not reported on time. Reported numbers will be crosschecked with third parties from other governmental entities to resolve differences. Submitted budgets will be reviewed and inconsistencies in the information will followed-up on.

There is an increase in the nature and volume of auditing standards coming from the federal government and other standard setting bodies. To ensure that auditors are up-to-date on these standards, as well as on procedures and techniques for auditing, continuing education in accordance with GAGAS is mandatory. A peer review is required every 3 years to determine the quality of audits and that audits comply with the standards.

Auditors are encouraged to seek professional certifications as professional designations are beneficial to the state by increasing the credibility of the Department. Currently there are 5 employees with Certified Public Accounting (CPA) certificates, 7 employees with Certified Fraud Examiner (CFE) certificates, 1 employee with a Certified Information System (CISA), 1 employee with a Certified Internal Auditor (CIA) certificate and 1 employee with several information technology security certifications. Additional responsibilities and training will be provided to newer staff to be qualified as in-charge auditors.

Financial:

The Financial Function 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. The Division will 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, high standards of corporate governance and compliance with Regulation Z. 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. The examination scope and coverage for all trust companies will be expanded to ensure compliance with Bank Secrecy Act and anti-money laundering compliance programs.

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

The Department of Audit reduced overall salaries by \$73,221 for the 2019-2020 biennium due to turnover in personnel during the 2017-2018 biennium. The budget reductions for the 2017-2018 biennium reduced the number of positions from 110 to 102 or 8 employees. Approximately 81% of the Department of Audit's budget is salary and benefits. Due to position reductions, the quantity of audits has decreased; however, there is sufficient staff to comply with regulatory mandates. The Department ensures quality audits are conducted through the use of technology and auditing tools available to staff as well as training to increase auditing skills and proficiency.

The Public Funds Division will be requesting a total exception request of \$247,577 contract audits. The audit of the state financial statements known as the "Comprehensive Annual Financial Report" (CAFR) and the audit of the federal funds known as the "Statewide Single Audit" or A-133 is contracted by the Public Funds Division of the Department of Audit through a Certified Public Accountant (CPA). A Request for Proposal (RFP) is issued for bids for 4 fiscal years. The bid for the 2019-2020 biennium is \$2,130,000 and the amount budgeted is \$1,901,423 for a difference of \$228,577. The Public Funds Division is required by statute to audit to GAGAS which requires a peer review every three years. The next peer review is during the 2019-2020 biennium and will cost approximately \$19,000.

If the exception request of \$247,577 is not received, the contract for these audits will be cancelled. The A-133 audit can be completed by each State Agency contracting with a CPA and having their agency federal funds audited individually. This would increase the State's annual audit costs approximately 2.5 times more than having it done collectively. Guidance from the Federal Agencies suggests the risks are reduced when doing a statewide audit of all state agencies. If the CAFR was not contracted for, the state would not have any audited financial statements. These financial statements are used in determining the State's credit rating. Failure to have audited financial statements would reduce the bond rating and increase the interest rate on debt.

An exception request totaling \$30,228 to replace computers will be submitted for the 2019-2020 biennium. This is down from \$120,561 for 2017-2018 biennium. The Administration Division, Mineral Audit Division and Excise Tax Division purchase all of their computers every other biennium while the Division of Banking and Public Funds Division purchase half of their computers each biennium.

The Administration Division is going to replace 25% or \$272,464 of its general fund with other funds from the Division of Banking. Currently, the Administration Division receives approximately 25% of its funding from federal funds for direct support to the Mineral Audit Division. This treats the Division of Banking the same as the Mineral Audit Division for direct support provided. This also exceeds the Section 320 State-wide Budget Reductions for the Department of Audit.