

E00A
Comptroller of the Treasury

Operating Budget Data

(\$ in Thousands)

	FY 05	FY 06	FY 07	FY 06-07	% Change
	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	<u>Change</u>	<u>Prior Year</u>
General Fund	\$66,146	\$66,965	\$71,382	\$4,417	6.6%
Special Fund	16,567	14,496	17,461	2,965	20.5%
Reimbursable Fund	<u>21,220</u>	<u>23,389</u>	<u>24,863</u>	<u>1,474</u>	<u>6.3%</u>
Total Funds	\$103,933	\$104,850	\$113,705	\$8,855	8.4%

- The allowance includes \$2.1 million in special funds for new information technology systems to track delinquent business taxes and motor fuel sales.
- The allowance also includes \$1.2 million in reimbursable funds for a data center mainframe upgrade.

Personnel Data

	FY 05	FY 06	FY 07	FY 06-07
	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	<u>Change</u>
Regular Positions	1,115.20	1,110.20	1,109.00	-1.20
Contractual FTEs	<u>27.33</u>	<u>26.65</u>	<u>25.48</u>	<u>-1.17</u>
Total Personnel	1,142.53	1,136.85	1,134.48	-2.37

Vacancy Data: Regular Positions

Turnover, Excluding New Positions	39.59	3.57%
Positions Vacant as of 12/31/05	66.50	5.99%

- The fiscal 2007 allowance reflects the abolition of 1.2 full time equivalent regular positions for a savings of \$116,600.

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

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Analysis in Brief

Major Trends

Electronic Filing Will Soon Surpass Paper Filing: Taxpayers continue to increase their utilization of electronic filing and electronic refunds.

Mixed Results in Number of Delinquencies: The Comptroller alters its mix of tax collection methods in its effort to reduce delinquencies and to collect overdue taxes.

Issues

Efficacy of Delinquent Tax Collection Methods: In its efforts to reduce the number of delinquent taxpayers, the Comptroller uses all the collection tools available with varying degrees of success.

Audit of Regulatory Enforcement Division: The Office of Legislative Audits conducted an audit of the Regulatory Enforcement Division and made two findings.

Recommended Actions

	<u>Funds</u>
1. Reduce funds for the purchase of a replacement car.	\$ 20,000
2. Reduce funds for rent of branch offices.	5,883
3. Reduce funds for electronic funds payment fees.	50,000
4. Reduce funds for printing.	100,000
5. Reduce funds for personal computer enhancements.	100,000
Total Reductions	\$ 275,883

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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 is responsible for processing and collecting various taxes, including the personal income tax, the corporate income tax, and the sales tax. The Compliance Division conducts audits and collects delinquent taxes from all revenue sources. The Regulatory and Enforcement Division enforces all tax laws by conducting investigations, tests, and inspections and is responsible for administering the alcohol, tobacco, and motor fuel tax laws.

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. The data center is available to all State agencies on a reimbursable basis.

The goals of the Comptroller are as follows:

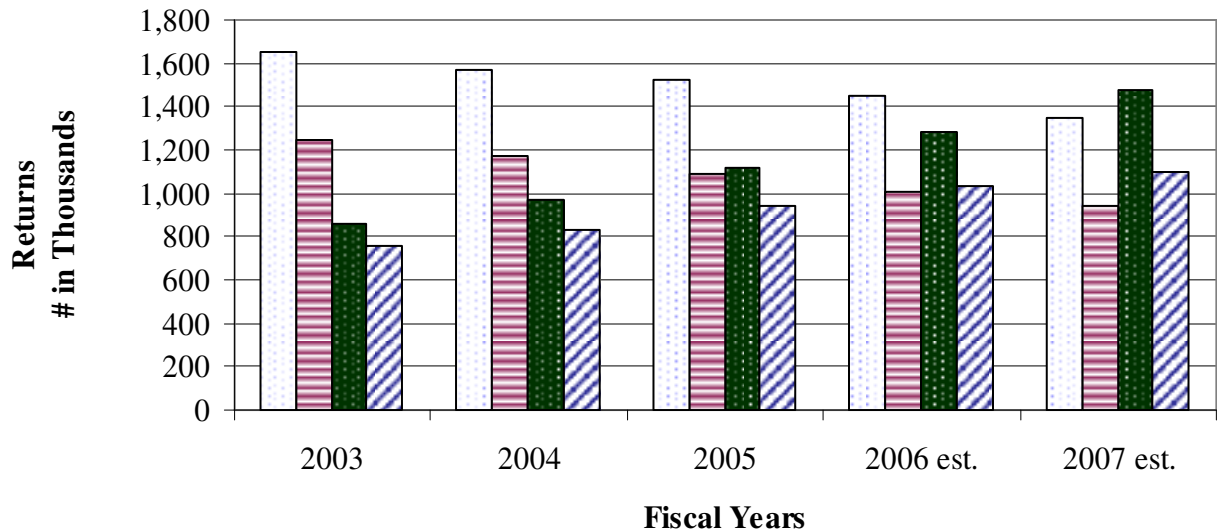
- to provide high quality public service;
- to fully utilize information technology; and
- to vigorously enforce tax laws essential to the fair treatment of all taxpayers.

Performance Analysis: Managing for Results

Electronic Filing Will Soon Surpass Paper Filing

Personal resident tax filings and refunds are increasingly becoming electronic transactions. As shown in **Exhibit 1**, it is estimated that by fiscal 2007, more taxpayers will be filing electronically than with paper filings. The receipt of electronic refunds is also increasing in popularity, although at a slower rate than electronic filings, suggesting that taxpayers are increasingly comfortable with filing their tax forms electronically, but many still prefer to receive a paper refund.

Exhibit 1
Paper and Electronic Tax Return Filings



□ Paper Returns ■ Paper Refunds ■ Electronic Returns ■ Electronic Refunds

Fiscal 2003 – 2007

Source: Governor's Budget Book

The Comptroller aims to process the paper and electronic personal resident tax returns promptly. Specifically, it strives to process 95% of the returns within 10 business days. While it exceeds that goal for electronic filings, it fails to meet that goal for paper filings, despite the decline in the workload for paper filings. In fiscal 2005, the Comptroller processed 78.2% of paper returns within 10 days, down from 83.6% in fiscal 2004.

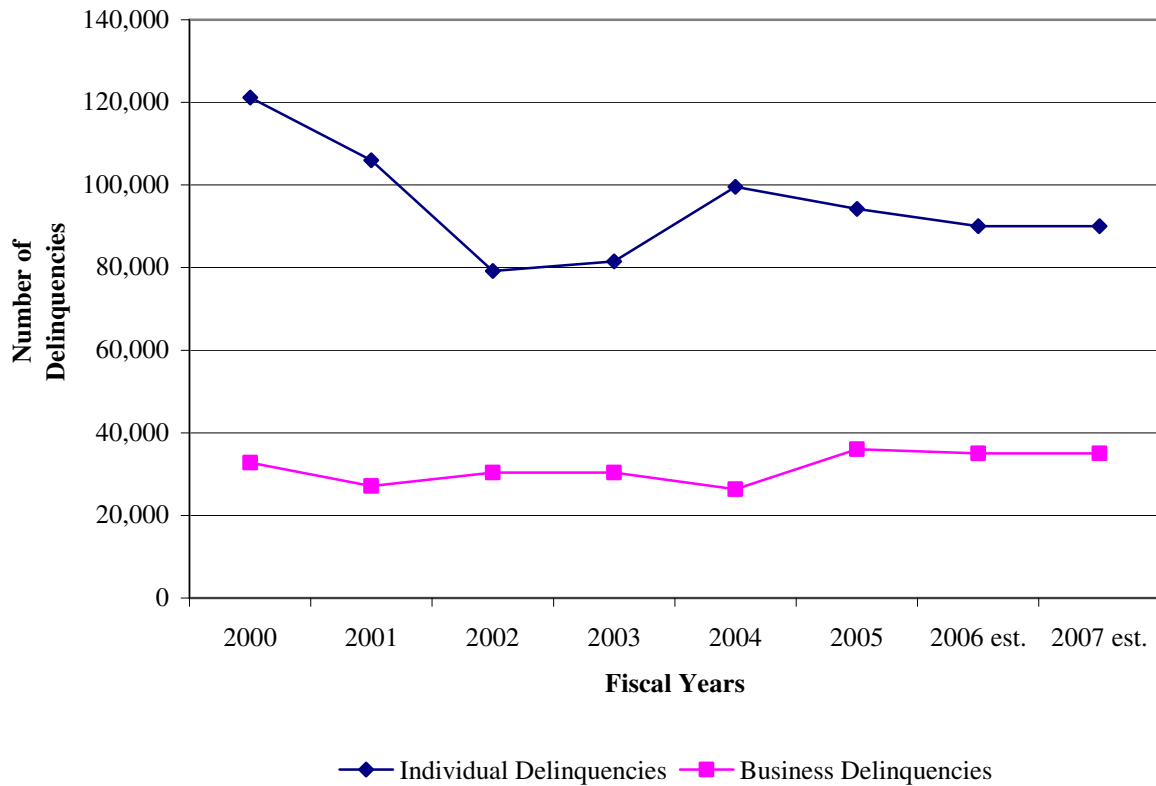
The Comptroller should be prepared to comment on steps it will take to address inefficiencies in processing paper returns.

Mixed Results in Number of Delinquencies

The Comptroller dedicates significant resources toward ensuring compliance with the tax laws. Its goal is to maximize the collection of past due taxes and to establish appropriate means to recover the past due payments. As shown in **Exhibit 2**, individual delinquencies have fallen in fiscal 2005 from a surge in fiscal 2004. Estimates show a continued decline in individual delinquencies in the out-years; however, it may take time for the Comptroller to reach the recent low it achieved in fiscal 2002.

Business delinquencies remain fairly stable from year to year although the Comptroller reports a slight increase in fiscal 2005.

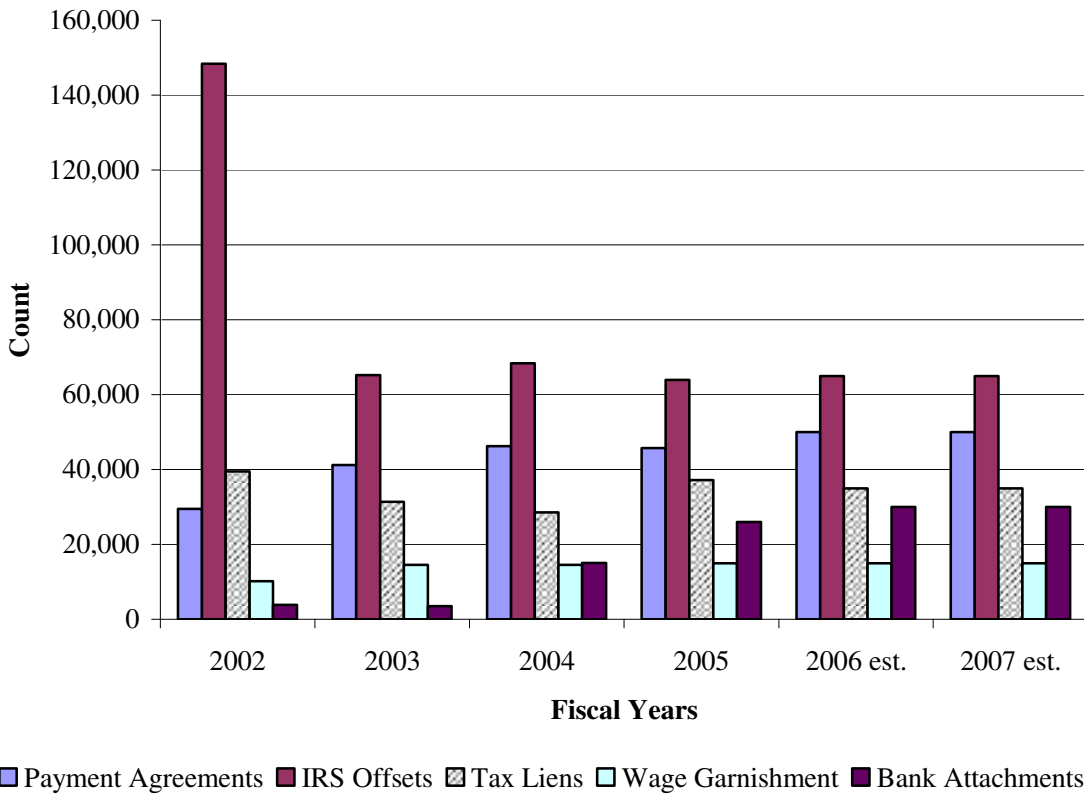
Exhibit 2
Delinquencies
Fiscal 2000 – 2007



Source: Office of the Comptroller

The Comptroller’s goal is to encourage taxpayers to voluntarily comply with the tax laws, but ultimately the Comptroller may and does use all of the tools at the State’s disposal to recover delinquent taxes. **Exhibit 3** summarizes the various collection methods. Bank attachments are experiencing the greatest growth as a collection tool as recent legislation has streamlined the bank attachment process for collecting back taxes from delinquent taxpayers.

Exhibit 3
Collection Method Utilization
Fiscal 2002 – 2007



Source: Office of the Comptroller

Governor’s Proposed Budget

The Governor’s fiscal 2007 allowance increases \$8.9 million, or 8.4%, over the fiscal 2006 working appropriation, as shown in **Exhibit 4**. This change is largely attributable to increases in personnel costs and significant information technology enhancements.

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

How Much It Grows:	<u>General</u> <u>Fund</u>	<u>Special</u> <u>Fund</u>	<u>Reimb.</u> <u>Fund</u>	<u>Total</u>
2006 Working Appropriation	\$66,965	\$14,496	\$23,389	\$104,850
2007 Governor's Allowance	<u>71,382</u>	<u>17,461</u>	<u>24,863</u>	<u>113,705</u>
Amount Change	\$4,417	\$2,965	\$1,474	\$8,855
Percent Change	6.6%	20.5%	6.3%	8.4%
 Where It Goes:				
Personnel Expenses				
Abolished positions				-\$117
Increments and other compensation				762
Employee and retiree health insurance				1,530
Underfunded 2006 health insurance				1,203
Employee retirement.....				586
Turnover adjustments				158
Other fringe benefit adjustments				-31
Major Information Technology Enhancements				
Delinquent Business Tax Collection System replacement				935
Annapolis Data Center Mainframe upgrade				1238
Motor Fuel Tax Tracking System.....				1164
Other Information Technology Enhancements				
Agencywide PC upgrades.....				154
Agencywide programming needs				919
Additional hardware to increase storage space.....				169
Scanning and virus protection software.....				142
Equipment				
Motor fuel testing equipment upgrade.....				75
Decrease in agencywide equipment replacement				-553
Administration				
Increase in reimbursable funds for the Comptroller's share of the Data Center Upgrades.....				631
Decrease in contractual employee related expenses				-48

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Increase in printing costs related to newspaper announcements of unclaimed property	137
Decrease in consulting service expenses based on 2005 levels	-70
Decrease in telecommunication expenses based on 2005 levels	-313
Decrease in data entry expenditures due to increase in electronic filing and online payroll system.....	-267
Increase in independent auditor contract	82
Increases in bank fees for electronic tax payments.....	350
Increase in regular and DGS rent.....	91
Other	-72
Total	\$8,855

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

Personnel

The Comptroller has reduced its staff by 1.2 regular full time equivalent (FTE) positions for a savings of \$116,615. This accounts for the retirement of the director of the Motor Fuel Tax Unit, which was since absorbed by the Regulatory and Enforcement Division and for the abolition of a .2 FTE regular position that remained unfilled for several years. However, the increase in increments and employee and retiree health care drives the \$4.1 million increase in personnel costs.

Information Technology Enhancements

Motor Fuel Tracking System: The fiscal 2007 allowance includes \$1.2 million in special funds for the installation of an enhanced motor fuel tracking system. The new system will allow for automation of many of the Comptroller's duties. The Comptroller will be able to match reports filed by motor fuel suppliers and retailers to easily find discrepancies and to more accurately track the tax owed.

Delinquent Business Tax Collection System: While the bulk of funds for this new system are in the Department of Budget and Management's Major Information Technology budget, the Comptroller's fiscal 2007 allowance includes \$935,000 in special funds for this purpose. The system will allow for automation of many labor intensive duties such as filing liens and creating bank attachments. The system is also meant to identify delinquencies that are the easiest to collect. The Governor's spending plan assumes \$5 million in revenues attributable to efficiencies and automated activities of the new system.

Annapolis Data Center Mainframe Upgrade: The fiscal 2007 allowance includes \$1.2 million in reimbursable funds for the mainframe upgrade capable of providing quicker response times. The funds will be used to finance an enhancement from a 32 bit processor to a 64 bit processor. By 2007, the current operating system will no longer be supported. The costs of this upgrade are spread across State agencies according to usage of the data center. The Comptroller typically pays one-third of the data center's expenses.

Other Information Technology Enhancements: The Comptroller's 2007 budget also includes significant funds for other, more minor information technology enhancements across all programs. The funds are to provide for personal computer upgrades, scanning and virus software upgrades enhanced programming, and additional hardware to expand storage.

Issues

1. Efficacy of Delinquent Tax Collection Methods

The Comptroller has a variety of means to collect delinquent taxes. The Budget Reconciliation and Financing Act (BRFA) of 2003 (Chapter 203, Acts of 2003) increased the Comptroller's authority in this area. Two collections mechanisms, in particular, have grown in importance.

The Comptroller has increased its use of bank attachments as a means to recover delinquent tax payments. Attachments can occur without the involvement of the judicial system. The Comptroller is authorized to request from financial institutions information and assistance to enable the Comptroller to enforce the tax laws of the State. The Comptroller may request specified information concerning any person who is delinquent in payment of taxes. Further, recent legislation has streamlined the process. Recent changes in the law now allow financial institutions to use the same computer match programs for reports of delinquent taxpayers that are required for parents that do not pay child support.

Chapter 203 also required that before various licenses or permits may be renewed, the issuing authority must verify through the Comptroller's Office that the applicant has paid all undisputed taxes and unemployment insurance contributions or that the applicant has provided for payment in a manner satisfactory to the unit responsible for collection. Covered licenses and permits include those governing business occupations and professions, regulated industries, natural resources and environment, health occupations, and other licenses granted by the Comptroller. This collection method is not reflected in the Comptroller's Managing for Results data.

The Comptroller reports that in its first two years with this authority, it has collected \$96.7 million from licensees (approximately \$49 million per year). In fiscal 2005, it collected over \$10 million in business and individual delinquencies due to bank attachments. Despite noting the disparity in the collections between the two collection methods, the Joint Committee on the Management of Public Funds recommends a significant increase in the use of bank attachments.

Some collection methods are more successful than others at recovering revenue. By means of comparison, past due tax revenue collected through Internal Revenue Offsets totaled \$22 million in fiscal 2005. Salary garnishments resulted in \$2.5 million in fiscal 2005.

The Comptroller should discuss how it plans to prioritize collection methods for maximum effectiveness and how the proposed new delinquent business tax system will aid it in this endeavor. Further, the Comptroller should comment on whether further authorizing legislation is warranted.

2. Audit of Regulatory and Enforcement Division

In fiscal 2004, the Comptroller reorganized two of its divisions into one. The Field Enforcement Division and the Alcohol and Tobacco Division merged to form the Regulatory and Enforcement Division. This division also includes the Business License Bureau. This division performs all of the functions of its component parts including administering all the laws pertaining to the storage, transportation, manufacture, sale, and distribution of alcoholic beverages and tobacco products. It also oversees the Comptroller's field team that audits businesses and distributors of alcohol and tobacco products.

The Office of Legislative Audits conducted an audit of the new division, spanning a time frame both before and after the reorganization. The office issued its report in November 2005. There were two findings. The audit found that:

- the controls over confiscated property and its subsequent disposition were not adequate. There were no independent verifications that confiscated cash was deposited. The auditors discovered an instance where confiscated cash was not deposited for several months until brought to light by the audit. Similarly, there were no independent verifications to ensure that the disposition of confiscated vehicles was properly accounted for in the inventory records; and
- the division did not maintain an adequate accounting of cigarette tax stamps previously sold to wholesalers and later returned and did not destroy these stamps in a timely fashion.

The Comptroller should be prepared to comment on the audit's findings and steps it will take to address these issues.

Recommended Actions

	<u>Amount Reduction</u>	
1. Reduce funds for the replacement of a vehicle that has not met the replacement threshold.	\$ 20,000	GF
2. Reduce funds for rent. This item was overbudgeted by this amount for the lease costs of branch offices.	5,883	GF
3. Reduce funds for the increase in bank fees associated with electronic tax payments. The Comptroller is exploring alternative means to accept electronic payments that are less costly.	50,000	GF
4. Reduce the funds for printing costs related to newspaper announcements of unclaimed property. Unclaimed property claims are expected to fall in fiscal 2007. Additionally, electronic filings are increasing, further reducing the need for increased printing funds.	100,000	SF
5. Reduce funds for agency-wide personal computer enhancements. The Comptroller should phase-in the additional enhancements over three years. The Comptroller should allocate the reduction across its programs.	100,000	GF
Total Reductions	\$ 275,883	
Total General Fund Reductions	\$ 175,883	
Total Special Fund Reductions	\$ 100,000	

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 2005					
Legislative Appropriation	\$65,913	\$12,763	\$0	\$24,578	\$103,254
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	664	4,358	0	0	5,022
Reversions and Cancellations	-432	-553	0	-3,359	-4,344
Actual Expenditures	\$66,146	\$16,567	\$0	\$21,220	\$103,933
Fiscal 2006					
Legislative Appropriation	\$66,402	\$14,389	\$0	\$23,262	\$104,053
Budget Amendments	564	106	0	127	797
Working Appropriation	\$66,965	\$14,496	\$0	\$23,389	\$104,850

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

Fiscal 2005

In fiscal 2005, there were budget amendments totaling \$5,022,000 comprised as follows:

- \$664,000 in general funds is attributable to the \$752 employee cost-of-living adjustment that was budgeted in the Department of Budget and Management’s budget and subsequently distributed to each agency;
- \$557,600 in special funds for the Revenue Administration and the Compliance Administration in accordance with the provisions in the Budget Reconciliation and Financing Act of 2004 (Chapter 430, Acts of 2004) which allow the Comptroller to use a portion of the corporate income tax revenue necessary to cover the costs of collection of the Maryland Department of Transportation’s share (24% of the total collected);
- \$3,600,000 in special funds to pay the commissions of outside auditors used by the Comptroller to audit for unclaimed property; and
- \$200,000 in special funds for the purchase of hardware and software for the *e-file* project, allowing taxpayers to file returns electronically.

Reversions totaled \$4,344,000, mainly in reimbursable funds for expenses related to an upgrade to the Data Center mainframe that was deferred.

Audit Findings

Audit Period for Last Audit:	November 7, 2001 – June 30, 2005
Issue Date:	November 2005
Number of Findings:	2
Number of Repeat Findings:	0
% of Repeat Findings:	0%
Rating: (if applicable)	n/a

The audit was of the Comptroller’s Regulatory and Enforcement Division (RED).

Finding 1: Controls over confiscated property and its subsequent disposition were not adequate.

Finding 2: RED did not maintain adequate accounting of cigarette tax stamps previously sold to wholesalers and later returned and did not destroy these stamps in a timely manner.

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

<u>Object/Fund</u>	<u>FY05 Actual</u>	<u>FY06 Working Appropriation</u>	<u>FY07 Allowance</u>	<u>FY06 - FY07 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	1115.20	1110.20	1109.00	-1.20	-0.1%
02 Contractual	27.33	26.65	25.48	-1.17	-4.4%
Total Positions	1142.53	1136.85	1134.48	-2.37	-0.2%
Objects					
01 Salaries and Wages	\$ 60,815,724	\$ 64,225,911	\$ 68,317,249	\$ 4,091,338	6.4%
02 Technical & Spec Fees	961,210	1,153,294	1,105,040	-48,254	-4.2%
03 Communication	6,471,192	6,522,424	6,208,991	-313,433	-4.8%
04 Travel	421,894	414,230	456,938	42,708	10.3%
06 Fuel & Utilities	56,464	45,000	64,870	19,870	44.2%
07 Motor Vehicles	370,485	386,465	404,279	17,814	4.6%
08 Contractual Services	27,808,788	25,757,483	31,017,740	5,260,257	20.4%
09 Supplies & Materials	2,489,832	2,730,730	2,851,915	121,185	4.4%
10 Equip - Replacement	2,521,476	1,385,749	772,370	-613,379	-44.3%
11 Equip - Additional	747,070	1,111,241	1,276,089	164,848	14.8%
12 Grants, Subsidies, and Contributions	89,018	95,000	95,000	0	0%
13 Fixed Charges	1,001,418	1,017,732	1,106,843	89,111	8.8%
14 Land & Structures	177,982	5,000	28,000	23,000	460.0%
Total Objects	\$ 103,932,553	\$ 104,850,259	\$ 113,705,324	\$ 8,855,065	8.4%
Funds					
01 General Fund	\$ 66,145,635	\$ 66,965,477	\$ 71,382,169	\$ 4,416,692	6.6%
03 Special Fund	16,567,126	14,495,879	17,460,507	2,964,628	20.5%
09 Reimbursable Fund	21,219,792	23,388,903	24,862,648	1,473,745	6.3%
Total Funds	\$ 103,932,553	\$ 104,850,259	\$ 113,705,324	\$ 8,855,065	8.4%

Note: The fiscal 2006 appropriation does not include deficiencies, and the fiscal 2007 allowance does not reflect contingent reductions.

**Fiscal Summary
Comptroller of the Treasury**

<u>Program/Unit</u>	<u>FY05 Actual</u>	<u>FY06 Wrk Approp</u>	<u>FY07 Allowance</u>	<u>Change</u>	<u>FY06 - FY07 % Change</u>
01 Executive Direction	\$ 2,628,701	\$ 2,658,309	\$ 2,904,646	\$ 246,337	9.3%
02 Financial and Support Services	5,021,104	5,089,170	5,272,360	183,190	3.6%
01 Accounting Control and Reporting	4,946,326	5,533,751	6,066,753	533,002	9.6%
01 Estimating Of Revenues	437,959	451,575	488,901	37,326	8.3%
01 Revenue Administration	32,644,270	32,883,081	34,613,413	1,730,332	5.3%
02 Major IT Development Fund	200,000	0	2,099,000	2,099,000	
01 Compliance Administration	28,943,098	26,557,115	28,324,188	1,767,073	6.7%
01 Alcohol And Tobacco Tax Administration	7,596,315	8,056,903	8,552,315	495,412	6.1%
01 Motor Fuel Tax Administration	0	0	0	0	0%
01 Payroll Management	3,351,072	3,347,120	3,720,342	373,222	11.2%
01 Computer Center Operations	18,163,708	20,273,235	21,663,406	1,390,171	6.9%
Total Expenditures	\$ 103,932,553	\$ 104,850,259	\$ 113,705,324	\$ 8,855,065	8.4%
General Fund	\$ 66,145,635	\$ 66,965,477	\$ 71,382,169	\$ 4,416,692	6.6%
Special Fund	16,567,126	14,495,879	17,460,507	2,964,628	20.5%
Total Appropriations	\$ 82,712,761	\$ 81,461,356	\$ 88,842,676	\$ 7,381,320	9.1%
Reimbursable Fund	\$ 21,219,792	\$ 23,388,903	\$ 24,862,648	\$ 1,473,745	6.3%
Total Funds	\$ 103,932,553	\$ 104,850,259	\$ 113,705,324	\$ 8,855,065	8.4%

Note: The fiscal 2006 appropriation does not include deficiencies, and the fiscal 2007 allowance does not reflect contingent reductions.