

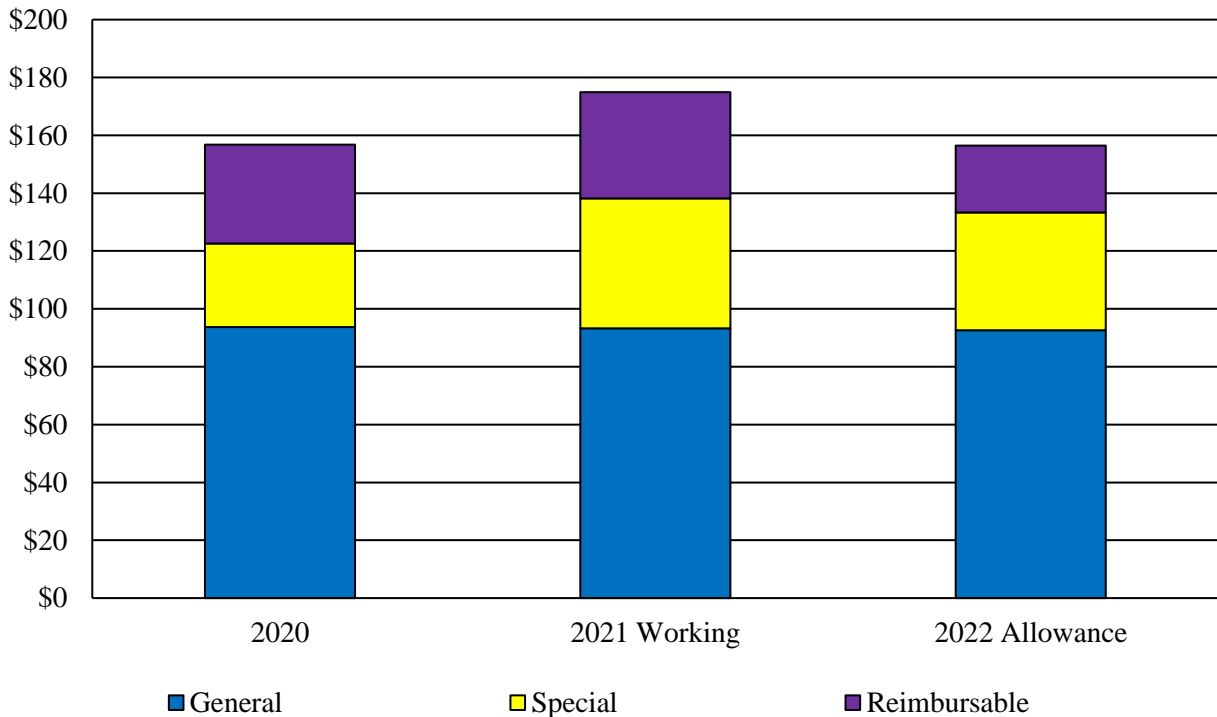
E00A
Comptroller of Maryland

Executive Summary

The Comptroller of Maryland is the State’s chief fiscal officer and is responsible for collecting tax revenue and enforcing compliance with the State’s tax laws. The Comptroller of Maryland provides general supervision of the State’s fiscal matters and also sits on the Board of Public Works.

Operating Budget Summary

**Fiscal 2022 Budget Decreases \$18.5 Million, or 10.6%, to \$156.4 Million
(\$ in Millions)**



Note: The fiscal 2021 appropriation includes deficiencies, planned reversions, and general salary increases. The fiscal 2022 allowance includes contingent reductions, annual salary review adjustments, State Law Enforcement Officers Labor Alliance increases, and the annualization of general salary increases.

- The adjusted fiscal 2022 allowance decreases by \$18.5 million, or 10.6%, from the adjusted fiscal 2021 working appropriation, primarily due to the funding stream for the Integrated Tax System Major Information Technology Development Project.

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Key Observations

- ***Collections Activities Temporarily Suspended for Delinquent Taxes:*** Due to the COVID-19 pandemic, the Comptroller of Maryland temporarily suspended collections activities for unpaid and delinquent taxes, effective until 30 days following the end of the Governor’s declared state of emergency. Interest and penalties will continue to accrue, but no enforcement actions will be taken during this time.
- ***Tax Processing Continued in a Timely Manner Despite Disruptions Caused by the COVID-19 Pandemic:*** The tax deadline for most individual income and business taxes was delayed until July 15, 2020, due to the COVID-19 pandemic. In-person processing of paper income tax returns was also temporarily suspended for over a month. However, customer service metrics related to timeliness of processing tax returns were unaffected.
- ***The RELIEF Act of 2021 Includes Additional Implementation Costs for the Comptroller of Maryland:*** The Comptroller would be responsible for issuing and distributing economic impact payments to low-income taxpayers as well as exempting unemployment insurance benefits from State income taxes, among other provisions. Implementation would increase general fund expenditures for operating expenses in fiscal 2021 and 2022.

Operating Budget Recommended Actions

	<u>Funds</u>
1. Increase turnover to 7.75%.	\$ 1,125,920
2. Adopt narrative requesting a report on the Integrated Tax System project.	
Total Reductions	\$ 1,125,920

E00A
Comptroller of Maryland

Operating Budget Analysis

Program Description

The Comptroller is the State's chief fiscal officer and is responsible for collecting tax revenue and enforcing compliance with the State's tax laws. The Comptroller provides general supervision of the State's fiscal matters and also sits on the Board of Public Works (BPW).

Revenue Administration

The Revenue Administration Division (RAD) is responsible for the receiving and processing of tax returns and payments for the various tax types administered by the Comptroller's office, which include personal income; corporate income; sales and use; admissions and amusement; and taxes on the sale of alcohol, tobacco, and motor fuel, among others.

Compliance

The Compliance Division is responsible for the enforcement of compliance with all tax laws that are administered by the Comptroller. This is achieved through conducting audits, collections on delinquent and unpaid taxes, and other legal enforcement activities. The Compliance Division is also responsible for the holding of unclaimed property and its distribution to its rightful owners.

Field Enforcement

The Field Enforcement Bureau (FEB), formerly the Field Enforcement Division, is responsible for the enforcement of compliance with the State's revenue laws relating to motor fuel, business licenses, and sales and use taxes for individuals and businesses. Field inspections conducted by agents test the quality of motor fuel as well as monitor its storage and transportation. Agents also ensure that businesses are properly licensed and complying with record keeping regulations. Prior to the establishment of the Alcohol and Tobacco Commission (ATC), FEB also enforced compliance with alcoholic beverage and tobacco product laws.

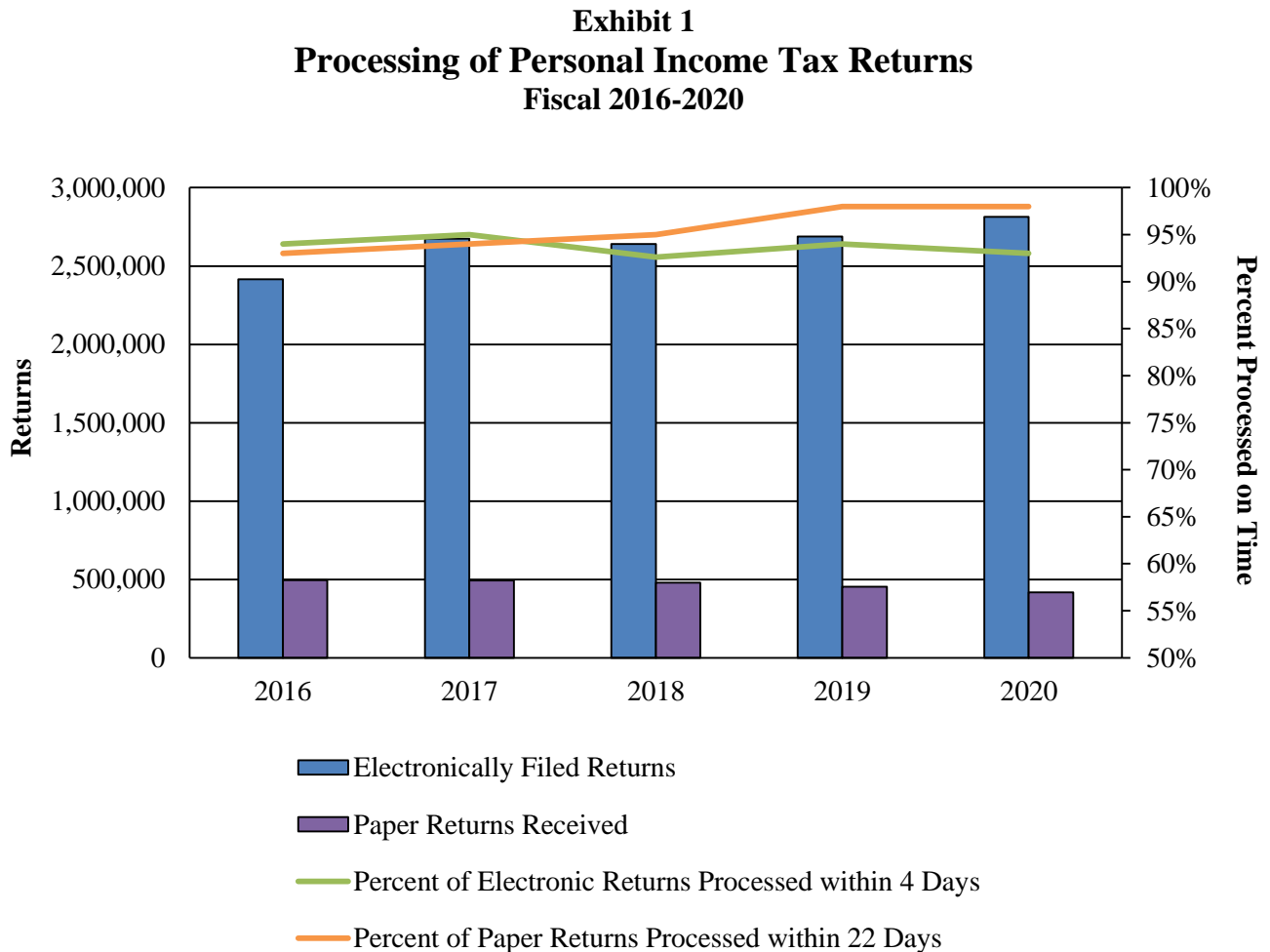
Accounting and Other Fiscal Services

The Comptroller's office also provides other accounting and fiscal services to the State. The General Accounting Division (GAD) is responsible for maintaining the State's general ledger and accounting for all State funds that are received and disbursed. The Bureau of Revenue Estimates (BRE) provides economic forecasts and analyses of the Maryland and national economy, other reports and analyses required by statute or requested by the General Assembly, and BRE forecasts of State revenues that are issued and revised throughout the year. Lastly, the Central Payroll Bureau (CPB) is responsible for the State's payroll needs, including providing salaries and wages to all State employees.

Performance Analysis: Managing for Results

1. Personal Income Tax Returns Are Processed in a Timely Manner

The Comptroller is responsible for processing tax returns and collecting payments for personal income tax, among other tax types. Approximately 3.2 million tax returns are filed in Maryland each year. **Exhibit 1** shows the number of electronic and paper personal income tax returns filed with the Comptroller’s office each year as well as the percent that were processed in a timely manner. In fiscal 2020, 2.8 million returns were filed electronically, and 400,000 paper returns were filed. Of electronic returns, 93% were processed within 4 days of receipt, and 98% of paper returns were processed within 22 days of receipt. The number of paper returns filed has decreased each year as more and more filers take advantage of free, online filing options through the Comptroller’s website.



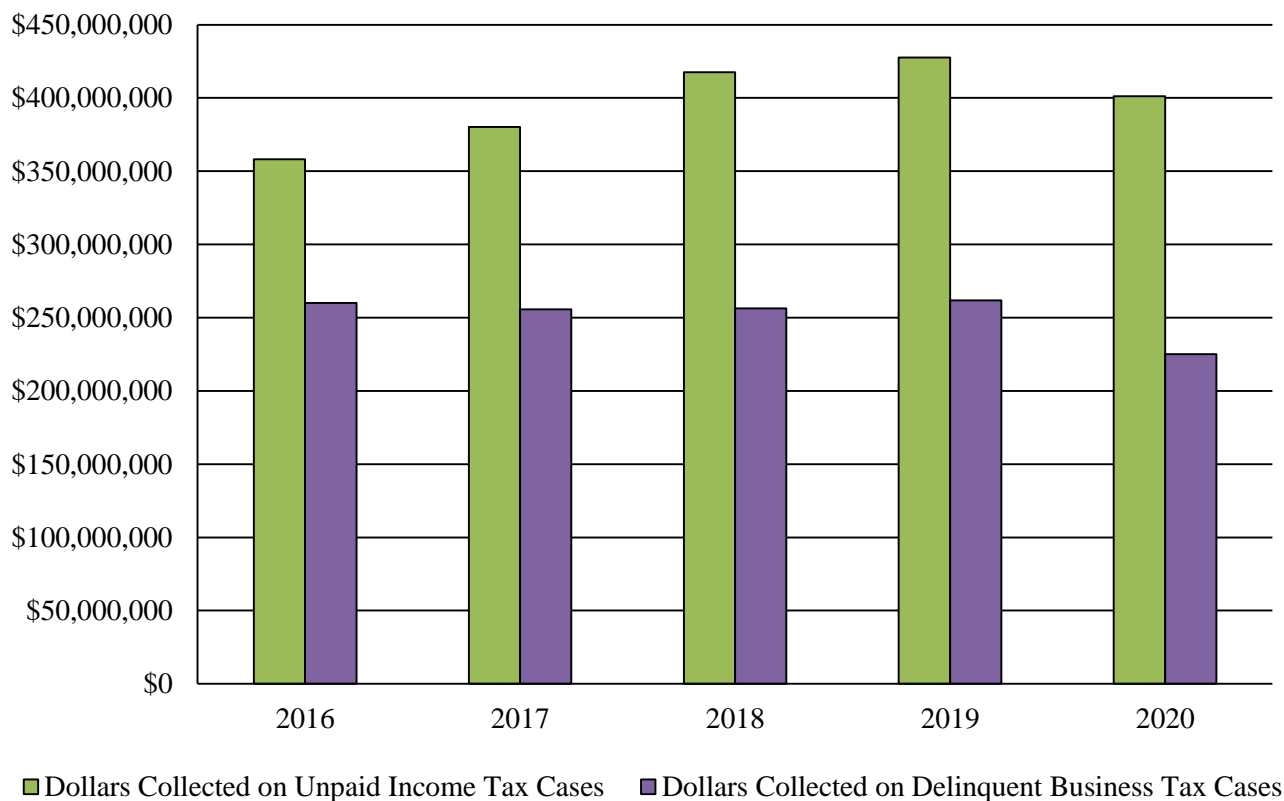
Source: Comptroller of Maryland

The processing of paper personal income tax returns was temporarily interrupted for over a month from April 2020 to May 2020 due to employee safety concerns at the beginning of the pandemic. However, staff were ultimately able to return in a safe manner and process the remaining paper tax returns. Due to a significant portion of filers requesting refunds already filing prior to April, combined with the extension of filing deadlines from April 15 to June 15, the agency reported no major issues related to tax processing, although staff from other divisions had to be reassigned to work on processing returns due to temporary tax personnel no longer being under contract at the time of the extended tax deadline.

2. Delinquent and Unpaid Tax Dollars Collected Decline

In addition to personal income taxes, the Comptroller is also responsible for the collection of various taxes paid by businesses. **Exhibit 2** shows the total dollars collected from delinquent business tax cases and unpaid individual income tax cases. While the majority of individuals and businesses voluntarily pay their annual tax bills on time, there are cases in which the Comptroller must exercise a variety of tools to properly assess and collect tax revenue from unpaid and delinquent sources. One of these tools, the data warehouse, uses compliance matching techniques to find patterns within tax returns that may indicate that the return may need further review. The Comptroller may also enter into payment agreements; certify cases to the Internal Revenue Service (IRS) for offset; and file liens, wage garnishments, and bank attachments. In fiscal 2020, the Comptroller collected \$401.3 million from unpaid personal income taxes and \$225.1 million in delinquent business taxes. These amounts represent a decrease from the prior year collections due to the temporary suspension of tax collection activities implemented in March 2020 pursuant to the Governor’s executive order directing State agencies to suspend collections activities. Additional discussion regarding this issue can be found in the Issues section of this analysis.

**Exhibit 2
Delinquent Tax Dollars Collected
Fiscal 2016-2020**

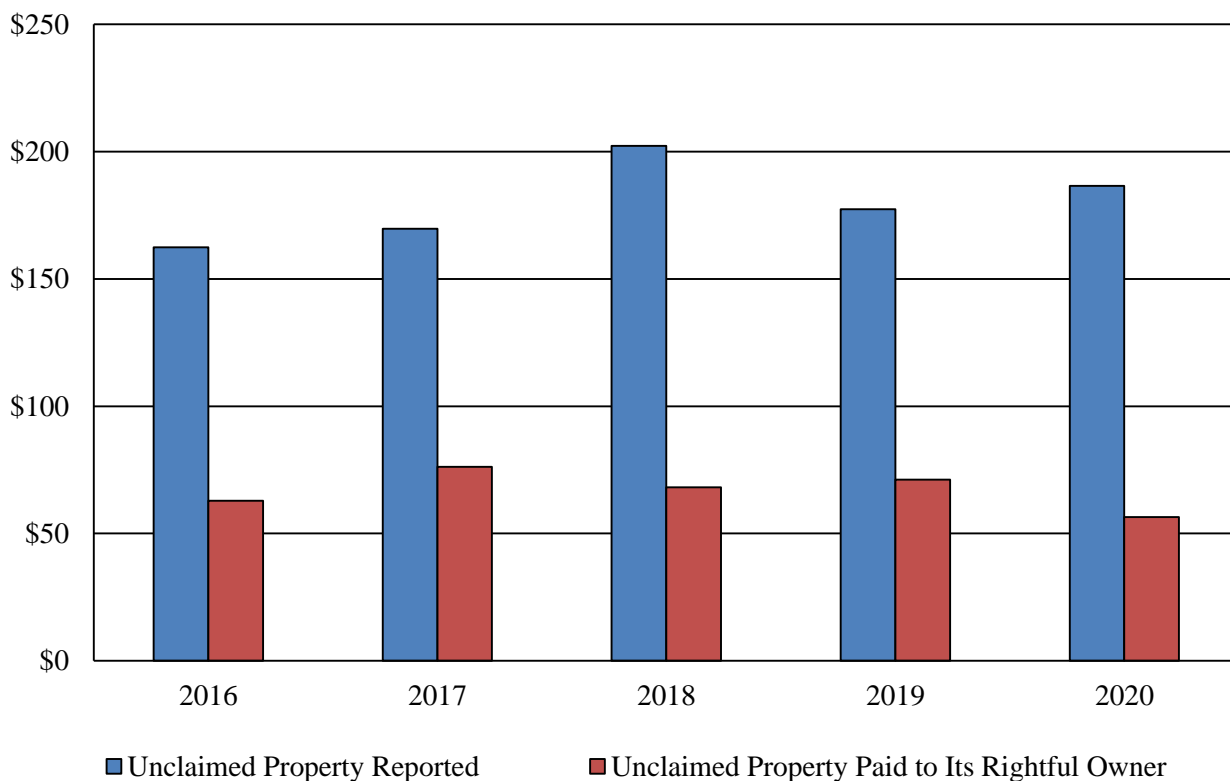


Source: Comptroller of Maryland

3. Unclaimed Property

The Comptroller of Maryland is responsible for holding and attempting to reunite lost or unclaimed property with its rightful owner. This property may include stocks, bonds, savings accounts, security deposits, contents of safe deposit boxes, insurance proceeds, and other valuables, which are reported as unclaimed by banks and financial institutions after three years. Real property is not included. **Exhibit 3** shows the total amount of unclaimed property reported to the Comptroller’s office and the amount of unclaimed property that was paid to its rightful owner each year. Unclaimed property amounts reported fluctuate from year to year and, in fiscal 2020, increased to \$186.6 million. The amount of unclaimed property paid to its rightful owner declined to \$56.4 million in fiscal 2020. Less unclaimed property claims were processed in fiscal 2020 due to the inability of staff to be in the office between March 2020 and June 2020 because of the COVID-19 pandemic.

Exhibit 3
Unclaimed Property Reported and Repaid
Fiscal 2016-2020
(\$ in Millions)



Source: Comptroller of Maryland

Fiscal 2021

Funding for the Integrated Tax System (ITS) Major Information Technology Development Project (MITDP) increased by \$21.9 million from the fiscal 2021 legislative appropriation. Reimbursable funding of \$13.2 million from the Department of Information Technology (DoIT) Major Information Technology Development Project Fund was allocated to the project following the 2020 session, and an additional \$8.7 million in special funds for the project was added through a budget amendment.

The fiscal 2021 working appropriation also reflects the transfer of 27 positions and \$1.6 million in personnel expenses by budget amendment from the Comptroller’s FEB to the newly established ATC in order to staff the commission, effective January 1, 2021.

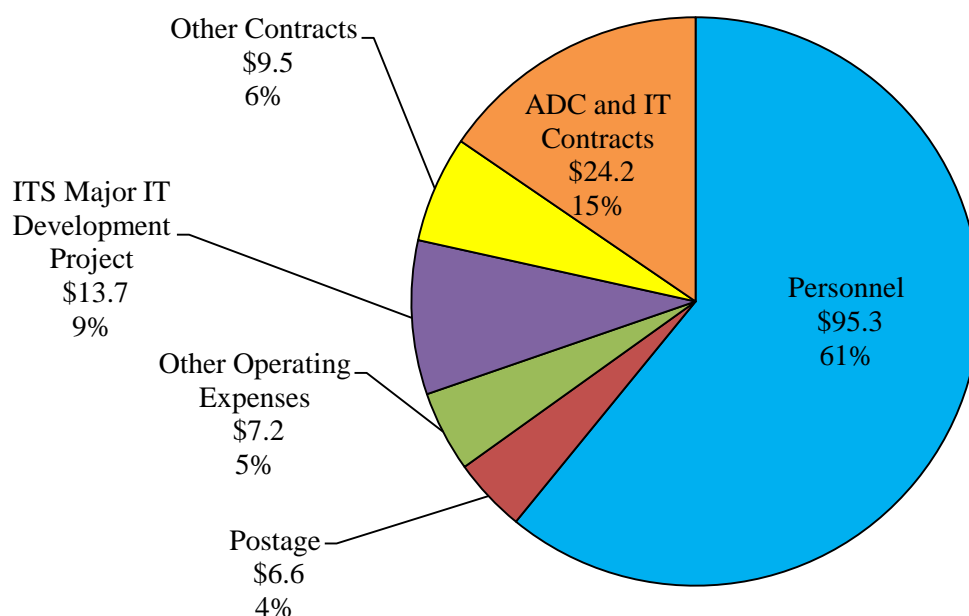
Cost Containment

At its July 1, 2020 meeting, BPW approved a reduction of \$3,433,054 in general funds and \$166,684 in special funds. These reductions were achieved through increasing turnover; reducing travel expenses across several divisions; reducing purchases of supplies, materials, and motor vehicles; and eliminating funding restricted by the legislature for the purpose of implementing a private letter ruling process.

Fiscal 2022 Overview of Agency Spending

The total adjusted fiscal 2022 allowance for the Comptroller is \$156 million. As shown in **Exhibit 4**, 61%, or \$95.3 million of the budget, covers regular and contractual personnel expenses. Operating expenses make up 39% of the budget and consist mostly of contracts, which include funding for the ITS MITDP, operations and maintenance of the Annapolis Data Center (ADC), and Comptroller information technology (IT) services (agency IT services not related to the ITS project or ADC). ITS project special funds total \$13.7 million, or 9% of the budget. Contracts for the maintenance and operation of ADC and other contracts for Comptroller IT services total \$24.2 million, or 15% of the budget. Besides contracts, the other largest categories of operating expenses are postage at \$6.6 million; fixed charges, which include rent paid to the Department of General Services, at \$2.3 million; and supplies and materials at \$2.1 million.

Exhibit 4
Overview of Agency Spending
Fiscal 2022 Allowance
(\$ in Millions)



ADC: Annapolis Data Center
IT: information technology
ITS: Integrated Tax System

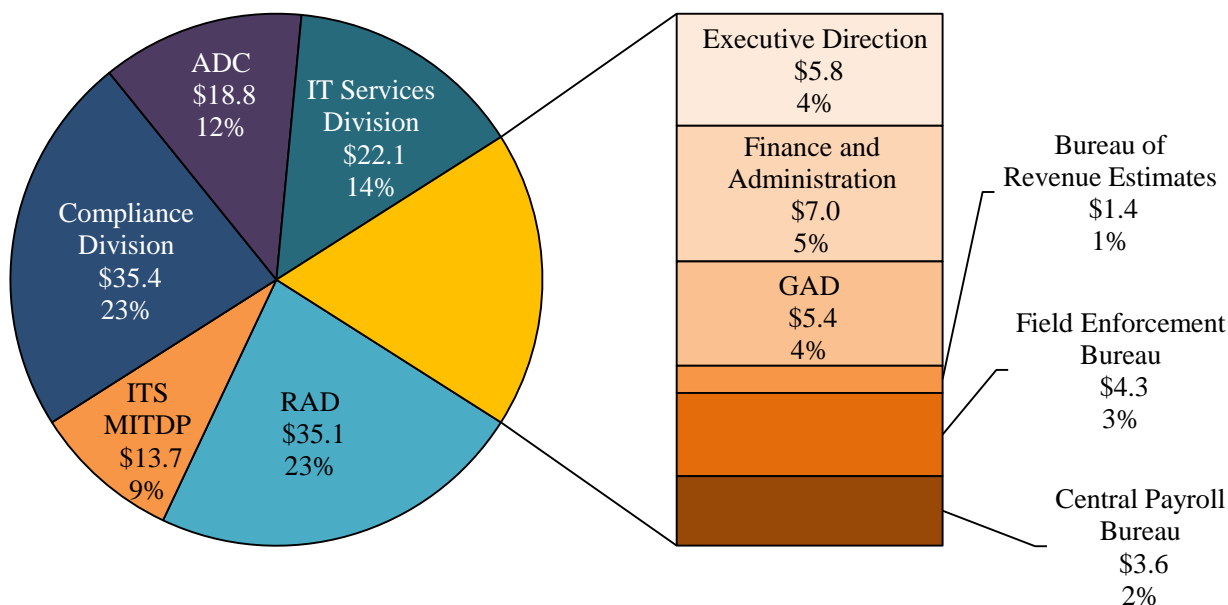
Note: The fiscal 2022 allowance includes annual salary reviews, State Law Enforcement Officers Alliance increases, and annualization of general salary increases.

Source: Governor’s Proposed Fiscal 2022 Budget

Exhibit 5 shows the budget by agency function. The two largest divisions are RAD and the Compliance Division, which perform the agency’s main tax processing and collection activities and, combined, total 46% of all agency spending. These two divisions also contain the majority of the agency’s personnel, with 377.6 positions in RAD and 369.8 positions in the Compliance Division, out of 1,082.9 total positions.

Outside of these two divisions, a combined 35% of the budget consists of funding for the ITS project, ADC, and Comptroller IT services. The remaining 19% consists primarily of the agency’s administration and finance, FEB, GAD, BRE, and CPB.

Exhibit 5
Agency Spending by Function
Fiscal 2022
(\$ in Millions)



ADC: Annapolis Data Center
 GAD: General Accounting Division
 IT: information technology

ITS: Integrated Tax System
 MITDP: Major Information Technology Development Project
 RAD: Revenue Administration Division

Note: The fiscal 2022 allowance includes annual salary reviews, State Law Enforcement Officers Labor Alliance increases, and annualization of general salary increases.

Source: Governor’s Proposed Fiscal 2022 Budget

Proposed Budget Change

As shown in **Exhibit 6**, the total adjusted fiscal 2022 allowance decreases by a total of \$18.5 million, or 10.6%, from the adjusted fiscal 2021 working appropriation. This decrease is due primarily to the funding stream for the ITS MITDP. The project includes a significant portion of reimbursable funds from the DoIT Major Information Technology Development Project Fund, which are not allocated to the Comptroller’s budget until after the legislative session has been completed. The fiscal 2022 DoIT budget includes \$16.4 million in general fund support for the ITS project, including funding for project oversight and independent verification and validation.

Exhibit 6
Proposed Budget
Comptroller of Maryland
(\$ in Thousands)

How Much It Grows:	General Fund	Special Fund	Reimb. Fund	Total
Fiscal 2020 Actual	\$93,665	\$28,903	\$34,203	\$156,772
Fiscal 2021 Working Appropriation	93,241	44,894	36,814	174,948
Fiscal 2022 Allowance	<u>92,580</u>	<u>40,709</u>	<u>23,138</u>	<u>156,427</u>
Fiscal 2021-2022 Amount Change	-\$661	-\$4,185	-\$13,676	-\$18,521
Fiscal 2021-2022 Percent Change	-0.7%	-9.3%	-37.1%	-10.6%

Where It Goes:	Change
Personnel Expenses	
Annual salary review	\$2,176
Turnover adjustments	1,690
Annualization of fiscal 2021 general salary increase.....	706
Unemployment compensation	167
SLEOLA 4% increase and increments	153
Other fringe benefit adjustments.....	-21
Social Security	-112
Workers' compensation premium assessment	-203
Additional assistance	-205
Employee and retiree health insurance	-333
Reclassification.....	-511
Employee retirement and pension system contributions.....	-515
Regular salaries (primarily the transfer of positions to ATC)	-1,509
Other Changes	
Office supplies	442
Contractual office assistance (temporary employees)	152
Vehicle Purchases	101
Other	-154
Comptroller IT services operations (non-ITS or ADC).....	-455

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Where It Goes:	<u>Change</u>
Contracts for ADC maintenance and operations.....	-801
ADC usage cost allocation.....	-901
Contractual services for the ITS project	-18,388
Total	-\$18,521

ADC: Annapolis Data Center
ATC: Alcohol and Tobacco Commission
IT: information technology
ITS: Integrated Tax System
SLEOLA: State Law Enforcement Officers Labor Alliance

Note: Numbers may not sum to total due to rounding. The fiscal 2021 appropriation includes deficiencies, planned reversions, and general salary increases. The fiscal 2022 allowance includes contingent reductions, annual salary review adjustments, SLEOLA increases, and the annualization of general salary increases.

Additionally, special funding for the project has increased through budget amendments in previous years following the legislative session as more accurate funding needs for the year become known. Therefore, the fiscal 2022 allowance decrease in special funds for the project, from \$18.8 million in fiscal 2021 to \$13.7 million in fiscal 2022, is likely to change.

Excluding ITS project funding, the remainder of the budget decreases by a total of \$172,325, or less than 1%, from the fiscal 2021 working appropriation. The largest increase in the budget is for personnel expenses. Regular personnel expenses increase by \$1.5 million, primarily due to the annual salary review adjustment for fiscal staff, increases to turnover adjustments, and annualization of general salary increases partially offset by a decrease in expenditures due to the transfer of positions from the Comptroller to ATC.

Other notable increases in operating expenses include an additional \$442,000 for office supplies, \$152,000 for contractual office assistance, and \$101,000 for new vehicle purchases. Turnover, travel, supplies and materials, and vehicle purchase costs were all included in reductions approved by BPW for fiscal 2021 and show corresponding increases for fiscal 2022.

Personnel Data

	<u>FY 20</u> <u>Actual</u>	<u>FY 21</u> <u>Working</u>	<u>FY 22</u> <u>Allowance</u>	<u>FY 21-22</u> <u>Change</u>
Regular Positions	1,112.90	1,082.90	1,082.90	0.00
Contractual FTEs	<u>67.28</u>	<u>31.25</u>	<u>30.77</u>	<u>-0.48</u>
Total Personnel	1,180.18	1,114.15	1,113.67	-0.48

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	67.68	6.25%
Positions and Percentage Vacant as of 12/31/20	120.50	11.13%
Vacancies Above Turnover	52.82	

- There were 120.5 vacant positions at the end of calendar 2020, or 11.13% of total positions, which is an increase in vacancies from the same time last year and nearly double the number of vacancies necessary to meet the turnover expectation. The largest number of vacancies were for tax processing-related positions in RAD (36.5) and the Compliance Division (40.5).
- BPW increased the turnover rate to 8.23% for fiscal 2021 as part of its cost containment actions. Budgeted turnover decreases to 6.25% for fiscal 2022.

Issues

1. Impact of the COVID-19 Pandemic on Tax Collections and Enforcement Activities

Due to the widespread impact of the COVID-19 pandemic on the State’s economy, the Comptroller took several actions in the past year to provide tax relief to Maryland businesses and taxpayers. In March 2020, personal income tax and other business tax payment deadlines were extended 90 days from April 15 to July 15, conforming to a similar extension issued by IRS for federal income tax filings and to provide more time for taxpayers of other tax types to file. No interest or penalties were issued if tax payments for tax year 2019 were made by July 15, 2020. Other business tax deadlines that were also automatically extended to July 15 included sales and use; withholding; admissions and amusement; alcohol, tobacco, motor carrier, and motor fuel; tire recycling fees; and bay restoration fees.

Additionally, the Comptroller announced a cessation of tax collection efforts in March 2020, which will remain in effect until 30 days after the lifting of the proclamation of a state of emergency and a catastrophic health emergency by the Governor. Pursuant to this action, the Comptroller of Maryland will not send out lien warning notices; issue liens; attach bank accounts; hold up the renewal of any licenses, including Maryland driver’s licenses; or offset vendor payments due to unpaid or delinquent taxes. Business tax audits have also been temporarily suspended during the pandemic while the Comptroller’s office determines how to safely resume its audit program and minimize impacts to businesses.

Exhibit 7 shows additional data on the different collections activities performed by the Comptroller each year to recover delinquent or unpaid taxes as well as the number of business tax audits conducted each year. Due to the temporary cessation of collections activities, all categories show a decline in fiscal 2020.

Exhibit 7
Tax Collections Activities and Business Tax Audits
Fiscal 2016-2020

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Payment Agreements Entered	88,579	98,098	107,289	112,097	107,866
Cases Certified to IRS for Offset	134,639	146,613	140,067	119,201	57,397
Tax Liens Filed	113,100	62,313	111,961	128,309	74,224
Salary Garnishments Filed	2,844	3,150	3,794	4,128	2,474
Bank Attachments Filed	6,631	6,535	6,628	8,359	6,131
Business Tax Audits and Investigations	1,027	832	1,014	822	604

IRS: Internal Revenue Service

Source: Comptroller of Maryland

Following the extended July 15, 2020 tax filing deadline, mail notifications were sent by the Comptroller to certain tax filers who had unpaid tax liabilities that were due for tax year 2019 for various tax types including personal income, corporate income, sales and use, and withholding. However, these letters were for notification purposes only and were not a collections activity. Recipients of these notices were not required to take any action upon receipt. But, although collections of unpaid balances for these tax types is suspended, interest will still continue to accrue on any unpaid balances from the time the tax was due as well as a penalty of 10% on the total amount due. Additional interest and penalties may be avoided by paying the balance due upon receipt of the notice or by contacting the Comptroller's office to arrange a payment plan.

In January 2021, the Comptroller announced that an additional extension of tax payment and filing deadlines would be implemented for certain business taxes and quarterly estimated income tax returns and payments that would normally be due in January, February, and March. These tax payments and returns are now due by April 15, 2021, and no interest or penalties are due if payments are made by that date. Additionally, the Comptroller has indicated that if IRS makes any extension to the April 15, 2021 deadline for payments and returns for federal personal income tax and other corporate taxes, Maryland will once again comply with those extensions for State and local income taxes.

2. Implementation Costs for Proposed Provisions of the RELIEF Act of 2021

The RELIEF Act of 2021 (SB 496/HB 612) includes provisions that may cause additional general fund operating expenses for the Comptroller in order to be implemented in fiscal 2021 and 2022. Among several provisions, the RELIEF Act would provide two rounds of economic impact payments, which the Comptroller would be required to issue, for taxpayers who claimed a State earned income tax credit for tax year 2019 and who file for a State earned income tax credit for tax year 2020. It is estimated that at least 400,000 Maryland households would receive at least one payment.

Additionally, the RELIEF Act includes a provision that would exempt unemployment insurance benefits received by an individual from State income taxes beginning in tax year 2020, as well as other provisions providing tax relief to businesses. Due to the costs necessary to issue economic impact payments and to implement other proposed provisions of the bill, the Comptroller has provided a preliminary estimate that general fund operating expenses will increase by a total of \$330,000 across fiscal 2021 and 2022. These expenses include additional staff overtime and expenses for making retroactive changes to tax forms for the individual income tax, corporate income tax, and sales and use tax.

The agency has advised that due to the opening of corporate income tax filing season on February 1, 2021, and individual income tax filing season on February 12, 2021, it would be necessary to publish a second version of tax forms for these tax types and to accept both versions of the forms for processing for tax year 2020. These versions must also be tested, developed, and approved by third-party software vendors before they can be made available to taxpayers and tax preparers who use those software products. The agency estimates that it would take approximately four to six weeks to develop, test, and program the necessary changes to tax forms.

Operating Budget Recommended Actions

- | | <u>Amount
Reduction</u> | |
|--|------------------------------------|----|
| 1. Increase turnover to 7.75%. The budgeted turnover rate is 6.25%. The most recent vacancy rate in the department is 11.13%. The reduction is taken in Executive Direction but may be allocated across the department as appropriate. The Department of Legislative Services would note that even with this reduction, the Comptroller has adequate budget flexibility to absorb the extra responsibilities of the proposed RELIEF Act of 2021. | \$ 1,028,150 | GF |
| | \$ 97,770 | SF |
| 2. Adopt the following narrative: | | |

Report on the Integrated Tax System: The committees remain interested in the progress of the Integrated Tax System (ITS) Major Information Technology Development Project. The committees request a report providing an update on the project’s current status, cost projections, and timeline. The report should include details on the use of fiscal 2022 funding and project development costs.

Information Request	Author	Due Date
Report on the ITS project	Comptroller of Maryland	December 1, 2021

Total Reductions	\$ 1,125,920
Total General Fund Reductions	\$ 1,028,150
Total Special Fund Reductions	\$ 97,770

Appendix 1
2020 Joint Chairmen’s Report Responses from Agency

The 2020 *Joint Chairmen’s Report* (JCR) requested that the Comptroller of Maryland prepare three reports. Electronic copies of the full JCR responses can be found on the Department of Legislative Services Library website.

- ***Certification That the Alcohol and Tobacco Commission (ATC) Will Be Provided Office Space and Database Access for the Second Half of Fiscal 2021:*** Documentation was submitted in June 2020 certifying that the Comptroller of Maryland will provide ATC with office space and access to its comprehensive document management and licensing database, used by the former Field Enforcement Division for alcohol and tobacco enforcement activities, for the period of January 1, 2021, to June 30, 2021. Further discussion of this issue can be found in the analysis for ATC.
- ***Reports on the Integrated Tax System (ITS) Project:*** Quarterly reports were submitted in July, October, and January, providing updates on the current status, cost projections, and timeline for the ITS project. The project completed its first release (alcohol tax and licensing) in July 2020 and is working on its second release (corporate income tax), scheduled for the first quarter of 2021. Further discussion of the project can be found in **Appendix 6** of this analysis.
- ***Study on Compliance Issues for Excise Tax on Online Premium Cigar Sales:*** The Comptroller of Maryland was required to complete a study on compliance issues for excise taxes paid on online premium cigar sales. Chapter 735 of 2019 required online premium cigar establishments to pay excise tax; however, this has not been possible due to difficulties in properly calculating the amount of tax owed. A report was submitted providing two possible methods for properly calculating the excise tax on premium cigars sold by online retailers.

Appendix 2
Audit Findings – Revenue Administration Division

Audit Period for Last Audit:	July 1, 2015 – September 20, 2018
Issue Date:	June 2020
Number of Findings:	6
Number of Repeat Findings:	3
% of Repeat Findings:	33.3%
Rating: (if applicable)	n/a

Finding 1: An effective process was not in place to ensure that significant financial adjustments made to taxpayer accounts in two units were subject to supervisory or managerial review.

Finding 2: Declaration credits, representing tax overpayments that taxpayers chose to apply to the next tax year, were not always reviewed for propriety as required.

Finding 3: The Revenue Administration Division (RAD) did not comply with its established review procedures to ensure the propriety of significant individual taxpayer refunds.

Finding 4: **RAD had not established sufficient controls over checks for income tax payments received in the mail at its Annapolis location, as several employees were assigned incompatible functions, and certain documentation used to account for batches of checks processed was not retained.**

Finding 5: **Controls over collections received in the Baltimore cash office were not sufficient to ensure that those collections were properly accounted for and deposited.**

Finding 6: **Security and audit events for several critical databases were either not logged or not reviewed for propriety.**

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

Appendix 3
Audit Findings – Information Technology Division/Annapolis Data Center
Operations

Audit Period for Last Audit:	June 4, 2014 – March 11, 2019
Issue Date:	July 2020
Number of Findings:	4
Number of Repeat Findings:	2
% of Repeat Findings:	66.6%
Rating: (if applicable)	n/a

Finding 1: The Information Technology Division (ITD) maintained sensitive, personally identifiable information in a manner that did not provide adequate safeguards.

Finding 2: **Controls involving access and monitoring over mainframe security software as well as database software reporting controls were not adequate.**

Finding 3: Network-based intrusion detection and prevention system coverage did not exist for traffic flowing into the ITD network from certain origin points, and the Comptroller of Maryland’s mobile computers did not utilize a host-based firewall.

Finding 4: **Security risks existed from information technology contractors having unnecessary network-level access to the Comptroller’s network.**

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

Appendix 4
Audit Findings – General Accounting Division

Audit Period for Last Audit:	July 1, 2015 – December 1, 2019
Issue Date:	November 2020
Number of Findings:	2
Number of Repeat Findings:	0
% of Repeat Findings:	0%
Rating: (if applicable)	n/a

Finding 1: The General Accounting Division (GAD) did not monitor agency compliance with the Board of Public Works requirement that vendors with contracts in excess of \$200,000 be paid electronically.

Finding 2: GAD did not have sufficient policies and procedures for its review of statewide corporate purchasing card activity.

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

Appendix 5
Audit Findings – Compliance Division

Audit Period for Last Audit:	March 16, 2016 – March 17, 2019
Issue Date:	December 2020
Number of Findings:	5
Number of Repeat Findings:	3
% of Repeat Findings:	100%
Rating: (if applicable)	n/a

Finding 1: **The Compliance Division did not consistently perform three of its available compliance programs designed to identify and pursue certain individuals who failed to file required income tax returns or report all income.**

Finding 2: **The Compliance Division did not ensure that tax assessments for businesses that failed to file required tax returns were prepared and recorded timely in accordance with its procedures.**

Finding 3: **The Compliance Division did not adequately control critical adjustments to taxpayer accounts in the State of Maryland Tax system.**

Finding 4: **The Compliance Division did not assess penalties, as required by law, when holders of unclaimed property failed to remit such property to the division.**

Finding 5: **The Compliance Division did not ensure that manual calculations of interest and penalties included in sales and use tax assessments were accurate, which resulted in incorrect interest and penalties being assessed on certain taxpayers.**

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

Appendix 6
Integrated Tax System
Major Information Technology Project
Comptroller of Maryland

New/Ongoing: Ongoing							
Start Date: Fiscal 2016				Est. Completion Date: Fiscal 2025			
Implementation Strategy: Waterfall							
(\$ in Millions)	Prior Year	2021	2022	2023	2024	2025	Total
GF	\$10.76	\$14.14	\$16.42	\$14.84	\$7.228	\$4.25	\$67.62
SF	23.69	10.76	13.65	12.81	14.54	10.53	85.99
RF	13.155	0.000	0.00	0.00	0.00	0.00	13.15
Total	\$47.59	\$24.90	\$30.07	\$27.65	\$21.76	\$14.78	\$166.75

- Project Summary:** The Compass Integrated Tax System (ITS) project will replace the State of Maryland Tax (SMART) system, Computer Assisted Collection System (CACS), and other outdated tax processing systems and will integrate with a data warehouse to both continue and expand revenue generating projects and provide enhanced reporting functionality. The new ITS system will allow the Comptroller to more efficiently administer all taxes and fees as required by law with a modernized system that utilizes current technology. Additionally, ITS will create uniformity in processing across tax types that will simplify compliance by taxpayers and allow for a more dynamic use of Comptroller staff.
- Need:** The current SMART and CACS systems are approximately 25 years old and outdated. These two systems are also not integrated and, while they share information via data exchanges, they each maintain information in separate data sources. Some tax and fee types, as well as unclaimed property, are currently maintained outside of these systems due to technical limitations. Neither SMART nor CACS handles all tax types, and both systems process collections differently for different tax types. Although both systems have been substantially modified to support new and mandated processes, the degree to which they can continue to be modified is limited as they reach their technical limitations. Additionally, both systems do not update data in real time, and the design and technology supporting the legacy systems greatly limits and, in some cases, even prohibits the implementation of comprehensive security controls and mandated security requirements.
- Observations and Milestones:** The project is currently in the development and implementation stage, and the second of five iterative releases is currently in progress. The project’s first release, for alcohol tax and licensing activities, went live in July 2020. The second release, for corporate income tax activities, is scheduled to be released during the first quarter of 2021. Releases for business taxes and individual income taxes are scheduled for release in 2022, and additional releases are projected to be completed by the third quarter of 2023.

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- **Changes:** There have been no changes to project cost or scope.
- **Concerns:** There are some inherent risks to the implementation of this project due to its overall size and technical complexity. Among these is the adaptation of stakeholders, including taxpayers, to such a comprehensive information technology modernization project that replaces a system that has been in place for over 25 years.

**Appendix 7
Object/Fund Difference Report
Comptroller of Maryland**

<u>Object/Fund</u>	<u>FY 20 Actual</u>	<u>FY 21 Working Appropriation</u>	<u>FY 22 Allowance</u>	<u>FY 21 - FY 22 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	1,112.90	1,082.90	1,082.90	0.00	0%
02 Contractual	93.78	31.25	30.77	-0.48	-1.5%
Total Positions	1,206.68	1,114.15	1,113.67	-0.48	0%
Objects					
01 Salaries and Wages	\$ 91,292,415	\$ 91,412,315	\$ 89,859,530	-\$ 1,552,785	-1.7%
02 Technical and Special Fees	2,558,582	1,600,716	1,677,712	76,996	4.8%
03 Communication	6,696,638	7,220,731	7,239,151	18,420	0.3%
04 Travel	236,905	264,310	303,898	39,588	15.0%
06 Fuel and Utilities	63,393	58,832	69,729	10,897	18.5%
07 Motor Vehicles	262,679	145,320	229,088	83,768	57.6%
08 Contractual Services	49,643,208	67,783,693	47,219,870	-20,563,823	-30.3%
09 Supplies and Materials	2,240,631	1,787,595	2,105,121	317,526	17.8%
10 Equipment – Replacement	1,277,553	1,435,527	1,284,340	-151,187	-10.5%
11 Equipment – Additional	124,353	108,400	76,000	-32,400	-29.9%
12 Grants, Subsidies, and Contributions	35,000	35,000	235,000	200,000	571.4%
13 Fixed Charges	2,228,484	2,267,878	2,311,575	43,697	1.9%
14 Land and Structures	112,231	87,150	40,000	-47,150	-54.1%
Total Objects	\$ 156,772,072	\$ 174,207,467	\$ 152,651,014	-\$ 21,556,453	-12.4%
Funds					
01 General Fund	\$ 93,665,413	\$ 92,675,464	\$ 89,627,893	-\$ 3,047,571	-3.3%
03 Special Fund	28,903,166	44,777,465	40,012,492	-4,764,973	-10.6%
09 Reimbursable Fund	34,203,493	36,754,538	23,010,629	-13,743,909	-37.4%
Total Funds	\$ 156,772,072	\$ 174,207,467	\$ 152,651,014	-\$ 21,556,453	-12.4%

Note: The fiscal 2021 appropriation does not include deficiencies, targeted reversions, general salary increases, or across-the-board reductions. The fiscal 2022 allowance does not include contingent reductions, annual salary reviews, State Law Enforcement Officers Labor Alliance increases, or annualization of general salary increases.

**Appendix 8
Fiscal Summary
Comptroller of Maryland**

<u>Program/Unit</u>	<u>FY 20 Actual</u>	<u>FY 21 Wrk Approp</u>	<u>FY 22 Allowance</u>	<u>Change</u>	<u>FY 21 - FY 22 % Change</u>
01 Office of the Comptroller	\$ 11,720,141	\$ 12,762,117	\$ 12,786,504	\$ 24,387	0.2%
02 General Accounting Division	5,666,246	5,708,478	5,440,003	-268,475	-4.7%
03 Bureau of Revenue Estimates	1,363,908	1,484,915	1,360,195	-124,720	-8.4%
04 Revenue Administration Division	52,513,119	66,997,053	48,800,630	-18,196,423	-27.2%
05 Compliance Division	35,688,112	35,545,455	35,363,236	-182,219	-0.5%
06 Field Enforcement Division	6,448,048	5,697,486	4,297,278	-1,400,208	-24.6%
09 Central Payroll Bureau	3,367,965	3,588,843	3,609,269	20,426	0.6%
10 Information Technology Division	40,004,533	42,423,120	40,993,899	-1,429,221	-3.4%
Total Expenditures	\$ 156,772,072	\$ 174,207,467	\$ 152,651,014	-\$ 21,556,453	-12.4%
General Fund	\$ 93,665,413	\$ 92,675,464	\$ 89,627,893	-\$ 3,047,571	-3.3%
Special Fund	28,903,166	44,777,465	40,012,492	-4,764,973	-10.6%
Total Appropriations	\$ 122,568,579	\$ 137,452,929	\$ 129,640,385	-\$ 7,812,544	-5.7%
Reimbursable Fund	\$ 34,203,493	\$ 36,754,538	\$ 23,010,629	-\$ 13,743,909	-37.4%
Total Funds	\$ 156,772,072	\$ 174,207,467	\$ 152,651,014	-\$ 21,556,453	-12.4%

Note: The fiscal 2021 appropriation does not include deficiencies, targeted reversions, general salary increases, or across-the-board reductions. The fiscal 2022 allowance does not include contingent reductions, annual salary reviews, State Law Enforcement Officers Labor Alliance increases, or annualization of general salary increases.