

E00A
Comptroller of Maryland

Operating Budget Data

(\$ in Thousands)

	<u>FY 13</u> <u>Actual</u>	<u>FY 14</u> <u>Working</u>	<u>FY 15</u> <u>Allowance</u>	<u>FY 14-15</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$75,794	\$79,848	\$85,868	\$6,021	7.5%
Contingent & Back of Bill Reductions	0	-2,035	-767	1,268	
Adjusted General Fund	\$75,794	\$77,813	\$85,102	\$7,289	9.4%
Special Fund	20,027	20,986	20,187	-800	-3.8%
Contingent & Back of Bill Reductions	0	0	-153	-153	
Adjusted Special Fund	\$20,027	\$20,986	\$20,034	-\$952	-4.5%
Reimbursable Fund	21,488	21,722	19,926	-1,796	-8.3%
Adjusted Reimbursable Fund	\$21,488	\$21,722	\$19,926	-\$1,796	-8.3%
Adjusted Grand Total	\$117,309	\$120,522	\$125,062	\$4,540	3.8%

- There are two negative fiscal 2014 deficiencies totaling \$477,000 in cost containment reductions. These reductions delay implementation of phase two of the document scanning project and reduce ongoing maintenance of software upgrades and personal computer replacements. The reductions are offset by an increase of \$393,179 to hire 11 contractual full-time equivalents (FTE) to assist with implementation of Chapter 309 of 2013 (the Maryland Highway Safety Act).
- As a result of the Comptroller's assumption of Modernized Integrated Tax System (MITS) operating costs from the Department of Information Technology and an increase of \$690,000 to develop new programs to run through the data warehouse, general funds increase by \$3.2 million, special funds decrease by \$655,000, and reimbursable funds decrease by \$1.9 million.
- General funds increase by \$7.3 million, net of \$1.3 million in contingent and back of bill reductions. Aside from MITS operating and maintenance costs, the remaining increase is the result of increases for personnel expenses and personal computer replacements, as well as funding for a security risk assessment.

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

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Personnel Data

	<u>FY 13 Actual</u>	<u>FY 14 Working</u>	<u>FY 15 Allowance</u>	<u>FY 14-15 Change</u>
Regular Positions	1,109.00	1,109.00	1,118.00	9.00
Contractual FTEs	<u>38.60</u>	<u>38.60</u>	<u>27.10</u>	<u>-11.50</u>
Total Personnel	1,147.60	1,147.60	1,145.10	-2.50

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	42.69	3.86%
Positions and Percentage Vacant as of 12/31/13	71.00	6.40%

- The fiscal 2015 allowance reflects 12.0 new regular positions due to contractual conversions for the Motor Vehicle Administration tax clearance program and 3.0 abolished regular positions that are long-term vacancies.
- The fiscal 2015 allowance for contractual FTEs decreases by 12.0 due to contractual conversions. The Board of Revenue Estimates gains 0.5 FTEs to help develop new programs for the data warehouse.
- Turnover is set at 3.86% for fiscal 2015, which is below the fiscal 2014 working appropriation.
- There were 71.0 positions vacant as of December 31, 2013, resulting in a vacancy rate of 6.4%, which exceeds the necessary vacancy rate of 3.86%.

Analysis in Brief

Major Trends

Payment Requests Processed within Five Days: The percent of payment requests processed within five days dropped from 99.9% in fiscal 2011 to 82.0% in fiscal 2013, 17 percentage points below the agency's 99.0% goal. The agency advises that the decline is due in part to recruitment and retention problems within the General Accounting Division. The Comptroller's Office is in the process of developing a web-based application to facilitate the payment request process, which should result in a shortened payment request processing time.

Active Individual Delinquencies and Delinquent Tax Collection Revenue: The Comptroller's Office dedicates a significant amount of resources to maximizing the collection of overdue taxes. The agency is responsible for notifying all taxpayers of past due amounts and taking steps to ensure collection. In addition to the number of individual delinquencies increasing by 15,508, or 7%, between fiscal 2012 and 2013, the amount of delinquent income taxes collected decreased by \$7.3 million during the same period of time.

Tax Forms and Publications Downloaded: The download of tax forms increased dramatically in fiscal 2013 because the agency discontinued printing and mailing tax booklets to the homes of taxpayers who had filed paper returns in the past. This change saved the Comptroller's Office approximately \$100,000 in printing and postage costs and forced taxpayers to either file tax returns electronically or download paper forms and instructions from the Comptroller's website and file by paper. The agency estimates that in future years more taxpayers will take advantage of electronic filing, resulting in a drop in tax forms and publications downloaded from the Comptroller's website.

Issues

Agency Cited for Repeat Audit Findings: In a legislative audit released in August 2013, the Revenue Administration Division was cited with 4 repeat findings out of a total of 10. The Joint Audit Committee continues to be concerned with the number and frequency of repeat audit findings across State agencies. In an effort to see these findings satisfactorily resolved, the committee has asked the budget committees to consider action in the agency budgets where such findings occur. **The Department of Legislative Services (DLS) recommends adding budget bill language withholding a portion of the department's appropriation until the Office of Legislative Audits has determined that the repeat findings have been corrected.**

Data Warehouse Revenue and Programs: According to the Comptroller's Office, the data warehouse and its related revenue programs generated \$232 million in tax revenue between fiscal 2008 and 2013. New programs undertaken include withholding verifications, credit verifications, nonfiler programs, and federal matching programs. There will be an ongoing need for a programmer to create data queries and develop new compliance and collection programs that utilize the data in the warehouse. **The Comptroller's Office should provide additional information**

regarding the models through which the data warehouse facilitates collection of unpaid obligations, any new programs under consideration, and estimated future MITS collection trends. Additionally, the Comptroller's Office should comment on the expected amount of new programs that the Comptroller's Office will be able to identify over the lifetime of the data warehouse, corresponding estimated revenues, and the expected long-term cost of developing these new programs. The Comptroller's Office should also comment on the capacity of the Compliance Division to handle increased findings from the data warehouse and any possible additional costs to fully implementing the data warehouse.

Recommended Actions

	<u>Funds</u>
1. Add language restricting funds until legislative audit findings are remedied.	
2. Increase turnover to 5%.	\$ 825,241
3. Reduce funding for software upgrades.	27,500
4. Reduce funding for computer replacements.	124,751
Total Reductions	\$ 977,492

Updates

Direct Tobacco Shipper's Permit and Common Carrier Permit Report: The 2013 *Joint Chairmen's Report* required the Comptroller, in consultation with the Attorney General, to submit a report providing information on the implementation of the permits for the direct shipment of wine and certain tobacco products. The report was completed and submitted to the legislature in November 2013.

E00A
Comptroller of Maryland

Operating Budget Analysis

Program Description

The Comptroller of Maryland 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 (GAD) 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.

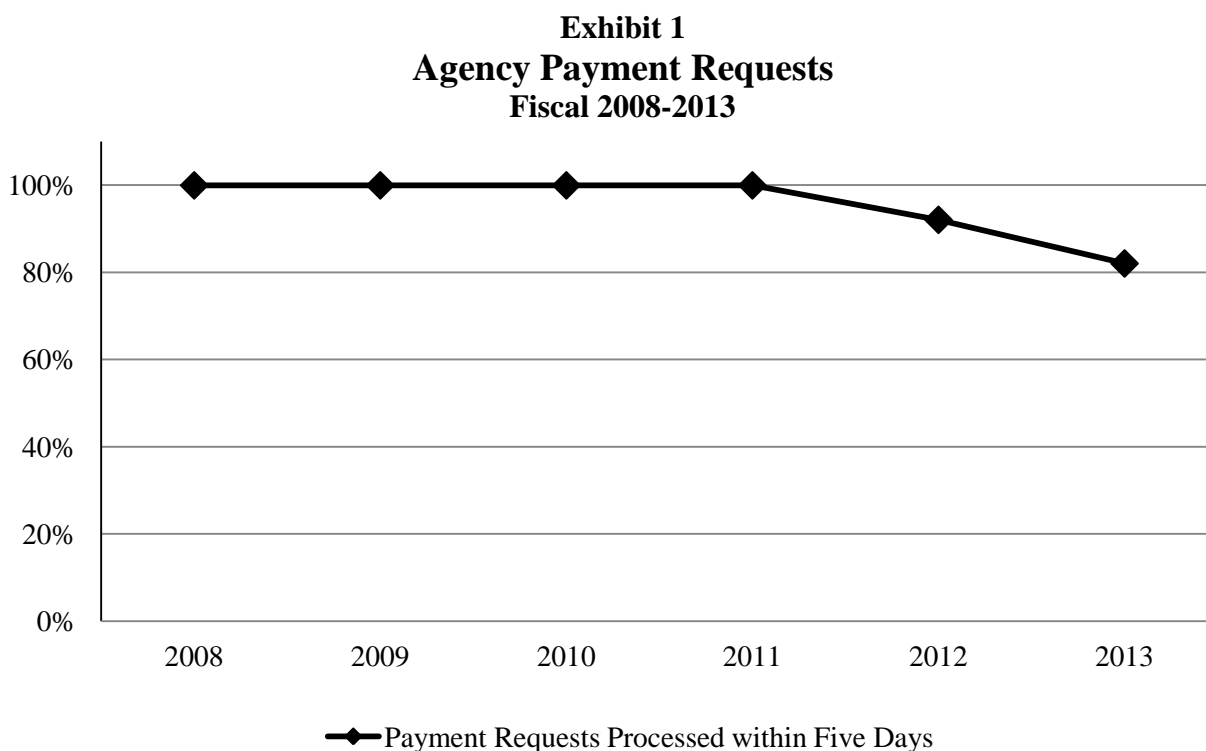
The goals of the Comptroller are to

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

Performance Analysis: Managing for Results

1. Payment Requests Processed within Five Days

It is the Comptroller's policy to pay vendors within 30 days of the receipt of the invoice for goods and services. The Comptroller's Office tries to allow agencies 25 days to receive, review, and approve invoices. GAD then has about 5 days to perform its audit function, process the transaction, and print the check. As shown in **Exhibit 1**, the percent of payment requests processed within 5 days dropped from 99.9% in fiscal 2011 to 82.0% in fiscal 2013, 17 percentage points below the agency's 99.0% goal. The agency advises that the decline is due in part to recruitment and retention problems within GAD. Recently, a high number of GAD employees have retired, and 1 employee has been on extended medical leave for nearly a year.



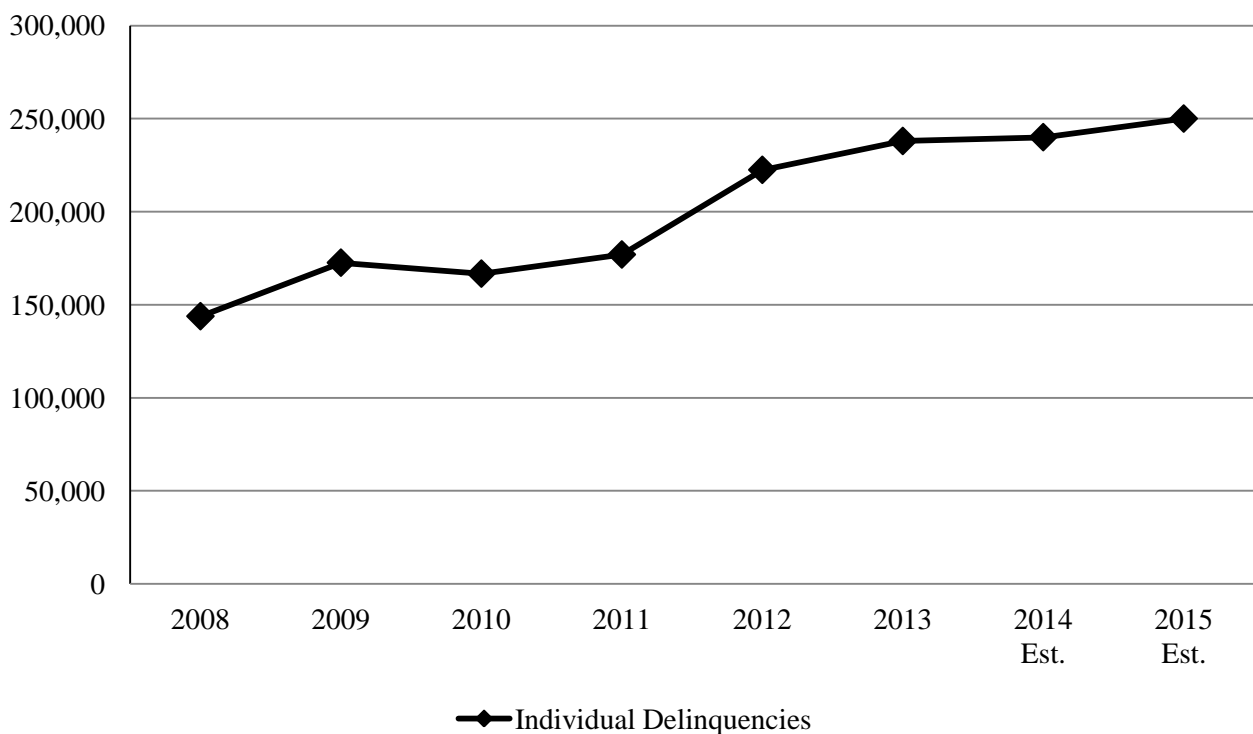
Source: Governor's Budget Books, Fiscal 2009-2015

To address the lengthening payment request processing time, the Comptroller's Office is working to develop a web-based application that will allow agencies to scan invoices and electronically send them to GAD. This should shorten the process by one to two days and make it easier for GAD employees to search for selected agencies and vendors as part of their audit routine. The agency expects the payment request processing time to shorten once the application becomes operational, hopefully in fiscal 2015.

2. Active Individual Delinquencies and Delinquent Tax Collection Revenue

The number of individual delinquencies increased by 15,508, or 7.0%, between fiscal 2012 and 2013. **Exhibit 2** displays the number of individual tax delinquencies between fiscal 2008 and 2015. The number of individual delinquencies has increased by 94,169, or 65.5%, since 2008, when the economy took a downward turn.

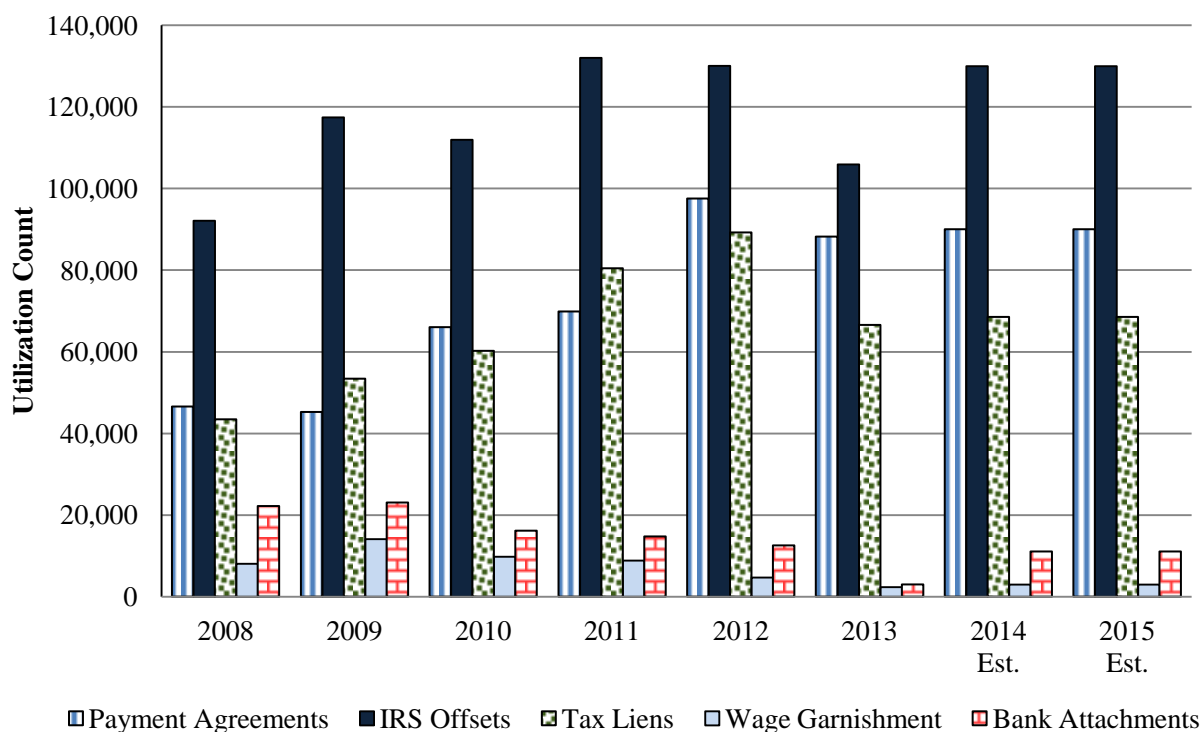
Exhibit 2
Individual Tax Delinquencies
Fiscal 2008-2015 Est.



Source: Governor's Budget Books, Fiscal 2011-2015

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 3** details the utilization of several of the Comptroller's current methods of delinquent tax collection. Internal Revenue Service (IRS) offsets are 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.

Exhibit 3
Collection Method Utilization
Fiscal 2008-2015 Est.



IRS: Internal Revenue Service

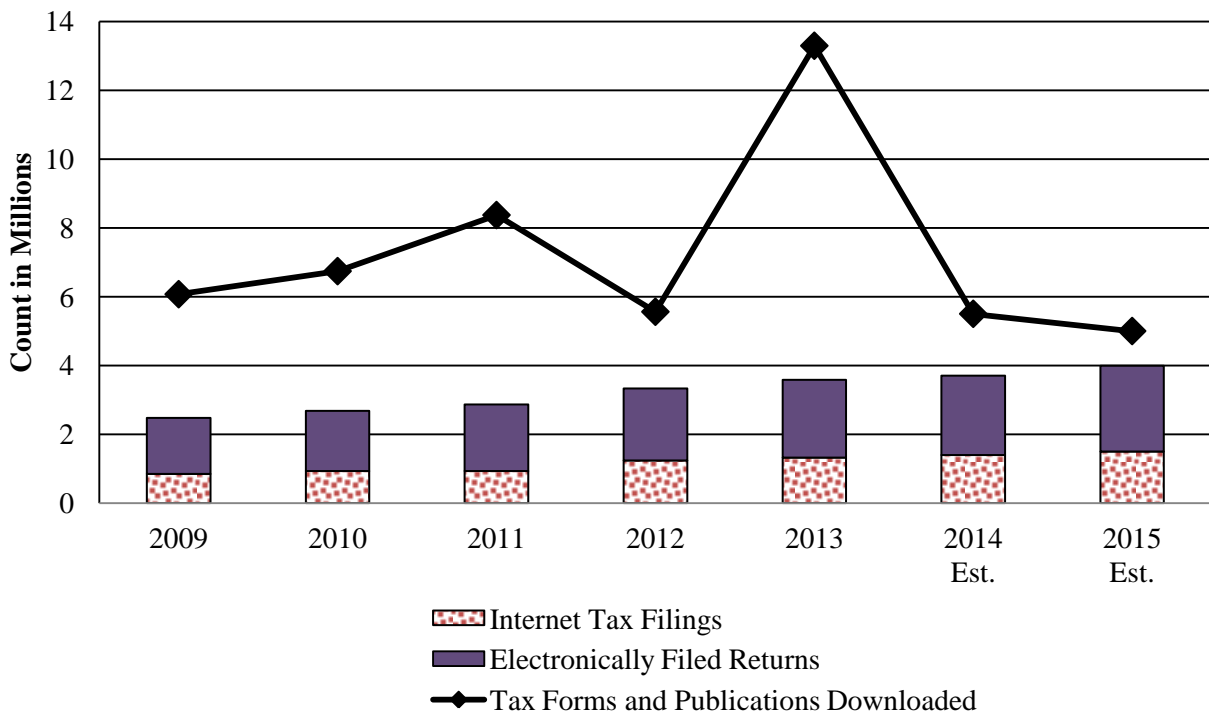
Source: Governor's Budget Books, Fiscal 2011-2015

In addition to individual delinquencies increasing from fiscal 2012 to 2013, delinquent tax collection revenue decreased by \$7.3 million, and the total number of collections program utilizations decreased by 20.4% during the same period of time. According to the Comptroller's Office, the agency could not maintain its previous legal collections and enforcement level while also managing the new Motor Vehicle Administration (MVA) driver's license and vehicle registration renewal program because of staffing and resource issues. Through the MVA program, MVA holds the driving privileges and/or vehicle registration renewal of customers who have not satisfied their outstanding liabilities. The Comptroller's Office focused its collection efforts on the MVA program, which generates the largest amount of revenue. In fiscal 2013, this project aided the agency in collecting approximately \$30.0 million and generating 35,000 calls per month. Bank attachments and salary garnishments are labor intensive and less effective in bad economic times.

3. Tax Forms and Publications Downloaded

The download of tax forms increased by 1.7 million, or 139%, from fiscal 2012 to 2013. The agency attributes this dramatic increase to the 2013 discontinuation of printing and mailing tax booklets to the homes of taxpayers who had filed paper returns in the past. This change saved the Comptroller's Office approximately \$100,000 in printing and postage costs and forced taxpayers to either file tax returns electronically or download paper forms and instructions from the Comptroller's website and file by paper. The agency estimates that in future years more taxpayers will take advantage of electronic and Internet filing, resulting in a drop in tax forms and publications downloaded from the Comptroller's website. Internet filings include iFile, which is directly downloaded from the Comptroller's website, while electronically filed tax returns include electronic filings via commercial software. As shown in **Exhibit 4**, the number of Internet tax filings and electronically filed tax returns has increased steadily since at least fiscal 2009. The amount of downloads has varied from year to year but has remained well above the combined number of Internet and electronic filings.

Exhibit 4
Electronic Filings and Downloads
Fiscal 2009-2015 Est.



Source: Governor's Budget Books, Fiscal 2011-2015

Fiscal 2014 Actions

Proposed Deficiency

The Governor's allowance includes a \$339,179 deficiency appropriation for fiscal 2014, which provides funding for 11 contractual full-time equivalents (FTE) to accommodate the additional walk-in traffic generated by the Maryland Highway Safety Act of 2013. This law allows individuals who cannot show lawful status in the United States to obtain driver's licenses through MVA with two years of Maryland State income tax filings. Although MVA's portion of the program started January 2, 2014, the Comptroller's Office began providing both online and walk-in certifications on November 1, 2013. The 11 FTEs handled 2,769 walk-ins in November and 5,970 in December 2013. The agency expects another 35,000 through June 2014. Funding is not included in the fiscal 2015 budget for these FTEs since the agency anticipates future demand will decrease.

Additionally, there are three across-the-board withdrawn appropriations that offset the increase in deficiency appropriations. This includes reductions to employee/retiree health insurance, funding for a new Statewide Personnel IT system, and retirement reinvestment. These actions are fully explained in the analyses of the Department of Budget and Management (DBM) – Personnel, Department of Information Technology (DoIT), and the State Retirement Agency (SRA), respectively.

Fiscal 2014 Cost Containment

The Governor's allowance includes two fiscal 2014 cost containment reductions for the Comptroller's Office totaling \$477,000 in general funds. A reduction of \$277,000 will delay implementation of phase two of the document scanning project. Phase one of this project involved implementing a system that allows the agency to scan and image daily check deposits. Phase two would expand this project so that the agency can use the same software to scan other tax documents to electronically capture data for tax compliance programs. A reduction of \$200,000 will reduce ongoing maintenance of software upgrades and the number of personal computer replacements.

Proposed Budget

As shown in **Exhibit 5**, the fiscal 2015 allowance increases by \$4.5 million, or 3.8%, when funds are adjusted for contingent reductions.

Cost Containment

There is one across-the-board reduction and one contingent reduction reflected in the Governor's spending plan for the fiscal 2015 allowance. This affects funding for employee/retiree health insurance and retirement reinvestment. These actions are fully explained in the analyses of DBM – Personnel and SRA.

Exhibit 5
Proposed Budget
Comptroller of Maryland
(\$ in Thousands)

How Much It Grows:	General Fund	Special Fund	Reimb. Fund	Total
2014 Working Appropriation	\$77,813	\$20,986	\$21,722	\$120,522
2015 Allowance	<u>85,102</u>	<u>20,034</u>	<u>19,926</u>	<u>125,062</u>
Amount Change	\$7,289	-\$952	-\$1,796	\$4,540
Percent Change	9.4%	-4.5%	-8.3%	3.8%

Where It Goes:**Personnel Expenses**

12 contractual conversions	\$560
Abolished/transferred positions.....	-175
Annualization of fiscal 2014 increments and general salary increase.....	2,317
Retiree contribution rate change	772
Employee and retiree health insurance.....	-918
Workers' compensation premium assessment	-141
Other fringe benefit adjustments	12

Contractual Services

MITS operating expenses.....	690
Comptroller's Annapolis Data Center allocation	414
International Fuel Tax Agreement contribution.....	-470
Security risk assessment.....	375
Statistics of Income and Comprehensive Annual Financial reports.....	80
Tax season temporary staff	85

Other Changes

PC replacements and software upgrades	625
Annapolis Data Center information technology software, equipment, and contractual services	165
Motor vehicle purchases and associated costs	110
Other.....	39
Total	\$4,540

MITS: Modernized Integrated Tax System

PC: personal computer

Note: The fiscal 2014 working appropriation reflects negative deficiencies and contingent reductions. The fiscal 2015 allowance reflects back of the bill and contingent reductions. Numbers may not sum to total due to rounding.

Modernized Integrated Tax System Costs

In fiscal 2015, the Comptroller's Office will assume all Modernized Integrated Tax System (MITS) maintenance and operating costs from DoIT. In fiscal 2014, MITS costs totaled \$3.2 million, \$1.3 million of which was special funds and \$1.9 million of which was reimbursable funds. The fiscal 2015 allowance for MITS maintenance and operating costs increases by \$690,000 over the fiscal 2014 working appropriation. Additionally, \$3.2 million of the funding shifts to general funds, and only \$600,000 remains special funds. The increase of \$690,000 is for contracting with private firms to develop additional collection programs to run in the data warehouse in order to locate individuals not filing or under reporting taxes due to Maryland.

International Fuel Tax Agreement Tax Collection System

In fiscal 2014, the Comptroller's Office spent \$470,000 to cover Maryland's share of the new International Fuel Tax Agreement (IFTA) tax collection system which is being developed by the state of Kentucky. The IFTA authorizes a trucker or company to obtain one fuel tax license, issued by their base jurisdiction, and then allows them to travel in all IFTA member jurisdictions. The \$470,000 was a one-time expense to cover Maryland's share of the IFTA costs to assist Kentucky in taking on these services.

Security Risk Assessment

At the end of calendar 2012, South Carolina's Department of Revenue system was hacked for two months. An estimated 3.6 million Social Security numbers and 387,000 credit card records were compromised. Similar hacking incidents have occurred recently in other states, such as Texas, as well. The fiscal 2015 allowance includes \$375,000 for the Comptroller's Office to conduct an independent audit of its tax system to determine whether there are any data security issues that need to be addressed in order to protect sensitive information from hackers.

Personal Computer Replacements and Software Upgrades

Prior to 2008, the Comptroller's Office had a scheduled computer replacement program to replace between 20 and 25% of all personal computers (PC) each year. Under this program, everyone received a new computer every four to five years, and equipment and software were relatively current and easy to maintain with appropriate security patches. Regular computer replacements were discontinued in fiscal 2008 cost containment. The fiscal 2015 allowance includes an increase of \$576,000 to return to the pre-2008 PC replacement schedule. The \$576,000 would replace nearly 30% of the agency's PCs. An additional \$49,000 is included in the allowance to update software.

Issues

1. Agency Cited for Repeat Audit Findings

In August 2013, the Office of Legislative Audits (OLA) released its audit findings related to RAD. Many of the findings found that RAD did not always verify and/or retain documentation to support claims. For example, auditors identified a number of tax returns claiming credits for out-of-state taxes paid that should have been verified but were omitted from RAD's verification processes. Out-of-state tax credits claimed by taxpayers for tax year 2010 totaled \$237.8 million.

OLA also found internal control deficiencies with respect to taxpayer account adjustments, returned refund checks, information security, and cash receipts. For example, OLA tests disclosed a number of adjustments to reduce taxpayer liabilities that were not reviewed by supervisory personnel as required.

The agency concurred with the audit findings and further responded that it will improve verification and internal control processes.

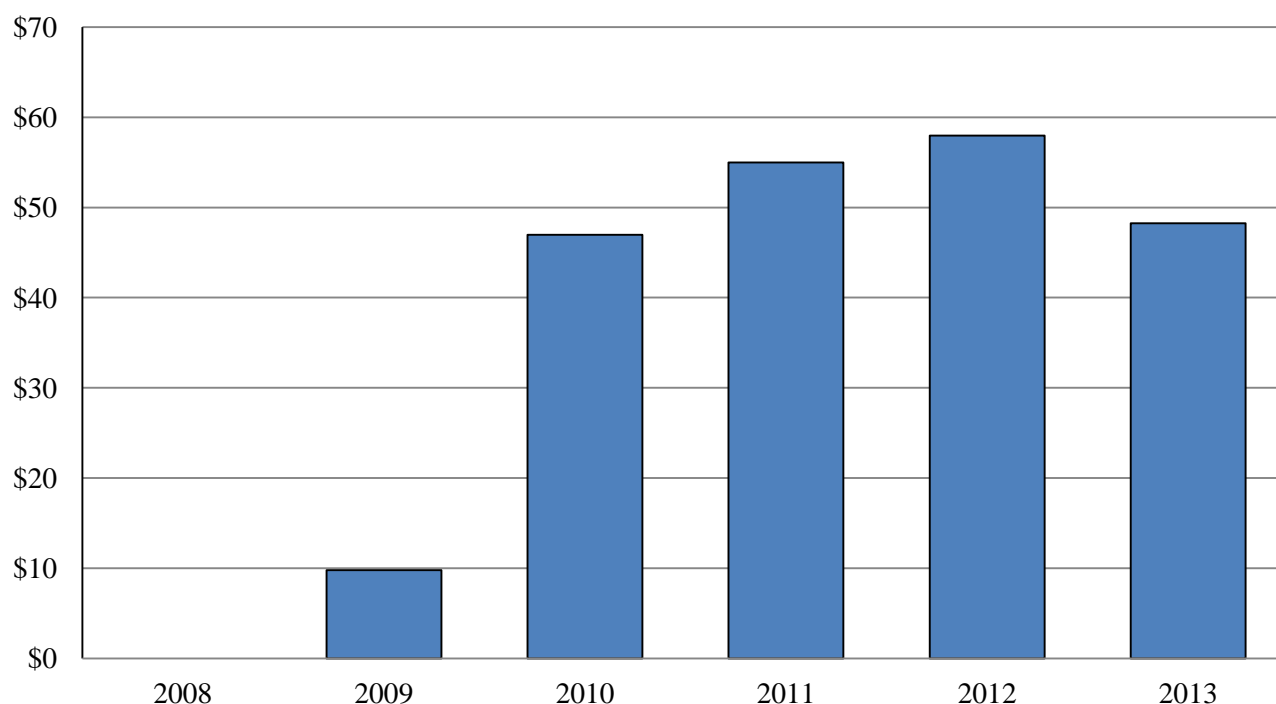
The Joint Audit Committee continues to be concerned with the number and frequency of repeat audit findings across State agencies as cited by OLA. In an effort to see these findings satisfactorily resolved, the committee has asked the budget committees to consider action in the agency budgets where such findings occur. The office's August 2013 audit found that 4 of 10 findings were repeated findings. **Appendix 2** details the findings of the audit.

The Department of Legislative Services (DLS) recommends budget bill language withholding a portion of the agency's appropriation until OLA has determined that the repeat findings have been corrected.

2. Data Warehouse Revenue and Programs

According to the Comptroller's Office, the data warehouse and its related revenue programs generated \$232.0 million in tax revenue between fiscal 2008 and 2013. From fiscal 2008 through 2012, collections from data warehouse activities increased each year, as shown in **Exhibit 6**. Fiscal 2013 is the first year collections from data warehouse activities have decreased. The agency advises that initial data warehouse dollars collected were exceptionally high due to the implementation of new compliance programs. The fiscal 2013 decrease of \$9.7 million, or 16.8%, resulted because the agency has finished introducing new tax collection programs for the data warehouse developed under the initial MITS contract. Once new initiatives are developed and become fully implemented in future years, the agency anticipates data warehouse collections will again increase. Introduction of new programs to run through the data warehouse, as opposed to existing programs that have already been run previously, generally yields the highest revenues. Without additional funding to develop new programs, the Comptroller's Office would expect data warehouse collections to decrease. **The Comptroller's Office should provide additional information regarding the models through which the data warehouse facilitates collection of unpaid obligations, any new programs under consideration, and estimated future MITS collection trends.**

Exhibit 6
Revenues Generated by Data Warehouse
Fiscal 2008-2013
(\$ in Millions)



Source: Comptroller of Maryland

New programs undertaken thus far include withholding verifications, credit verifications, nonfiler programs, and federal matching programs. In January 2013, the agency began using two analytical models developed to look for trends and irregularities in tax return data and flag those returns for review by the Questionable Return Detection Team. This effort has resulted in \$4.1 million in income tax refunds that were determined to be fraudulent. As a result, refunds were stopped and never sent to taxpayers. This \$4.1 million is in addition to the \$48.2 million that was collected through MITS activities in fiscal 2013.

The cost of developing the first of several programs to run through the data warehouse was included in the original MITS contract. As the project continues to be implemented and more sources of data are loaded, new tax collection programs will need to be developed. There will be an ongoing need for a programmer to create data queries and develop new compliance and collection programs that utilize the data in the warehouse. The fiscal 2015 allowance includes an increase of \$690,000 for the Comptroller's Office to contract with private firms to develop additional collection programs to

run in the data warehouse in order to locate individuals not filing or under reporting taxes due to Maryland. **The Comptroller’s Office should comment on the expected number of new programs the Comptroller’s Office will be able to identify over the lifetime of the data warehouse, corresponding estimated revenues, and the expected long-term cost of developing these new programs.**

Based on the success of the data warehouse, most notably the W-2 nonfiler program, the Comptroller’s Office has increased staff in the Compliance Division by 38 regular positions: 16 additional revenue examiners and 6 financial compliance auditors in fiscal 2009, and 16 additional revenue examiners added as contractual FTEs in fiscal 2011 and converted to regular positions in fiscal 2012. Due to the size of the existing office space and the increased amount of staff, the Compliance Division located in the 301 West Preston building in Baltimore City has become overcrowded. The fiscal 2015 allowance includes \$50,000 to relocate a smaller division of the Comptroller’s Office from the West Preston building into leased space in order to provide the Compliance Division with more space and reduce overcrowding. The fiscal 2015 allowance includes \$40,000 to re-hire on contract a long-term employee who retired in fiscal 2013. The employee’s expertise in analyzing income tax data will be used to identify possible analytical models and programs for the data warehouse. **The Comptroller’s Office should comment on the capacity of the Compliance Division to handle increased findings from the data warehouse and any possible additional costs to implementing the data warehouse.**

Recommended Actions

1. Add the following language to the general fund appropriation:

, provided that since the Comptroller of Maryland has had four or more repeat audit findings in the most recent fiscal compliance audit issued by the Office of Legislative Audits (OLA), \$100,000 of this agency's administrative appropriation may not be expended unless:

- (1) the Comptroller of Maryland has taken corrective action with respect to all repeat audit findings on or before November 1, 2014;
- (2) a report is submitted to the budget committees by OLA listing each repeat audit finding along with a determination that each repeat finding was corrected. The budget committees shall have 45 days to review and comment to allow for funds to be released prior to the end of fiscal 2015.

Explanation: The Joint Audit Committee has requested that budget bill language be added for each unit of State government that has four or more repeat audit findings in its most recent fiscal compliance audit. Each such agency is to have a portion of its administrative budget withheld pending the adoption of corrective action by the agency and a determination by OLA that each finding was corrected. OLA shall submit reports to the budget committees on the status of repeat findings.

Information Request	Author	Due Date
Status of corrective actions related to the most recent fiscal compliance audit	OLA	45 days before the release of funds

	<u>Amount Reduction</u>	
2. Increase turnover to 5% to reflect actual turnover in recent years. The agency has sufficient vacancies to absorb this reduction.	\$ 687,096	GF
	\$ 138,145	SF
3. Reduce funding for software upgrades by a total of \$27,500 for the Comptroller's Information Technology Division based on fiscal 2013 actual expenditures for software upgrades. This action reduces funding for software upgrades to the Comptroller's Information Technology Division by \$22,000 in general funds and \$5,500 in special funds.	22,000	GF
	5,500	SF

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| 4. | Reduce funding for computer replacements by a total of \$124,751 for the Comptroller's Information Technology Division. This action reduces agencywide desktop and laptop replacements from 30 to 25% for fiscal 2015. | 106,038 | GF |
| | | 18,713 | SF |

Total Reductions	\$ 977,492
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Total General Fund Reductions	\$ 815,134
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Total Special Fund Reductions	\$ 162,358
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Updates

1. Direct Tobacco Shipper's Permit and Common Carrier Permit Report

The 2013 *Joint Chairmen's Report* required the Comptroller, in consultation with the Attorney General, to submit a report providing information on the implementation of the permits for the direct shipment of wine and certain tobacco products. The report was submitted to the legislature in November 2013.

The minimum age to purchase alcohol in all 50 states is 21. For tobacco purchases, United States customers must be 18 years of age or older in every state except five where the minimum age is 19. In Maryland, wine is the only alcohol that may be shipped directly to a consumer, and premium cigars and pipe tobacco are the only tobacco products that may be shipped directly to a consumer. All out-of-state retailers who ship premium cigars and pipe tobacco to consumers in Maryland require the consumer to affirmatively indicate that he or she is at least 18 years of age. Most retailers use an independent age verification service, such as Veritad, to verify the purchaser's age. However, there are no statutory requirements for the delivery agent to verify the age of the recipient. Out-of-state retailers of premium cigars and pipe tobacco deliver their products using the United States Postal Service, United Parcel Service, and FedEx. While the 2010 Prevent All Cigarette Trafficking Act put some requirements on the methods used to deliver cigarettes and smokeless tobacco to consumers, it does not apply to the shipment of cigars and pipe tobacco.

For 2012, the estimated amount of total sales reported by in-state Maryland licensees of premium cigars and pipe tobacco were \$10,931,200 and \$1,621,333, respectively. As of the date of the report, there have been no incidents reported to the Office of the Comptroller of underage persons illegally receiving wine through the direct wine shipment framework.

As a component of the study of Maryland's market for premium cigars, Sage Policy Group surveyed and analyzed the impact on sales during the nearly two-month ban on the shipment of premium cigars that occurred in May and June 2011, compared to sales over the same period of the previous year. The ban was an unintended consequence of Chapter 388 of 2010, and a stay of enforcement was enacted in June 2011 until the Maryland General Assembly (MGA) had the opportunity to consider the unintended consequence. Ultimately, MGA decided to change the prohibition, permanently ending the ban. The analysis suggested that premium cigar sales increased 13.9 and 19.3% for May and June 2011, respectively, with a cumulative increase of 16.7% over the same period sales in 2010. Prior to the ban, year-over-year sales were expanding at a 7.6% rate. However, it is not clear whether the increased sales percentages continued when the ban was lifted or if the sales percentages retreated to pre-ban rates. Sage estimated that Maryland foregoes tax revenues in excess of \$2.2 million.

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 2013					
Legislative Appropriation	\$78,316	\$17,962	\$0	\$19,506	\$115,785
Deficiency Appropriation	0	1,500	0	0	1,500
Budget Amendments	-752	936	0	2,287	2,471
Reversions and Cancellations	-1,770	-372	0	-305	-2,448
Actual Expenditures	\$75,794	\$20,027	\$0	\$21,488	\$117,309
Fiscal 2014					
Legislative Appropriation	\$78,687	\$20,778	\$0	\$19,639	\$119,104
Budget Amendments	1,161	208	0	2,084	3,453
Working Appropriation	\$79,848	\$20,986	\$0	\$21,722	\$122,557

Note: The fiscal 2014 working appropriation does not include deficiencies or contingent reductions. Numbers may not sum to total due to rounding.

Fiscal 2013

In fiscal 2013, the total budget for the Office of the Comptroller increased by \$3.0 million from the legislative appropriation. The general fund appropriation decreased by a net \$2.5 million due to four budget amendments and \$1.8 million in cancelled funds. The amendments realigned general funds between State agencies for telecommunications expenditures (-\$457,000), realigned general funds between State agencies for health insurance expenditures (-\$225,000), realigned general funds within the agency, and redistributed funds for ADC (-\$70,000). The bulk of the \$1.8 million reversion (\$1.13 million) was due to a surplus in funding to pay ADC for mainframe usage. In fiscal 2013, State agencies were assessed a fee for development of a new Statewide Personnel System. That year, the State spent approximately 48% of this major IT project's appropriated budget, with the remainder reverted to the general fund. As a result, the agency reverted \$312,315 in general funds.

The agency's special fund appropriation increased by a net \$2.1 million from the legislative appropriation due to three budget amendments totaling \$936,334, a \$1.5 million deficiency appropriation, and unexpended funds totaling \$371,941 million. The budget amendments allocated the cost-of-living adjustment (\$436,334) and added \$500,000 to the appropriation because unclaimed property revenues exceeded expectations, thus increasing the total amount paid to the contractor collecting the revenues. The \$1.5 million deficiency appropriation funded the payment of claims related to the remittance of unclaimed property. The bulk of the cancellation (\$343,338) was due to charges that were lower than anticipated by DBM.

The reimbursable fund appropriation increased by a net of \$2.0 million over the legislative appropriation. One budget amendment accounted for a \$2.3 million increase in the appropriation for the data warehouse. The agency cancelled \$305,158 in reimbursable funds, most of which was a result of difficulty filling vacancies at ADC.

Fiscal 2014

The total budget of the Comptroller's Office increased by \$3.5 million over the legislative appropriation. The majority of the increase is due to a reimbursable fund budget amendment from DoIT to cover costs of the MITS project (\$1.9 million). The remainder is the result of general fund (\$1.2 million), special fund (\$208,000), and reimbursable fund (\$119,000) amendments allocating employee increments and the 3% general salary increase. An additional \$60,000 in reimbursable funds was added by budget amendment to fund the cost of mailing paychecks and W-2s to employees.

Audit Findings

Audit Period for Last Audit:	March 2, 2009 – February 14, 2012
Issue Date:	August 2013
Number of Findings:	10
Number of Repeat Findings:	4
% of Repeat Findings:	40%
Rating: (if applicable)	n/a

Revenue Administration Division

- Finding 1:** Required documentation was not always on file to support out-of-state credits claimed on paper tax returns.
- Finding 2:** Processes did not ensure out-of-state credits claimed on electronically filed tax returns were verified.
- Finding 3:** Post-processing reviews of certain out-of-state credits claimed were often untimely and were not subject to supervisory review and evaluation.
- Finding 4:** **Procedures were not in place to ensure that taxpayers reported valid Social Security numbers for dependents claimed.**
- Finding 5:** An automated report of questionable tax returns identified for review purposes did not capture all returns meeting the criteria.
- Finding 6:** **Accountability and verification procedures for refund checks need to be improved.**
- Finding 7:** Significant adjustments to taxpayer accounts were not always reviewed as required.
- Finding 8:** Security software and database monitoring controls over critical systems were not adequate.
- Finding 9:** **Sensitive taxpayer information was unnecessarily stored in plain text and security over sensitive information needs improvement.**
- Finding 10:** **Deposit verification procedures were not sufficient for certain collections.**

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

**Object/Fund Difference Report
Comptroller of Maryland**

<u>Object/Fund</u>	<u>FY 13 Actual</u>	<u>FY 14 Working Appropriation</u>	<u>FY 15 Allowance</u>	<u>FY 14 - FY 15 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	1,109.00	1,109.00	1,118.00	9.00	0.8%
02 Contractual	38.60	38.60	27.10	-11.50	-29.8%
Total Positions	1,147.60	1,147.60	1,145.10	-2.50	-0.2%
Objects					
01 Salaries and Wages	\$ 76,759,803	\$ 82,376,104	\$ 84,385,815	\$ 2,009,711	2.4%
02 Technical and Spec. Fees	1,470,116	1,268,409	1,104,767	-163,642	-12.9%
03 Communication	7,684,544	8,103,113	7,918,117	-184,996	-2.3%
04 Travel	453,165	525,447	515,164	-10,283	-2.0%
06 Fuel and Utilities	47,248	61,232	60,968	-264	-0.4%
07 Motor Vehicles	298,290	324,100	433,601	109,501	33.8%
08 Contractual Services	23,486,520	25,435,103	26,543,743	1,108,640	4.4%
09 Supplies and Materials	2,236,359	2,301,767	2,341,699	39,932	1.7%
10 Equipment – Replacement	1,262,165	405,794	826,001	420,207	103.6%
11 Equipment – Additional	1,832,342	303,100	278,648	-24,452	-8.1%
12 Grants, Subsidies, and Contributions	57,478	59,422	59,422	0	0%
13 Fixed Charges	1,327,450	1,392,857	1,488,151	95,294	6.8%
14 Land and Structures	393,875	150	25,150	25,000	16666.7%
Total Objects	\$ 117,309,355	\$ 122,556,598	\$ 125,981,246	\$ 3,424,648	2.8%
Funds					
01 General Fund	\$ 75,794,358	\$ 79,847,757	\$ 85,868,340	\$ 6,020,583	7.5%
03 Special Fund	20,026,865	20,986,354	20,186,660	-799,694	-3.8%
09 Reimbursable Fund	21,488,132	21,722,487	19,926,246	-1,796,241	-8.3%
Total Funds	\$ 117,309,355	\$ 122,556,598	\$ 125,981,246	\$ 3,424,648	2.8%

Note: The fiscal 2014 appropriation does not include deficiencies. The fiscal 2015 allowance does not include contingent reductions.

**Fiscal Summary
Comptroller of Maryland**

<u>Program/Unit</u>	<u>FY 13 Actual</u>	<u>FY 14 Wrk Approp</u>	<u>FY 15 Allowance</u>	<u>Change</u>	<u>FY 14 - FY 15 % Change</u>
01 Executive Direction	\$ 3,654,813	\$ 3,879,546	\$ 3,981,172	\$ 101,626	2.6%
02 Financial and Support Services	5,972,928	6,904,843	6,575,437	-329,406	-4.8%
01 Accounting Control and Reporting	4,925,223	5,329,378	5,443,760	114,382	2.1%
01 Estimating of Revenues	703,212	852,334	835,316	-17,018	-2.0%
01 Revenue Administration	30,984,253	32,793,062	32,346,932	-446,130	-1.4%
02 Major IT Development Projects	2,286,804	3,186,000	0	-3,186,000	-100.0%
01 Compliance Administration	32,330,290	32,280,074	32,849,182	569,108	1.8%
01 Field Enforcement Administration	5,059,159	5,432,820	5,458,373	25,553	0.5%
01 Payroll Management	2,521,326	2,803,466	2,819,217	15,751	0.6%
01 Annapolis Data Center Operations	14,890,820	15,092,821	15,363,993	271,172	1.8%
02 Comptroller IT Services	13,980,527	14,002,254	20,307,864	6,305,610	45.0%
Total Expenditures	\$ 117,309,355	\$ 122,556,598	\$ 125,981,246	\$ 3,424,648	2.8%
General Fund	\$ 75,794,358	\$ 79,847,757	\$ 85,868,340	\$ 6,020,583	7.5%
Special Fund	20,026,865	20,986,354	20,186,660	-799,694	-3.8%
Total Appropriations	\$ 95,821,223	\$ 100,834,111	\$ 106,055,000	\$ 5,220,889	5.2%
Reimbursable Fund	\$ 21,488,132	\$ 21,722,487	\$ 19,926,246	-\$ 1,796,241	-8.3%
Total Funds	\$ 117,309,355	\$ 122,556,598	\$ 125,981,246	\$ 3,424,648	2.8%

Note: The fiscal 2014 appropriation does not include deficiencies. The fiscal 2015 allowance does not include contingent reductions.