

E00A
Comptroller of the Treasury

Operating Budget Data

(\$ in Thousands)

	<u>FY 11</u> <u>Actual</u>	<u>FY 12</u> <u>Working</u>	<u>FY 13</u> <u>Allowance</u>	<u>FY 12-13</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$72,556	\$76,280	\$78,568	\$2,288	3.0%
Adjusted General Fund	\$72,556	\$76,280	\$78,568	\$2,288	3.0%
Special Fund	16,211	19,504	18,001	-1,503	-7.7%
Contingent & Back of Bill Reductions	0	0	-500	-500	
Adjusted Special Fund	\$16,211	\$19,504	\$17,501	-\$2,003	-10.3%
Reimbursable Fund	21,312	22,490	19,506	-2,984	-13.3%
Adjusted Reimbursable Fund	\$21,312	\$22,490	\$19,506	-\$2,984	-13.3%
Adjusted Grand Total	\$110,080	\$118,274	\$115,575	-\$2,698	-2.3%

- The Governor's allowance includes a \$330,000 deficiency appropriation which provides funds for 8 contractual full-time equivalent (FTE) staff to handle increased call volume associated with a recent tax compliance initiative.
- The fiscal 2013 allowance decreases by \$2.7 million, or 2.3%, when funds are adjusted for contingent reductions.
- The decline is largely attributable to the significantly lower funding for the Modernized Integrated Tax System (MITS); funding for MITS decreases by \$4.6 million in fiscal 2013.
- Special funds decrease by \$500,000 in fiscal 2013 due to a contingent reduction that lowers funding for the Compliance Division if legislation is enacted altering the Comptroller's abandoned property notification procedure.

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

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Personnel Data

	<u>FY 11 Actual</u>	<u>FY 12 Working</u>	<u>FY 13 Allowance</u>	<u>FY 12-13 Change</u>
Regular Positions	1,107.00	1,110.00	1,110.00	0.00
Contractual FTEs	<u>39.45</u>	<u>30.60</u>	<u>38.60</u>	<u>8.00</u>
Total Personnel	1,146.45	1,140.60	1,148.60	8.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	43.51	3.92%
Positions and Percentage Vacant as of 12/31/11	39.40	3.55%

- No additional regular employees are included in the fiscal 2013 allowance.
- The allowance includes an additional 8 FTEs. The increase reflects staffing needs associated with the driver’s license and vehicle registration renewal clearance project, which stipulates that individuals may not renew their driver’s licenses if they are delinquent on taxes.
- Turnover is set at 3.92% for fiscal 2013, which is about the same as the 3.98% level in fiscal 2012.

Analysis in Brief

Major Trends

Delinquent Tax Collection Efforts Ramped Up: The number of individual delinquencies increased by 10,284, or 6.2%, between fiscal 2010 and 2011. The number of individual delinquencies has increased by 33,169, or 23.1%, since 2008.

Delinquent Tax Collection Revenues Increase: The Comptroller’s Office dedicates a significant amount of resources to maximize the collection of overdue taxes. The agency is responsible for notifying all taxpayers of past due amounts and taking steps to ensure collection. The amount of delinquent income taxes collected increased by \$15.9 million between fiscal 2010 and 2011 and by \$91.9 million between fiscal 2007 and 2011. The increase is attributable to the weak economy and the advent of several additional collection methods that have increased the effectiveness of tax collection efforts.

Issues

Modernized Integrated Tax System a Partial Success: During the 2006 legislative session, the Comptroller’s Office received approval to replace its 20-year-old tax collection system. After examining various options, the agency decided to procure a system that could integrate the accounting and collection functions for all taxes in one database. One element of the system, the data warehouse, has generated \$131.5 million in additional revenue for the State since its inception. However, work on the other component – the integrated tax system – was suspended in 2010 as it was determined that this component of the system could not realistically be made viable. **The Comptroller’s Office should provide further explanation of the data warehouse component of the MITS project including a status report and timeline for project completion and additional information regarding the amount of tax revenue collected. In addition, the agency should comment on the status and, if available, outcome of its effort to negotiate a settlement to recover funds expended on the failed component of the MITS project. Finally, the agency should comment on its future plans regarding the acquisition of a new tax system given the failure of MITS.**

Abandoned Property Notification Procedure: State law requires the Comptroller’s Office to publish notice of abandoned property in local newspapers in the State. The agency spent \$457,366 in fiscal 2011 to print newspaper supplements with the names of individuals who had unclaimed property. If the current procedure were repealed, the agency would still post advertisements in newspapers four times annually to publicize its abandoned property database. This alternative would result in a general fund savings of approximately \$500,000 annually. Moreover, the agency finds that such a change would not significantly hinder the ability of individuals to determine whether the Comptroller’s Office is in possession of their property. **The Comptroller’s Office should comment**

on the impact of the proposal in the 2012 budget reconciliation and financing legislation altering the procedure that must be followed to notify the public of abandoned property in the agency’s possession.

Motor Fuel Tax Collections: The Comptroller’s Office is responsible for the collection of motor fuel tax revenues. A change in the agency’s accounting method resulted in a one-time bump in revenues in fiscal 2011. **The Department of Legislative Services recommends that the Comptroller’s Office discuss why it changed its accounting method for the motor fuel tax.**

Recommended Actions

	<u>Funds</u>
1. Add budget bill language to reduce the funding for applications software maintenance by \$15,000.	
2. Add budget bill language to reduce funding for software upgrades by \$7,000.	
3. Reduce funding for legal services support within the Compliance Division.	\$ 10,000
4. Concur with the contingent reduction that reduces funds for abandoned property notifications.	
Total Reductions	\$ 10,000

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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 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 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:

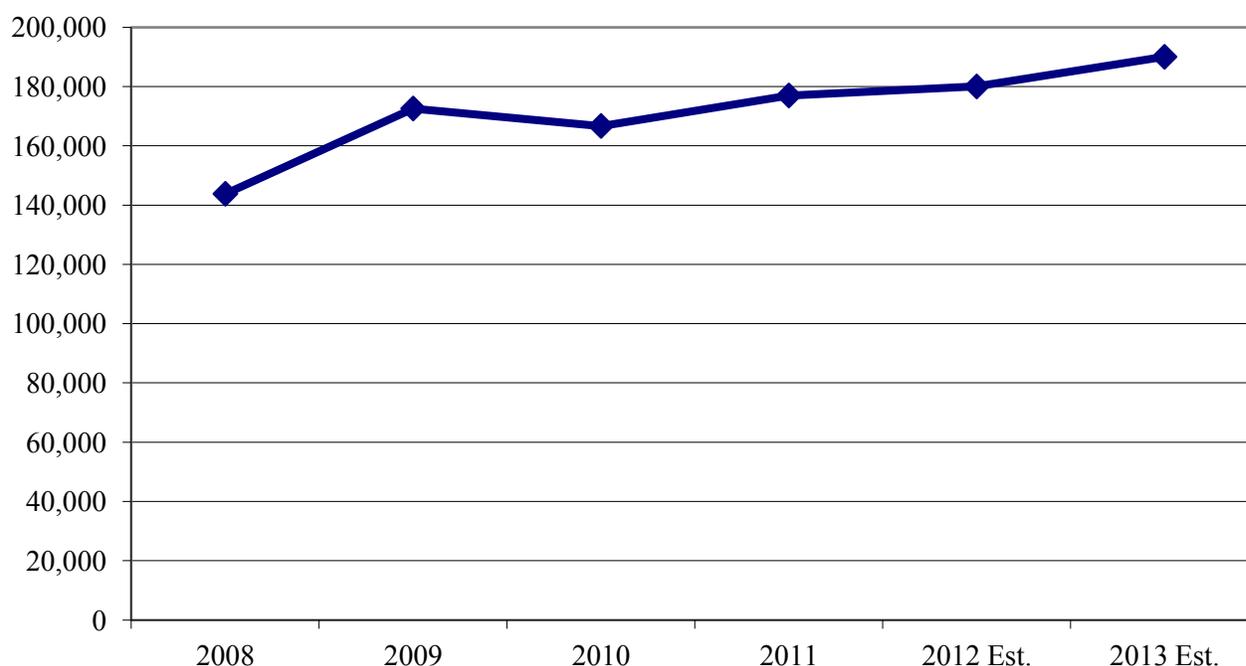
- to provide high quality public service;
- to fully utilize information technology; and
- to vigorously enforce tax laws essential to the fair treatment of all taxpayers.

Performance Analysis: Managing for Results

Delinquent Tax Collection Efforts Ramped Up

The number of individual delinquencies increased by 10,284, or 6.2%, between fiscal 2010 and 2011. **Exhibit 1** displays the number of individual tax delinquencies between fiscal 2008 and 2013. The number of individual delinquencies has increased by 33,169, or 23.1%, since 2008.

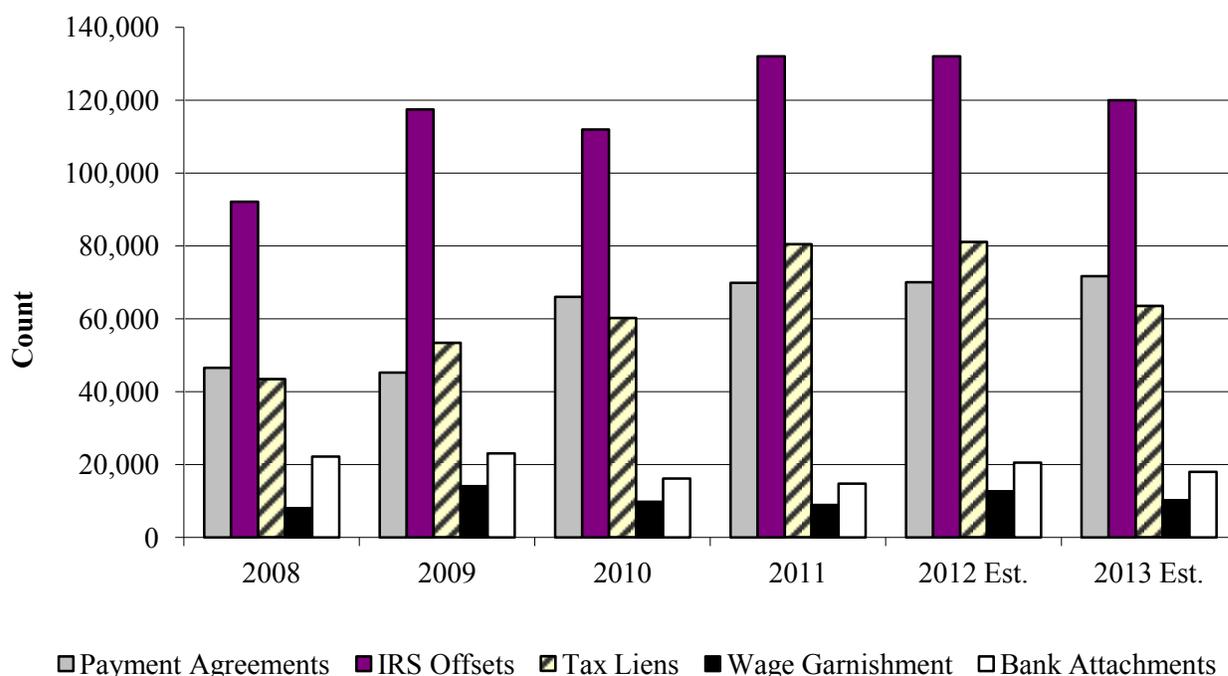
Exhibit 1
Individual Tax Delinquencies
Fiscal 2008-2013



Source: Governor's Budget Books, Fiscal 2010-2013

The Comptroller's goal is to encourage taxpayers to voluntarily comply with tax laws, but many people do not pay their taxes in a timely fashion. The Comptroller uses a variety of tools to recover delinquent taxes. **Exhibit 2** details the utilization of several of the Comptroller's current methods of delinquent tax collection. 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, IRS withholds refunds of those with Maryland tax liabilities. The number of IRS offsets increased by approximately 18% in fiscal 2011 compared to fiscal 2010.

**Exhibit 2
Collection Method Utilization
Fiscal 2008-2013**



IRS: Internal Revenue Service

Source: Governor’s Budget Books, Fiscal 2010-2013

The number of salary garnishments declined slightly and bank attachments decreased by 9.1% in fiscal 2011. The Comptroller’s Office advises that in any given year the agency assigns its staff to collection programs that generate the largest amount of revenue. Salary garnishments and bank attachments are labor-intensive and less effective in bad economic times. In addition, staff has focused some of its efforts on new compliance initiatives, such as the driver’s license and vehicle registration renewal clearance project, which stipulates that individuals may not renew their driver’s licenses if they are delinquent on taxes.

The Comptroller’s Office dedicates a significant amount of resources to maximize the collection of overdue taxes. The agency is responsible for notifying all taxpayers of past due amounts and taking steps to assure collection. The amount of delinquent income taxes collected increased by \$15.9 million between fiscal 2010 and 2011 and by \$91.9 million between fiscal 2007 and 2011. (See **Exhibit 3**.) The increase is attributable to the weak economy and the advent of several additional collection methods that have increased the effectiveness of tax collection efforts.

Exhibit 3
Delinquent Personal Income Taxes Owed and Collected
Fiscal 2007-2011
(\$ in Millions)

<u>Fiscal Year</u>	<u>Taxes Collected</u>	<u>Taxes Owed</u>	<u>Percent Collected</u>
2007	\$172.3	\$347.1	50%
2008	184.2	381.4	48%
2009	195.9	463.0	42%
2010	248.3	640.9	39%
2011	264.2	536.7	49%

Source: Comptroller of Maryland

The Comptroller’s Office advises that the economic downturn that began in 2008 resulted in an increased amount of delinquent taxes owed to the State; thus, beginning in 2008, there was a higher base of delinquent tax obligations upon which to collect. At the same time, the Comptroller implemented several initiatives that improved the agency’s ability to identify, locate, and compel individuals to remit taxes owed. The data warehouse component of the Modernized Integrated Tax System has improved the agency’s ability to analyze data and develop new collection programs. The data warehouse and related revenue generating programs have resulted in the collection of \$131.5 million in revenue since its inception in 2008. As the agency continues to implement the data warehouse and load more sources of data, new tax collections programs will be developed, and continued growth in the collection of additional delinquent taxes is expected.

Fiscal 2012 Actions

Proposed Deficiency

The fiscal 2011 Budget Reconciliation and Financing Act (Chapter 397) prohibited the Motor Vehicle Administration (MVA) from transferring or renewing a vehicle registration or driver’s license if an individual has not paid, or made arrangements to pay, undisputed tax obligations. The Governor’s allowance includes a \$330,000 deficiency appropriation for fiscal 2012 which provides funding for additional Compliance Division contractual full-time equivalents (FTE) to assist with the agency’s MVA-related initiative. The additional staffing is needed to address inquiries from the public regarding this compliance project. Many of the inquiries result in the collection of delinquent taxes; however, in such cases, agency staff must facilitate the collection process, which usually requires setting up

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payment plans, entering data, and other settlement related activities. The fiscal and policy note for Chapter 397 estimated that 10 additional FTEs would be needed to handle the workload. However, the agency only received funding for 4 additional FTEs through the supplemental budget in fiscal 2012. The deficiency appropriation provides funding for 12 more FTEs – for a total of 16 FTEs – in fiscal 2012. The Comptroller’s Office advises that the FTEs were acquired at the beginning of fiscal 2012 when the agency recognized that the volume of inquires would be too much to handle with existing resources.

On average, the agency has received more than 10,000 phone calls per month related to the MVA project; the call volume is so great that an additional phone line was installed. The Comptroller’s Office collected more than \$8 million as a result of this project during the first six months of fiscal 2012. **The Comptroller’s Office should comment on the amount of revenue the agency expects to collect in fiscal 2012 as a result of this initiative, and how this projection compares to the \$25.4 million estimate used by the administration.**

Proposed Budget

As shown in **Exhibit 4**, the fiscal 2013 allowance decreases by \$2.7 million, or 2.3%, when funds are adjusted for contingent reductions.

Personnel Costs

The agency’s personnel costs increase by \$1.3 million in fiscal 2013. Regular employee salaries decrease by \$286,338, but expenditures for employee and retiree health insurance and employee retirement increase by \$2,388,217. The elimination of the one-time \$750 bonus for State employees decreases expenditures by \$834,443. Other personnel costs are relatively stable.

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

How Much It Grows:	General Fund	Special Fund	Reimb. Fund	Total
2012 Working Appropriation	\$76,280	\$19,504	\$22,490	\$118,274
2013 Allowance	<u>78,568</u>	<u>18,001</u>	<u>19,506</u>	<u>116,075</u>
Amount Change	\$2,288	-\$1,503	-\$2,984	-\$2,198
Percent Change	3.0%	-7.7%	-13.3%	-1.9%
 Contingent Reductions	 \$0	 -\$500	 \$0	 -\$500
Adjusted Change	\$2,288	-\$2,003	-\$2,984	-\$2,698
Adjusted Percent Change	3.0%	-10.3%	-13.3%	-2.3%

Where It Goes:

Personnel Expenses

Increments and other compensation	-\$286
Social Security contributions	40
Leave payout and reclassification.....	75
Employee and retiree health insurance	1,359
Employee retirement.....	1,029
Workers' compensation premium assessment.....	-67
Elimination of the \$750 one-time bonus	-834
Other fringe benefit adjustments	-14

Contractual Services

Termination of major component of the MITS project	-4,584
Acquisition of check scanning software	-205
Freight and delivery – reduction in armored car service	-40
Virtual desktop software – remote access for employees	285
Computer and applications maintenance	165
Consulting costs for the <i>Statistics of Income Report</i>	-112
Office assistance	-74
Data processing, training, and other contractual services.....	-176
Contractual fiscal services	-97

Where It Goes:

Contingent Reduction

Repeal of abandoned property notification procedure..... -500

Other Changes

Salaries for contractual staff..... 197

Telephone, postage, and other communications..... -127

Motor vehicle purchases..... -64

Mainframe printers and other equipment acquisition..... -289

Rent and other fixed charges..... -30

Cost allocations..... 1,942

Additional data processing equipment..... -169

Other fringe benefit adjustments..... -122

Total **-\$2,698**

MITS: Modernized Integrated Tax System

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

Modernized Integrated Tax System Funding Again Reduced

The fiscal 2013 allowance includes significantly less funding for the MITS. Funding for the system decreases by \$4.6 million compared with fiscal 2012. The Comptroller’s Office advises that the reduced funding stems from significant problems with the system identified during installation. Work on one major component of the project was halted in December 2010, when a gap outcome of the analysis determined that certain elements of the system could not be implemented without significantly higher costs. Funding for this component of the project is eliminated in fiscal 2013; funding for the data warehouse component continues.

New Technology Utilized to Increase Efficiency, Comply with IRS

The Comptroller’s Office acquired software in fiscal 2012 that allows the agency to scan checks that it receives rather than having them delivered to a bank for deposit. The system became active in fiscal 2012 and, as a result, the agency reduced its costs for armored car services by \$40,000. Annualized savings in fiscal 2013 may be as high as \$80,000. The software can also be used to scan W-2 forms to determine their accuracy and legitimacy. Computer and applications maintenance must still be conducted to bring this system online in fiscal 2013. The system will likely identify many fraudulent or incorrect tax filings, and additional tax compliance revenue may be recovered.

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Software maintenance costs increase by about \$285,000 in fiscal 2013 due to expanded use of a virtual desktop software program for taxpayer services that allows employees to log into the agency's accounting system from remote locations to assist with taxpayer inquiries. The expanded use of this software is an IRS requirement to ensure security and protection when accessing confidential taxpayer information.

Due to funding included in the fiscal 2012 working appropriation and expected funding through a fiscal 2012 deficiency appropriation, the Comptroller's Office will employ 16 FTEs who are assigned to the MVA compliance project. Four of these FTEs were included in the fiscal 2012 working appropriation, and funding for an additional 12 FTEs is included in the deficiency appropriation. Of the total FTEs, only funding for 12 FTEs for the MVA compliance project is included in the fiscal 2013 allowance. Thus, the total number of employees actually decreases by 4 FTEs in fiscal 2013, but – because those FTEs associated with the project are not reflected in the fiscal 2012 working appropriation – it appears that the total number of FTEs with the agency increases by 8. **Exhibit 5** shows (1) the number of FTEs included for the MVA project in the fiscal 2012 working appropriation; (2) the number of FTEs in the deficiency; (3) the number of FTEs after accounting for the deficiency appropriation; (4) the total assumed in the allowance; and (5) the change between fiscal 2012 and 2013.

Exhibit 5
Contractual Staffing for MVA Project
Fiscal 2012-2013

	<u>2012</u> <u>Working</u>	<u>2012 Deficiency</u> <u>Appropriation</u>	<u>2012 Revised</u> <u>Working</u>	<u>2013</u> <u>Allowance</u>	<u>2012-2013</u> <u>Change</u>
MVA Project FTEs	4.0	12.0	16.0	12.0	-4.0
Other FTEs	26.6	0.0	26.6	26.6	0.0
Total FTEs	30.6	12.0	42.6	38.6	-4.0

FTE: full-time equivalent

MVA: Motor Vehicle Administration

Source: Comptroller of Maryland, Department of Legislative Services

The volume of public inquiries is expected to decline in fiscal 2013 and more significantly in future years. As a result, the fiscal 2013 allowance includes continued funding for only 12 FTEs associated with this project. Further staffing reductions are expected in future years. Overall, due to other actions affecting the agency's contractual staffing, contractual salaries increase by \$196,657 in the fiscal 2013 allowance.

Issues

1. Modernized Integrated Tax System a Partial Success

During the 2006 legislative session, the Comptroller’s Office received approval to replace its 20-year-old tax collection system. After examining various options, the agency decided to procure a system that could integrate the accounting and collection functions for all taxes into one database. The MITS project was designed to encompass two modules – an integrated tax system and data warehousing component.

In December 2010, the Comptroller’s Office informed the MITS contractor that it was exercising its right under the contract to suspend all further work on the integrated tax system component of the project. This decision was based on several factors, including the contractor’s inability to meet deliverable deadlines and the likelihood of significant cost increases to make the integrated tax system viable.

Data Warehouse Yields Results, Revenues

Development of the data warehouse component of the MITS project continues and is in its final stages. Nevertheless, the system has been operational for several years, and according to the Comptroller’s Office, the data warehouse and its related revenue programs have generated \$131.5 million in tax revenue since its inception. New programs undertaken include withholding verifications, credit verifications, non-filer programs, and federal data matching programs. As the project continues to be implemented and more sources of data are loaded, new tax collection programs will be developed.

Integrated Tax Component Unusable

No further work has been conducted on the integrated tax component of the MITS since December 2010. This component of the project is fundamentally flawed, and no additional resources will be expended to implement the system. The agency will continue to use the tax system it has had in place since 1995, which remains viable despite its age.

The entire MITS project was expected to cost roughly \$79.8 million when work began in 2008. In 2011, the agency revised its cost estimates to reflect the stoppage of the integrated tax system component; the current plan, which reflects expenses for the data warehouse only, assumes the total cost of the project to be \$50.3 million. **Exhibit 6** displays the initial and revised funding estimates for the MITS project. The MITS project will be completed by August 2013. However, additional funding appears in fiscal 2014 and 2015; this funding is for ongoing maintenance, which will be supported by the agency and not the Department of Information Technology’s Major Information Technology Development Project Fund.

Exhibit 6
Original and Current Funding Plans
Fiscal 2008-2015

<u>Fiscal Year</u>	<u>Original Plan</u>	<u>Current Plan</u>
2008	\$812,816	\$812,816
2009	9,258,120	9,183,120
2010	26,711,483	26,248,646
2011	23,131,823	2,896,862
2012	9,525,303	4,918,649
2013	6,574,712	2,411,805 *
2014	1,371,532	1,371,532
2015	2,423,416	2,423,416
Total	\$79,809,205	\$50,266,846

MITS: Modernized Integrated Tax System

*Funding for the project is transferred to the agency by budget amendment; thus, these funds do not appear in the fiscal 2013 allowance.

Source: Comptroller of Maryland

Although funding for the MITS decreases significantly in future years, the agency is currently in the process of negotiating a settlement with the contractor to recover a portion of prior year expenditures associated with the failed integrated tax system component. Details of the settlement are not available as the negotiation is ongoing. The agency expects to have an agreement in place by March 2012. Any settlement negotiated by the agency must subsequently be approved by the Board of Public Works.

The Comptroller’s Office should provide further explanation of the data warehouse component of the MITS project. Specifically, the agency should provide (1) a status report and timeline for project completion; and (2) additional information regarding the amount of delinquent tax revenue collected and the models through which the data warehouse facilitates collection of unpaid obligations.

In addition, the agency should comment on the status and, if available, outcome of its effort to negotiate a settlement to recover funds expended on the failed component of the MITS project. Finally, the agency should comment on its future plans regarding the acquisition of a new tax system given the failure of MITS.

2. Abandoned Property Notification Procedure

State law requires the Comptroller’s Office to publish notice of abandoned property accounts in local newspapers of general circulation in Maryland. Committee narrative in the 2011 *Joint Chairmen’s Report* required the office to submit a report examining how transitioning to a web-based notification procedure would impact the access of the elderly and individuals in rural jurisdictions to abandoned property information.

Annual Expense to Publish Names Exceeds \$600,000 Annually

In fiscal 2011, the Comptroller’s Office spent \$457,366 to print 923,521 newspaper supplements containing the names of 75,389 individuals who had unclaimed property turned over to the State in 2010. In addition, the agency spent \$144,285 to have these supplements distributed in newspapers throughout Maryland. The agency reunited 4,924 individuals with their abandoned property in fiscal 2011. Only the names of individuals for whom property was received in the preceding calendar year are published in the newspaper supplements. The Comptroller’s abandoned property database, which is available on the agency’s website, is searchable and contains the name and last known address of all individuals in the database, not just those for whom property was received in the preceding year.

The Comptrollers’ Office notes that individuals in rural jurisdictions, the elderly, or others who may not own a computer or have access to the Internet, have several options to determine whether or not the Comptroller’s Office is in possession of their property. These individuals may (1) call the Comptroller’s Office to have a staff member access the database on their behalf; (2) visit one of the 12 locations of the Comptroller’s Office throughout Maryland; or (3) obtain assistance in accessing the database at a local library.

If statute were amended to repeal the requirement specifying that the Comptroller’s Office must publish the names of individuals for whom the agency receives abandoned property in the preceding year, the agency would post advertisements, four times annually, to publicize its abandoned property database. This alternative would result in an approximately \$500,000 general fund savings annually.

Fiscal 2013 Cost Containment

The fiscal 2013 allowance reflects a \$500,000 reduction in special funds contingent upon the enactment of budget reconciliation and financing 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 Comptroller’s website for a complete listing of abandoned property accounts. This proposal was rejected by the General Assembly in fiscal 2010 and 2011.

The Comptroller’s Office should comment on the impact of the proposal in the 2012 budget reconciliation and financing legislation altering the procedure that must be followed to notify the public of abandoned property in the agency’s possession.

3. Motor Fuel Tax Collections

The Comptroller’s Office is responsible for the collection of motor fuel tax revenues. From August to May of each fiscal year, motor fuel tax revenue was accounted for when it was received. In June and July, motor fuel was accounted for slightly differently so that June had a higher level of revenue received while July had a significantly smaller amount of revenue. In this way, revenue in June was accounted for when it was sold instead of when the revenue collected for the major accounts.

In fiscal 2011, the Comptroller’s Office changed how it accounted for revenue. Instead of there being a nominal amount of revenue accounted for in July, the amount of revenue accounted for was \$0. The amount of July revenue was counted toward June 2011, which resulted in a one-time bump of revenues in fiscal 2011. In fiscal 2012 revenues will be artificially lower because there was no revenue booked in July 2011. In subsequent fiscal years the motor fuel tax revenues will flow through normally, essentially this was a one-time accounting change. **The Department of Legislative Services recommends that the Comptroller’s Office discuss why it changed its accounting method for the motor fuel tax.**

Recommended Actions

1. Add the following language:

Provided that the budget for the Comptroller of Maryland shall be reduced by \$15,000 across the board for applications software maintenance.

Explanation: This action reduces funding for applications software maintenance within the budget for the Comptroller of Maryland by \$15,000. The Comptroller is authorized to allocate this reduction across the agency.

2. Add the following language:

Further provided that the budget for the Comptroller of Maryland shall be reduced by \$7,000 in general funds for software upgrades.

Explanation: This action reduces the allowance for software upgrades by \$7,000. The Comptroller is authorized to allocate this reduction across the agency.

- | | <u>Amount
Reduction</u> | |
|--|------------------------------------|----|
| 3. Reduce funding for legal services support within the Compliance Division by \$10,000. This action funds general fund legal services support at \$25,000, which is \$15,000 above the fiscal 2012 working appropriation. | \$ 10,000 | GF |

4. Concur with the following language from 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

Explanation: This action would concur with the Governor's plan to reduce special funds within the Compliance Division contingent upon the enactment of legislation altering the agency's procedure for abandoned property notifications.

Total General Fund Reductions	\$ 10,000
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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 2011					
Legislative Appropriation	\$73,652	\$23,629	\$0	\$18,650	\$115,931
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	0	0	10,268	10,268
Reversions and Cancellations	-1,095	-7,418	0	-7,606	-16,119
Actual Expenditures	\$72,556	\$16,211	\$0	\$21,312	\$110,080
Fiscal 2012					
Legislative Appropriation	\$75,557	\$19,342	\$0	\$19,473	\$114,372
Budget Amendments	723	162	0	3,017	3,901
Working Appropriation	\$76,280	\$19,504	\$0	\$22,490	\$118,274

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

Fiscal 2011

In fiscal 2011, the total budget for the Comptroller’s Office decreased by \$5.9 million. The general fund appropriation decreased by \$1.1 million due to unexpended funds that were cancelled at the end of the fiscal year. Approximately \$700,000 of the general fund appropriation was reverted as a result of 70 vacant positions being held open during the fiscal year. These positions remained open to mitigate potential personnel decreases resulting from the State’s Voluntary Separation Program (VSP). Ultimately, the VSP affected the office minimally, which resulted in a larger than normal general fund reversion. Approximately \$396,000 was reverted due to lower than expected usage of ADC and contractual services costs.

The special fund appropriation decreased by \$7.4 million due to funds that were unexpended during fiscal 2011. Approximately \$6.7 million was cancelled because the agency discontinued work on the troubled MITS project. The balance of the special fund cancellation is attributable to lower than expected Compliance Division costs and personnel expenditures.

The reimbursable fund appropriation increased by a net \$2.7 million over the legislative appropriation. The office received nearly \$10.0 million through a reimbursable fund budget amendment from the Maryland Information Technology Development Project Fund for the MITS. Two budget amendments also transferred \$300,000 from user agencies for postage and other communications expenses. Approximately \$7.6 million in reimbursable funds were cancelled in fiscal 2011; of this total, nearly \$7.1 million was associated with the stoppage of the MITS project. The remaining balance of reverted funds is largely attributable to vacancies at ADC.

Fiscal 2012

The total budget of the Comptroller’s Office’s increased by \$3.9 million over the legislative appropriation. The increase is due to a budget amendment that allocated general and special funds for the one-time \$750 bonus paid to State employees. Special funds also increase by \$50,000 due to a budget amendment received to cover costs associated with a provision in the 2012 Budget Reconciliation and Financing Act (Chapter 397 of 2011) that allows the Central Payroll Bureau to charge a fee to process commercial wage garnishments. One reimbursable fund budget amendment transferred \$3.0 million to the agency for work on the data warehouse component of the MITS project.

Audit Findings

Audit Period for Last Audit:	January 1, 2008 – October 6, 2010
Issue Date:	May 2011
Number of Findings:	2
Number of Repeat Findings:	1
% of Repeat Findings:	50%
Rating: (if applicable)	n/a

Field Enforcement Division

Finding 1: **Inventories of confiscated property (alcohol and tobacco) were not conducted annually as required by the division’s protocol, and records were not always updated to reflect disposals.**

Finding 2: The division lacked sufficient controls over payroll adjustments. The employee responsible for approving timesheets did not verify adjustments to the reports such as payments for overtime or unused leave.

*Bold denotes item repeated in full or part from preceding audit report.

Major Information Technology Projects

Comptroller of the Treasury Modernized Integrated Tax System

Project Status¹	Implementation.	New/Ongoing Project:	Ongoing.
Project Description:	The implementation of the 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 agency with maximizing revenue collections.		
Estimated Total Project Cost¹:	\$50.3 million	Estimated Planning Project Cost¹:	n/a
Project Start Date:	February 2006	Projected Completion Date:	August 2013
Schedule Status:	The data warehouse component of the project has been implemented. As of January 2012, approximately \$131.5 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 \$29.5 million due to a change in the scope of the project.		
Scope Status:	During system testing, the Comptroller's Office discovered that the design of the pilot business integrated tax system had significant defects. After consulting the vendor, a mutual decision was made to perform a gap analysis to determine issues inherent to 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 identified 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.		
Additional Comments:	The Comptroller's Office advises that the MITS project will be completed by August 2013. However, additional funding appears in fiscal 2014 and 2015; this funding is for ongoing maintenance, which will be supported by the agency and not the Department of Information Technology's Major Information Technology Development Project Fund.		

Fiscal Year Funding (\$ in Thousands)	Prior Years	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	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	44,060	2,412	1,372	2,423	0.0	0.0	0.0	50,267
Other Expenditures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Funding	\$44,060	\$2,412	\$1,372	\$2,423	\$0.0	\$0.0	\$0.0	\$50,267

¹ In calendar 2011, a two-step approval process was adopted. Initially, an agency submits a Project Planning Request. After the requirements analysis has been completed and a project has completed all of the planning required through Phase Four of the Systems Development Lifecycle (Requirements Analysis), including a baseline budget and schedule, the agency may submit a Project Implementation Request and begin designing and developing the project when the request is approved. For planning projects, costs are estimated through planning phases. Implementation projects are required to have total development costs.

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

<u>Object/Fund</u>	<u>FY 11 Actual</u>	<u>FY 12 Working Appropriation</u>	<u>FY 13 Allowance</u>	<u>FY 12 - FY 13 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	1,107.00	1,110.00	1,110.00	0.00	0%
02 Contractual	39.45	30.60	38.60	8.00	26.1%
Total Positions	1,146.45	1,140.60	1,148.60	8.00	0.7%
Objects					
01 Salaries and Wages	\$ 72,336,672	\$ 76,718,207	\$ 78,020,307	\$ 1,302,100	1.7%
02 Technical and Spec. Fees	1,304,116	998,436	1,247,377	248,941	24.9%
03 Communication	7,616,605	7,947,961	9,103,207	1,155,246	14.5%
04 Travel	550,683	477,985	474,664	-3,321	-0.7%
06 Fuel and Utilities	62,006	71,155	65,582	-5,573	-7.8%
07 Motor Vehicles	356,620	277,528	223,260	-54,268	-19.6%
08 Contractual Services	20,993,427	27,049,320	22,636,726	-4,412,594	-16.3%
09 Supplies and Materials	2,905,968	2,241,335	2,284,001	42,666	1.9%
10 Equipment – Replacement	1,853,640	535,216	245,828	-289,388	-54.1%
11 Equipment – Additional	555,870	542,883	396,264	-146,619	-27.0%
12 Grants, Subsidies, and Contributions	58,474	60,758	59,422	-1,336	-2.2%
13 Fixed Charges	1,254,484	1,348,159	1,318,371	-29,788	-2.2%
14 Land and Structures	231,223	4,642	200	-4,442	-95.7%
Total Objects	\$ 110,079,788	\$ 118,273,585	\$ 116,075,209	-\$ 2,198,376	-1.9%
Funds					
01 General Fund	\$ 72,556,443	\$ 76,279,630	\$ 78,567,958	\$ 2,288,328	3.0%
03 Special Fund	16,211,122	19,503,603	18,000,766	-1,502,837	-7.7%
09 Reimbursable Fund	21,312,223	22,490,352	19,506,485	-2,983,867	-13.3%
Total Funds	\$ 110,079,788	\$ 118,273,585	\$ 116,075,209	-\$ 2,198,376	-1.9%

Note: The fiscal 2012 appropriation does not include deficiencies. The fiscal 2013 allowance does not include contingent reductions.

**Fiscal Summary
Comptroller of the Treasury**

<u>Program/Unit</u>	<u>FY 11 Actual</u>	<u>FY 12 Wrk Approp</u>	<u>FY 13 Allowance</u>	<u>Change</u>	<u>FY 12 - FY 13 % Change</u>
01 Executive Direction	\$ 3,262,572	\$ 3,327,929	\$ 3,772,139	\$ 444,210	13.3%
02 Financial and Support Services	5,657,396	5,879,818	6,403,266	523,448	8.9%
01 Accounting Control and Reporting	4,711,854	5,100,230	5,131,334	31,104	0.6%
01 Estimating of Revenues	709,682	811,931	730,636	-81,295	-10.0%
01 Revenue Administration	30,830,027	31,266,064	30,930,203	-335,861	-1.1%
02 Major IT Development Projects	2,896,862	4,587,992	0	-4,587,992	-100.0%
01 Compliance Administration	28,068,818	29,742,297	30,617,057	874,760	2.9%
01 Field Enforcement Administration	4,887,034	5,034,413	4,924,168	-110,245	-2.2%
01 Payroll Management	2,436,368	2,555,936	2,677,367	121,431	4.8%
01 Annapolis Data Center Operations	14,255,605	15,148,835	15,140,733	-8,102	-0.1%
02 Comptroller IT Services	12,363,570	14,818,140	15,748,306	930,166	6.3%
Total Expenditures	\$ 110,079,788	\$ 118,273,585	\$ 116,075,209	-\$ 2,198,376	-1.9%
General Fund	\$ 72,556,443	\$ 76,279,630	\$ 78,567,958	\$ 2,288,328	3.0%
Special Fund	16,211,122	19,503,603	18,000,766	-1,502,837	-7.7%
Total Appropriations	\$ 88,767,565	\$ 95,783,233	\$ 96,568,724	\$ 785,491	0.8%
Reimbursable Fund	\$ 21,312,223	\$ 22,490,352	\$ 19,506,485	-\$ 2,983,867	-13.3%
Total Funds	\$ 110,079,788	\$ 118,273,585	\$ 116,075,209	-\$ 2,198,376	-1.9%

Note: The fiscal 2012 appropriation does not include deficiencies. The fiscal 2013 allowance does not include contingent reductions.