

E00A
Comptroller of the Treasury

Operating Budget Data

(\$ in Thousands)

	<u>FY 09</u> <u>Actual</u>	<u>FY 10</u> <u>Working</u>	<u>FY 11</u> <u>Allowance</u>	<u>FY 10-11</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$72,353	\$73,498	\$76,112	\$2,614	3.6%
Contingent & Back of Bill Reductions	0	0	-1,722	-1,722	
Adjusted General Fund	\$72,353	\$73,498	\$74,390	\$892	1.2%
Special Fund	15,566	38,381	23,974	-14,407	-37.5%
Contingent & Back of Bill Reductions	0	0	-748	-748	
Adjusted Special Fund	\$15,566	\$38,381	\$23,226	-\$15,155	-39.5%
Reimbursable Fund	26,927	24,964	18,829	-6,136	-24.6%
Contingent & Back of Bill Reductions	0	0	-181	-181	
Adjusted Reimbursable Fund	\$26,927	\$24,964	\$18,648	-\$6,317	-25.3%
Adjusted Grand Total	\$114,846	\$136,844	\$116,263	-\$20,580	-15.0%

Note: For purposes of illustration, the Department of Legislative Services has estimated the distribution of selected across-the-board budget reductions. The actual allocations are to be developed by the Administration.

- The fiscal 2011 allowance decreases by \$20,580,429, or 15.0%, when funds are adjusted for contingent and across-the-board reductions.
- The decline in the budget is largely attributed to the funding of a new Modernized Integrated Tax System (MITS). Absent MITS funding, the budget declines by \$614,395, or 0.6%.
- Other notable decreases include a \$2 million reduction in equipment and Annapolis Data Center expenditures.

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 09 Actual</u>	<u>FY 10 Working</u>	<u>FY 11 Allowance</u>	<u>FY 10-11 Change</u>
Regular Positions	1,117.50	1,111.00	1,110.00	-1.00
Contractual FTEs	<u>28.52</u>	<u>29.74</u>	<u>45.74</u>	<u>16.00</u>
Total Personnel	1,146.02	1,140.74	1,155.74	15.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	42.51	3.83%
Positions and Percentage Vacant as of 12/31/09	54.75	4.93%

- The allowance abolishes a recovery audit position while adding 16 new contractual full-time equivalent revenue examiner positions.
- As of December 31, 2009, the vacancy rate was 4.93%. Sixteen of these vacancies have subsequently been filled, thereby reducing the vacancy rate to 3.49%.
- Turnover expectancy is reduced from 4.05 to 3.83%.

Analysis in Brief

Major Trends

Tax Delinquencies Continue to Rise: The percentage of individual tax delinquencies grew by 20% in fiscal 2009 as compared to fiscal 2008.

Internal Revenue Offsets Increase Significantly: The number of Internal Revenue Service offsets increased by 27% in fiscal 2009 as compared to fiscal 2008.

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 (State of Maryland Automated Record Tracking), known as SMART, 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 taxes. As such, the scope of the project was modified to include the procurement of a new Modernized Integrated Tax System. The fiscal 2011 allowance includes \$6.7 million in special funds for the new system. It should also be noted that the Major Information Technology Development Project Fund includes an additional \$10.1 million for this purpose. **The Comptroller should comment on the current status of the project. The Comptroller should also comment on the \$6.0 million increase in projected State and local revenues through fiscal 2013.**

General Fund Revenue Overstated in Fiscal 2009: The Office of Legislative Audits *Statewide Review of Budget Closeout Transactions for Fiscal Year 2009* revealed that the office's Revenue Administration Division overstated its fiscal 2009 accrued revenue by \$2.7 million. **The Comptroller's office should comment on the overstatement of general fund revenues, including what efforts have been taken by the office to ensure that a similar accounting error does not occur in the future. The Comptroller should also indicate how the double count will be addressed.**

Recommended Actions

	<u>Funds</u>
1. Add budget bill language to require that funding appropriated for the Statistics of Income report be used solely for that purpose.	
2. Delete funding to purchase new vehicles and related equipment.	\$ 78,079
3. Reduce allowance for motor vehicle gas and oil expenses.	15,000
Total Reductions	\$ 93,079

Updates

Reorganization of Revenue Administration Division: As a cost containment measure, the Motor Fuel, Alcohol, and Tobacco Tax Division was merged into the Revenue Administration Division.

E00A
Comptroller of the Treasury

Operating Budget Analysis

Program Description

The Comptroller of the Treasury is charged with the general supervision of the State's fiscal matters, including collecting taxes, distributing revenues, and administering financial accounts. The agency is divided into eight divisions generally falling into the following categories:

Revenue

The Revenue Administration Division (RAD) is responsible for processing and collecting various taxes, including the personal income tax, the corporate income tax, and the sales tax. RAD is also responsible for administering the laws governing the sale, manufacture, storage, transportation, distribution, and promotion of alcohol, tobacco, and motor fuel. The Compliance Division conducts audits and collects delinquent taxes from all revenue sources. The Field Enforcement Division enforces all tax laws by conducting investigations, tests, and inspections.

Administration

The Office of the Comptroller has general supervision over the agency. The General Accounting Division (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 (CPB) 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.

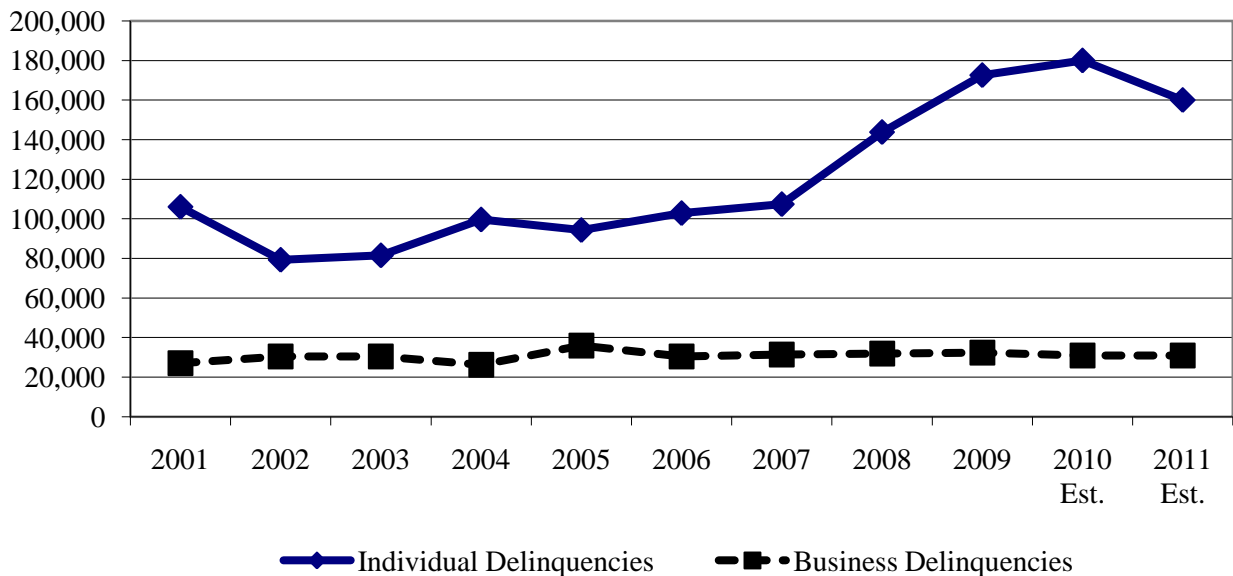
Performance Analysis: Managing for Results

Tax Delinquencies Continue to 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. As shown in **Exhibit 1**, individual delinquencies increased by 20% in fiscal 2009 as compared to fiscal 2008. According to the office, the increase in delinquent individual income tax cases is attributed to the economy and the implementation of Modernized Integrated Tax System (MITS) Early Benefits Program. Several of the early benefits projects include the verification of child care expense and teacher incentive credits as well as the identification of non-filers. The office reports that \$9.8 million was collected in fiscal 2009 as a result of the program.

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

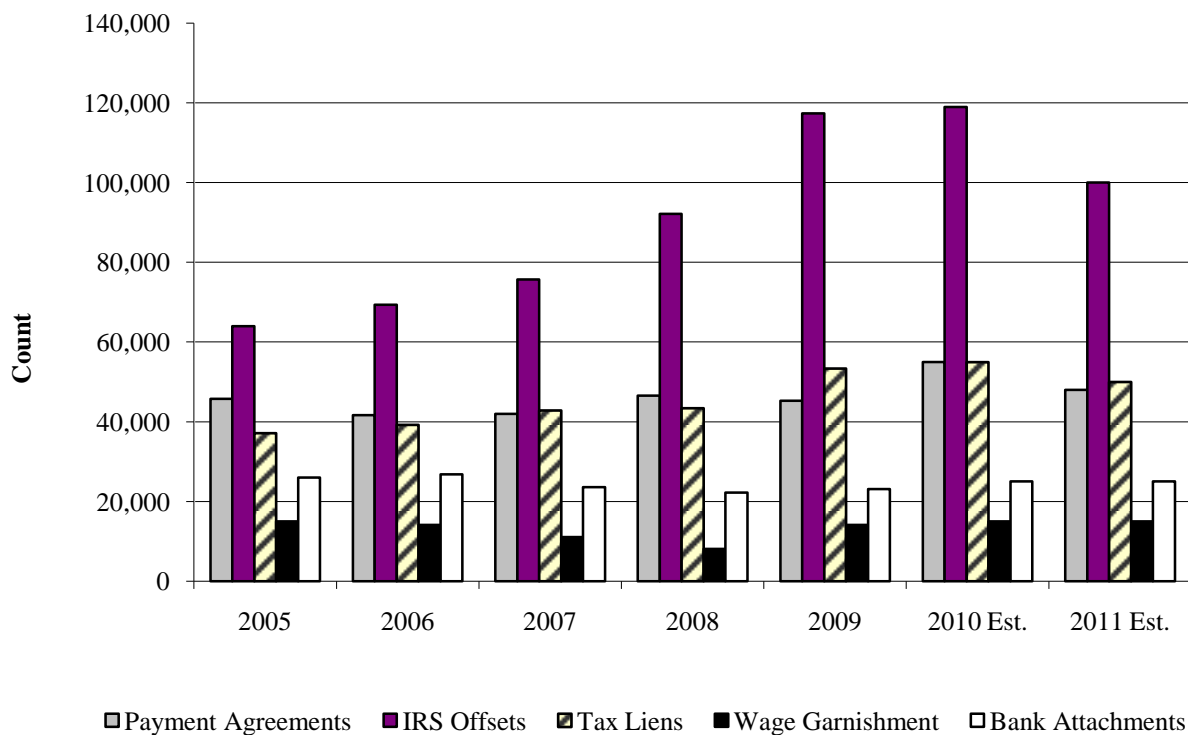
Exhibit 1
Tax Delinquencies
Fiscal 2001-2011



Source: Governor's Budget Books, Fiscal 2001-2011

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. The number of IRS offsets increased by 25,276, or 27%, in fiscal 2009 as compared to fiscal 2008.

Exhibit 2
Collection Method Utilization
Fiscal 2005-2011



IRS: Internal Revenue Service

Source: Governor’s Budget Books, Fiscal 2005-2011

Fiscal 2010 Actions

Impact of Cost Containment

The office was required to reduce the total budget by approximately \$3 million due to cost containment actions taken by the Board of Public Works (BPW) in fiscal 2010. Cost savings were primarily achieved by:

- implementing employee furloughs (\$1,662,450);
- delaying the purchase of mainframe printers and remittance processors for the Annapolis Data Center (\$459,759);
- reducing operating expenses for items such as furniture and applications software (\$300,639);
- reducing computer equipment and software expenses (\$162,753);
- across-the-board reductions in travel and vehicle expenditures (\$122,991);
- deferring the preparation of the 2008 *Statistics of Income Report* (\$103,000);
- reducing banking fees in anticipation of fewer paper tax refunds (\$60,000);
- reducing printing expenses in anticipation of fewer personal income tax booklet requests (\$57,182); and
- reducing postage expenses due to a modification in the single transaction limit on corporate purchasing cards, thereby decreasing the need to prepare and mail vendor payments (\$25,000).

Administration's Revenue Assumptions

In its fiscal 2010 budget plan, the Administration is assuming an additional \$700,000 in general fund revenue above the projections of the Board of Revenue Estimates. In September 2009, BPW raised the single transaction limit for Category I small procurements to \$5,000. In response to this change, the single transaction limit on statewide corporate purchasing cards was also increased to \$5,000. The office anticipates that the modification in the authorization limit on corporate purchasing cards will increase the total dollar value of purchases made via credit card, thereby resulting in an additional \$700,000 in cash rebates from Bank of America in fiscal 2010.

Proposed Budget

As shown in **Exhibit 3**, the fiscal 2011 allowance decreases by \$20,580,429, or 15%, when funds are adjusted for contingent and across-the-board reductions. Absent MITS funding, the budget declines by \$614,395, or 0.6%.

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

How Much It Grows:	General Fund	Special Fund	Reimb. Fund	Total
2010 Working Appropriation	\$73,498	\$38,381	\$24,964	\$136,844
2011 Allowance	<u>76,112</u>	<u>23,974</u>	<u>18,829</u>	<u>118,915</u>
Amount Change	\$2,614	-\$14,407	-\$6,136	-\$17,928
Percent Change	3.6%	-37.5%	-24.6%	-13.1%
 Contingent Reductions	 -\$1,722	 -\$748	 -\$181	 -\$2,652
Adjusted Change	\$892	-\$15,155	-\$6,317	-\$20,580
Adjusted Percent Change	1.2%	-39.5%	-25.3%	-15.0%

Where It Goes:

Personnel Expenses

Recovery audit position	-\$47
Employee and retiree health insurance (after reducing fiscal 2011 for across-the-board reductions)	785
Workers' compensation (after reducing fiscal 2011 for across-the-board reductions).....	30
Turnover adjustments	25
Employees' retirement.....	1,078
Employee earnings (after reducing fiscal 2011 for furloughs)	159
Unemployment compensation	99
Other adjustments	42

Other Changes

Decreased contractual employee salaries (after reducing fiscal 2011 for furloughs)	-150
--	------

Modernized Integrated Tax System

16 contractual full-time equivalent revenue examiner positions	429
Increased telephone expenses	15
Increased out-of-state travel for routine operations	59

E00A – Comptroller of the Treasury

Where It Goes:

Reduced contractual services expenditures	-19,966
<i>Contingent Reductions</i>	
Unclaimed property advertisements	-512
<i>Statistics of Income Report</i>	-103
<i>Other Changes</i>	
Increased rent paid to the Department of General Services.....	181
New human resources information technology system (authorized in 2009 BRFA)	47
Increased tax law and credit bureau subscriptions	42
Reduced reimbursable funds from Annapolis Data Center Users	-1,119
Reduced equipment expenditures	-912
Reduced supplies and materials.....	-326
Reduced out-of-state travel for conferences and seminars	-120
Reduced postage expenses.....	-119
Reduced lockbox banking fees and commissions paid to outside collections agencies	-112
Reduced motor vehicle expenses.....	-74
Other	-11
Total	-\$20,580

BRFA: Budget Reconciliation and Financing Act

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

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 the Department of Budget and Management’s (DBM) Major Information Technology Development Project Fund (MITDPF). 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. As shown in **Exhibit 4**, the office’s fiscal 2011 allowance for the MITS declines by \$19,966,034 to \$6,745,449, mostly due to information technology funds transferred to the office from the MITDPF in fiscal 2010. In fiscal 2011, the MITDPF includes \$10.1 million for the implementation of the new system, which will be transferred by budget amendment. The allowance also includes funding for 16 new contractual full-time equivalent (FTE) revenue examiners positions (\$428,528) and out-of-state travel and telephone expenditures (\$73,932). The MITS, which is expected to be fully operational by May 2013, is estimated to cost \$79.6 million.

Exhibit 4
Modernized Integrated Tax System Funding
Fiscal 2010-2011

	<u>FY 2010</u>	<u>FY 2011</u>	<u>Change</u>
Comptroller Special Fund	\$15,215,529	\$6,745,449	-\$8,470,080
Transfer from MITDPF	10,245,954	0	-10,245,954
Cost Containment	1,250,000	0	-1,250,000
Subtotal	\$26,711,483	\$6,745,449	-\$19,966,034
Transfer from MITDPF	0	9,868,174	9,868,174
Total	\$26,711,483	\$16,613,623	-\$10,097,860

MITDPF: Major Information Technology Development Project Fund

Note: \$150,000 was retained by the Department of Information Technology (DoIT) to conduct an independent verification and validation analysis in fiscal 2010. DoIT will retain \$200,000 for this purpose in fiscal 2011.

Source: Department of Legislative Services

Other Expenditures

Other significant increases/decreases include the following: (1) a reduction in statewide Annapolis Data Center expenses (\$1,119,037); (2) a reduction in equipment expenditures (\$912,084); (3) a reduction in supplies and materials (\$326,014); and (4) an increase in rent paid to the Department of General Services (\$180,592).

Impact of Cost Containment

The fiscal 2011 allowance abolishes a recovery audit position totaling \$46,612. The fiscal 2011 budget also reflects several across-the-board actions to be allocated by the Administration. This includes a combination of employee furloughs and government shut-down days similar to the plan adopted in fiscal 2010; a reduction in overtime based on accident leave management; streamlining of State operations; hiring freeze and attrition savings; a change in the injured workers' settlement policy and administrative costs; and a savings in health insurance to reflect a balance in that account. For purposes of illustration, the Department of Legislative Services (DLS) has estimated the distribution of selected actions relating to employee furloughs, health insurance, and the Injured Workers' Insurance Fund cost savings.

E00A – Comptroller of the Treasury

Contingent reductions further reduce the office's operating expenses by \$615,000. The following reductions are contingent upon the enactment budget reconciliation and financing legislation:

- ***Statistics of Income Report:*** The allowance reflects a \$103,000 reduction in general funds contingent upon the enactment of legislation suspending the statutory requirement that the Bureau of Revenue Estimates prepare the *Statistics of Income Report* for tax years 2008 through 2010. State law requires that the Comptroller's office prepare an annual report detailing State income tax revenue by category. Currently, the office utilizes an independent contractor to perform various statistical imputations required in order to prepare the report. **DLS recommends that the budget committees reject the provision in the Budget Reconciliation and Financing Act of 2010 that suspends the requirement to produce the *Statistics of Income Report* as the report not only provides the State with useful data regarding Maryland's tax structure but is currently unavailable by alternative means. Additionally, the 2008 tax year represents the first year that income tax data would be available following legislation that was enacted during the 2007 special session (see Chapter 3 of the 2007 special session) modifying Maryland's tax structure.**
- ***Unclaimed Property Advertisements:*** The allowance reflects a \$512,000 reduction in special funds contingent upon the enactment of legislation repealing the notification procedure for abandoned property. Under current State law, the office is required to publish notice of abandoned property accounts in local newspapers of general circulation. If repealed, the office will be authorized to publish notification of abandoned property accounts via the Internet.
- ***Payroll Garnishment Fee:*** The allowance reflects a \$50,000 reduction in general funds contingent upon the enactment of legislation authorizing the Comptroller's office to deduct and retain a \$2 processing fee for payroll garnishments made via the attachment process (*e.g.*, judgment creditors and student loan collection agencies.) If enacted, this action will result in a corresponding special fund increase, thereby making the net fiscal impact of this reduction zero dollars. Currently, the office remits approximately 1,000 garnishments per pay cycle.

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 (State of Maryland automated Record Tracking), known as SMART, 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 taxes. As such, the scope of the project was modified to include the procurement of a new Modernized Integrated Tax System.

Revenue Examiner Positions

The fiscal 2009 allowance included funding for 16 additional revenue examiner positions in support of the MITS initiative. While it was anticipated that the fiscal 2010 allowance would include funding for 16 additional revenue examiner positions to assist with the increased workload resulting from the MITS, the fiscal 2010 allowance did not include funding for this purpose. In an effort to provide the office with additional personnel for the MITS, the fiscal 2011 allowance includes \$428,528 in general funds for 16 contractual FTE revenue examiner positions. While these 16 positions are funded in the current allowance as contractual positions, it is evident that the work being performed by these positions is of an ongoing nature and should therefore be funded as regular, full-time positions. **Accordingly, DLS recommends that the Department of Budget and Management fund these positions as regular full-time positions.**

An Integrated Tax System

The MITS project, which is estimated to cost \$79.6 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, is one of the system's key features. 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.

As shown in **Exhibit 5**, the MITS project is expected to yield revenues far in excess of the project's total cost. The office reports that over \$18.0 million in revenues has been generated since the project began in fiscal 2009.

Exhibit 5
Modernized Integrated Tax System
Projected Revenues
Fiscal 2009-2013

	<u>2009 Act.</u>	<u>2010 Est.</u>	<u>2011 Est.</u>	<u>2012 Est.</u>	<u>2013 Est.</u>	<u>Total</u>	<u>% of Total</u>
Comptroller (Special Funds)	\$0	\$720,000	\$1,580,000	\$2,300,000	\$3,500,000	\$8,100,000	3%
Local Income Tax (Counties)	2,989,000	4,620,000	18,315,000	22,275,000	23,265,000	71,464,000	29%
State General Fund	6,778,646	11,660,000	40,605,000	50,925,000	54,075,000	164,043,646	67%
Total	\$9,767,646	\$17,000,000	\$60,500,000	\$75,500,000	\$80,840,000	\$243,607,646	100%

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

Special Fund Revenue Sources: Motor fuel tax, admissions and amusement tax, scrap tire fees, unclaimed property, and corporate income tax

Source: Comptroller of the Treasury

As shown in **Exhibit 6**, current revenue estimates indicate a nearly \$6 million increase in projected State and local revenues through fiscal 2013. The success of the Early Benefits Program accounts for the majority of this increase. **The Comptroller should also comment on the \$6 million increase in projected State and local revenues through fiscal 2013.**

Exhibit 6
Modernized Integrated Tax System
Projected Revenue Comparison
Fiscal 2009-2013

	<u>2009 Act.</u>	<u>2010 Est.</u>	<u>2011 Est.</u>	<u>2012 Est.</u>	<u>2013 Est.</u>	<u>Total</u>
Current Est.	\$9,767,646	\$17,000,000	\$60,500,000	\$75,500,000	\$80,840,000	\$243,607,646
Original Est.	5,000,000	17,000,000	60,000,000	75,000,000	80,840,000	237,840,000
Difference	\$4,767,646	\$0	\$500,000	\$500,000	\$0	\$5,767,646

Source: Comptroller of the Treasury; Department of Legislative Services

MITS Update

In an effort to minimize general fund expenditures in the current fiscal year, the Comptroller's office elected to modify the implementation schedule by bringing the business tax module on line during Phase I of the project. Initially, it was anticipated that the personal income tax component would be phased in first. As shown in **Exhibit 7**, the office anticipates that the final tax type will be incorporated into the data warehouse in October 2012. **The Comptroller should comment on the current status of the project.**

Exhibit 7 Modernized Integrated Tax System Implementation Schedule

<u>Module</u>	<u>Activation Date</u>
Early Benefits	May 2009
Phase I	
Business Taxes (Corporate, Sales and Use, Withholding, Admissions and Amusement, Tire Fee, Pass-Thru Entities, and Bay Restoration Fee)	July 2010
Phase II	
Data Warehouse (Initial Implementation)	September 2010
Data Warehouse (Personal Income tax only for BRE)	November 2010
Individual Income Taxes (Personal Income and Fiduciary tax)	August 2011
Phase III	
Data Warehouse (Personal Income and Fiduciary tax)	October 2011
Motor Fuel, Alcohol, and Tobacco Taxes; Estate Tax; and Business License	August 2012
Data Warehouse (Motor Fuel, Alcohol, and Tobacco Taxes; Estate Tax; and Business License)	October 2012

Source: Comptroller of the Treasury

2. General Fund Revenue Overstated in Fiscal 2009

The Office of Legislative Audits *Statewide Review of Budget Closeout Transactions for Fiscal Year 2009* revealed that the office's RAD overstated its fiscal 2009 accrued revenue by \$2.7 million. Specifically, during the calculation of the 2009 fiscal year-end accrual, RAD double counted the \$2.7 million portion of the calculation that related to certain revenues collected by the Maryland Clerks of the Circuit Court. The double counting of the revenues resulted in the overstatement of general fund revenues for fiscal 2009. **The Comptroller's office should comment**

E00A – Comptroller of the Treasury

on the overstatement of general fund revenues, including what efforts have been taken by the office to ensure that a similar accounting error does not occur in the future. The Comptroller should also indicate how the double count will be addressed.

Recommended Actions

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

~~, provided that this appropriation shall be reduced by \$103,000 contingent upon the enactment of legislation to suspend the production of the Statistics of Income report.~~

, provided that \$103,000 of this appropriation made for the purpose of producing the Statistics of Income Report may only be used for this purpose. Funds not expended for this restricted purpose may not be transferred by budget amendment or otherwise to any other purpose, and shall revert to the general fund.

Explanation: The *Statistics of Income Report* provides the State with invaluable data regarding Maryland’s income tax structure. This action strikes language authorizing a reduction in funding within the Bureau of Revenue Estimates Program contingent upon the enactment of budget reconciliation and financing legislation that suspends the production of the *Statistics of Income Report*. This language further requires that funding appropriated for the production of the *Statistics of Income Report* be used solely for that purpose. The Department of Legislative Services also recommends that budget reconciliation and financing legislation repealing the statutory requirement to produce the report be stricken.

	<u>Amount Reduction</u>	
2. Delete funding to purchase six new vehicles and related equipment. The replacement of motor vehicles is not an essential need and can therefore be deferred to a future fiscal year.	\$ 27,794	GF
	\$ 50,285	SF
3. Reduce allowance for motor vehicle gas and oil expenses based on fiscal 2009 actual expenditures plus inflation. This reduction will appropriate \$122,420.	7,500	GF
	7,500	SF
Total Reductions	\$ 93,079	
Total General Fund Reductions	\$ 35,294	
Total Special Fund Reductions	\$ 57,785	

Updates

1. Reorganization of Revenue Administration Division

As a cost containment measure, the Motor Fuel, Alcohol, and Tobacco Tax Division was merged into the Revenue Administration Division. The Comptroller's office reports that 31 of the 35 employees responsible for handling tax return processing are now assigned to the Revenue Administration. The remaining four employees were merged into the Field Enforcement Division.

Current and Prior Year Budgets

Current and Prior Year Budgets **Comptroller of the Treasury** (\$ in Thousands)

	<u>General</u> <u>Fund</u>	<u>Special</u> <u>Fund</u>	<u>Federal</u> <u>Fund</u>	<u>Reimb.</u> <u>Fund</u>	<u>Total</u>
Fiscal 2009					
Legislative Appropriation	\$77,860	\$17,021	\$0	\$19,572	\$114,453
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	788	285	0	9,009	10,082
Cost Containment	-5,870	-178	0	-685	-6,733
Reversions and Cancellations	-425	-1,561	0	-969	-2,955
Actual Expenditures	\$72,353	\$15,567	\$0	\$26,927	\$114,847
Fiscal 2010					
Legislative Appropriation	\$76,217	\$32,177	\$0	\$19,907	\$128,301
Cost Containment	-2,718	-235	0	0	-2,953
Budget Amendments	0	6,439	0	5,057	11,496
Working Appropriation	\$73,499	\$38,381	\$0	\$24,964	\$136,844

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

Fiscal 2009

In fiscal 2009, the total budget for the office increased by \$392,599. The general fund appropriation decreased by a net \$5.5 million primarily due to a \$788,000 increase in funding via budget amendments and a \$5.9 million reduction in general fund expenditures.

The general fund appropriation increased by \$788,000 due to the following:

- a \$937,000 cost-of-living adjustment (COLA) that was centrally budgeted in DBM;
- an annual salary review increase for call center specialists, tax auditors, tax consultants, and scientists (\$333,000);
- a \$125,000 decrease in telecommunications expenditures due to a realignment of statewide communications expenses; and
- a \$356,970 realignment of Annapolis Data Center expenditures based upon actual usage.

The general fund appropriation decreased by \$5.9 million due to the following cost containment actions:

- across-the-board reductions in health insurance, Other Post Employment Benefits, the Annapolis Data Center, and telecommunications expenditures (\$2.1 million);
- a reduction in various operating expenses such as furniture and computer equipment (\$1.3 million);
- a reduction in funding for temporary staff assistance used to process paper tax returns (\$750,000);
- a reduction in personnel expenses due to statewide furloughs (\$701,000);
- a fund swap, which allowed the office to use reimbursable funds received from DBM's Central Collections Unit (CCU) for debt collection activities performed by the Comptroller on behalf of CCU (\$500,000);
- the abolition of 14 vacant positions (\$453,000); and
- a delay in the replacement purchase of remittance processors (\$100,000).

E00A – Comptroller of the Treasury

Additionally, there was a general fund reversion of approximately \$425,000. The reversion was mostly due to unexpended furniture and computer equipment expenditures.

The special fund appropriation increased by \$285,000. This increase was due to a COLA (\$169,619) and an annual salary review increase for call center specialists, tax auditors, tax consultants, and scientists (\$115,655). The special fund appropriation also decreased by \$178,000 due to cost containment actions taken by BPW. Cost savings were achieved by implementing employee furloughs (\$114,735) and reducing health insurance expenditures (\$63,722). Lastly, there was a special fund cancellation of approximately \$1.6 million. This cancellation was primarily due to lower than anticipated vendor payments for the collection of delinquent taxes.

The reimbursable fund appropriation increased by \$9.0 million. This increase was due to (1) an increase in information technology funding for the rollout of the Modernized Integrated Tax System (\$8.4 million); (2) an increase in funding for debt collection activities performed on behalf of CCU (\$500,000); and (3) a \$117,000 COLA. There was also a \$685,000 reduction in the Annapolis Data Center expenditures due to cost containment actions taken by BPW. Finally, there was a reimbursable fund cancellation of \$969,284. The cancellation was mostly due to unrealized postage, supplies, software, and personnel expenditures.

Fiscal 2010

The total budget for the office increased by \$8.5 million. The general fund appropriation decreased by approximately \$2.7 million due to the following cost containment reductions:

- the implementation of employee furloughs (\$1.4 million);
- a delay in the purchase of mainframe printers and remittance processors for the Annapolis Data Center (\$460,000);
- a reduction in funding for various operating expenses such as furniture and applications software (\$301,000);
- a reduction in computer equipment and software funding (\$163,000);
- across-the-board reductions in travel and vehicle expenditures (\$123,000);
- the deferral of the preparation of the 2008 *Statistics of Income Report* (\$103,000);
- a reduction in banking fees in anticipation of fewer paper tax refunds (\$60,000);
- a reduction in printing expenses in anticipation of fewer personal income tax booklet requests (\$57,000); and

E00A – Comptroller of the Treasury

- a reduction in postage expenses due to a modification in the single transaction limit on corporate purchasing cards, thereby decreasing the need to prepare and mail vendor payments (\$25,000).

The special fund appropriation increased by a net \$6.2 million mostly due to special funds received for the implementation of the MITS (\$6.4 million). This increase was offset by a \$235,290 reduction in special funds due to employee furloughs.

The reimbursable fund appropriation increased by approximately \$5.1 million due to reimbursable funds received from the Major Information Technology Development Project Fund for the MITS.

Audit Findings

Audit Period for Last Audit:	January 1, 2006 – March 8, 2009
Issue Date:	Varies
Number of Findings:	6
Number of Repeat Findings:	0
% of Repeat Findings:	n/a
Rating: (if applicable)	n/a

The following audit findings pertain to the Comptroller’s Bureau of Revenue Estimates (BRE):

Finding 1: Procedures and controls over the disbursement of capital grants need improvement.

Finding 2: BRE did not prepare and submit certain reports to the Governor and General Assembly as required.

The following audit findings pertain to GAD:

Finding 1: GAD failed to establish adequate internal controls over the State’s vendor files.

Finding 2: Adequate access and monitoring controls were not established over critical mainframe production files and programs.

The following audit findings pertain to the Comptroller’s CPB:

Finding 1: A number of CPB employees had access to a critical automated payroll processing function that could allow them to process unauthorized payroll transactions.

Finding 2: Adequate access and logging controls were not established over critical production data files.

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:	\$79,615,457					New/Ongoing Project:	Ongoing	
Project Start Date:	February 2006			Projected Completion Date:	May 2013			
Schedule Status:	The Early Benefits Program has been fully implemented. Phase I, which is expected to rollout in fiscal 2011, will include the implementation of the following tax types: corporate income tax; pass-through entities; Bay Restoration Fee; sales and use tax; tire fee; and admission and amusement taxes.							
Cost Status:	Restructuring the fiscal 2010 deliverable scheduled enabled the general fund appropriation to be reduced in support of cost containment efforts. These funds will be restored in later fiscal years at a commensurate level.							
Scope Status:	None.							
Project Management Oversight Status:	None.							
Identifiable Risks:	The availability of general funds in subsequent years due to cost containment efforts.							
Additional Comments:	None.							
Fiscal Year Funding (000)	Prior Years	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	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	36,920.2	16,813.6	11,370.0	14,499.4	0.0	0.0	0.0	\$79,603.2
Other Expenditures	12.2	0.0	0.0	0.0	0.0	0.0	0.0	\$12.2
Total Funding	\$36,932.4	\$16,813.6	\$11,370.0	\$14,499.4	\$0.0	\$0.0	\$0.0	\$79,615.4

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

<u>Object/Fund</u>	<u>FY09 Actual</u>	<u>FY10 Working Appropriation</u>	<u>FY11 Allowance</u>	<u>FY10 - FY11 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	1,117.50	1,111.00	1,110.00	-1.00	-0.1%
02 Contractual	28.52	29.74	45.74	16.00	53.8%
Total Positions	1146.02	1140.74	1155.74	15.00	1.3%
Objects					
01 Salaries and Wages	\$ 71,443,686	\$ 72,090,440	\$ 76,562,509	\$ 4,472,069	6.2%
02 Technical and Spec. Fees	1,061,170	1,007,987	1,311,326	303,339	30.1%
03 Communication	6,877,241	7,576,870	7,467,521	-109,349	-1.4%
04 Travel	515,155	565,927	471,910	-94,017	-16.6%
06 Fuel and Utilities	64,319	102,021	64,351	-37,670	-36.9%
07 Motor Vehicles	305,659	329,261	254,867	-74,394	-22.6%
08 Contractual Services	27,727,645	48,983,025	27,571,555	-21,411,470	-43.7%
09 Supplies and Materials	2,440,610	2,809,007	2,482,903	-326,104	-11.6%
10 Equipment – Replacement	2,065,263	1,458,964	900,549	-558,415	-38.3%
11 Equipment – Additional	929,243	792,019	468,350	-323,669	-40.9%
12 Grants, Subsidies, and Contributions	23,474	60,758	60,758	0	0%
13 Fixed Charges	1,071,408	1,063,619	1,296,028	232,409	21.9%
14 Land and Structures	320,936	3,850	2,750	-1,100	-28.6%
Total Objects	\$ 114,845,809	\$ 136,843,748	\$ 118,915,377	-\$ 17,928,371	-13.1%
Funds					
01 General Fund	\$ 72,352,681	\$ 73,498,466	\$ 76,112,484	\$ 2,614,018	3.6%
03 Special Fund	15,566,197	38,380,804	23,973,926	-14,406,878	-37.5%
09 Reimbursable Fund	26,926,931	24,964,478	18,828,967	-6,135,511	-24.6%
Total Funds	\$ 114,845,809	\$ 136,843,748	\$ 118,915,377	-\$ 17,928,371	-13.1%

Note: The fiscal 2010 appropriation does not include deficiencies.

**Fiscal Summary
Comptroller of the Treasury**

<u>Program/Unit</u>	<u>FY09 Actual</u>	<u>FY10 Wrk Approp</u>	<u>FY11 Allowance</u>	<u>Change</u>	<u>FY10 - FY11 % Change</u>
01 Executive Direction	\$ 3,385,885	\$ 3,346,314	\$ 3,325,283	-\$ 21,031	-0.6%
02 Financial and Support Services	5,246,325	5,383,118	5,601,220	218,102	4.1%
01 Accounting Control and Reporting	5,072,649	5,168,486	5,140,830	-27,656	-0.5%
01 Estimating of Revenues	768,634	585,445	827,263	241,818	41.3%
01 Revenue Administration	30,817,797	31,731,480	32,483,876	752,396	2.4%
02 Major Information Technology (IT) Development Projects	9,058,120	26,711,483	6,745,449	-19,966,034	-74.7%
01 Compliance Administration	26,108,241	27,587,008	29,418,758	1,831,750	6.6%
01 Field Enforcement Administration	4,541,036	4,498,411	5,148,377	649,966	14.4%
01 Payroll Management	2,322,335	2,402,120	2,446,046	43,926	1.8%
01 Annapolis Data Center Operations	14,816,443	15,965,447	14,846,410	-1,119,037	-7.0%
02 Comptroller IT Services	12,708,344	13,464,436	12,931,865	-532,571	-4.0%
Total Expenditures	\$ 114,845,809	\$ 136,843,748	\$ 118,915,377	-\$ 17,928,371	-13.1%
General Fund	\$ 72,352,681	\$ 73,498,466	\$ 76,112,484	\$ 2,614,018	3.6%
Special Fund	15,566,197	38,380,804	23,973,926	-14,406,878	-37.5%
Total Appropriations	\$ 87,918,878	\$ 111,879,270	\$ 100,086,410	-\$ 11,792,860	-10.5%
Reimbursable Fund	\$ 26,926,931	\$ 24,964,478	\$ 18,828,967	-\$ 6,135,511	-24.6%
Total Funds	\$ 114,845,809	\$ 136,843,748	\$ 118,915,377	-\$ 17,928,371	-13.1%

Note: The fiscal 2010 appropriation does not include deficiencies.