

EA.00
Comptroller of the Treasury

Operating Budget Data

(\$ in Thousands)

	FY 01	FY 02	FY 03		% Change
	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	<u>Change</u>	<u>Prior Year</u>
General Fund	\$65,955	\$67,904	\$70,469	\$2,565	3.8%
Special Fund	11,522	13,475	12,378	(1,097)	(8.1%)
Reimbursable Fund	<u>24,325</u>	<u>27,212</u>	<u>28,135</u>	<u>923</u>	<u>3.4%</u>
Total Funds	\$101,802	\$108,592	\$110,982	\$2,390	2.2%

- The fiscal 2003 increase over the fiscal 2002 working appropriation includes \$1.22 million in systems software maintenance.
- The allowance includes a \$723,000 increase for in-state systems analysis.

Personnel Data

	FY 01	FY 02	FY 03	
	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	<u>Change</u>
Regular Positions	1,140.70	1,151.70	1,157.70	6.00
Contractual FTEs	<u>21.00</u>	<u>49.00</u>	<u>26.60</u>	<u>(22.40)</u>
Total Personnel	1,161.70	1,200.70	1,184.30	(16.40)

Vacancy Data: Regular Positions

Budgeted Turnover: FY 03	36.58	3.16%
Positions Vacant as of 12/31/01	51.70	4.49%

- The fiscal 2003 allowance includes six contractual conversions to regular positions.
- The allowance deletes 22.4 contractual positions.

Note: Numbers may not sum to total due to rounding.

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Analysis in Brief

Issues

Tax Amnesty Program: During the 2001 session the General Assembly adopted a tax amnesty program, Chapter 275, Acts of 2001. The amnesty period was September 1 to October 31, 2001 and during this period taxpayers who were delinquent or otherwise in arrears with their tax payments were exempted from penalties and fines if they brought their delinquency current. After the amnesty period expired, penalties and fines were increased for tax violators and enforcement efforts were to be increased.

Recommended Actions

	<u>Funds</u>	<u>Positions</u>
1. Reduce the allowance to replace "Forms by Fax" equipment by \$25,000.	\$ 25,000	
2. Maintain six contractual conversions as contractual employees.	46,554	6.0
3. Add budget language to reduce the allowance for printing and advertising by \$200,000 contingent on enactment of SB 107.		
Total Reductions	\$ 71,554	6.0

Updates

CVISN Project: Last year the Comptroller's Office withdrew from the Commercial Vehicle Information Systems and Networks (CVISN) project and contracted a separate vendor to deliver the product it was seeking.

Central Payroll Bureau Responds to 2000 Audit: In 2000 an audit of the Central Payroll Bureau found that the cash balances of the bureau's two nonbudgeted fund accounts used to process payroll deductions and the State's share of fringe benefits had large unexplained balance differences. All audit recommendations have been implemented, and the accounts are currently in balance.

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Operating Budget Analysis

Program Description

The Comptroller of the Treasury is charged with the general supervision of the State's fiscal matters, including collecting taxes, distributing revenues, and administering financial accounts. The agency is divided into ten divisions: four are directly connected to the collection of revenue, three are administrative in nature, one enforces Maryland's tax laws, one estimates revenues, and one operates the Annapolis Data Center.

The Revenue Administration Division is responsible for processing and collecting various taxes, including the personal income tax, the corporate income tax, and the sales tax. Taxpayer services are also provided by this division. The Compliance Division conducts audits and collects delinquent taxes for all revenue sources. The Field Enforcement Division enforces all tax laws by conducting investigations, tests, and inspections. The Alcohol and Tobacco Tax Unit administers the State's alcohol and tobacco laws and performs functions such as processing license and permit applications, preparing cases for hearings, and administering the Cigarette Sales Below Cost Act. The Motor Fuel Tax Unit administers laws relating to the motor carrier tax and motor fuel tax.

Administratively, the Office of the Comptroller has general supervision over the agency. The General Accounting Division accounts for all State funds received and disbursed and prepares financial reports required by law. This division is also responsible for the Relational Statewide Accounting and Reporting System. The Central Payroll Bureau issues salary checks and administers the direct deposit transactions for State employees in three separate payroll systems. The Bureau of Revenue Estimates provides estimates used by the Board of Revenue Estimates when it formulates recommendations to be submitted to the Governor. The Information Technology Division administers the Annapolis Data Center. The data center is available to all State agencies on a reimbursable basis.

Fiscal 2002 Actions

As a result of worsening economic conditions, State agencies were required to make adjustments to their fiscal 2002 working appropriation.

Cost Containment

There were two forms of cost containment actions: a hiring freeze and a 1.5% cost reduction. At the time of the hiring freeze, the Comptroller's Office had 47.5 vacant positions or a vacancy rate of 4%. By December 31, 2001, that had grown to 51.7 positions or about a 4.49% vacancy rate. A little over half of these positions (26) are in either the compliance or revenue administration divisions. These are the divisions with the primary responsibility for collecting and posting tax revenues. The average vacancy period for these positions, adjusting for long-term vacancies, is about four months. The Comptroller's Office realized about

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\$1.103 million in savings from the hiring freeze. However, it is expected that these vacancies will adversely affect revenue collection rates and increase the amount of time between receipt of revenue and posting it to the general fund.

For cost containment purposes, the Comptroller increased its fiscal 2002 turnover. In order to meet its target, the Comptroller's Office will need to have 60.35 vacancies, or about nine more than it has now. **The Comptroller should be prepared to discuss how the vacancy goal will be met.**

The Comptroller's Office met the 1.5% (\$470,000) expenditure reduction by delaying the purchase of some computer and office equipment. This delay is not expected to negatively impact operations.

Governor's Proposed Budget

The Governor's allowance proposes a \$2.39 million (2.2%) increase over the fiscal 2002 working appropriation, as shown in **Exhibit 1**, due primarily to higher personnel costs.

Personnel Costs

The 2003 allowance contains \$2.864 million in personnel increases, including the general salary increase and health insurance increase. About \$46,000 is allocated to convert six new positions which are all contractual conversions.

Systems Software Maintenance

The single largest increase in the 2003 allowance is a \$1.22 million increase in systems software maintenance. These are fees paid to outside vendors to update and maintain the operating systems and the approximately 170 other software programs that reside on the Comptroller's mainframe computer. These fees are based on the number of transactions the software handles.

The Comptroller's Office should be prepared to comment on why it expects so many more transactions in fiscal 2003.

In-state Systems Analysis

Another large portion (\$723,000) of the 2003 allowance increase is for computer services relating to the Master Tax System (SMART), payroll, the financial management information system, and similar programs.

Exhibit 1

**Governor's Proposed Budget
Comptroller of the Treasury
(\$ in Thousands)**

How Much It Grows:	<u>General Fund</u>	<u>Special Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
2002 Working Appropriation	\$67,904	\$13,475	\$27,212	\$108,592
2003 Governor's Allowance	70,469	12,378	28,135	110,982
Amount Change	\$2,565	(\$1,097)	\$923	\$2,390
Percent Change	3.8%	(8.1)%	3.4%	2.2%

Where It Goes:

Personnel Expenses

New positions -- 6 contractual conversions to enhance enforcement efforts	190
Annualize fiscal 2002 general salary increase	967
Health insurance	701
Fiscal 2003 increments	586
Increase in salary scale for field auditors, compliance agents, and revenue specialists	550
Retirement	551
Net fiscal 2003 cost containment and turnover	(309)
Retirement surcharge	(551)
Other adjustments	179
Total Personnel Costs	\$2,864

Other Changes

Systems software maintenance	1,220
Payments to the Information Technology Division for programming work	723
In-state computer usage	421
Data processing equipment	313
Outside programming expenses	(772)

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Where It Goes:

Contractual payroll declines due to contractual conversions and abolitions	(722)
Installment payments	(667)
Net cost containment (nonpersonnel)	(470)
Computer maintenance contracts	(244)
Operating leases	(200)
Postage	(132)
Other	57
Total	\$2,391

Note: Numbers may not sum to total due to rounding.

Performance Analysis: Managing for Results

The Comptroller’s Office has continued to improve its Managing for Results (MFR) plan as it has refined and developed the information presented in it. The improvement from fiscal 1999 when the Comptroller had a significant number of nonresponses, to this year, when almost every category presented has a response, demonstrates the seriousness with which the Comptroller views the MFR. Selected measures are presented in **Exhibit 2**.

Estimates v. Actual

There seems to be some fundamental problems in the Comptroller's forecasting methods. In several key categories, the estimate provided by the Comptroller was significantly different from the actual result. As seen in Exhibit 2, there is a large difference between the fiscal 2001 estimate and the 2001 actuals for the number of individual income tax assessments, amount of use taxes collected, and certain other categories. While forecasting is difficult, it is particularly vital that the Comptroller's Office have an accurate prognostication. With several years experience of tracking these measures, it is expected that the Comptroller's forecasting should become more accurate.

Making MFR Meaningful

While there is a need for basic data in the MFR plan, its purpose is to be used as a management tool and information vehicle. To that end, the MFR indicators should not be presented in a vacuum. Historical trends are valuable in assessing performance and making management changes, but so are comparisons to other

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states or organizations. This is sometimes referred to as benchmarking and is a standard management practice in the private sector which has applicability to the Comptroller's Office. A good historical trend does not always mean improving performance, especially if other similar organizations have improved even more. Benchmarking will allow the Comptroller's Office to identify these developments and clearly identify areas for improvement as well as areas where it is excelling.

Exhibit 2

**Program Measurement Data
Comptroller of the Treasury
Fiscal 1999 - 2003**

	<u>Actual 1999</u>	<u>Actual 2000</u>	<u>Est. 2001</u>	<u>Actual 2001</u>	<u>Est. 2002</u>	<u>Est. 2003</u>	<u>Ann. Chg. 99-01</u>	<u>Ann. Chg. 01-03</u>
Number of individual income tax assessments	37,338	65,076	68,000	39,469	80,000	65,000	2.8%	28.3%
Dollars assessed for individual income tax (\$ in thousands)	53,834	82,959	87,000	67,646	102,000	83,000	12.1%	10.8%
Number of business tax notices sent	5,053	10,227	8,500	8,070	10,000	8,500	26.4%	2.6%
Dollars assessed for business tax (\$ in thousands)	4,246	1,950	2,700	2,634	2,000	2,800	-21.2%	3.1%
Number of business tax accounts	253,515	249,417	250,000	250,000	250,000	250,000	-0.7%	0.0%
Number of business tax audits and investigations	1,484	1,677	1,700	1,423	1,450	1,500	-2.1%	2.7%
Dollars assessed for business taxes (\$ in thousands)	40,520	64,897	54,000	46,332	47,200	48,800	6.9%	2.6%
Number of unclaimed property holder reports received	14,700	16,856	17,000	16,279	17,000	17,000	5.2%	2.2%
Number of unclaimed property claims paid	10,921	7,522	10,000	10,002	10,500	10,700	-4.3%	3.4%
Dollars of unclaimed property reported (\$ in thousands)	50,124*	38,391	40,000	53,341	43,000	44,000	3.2%	-9.2%
Dollars of unclaimed property paid to owners (\$ in thousands)	12,504	11,886	13,000	11,913	12,500	12,800	-2.4%	3.7%
Number of delivery vehicles inspected	n/a	83	105	45	105	125	n/a	66.7%
Number of use tax violations identified	n/a	495	544	495	544	598	n/a	9.9%

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	<u>Actual 1999</u>	<u>Actual 2000</u>	<u>Est. 2001</u>	<u>Actual 2001</u>	<u>Est. 2002</u>	<u>Est. 2003</u>	<u>Ann. Chg. 99-01</u>	<u>Ann. Chg. 01-03</u>
Number of delinquent licenses referred for collection	n/a	333	398	205	398	479	n/a	52.9%
Amount of use taxes collected	n/a	591,808	621,398	401,352	421,420	442,491	n/a	5.0%
Number of arrests	n/a	31	n/a	73	80	90	n/a	11.0%
Number of untaxed cigarette packs confiscated	n/a	183,162	n/a	212,656	220,000	230,000	n/a	4.0%
Total number of on-line transactions (\$ in thousands)	399,876	419,594	440,000	467,319	500,000	525,000	8.1%	6.0%
Hits on the Comptroller's web site (\$ in millions)	16	20	24	31	35	40	38.3%	14.3%

* Includes two extraordinary reports totaling \$14,000,000

Source: Comptroller of the Treasury

Managing for Results Audit

The Comptroller's Office was audited for its MFR performance by Office of Legislative Audits (OLA). The audit report was released in May 2001, and its major findings and recommendations are presented in **Exhibit 3**. The findings concerned the calculation methodologies used to determine certain measures. These problems should be easily addressed.

Exhibit 3

Findings and Recommendations from the MFR Audit of the Comptroller's Office

<u>Finding</u>	<u>Recommendation</u>
The division calculates its "average days to issue a refund" measure using returns from between January and April only.	Draw a sample to calculate this measure from the entire fiscal year.
In measuring "days to respond to paper correspondence," the date of receipt was not consistently measured.	The date the correspondence is received should be the initial date for this measure.
The methodology used to calculate "seconds on hold" for phone callers was not consistent.	The total hold time should be used to calculate this measure.

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Issues

1. Tax Amnesty Program

During the 2001 session the General Assembly passed a tax amnesty program, Chapter 275, Acts of 2001. The amnesty period was September 1 to October 31, 2001, and during this period taxpayers who were delinquent or otherwise in arrears with their tax payments were exempted from penalties and fines if they brought their delinquency current. After the amnesty period expired, penalties and fines were increased for tax violators, and enforcement efforts were to be increased. The law required that the revenues be distributed as they normally are, with local jurisdictions, the Transportation Trust Fund, etc. receiving their normal distribution. However, the remaining revenues were to be allocated as shown in **Exhibit 4**:

Exhibit 4

Tax Amnesty Revenue Schedule

<u>Amount</u>	<u>Target</u>
First \$2 million	Comptroller for program expenses
Next \$30 million	General fund
Next \$8 million	Special fund for specified local school boards
Next \$10 million	Low Interest Revolving Loan Account of the Volunteer Company Assistance Fund to provide funding for capital projects for volunteer fire companies
Additional revenues	To be determined by General Assembly

While the official report is not due until March, the Comptroller is reporting that the program generated \$39.4 million, not as much as had been forecasted. **Exhibit 5** details the revenue generated during the amnesty program and how it was used:

Exhibit 5

Tax Amnesty: Use of Revenues Generated

<u>Target</u>	<u>Amount</u>
Local income tax	\$8,037,672
Transportation Trust Fund	407,953
Gas and motor vehicle revenue account	543,938
Comptroller for program expenses	2,000,000
General fund	28,453,198
Total Revenues	\$39,442,761

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The fiscal 2003 allowance assumes revenues of \$1.6 million will be collected from the Comptroller's effort to enhance enforcement and compliance following the amnesty period. **The Comptroller's Office should be prepared to comment on the effectiveness of its increased enforcement efforts and the anticipated results both in revenue and taxpayer compliance.**

Recommended Actions

	<u>Amount Reduction</u>		<u>Position Reduction</u>
1. Reduce the allowance for the new "Forms by Fax" equipment by \$25,000. Since the Comptroller has upgraded its customer Internet capabilities, there has been a steady decrease in the use of "Forms by Fax." New equipment is not required to handle the same volume of requests.	\$ 25,000	GF	
2. Maintain six contractual employees as contractals and disallow their conversion to regular positions. These contractals were part of the over 20 hired to assist with the tax amnesty program.	46,554	GF	6.0
3. Adopt the following language to the special fund appropriation: <u>. provided that \$200,000 of the appropriation shall be reduced contingent upon enactment of Senate Bill 107.</u>			
Total General Fund Reductions	\$ 71,554		6.0

Updates

1. CVISN Project

The Commercial Vehicle Information Systems and Networks (CVISN) refers to the collection of information systems and communications networks that support commercial vehicle operations. The CVISN program is designed to provide a framework that could enable government agencies, the motor carrier industry, and other interested parties to exchange information and conduct business.

Last year, after six years of development work, the vendor still had not presented any functioning deliverable. At this time the Comptroller's Office decided to find another solution and eventually contracted with RESI Research and Consulting. The new project is on an aggressive schedule and is slated to be operational by February 28, 2002. To fund the new project the Comptroller reallocated monies that were originally meant for the CVISN project. The date, amount, and description of these transfers are shown in **Exhibit 6** below.

The maximum amount that was allowed to be reallocated to the new project was \$400,000; however, this project is currently running under budget and is expected to be completed under budget.

Exhibit 6

Progress on CVISN Replacement Project

<u>Date</u>	<u>Description</u>	<u>Amount Spent</u>
7/11/01	Initial study	\$24,800.00
8/13/01	Conceptual transaction flow functional requirements doc.	24,800.00
9/12/01	Final study	18,900.00
11/19/01	Actual on-line system	53,545.93
	Total Amount Invoiced	\$122,045.93

2. Central Payroll Bureau Responds to 2000 Audit

In 2000 an audit of the Central Payroll Bureau found that the cash balances of the bureau's two nonbudgeted fund accounts used to process payroll deductions and the State's share of fringe benefits had large unexplained balance differences. Last year's analysis reiterated the recommendations found in the OLA report. All recommendations have been implemented, and the accounts are currently in balance.

Current and Prior Year Budgets

Current and Prior Year Budgets
Comptroller of the Treasury
(\$ in Thousands)

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2001					
Legislative Appropriation	\$65,794	\$11,023	\$0	\$24,325	\$101,142
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	161	674	0	0	835
Reversions and Cancellations	0	(175)			(175)
Actual Expenditures	\$65,955	\$11,522	\$0	\$24,325	\$101,802
Fiscal 2002					
Legislative Appropriation	69,351	11,601	0	27,205	\$108,157
Budget Amendments	(1,447)	1,874	0	7	434
Working Appropriation	\$67,904	\$13,475	\$0	\$27,212	\$108,591

Note: Numbers may not sum to total due to rounding.

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Appendix 2

Object/Fund Difference Report
Comptroller of the Treasury

Object/Fund	FY01	FY02	FY03	FY02 - FY03	Percent Change
	Actual	Working Appropriation	Allowance	Amount Change	
Positions					
01 Regular	1140.70	1151.70	1157.70	6.00	0.5%
02 Contractual	21.00	49.00	26.60	(22.40)	(45.7%)
Total Positions	1161.70	1200.70	1184.30	(16.40)	(1.4%)
Objects					
01 Salaries and Wages	\$ 56,277,993	\$ 57,540,103	\$ 60,404,921	\$ 2,864,818	5.0%
02 Technical & Spec Fees	820,471	1,772,613	1,097,571	(675,042)	(38.1%)
03 Communication	6,651,620	7,167,494	7,204,067	36,573	0.5%
04 Travel	438,398	516,847	501,439	(15,408)	(3.0%)
06 Fuel & Utilities	40,204	52,409	56,550	4,141	7.9%
07 Motor Vehicles	434,757	363,190	363,025	(165)	0%
08 Contractual Services	28,659,948	30,867,726	31,452,061	584,335	1.9%
09 Supplies & Materials	3,221,421	3,655,387	3,712,837	57,450	1.6%
10 Equip - Replacement	435,559	901,056	1,241,633	340,577	37.8%
11 Equip - Additional	3,543,587	4,449,101	3,629,537	(819,564)	(18.4%)
12 Grants, Subsidies, Contr	90,682	92,300	97,800	5,500	6.0%
13 Fixed Charges	978,382	1,091,516	1,102,935	11,419	1.0%
14 Land & Structures	209,189	121,908	117,500	(4,408)	(3.6%)
Total Objects	\$ 101,802,211	\$ 108,591,650	\$ 110,981,876	\$ 2,390,226	2.2%
Funds					
01 General Fund	\$ 65,954,879	\$ 67,903,874	\$ 70,468,898	\$ 2,565,024	3.8%
03 Special Fund	11,521,899	13,475,361	12,377,980	(1,097,381)	(8.1%)
09 Reimbursable Fund	24,325,433	27,212,415	28,134,998	922,583	3.4%
Total Funds	\$ 101,802,211	\$ 108,591,650	\$ 110,981,876	\$ 2,390,226	2.2%

Note: Full-time and contractual positions and salaries are reflected for operating budget programs only.

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Appendix 3

Fiscal Summary
Comptroller of the Treasury

Unit/Program	FY01	FY02	FY02	FY01 - FY02	FY03	FY02 - FY03
	Actual	Legislative Appropriation	Working Appropriation	% Change	Allowance	% Change
01 Executive Direction	\$ 2,851,264	\$ 2,970,017	\$ 2,913,479	2.2%	\$ 2,913,994	0%
02 Financial and Support Services	4,859,854	5,331,651	5,297,585	9.0%	5,606,684	5.8%
01 Accounting Control and Reporting	4,430,963	4,947,964	4,884,665	10.2%	5,018,856	2.7%
01 Estimating Of Revenues	393,706	449,286	441,407	12.1%	460,457	4.3%
01 Revenue Administration	34,447,059	36,353,845	35,917,441	4.3%	36,490,430	1.6%
01 Compliance Administration	22,690,093	23,310,896	22,506,426	(0.8%)	24,277,772	7.9%
02 Sales Tax Auditing And Investigating	0	0	2,000,000		0	(100.0%)
01 Field Enforcement Administration	3,568,434	3,663,239	3,624,478	1.6%	4,053,330	11.8%
01 Alcohol And Tobacco Tax Administration	1,626,567	1,858,923	1,832,198	12.6%	1,843,688	0.6%
01 Motor Fuel Tax Administration	2,536,538	2,143,652	2,085,652	(17.8%)	2,275,266	9.1%
01 Payroll Management	3,454,118	3,612,433	3,565,575	3.2%	3,591,163	0.7%
01 Computer Center Operations	20,943,615	23,514,886	23,522,744	12.3%	24,450,236	3.9%
Total Expenditures	\$ 101,802,211	\$ 108,156,792	\$ 108,591,650	6.7%	\$ 110,981,876	2.2%
General Fund	\$ 65,954,879	\$ 69,350,874	\$ 67,903,874	3.0%	\$ 70,468,898	3.8%
Special Fund	11,521,899	11,601,361	13,475,361	17.0%	12,377,980	(8.1%)
Total Appropriations	\$ 77,476,778	\$ 80,952,235	\$ 81,379,235	5.0%	\$ 82,846,878	1.8%
Reimbursable Fund	\$ 24,325,433	\$ 27,204,557	\$ 27,212,415	11.9%	\$ 28,134,998	3.4%
Total Funds	\$ 101,802,211	\$ 108,156,792	\$ 108,591,650	6.7%	\$ 110,981,876	2.2%