MEMORANDUM

TO: Members of the Joint Corporations, Elections, and Political Subdivisions Interim Committee

FROM: David A. Pope, CPA CGMA

DATE: May 14, 2026

SUBJECT: Proposed Risk-Based Methodologies for Detecting Fraudulent Business Filings (Outline and Basic Effectiveness Estimates)

Purpose: Wyoming's business-friendly environment continues to drive strong growth in entity formations and filings (exceeding 830,000 total business filings in FY 2025 and generating approximately $59.6 million in revenue). While this supports economic vitality, it also creates opportunities for fraudulent filings, including shell entities, address misuse, business identity theft, and facilitation of illicit activities.

This memorandum outlines practical, scalable methodologies the Business Division could implement or enhance to proactively identify potentially fraudulent filings for additional inquiry, audit, or administrative action (e.g., notice-and-correct or dissolution under existing Wyoming law). These build on current efforts, such as the recently launched Business Filing Fraud Reporting webpage, targeted registered agent audits in high-risk areas like Sheridan, and ongoing random audits. Estimates of effectiveness are conservative and based on industry benchmarks for risk-based fraud detection (e.g., GAO fraud risk frameworks and analogous data-analytics programs in public-sector oversight), adjusted for Wyoming's filing volume and current tools. Actual results would depend on implementation, data quality, and resource allocation.

Proposed Methodologies

1. **Risk-Scoring Model for Filings and Entities** Apply an automated, weighted scoring system to all new formations, amendments, annual reports, and registered agent changes. Key factors include: registered agent concentration, address density (e.g., virtual offices or mail drops), filer patterns (IP/email/payment anomalies), geographic mismatches, compliance history, and external red flags (e.g., sanctions lists). High-score filings would be routed for triage.
2. **Data Analytics and Anomaly Detection** Use database queries, clustering/graph analysis, and time-series monitoring on the SOS database to identify networks of connected entities (shared organizers, agents, or addresses), filing spikes, and outliers. Analytical procedures would also be applied to annual report asset/liability data for reasonableness testing.

3. **Targeted Audits and Reviews (Risk-Based Sampling)** Expand regular compliance audits under the Commercial Registered Agents Act with in-person, risk-prioritized reviews of high-volume agents. Combine with weighted random entity audits (building on the existing program of ~12+ per quarter) and triggered reviews of high-risk filings or complaints.
4. **Cross-Verification and External Data Integration** Match filings against county assessor records, property databases, sanctions lists, and federal partners (with appropriate controls). Incorporate OSINT (Open Source Intelligence) on organizers/agents and payment monitoring for fraud indicators.
5. **Integration of Public Complaints and Triage** Leverage the new fraud reporting system (complaint form + notarized affidavit) as a high-value detection channel. Triage by severity and cross-reference with internal analytics for fast-track administrative actions.
6. **Collaboration, Referrals, and Continuous Improvement** Strengthen partnerships with county assessors, the Attorney General, IRS, FBI, and FinCEN. Track audit outcomes to refine models and advocate for filing portal enhancements (e.g., multi-factor authentication and real-time risk signals).

Basic Estimates of Ability to Uncover Fraud Current detection relies heavily on reactive public complaints and limited random audits, which effectively address only a small fraction of potential issues given Wyoming's filing volume. The proposed risk-based approach would shift to proactive, targeted review.

- **Risk Scoring & Data Analytics**: Could automatically flag 5–15% of filings for manual review while capturing an estimated 70–85% of high-risk fraud indicators (based on benchmarks from public-sector data-analytics programs that have identified hundreds of anomalous entities through pattern detection). This represents a 3–5x improvement in detection efficiency over random sampling alone.
- **Targeted RA and Entity Audits**: High-risk audits typically yield "hit rates" of 20–40% for compliance violations or fraud red flags (consistent with recent Sheridan-focused reviews that identified actionable issues). Scaling to 50–100 targeted reviews annually could uncover dozens of problematic entities or networks per year.
- **Combined System (with Complaints & Cross-Verification)**: Overall, these methods could increase total fraud detections by 3–5 times compared to the current complaint-driven baseline, while keeping manual review burden manageable (under 10-15% of total volume). In analogous programs, data-driven approaches have uncovered significant clusters of shell entities and collusion that traditional methods missed.
- **Caveats**: These are illustrative estimates; Wyoming-specific baselines for total undetected fraud are not publicly quantified. Initial implementation (e.g., refining existing queries and RA audits) could deliver quick wins within 6–12 months. Full

effectiveness would improve with technology upgrades and interagency data sharing. False positives would remain low through tiered review processes, minimizing impact on legitimate businesses.

Conclusion and Recommendations Adopting these methodologies would strengthen the integrity of Wyoming's business registry, deter abuse, and protect the state's reputation without undermining its competitive advantages. They align with the Secretary of State's ongoing initiatives and recent legislative priorities around fraud prevention. I recommend the Committee consider endorsing these approaches in interim study topics, including potential funding for database enhancements.

Please contact me directly with any questions or requests for additional analysis.

Respectfully submitted,

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