

DEPARTMENT OF AUDIT STRATEGIC PLAN

Plan Period: FY2013-2014 (July 1, 2012 through June 30, 2015)

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 116 authorized positions as of July 1, 2011. The biennial budget for 2011-2012 is \$24.7 million of which \$14.8 million is general funds, \$5.1 million federal money and \$4.8 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 \$13.3 million for the 2011-2012 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 \$76.0 million in mineral payments or \$15.1 million in the excise tax payments over the last three years (FY09, FY10, FY11).

Accounting: Is responsible for the State's single audit and its comprehensive annual financial report, which are performed through contract audits. Perform audits 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. The cost is \$6.4 million for the 2011-2012 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 2011-2012 biennium. This area is self-funded through licensing fees, examination fees, volume fees, and assessments on the assets of state chartered banks.

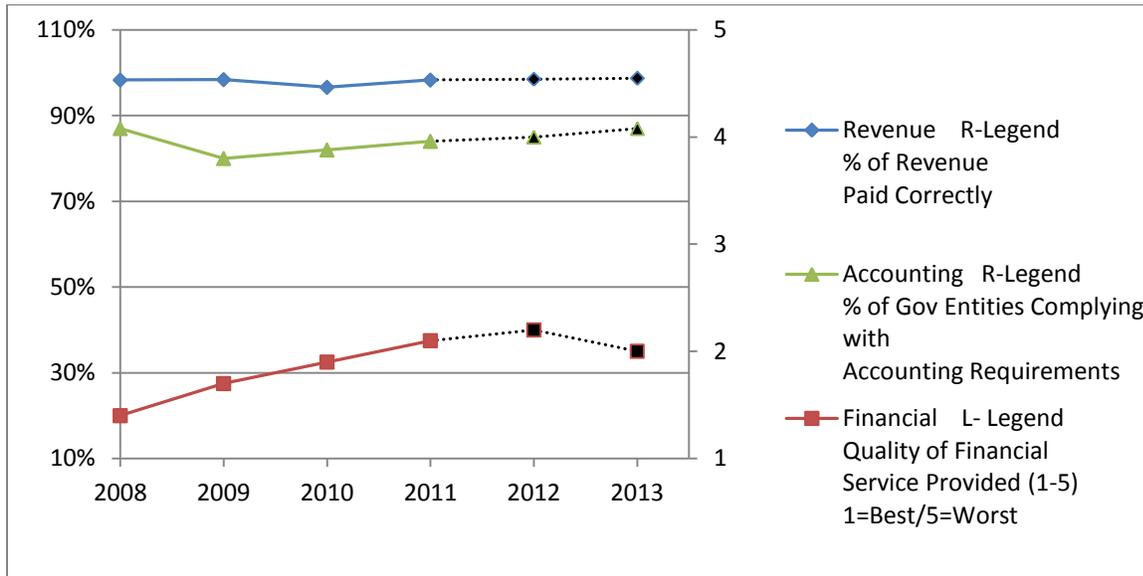
Performance:

The performance measures most important to our work are:

Revenue: Percentage of state revenue paid correctly. Audit estimates 98.3 % of revenue due the state is paid timely through the self-reporting process.

Accounting: Percentage of government entities complying with accounting requirements and regulations. Generally, 84% of the reports are filed within the statutory time frame and report accurate data.

Financial: Quality of financial services provided (1-5 ranking with 1 being a high quality). Presently the financial health rating is satisfactory at 2.12.



Story Behind The Performance:

Revenue: The Excise Tax Division and Mineral Audit Division monitors the taxes assessed through audits and compares the audited taxes to the amount of taxes paid to the administrative agencies by periodic tax returns. The divisions compare the cost of performing audits to audit collections. The comparison reveals a positive assessment to cost ratio. The divisions track auditor hours, travel costs, and other expenses for each audit performed. This has consistently shown an average recovery ratio of \$6.38 collected to \$1 spent for the Mineral Audit Division and \$5 for every \$1 for the Excise Tax Division. The Mineral Audit Division audits the top 100 mineral taxpayers once every three years which make up 95% of the taxable value. The Excise Tax Division is mandated to audit 3% of both the IFTA and IRP programs; however, the overall audit coverage is less than seven tenths of a percent of the total audit population. 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 payors. Approximately 70 mineral audits and 420 excise tax audits are completed each year.

Accounting: The overall compliance for the Accounting function was 84% which is an increase from the previous year. The School Finance section is charged with auditing the K-12 school finance system. Currently, the audits are focused on the Wyoming Funding Model. Annually, full audits are performed on 10 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. Audits performed in FY11 were for six agencies. A self-assessment process is being performed by agencies. We anticipate this process will help improve the accuracy of the performance measures and help agencies in the collection and maintenance of the data. We anticipate special projects volume to increase. Funds made available through the American Recovery and Reinvestment Act (ARRA) will require increased monitoring by us and, potentially, new audit requirements. Over the last two years, local government entities have increased their compliance with reporting requirements. There is still a need for improvement through additional training, investigation, audits and enforcement action. Legislation passed in 2009 requiring all public entities to adopt a June 30 year end will eventually make our census reporting and fiscal monitoring more efficient. Training is

provided to local governments whenever we have an opportunity. This will continue in the future and we will attempt to provide more each year.

Financial: The condition of financial services providers is satisfactory at 2.2. The downturn in the economy has strained the condition of the banking and mortgage industry as well as the division's resources. A large number of mortgage companies and consumer credit companies exited the business and banking conditions have weakened creating the need for additional safety and soundness and consumer protection supervision, examination and visitations. With statutorily mandated examinations of state banks and periodic examinations of licensed credit providers, overall financial, managerial, and compliance performance has been satisfactory.

What do you propose to do to improve performance in FY2013-2014?

The revenue area will continue to improve audit coverage and enhance risk assessment capabilities through the use of data base 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. Administrative agencies include the Department of Revenue, Department of Transportation, Secretary of State and the Department of Interior. Maintain the divisions' 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.

There is an increase in the nature and volume of auditing standards coming from the federal government and other standard setting bodies. This may increase the amount of training required to maintain qualifications of the auditors. We are receiving more requests for our services. We will continue to encourage professional certifications to be obtained by the division auditors. The professional licensure fees are being paid by the state for each designation and the designations are beneficial to the state by increasing the credibility of the Division. In calendar year 2011 we have experienced significant turnover, some due to retirements and some in normal turnover. This change has occurred at all levels starting at the audit manager to the entry level. This will require additional training, both formal training and on-the-job.

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

Ongoing technical training is critical to each functional area to ensure that auditors are current on procedures and techniques of auditing. Auditors will be encouraged to seek professional certifications as they are beneficial to the state by increasing its credibility. The replacement of aging equipment is 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 Excise Tax division gave back three positions due to budget cuts and lost another position to the hiring freeze. This has put undue pressure on the Division to sustain minimal audit coverage which is less

than 1% of the total population of taxpayers in seven different tax types. Being short staffed has had an adverse affect on tax compliance and on taxes being collected. Two new FTE's will enhance the efforts to identify non-filers.

The Department is requesting funds to upgrade hardware and software to replace aging equipment 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 \$731,674.

The Department's standard budget 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.