

E00A
Comptroller of the Treasury

Operating Budget Data

(\$ in Thousands)

	<u>FY 10</u> <u>Actual</u>	<u>FY 11</u> <u>Working</u>	<u>FY 12</u> <u>Allowance</u>	<u>FY 11-12</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$72,556	\$73,652	\$77,464	\$3,812	5.2%
Contingent & Back of Bill Reductions	0	0	-1,203	-1,203	
Adjusted General Fund	\$72,556	\$73,652	\$76,261	\$2,610	3.5%
Special Fund	36,403	23,629	19,521	-4,108	-17.4%
Contingent & Back of Bill Reductions	0	0	-561	-561	
Adjusted Special Fund	\$36,403	\$23,629	\$18,960	-\$4,669	-19.8%
Reimbursable Fund	24,112	28,768	19,523	-9,245	-32.1%
Contingent & Back of Bill Reductions	0	0	-65	-65	
Adjusted Reimbursable Fund	\$24,112	\$28,768	\$19,458	-\$9,310	-32.4%
Adjusted Grand Total	\$133,071	\$126,049	\$114,680	-\$11,369	-9.0%

- The fiscal 2012 allowance decreases by \$11,368,868, or 9.0%, when funds are adjusted for contingent and across-the-board reductions.
- The decline in the budget is largely attributed to the abrupt halt of the new Modernized Integrated Tax System (MITS). Absent MITS funding, the budget increases by \$3,773,758, or 3.5%.
- The Comptroller's share of the statewide allocation for Annapolis Data Center expenditures increases by \$1,645,692, or 31.7%, due to the anticipated reallocation of user agency expenditures.

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

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Personnel Data

	<u>FY 10 Actual</u>	<u>FY 11 Working</u>	<u>FY 12 Allowance</u>	<u>FY 11-12 Change</u>
Regular Positions	1,111.00	1,107.00	1,123.00	16.00
Contractual FTEs	<u>24.40</u>	<u>42.60</u>	<u>26.60</u>	<u>-16.00</u>
Total Personnel	1,135.40	1,149.60	1,149.60	0.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	44.92	4.00%
Positions and Percentage Vacant as of 12/31/10	64.60	5.84%

- The allowance reflects the contractual conversion of 16 revenue examiner positions associated with the MITS.
- As of December 31, 2010, the vacancy rate was 5.84%. Twenty-two of these vacancies have subsequently been filled, thereby reducing the vacancy rate to 3.85%.
- Turnover expectancy is increased from 3.98 to 4.0%.

Analysis in Brief

Major Trends

Tax Delinquencies Reflect Mixed Results: The number of individual delinquencies declined by 3.4% in fiscal 2010 compared to fiscal 2009. By contrast, the number of delinquent business tax cases increased by 10% in fiscal 2010 compared to fiscal 2009.

Internal Revenue Offsets, Wage Garnishments, and Bank Attachments Decline: The number of Internal Revenue Service offsets declined by approximately 4.7% in fiscal 2010 compared to fiscal 2009. Similarly, the number of salary garnishments and bank attachments declined by 30.5% and 29.9%, respectively, in fiscal 2010 compared to fiscal 2009.

Issues

Modernized Integrated Tax System: During the 2006 legislative session, the Comptroller requested and received approval for the replacement of the office's 20-year old tax collection system. After researching the various tax collection systems in other states, the Comptroller's office decided that it

would be in the best interest of the State to purchase an integrated tax accounting and collection system that could handle the accounting and collection functions for all taxes. The MITS project was initially designed to encompass two modules – an integrated tax system and data warehousing component. However, in December 2010, the Comptroller’s office informed the contractor for the MITS project that it was exercising its right under the contract to suspend all further work on the integrated tax system component of the project. According to the office, this decision was made following the contractor’s inability to meet scheduled deliverables, and the results of a gap analysis revealed numerous defects with the pilot integrated system. As of January 2011, costs incurred for the suspended integrated tax system component totaled approximately \$17.9 million. The fiscal 2012 allowance includes \$1.6 million in special funds for the new system. It should also be noted that the Major Information Technology Development Project Fund includes an additional \$3.0 million for this purpose. **The Comptroller should comment on the current status of the project.**

Recommended Actions

	<u>Funds</u>
1. Modify the contingent reduction to reduce funding for the advertisement of abandoned property accounts to exclude federally designated rural jurisdictions.	
2. Reduce funding for contractual employee salaries in the Compliance Division.	\$ 24,776
3. Concur with contingent reduction to reduce general fund expenditures within the Central Payroll Bureau for payroll garnishments made on behalf of judgment creditors and collection agencies.	
4. Reduce funding for contractual employee salaries in the Information Technology Division.	24,693
Total Reductions	\$ 49,469

Updates

Maryland Integrated Tax System Administration Center: The newly created Maryland Integrated Tax System Administration Center (MAC) is responsible for the management, support, and enhancement of the MITS. The unit was created to provide centralized functional expertise, management, and administration of the data warehouse to increase the effectiveness of the State’s tax collection processes and revenue generation efforts. The fiscal 2012 allowance transfers 9 positions and related funding totaling \$691,719 to MAC.

E00A
Comptroller of the Treasury

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 eight divisions generally falling into the following categories:

Revenue

The Revenue Administration Division (RAD) is responsible for processing and collecting various taxes, including the personal income tax, the corporate income tax, and the sales tax. RAD is also responsible for administering the laws governing the sale, manufacture, storage, transportation, distribution, and promotion of alcohol, tobacco, and motor fuel. The Compliance Division conducts audits and collects delinquent taxes from all revenue sources. The Field Enforcement Division enforces all tax laws by conducting investigations, tests, and inspections.

Administration

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 (CPB) issues payroll checks and administers the direct deposit transactions for State employees in three separate payroll systems.

Other Divisions

The Bureau of Revenue Estimates provides estimates of State revenues and formulates recommendations to be submitted to the Governor. The Maryland Integrated Tax System Administration Center is responsible for the management, support, and enhancement of the Comptroller's Modernized Integrated Tax System (MITS). The Information Technology Division administers the Annapolis Data Center (ADC). The data center is available to all State agencies on a reimbursable basis.

The goals of the Comptroller are as follows:

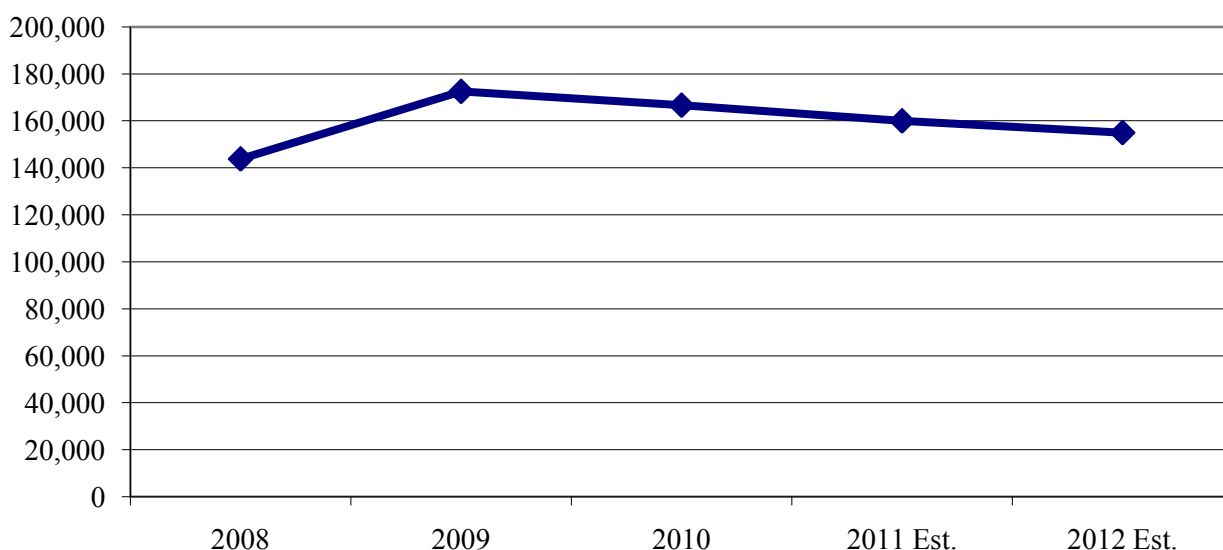
- to provide high quality public service;
- to fully utilize information technology; and
- to vigorously enforce tax laws essential to the fair treatment of all taxpayers.

Performance Analysis: Managing for Results

Tax Delinquencies Reflect Mixed Results

The Comptroller dedicates significant resources toward maximizing the collection of overdue taxes. The office is responsible for notifying all taxpayers of past due amounts and taking steps to assure collection. Contrary to the trend in recent years, the number of individual delinquencies declined by 3.4% in fiscal 2010 compared to fiscal 2009 (see **Exhibit 1**). According to the office, the reduction in delinquent individual income tax cases was due, in part, to additional payments made via the State’s tax amnesty program. Additionally, a number of taxpayer liabilities were rendered uncollectible upon being discharged by the United States Bankruptcy Court.

Exhibit 1
Individual Tax Delinquencies
Fiscal 2008-2012

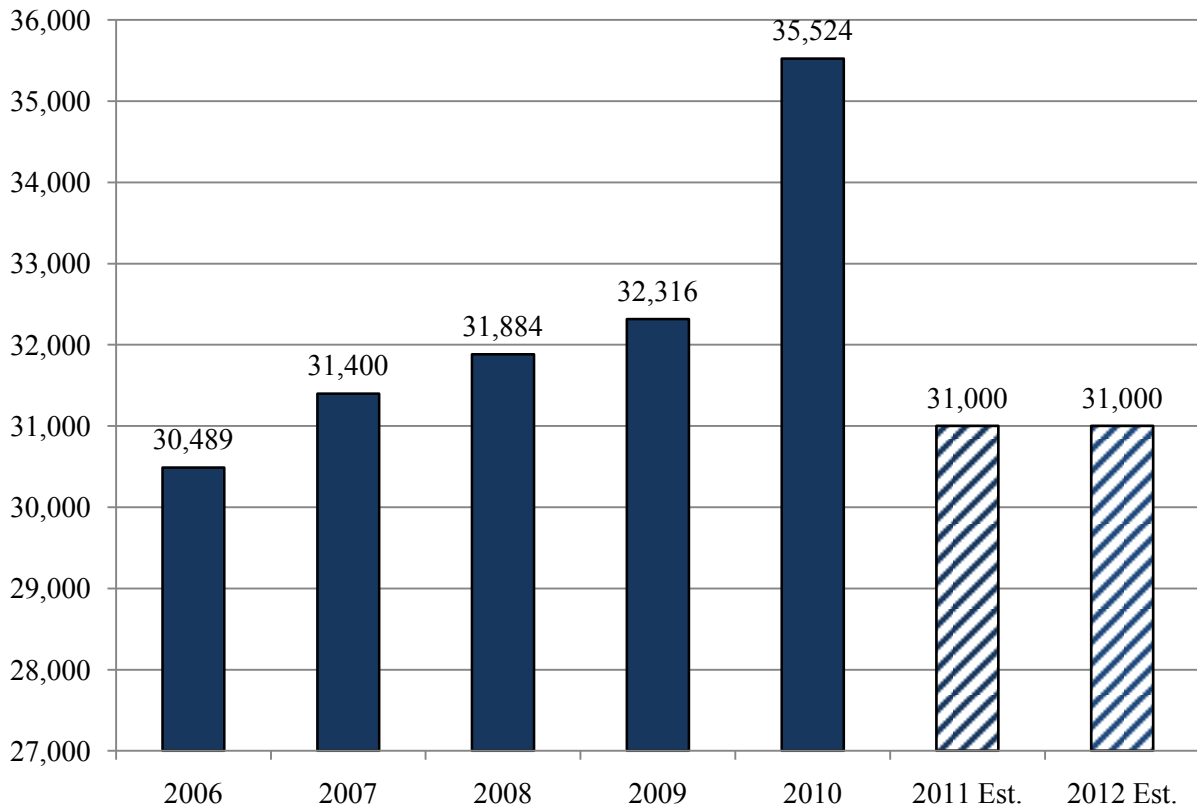


Source: Governor’s Budget Books, Fiscal 2010-2012

Business Tax Delinquencies Rise

As shown in **Exhibit 2**, the number of business tax delinquencies has climbed steadily since fiscal 2005. In fiscal 2010, the number of delinquent business tax cases increased by 9.9% compared to fiscal 2009. According to the office, the increase in business tax delinquencies is primarily attributed to the economy as more businesses are finding it difficult to satisfy tax obligations.

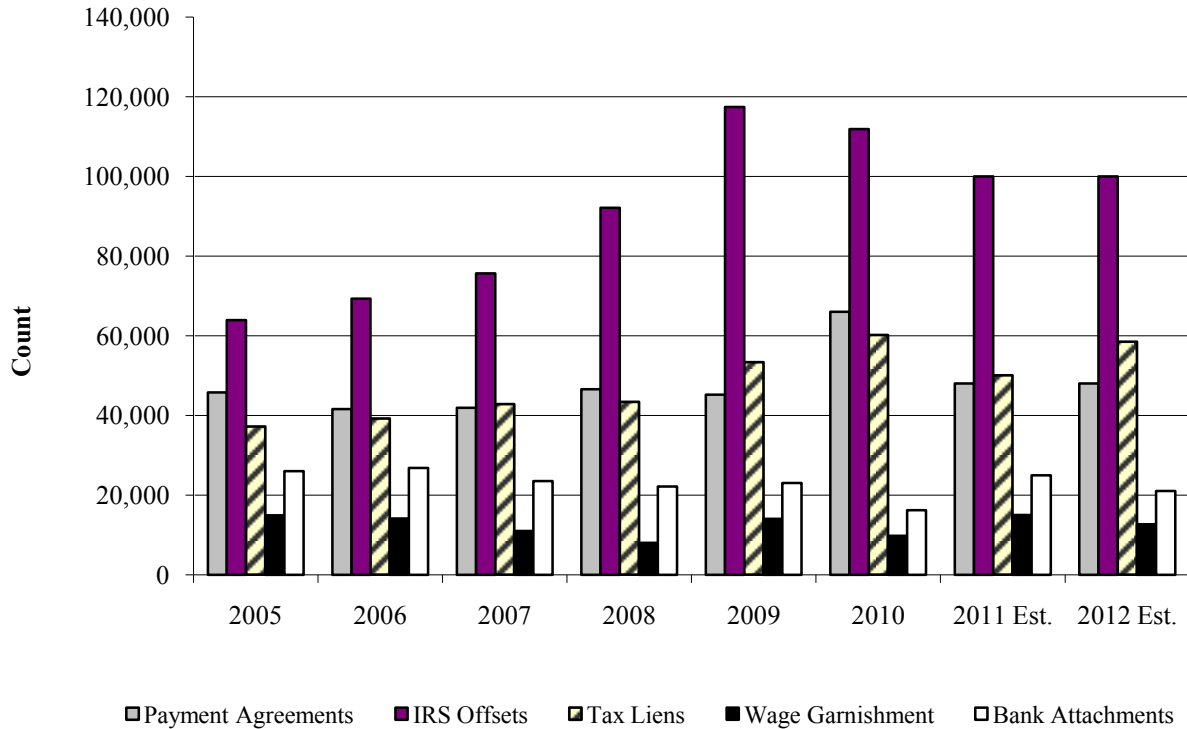
Exhibit 2
Business Tax Delinquencies
Fiscal 2006-2012



Source: Governor’s Budget Books, Fiscal 2008-2012

The Comptroller’s goal is to encourage taxpayers to voluntarily comply with the tax laws; but ultimately, the Comptroller may and does use a variety of tools at the State’s disposal to recover delinquent taxes. **Exhibit 3** details the utilization of the Comptroller’s current methods of delinquent tax collection. The Internal Revenue Service (IRS) offsets are by far the most utilized. Under this method, the State withholds refunds of those who have federal tax liabilities, and in return, the IRS withholds refunds of those with Maryland tax liabilities. The number of IRS offsets declined by approximately 4.7% in fiscal 2010 compared to fiscal 2009. According to the office, the reduction in IRS offsets was attributed to the 3.4% reduction in individual tax delinquency cases, which made fewer cases available for IRS offset in fiscal 2010. Similarly, the number of salary garnishments and bank attachments declined by 30.5% and 29.9% in fiscal 2010 compared to fiscal 2009, respectively. The office reports that fewer resources were available to process these cases given the high volume of taxpayer response to the State’s tax amnesty program.

**Exhibit 3
Collection Method Utilization
Fiscal 2005-2012**



IRS: Internal Revenue Service

Source: Governor’s Budget Books, Fiscal 2005-2012

Fiscal 2011 Actions

Impact of Cost Containment

Section 44 of the fiscal 2011 budget bill required the Governor to abolish 500 positions in the Executive Branch as of June 30, 2011. The positions and the funds associated with them have been removed from the fiscal 2011 working appropriation. The office’s share of the reduction was 3 full-time equivalent positions and \$98,152 in fiscal 2011, which represents an ongoing annualized savings of \$270,160 for employee salary and fringe benefit expenditures. The 3 vacant positions comprised a senior program manager and 2 computer information services positions.

Proposed Budget

As shown in **Exhibit 4**, the fiscal 2012 allowance decreases by \$11,368,868, or 9.0%, when funds are adjusted for contingent and across-the-board reductions. Absent MITS funding, the budget increases by \$3,773,758, or 3.5%.

**Exhibit 4
Proposed Budget
Comptroller of the Treasury
(\$ in Thousands)**

How Much It Grows:	General Fund	Special Fund	Reimb. Fund	Total
2011 Working Appropriation	\$73,652	\$23,629	\$28,768	\$126,049
2012 Allowance	<u>77,464</u>	<u>19,521</u>	<u>19,523</u>	<u>116,508</u>
Amount Change	\$3,812	-\$4,108	-\$9,245	-\$9,541
Percent Change	5.2%	-17.4%	-32.1%	-7.6%
 Contingent Reductions	 -\$1,203	 -\$561	 -\$65	 -\$1,828
Adjusted Change	\$2,610	-\$4,669	-\$9,310	-\$11,369
Adjusted Percent Change	3.5%	-19.8%	-32.4%	-9.0%

Where It Goes:

Personnel Expenses

Contractual conversion of 16 revenue examiner positions	\$709
Restoration of employee furloughs.....	800
Restoration of fiscal 2011 reduction for employee attrition – Section 20	800
Employees’ retirement (after reducing for contingent reductions).....	314
Accrued leave payout	196
Employee and retiree health insurance (net of contingent and across-the-board reductions).....	185
Social Security contributions.....	104
Turnover adjustments	-112
Other adjustments	-2

Other Changes

Contractual employee salaries for IT Division and Unclaimed Property Unit.....	41
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Where It Goes:

Modernized Integrated Tax System

16 contractual full-time equivalent revenue examiner positions	-401
Contractual services expenditures	-15,143
Postage expenses due to increased collection notices generated by MITS.....	370

Contingent Reduction

Unclaimed property advertisements	-500
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Annapolis Data Center

Comptroller’s Office’s share of Annapolis Data Center expenditures	1,646
Mainframe printers and remittance processors.....	-333
Extension of lease term financing for mainframe computer.....	-85

Other Changes

Eight new motor vehicles and related equipment for Compliance and Field Enforcement divisions.....	104
Other	-62

Total **-\$11,369**

IT: Information Technology
MITS: Modernized Integrated Tax System

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

Modernized Integrated Tax System

In fiscal 2007, the General Assembly approved funding for the replacement of the Comptroller’s outdated business tax collection system. As shown in **Exhibit 5**, the office’s fiscal 2012 allowance for the MITS declines by \$15,142,626 to \$1,570,997. However, after adjusting for the pending transfer of \$3 million from the Major Information Technology Development Project Fund (MITDPF), the total budget for the project declines by \$12,125,631. The reduction in total funding for the MITS is attributed to a change in the scope of the project. According to the office, the scope of the project has been modified to exclude the integrated tax systems component. Previously, the MITS project consisted of both a data warehouse component and an integrated tax system. The allowance also includes funding for the contractual conversion of 16 revenue examiners positions (\$708,592) and additional postage expenditures due to an increase in collection notices generated by the MITS (\$369,710). According to the office, the data warehouse component is expected to be fully operational by December 2013. As shown in **Appendix 3**, the project has an estimated cost of \$50.2 million.

Exhibit 5
Modernized Integrated Tax System Funding
Fiscal 2011-2012

	<u>2011</u>	<u>2012</u>	<u>\$ Change</u>
Comptroller Special Fund	\$6,745,449	\$1,570,997	-\$5,174,452
Transfer from MITDPF	9,968,174	0	-9,968,174
Subtotal	\$16,713,623	\$1,570,997	-\$15,142,626
Transfer from MITDPF	\$0	\$3,016,995	\$3,016,995
Total	\$16,713,623	\$4,587,992	-\$12,125,631

MITDPF: Major Information Technology Development Project Fund

Note: \$200,000 was retained by the Department of Information Technology (DoIT) to conduct an independent verification and validation analysis in fiscal 2012. DoIT will retain \$250,000 for this purpose in fiscal 2012.

Source: Department of Legislative Services

Annapolis Data Center Expenditures

The office's ADC Operations Information Technology Division provides mainframe computer services for its parent agency, the Comptroller of Maryland, as well as many other State agencies. The ADC's operational costs are fully reimbursed from its customers via charges for computer usage and services rendered. Some of the applications supported by ADC include the Maryland State Integrated Tax System, the State Payroll System, the Maryland State Financial Management and Information System, and Medicaid. Although the fiscal 2012 allowance for statewide ADC expenditures increases by only \$505,816, the Comptroller's portion of the statewide allocation increases by \$1,645,692, or 31.7%. According to the office, this increase is primarily attributed to a reduction in ADC expenditures for the State Department of Assessments and Taxation and the State Retirement Agency. As these two agencies rollout their respective major information technology development projects, they are expected to move a portion of their computer applications from the ADC onto separate servers. Consequently, the costs of the ADC, which remain fairly fixed, are allocated amongst fewer user agencies, thereby increasing the ADC cost allocation for the remaining user agencies. While the majority of the anticipated increase has been allocated to the office, budget bill language permits the redistribution of funding budgeted for ADC expenses between user agencies based upon actual billings.

Fiscal 2012 Cost Containment

The fiscal 2012 budget reflects several across-the-board actions. In fiscal 2012, the office's share of the reduction is \$238,182 in general funds, \$41,727 in special funds, and \$24,437 in reimbursable funds for changes in employee health insurance. Reductions contingent upon statutory changes include \$394,232 in general funds, \$69,059 in special funds, and \$40,448 in reimbursable funds for retiree prescription drug benefits and \$520,197 in general funds for retirement benefits. To the extent that the office has positions abolished under the Voluntary Separation Program, additional reductions will be implemented by the Administration.

Contingent reductions further reduce the office's operating expenses by \$500,000. The following reductions are contingent upon the enactment of budget reconciliation and financing legislation:

- ***Unclaimed Property Advertisements:*** The allowance reflects a \$500,000 reduction in special funds contingent upon the enactment of legislation repealing the notification procedure for abandoned property. Under current State law, the office is required to publish notice of abandoned property accounts in local newspapers of general circulation. If repealed, the office will be authorized to publish a statement (in newspapers of general circulation) that directs readers to the office's website for a complete listing of abandoned property accounts. It should be noted that this proposal was rejected by the General Assembly in the Budget Reconciliation and Financing Act (BRFA) of 2010 (Chapter 484 of 2010). **The Department of Legislative Services (DLS) recommends that the budget committees modify this proposal to exclude those counties that have been identified as federally designated rural counties by the Rural Maryland Council (i.e., Allegany, Caroline, Dorchester, Garrett, Kent, Somerset, St. Mary's, Talbot, and Worcester counties). The cost savings associated with this modification remain at \$500,000.**
- ***Payroll Garnishment Fee:*** The allowance reflects a \$50,000 reduction in general funds contingent upon the enactment of legislation authorizing the Comptroller's office to deduct and retain a \$2 processing fee for payroll garnishments made via the attachment process (e.g., judgment creditors and student loan collection agencies.) If enacted, this action will result in a corresponding special fund increase, thereby making the net fiscal impact of this reduction zero dollars. Currently, the office remits approximately 1,000 garnishments per pay cycle. It should be noted that this proposal was also rejected by the General Assembly in the BRFA of 2010.

Issues

1. Modernized Integrated Tax System

During the 2006 legislative session, the Comptroller requested and received approval for the replacement of the office's 20-year old tax collection system. At that time, it was the intent of the Comptroller's office to begin a similar effort to replace the office's master tax system (State of Maryland Automated Record Tracking), known as SMART, after the replacement of the tax collection system. However, after researching the various tax collection systems in other states, as well as those currently available in the marketplace, the Comptroller's office decided that it would be in the best interest of the State to purchase an integrated tax accounting and collection system that could handle the accounting and collection functions for all taxes. As such, the scope of the project was modified to include the procurement of a new MITS.

Revenue Examiner Positions

The fiscal 2011 allowance included \$428,528 in general funds for 16 contractual full-time equivalent revenue examiner positions. Given that the work being performed by these positions was of an ongoing nature, DLS recommended that these positions be funded as regular, full-time positions. The fiscal 2012 allowance includes \$708,592 in general funds for the contractual conversion of the 16 revenue examiner positions.

MITS Update

The MITS project, which is currently estimated to cost \$50.2 million (see **Appendix 3**), was initially designed to encompass an integrated tax system and data warehousing component. However, in December 2010, the Comptroller's Office informed the contractor for the MITS project that it was exercising its right under the contract to suspend all further work on the integrated tax system component of the project. According to the office, this decision was based on several factors such as the contractor's inability to meet deliverable deadlines. Additionally, a gap analysis of the pilot business integrated tax system revealed 500 gaps with the new system. The contractor's inability to meet scheduled deliverables, coupled with the results of the gap analysis, which indicated that an enormous level of effort would be required to fix the identified gaps, prompted the office's decision to halt the implementation of the tax system.

As shown in **Exhibit 6**, expenditures for the MITS were previously projected to total \$76.1 million. The office reports that as of January 2011, costs incurred for the suspended integrated tax system component totaled approximately \$17.9 million. It is anticipated that no further payments will be made to the contractor on the integrated tax system portion of the contract, thereby saving the State approximately \$24.6 million. Other equipment and supplies savings total an additional \$1.3 million. Based on the current estimate, the MITS is projected to cost \$50.2 million. As shown in **Exhibit 7**, revenues generated from the MITS have already exceeded the project's revised cost projection. As of January 2011, the office has collected nearly \$75 million from the data warehouse, business analytics, and new collections programs developed by the contractor. **The Comptroller should comment on the current status of the project.**

Exhibit 6
Modernized Integrated Tax System Expenditures
(In Millions)

Original cost estimate	\$76.1
Savings from suspension of Integrated Tax System	-24.6
Equipment, training, and supplies savings	-1.3
Total Expenditures	\$50.2

Source: Comptroller of the Treasury

Exhibit 7
Modernized Integrated Tax System
Projected Revenues
Fiscal 2009-2013

	<u>2009</u>	<u>2010</u>	<u>2011 Est.</u>	<u>2012 Est.</u>	<u>2013 Est.</u>	<u>Total</u>	<u>% of Total</u>
Comptroller (Special Funds)	\$0	\$0	\$1,580,000	\$2,300,000	\$3,500,000	\$7,380,000	3%
Local Income Tax (Counties)	2,989,000	15,521,176	18,315,000	22,275,000	23,265,000	82,365,176	30%
State General Fund	6,778,646	31,042,353	40,605,000	50,925,000	54,075,000	183,425,999	67%
Total	\$9,767,646	\$46,563,529	\$60,500,000	\$75,500,000	\$80,840,000	\$273,171,175	100%

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

Special Fund Revenue Sources: Motor fuel tax, admissions and amusement tax, scrap tire fees, unclaimed property, and corporate income tax

Source: Comptroller of the Treasury

Recommended Actions

1. Modify the following language on the special fund appropriation:

, provided that this appropriation shall be reduced by \$500,000 contingent upon the enactment of legislation to repeal the provisions of law related to the current notification procedure for abandoned property including the requirement to advertise abandoned property in local newspapers on an annual basis in certain jurisdictions.

Explanation: The fiscal 2012 budget bill as introduced includes a \$500,000 contingent reduction to reduce funding for the advertisement of abandoned property accounts contingent upon enactment of a provision in the Budget Reconciliation and Financing Act of 2011 to repeal the current notification procedure for abandoned property accounts. This action modifies the language to exclude certain jurisdictions from the proposed change to the notification procedure.

- | | <u>Amount
Reduction</u> |
|---|------------------------------------|
| 2. Reduce funding for contractual employee salaries in the Compliance Division. This action will level fund contractual employee salaries at \$544,159. | \$ 24,776 SF |

3. Concur with the following language on the general fund appropriation:

, provided that this appropriation shall be reduced by \$50,000 contingent upon the enactment of legislation to authorize a processing fee from judgment creditors and student loan collection agencies associated with certain payroll garnishments.

Explanation: The fiscal 2012 budget bill as introduced includes a \$50,000 contingent reduction to reduce general fund expenditures within the Central Payroll Bureau contingent upon the enactment of a provision in the Budget Reconciliation and Financing Act of 2011 to authorize the Comptroller’s Office to deduct and retain a processing fee for payroll garnishments made on behalf of judgment creditors and student loan collection agencies. This action concurs with the contingent reduction.

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	<u>Amount Reduction</u>	
4. Reduce funding for contractual employee salaries in the Information Technology Division. This action will level fund contractual employee salaries at \$69,727.	24,693	GF
Total Reductions	\$ 49,469	
Total General Fund Reductions	\$ 24,693	
Total Special Fund Reductions	\$ 24,776	

Updates

1. Maryland Integrated Tax System Administration Center

The newly created Maryland Integrated Tax System Administration Center (MAC) is responsible for the management, support, and enhancement of the MITS. The unit was created to provide centralized functional expertise, management, and administration of the data warehouse to increase the effectiveness of the State's tax collection processes and revenue generation efforts. The responsibilities of MAC include centralized planning and prioritization for MITS initiatives; development and maintenance of operational procedures, applications, and data security; and software management. The fiscal 2012 allowance transfers 9 positions and related funding totaling \$691,719 to MAC.

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 2010					
Legislative Appropriation	\$76,217	\$32,177	\$0	\$19,907	\$128,302
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	-350	6,439	0	5,182	11,271
Cost Containment	-2,718	-235	0	0	-2,954
Reversions and Cancellations	-593	-1,978	0	-977	-3,547
Actual Expenditures	\$72,556	\$36,403	\$0	\$24,112	\$133,071
Fiscal 2011					
Legislative Appropriation	\$73,652	\$23,629	\$0	\$18,650	\$115,931
Budget Amendments	0	0	0	10,118	10,118
Working Appropriation	\$73,652	\$23,629	\$0	\$28,768	\$126,049

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

Fiscal 2010

In fiscal 2010, the total budget for the office increased by \$4.8 million. The general fund appropriation decreased by approximately \$3.7 million due to the following reductions:

- the implementation of employee furloughs (\$1,405,899);
- a delay in the purchase of mainframe printers and remittance processors for ADC (\$459,759);
- a reduction in funding for various operating expenses such as furniture and applications software (\$300,639);
- a reduction in computer equipment and software funding (\$162,753);
- a realignment of expenditures for ADC (\$350,000);
- across-the-board reductions in travel, telecommunications, and vehicle expenditures (\$122,991);
- the deferral of the preparation of the 2008 *Statistics of Income Report* (\$103,000);
- a reduction in banking fees in anticipation of fewer paper tax refunds (\$60,000);
- a reduction in printing expenses in anticipation of fewer personal income tax booklet requests (\$57,182);
- a reduction in postage expenses due to a modification in the single transaction limit on corporate purchasing cards, thereby decreasing the need to prepare and mail vendor payments (\$25,000); and
- an across-the-board reduction in telephone expenditures (\$21,261).

Additionally, there was a general fund reversion of \$592,727. The reversion was mostly due to unexpended personnel, temporary employee, and contractual services expenditures.

The special fund appropriation increased by a net \$4.2 million mostly due to special funds received for the implementation of the MITS (\$6.4 million). This increase was offset by a \$235,290 reduction in special funds due to employee furloughs. Additionally, there was a special fund cancellation of \$1,977,579. The cancellation was mostly due to an overestimate of commissions paid to outside collections agencies and auditing firms.

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The reimbursable fund appropriation increased by a net \$4.2 million over the legislative appropriation. The office received reimbursable funds from the MITDPF for the MITS (\$5.1 million) and from user agencies for postage expenses associated with the central mailroom (\$125,000). Additionally, there was a reimbursable fund cancellation of \$977,148. The cancellation was mostly due to unexpended funds for ADC. The office cancelled a portion of its reimbursable funds as a result of cost containment reductions made in State agencies' budgets for ADC.

Fiscal 2011

The fiscal 2011 budget for the office increased by \$10,118,174, mostly due to the receipt of reimbursable funds from the MITDPF for the MITS (\$9,968,174). The remaining \$150,000 is due to the receipt of reimbursable funds from State agencies for the costs incurred by CPB for mailing paper checks to State employees. In an effort to reduce costs, the office has asked State agencies to encourage all employees to utilize direct deposit.

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Audit Findings

Audit Period for Last Audit:	February 1, 2006 – June 30, 2009
Issue Date:	April 2010
Number of Findings:	9
Number of Repeat Findings:	2
% of Repeat Findings:	22.2%
Rating: (if applicable)	n/a

Revenue Administration Division

- Finding 1:** Procedures used for ensuring the validity of Social Security numbers reported by taxpayers for dependents were not comprehensive.
- Finding 2:** **Sufficient procedures were not in place to ensure that taxpayers who claimed the earned income tax credit were eligible to receive it.**
- Finding 3:** Certain procedures implemented to ensure the validity of significant tax returns were not uniformly applied.
- Finding 4:** Steps were not taken to ensure lottery winning statements were received and processed in a timely manner.
- Finding 5:** Procedures for ensuring that taxpayer liabilities were reestablished in the State of Maryland Tax System for all dishonored payments should be improved.
- Finding 6:** Controls over refund checks returned from the post office as undeliverable were insufficient.
- Finding 7:** Security reporting, monitoring, and access controls over critical components of the online individual income tax system were inadequate.
- Finding 8:** **Access and monitoring controls over certain mainframe files were inadequate.**
- Finding 9:** Controls over a critical web server were inadequate.

Major Information Technology Projects

Comptroller of the Treasury Modernized Integrated Tax System

Project Description:	The implementation of a modernized tax system and data warehouse.							
Project Business Goals:	The primary goal of the project is to modernize the current tax administration and collection systems and to establish a platform for data warehousing. The data warehouse will be the repository of all taxpayer data and will assist the office with maximizing revenue collections.							
Estimated Total Project Cost:	\$50,209,916				New/Ongoing Project:	Ongoing.		
Project Start Date:	February 2006			Projected Completion Data:	December 2013			
Schedule Status:	The data warehouse component of the project has been implemented. As of January 2011, approximately \$75.0 million in additional tax revenue has been collected due to the analysis and reporting capability of the data warehouse. For the remainder of the project, the Comptroller's Office will continue to expand the use of the data warehouse by adding data from other sources. Likewise, further development of the tools used to analyze, access, and report data will continue over the course of the remainder of the project.							
Cost Status:	The estimated cost of the project has declined by approximately \$29.4 million due to a change in the scope of the project. The Comptroller's Office will develop a revised spending plan during the next development cycle to reflect the continuation of only the data warehouse component of the project.							
Scope Status:	During system testing, the Comptroller's Office discovered that the design of the pilot business integrated tax system had some significant defects. After consulting the vendor, a mutual decision was made to perform a gap analysis to determine issues inherent with the newly designed system. The results of the gap analysis indicated that an enormous level of effort would be required to fix all of the indentified gaps. Due to the high risk of schedule slippage and cost overruns, the Comptroller's Office made the decision to discontinue the integrated tax system module. Consequently, the integrated tax system requirements of the project have been removed from the overall project scope. The new scope only includes the data warehouse component.							
Project Management Oversight Status:	None.							
Identifiable Risks:	A portion of the funds expended for early phase integrated tax system tasks could be lost if the Comptroller's Office and the vendor cannot agree on an appropriate reimbursement arrangement.							
Additional Comments:	None.							
Fiscal Year Funding (000)	Prior Years	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	Balance to Complete	Total
Personnel Services	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Professional and Outside Services	43,840.9	4,588.0	1,781.0	0.0	0.0	0.0	0.0	50,209.9
Other Expenditures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Funding	\$43,840.9	\$4,588.0	\$1,781.0	\$0.0	\$0.0	\$0.0	\$0.0	\$50,209.9

**Object/Fund Difference Report
Comptroller of the Treasury**

<u>Object/Fund</u>	<u>FY 10 Actual</u>	<u>FY 11 Working Appropriation</u>	<u>FY 12 Allowance</u>	<u>FY 11 - FY 12 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	1,111.00	1,107.00	1,123.00	16.00	1.4%
02 Contractual	24.40	42.60	26.60	-16.00	-37.6%
Total Positions	1,135.40	1,149.60	1,149.60	0.00	0%
Objects					
01 Salaries and Wages	\$ 71,913,069	\$ 73,752,429	\$ 78,074,319	\$ 4,321,890	5.9%
02 Technical and Spec. Fees	1,008,816	1,230,058	947,905	-282,153	-22.9%
03 Communication	7,623,370	7,587,521	7,882,961	295,440	3.9%
04 Travel	459,771	471,910	477,985	6,075	1.3%
06 Fuel and Utilities	64,369	64,084	74,956	10,872	17.0%
07 Motor Vehicles	327,557	161,788	277,528	115,740	71.5%
08 Contractual Services	45,025,129	37,539,729	24,069,623	-13,470,106	-35.9%
09 Supplies and Materials	2,385,576	2,512,903	2,241,335	-271,568	-10.8%
10 Equipment – Replacement	2,480,516	900,549	535,216	-365,333	-40.6%
11 Equipment – Additional	545,671	468,350	542,883	74,533	15.9%
12 Grants, Subsidies, and Contributions	58,474	60,758	60,758	0	0%
13 Fixed Charges	1,090,957	1,296,028	1,318,160	22,132	1.7%
14 Land and Structures	88,018	2,750	4,642	1,892	68.8%
Total Objects	\$ 133,071,293	\$ 126,048,857	\$ 116,508,271	-\$ 9,540,586	-7.6%
Funds					
01 General Fund	\$ 72,555,739	\$ 73,651,509	\$ 77,463,843	\$ 3,812,334	5.2%
03 Special Fund	36,403,224	23,629,094	19,521,219	-4,107,875	-17.4%
09 Reimbursable Fund	24,112,330	28,768,254	19,523,209	-9,245,045	-32.1%
Total Funds	\$ 133,071,293	\$ 126,048,857	\$ 116,508,271	-\$ 9,540,586	-7.6%

Note: The fiscal 2011 appropriation does not include deficiencies. The fiscal 2012 allowance does not include contingent reductions.

**Fiscal Summary
Comptroller of the Treasury**

<u>Program/Unit</u>	<u>FY 10 Actual</u>	<u>FY 11 Wrk Approp</u>	<u>FY 12 Allowance</u>	<u>Change</u>	<u>FY 11 - FY 12 % Change</u>
01 Executive Direction	\$ 3,118,421	\$ 3,204,899	\$ 3,363,944	\$ 159,045	5.0%
02 Financial and Support Services	5,462,606	5,507,763	5,909,716	401,953	7.3%
01 Accounting Control and Reporting	5,035,552	5,018,895	5,138,576	119,681	2.4%
01 Estimating of Revenues	707,273	802,935	824,274	21,339	2.7%
01 Revenue Administration	30,674,610	31,513,964	31,641,416	127,452	0.4%
02 Major IT Development Projects	26,302,071	16,713,623	1,570,997	-15,142,626	-90.6%
01 Compliance Administration	26,791,393	28,467,066	29,620,343	1,153,277	4.1%
01 Field Enforcement Administration	4,745,127	4,937,776	5,111,252	173,476	3.5%
01 Payroll Management	2,283,527	2,508,373	2,624,742	116,369	4.6%
01 Annapolis Data Center Operations	15,021,975	14,686,286	15,192,102	505,816	3.4%
02 Comptroller IT Services	12,928,738	12,687,277	14,819,190	2,131,913	16.8%
03 Modernized Integrated Tax System (MITS) Administration Center	0	0	691,719	691,719	0%
Total Expenditures	\$ 133,071,293	\$ 126,048,857	\$ 116,508,271	-\$ 9,540,586	-7.6%
General Fund	\$ 72,555,739	\$ 73,651,509	\$ 77,463,843	\$ 3,812,334	5.2%
Special Fund	36,403,224	23,629,094	19,521,219	-4,107,875	-17.4%
Total Appropriations	\$ 108,958,963	\$ 97,280,603	\$ 96,985,062	-\$ 295,541	-0.3%
Reimbursable Fund	\$ 24,112,330	\$ 28,768,254	\$ 19,523,209	-\$ 9,245,045	-32.1%
Total Funds	\$ 133,071,293	\$ 126,048,857	\$ 116,508,271	-\$ 9,540,586	-7.6%

Note: The fiscal 2011 appropriation does not include deficiencies. The fiscal 2012 allowance does not include contingent reductions.