

E00A
Comptroller of the Treasury

Operating Budget Data

(\$ in Thousands)

| | <u>FY 06</u> <u>Actual</u> | <u>FY 07</u> <u>Working</u> | <u>FY 08</u> <u>Allowance</u> | <u>FY 07-08</u> <u>Change</u> | <u>% Change</u> <u>Prior Year</u> |
|--------------------|---|--|--|--|--|
| General Fund | \$67,199 | \$72,083 | \$72,758 | \$675 | 0.9% |
| Special Fund | 14,792 | 18,300 | 16,151 | -2,148 | -11.7% |
| Reimbursable Fund | <u>16,782</u> | <u>18,194</u> | <u>18,949</u> | <u>754</u> | <u>4.1%</u> |
| Total Funds | \$98,774 | \$108,577 | \$107,858 | -\$719 | -0.7% |

- The fiscal 2008 general fund allowance is approximately \$675,000 over the previous year. Increases are masked by one-time health insurance savings. Absent this, the budget actually grows by \$3.1 million, or 2.9%.
- The special fund decrease in fiscal 2008 is largely due to significant one-time only information technology purchases in fiscal 2007. Reimbursable funds increase by 4.1% over the fiscal 2007 working appropriation due primarily to Annapolis Data Center mainframe enhancements.

Personnel Data

| | <u>FY 06</u> <u>Actual</u> | <u>FY 07</u> <u>Working</u> | <u>FY 08</u> <u>Allowance</u> | <u>FY 07-08</u> <u>Change</u> |
|------------------------|---|--|--|--|
| Regular Positions | 1,109.70 | 1,109.00 | 1,109.00 | 0.00 |
| Contractual FTEs | <u>26.65</u> | <u>30.47</u> | <u>30.47</u> | <u>0.00</u> |
| Total Personnel | 1,136.35 | 1,139.47 | 1,139.47 | 0.00 |

Vacancy Data: Regular Positions

| | | |
|-----------------------------------|-------|-------|
| Turnover, Excluding New Positions | 35.04 | 3.16% |
| Positions Vacant as of 12/31/06 | 54.25 | 4.89% |

- The level of personnel remains unchanged in fiscal 2008 at 1,109 regular positions and 30.47 contractual full-time positions.

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

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Analysis in Brief

Major Trends

Electronic Filing Increasing in Popularity: More taxpayers are filing returns and receiving refunds electronically; however, inefficiencies remain in paper return processing.

Unclaimed Property Accounts Exceed Expectations: The Compliance Division continues to be occupied with unclaimed property activity despite an expected downturn.

Enforcement Activities Fell in Recent Years: The Regulatory and Enforcement Division has recently issued fewer arrests and citations related to alcohol and tobacco products and motor fuel quality and sales.

Issues

Expanded Methods for Delinquent Tax Collection: The Comptroller has expanded its battery of tax collection methods through legislation enabling the interception of the federal vendor payments to delinquent tax payers. **The Comptroller should discuss the costs of the program and the expected returns of this new method of delinquent tax collection.**

Additional Video Gaming Devices Will Tax Comptroller: The Baltimore City Council recently considered legislation expanding the allowable number of video gaming devices in the city, despite reports of enforcement problems and unpaid taxes. The Comptroller will be responsible for the collection of 10% of the take of the additional machines under the Admissions and Amusement Tax. **The Comptroller should comment on its role in enforcing the tax laws related to video gaming devices.**

Audit of Revenue Administration Division: In an audit released in December 2006, the Office of Legislative Audits revealed numerous issues related to the Revenue Administration Division's processing and review of individual tax returns. **The Comptroller should be prepared to discuss the audit's findings and steps it will take to address these issues.**

Vendor Payment Audit Services: A contractor's audit of the Comptroller's system of paying the State's vendors reveals very few errors in payments by the Comptroller to any of its 48,000 vendors. It would appear that the Comptroller is monitoring vendors and vendor payments very well. **The Department of Legislative Services recommends deleting \$200,000 for the vendor overpayment auditor's fee.**

Recommended Actions

| | <u>Funds</u> |
|---|---------------------|
| 1. Increase turnover expectancy to better reflect historic trends in actual vacancies. | \$ 809,410 |
| 2. Delete funds for vendor payment audit contract. | 200,000 |
| 3. Reduce funds for postage. | 50,000 |
| 4. Delete funds for outside computer programming services. | 200,000 |
| 5. Adopt narrative requesting a customer service performance measure of the Comptroller's web-based services. | |
| Total Reductions | \$ 1,259,410 |

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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:

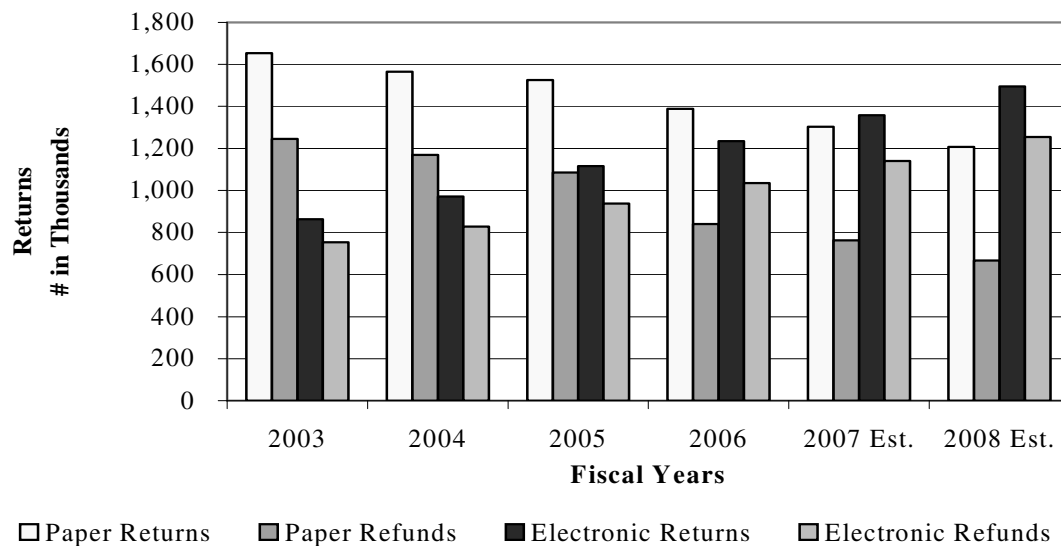
- to provide high quality public service;
- to fully utilize information technology; and
- to vigorously enforce tax laws essential to the fair treatment of all taxpayers.

Performance Analysis: Managing for Results

Electronic Filing Increasing in Popularity

Personal resident tax filings and refunds are increasingly becoming electronic transactions. Fiscal 2006 marked the first year in which electronic refunds outnumbered paper refunds. Similarly, it is expected that fiscal 2007 will be the first year in that electronic filings will outnumber paper filings.

Exhibit 1
Paper and Electronic Tax Return Filings



Source: Governor's Budget Books, Fiscal 2008

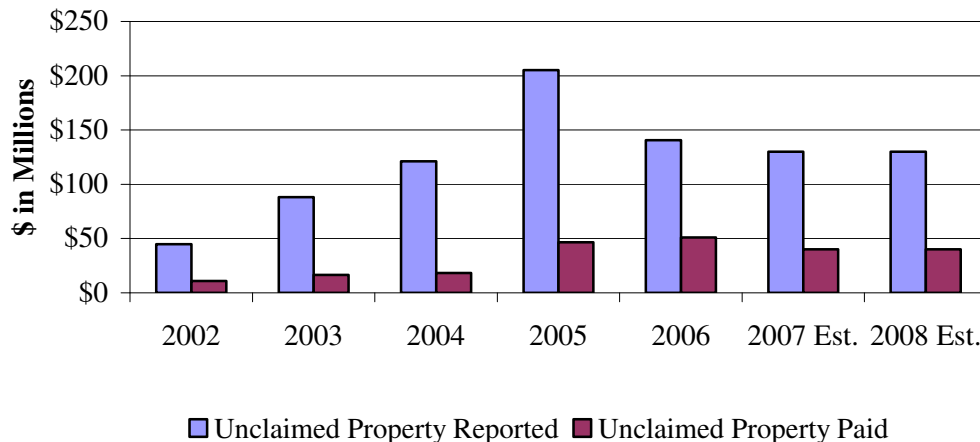
The Revenue Administration Division strives to process 90% of paper returns within 10 business days. It has failed to meet this goal over the last several years. To address this issue, the division has altered the parameters of this measure. It shortened the time frame in which it tracks paper return processing. The division now only tracks this measure during the beginning of tax season: a time in which employees concentrate on only return processing. Despite the more advantageous definition of this measure and despite fewer paper returns, the division's performance falls short of its goal, processing 85.2% of the returns within 10 days. Conversely, the division consistently exceeds its goal in processing electronic returns.

The Comptroller should comment on any factors that contribute to inefficiency in paper return processing and any steps the division will take to address the issue.

Unclaimed Property Accounts Exceed Expectations

Changes to the insurance industry and changes to the law have increased the number of accounts of unclaimed property held by the Comptroller. As shown in **Exhibit 2**, the amount reported in unclaimed property reached a high of \$205.3 million in fiscal 2005. There was a resultant high of unclaimed property of \$50.9 million paid to owners in fiscal 2006. These amounts were much higher than the Comptroller had initially estimated. As such, the office has adjusted out-year estimates upward.

Exhibit 2
Unclaimed Property Compliance Division
Fiscal 2002-2008



Source: Governor's Budget Books, Fiscal 2008

Statute requires that the Comptroller sell unclaimed property within one year of receipt and that the proceeds be deposited into the general fund. In 2006, in order to more expeditiously dispose of the property, the office began to use the Internet auction site, eBay.

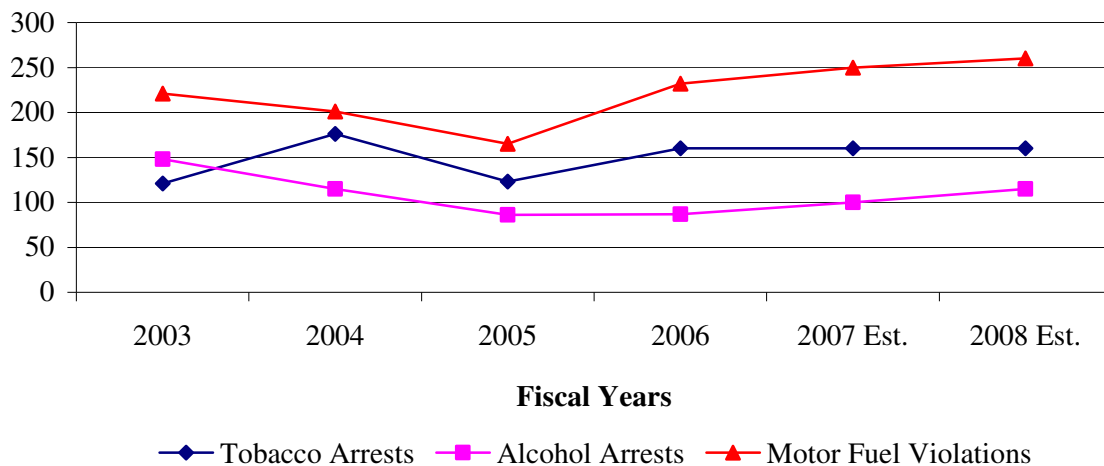
The Comptroller should discuss the trend of increased unclaimed property and the impact of increased accounts and the new method of sales on the general fund.

Enforcement Activities Fell in Recent Years

The Comptroller's Regulatory and Enforcement Division is responsible for administering and enforcing laws related to alcohol and tobacco products and for monitoring motor fuel quality and sales. It has authority to issue warnings and citations and to place individuals under arrest for various

violations. **Exhibit 3** shows selected enforcement activities of the division from 2003 to 2008. Examples of violations include untaxed cigarette packs, transporting alcohol across state lines without a license, and selling motor fuel at the wrong grade level. Enforcement activities fell significantly in fiscal 2005 only to partially rebound in fiscal 2006. It is unclear whether this decline was a result of a more law abiding citizenry or a decline in efficiency of the division.

Exhibit 3
Regulatory and Enforcement Division
Arrests and Violations



Source: Governor's Budget Books, Fiscal 2008

The Comptroller should discuss what led to the decline in enforcement activities in fiscal 2005 and what it expects of the division in the future.

Governor's Proposed Budget

The Governor's fiscal 2008 allowance declines by 0.7%, or \$719,128, from the fiscal 2007 working appropriation, as shown in **Exhibit 4**. However, if adjusted for the one-time use of the health insurance surplus for retiree benefits and for cost-of-living adjustments, the budget instead increases by \$3,072,331, a little over 2.9%.

In its role as the State's tax collector and fiscal manager, the Office of the Comptroller is heavily reliant upon its personnel and technology resources. This is reflected in the Comptroller's budget allowance. Employee salary increments and increases to the employment retirement system make up the bulk of the fiscal 2008 increase. Similarly, technology needs also drive significant portions of the budget allowance.

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

| How Much It Grows: | <u>General Fund</u> | <u>Special Fund</u> | <u>Reimb. Fund</u> | <u>Total</u> |
|----------------------------|----------------------------|----------------------------|---------------------------|---------------------|
| 2007 Working Appropriation | \$72,083 | \$18,300 | \$18,194 | \$108,577 |
| 2008 Governor's Allowance | <u>72,758</u> | <u>16,151</u> | <u>18,949</u> | <u>107,858</u> |
| Amount Change | \$675 | -\$2,148 | \$754 | -\$719 |
| Percent Change | 0.9% | -11.7% | 4.1% | -0.7% |

Where It Goes:

Personnel Expenses

| | |
|--|---------|
| Increments and other compensation | \$1,154 |
| Employee retirement system | 1,167 |
| Workers' compensation premium assessment | -28 |
| One-time health insurance savings | -3,167 |
| Turnover adjustments | 137 |
| Other fringe benefit adjustments | 6 |

Board of Revenue Estimates

| | |
|--|-----|
| Tax information database development | 125 |
|--|-----|

Revenue Administration Division

| | |
|---|-----|
| Replacement of computers, servers, printers, and scanners | 228 |
| Replacement of tax return remittance processors..... | 153 |

Major Information Technology Projects

| | |
|--|--------|
| Reduction due to one-time IT purchases in fiscal 2007 | -2,600 |
| Contract for Independent Verification and Validation study | 150 |

Compliance Administration

| | |
|--|------|
| Increase in postage and printing costs | 307 |
| Replace desktop computers | 245 |
| Decline in software upgrades | -100 |

Regulatory and Enforcement Division

| | |
|---------------------------|----|
| Vehicle replacement | 27 |
|---------------------------|----|

Annapolis Data Center

| | |
|--|-------|
| Enhancements related to the newly acquired mainframe computer..... | 1,252 |
| Decline in additional equipment purchases..... | -302 |

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Office of Information Technology Services

| | |
|--|-----|
| Web site upgrades | 200 |
| Increased Annapolis Data Center usage by Comptroller | 404 |
| Replacement of cooling water towers | 235 |
| Miscellaneous computer enhancements | 125 |

Miscellaneous

| | |
|---|------|
| Reduced fees for Auditor Contract..... | -600 |
| Increased telecommunication costs agencywide..... | 176 |
| Other | -13 |

Total **-\$719**

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

Personnel

The Comptroller has not altered its staffing level from fiscal 2007. Nonetheless, personnel expenditures are increasing by \$3.1 million (net of the one-time health insurance savings.) Notably, employee retirement system contributions increase by 34.1%. Regular earnings increase moderately at 1.9% or approximately \$968,000.

Technology Enhancements

The Annapolis Data Center provides mainframe computer services for 24 State agencies. In fiscal 2007, the Comptroller upgraded the mainframe. This upgrade precipitated related expenses that are included in the fiscal 2008 allowance. Approximately \$1.3 million was included for maintenance contracts related to the upgrade, new software licenses, and upgraded mainframe printers. Also, hardware upgrades continue across the agency. The Comptroller aims to replace 20% of its technology hardware annually to the extent that funds are available. There are funds to replace about 340 personal computers, 30 printers, 2 scanners, and 2 remittance processors.

Other Operating Expenses

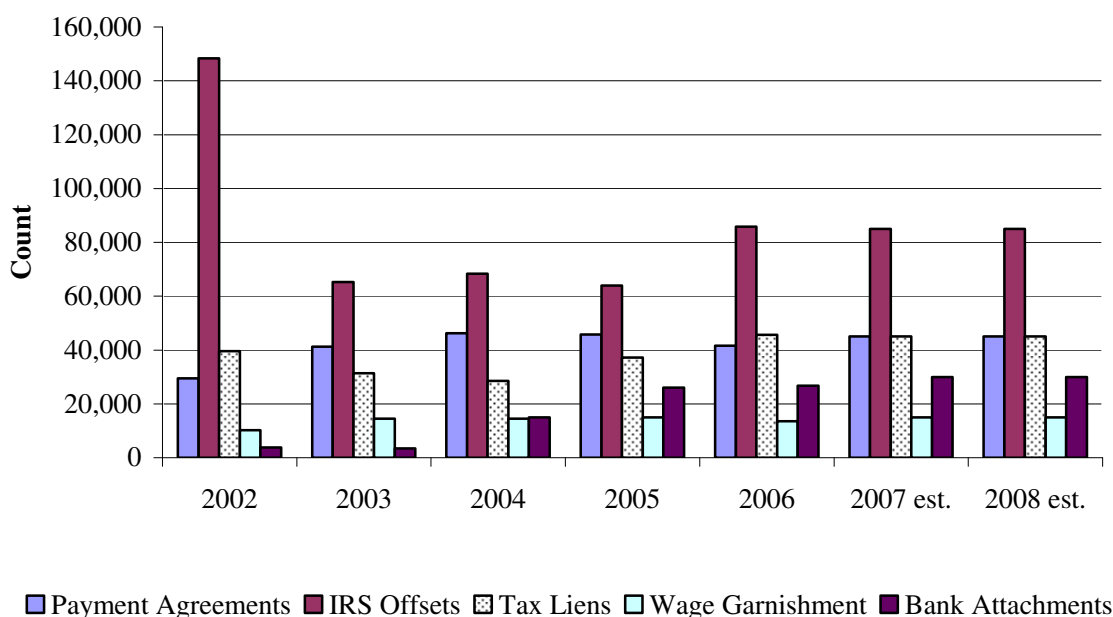
Other notable increases in the budget include postage and printing costs within the Compliance Division. As mentioned in this analysis, unclaimed property activity has been higher than expected. Accordingly, related printing and postage costs are increasing in the fiscal 2008 allowance. Additionally, the fiscal 2008 allowance includes \$125,000 within the Board of Revenue Estimates for a contractor to develop a tax year database designed to provide detailed descriptive income data and assist in forecasting State revenues.

Issues

1. Expanded Methods for Delinquent Tax Collection

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 5** details the utilization of the Comptroller's current methods of delinquent tax collection.

Exhibit 5
Collection Method Utilization
Fiscal 2002-2008



Source: Compliance Division

Chapter 577 of 2006 expanded the tools available in the State's delinquent tax collection arsenal. The legislation authorized the Comptroller to establish a reciprocal agreement with the federal government whereby the State intercepts the tax refunds and vendor payments of individuals who have delinquent federal non-tax liabilities and the federal government intercepts federal payments of individuals who have unpaid State debts. This is modeled on the State's agreement with the federal government to intercept vendor payments of those individuals who owe child support payments.

Included in the Department of Budget and Management's Information Technology fiscal 2008 allowance is a fiscal 2007 deficiency appropriation of \$1.6 million. These funds are to implement the new federal vendor offset project. This cost is much higher than expected. In fact, the fiscal note accompanying the 2006 legislation stated that the cost would be approximately \$81,000 in fiscal 2007.

The Comptroller should discuss the costs of the program and the expected returns of this new method of delinquent tax collection.

2. Additional Video Gaming Devices Will Tax Comptroller

In 2006, the Abell Foundation released a report on video gaming devices in Baltimore City and Baltimore County. Though the devices are legal in these jurisdictions, they are to be used for amusement only; no pay out is allowed. Proceeds from such machines are subject to the Admissions and Amusement Tax. It is the responsibility of the Comptroller to collect 10% of the take of the machines. After deducting administrative costs, the Comptroller then forwards the net revenues to the appropriate jurisdictions.

However, the report's research suggests that many of the owners of such devices are significantly underreporting their take and also providing illegal pay outs to their customers. The report estimates that the Comptroller should be collecting at least \$6 million in additional admission and amusement tax revenue on behalf of the two jurisdictions.

Potentially exacerbating the problem, in December 2006 the Baltimore City Council issued a preliminary approval of a bill that could significantly increase the number of gaming devices in the city. The bill increases the number of allowable devices in an establishment and expands the types of establishments that may house the devices. According to the Abell Foundation, there are about 2,100 licensed video gaming devices in the city.

The Compliance Division of the Comptroller employs auditors to ensure compliance with tax laws. The equivalent of 4 full-time employees is charged with admissions and amusement tax collections. There are approximately 100 auditors, several of whom are cross trained for compliance activities of several kinds of taxation. Audits are conducted regularly on the video vending companies who lease the machines to various establishments. However, the Comptroller does not have records for those machines that are owned by individual owners. The take of such machines is reported by the owner of the machine. There is no internal mechanism in the machine to calculate the take. Registration of such machines is regulated and enforced at the local level. It is unclear if there is collaboration between the local licensing entity and the Compliance Division.

In light of the Abell Foundation report and the action by the Baltimore City Council, the Comptroller should comment on its role in enforcing the tax laws related to video gaming devices.

3. Audit of Revenue Administration Division

In December 2006, the Office of Legislative Audits released its audit report on the Comptroller's Revenue Administration Division for the period of November 2002 to January 2006. The audit revealed issues related to the processing and review of individual tax returns.

Notably, the report revealed instances of possible identity theft. In tax year 2004, there were 1,700 Social Security Numbers that were used by two or more individuals to file a tax return and to receive a refund. In one case, the audit noted that one Social Security Number was utilized on eight different returns resulting in refunds totaling approximately \$4,700. In all, refunds associated with the duplicative Social Security Numbers totaled about \$3 million. In response to auditor inquiries, the division has reviewed these accounts and has subsequently billed the taxpayers for \$700,000 of this amount.

Other findings had similar, although not as significant, revenue implications. For example, the auditors found that the division did not always obtain or review documentation required to support tax credits claimed. In a small sampling of returns, the auditors found \$1 million of tax credits that were not supported by documentation. Further, the division did not code these accounts for investigation as its procedures dictate.

The audit recommended that the Comptroller review, update, and implement procedures to more adequately ensure accuracy in individual tax returns and to combat fraud and taxpayer identity theft.

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

4. Vendor Payment Audit Services

In fiscal 2006, the Comptroller issued a two-year contract with a firm that is charged with identifying the State's inadvertent overpayments to its vendors and to make recovery of such overpayments.

The contractor is responsible for the review of contracts and vendor payments to screen for duplicative payments, erroneous payments, invoice errors, pricing errors, unrecorded purchase returns, missed rebates, or any other errors in payments. The contract requires that the contractor issue monthly status reports that include the identification of recovery items, reason for recovery, dollar amount, source, and State agency. A final report must include recommendations on how the Comptroller can improve its internal control structure. Payment is based solely on a percentage of recovered funds. The contractor earns 20% of any overpayment that it discovers and recaptures.

The contractor's fee is directly correlated to the level of its performance. In fact, the Comptroller is under no financial obligation unless the contractor finds errors in payments. Additionally, there is an option in the contract for an extension for an additional two years if the

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service proves valuable to the Comptroller. However, this type of contract is proving to be difficult to forecast.

The contractor estimated that it could recover \$8.0 million in vendor overpayments, necessitating a fee of \$1.6 million. However, to date, the contractor has only recovered a small fraction of its original estimate. In fact, no recoveries were made in fiscal 2006. Payment for the current fiscal year is approximately \$44,000 on recoveries of \$225,000. The fiscal 2008 allowance includes \$200,000 in special funds for the contractor's fee.

The unique nature of this contract actually provides an opportunity for the State to gauge its own performance in managing its statewide vendor payments. The contractor has found very few errors in payments by the Comptroller to any of its 48,000 vendors. Based on the results of the contract to date, it would appear that the Comptroller is monitoring vendors and vendor payments very well.

The Department of Legislative Services recommends deleting \$200,000 for the vendor overpayment auditor's fee. The amount appears excessive given the history of performance by the contractor. Additionally, because the contractors are paid on commission and the actual fee is indeterminate, the funds can be appropriated by amendment or through the deficiency process, should it be necessary.

Recommended Actions

| | <u>Amount Reduction</u> | |
|---|------------------------------------|--|
| 1. Increase turnover expectancy to better reflect historic trends in actual vacancies. The general fund reduction shall be allocated among divisions. The effect on the turnover rate is to increase it from 3.16 to 4.5%. | \$ 809,410 | GF |
| 2. Delete funds for the commission fees of the vendor payment auditor. Any actual fees earned can be appropriated by amendment or through the deficiency process, should it be necessary. | 200,000 | SF |
| 3. Reduce funds for postage, reflecting a fiscal 2008 estimate of the increase in tax refunds to be sent electronically. | 50,000 | GF |
| 4. Delete funds for outside web development programming services. Existing staff is capable of handling current web management responsibilities until a customer survey can be conducted to determine needs. | 200,000 | GF |
| 5. Adopt the following narrative: | | |
| <p>Customer Satisfaction with Web-based Services: The Comptroller reports that 100% of its services and information is web-enabled based on the 2000 Electronic Government Initiative. Despite this success, the office seeks to expand its interactive capabilities. In order to inform this process prior to any budgetary appropriation, the budget committees request that the Comptroller's Office survey the customers of its web-enabled services. The survey should gauge the customers' level of usage, satisfaction with current services, and assessment of current and future needs. Satisfaction results should be included in the office's annual Managing for Results submission.</p> | | |
| Information Request | Author | Due Date |
| Performance measure | Comptroller of the Treasury | With the submission of the fiscal 2009 allowance |
| Total Reductions | \$ 1,259,410 | |
| Total General Fund Reductions | \$ 1,059,410 | |
| Total Special Fund Reductions | \$ 200,000 | |

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 2006 | | | | | |
| Legislative Appropriation | \$66,402 | \$14,389 | \$0 | \$23,262 | \$104,053 |
| Deficiency Appropriation | 0 | 0 | 0 | 0 | 0 |
| Budget Amendments | 911 | 2,575 | 0 | 354 | 3,840 |
| Reversions and Cancellations | -113 | -572 | 0 | -376 | -1,061 |
| Actual Expenditures | \$67,200 | \$16,392 | \$0 | \$23,240 | \$106,832 |
| Fiscal 2007 | | | | | |
| Legislative Appropriation | \$71,326 | \$18,161 | \$0 | \$17,694 | \$107,181 |
| Budget Amendments | 757 | 139 | 0 | 500 | 1,396 |
| Working Appropriation | \$72,083 | \$18,300 | \$0 | \$18,194 | \$108,577 |

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

Fiscal 2006

General fund spending was approximately \$67.2 million in fiscal 2006. This included the addition of \$910,956 in budget amendments over the legislative appropriation. Of these, \$563,751 went toward the cost-of-living adjustment (COLA), and \$372,205 went toward the statewide reallocation of health insurance costs. A budget amendment decreased the office's general funds by realigning funds associated with the Department of Public Safety and Correctional Services' use of the Annapolis Data Center.

Budget amendments increased special funds for fiscal 2006 by approximately \$2.6 million.

- \$178,012 for underfunded health insurance costs for employees and retirees.
- \$593,000 for costs associated with unclaimed property. Because of a surge in the number of unclaimed property accounts, advertising costs have increased by \$381,000 over fiscal 2006 estimates. Additionally, the office expected audit firms to exceed expectations in the number of abandoned properties turned over to the State. Accordingly, there was an amendment of \$212,000 for commissions to the audit firms based on a 12% commission rate. Actual expenditures, however, were less than expected, and the office cancelled \$175,000 of this amount.
- \$98,000 to repair an unexpected leaking roof and associated asbestos abatement and mold removal costs.
- \$1,600,000 to pay the commissions of outside auditors to perform recovery audit reviews of the State's vendor payments and contract provisions on an estimated \$8 billion in disbursements for fiscal 2004 and 2005.

The office cancelled an additional \$341,000 due to lower than expected costs for contractual payroll and for commissions to outside delinquent tax collectors.

Reimbursable funds increased by \$227,079 due to Homeland Security funds provided by the Maryland Emergency Management Agency that enabled the Comptroller's Office to purchase wireless laptop computers. An additional budget amendment increased reimbursable funds for the COLA and health insurance costs for employees in the Annapolis Data Center. The office cancelled about \$376,000 in reimbursable funds due to unused services in the mailroom and the Annapolis Data Center by other State agencies.

Fiscal 2007

General and special funds increase \$757,000 and \$139,000 respectively for cost-of-living and annual salary review adjustments. A budget amendment increased reimbursable funds by \$500,000 from the Department of Budget and Management's Major Information Technology Project Development Fund for the initial funds for the new Motor Fuel Tracking System.

Audit Findings

| | |
|------------------------------|-------------------------------------|
| Audit Period for Last Audit: | November 1, 2002 – January 31, 2006 |
| Issue Date: | December 2006 |
| Number of Findings: | 14 |
| Number of Repeat Findings: | 7 |
| % of Repeat Findings: | 50% |
| Rating: (if applicable) | n/a |

The audit was of the Comptroller's Revenue and Administration Division (RAD).

- Finding 1:** RAD frequently issued refunds for multiple returns filed under the same Social Security Number.
- Finding 2:** RAD did not always obtain or adequately review documentation required to support tax credits claimed.
- Finding 3:** RAD did not have sufficient procedures to ensure that taxpayers who claimed the income credit were eligible to receive the credit.
- Finding 4:** Investigations were not always completed and penalties were not always assessed in a timely manner for employers and individual taxpayers who failed to submit required statements of withholding taxes.
- Finding 5:** Procedures used to review questionable tax data and help detect fraudulent tax returns could be improved.
- Finding 6:** Adequate procedures were not in place to ensure that taxpayer liabilities were reestablished for all dishonored payments.
- Finding 7:** Certain critical adjustments made to taxpayer accounts were not adequately controlled.
- Finding 8:** Direct access to various critical tax data files and to certain critical mainframe database privileges was not limited to individuals who required such access, and such access was frequently not logged.
- Finding 9:** Security events were not properly monitored and investigated.
- Finding 10:** The iFile application program change procedures and certain password and security settings on the application server need improvement.

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Finding 11: iFile user account, password, and identity verification controls were inadequate.

Finding 12: The iFile and bFile network and its devices, including a critical firewall, were not optimally configured to protect these systems.

Finding 13: **RAD did not prepare certain critical accounting reconciliations on a timely basis.**

Finding 14: **Proper internal controls were not established over the processing of certain disbursement transactions.**

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

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

| <u>Object/Fund</u> | <u>FY06 Actual</u> | <u>FY07 Working Appropriation</u> | <u>FY08 Allowance</u> | <u>FY07 - FY08 Amount Change</u> | <u>Percent Change</u> |
|---|------------------------|---|---------------------------|--------------------------------------|---------------------------|
| Positions | | | | | |
| 01 Regular | 1109.70 | 1109.00 | 1109.00 | 0 | 0% |
| 02 Contractual | 26.65 | 30.47 | 30.47 | 0 | 0% |
| Total Positions | 1136.35 | 1139.47 | 1139.47 | 0 | 0% |
| Objects | | | | | |
| 01 Salaries and Wages | \$ 64,299,925 | \$ 69,213,257 | \$ 68,481,836 | -\$ 731,421 | -1.1% |
| 02 Technical & Spec Fees | 1,040,401 | 1,105,040 | 1,109,747 | 4,707 | 0.4% |
| 03 Communication | 6,507,709 | 6,210,191 | 6,546,644 | 336,453 | 5.4% |
| 04 Travel | 472,154 | 456,938 | 510,477 | 53,539 | 11.7% |
| 06 Fuel & Utilities | 62,578 | 64,870 | 75,853 | 10,983 | 16.9% |
| 07 Motor Vehicles | 491,913 | 404,279 | 481,217 | 76,938 | 19.0% |
| 08 Contractual Services | 18,896,355 | 24,999,368 | 23,418,954 | -1,580,414 | -6.3% |
| 09 Supplies & Materials | 2,396,099 | 2,850,715 | 2,807,850 | -42,865 | -1.5% |
| 10 Equip - Replacement | 1,530,801 | 772,370 | 1,975,541 | 1,203,171 | 155.8% |
| 11 Equip - Additional | 1,455,552 | 1,276,089 | 928,318 | -347,771 | -27.3% |
| 12 Grants, Subsidies, and Contributions | 89,018 | 95,000 | 95,250 | 250 | 0.3% |
| 13 Fixed Charges | 1,129,206 | 1,100,960 | 1,144,762 | 43,802 | 4.0% |
| 14 Land & Structures | 402,686 | 28,000 | 281,500 | 253,500 | 905.4% |
| Total Objects | \$ 98,774,397 | \$ 108,577,077 | \$ 107,857,949 | -\$ 719,128 | -0.7% |
| Funds | | | | | |
| 01 General Fund | \$ 67,199,479 | \$ 72,083,211 | \$ 72,758,121 | \$ 674,910 | 0.9% |
| 03 Special Fund | 14,792,494 | 18,299,590 | 16,151,213 | -2,148,377 | -11.7% |
| 09 Reimbursable Fund | 16,782,424 | 18,194,276 | 18,948,615 | 754,339 | 4.1% |
| Total Funds | \$ 98,774,397 | \$ 108,577,077 | \$ 107,857,949 | -\$ 719,128 | -0.7% |

Note: The fiscal 2007 appropriation does not include deficiencies, and the fiscal 2008 allowance does not reflect contingent reductions.

**Fiscal Summary
Comptroller of the Treasury**

| <u>Program/Unit</u> | <u>FY06 Actual</u> | <u>FY07 Wrk Approp</u> | <u>FY08 Allowance</u> | <u>Change</u> | <u>FY07 - FY08 % Change</u> |
|--|------------------------|----------------------------|---------------------------|----------------------|---------------------------------|
| 01 Executive Direction | \$ 2,563,942 | \$ 3,874,648 | \$ 2,670,281 | -\$ 1,204,367 | -31.1% |
| 02 Financial and Support Services | 4,715,510 | 5,225,710 | 5,156,560 | -69,150 | -1.3% |
| 01 Accounting Control and Reporting | 4,795,156 | 5,928,623 | 5,363,540 | -565,083 | -9.5% |
| 01 Estimating Of Revenues | 408,050 | 482,303 | 577,048 | 94,745 | 19.6% |
| 01 Revenue Administration | 26,592,814 | 27,565,705 | 27,851,573 | 285,868 | 1.0% |
| 02 Major IT Development Fund | 0 | 2,599,000 | 150,000 | -2,449,000 | -94.2% |
| 01 Compliance Administration | 24,165,227 | 25,236,212 | 25,832,601 | 596,389 | 2.4% |
| 01 Regulatory and Enforcement Division | 7,803,830 | 7,552,362 | 7,786,648 | 234,286 | 3.1% |
| 01 Payroll Management | 2,086,472 | 2,318,932 | 2,365,698 | 46,766 | 2.0% |
| 01 Computer Center Operations | 13,693,775 | 14,495,034 | 15,807,427 | 1,312,393 | 9.1% |
| 02 Comptroller IT Services | 11,949,621 | 13,298,548 | 14,296,573 | 998,025 | 7.5% |
| Total Expenditures | \$ 98,774,397 | \$ 108,577,077 | \$ 107,857,949 | -\$ 719,128 | -0.7% |
| General Fund | \$ 67,199,479 | \$ 72,083,211 | \$ 72,758,121 | \$ 674,910 | 0.9% |
| Special Fund | 14,792,494 | 18,299,590 | 16,151,213 | -2,148,377 | -11.7% |
| Total Appropriations | \$ 81,991,973 | \$ 90,382,801 | \$ 88,909,334 | -\$ 1,473,467 | -1.6% |
| Reimbursable Fund | \$ 16,782,424 | \$ 18,194,276 | \$ 18,948,615 | \$ 754,339 | 4.1% |
| Total Funds | \$ 98,774,397 | \$ 108,577,077 | \$ 107,857,949 | -\$ 719,128 | -0.7% |

Note: The fiscal 2007 appropriation does not include deficiencies, and the fiscal 2008 allowance does not reflect contingent reductions.