

E00A
Comptroller of the Treasury

Operating Budget Data

(\$ in Thousands)

	<u>FY 08</u> <u>Actual</u>	<u>FY 09</u> <u>Working</u>	<u>FY 10</u> <u>Allowance</u>	<u>FY 09-10</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$72,927	\$74,761	\$77,886	\$3,125	4.2%
Contingent & Back of Bill Reductions	0	0	-869	-869	
Adjusted General Fund	\$72,927	\$74,761	\$77,018	\$2,257	3.0%
Special Fund	17,022	17,242	32,372	15,130	87.7%
Contingent & Back of Bill Reductions	0	0	-68	-68	
Adjusted Special Fund	\$17,022	\$17,242	\$32,304	\$15,061	87.4%
Reimbursable Fund	18,989	27,896	19,947	-7,949	-28.5%
Contingent & Back of Bill Reductions	0	0	-40	-40	
Adjusted Reimbursable Fund	\$18,989	\$27,896	\$19,908	-\$7,988	-28.6%
Adjusted Grand Total	\$108,937	\$119,900	\$129,229	\$9,330	7.8%

- The fiscal 2010 allowance increases by \$9,329,579, or 7.8%, when funds are adjusted for contingent and across-the-board reductions.
- The increase in the budget is largely attributed to the implementation of a new Modernized Integrated Tax System. Adjusting for this additional funding, the budget grows 4%.
- Other notable increases include additional funding for Social Security license software (\$408,000), commissions paid to outside collections agencies (\$321,000), and remittance processors (\$320,000).

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

For further information contact: Chantelle M. Green

Phone: (410) 946-5530

Personnel Data

	<u>FY 08 Actual</u>	<u>FY 09 Working</u>	<u>FY 10 Allowance</u>	<u>FY 09-10 Change</u>
Regular Positions	1,105.50	1,117.50	1,111.50	-6.00
Contractual FTEs	<u>26.91</u>	<u>29.64</u>	<u>29.65</u>	<u>0.01</u>
Total Personnel	1,132.41	1,147.14	1,142.15	-5.99

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	43.83	3.94%
Positions and Percentage Vacant as of 12/31/08	48.60	4.35%

- The allowance reflects a net decline of five regular positions. The allowance abolishes six administrative regular positions while adding a new position to perform recovery audits of statewide vendor payments.
- Across-the-board reductions reduce the office’s position complement by 1 regular position.
- As of December 31, 2008, the vacancy rate was 4.35%. Fourteen of these vacancies have subsequently been filled, thereby, reducing the vacancy rate to 3.10%.
- Turnover expectancy is reduced from 4.07 to 3.94%.

Analysis in Brief

Major Trends

Tax Delinquencies on the Rise: The percentage of individual tax delinquencies grew by 34% in fiscal 2008 compared to fiscal 2007.

Internal Revenue Offsets Are Projected to Decline: Despite the steady increase in the Internal Revenue Services offsets since fiscal 2005, the office is anticipating a 15% decline in federal offsets in fiscal 2010 compared to fiscal 2009.

Issues

Modernized Integrated Tax System: During the 2006 legislative session, the Comptroller requested, and received approval, for the replacement of the office's 20-year old tax collection system. At that time, it was the intent of the Comptroller's office to begin a similar effort to replace the office's master tax system known as SMART (State of Maryland Automated Record Tracking) after the replacement of the tax collection system. However, after researching the various tax collection systems in other states, as well as those currently available in the marketplace, the Comptroller's office decided that it would be in the best interest of the State to purchase an integrated tax accounting and collection system that could handle the accounting and collection functions for all tax types. As such, the scope of project was modified to include the procurement of a new Modernized Integrated Tax System. The fiscal 2010 allowance includes \$15.2 million in special funds for the new system. It should also be noted that the Major Information Technology Development Project Fund includes an additional \$11.6 million for this purpose. **The Comptroller should comment on the current status of the project, including the implementation time frame. The Comptroller should also comment on anticipated State and local revenues that will be generated by the new system.**

States Push to Tax Internet Vendor Sales: For over a decade, pursuant to a 1992 U.S. Supreme Court ruling, Internet and mail-order retailers were only required to collect sales tax from out-of-state customers if the retailer maintained a physical presence (*e.g.*, a store, office, or warehouse) in the customer's home state. In an effort to ensure parity with bricks-and-mortar booksellers, the state of New York passed a law that provided that affiliate sellers (*e.g.*, independent web sites that link to an online retailer's products in return for a percentage of the sale) were included within the definition of "physical presence," thereby, requiring out-of-state web retailers to collect sales taxes from buyers in the state if the web retailers have New York-based representatives referring businesses to them. This law was recently upheld by the New York Supreme Court. According to a spokesperson for the New York Division of the Budget, the state of New York expects to receive \$23 million in the current fiscal year from newly collected online sales taxes. **Similar to the state of New York, the Comptroller should comment as to what efforts the office has taken to seek sales tax collections from Internet vendors doing business in Maryland.**

Audit Findings: In April 2008, the Office of Legislative Audits (OLA) published its audit of the Compliance Division covering fiscal 2004 to 2007. The audit disclosed that while the division uses various techniques to identify individuals and businesses that are noncompliant with applicable tax laws and regulations, certain procedures would enhance the division’s collections. **The Comptroller should comment on what measures it has taken to address OLA’s audit findings.**

Reorganization within the Office of the Comptroller: A review of the office’s organizational structure revealed that administrative streamlining is warranted due to what appears to be an overlap of certain functions. Particularly, there seems to be little need for two deputy chiefs of staff given the fact that the chief of staff is only responsible for 83, or 7%, of the agency’s organizational structure. Additionally, the office’s organizational chart suggests that there is some potential overlap in the communications and legislative affairs functions. **As such, the Department of Legislative Services (DLS) recommends that a deputy chief of staff position be deleted unless the position and associated salary are converted to that of a revenue field auditor. An additional auditor position is estimated to generate approximately \$500,000 in additional revenue for the State. Additionally, DLS recommends deleting a position and \$90,000 in funding within the Communications Office due to an overlap of the communications and legislative affairs functions.**

Recommended Actions

	<u>Funds</u>	<u>Positions</u>
1. Add budget bill language to delete a deputy chief of staff position unless the position and associated funding is converted to that of a revenue field auditor position.		
2. Delete a position within the Communications Unit.	\$ 99,000	1.0
3. Delete funding for the purchase of a new vehicle.	22,000	
4. Delete funding for certain computer and data network cabling expenditures.	68,125	
5. Add budget bill language reducing the appropriation for unclaimed property newspaper publications contingent upon the enactment of legislation.		
6. Delete funds to replace an underground storage tank.	100,000	
7. Reduce increase in funding for cigarette stamps.	8,000	
Total Reductions	\$ 297,125	1.0

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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 nine 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. 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. The Motor Fuel, Alcohol, and Tobacco Tax Administration is responsible for administering the laws governing the sale, manufacture, storage, transportation, distribution, and promotion of alcohol, tobacco, and motor fuel.

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.

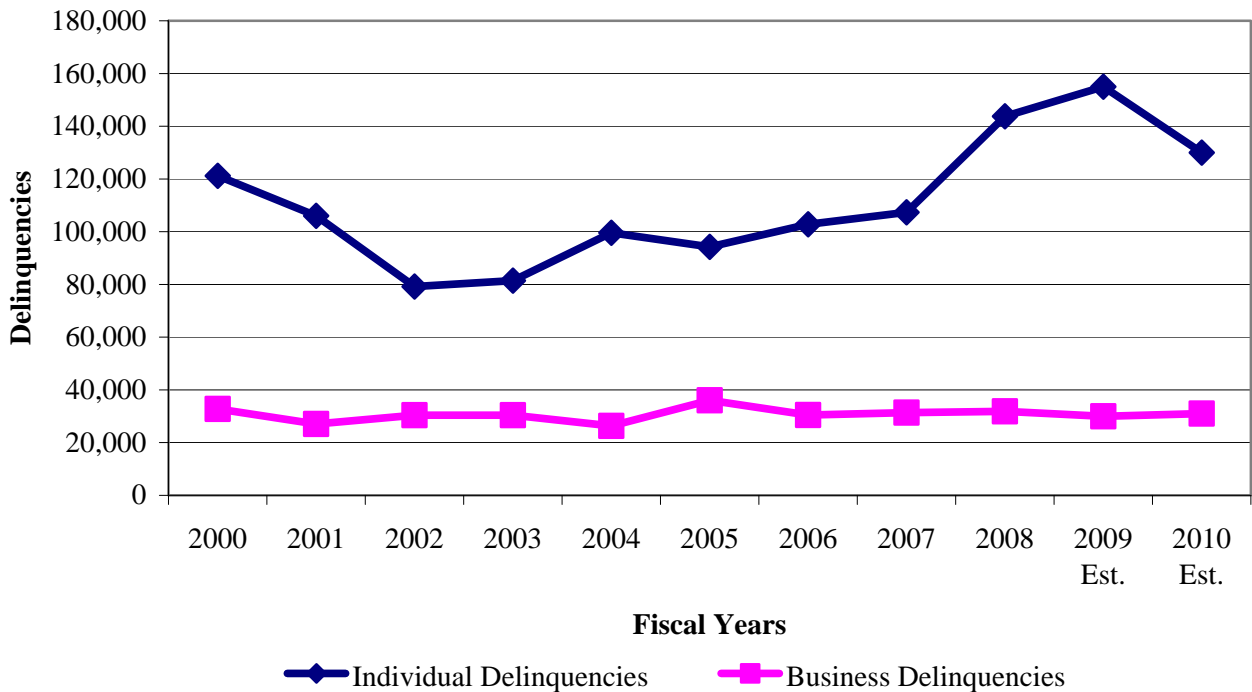
Performance Analysis: Managing for Results

Delinquencies on the Rise

The Comptroller dedicates significant resources toward maximizing the collection of overdue taxes. The office is responsible for notifying all taxpayers of past due amounts and taking steps to assure collection. This responsibility has increased in recent years as the number of individual delinquencies grows. **Exhibit 1** shows that while the percentage of individual delinquencies has grown by 10% annually since 2002, there was a 34% increase in individual delinquencies in fiscal 2008 compared to fiscal 2007. **The Comptroller should comment on what is contributing to the increase in individual delinquencies, and what is being done to address lost collections due to higher delinquencies.**

By contrast, the number of business delinquencies has remained fairly constant at about 30,000 cases.

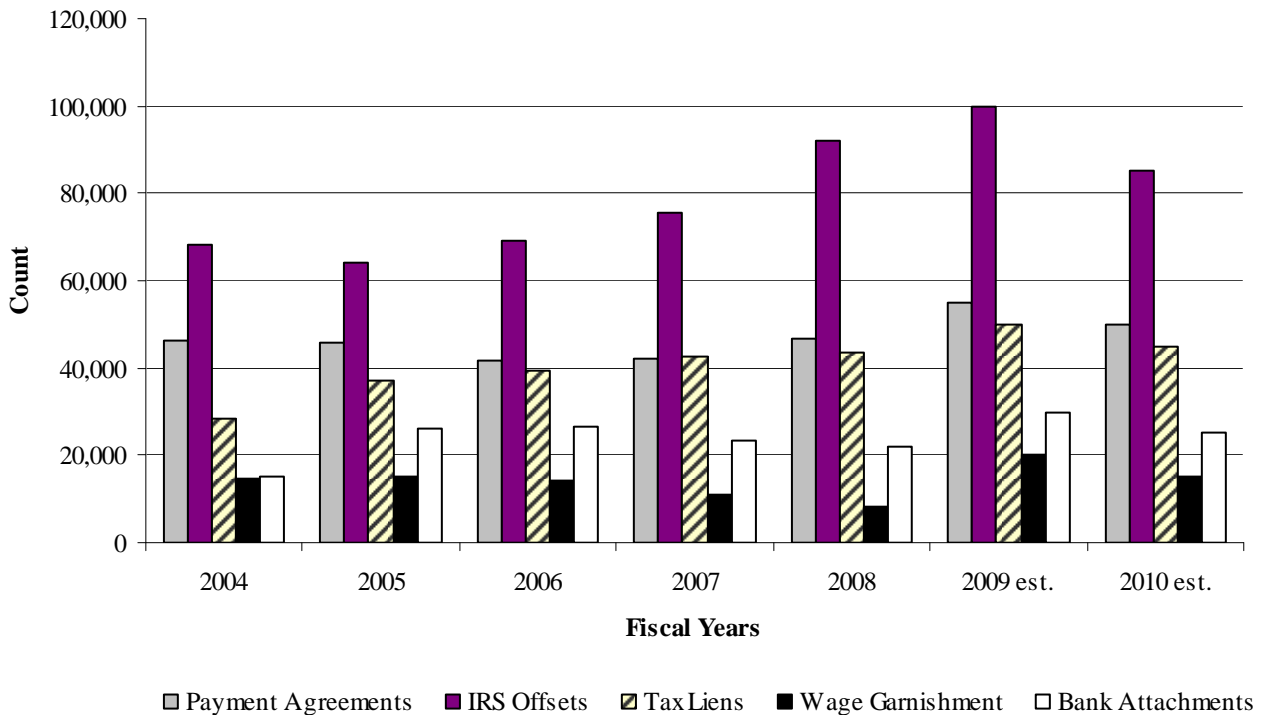
Exhibit 1
Tax Delinquencies
Fiscal 2000-2010



Source: Governor's Budget Books, Fiscal 2000-2010

The Comptroller’s goal is to encourage taxpayers to voluntarily comply with the tax laws, but ultimately the Comptroller may and does use a variety of tools at the State’s disposal to recover delinquent taxes. **Exhibit 2** details the utilization of the Comptroller’s current methods of delinquent tax collection. The Internal Revenue Service (IRS) offsets are by far the most utilized. Under this method, the State withholds refunds of those who have federal tax liabilities, and in return, the IRS withholds refunds of those with Maryland tax liabilities. Despite the steady increase in IRS offsets since fiscal 2005, the office is anticipating a 15% decline in federal offsets in fiscal 2010 compared to fiscal 2009. **The Comptroller should comment on the anticipated decline in IRS offsets.**

Exhibit 2
Collection Method Utilization
Fiscal 2004-2010



Source: Governor’s Budget Books, Fiscal 2004-2010

Impact of Cost Containment

The office was required to reduce the total budget by \$5.1 million due to cost containment actions taken by the Board of Public Works (BPW) in fiscal 2009. Cost savings were primarily achieved by:

- across-the-board reductions in health insurance, Other Post Employment Benefits, telecommunications, and Annapolis Data Center costs (\$2.8 million);
- reducing funds for various operating expenses such as furniture and computer equipment (\$1.3 million);
- abolishing 10 vacant positions within the office (\$402,500);
- delaying the replacement purchase of remittance processors (\$100,000); and
- a fund swap, which allowed the office to use reimbursable funds received from the Department of Budget and Management (DBM) Central Collections Unit (CCU) for debt collection activities performed by the Comptroller on behalf of CCU (\$500,000).

Proposed Budget

As shown in **Exhibit 3**, the fiscal 2010 allowance increases by 9,329,579, or 7.8%, when funds are adjusted for contingent and across-the-board reductions.

Modernized Integrated Tax System

In fiscal 2007, the General Assembly approved funding for the replacement of the Comptroller's outdated business tax collection system. Funding was largely provided through what was then known as DBM's Major Information Technology Development Fund. The replacement of the office's other tax accounting systems would soon follow. In the course of pursuing this replacement, the Comptroller's office and DBM determined that, instead of replacing multiple tax systems, an integrated tax accounting and collection system would provide a more efficient means of managing tax records. The office's fiscal 2010 allowance includes \$15.2 million in special funds for the new system. It should also be noted that the Major Information Technology Development Project Fund includes an additional \$11.6 million for this purpose. Development and full implementation of the system is expected to take up to four years.

Exhibit 3
Proposed Budget
Comptroller of the Treasury
(\$ in Thousands)

How Much It Grows:	General Fund	Special Fund	Reimb. Fund	Total
2009 Working Appropriation	\$74,761	\$17,242	\$27,896	\$119,900
2010 Allowance	<u>77,886</u>	<u>32,372</u>	<u>19,947</u>	<u>130,206</u>
Amount Change	\$3,125	\$15,130	-\$7,949	\$10,306
Percent Change	4.2%	87.7%	-28.5%	8.6%
Contingent Reductions	-\$869	-\$68	-\$40	-\$977
Adjusted Change	\$2,257	\$15,061	-\$7,988	\$9,330
Adjusted Percent Change	3.0%	87.4%	-28.6%	7.8%

Where It Goes:

Personnel Expenses

Across-the-board abolitions to consolidate personnel classification functions	-\$55
Position abolishment (six administrative positions)	-296
Recovery audit position	49
Employee and retiree health insurance pay-as-you-go costs	2,211
Employees' retirement	722
Employee reclassifications	312
Employee increments	-751
Reduction of Other Post Employment Benefits' unfunded liability	-775
Turnover adjustments	81
Deferred compensation (after reducing fiscal 2010 for contingent reductions)	-456
Other adjustments	52

Other Changes

Increased contractual employee services expenses	68
Contractual employee services (Section 23)	-128
Modernized Integrated Tax System	5,957
Increased postage expenditures	731
Social Security license software	408
Commission paid to collection agencies	321
Remittance processor replacement	320
Increased supplies and materials	266
Lease financing for telephone equipment	130

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Where It Goes:

Electronic filing (Senate Bill 96).....	-388
Other	-756
Total	\$9,330

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

Postage Expenses

According to the office, the Comptroller has the highest number of postage mailings than any other Executive Branch agency. The allowance includes an additional \$731,493 for postage expenses. The increase in postage expenses is attributed to the following:

- Chapter 692 of 2008 which requires the Comptroller to send a notice to certain low-income households regarding potential eligibility for health insurance via the Maryland Medical Assistance Program or the Maryland Children’s Health Program (\$300,000);
- recent increases in the United States postage rate (\$302,607); and
- additional mailings resulting from the Federal Vendor Offset Program (\$128,886).

Other Expenditures

Other notable increases include additional funding for Social Security license software (\$408,000), commissions paid to outside collection agencies (\$321,000), and remittance processors (\$320,000).

Impact of Cost Containment

The fiscal 2010 allowance abolishes six positions totaling \$296,304. Across-the-board reductions further reduce the office’s fiscal 2010 allowance by \$638,672. These reductions include the following:

- a reduction in deferred compensation (\$455,960);
- a reduction in contractual employee services (\$127,571); and
- a position abolition as part of an effort to consolidate personnel classification within DBM (\$55,141).

Senate Bill 96 further reduces the office’s operating expenses by \$338,000 contingent upon the enactment of legislation requiring the electronic filing of individual income tax returns prepared by certain income tax return preparers.

Issues

1. Modernized Integrated Tax System

During the 2006 legislative session, the Comptroller requested, and received approval, for the replacement of the office's 20-year old tax collection system. At that time, it was the intent of the Comptroller's office to begin a similar effort to replace the office's master tax system known as SMART (State of Maryland automated Record Tracking) after the replacement of the tax collection system. However, after researching the various tax collection systems in other states, as well as those currently available in the marketplace, the Comptroller's office decided that it would be in the best interest of the State to purchase an integrated tax accounting and collection system that could handle the accounting and collection functions for all tax types. As such, the scope of the project was modified to include the procurement of a new Modernized Integrated Tax System (MITS). The fiscal 2009 allowance included funding for 16 additional revenue examiner positions in support of this initiative.

An Integrated Tax System

The MITS project, which is estimated to cost \$79.8 million (see **Appendix 3**), consists of multiple computer applications such as a commercial off-the-shelf tax accounting and collections system and a data warehousing component. That data warehousing tool, which will allow the office to identify non-filers and under-reporters, will be one of the first features implemented. This feature will enable the Comptroller to collect data from multiple sources (*e.g.*, motor vehicle registrations, boat registrations, property tax assessments, and licensing records) and departments such as the State Department of Assessments and Taxation. Using this combined data, in conjunction with Maryland and federal tax records, the office will be able to discern whether tax payers are reporting a reasonable amount of income.

Although the project is anticipated to cost \$79.8 million, as shown in **Exhibit 4**, the MITS project is expected to yield revenues far in excess of the project's total cost.

Revenue Examiner Positions

While the fiscal 2009 allowance included funding for 16 new revenue examiner positions, these positions were funded at 50% turnover. To date, all of these positions have been filled. While it was anticipated that the fiscal 2010 allowance would include funding for additional revenue examiner positions to assist with the increased workload resulting from the MITS, the fiscal 2010 allowance does not contain additional positions for this purpose. **The department should comment on the projected number of additional positions and operating costs associated with the full implementation of the MITS.**

Exhibit 4
Modernized Integrated Tax System
Projected Revenues

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>Total</u>	<u>% of Total</u>
MDOT	\$0	\$720,000	\$1,080,000	\$1,800,000	\$3,500,000	\$7,100,000	3%
Counties	1,650,000	4,620,000	18,315,000	22,275,000	23,265,000	70,125,000	29%
State GF	3,350,000	11,660,000	40,605,000	50,925,000	54,075,000	160,615,000	68%
Total	\$5,000,000	\$17,000,000	\$60,000,000	\$75,000,000	\$80,840,000	\$237,840,000	100%

GF: general funds

MDOT: Maryland Department of Transportation

Source: Comptroller of the Treasury

Recent Events

In December 2008, the Board of Public Works approved a multi-year contract for development and implementation of the MITS. According to the office, the MITS project has already generated revenues totaling \$3 million. **The Comptroller should comment on the current status of the project, including the implementation time frame. The Comptroller should also comment on anticipated State and local revenues that will be generated by the new system.**

2. States Push to Tax Internet Vendor Sales

For over a decade, pursuant to a 1992 U.S. Supreme Court ruling, Internet and mail-order retailers were only required to collect sales tax from out-of-state customers if the retailer maintained a physical presence (e.g., a store, office, or warehouse) in the customer’s home state. For example, a Marylander that purchased an item from Barnes and Nobles Incorporated’s web site would have to pay a sales tax because the bookseller has stores in the State. However, buying the same item directly from an Internet retailer that does not maintain a physical presence in the State (e.g., Amazon.com) would not result in a sales tax.

In an effort to ensure parity with bricks-and-mortar booksellers, the state of New York passed a law that provided that affiliate sellers (e.g., independent web sites that link to an online retailer’s products in return for a percentage of the sale) were included within the definition of “physical presence,” thereby, requiring out-of-state web retailers to collect sales taxes from buyers in the state if the web retailers have New York-based representatives referring businesses to them.

In response to the law change, Amazon.com filed a complaint with the New York Supreme Court alleging the law violated several aspects of the United State Constitution, in addition to the 1992 U.S. Supreme Court ruling. In January 2009, the New York Supreme Court granted the state's motion for summary judgment and held that the online retailer's use of in-state affiliates created a substantial nexus for sales tax collections purposes. According to a spokesperson for the New York Division of the Budget, the state of New York expects to receive \$23 million in the current fiscal year from newly collected online sales taxes.

The Comptroller should comment as to what efforts the office has taken to seek sales tax collections from Internet vendors doing business in Maryland.

3. Audit Findings

In April 2008, the Office of Legislative Audits (OLA) published an audit of the Compliance Division covering fiscal 2004 to 2007. The audit disclosed that while the division uses various techniques to identify individuals and businesses that are noncompliant with applicable tax laws and regulations, certain procedures would enhance the division's collections. The report's findings are summarized below.

- ***Identifying and Investigating Taxpayer Noncompliance Procedures:*** OLA's audit revealed that procedures used by the division to detect individuals that failed to file required income tax returns could be improved. For example, many potential non-filers identified by a computer match for tax year 2004 were excluded from further follow-up action. Additionally, the division had no procedure for identifying and investigating taxpayers who itemized deductions or who claimed the earned income tax credit on their State share of tax returns without filing a corresponding federal tax return, as required. Lastly, the division failed to adequately assess the potential benefit of using certain automated matching procedures to help identify businesses that fail to file required tax returns. For example, automated reports identifying employers who reported employee wages to the Department of Labor, Licensing, and Regulation for unemployment purposes, but who failed to file withholding tax returns were not generated or investigated.
- ***Liquor License Renewals Were Not Withheld:*** According to the report, the division has been unable to fully resolve the failure of certain local subdivisions to withhold liquor licenses from businesses (licensees) with delinquent tax liabilities, even though the subdivisions' position has been deemed contrary to State law. Under the Comptroller's Liquor License Renewal Project, the division informs the State's subdivisions of licensees that have delinquent tax liabilities. The subdivisions are then required to withhold liquor licenses from such businesses at renewal. Because licensees are required to conform to all laws and regulations relating to their businesses, the Comptroller's legal counsel has previously concluded that the renewal of a liquor license for a licensee that has an unpaid State tax liability is contrary to State law. According to OLA, while most subdivisions withhold liquor licenses from businesses with delinquent tax liabilities, two subdivisions do not. As of November 2006, 198 licensees in these two subdivisions owed approximately \$4 million in

unpaid State taxes. According to the report, bringing a lawsuit against the two subdivisions may be the only recourse to gain compliance.

- ***Controls Over Cash Receipts Collected by the Unclaimed Property Unit Were Inadequate:*** According to the report, controls over certain receipts collected by the division's accounting and unclaimed property units were insufficient. While collections processed by the accounting unit (*e.g.*, delinquent tax payments) were recorded and forwarded to the Comptroller's Revenue Administration Division (RAD) for deposit, collections received by the Unclaimed Property Unit were processed and deposited directly by the unit. OLA's review disclosed that independent verifications were not always performed to ensure that all recorded collections were forwarded to RAD for deposit; deposit verifications of unclaimed property receipts were not adequately documented and were being performed several months after the deposits had been made; and that a single employee had control over collections since the employee who initially received unclaimed property checks could also receive the corresponding reports which documented the property being submitted.
- ***System Access to Account Adjustments Was Not Controlled:*** According to OLA, certain employees had system access to make critical adjustments to taxpayer accounts, such as to reduce a taxpayer's liability, without such adjustments being subject to supervisory review. Additionally, some employees had the ability to make adjustments even though they did not require access to the system for their job responsibilities.

The Comptroller should comment on what measures it has taken to address OLA's audit findings.

4. Reorganization within the Office of the Comptroller

The Comptroller's Executive Direction Office is responsible for the general administration of the agency and for coordinating the tax collection and enforcement responsibilities of the other divisions. In fiscal 2008, the office was reorganized from a two-deputy comptroller structure into a three-deputy structure. Since that time, the office has been reorganized and is utilizing a one-deputy structure.

A review of the office's organizational structure revealed that administrative streamlining is warranted due to what appears to be an overlap of certain functions. Particularly, there seems to be little need for two deputy chiefs of staff given the fact that the chief of staff is only responsible for 83, or 7%, of the agency's organizational structure. Additionally, the office's organizational chart suggests that there is some potential overlap in the communications and legislative affairs functions. **As such, the Department of Legislative Services (DLS) recommends that a deputy chief of staff position be deleted unless the position and associated salary are converted to that of a revenue field auditor. An additional auditor position is estimated to generate approximately \$500,000 in additional revenue for the State. Additionally, DLS recommends deleting a position and \$90,000 in funding within the Communications Office due to an overlap of the communications and legislative affairs functions.**

Recommended Actions

1. Add the following language:

Provided that the budget for the Comptroller of Treasury shall be reduced by \$29,100 in general funds. Further provided that \$46,800 of the appropriation made for the purpose of funding position number 002769, Assistant State Comptroller IV, may not be expended for this purpose, but instead may only be used to reclassify this position to be a revenue field auditor position. Funds unexpended for the restricted purpose may not be transferred by budget amendment or otherwise, to any other purpose, and shall revert to the general fund.

Explanation: There appears to be little need for two deputy chiefs of staff within the office of the Comptroller. This action deletes a deputy chief of staff position unless the position and associated salary are converted to that of a revenue field auditor. This action also reduces a certain amount of funding due to the position conversion. It is anticipated that an additional revenue field auditor position will generate an additional \$500,000 in State revenues.

	<u>Amount Reduction</u>		<u>Position Reduction</u>
2. Delete a position within the Communications Unit due to the overlap of responsibilities with the legislative affairs function. The total amount of the reduction shall total \$99,000.	\$ 99,000	GF	1.0
3. Delete funding for the purchase of a new vehicle within the Compliance Division.	22,000	GF	
4. Delete funding for certain computer and data network cabling expenditures. The allowance includes funding to equip 22 additional positions related to the Modernized Integrated Tax System project. However, the fiscal 2010 allowance does not include any additional positions for this purpose.	46,375	GF	
	21,750	SF	
5. Add the following language to the special fund appropriation:			

, provided that the appropriation made for the purpose of newspaper publications for unclaimed property shall be reduced by \$482,000 contingent upon the enactment of HB 106, which repeals 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.

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Explanation: This language reduces the appropriation made for the purpose of publishing the names of abandoned property owners in newspapers across the State contingent upon the enactment of legislation repealing certain provisions related to newspaper advertisements of abandoned property.

	<u>Amount Reduction</u>	<u>Position Reduction</u>
6. Delete funds to replace an underground storage tank. The tank is expected to be replaced in the current fiscal year.	100,000	SF
7. Reduce increase in funding for cigarette tax stamps based on fiscal 2008 actual expenditures of \$224,000.	8,000	GF
Total Reductions	\$ 297,125	1.0
Total General Fund Reductions	\$ 175,375	
Total Special Fund Reductions	\$ 121,750	

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 2008					
Legislative Appropriation	\$72,005	\$15,951	\$0	\$18,949	\$106,905
Deficiency Appropriation	684	775	0	0	1,459
Budget Amendments	868	891	0	591	2,350
Cost Containment	-273	-34	0	-15	-322
Reversions and Cancellations	-357	-561	0	-536	-1,454
Actual Expenditures	\$72,927	\$17,022	\$0	\$18,989	\$108,938
Fiscal 2009					
Legislative Appropriation	\$77,860	\$17,021	\$0	\$19,573	\$114,454
Cost Containment	-4,369	-64	0	-685	-5,118
Budget Amendments	1,271	285	0	9,008	10,564
Working Appropriation	\$74,762	\$17,242	\$0	\$27,896	\$119,900

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

Fiscal 2008

In fiscal 2008, the total budget for the office increased by approximately \$2 million. The general fund appropriation increased by \$922,000 due to the following:

- a \$892,686 cost-of-living adjustment (COLA) that was centrally budgeted in DBM;
- a \$683,700 deficiency appropriation for expenses related to legislation (Chapter 3 of the 2007 special session) requiring the Comptroller to collect, compile, and analyze information submitted under new corporate filing requirements;
- a \$24,144 decrease in telecommunications expenditures due to a realignment of statewide communications expenses; and
- a \$273,409 reduction in expenditures due to cost containment actions taken by the Board of Public Works. Savings were realized as a result of less than expected costs to replace cooling towers, delayed equipment purchases, and position reductions.

Additionally, there was a general fund reversion of approximately \$357,000. The reversion was primarily the result of unexpended personnel, travel, and equipment expenditures.

The special fund appropriation increased by \$1.1 million due to the following:

- a \$775,000 deficiency appropriation for auditing expenditures related to vendor payments and unclaimed property;
- a \$672,885 increase in funding for the design and development of the Modernized Integrated Tax System;
- a \$167,916 COLA;
- a \$50,000 increase in funding for an audit of the General Accounting Division's vendor payments systems; and
- a \$34,020 reduction in personnel expenditures due to cost containment actions taken by BPW.

Additionally, there was a special fund cancellation of approximately \$561,000. The cancellation was due to a variety of unexpended operating funds such as contractual services expenditures for vendors and unclaimed property audits.

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Lastly, the reimbursable fund appropriation increased by \$40,000. The increase was primarily due to:

- a \$107,000 COLA for reimbursable fund employees;
- a \$484,000 increase in postage expenditures as a result of an increase in the postage rate and the volume of tax notification mailings required by law; and
- a \$15,000 reduction in salaries and wages due to cost containment actions taken by BPW.

Additionally, there was a reimbursable fund cancellation of approximately \$536,000. The cancellation was mostly due to unexpended funds for a laser printer.

Fiscal 2009

The total budget for the office increased by \$5.4 million. The general fund appropriation decreased by approximately \$3.1 million due to the following:

- a COLA (\$937,000);
- an annual salary review increase for call center specialists, tax auditors, tax consultants, and scientists (\$333,000);
- across-the-board reductions in health insurance, Other Post Employment Benefits, telecommunications, and Annapolis Data Center costs (\$2.1 million);
- a reduction in various operating expenses such as furniture and computer equipment (\$1.3 million);
- the abolishment of 10 vacant positions (\$402,500);
- a delay in the replacement purchase of remittance processors (\$100,000); and
- a fund swap, which allowed the office to use reimbursable funds received from the Department of Budget and Management Central Collections Unit for debt collection activities performed by the Comptroller on behalf of CCU (\$500,000).

The special fund appropriation increased by approximately \$222,000 due to the following:

- a COLA (\$170,000);

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- an annual salary review for call center specialists, tax auditors, tax consultants, and scientists (\$116,000); and
- a reduction in health insurance (\$64,000).

The reimbursable fund appropriation increased by \$9 million mostly due to reimbursable funds received from the Major Information Technology Development Project Fund for the MITS. Cost containment actions reduced the reimbursable fund appropriation by \$685,000.

Audit Findings

Audit Period for Last Audit:	July 1, 2003 – December 31, 2006
Issue Date:	April 2008
Number of Findings:	6
Number of Repeat Findings:	0
% of Repeat Findings:	n/a
Rating: (if applicable)	n/a

- Finding 1:** Procedures used to detect individuals who failed to file required income tax returns could be improved.
- Finding 2:** Procedures were lacking for indentifying taxpayers who improperly itemized deductions or claimed the earned income tax credit.
- Finding 3:** The potential benefit of using certain automated matching procedures to help indentify businesses that failed to file required tax returns was not adequately assessed.
- Finding 4:** Certain local subdivisions did not withhold liquor licenses from businesses with delinquent tax liabilities in violation of State law.
- Finding 5:** Controls over certain cash receipts were insufficient.
- Finding 6:** System access to make critical adjustments to taxpayer accounts was not always adequately controlled and monitored.

Major Information Technology Projects

Comptroller of the Treasury Modernized Integrated Tax System

Project Description:	The implementation of an integrated tax system and data warehouse. The project will replace two legacy tax collections systems.							
Project Business Goals:	The primary goal of the project is to enhance the enforcement of tax laws via tax processing and collection.							
Estimated Total Project Cost:	\$79,816,210					New/Ongoing Project:	Ongoing	
Project Start Date:	February 2006			Projected Completion Data:	July 2013			
Schedule Status:	A multi-year contract for the project was approved by the Board of Public Works in December 2008. The project is currently in the implementation phase.							
Cost Status:	None.							
Scope Status:	None.							
Project Management Oversight Status:	None.							
Identifiable Risks:	User resistance due to the implementation of a new system. A Cultural Change Management Plan will be used to prepare employees for the implementation of the modernized integrated tax system. Additionally, new skill sets may be required to support the new system. A Training and Knowledge Transfer Plan will be used to ensure adequate training is available for personnel.							
Additional Comments:	None.							
Fiscal Year Costs (\$ in Thousands)	Prior Years	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	Balance to Complete	Total
Personnel Services	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Professional and Outside Services	9,987.2	26,661.5	23,503.5	9,625.3	9,225.9	0.0	0.0	79,003.4
Other Expenditures	212.8	200.0	100.0	100.0	200.0	0.0	0.0	812.8
Total Costs	\$10,200.0	\$26,861.5	\$23,603.5	\$9,725.3	\$9,425.9	\$0.0	\$0.0	\$79,816.2

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

<u>Object/Fund</u>	<u>FY08 Actual</u>	<u>FY09 Working Appropriation</u>	<u>FY10 Allowance</u>	<u>FY09 - FY10 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	1,105.50	1,117.50	1,112.50	-5.00	-0.4%
02 Contractual	26.91	29.64	29.65	0.01	0%
Total Positions	1,132.41	1,147.14	1,142.15	-4.99	-0.4%
Objects					
01 Salaries and Wages	\$ 69,404,959	\$ 73,682,398	\$ 75,232,218	\$ 1,549,820	2.1%
02 Technical and Spec. Fees	1,022,585	1,145,978	1,214,385	68,407	6.0%
03 Communication	8,030,277	6,842,523	7,673,087	830,564	12.1%
04 Travel	580,380	513,255	565,927	52,672	10.3%
06 Fuel and Utilities	80,842	79,676	102,021	22,345	28.0%
07 Motor Vehicles	404,768	410,658	351,261	-59,397	-14.5%
08 Contractual Services	22,012,792	31,353,938	38,394,766	7,040,828	22.5%
09 Supplies and Materials	2,773,757	2,658,650	2,924,189	265,539	10.0%
10 Equipment – Replacement	2,271,244	1,234,526	1,684,767	450,241	36.5%
11 Equipment – Additional	843,472	887,243	913,269	26,026	2.9%
12 Grants, Subsidies, and Contributions	93,474	10,003	60,758	50,755	507.4%
13 Fixed Charges	1,155,778	1,069,368	1,063,619	-5,749	-0.5%
14 Land and Structures	262,647	11,425	25,625	14,200	124.3%
Total Objects	\$ 108,936,975	\$ 119,899,641	\$ 130,205,892	\$ 10,306,251	8.6%
Funds					
01 General Fund	\$ 72,926,636	\$ 74,761,041	\$ 77,886,462	\$ 3,125,421	4.2%
03 Special Fund	17,021,594	17,242,385	32,372,011	15,129,626	87.7%
09 Reimbursable Fund	18,988,745	27,896,215	19,947,419	-7,948,796	-28.5%
Total Funds	\$ 108,936,975	\$ 119,899,641	\$ 130,205,892	\$ 10,306,251	8.6%

Note: The fiscal 2009 appropriation does not include deficiencies. The fiscal 2010 allowance does not include contingent reductions.

**Fiscal Summary
Comptroller of the Treasury**

<u>Program/Unit</u>	<u>FY08 Actual</u>	<u>FY09 Wrk Approp</u>	<u>FY10 Allowance</u>	<u>Change</u>	<u>FY09 - FY10 % Change</u>
01 Executive Direction	\$ 3,333,831	\$ 3,299,858	\$ 3,552,712	\$ 252,854	7.7%
02 Financial and Support Services	5,544,481	5,420,342	5,554,390	134,048	2.5%
01 Accounting Control and Reporting	5,151,831	5,190,052	5,320,993	130,941	2.5%
01 Estimating of Revenues	620,839	609,519	711,394	101,875	16.7%
01 Revenue Administration	28,329,836	29,303,454	30,326,408	1,022,954	3.5%
02 Major IT Development Projects	812,816	9,258,120	15,215,529	5,957,409	64.3%
01 Compliance Administration	26,418,609	27,549,900	28,815,424	1,265,524	4.6%
01 Field Enforcement Administration	4,564,164	4,890,187	4,748,317	-141,870	-2.9%
01 Motor Fuel, Alcohol, and Tobacco Tax Admin.	2,856,746	3,130,619	3,025,410	-105,209	-3.4%
01 Payroll Management	2,347,960	2,415,786	2,495,881	80,095	3.3%
01 Annapolis Data Center Operations	15,356,344	15,570,364	16,001,847	431,483	2.8%
02 Comptroller IT Services	13,599,518	13,261,440	14,437,587	1,176,147	8.9%
Total Expenditures	\$ 108,936,975	\$ 119,899,641	\$ 130,205,892	\$ 10,306,251	8.6%
General Fund	\$ 72,926,636	\$ 74,761,041	\$ 77,886,462	\$ 3,125,421	4.2%
Special Fund	17,021,594	17,242,385	32,372,011	15,129,626	87.7%
Total Appropriations	\$ 89,948,230	\$ 92,003,426	\$ 110,258,473	\$ 18,255,047	19.8%
Reimbursable Fund	\$ 18,988,745	\$ 27,896,215	\$ 19,947,419	-\$ 7,948,796	-28.5%
Total Funds	\$ 108,936,975	\$ 119,899,641	\$ 130,205,892	\$ 10,306,251	8.6%

Note: The fiscal 2009 appropriation does not include deficiencies. The fiscal 2010 allowance does not include contingent reductions.