

E00A
Comptroller of Maryland

Operating Budget Data

(\$ in Thousands)

	<u>FY 14</u> <u>Actual</u>	<u>FY 15</u> <u>Working</u>	<u>FY 16</u> <u>Allowance</u>	<u>FY 15-16</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$75,117	\$83,875	\$88,736	\$4,862	5.8%
Deficiencies and Reductions	0	-1,617	-3,694	-2,077	
Adjusted General Fund	\$75,117	\$82,258	\$85,043	\$2,785	3.4%
Special Fund	21,356	19,924	23,611	3,687	18.5%
Deficiencies and Reductions	0	1,000	-965	-1,965	
Adjusted Special Fund	\$21,356	\$20,924	\$22,646	\$1,722	8.2%
Reimbursable Fund	19,833	19,926	20,141	215	1.1%
Adjusted Reimbursable Fund	\$19,833	\$19,926	\$20,141	\$215	1.1%
Adjusted Grand Total	\$116,306	\$123,108	\$127,830	\$4,721	3.8%

Note: The fiscal 2015 working appropriation reflects deficiencies and the Board of Public Works reductions to the extent that they can be identified by program. The fiscal 2016 allowance reflects back of the bill and contingent reductions to the extent that they can be identified by program.

- There are two fiscal 2015 deficiencies totaling \$1.1 million. The first deficiency is for \$60,923 in general funds to provide funds for the creation of 12 new positions related to tax compliance initiatives. The second deficiency totals \$1.0 million in special funds to pay for vendors for finding and remitting abandoned property to the State.
- General funds increase by \$2.8 million, net of \$2.1 million in contingent and back of bill reductions. The increase is the result of 12 new compliance personnel added to the Comptroller's Office along with significant increases in employee and retiree health insurance and the employee retirement system.

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

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E00A – Comptroller of Maryland

- Special funds increase by \$1.7 million, net of \$1.0 million in contingent and back of bill reductions. The increase is a result of two major items. The first is the \$1.1 million budgeted for the portion of the first year's costs for the new Integrated Tax System (ITS). The second is an increase of \$1.4 million for commissions paid to audit firms that find and remit unclaimed property to the State.

Personnel Data

	<u>FY 14 Actual</u>	<u>FY 15 Working</u>	<u>FY 16 Allowance</u>	<u>FY 15-16 Change</u>
Regular Positions	1,121.00	1,118.00	1,127.90	9.90
Contractual FTEs	<u>38.60</u>	<u>27.10*</u>	<u>28.50</u>	<u>1.4</u>
Total Personnel	1,159.60	1,157.10	1,156.40	11.30

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions

61.82 5.54%

Positions and Percentage Vacant as of 1/1/15

87.10 7.79%

* The Comptroller advises that the number of contractual full-time equivalents (FTE) in the Governor's budget book is incorrect.

- The fiscal 2016 allowance reflects 12.0 new regular positions in the Compliance Division. This includes 7.0 revenue specialists, 2.0 revenue examiners, 1.0 revenue administrator, 1.0 financial compliance auditor, and 1.0 tax consultant. 2.1 vacant positions were also abolished in the allowance.
- The fiscal 2016 allowance for contractual FTEs increases by 1.4 due to the retention of 2 former employees on an as needed basis for the State of Maryland Automated Tracking System tax system as well as the data warehouse.
- There were 87.1 positions vacant as of January 1, 2015, resulting in a vacancy rate of 7.79%, which exceeds the necessary vacancy rate of 5.54%.

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 86.0% in fiscal 2014, 13 percentage points below the agency's 99.0% goal. However, the percent of payment requests processed within five days increased between fiscal 2013 and 2014.

Tax Forms and Publications Downloaded: 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. In 2013, the agency discontinued the printing and mailing of tax booklets to the homes of taxpayers who had filed paper returns in the past.

Issues

Compliance Division and the Collection of Unpaid Taxes: The Compliance Division enforces all tax laws administered by the Comptroller, including those relating to individual income taxes and business taxes, such as corporate income, withholding, and sales and use taxes. The division conducts taxpayer audits and investigations, and collects delinquent taxes. Delinquent tax collection revenue increased by \$19.4 million, and the total number of collections program utilizations increased by 14.2% during fiscal 2014. In the same fiscal year, \$159.9 million was reported as unclaimed property, while only \$62.0 million was paid back to owners netting the State about \$98.0 million in the general fund. **The Comptroller's Office should comment on why it expects to find more individual and business tax delinquents in future years and the current measures it is taking to decrease the amount of delinquents. The agency should also comment on what types of tax delinquent cases that the Comptroller is unable to collect and why they are unable to collect.**

Big Data Analytics: During fiscal 2014, the Comptroller's Office was provided additional funding to contract with private firms to develop additional collection programs to run with Comptroller's data warehouse in order to locate individuals who were either not filing or underreporting their tax obligations in Maryland. Other states have run similar successful big data analytical projections of tax evaders with private firms and have recouped millions of dollars. The Comptroller's Office currently works with one primary contract and three subcontractors to collaborate and develop new models and programs that generate extra revenue for the State. As the Comptroller's Office has implemented new data models and enhanced existing models with its big data analytics, the agency has been able to identify and capture \$271.2 million since 2009. **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, how the data warehouse will be integrated into the ITS, corresponding estimated revenues, and the expected long-term cost of developing these new programs.**

Recommended Actions

	<u>Funds</u>
1. Cut 0.4 contractual full-time equivalents (FTE) to bring FTE count back to the fiscal 2015 level.	\$ 26,157
2. Cut 1 unneeded contractual full-time equivalent in the Bureau of Revenue Estimates to bring the agency back to the fiscal 2015 level.	22,937
3. Delete funds for the Integrated Tax System.	1,090,308
4. Add language to reduce \$580,000 contingent cut upon enactment of the Budget Reconciliation and Financing Act of 2015 repealing current notification procedure of advertising abandoned property in local newspapers.	
Total Reductions	\$ 1,139,402

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 has 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.

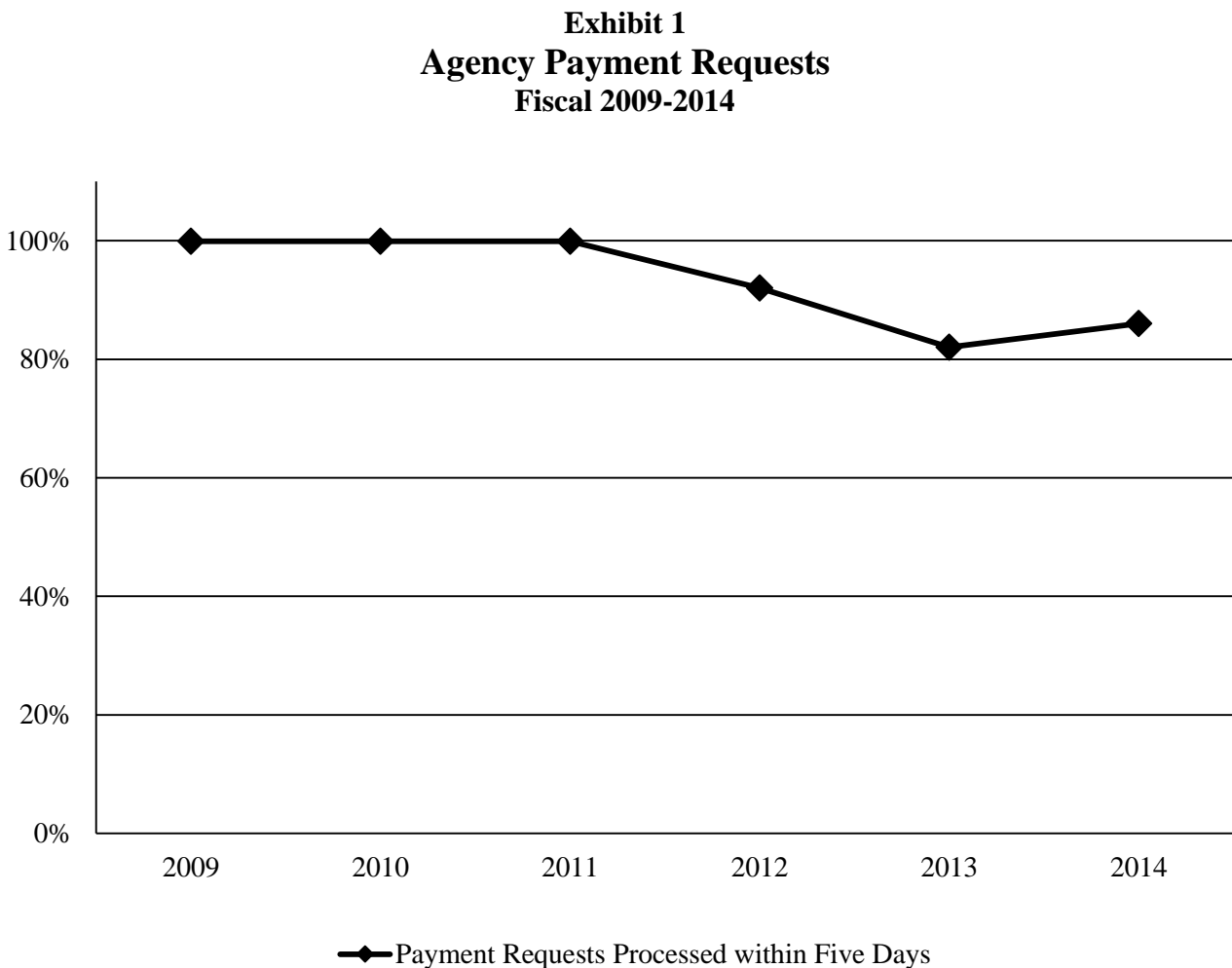
The goals of the Comptroller are to

- 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. However, the downward trend ended in fiscal 2014 when the percent of payment requests processed within 5 days increased between fiscal 2013 and 2014. The agency advises that the increase is due to a vacant position being filled with a highly skilled employee.

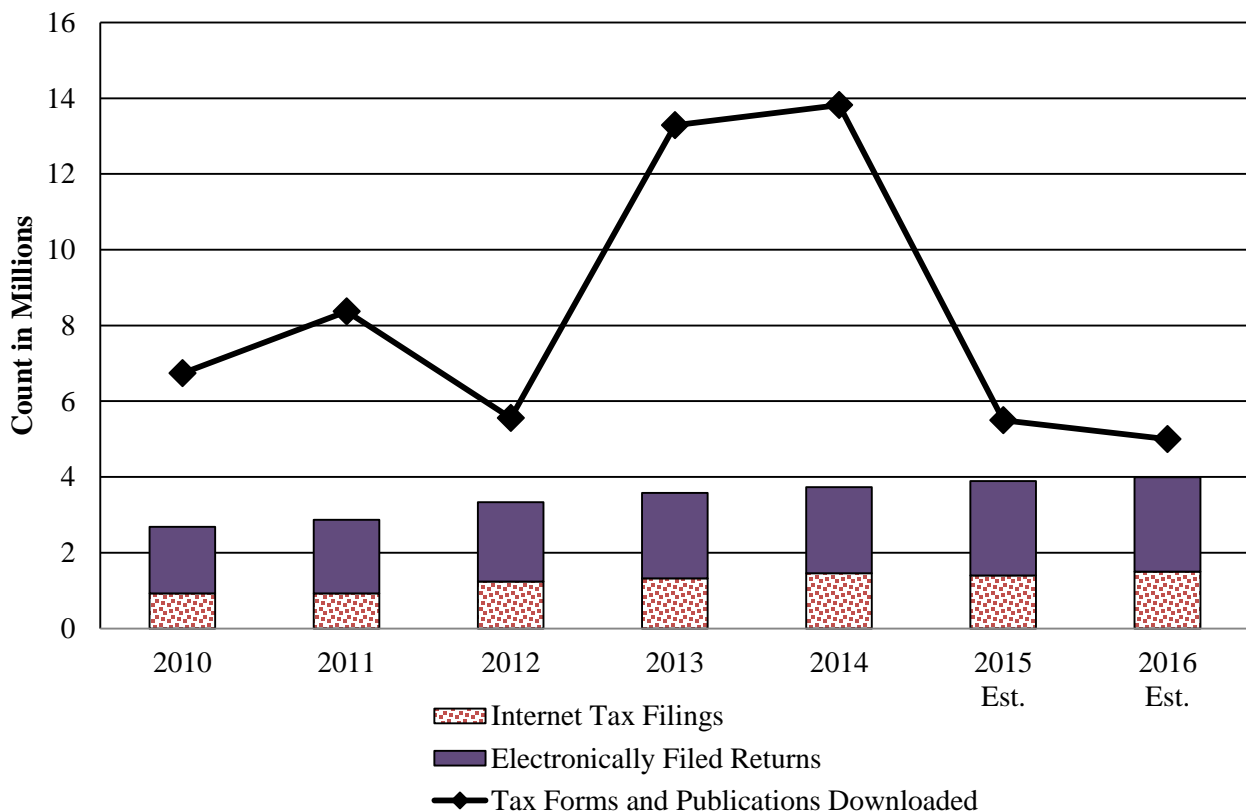


Source: Governor's Budget Books, Fiscal 2009-2015

2. Tax Forms and Publications Downloaded

The download of tax forms increased by 530,000, or 4%, from fiscal 2013 to 2014. The agency attributes this 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 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 of 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 2**, 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 2
Electronic Filings and Downloads
Fiscal 2010-2016 Est.



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

Fiscal 2015 Actions

Exhibit 3 shows the overall impact of the cost containment actions on the fiscal 2015 appropriation.

Exhibit 3 Fiscal 2015 Reconciliation (\$ in Thousands)

<u>Action</u>	<u>Description</u>	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Legislative Appropriation with Budget Amendments		\$84,300	\$19,924	\$0	\$19,926	\$124,150
July BPW	Reduce funding for replacement computers and peripherals and eliminate funding no longer needed for GASB announcements.	-425	0	0	0	-425
Working Appropriation		\$83,875	\$19,924	\$0	\$19,926	\$123,725
January BPW Across the Board	2% across-the-board reduction.	-1,677	0	0	0	-1,677
Deficiency Appropriations	Provide general funds for creation of 12 new tax compliance positions. Provide special funds to pay vendors for finding and remitting abandoned property to the State.	61	1,000	0	0	1,061
Total Actions Since January 2015		-\$1,617	\$1,000	\$0	\$0	-\$617
Adjusted Working Appropriation		\$82,258	\$20,924	\$0	\$19,926	\$123,108

BPW: Board of Public Works

GASB: Government Accounting Standards Board

Source: Department of Legislative Services

Proposed Deficiency

There are two fiscal 2015 deficiencies totaling \$1.1 million. The first deficiency is for \$60,923 in general funds to provide funds for the creation of 12 new positions related to tax compliance initiatives. The second deficiency totals \$1.0 million in special funds to pay for vendors for finding and remitting abandoned property to the State.

Cost Containment

On July 2, 2014, the Board of Public Works (BPW) withdrew \$77.1 million in appropriations and abolished 61 positions statewide as fiscal 2015 cost containment. This agency's share of the reduction was \$425,422 for the following purposes: reduce funding for replacement computers and peripherals and eliminate funding no longer needed for Governmental Accounting Standards Board (GASB) announcements.

On January 7, 2015, BPW withdrew an additional \$198.0 million in general fund appropriations. The Comptroller Office's share of the reduction was \$1.7 million in general funds due to a 2% across-the-board reduction that impacted all agencies.

Proposed Budget

As shown in **Exhibit 4**, the fiscal 2016 allowance increases by \$4.7 million, or 3.8%, when funds are adjusted for back of the bill reductions.

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

How Much It Grows:	<u>General Fund</u>	<u>Special Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2014 Actual	\$75,117	\$21,356	\$19,833	\$116,306
Fiscal 2015 Working Appropriation	82,258	20,924	19,926	123,108
Fiscal 2016 Allowance	<u>85,043</u>	<u>22,646</u>	<u>20,141</u>	<u>127,830</u>
Fiscal 2015-2016 Amt. Change	\$2,785	\$1,722	\$215	\$4,721
Fiscal 2015-2016 Percent Change	3.4%	8.2%	1.1%	3.8%

E00A – Comptroller of Maryland

Where It Goes:

Personnel Expenses

Employee and retiree health insurance	\$1,860
Increments and other compensation (prior to cost containment)	1,156
Employee retirement	878
12 new positions in Compliance Division	758
Accrued leave payout	-59
2.1 abolished vacant positions	-176
Turnover adjustments	-410
Section 21: Abolition of employee increments	-1,099
Section 20: Abolition of prior year 2% salary increase	-1,234
Other fringe benefit adjustments	203

Contractual Services

First year's cost of Integrated Tax System major IT project	1,090
Extension of software license for Computer Assisted Collection System	850
Commissions to audit firms to find and remit unclaimed property	400
Lockbox services by Citibank for processing certain tax payments	250
Programming support for tax compliance models	225
Vendor contract for disaster recovery for mainframe computers	-99
Database library tool to replace software for Annapolis Data Center mainframe	-109
Use of one-time funds in fiscal 2015 to purchase help desk hardware and software	-375

Other Changes

Replace aging PCs and laptops	347
Postage	316
Microsoft Office software	170
DBM Enterprise Budget System allocation	145
Upgrade information technology servers	100
DBM paid IT allocation	91
In- and out-of-state conference travel	90
1.4 new contractual FTEs to support tax collection and data warehouse projects	83
Office supplies	-43
Section 19: Difference in 2% across-the-board reduction	-68
IT services – Annapolis Data Center	-71
Vehicle replacement postponement	-92
DBM personnel system allocation	-142
IT application software maintenance	-226
Other miscellaneous changes	-87

Total **\$4,721**

DBM: Department of Budget and Management

FTE: full-time equivalent

IT: Information Technology

PC: personal computer

Note: Numbers may not sum to total due to rounding. The fiscal 2015 working appropriation reflects deficiencies and the Board of Public Works reductions to the extent that they can be identified by program. The fiscal 2016 allowance reflects back of the bill and contingent reductions to the extent that they can be identified by program.

Cost Containment

In fiscal 2016, the Administration has implemented several across-the-board reductions. This includes a general 2% reduction, elimination of employee increments, and a revision to the salary plan, which reflects the abolition of the 2% general salary increase provided on January 1, 2015. This agency's share of these reductions is \$4.1 million.

Personnel Expenses

Aside from the Governor's cost containment measures, personnel expenses drive changes in the fiscal 2016 allowance. Large increases in personnel expenses include employee and retiree health insurance for \$1.9 million and employee retirement for \$878,115. The allowance includes \$758,340 in expenses related to the 12 new positions in the Compliance Division to implement a series of new tax collection initiatives. A corresponding increase in general fund revenue is assumed by the Administration. The revenue projection from these positions is \$12.0 million. The Comptroller's Return of Assets (ROA) was approximately 10 to 1 for other projects such as the Motor Vehicle Administration (MVA) license program and the Modernized Integrated Tax System (MITS) data warehouse. The Comptroller's Office used this ROA to estimate the amount of extra revenue the State would bring in per each position.

Integrated Tax System

The fiscal 2016 allowance includes \$1.1 million in special funds for a new major IT system for the Comptroller's Office. There is also approximately \$1.5 million in general funds in the Department of Information Technology's (DoIT) budget for the Integrated Tax System (ITS). The ITS is a project that will replace the agency's State of Maryland tax system, Computer Assisted Collection System and other outdated tax processing systems. It will also integrate with the State's data warehouse to expand revenue generating projects. Most tax types are expected to be integrated into the new system bringing efficiencies to the workflow and automating functions within the agency that are not possible within current systems. The estimated total project cost is \$110 million. **The Department of Legislative Services (DLS) recommends deleting funds relating to the ITS this year. Considering the cost of the project, the risks of the project, as well as State revenues' slow growth, DLS recommends that the project not be funded at this time.**

Finding and Remittance of Unclaimed Property

In the fiscal 2016 allowance, \$400,000 above the fiscal 2015 working appropriation, including the deficiency, is included for commissions paid to audit firms that find and remit unclaimed property to the State. Based on the contracts, the Comptroller's Office pays a 12% commission to the audit firms that find unclaimed property that they remit to Maryland. These audit firms generally perform audits at banks, brokerage firms, and insurance companies and use their auditing tools to look for accounts where the owner of the account is deceased and no beneficiary is listed, or the one listed cannot be found or contacted. In this case, the assets are turned over to the state in which the owner lived. In fiscal 2014, \$150.4 million was reported to the Comptroller's Office and the agency paid

E00A – Comptroller of Maryland

approximately \$62.0 million back in owner claims. After covering the costs of administration and legal aid, about \$82.9 million went toward the general fund.

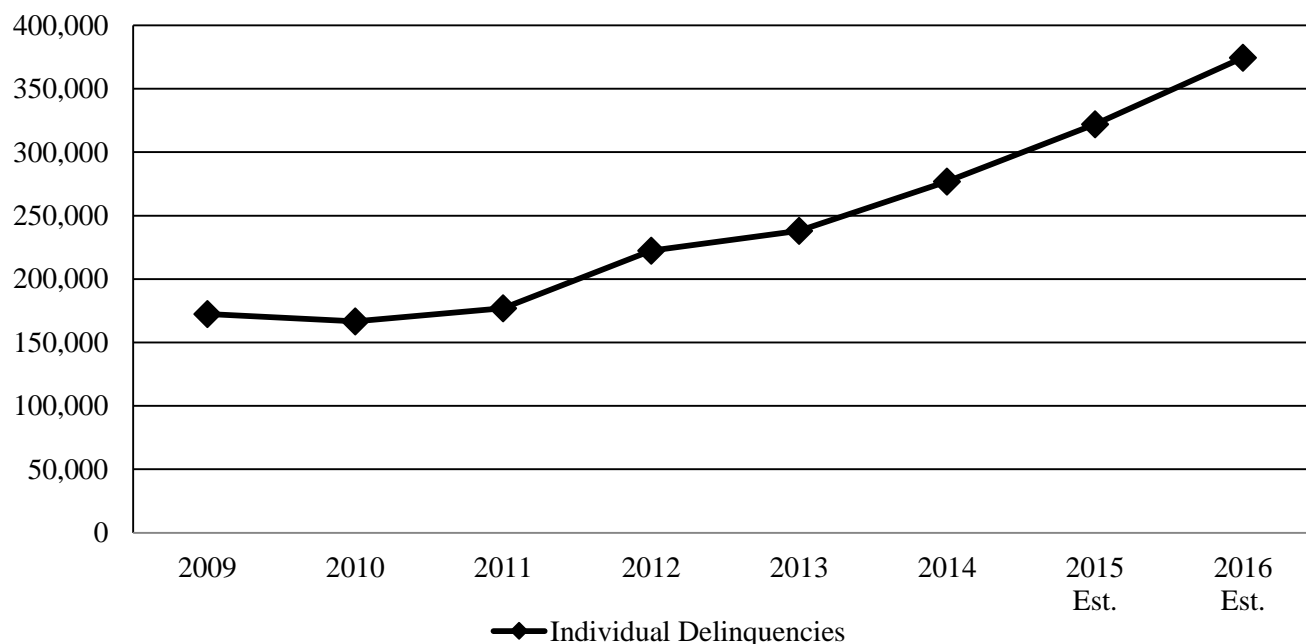
Issues

1. Compliance Division and the Collection of Unpaid Taxes

Individual Tax Delinquencies

The number of individual delinquencies increased by 38,818, or 16.3%, between fiscal 2013 and 2014. **Exhibit 5** displays the number of individual tax delinquencies between fiscal 2009 and 2016. The number of individual delinquencies has increased by 104,210, or 60.4%, since 2009, when the economy took a downward turn. According to the Comptroller's data, more than 10% of tax filers in Maryland are delinquent and the number of delinquents are expected to increase in the future. Despite all the measures taken by the Comptroller to increase timely and accurate tax filing, tax delinquency is increasing. **The Comptroller's Office should comment on why it expects to find more individual and business tax delinquents in future years and the current measures it is taking to decrease the amount of delinquents. The agency should also comment on what types of tax delinquent cases that the Comptroller is unable to collect on and why they are unable to collect.**

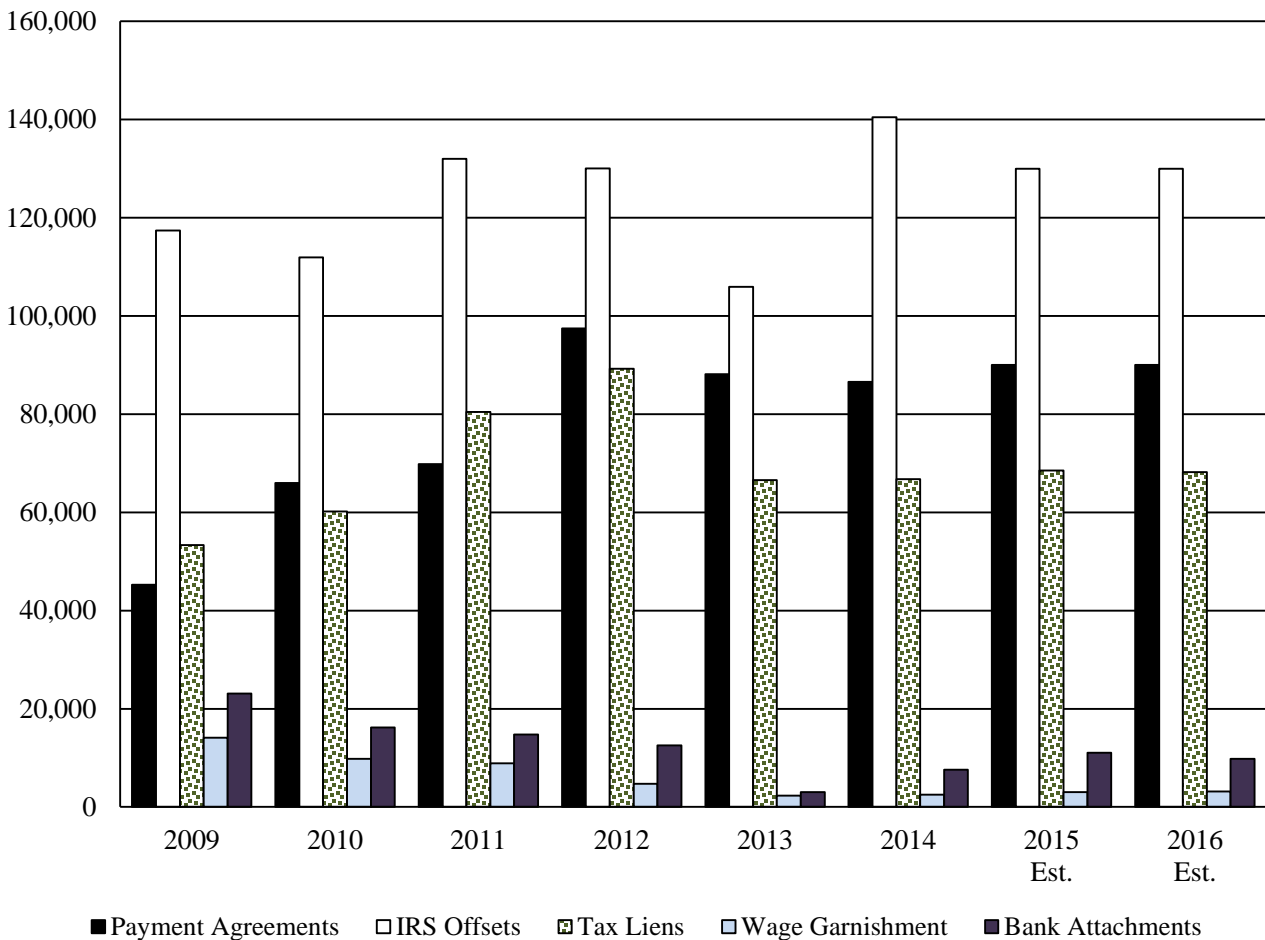
Exhibit 5
Individual Tax Delinquencies
Fiscal 2009-2016 Est.



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’s Office uses a variety of tools to recover delinquent taxes. **Exhibit 6** 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 6
Collection Method Utilization
Fiscal 2009-2016 (Est.)



IRS: Internal Revenue Service

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

In addition to individual delinquencies increasing from fiscal 2013 to 2014, delinquent tax collection revenue increased by \$19.4 million, and the total number of collection program utilizations increased by 14.2% during the same period of time. The collection programs include payment agreements, IRS offsets, tax liens, wage garnishments, and bank attachments. The largest increase in delinquent revenue collected in fiscal 2014 is due to the increased use of IRS offsets in fiscal 2014. IRS offsets increased by 34,518, or 32.6%, in fiscal 2014.

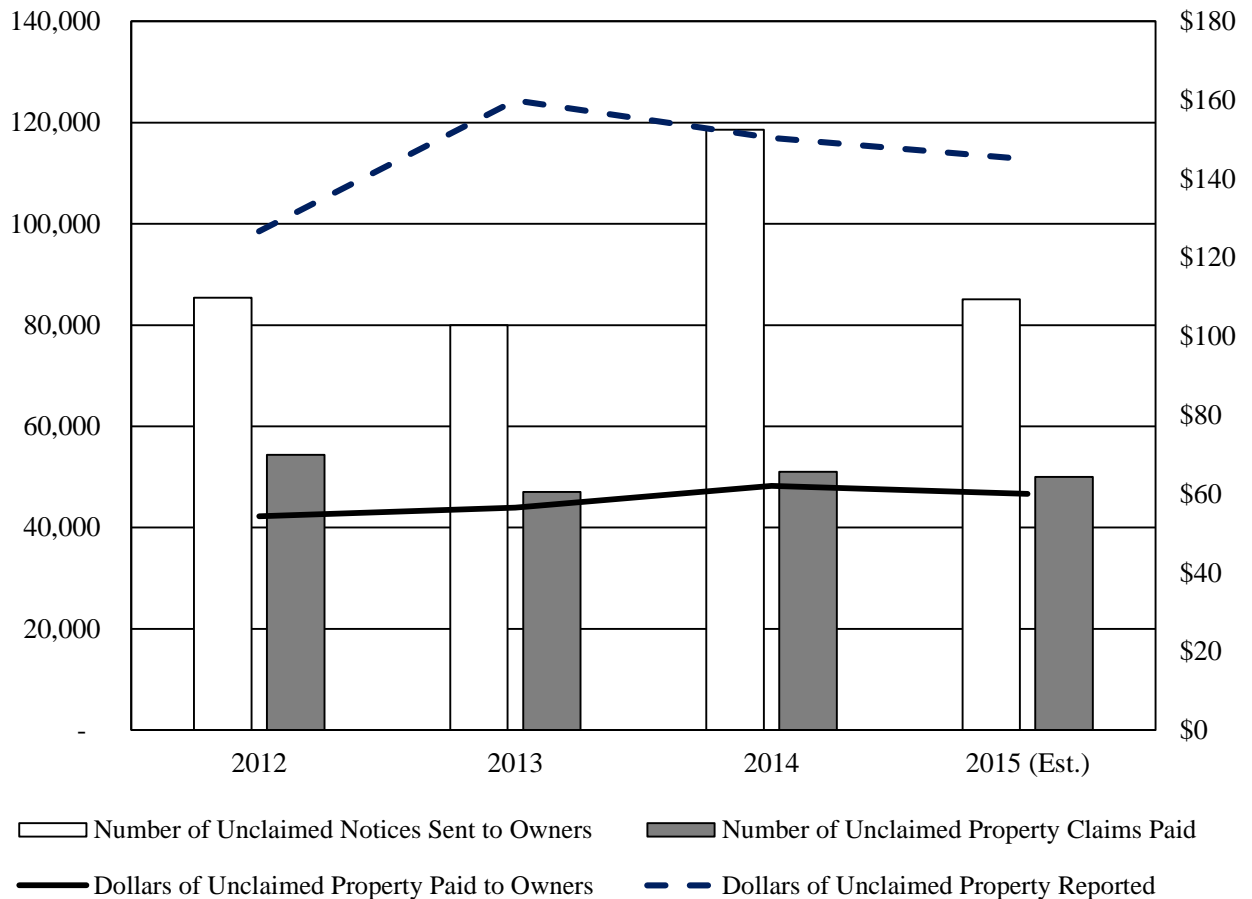
The Comptroller's Office has also focused its collection efforts on MVA's programs, which generate large amounts of revenue and are less labor intensive than tax liens, wage garnishments, and bank attachments. Chapter 397 of 2011 (the Budget Reconciliation and Financing Act) prohibited MVA from transferring or renewing a vehicle registration or driver's license if an individual has not paid, or made arrangements to pay, undisputed tax obligations. In fiscal 2014, this project aided the agency in collecting approximately \$32.2 million.

Remittance of Abandoned Property

The Comptroller's Office serves as the legal custodian of stocks, bonds, savings accounts, and other property (except real property) that are reported to the agency as unclaimed after three years by banks and other financial institutions. Financial institutions, insurance companies and corporations must report bank accounts, contents of safe deposit boxes, wages, insurance benefits, security deposits, stock dividends, and other funds to the Comptroller of Maryland if they remain unclaimed for three years or more. Unclaimed property does not include real estate, boats, or cars. The State of Maryland does not charge a fee for returning property to citizens.

Private unclaimed audit entities also supply the Comptroller with listings of unclaimed property that they remit to the State for a 12% commission. In the fiscal 2016 allowance, the Comptroller has budgeted approximately \$3.0 million in special funds to pay the commissions of audit firms who find and remit unclaimed property. There is also a 2015 deficiency totaling \$1.0 million in special funds to pay vendors for finding and remitting abandoned property to the State. The impact of the \$1.0 million deficiency is estimated to net the State an additional \$10.0 million in revenue. **Exhibit 7** shows the number of unclaimed property notices sent and claims paid to owners between fiscal 2012 and 2015. A total of 118,587 notices were sent to owners in fiscal 2014, and 51,059 claims were paid. In the same fiscal year, \$159.9 million was reported as unclaimed property while \$62.0 million was paid back to owners. Each year the general fund nets, on average, \$80.0 million in revenue due to unclaimed property.

Exhibit 7
Unclaimed Property in Maryland
Fiscal 2012-2015 Est.
(\$ in Millions)



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

Compliance Division

Not including management or administrative personnel, 271 auditors and revenue examiners work in the Compliance Division. Of that total 190 are revenue examiners and specialists, 69 are revenue field auditors and supervisors, and 12 are financial compliance officers. The compliance workforce identifies noncompliant taxpayers through various discovery activities such as the data modeling used at the data warehouse and encourages the voluntary compliance of taxpayers.

Once the agency has exhausted all its enforcement tools such as liens, license holds, and IRS offsets the agency utilizes two external collection agencies that have access to additional resources and technology that are currently unavailable to the Comptroller. This includes access to other databases such as the National Change of Address database maintained by the U.S. Postal Service. Access to these databases is currently not within the funding resources of the Comptroller and makes it difficult to track tax evaders who frequently move around. The outside collections are paid on a commission basis based on revenue turned over to the State. Each fiscal year, the agency expects \$600,000 to \$700,000 to be spent on commissions for the private collection agencies.

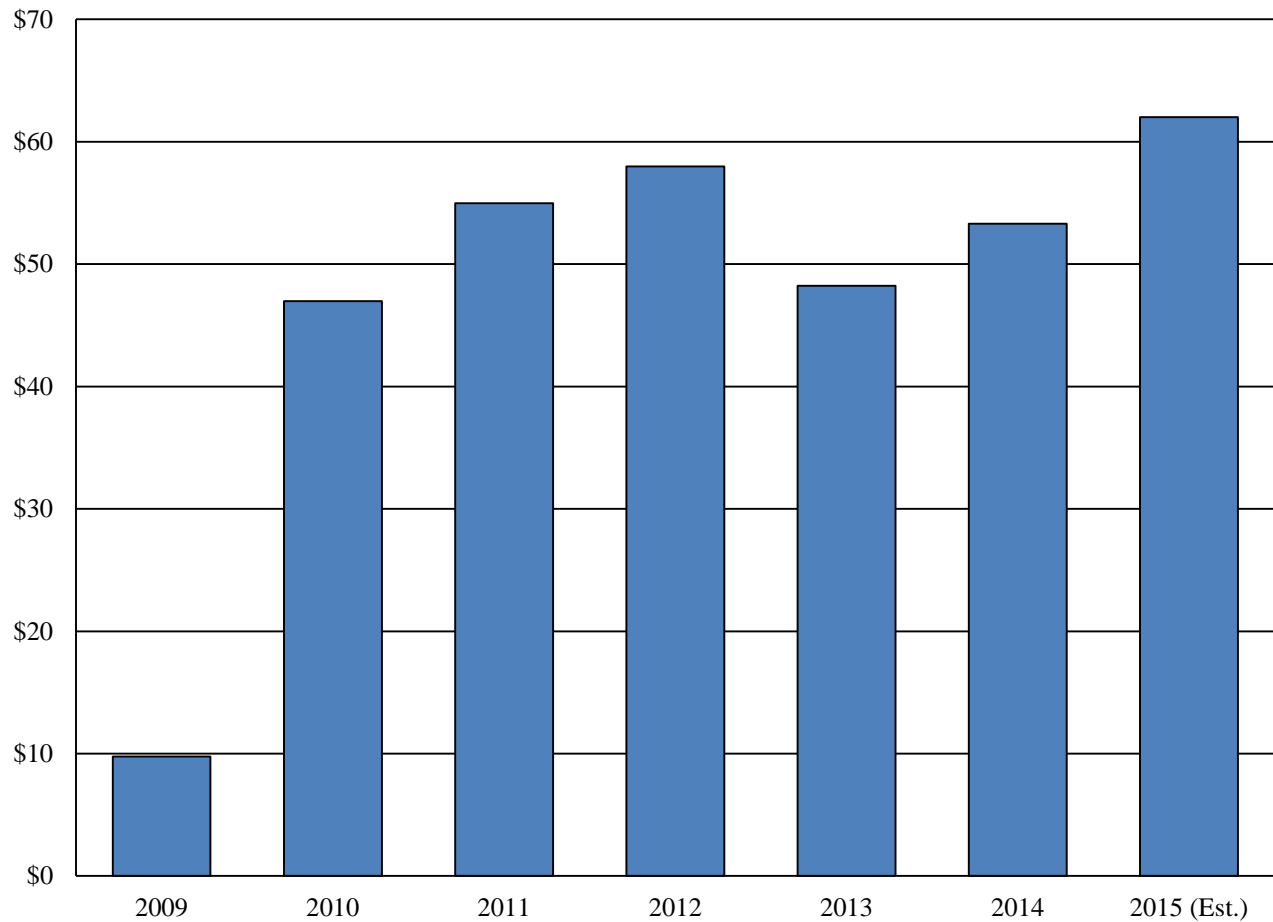
The agency allowance reflects 12 new regular positions in the Compliance Division. According to the agency, the revenue expectation is that the 12 new positions will bring in approximately \$12.0 million. This ROA of 10:1 is used by the Comptroller due to the expectation of return on other tax compliance programs including the MITS data warehouse and the MVA license compliance program. There is no quantitative evidence that the 12 new positions in the allowance will bring in \$12.0 million in revenue. Other states have undergone similar hiring initiatives and have seen a positive return on investment. In 2003, the state of Idaho hired compliance staff at a cost of \$926,000, and saw an increase of revenue of approximately \$10.0 million or a ROA of 13:1. States such as Kansas and New Mexico also saw similar returns when they hired new compliance personnel. In 2014, Pennsylvania also filled vacant positions in the tax Compliance Division and saw returns of about \$1.1 million in additional tax revenue per employee hired. **The Comptroller's Office should comment on the new positions added to the Compliance Division in 2016, the impact the personnel will have on the office, and the tax compliance initiatives the new personnel will be focusing on that will generate additional revenue.**

2. Big Data Analytics

Data Warehouse

According to the Comptroller's Office, the data warehouse and its related revenue programs generated \$271.2 million in tax revenue between fiscal 2009 and 2014. From fiscal 2009 through 2012, collections from data warehouse activities increased each year, as shown in **Exhibit 8**. Fiscal 2013 was the first year collections from data warehouse activities have decreased. The fiscal 2013 decrease of \$9.7 million, or 16.8%, resulted because the agency had finished introducing new tax collection programs for the data warehouse developed under the initial MITS contract. There was an initial increase between fiscal years 2010 to 2012 in revenues collected because of the new initiative. Introduction of new programs to run through the data warehouse, as opposed to existing programs that have already been run previously, generally yield the highest revenues. Once new initiatives are developed and become fully implemented in future years, the agency anticipates data warehouse collections will increase.

Exhibit 8
Revenues Generated by Data Warehouse
Fiscal 2009-2015 Est.
(\$ in Millions)



Source: Comptroller of Maryland

Big Data Analytic Models

The Comptroller currently has three models in place that the data warehouse uses. One additional model and a significant enhancement to an existing model will be implemented in fiscal 2015. Every year the models are updated in order to reduce false-positives. The three current models are:

- **Analytical Scoring Model (ASM)** – is a probit model that scores all returns requesting a refund for their probability for fraud. The model is developed with historical fraud information and generally attempts to identify common characteristics. This model directly stopped \$6.7 million in fraud in fiscal 2014. ASM is on track to be enhanced in fiscal 2015 with an improved scoring algorithm. When the enhanced model was run against actual fiscal 2013 data, 33% more revenue could have been captured in that year.
- **Address Matching Model** – standardizes a list of addresses that in the past have been used for fraudulent returns. As refund returns are processed, the agency standardizes those addresses and match them to the historical list with a probability ranking. This model stopped \$1.8 million in fraud in fiscal 2014.
- **Collections Prioritization Model** – uses historical collections data to predict the likelihood at which collection phase a past-due taxpayer will pay. For example, more taxpayers are sent to private collections quicker, meaning the Comptroller’s Office collectors can focus on accounts more likely to pay. This model is new as of fiscal 2014 and data has yet to be computed.
- **Census Trace Model** – this model incorporates address data, census data, and income data with geospatial analysis to predict the likelihood for fraud.

According to the Comptroller, there is no profile on the type of individual or business that becomes delinquent. Additional funding is needed to develop this type of collection modeling and is a long-term objective for the Comptroller. In the fiscal 2016 allowance, \$255,046 is budgeted for programming support to code the data mining programs used at the data warehouse to search for taxpayers that may be involved in tax avoidance schemes.

Outside Vendors

The Comptroller works with one primary contractor, Teradata, and three subcontractors: ASR Analytics, the Sartell Group, and Daly Computers. The contractors provide hardware and software support, database management, statistical and analytical services, and other professional services. The Comptroller provides information, background, data, and some statistical analysis. The contractors provide more in-depth statistical, programming and database support work. The outside contractors provide programming skills that the Comptroller cannot pay for within the State salary schedule. The Comptroller has tried to develop these skills internally with no success as those that do have the capacity to learn the skills move on quickly to other higher paying jobs elsewhere.

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, how the data warehouse will be integrated into the ITS, corresponding estimated revenues, and the expected long-term costs of developing these new programs.

Recommended Actions

	<u>Amount Reduction</u>	
1. Cut \$26,157 to bring the contractual full-time equivalents back to the fiscal 2015 level as the full appropriation is unneeded in the allowance.	\$ 26,157	GF
2. Cut 1 unneeded contractual full-time equivalent in the Bureau of Revenue Estimates to bring the agency back to the fiscal 2015 level.	22,937	GF
3. Delete funds for the Integrated Tax System. The project is expensive and high risk. The total cost of the project is estimated to be \$110.1 million. This includes \$66.1 million in general funds. Fiscal 2017 general fund expenditures are estimated to be \$13.2 million. Total major information technology costs are expected to increase to \$69.8 million in fiscal 2017. According to the Information System Project Request high risk factors include interdependencies (system is required to be compatible with different systems), organizational culture (resistance to change), and implementation (complicated so that it requires a high level of coordination). The office has also recently completed improvements to its tax system that required \$50.0 million. Cost containment has limited the availability of State funds in recent years. Considering the cost of the project, the risks of the project, as well as State revenues' slow growth, the Department of Legislative Services recommends that the project not be funded at this time.	1,090,308	SF
4. Add the following language to the special fund appropriation:		
, provided that this appropriation shall be reduced by \$580,000 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 \$580,000 reduction is contingent on the passage of the Budget Reconciliation and Financing Act of 2015. It repeals the provisions of the law that require the Comptroller to advertise abandoned property in local newspapers on an annual basis.

Total Reductions	\$ 1,139,402
Total General Fund Reductions	\$ 49,094
Total Special Fund Reductions	\$ 1,090,308

Current and Prior Year Budgets

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

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2014					
Legislative Appropriation	\$78,687	\$20,778	\$0	\$19,639	\$119,104
Deficiency Appropriation	-2,985	1,620	0	0	-1,365
Budget Amendments	903	208	0	2,084	3,195
Reversions and Cancellations	-1,488	-1,251	0	-1,889	-4,628
Actual Expenditures	\$75,117	\$21,356	\$0	\$19,833	\$116,306
Fiscal 2015					
Legislative Appropriation	\$83,739	\$19,815	\$0	\$19,926	\$123,481
Cost Containment	-425	0	0	0	-425
Budget Amendments	561	109	0	0	670
Working Appropriation	\$83,875	\$19,924	\$0	\$19,926	\$123,725

Note: Numbers may not sum to total due to rounding. The fiscal 2015 working appropriation does not include January 2015 Board of Public Works reductions and deficiencies.

Fiscal 2014

The total budget of the Comptroller's Office decreased by \$2.8 million below the legislative appropriation.

General funds decrease by \$3.6 million below the legislative appropriation. A general fund negative deficiency of \$2.4 million is due to reductions in health insurance, retirement, and the State personnel system allocation. There were two other negative deficiencies totaling \$544,000 because of the delay in the implementation of phase two of a document scanning project and the reduction of funds for ongoing maintenance of software and personal computer replacement. One budget amendment decreased the general fund appropriation by \$274,519 due to a redistribution of funds to DoIT for utilizing mainframe services at the ADC. One budget amendment of \$1.2 million in general funds was for employee increments and the 2% salary increase. The bulk of the general fund reversion, about \$1.0 million, was due to salaries from vacant positions. There was one \$118,000 reversion because of a failure to record an expenditure for retainage of a statewide audit contract by the Comptroller — \$351,826 was reverted due to costs coming under budget that were used for the ADC.

Special funds increase by \$577,240 above the legislative appropriation. A special fund negative deficiency of \$273,305 is due to reductions in health insurance and retirement. The appropriation includes one special fund appropriation for \$393,179, which provides funding for 11 contractual full-time equivalents to accommodate the additional walk-in traffic generated by the Maryland Highway Safety Act of 2013. One budget amendment of \$208,000 in special funds is for employee increments and the 2% general salary increase. The \$628,278 in special fund cancellations were due to salaries from vacant positions and the funds used to cover the cost of the International Fuel Tax Agreement processing system with the state of Kentucky that was not needed. The rest of the special fund cancellations, or \$622,499, is because of salaries from vacant positions and contractual services for outside collection agencies and audit firms, which came in under budget.

Reimbursable funds increase by \$194,523 above the legislative appropriation. The majority of the increase in reimbursable funds is due to a reimbursable fund budget amendment from DoIT to cover costs of the MITS project (\$1.9 million). An additional \$60,000 in reimbursable funds was added by budget amendment to fund the cost of mailing paychecks and W-2s to employees. One budget amendment of \$119,000 in reimbursable funds is for employee increments and the 2% general salary increase. The increase of reimbursable funds is offset by the cancellation of \$1.9 million. Because the Department of Human Resources implemented direct deposit of child support checks, \$612,091 was cancelled in reimbursable funds due to savings for postage. About \$1.2 million in reimbursable funds were cancelled due to holding down costs for replacement of hardware and software at the ADC. Due to final year costs of implementation of the data warehouse coming under budget, \$66,228 was cancelled in reimbursable funds.

Fiscal 2015

The fiscal 2015 working appropriation for the Comptroller of Maryland is increasing by \$244,245 above the legislative appropriation. Employee increments and the 2% general salary increase reflect an increase of \$561,001 in general funds, and \$108,666 in special funds.

On July 2, 2014, BPW withdrew \$77.1 million in appropriations and abolished 61 positions statewide as fiscal 2015 cost containment. This agency's share of the reduction was \$425,422 for the following purposes: reduce funding for replacement of computers and peripherals, and eliminate funding no longer needed for GASB announcements.

Audit Findings

Audit Period for Last Audit:	March 2009 – February 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.

Major Information Technology Projects

Comptroller of Maryland

Project Status¹	Planning.	New/Ongoing Project:	New.
Project Description:	The Integrated Tax system (ITS) project will replace the agency's Automated Record Tracking system, Computer Assisted Collection System, and other outdated tax processing systems, and integrate with a robust data warehouse to both continue and expand revenue generating projects and provide enhanced reporting functionality.		
Project Business Goals:	Goals for the taxpayer would be increased responsiveness, reduced wait times, more efficient refund processing, enhanced account visibility via web access, and uniformity of function across tax types for business taxpayers. Internally ITS will improve employee productivity, improve back-office workflows for all processes, provide a more user-friendly interface, greater level of security and comprehensive audit trails, and a more dynamic and agile system for the future.		
Estimated Total Project Cost¹:	\$110.0 million	Estimated Planning Project Cost:	\$2.5 million
Project Start Date:	January 2014.	Projected Completion Date:	Fiscal 2019.
Schedule Status:	Project is in the initiation phase. The project management team has been identified and begun researching agency needs and industry standards. A Request for Information will be issued to solicit additional industry information about potential ITS solutions. Agency staff is working to identify areas for improvement and efficiencies that an ITS will deliver. All work to date is within the project scope and initiation work to date has been performed within existing budgets.		
Cost Status:	As this is a new project, no funding has yet to be given. Currently there is \$1.0 million in special funds in the allowance to start the planning phase. Approximately \$1.5 million is appropriated in the allowance in the Department of Information Technology's (DoIT) budget.		
Scope Status:	As the project is just being initiated, the full scope of the project is unknown.		
Project Management Oversight Status:	The Comptroller and DoIT have oversight of the project.		
Identifiable Risks:	There are four high-risk factors for the ITS. The first is sufficient funding is critical as the project is estimated to cost a total of \$110.0 million. The second high-risk factor is the interdependencies with the new system as it has to be compatible with the Comptroller's data warehouse and imaging applications. Third, the organizational culture could be resistant to the change. Management will have to closely monitor employee reactions and utilize an active Cultural Change management program. And, lastly, the implementation of the new system is a high-risk factor. Technical personnel will have to be shifted from mainframe technology support to the new technology and training and contractor support will be critical to ensure smooth implementation.		
Additional Comments:	None.		

Fiscal Year Funding (\$ in Thousands)	Prior Years	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	Balance to Complete	Total
Personnel Services	\$28.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$10.5	\$38.5
Professional and Outside Services	52.6	2,500	11,000.0	11,000.0	50,500.0	0.0	75,000.0	75,052.6
Other Expenditures	0.0	0.0	11,000.0	11,000.0	13,000.0	0.0	35,000.0	35,000.0
Total Funding	\$80.6	\$2,500.0	\$22,000.0	\$22,000.0	\$63,500.0	\$0.0	\$110,010.5	\$110,100.4

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

<u>Object/Fund</u>	<u>FY 14 Actual</u>	<u>FY 15 Working Appropriation</u>	<u>FY 16 Allowance</u>	<u>FY 15 - FY 16 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	1,121.00	1,118.00	1,127.90	9.90	0.9%
02 Contractual	38.60	39.10	28.50	-10.60	-27.1%
Total Positions	1,159.60	1,157.10	1,156.40	-0.70	-0.1%
Objects					
01 Salaries and Wages	\$ 77,115,339	\$ 82,707,170	\$ 86,916,769	\$ 4,209,599	5.1%
02 Technical and Spec. Fees	1,527,205	1,104,767	1,187,868	83,101	7.5%
03 Communication	7,260,969	7,918,117	8,327,952	409,835	5.2%
04 Travel	438,751	515,164	602,045	86,881	16.9%
06 Fuel and Utilities	52,354	60,968	64,215	3,247	5.3%
07 Motor Vehicles	333,883	433,601	374,278	-59,323	-13.7%
08 Contractual Services	24,162,020	26,543,743	29,749,149	3,205,406	12.1%
09 Supplies and Materials	2,423,565	2,314,199	2,443,494	129,295	5.6%
10 Equipment – Replacement	499,376	300,250	764,527	464,277	154.6%
11 Equipment – Additional	572,458	278,648	331,700	53,052	19.0%
12 Grants, Subsidies, and Contributions	0	35,000	35,000	0	0%
13 Fixed Charges	1,569,020	1,488,151	1,665,630	177,479	11.9%
14 Land and Structures	350,754	25,150	25,500	350	1.4%
Total Objects	\$ 116,305,694	\$ 123,724,928	\$ 132,488,127	\$ 8,763,199	7.1%
Funds					
01 General Fund	\$ 75,117,083	\$ 83,874,736	\$ 88,736,263	\$ 4,861,527	5.8%
03 Special Fund	21,355,501	19,923,946	23,610,537	3,686,591	18.5%
09 Reimbursable Fund	19,833,110	19,926,246	20,141,327	215,081	1.1%
Total Funds	\$ 116,305,694	\$ 123,724,928	\$ 132,488,127	\$ 8,763,199	7.1%

Note: The fiscal 2015 working appropriation does not include January 2015 Board of Public Works reductions and deficiencies. The fiscal 2016 allowance does not reflect contingent or across-the-board reductions.

**Fiscal Summary
Comptroller of Maryland**

<u>Program/Unit</u>	<u>FY 14 Actual</u>	<u>FY 15 Wrk Approp</u>	<u>FY 16 Allowance</u>	<u>Change</u>	<u>FY 15 - FY 16 % Change</u>
01 Executive Direction	\$ 3,777,537	\$ 3,939,968	\$ 4,251,946	\$ 311,978	7.9%
02 Financial and Support Services	6,007,379	6,550,947	6,811,930	260,983	4.0%
01 Accounting Control and Reporting	4,848,605	5,377,691	5,704,305	326,614	6.1%
01 Estimating of Revenues	834,169	830,112	926,976	96,864	11.7%
01 Revenue Administration	30,918,279	31,951,177	32,873,266	922,089	2.9%
02 Major IT Development Projects	3,119,772	0	1,090,308	1,090,308	0%
01 Compliance Administration	32,032,553	31,816,888	37,023,317	5,206,429	16.4%
01 Field Enforcement Administration	5,298,409	5,412,237	5,494,684	82,447	1.5%
01 Payroll Management	2,607,037	2,783,507	2,948,821	165,314	5.9%
01 Annapolis Data Center Operations	13,896,203	15,363,993	15,565,945	201,952	1.3%
02 Comptroller IT Services	12,965,751	19,698,408	19,796,629	98,221	0.5%
Total Expenditures	\$ 116,305,694	\$ 123,724,928	\$ 132,488,127	\$ 8,763,199	7.1%
General Fund	\$ 75,117,083	\$ 83,874,736	\$ 88,736,263	\$ 4,861,527	5.8%
Special Fund	21,355,501	19,923,946	23,610,537	3,686,591	18.5%
Total Appropriations	\$ 96,472,584	\$ 103,798,682	\$ 112,346,800	\$ 8,548,118	8.2%
Reimbursable Fund	\$ 19,833,110	\$ 19,926,246	\$ 20,141,327	\$ 215,081	1.1%
Total Funds	\$ 116,305,694	\$ 123,724,928	\$ 132,488,127	\$ 8,763,199	7.1%

Note: The fiscal 2015 working appropriation does not include January 2015 Board of Public Works reductions and deficiencies. The fiscal 2016 allowance does not reflect contingent or across-the-board reductions.