

Audit Report

Comptroller of the Treasury

**Office of the Comptroller
Bureau of Revenue Estimates**

August 2009



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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Karl S. Aro
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Bruce A. Myers, CPA
Legislative Auditor

August 11, 2009

Delegate Steven J. DeBoy, Sr., Co-Chair, Joint Audit Committee
Senator Verna L. Jones, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have audited the Comptroller of the Treasury (COT) – Office of the Comptroller (OOC) and the Bureau of Revenue Estimates (BRE) for the period beginning March 1, 2006 and ending March 8, 2009. OOC aids the Comptroller of the Treasury in the general supervision of State fiscal affairs, provides certain support services (such as payroll processing) for units of COT and the Board of Public Works, maintains accounting records applicable to the State's general obligation debt and administers the State's capital grants program. BRE studies and analyzes State revenue sources and periodically prepares estimates of State revenues.

Our audit disclosed that OOC's monitoring procedures and controls over capital grants need improvement. For example, procedures could be strengthened by improving the supervisory review of grant expenditures. We also noted that BRE did not prepare and submit certain reports to the Governor and General Assembly as required.

The Comptroller of the Treasury's response to this audit is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during the course of this audit by OOC and BRE.

Respectfully submitted,

Bruce A. Myers, CPA
Legislative Auditor

Background Information

Agency Responsibilities

The Comptroller of the Treasury has general supervision responsibilities over the fiscal affairs of the State and is aided in this task by the Office of the Comptroller (OOC), which provides certain support services to all units of the Comptroller of the Treasury and the Board of Public Works. OOC maintains the accounting records applicable to the State's general obligation debt and administers the State's capital grants program. The Bureau of Revenue Estimates (BRE) studies and analyzes State revenue sources and periodically prepares estimates of State revenues. According to the State's accounting records, OOC's and BRE's expenditures totaled approximately \$9.5 million during fiscal year 2008.

Findings and Recommendations

Capital Grants

Finding 1

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

Analysis

OOC's procedures and controls over capital grant disbursements need improvement. Specifically, one individual was generally responsible for maintaining grant records, ensuring grantees met statutory requirements, receiving and reviewing grantee invoices and supporting documentation, and initiating the grant disbursements. Although a supervisor approved the grant disbursements, the approvals generally relied on the documentation submitted by the aforementioned employee and the grant accounting records maintained by this employee and did not include a review of the related expenditure documentation submitted by the grantees.

According to its records, during fiscal year 2008, OOC disbursed capital grants totaling approximately \$99 million to State, local, and private entities for various capital projects. The lack of sufficient procedures and controls could result in disbursements being issued improperly and not being readily detected.

Recommendation 1

We recommend that OOC improve procedures and controls over grant disbursements by ensuring that a review of the expenditure documentation submitted by the grantees is an integral part of the supervisory approval process.

Bureau of Revenue Estimates

Finding 2

The Bureau of Revenue Estimates (BRE) did not prepare and submit certain reports to the Governor and General Assembly as required.

Analysis

BRE did not prepare and submit certain reports as required. Chapter 2 of the Laws of Maryland, 2007 Special Session effective January 1, 2008, provided for BRE to prepare and submit a tax incidence study. Specifically, on or before December 2008, BRE was to report to the Governor, the President of the Senate and the Speaker of the House on the burden of all major taxes imposed by the State and how that burden is shared among tax payers of different income levels. Nevertheless, as of June 19, 2009, BRE had not prepared or submitted a tax burden report.

In addition, on or before January 1 of the second year after returns are received for a tax year, Title 10 of the Tax-General Article of the Annotated Code of Maryland requires BRE to submit a statistics of income report (a compilation of information related to activity of various tax elements) to the Governor, the President of the Senate and the Speaker of the House. However, the statistics of income report for tax year 2007, which was due January 1, 2009, was not submitted until June 11, 2009.

Recommendation 2

We recommend that BRE prepare and submit the aforementioned tax burden report and, in the future, ensure all reports are prepared and submitted within the required time frames.

Audit Scope, Objectives, and Methodology

We have audited the Comptroller of the Treasury – Office of the Comptroller and the Bureau of Revenue Estimates (hereinafter collectively referred to as the Office) for the period beginning March 1, 2006 and ending March 8, 2009. The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

As prescribed by the State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine the Office's financial transactions, records and internal controls, and to evaluate their compliance with applicable State laws, rules, and regulations.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of materiality and risk. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the Office's operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives. Data provided in this report for background or informational purposes were deemed reasonable, but were not independently verified.

Our audit included a review of certain support services (such as processing of invoices, maintenance of accounting records, and related fiscal functions) provided by the Office to the other units of the Comptroller of the Treasury, and the Board of Public Works. Our audit did not include certain support services provided to the Office by the Comptroller of the Treasury – Information Technology Division related to the procurement and monitoring of information technology equipment and services. These support services are included in the scope of our audits of the Information Technology Division.

The Office's management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including the safeguarding of assets, and compliance with applicable laws, rules and regulations are achieved.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

This report include a finding related to a condition we consider to be a significant deficiency in the design or operation of internal control that could adversely affect the Office's ability to maintain reliable financial records, operate effectively and efficiently and/or comply with applicable laws, rules, and regulations. Our report also includes a finding regarding a significant instance of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to the Office that did not warrant inclusion in this report.

The Comptroller of the Treasury's response, on behalf of the Office, to our finding and recommendation is included as an appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise the Comptroller of the Treasury regarding the results of our review of its response.

APPENDIX



Peter Franchot
Comptroller

Linda L. Tanton
Deputy Comptroller

August 4, 2009

Bruce A. Myers
Legislative Auditor
301 West Preston Street
Room 1202
Baltimore, Maryland 21201

Dear Mr. Myers:

We are pleased to submit the following response to the legislative audit report of the Office of the Comptroller and Bureau of Revenue Estimates for the period beginning March 1, 2006 and ending March 8, 2009.

Finding #1

Procedures and controls over the disbursement of capital grants need improvement

The Comptroller's Office has one employee who serves as the paying agent for the Board of Public Works' Capital Grant and Loan Program. This employee ensures that all requests to disburse grant proceeds are in compliance with the policies and procedures issued to grant recipients jointly by the Board of Public Works and Department of General Services.

Although the auditor did not identify any instances where the Comptroller's Office improperly disbursed grant funds or improperly recorded disbursement transactions in the State's accounting records, we do, however, agree that adding a test basis supervisory review could strengthen the procedures and controls currently in place.

Accordingly, as part of a supervisory review of disbursement transmittals for capital grant projects, a supervisor, on a periodic basis, will review all supporting documentation submitted by a grantee, such as vendor invoices and cancelled checks. The supervisor will also check for selected approvals, transaction data and balances in both the grants accounting system and R*STARS to ensure the following:

- The vendor(s) outlined on the disbursement transmittal have been approved for this grant project by the BPW or DGS and a Board item or DGS letter is on file approving this vendor.
- The amount being paid to the vendor on this invoice plus the amount that has been paid to this vendor on previous invoices do not exceed the total amount approved for this vendor.
- The disbursement is being charged to the proper project in the grants accounting system.
- Verify that all vouchers posted to the grants accounting system were posted to the proper R*STARS account.
- Ensure that the amount of the grant and balance remaining in the grants accounting system for a grant project is the same balance that remains in the R*STARS for that same project.

A Capital Grant & Loan Supervisory Review form has been created and will be used to document this periodic review. The form will be completed and maintained by the supervisor and made available to the auditor upon request.

Finding #2

The Bureau of Revenue Estimates (BRE) did not prepare and submit certain reports to the Governor and General Assembly as required

Both the tax incidence study and new corporate reporting requirements and study were enacted during the 2007 special session and required significant personnel and IT resources. The legislation requiring these studies did not provide for additional resources in the Bureau of Revenue Estimates to fulfill these requirements. BRE did not have sufficient staff to complete all of its current work requirements and these new reporting requirements. The tax incidence study was identified as the lowest priority, largely as a result of the fact that it would have been a study of the incidence of a tax structure that no longer existed, and hence would be of limited analytical value.

All reporting requirements with respect to the statistics of income had been met prior to the audit exit conference and we have determined that we can produce the required incidence study with the assistance of an outside contractor, before the start of the next legislative session. A small procurement contract has been issued to a contractor to provide guidance on some analytical issues and we have undertaken some preliminary work, and will provide a study of the incidence of the State's major taxes for tax year 2006/fiscal year 2007. An additional position has also been assigned to the Bureau of Revenue Estimates from elsewhere in the agency to help meet the growing demands on this office going forward.

If you require any additional information or wish to discuss these responses in more detail, do not hesitate to contact us.

Very truly yours,

A handwritten signature in black ink that reads "Ken Smith". The signature is fluid and cursive, with the first name "Ken" and last name "Smith" clearly distinguishable.

Ken Smith, Director
Office of Administration & Finance

A handwritten signature in black ink that reads "Linda L. Tanton". The signature is highly stylized and cursive, with the first name "Linda" and last name "Tanton" clearly distinguishable.

Linda L. Tanton
Deputy Comptroller

AUDIT TEAM

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