

The State of Ohio
Office of Budget and Management



Annual Report
Fiscal Year 2011

(July 1, 2010 through June 30, 2011)

John R. Kasich
Governor

Timothy S. Keen
Director

This annual report is published by the Office of Budget
and Management pursuant to ORC 149.01 and 121.18
August 1, 2011



Timothy S. Keen
Director

[January 10, 2011 – present]

I am pleased to provide this annual report, which offers a brief summary of the Office of Budget and Management's accomplishments and activities in Fiscal Year 2011. No single document can provide an adequate description of every function, service and success of an organization as diverse as OBM, particularly in a year of historic budget challenges and accomplishments.

Detailed documentation of many OBM activities throughout the Fiscal Year can be found in separate publications and on-line resources, as referenced throughout this report. For a complete description of OBM activities and records, please visit our website: www.obm.ohio.gov.

A handwritten signature in black ink that reads "Timothy S. Keen". The signature is written in a cursive style with a long, sweeping underline.

Timothy S. Keen,
Director

THE OFFICE OF BUDGET AND MANAGEMENT

The Ohio Office of Budget and Management provides policy analysis, fiscal research and financial management services to the Governor and agencies of state government, helping to ensure the proper and responsible use of state resources. As a cabinet-level agency within the executive branch of state government, OBM develops, coordinates and monitors the individual budgets of state agencies and reviews all financial transactions made with public funds.

During the course of Fiscal Year 2011, as described in this report, the office served two governors and two directors: Governor Ted Strickland and Director J. Pari Sabety (July 1, 2010 – January 9, 2011); Governor John R. Kasich and Director Timothy S. Keen (January 10, 2011 – June 30, 2011).

EXECUTIVE STAFF

June 30, 2011

Timothy S. Keen – Director

Christopher A. Whistler – Assistant Director

Randy Cole – Controlling Board President and Policy Advisor

Janet Conkey – Deputy Director, Operations

Tom Holsinger – Deputy Director, State Accounting
and Interim Lead, Ohio Shared Services

Kurt Kauffman – Deputy Director, Debt Management

Joe Bell – Deputy Director, Internal Audit

David Pagnard – Deputy Director, Communications

Robin McGuire Rose – Chief Legal Counsel

FISCAL YEAR 2011 HIGHLIGHTS

BUDGET DEVELOPMENT and IMPLEMENTATION

Under ORC 107.03 and 126.02, and at the direction of the Governor, OBM's Budget Development and Implementation section provides budget preparation guidance to state agencies, boards and commissions; analyzes submissions for those entities; and supports the Governor in overseeing the implementation of the budget by administering fiscal controls on – and providing technical assistance to – budgeted entities.

During Fiscal Year 2011, the Budget Development and Implementation section issued guidance to state agencies and completed the task of composing a biennial General Revenue Fund budget for Fiscal Years 2012 and 2013 totaling \$55.8 billion and an all-funds budget of \$112.2 billion. During this same period, the section was also engaged in implementing and bringing to completion the budget for Fiscal Year 2011, which despite numerous challenges contained in its structure, ended with a surplus balance on June 30, 2011.

Implementation tasks undertaken during this period included the development of allotments and disbursements needed to track and control agency spending levels, development and monitoring of revenue estimates and ongoing review of the status of state funds, most notably the General Revenue Fund through the development and publishing of OBM's Monthly Financial Report.

ADDITIONAL RESOURCES

Governor's Executive Budget FY 2012-2013 and Related Documentation:

<http://obm.ohio.gov/sectionpages/Budget/FY1213/ExecutiveBudget.aspx>

FY 2012-2013 Biennial Budget as Enacted (Am. Sub. HB 153):

http://www.legislature.state.oh.us/bills.cfm?ID=129_HB_153

FY 2010-2011 Biennial Budget and Related Documentation:

<http://obm.ohio.gov/SectionPages/Budget/FY1011/ExecutiveBudget.aspx>

OBM Monthly Financial Reports:

<http://obm.ohio.gov/MiscPages/MonthlyFinancialReports/>

CONTROLLING BOARD

The Controlling Board, administered as a section of OBM, provides the Governor and General Assembly a mechanism for handling certain limited day-to-day adjustments needed in the state budget. Established by ORC 127.12, the Controlling Board consists of seven members: the

Director of the Office of Budget and Management or designee, the chairs of the Senate and House Finance Committees, a majority member appointed from both the Senate and the House and a minority member appointed from both the Senate and the House. The board facilitates state government in making operating budget modifications, purchasing and contracting approvals. It is also empowered to make adjustments to the appropriations of state agencies, waiving competitive-selection purchasing requirements and releasing capital appropriations to effectively and efficiently complete capital projects.

At 19 meetings held in Fiscal Year 2011, the Controlling Board considered a total of 1,750 requests. Minutes and agendas for those meetings, including detailed information for each request, can be accessed on the e-Controlling Board website (see link below).

The Controlling Board's Emergency Purpose line item provides funding to state agencies for unforeseen emergency purposes or contingencies such as disaster relief, public safety and wrongful imprisonment settlements. In Fiscal Year 2011, the Controlling Board allocated a total of \$4,272,073 from this fund.

ADDITIONAL RESOURCES

Controlling Board Overview:

<http://obm.ohio.gov/sectionpages/ControllingBoard/default.aspx>

e-Controlling Board Website – Meeting Minutes and Agendas:

<https://ecb.ohio.gov/Public/Default.aspx>

DEBT MANAGEMENT

OBM's Debt Management section is responsible for managing existing state debt and proposed issuances of new debt and ensuring that financial resources are available to meet the state's long-term capital and debt service needs. For proposed sales of new state debt, the section reviews and approves each sale, including the amount, security, source of payment, structure and maturity schedule. The section develops and distributes a monthly coordinated bond sale schedule for state bond issuers. It also coordinates and presents pertinent information to bond-rating agencies on the state's economic, financial and debt position. OBM's Debt Management section is also responsible for providing continuing information to investors, including communications in compliance with applicable SEC disclosure regulations.

Since Fiscal Year 2000, OBM has issued – or overseen issuance of – \$20 billion in debt backed by state revenues. Averaging nearly \$1.7 billion annually, these bond issuances include all of state's major capital programs (e.g., highways, prisons, K-12 and higher education school facilities, local infrastructure, etc.), economic development programs (e.g., Third Frontier and revitalization) and efforts to lower the state's cost of borrowing through debt refinancing. In Fiscal Year 2011, OBM led issuers of state debt in the development of a comprehensive post-

issuance compliance policy in order to ensure consistent and rigorous practices across issuers. OBM also migrated the agency's spreadsheet-based debt database to DBC Municipal Bond software – the industry standard – to improve the office's in-house capabilities in the management and optimization of state debt.

ADDITIONAL RESOURCES

General State Debt:

<http://obm.ohio.gov/sectionpages/bondsdebt/default.aspx>

Buy Ohio Bonds:

<http://buyohbonds.com/home/default.aspx>

Buckeye Tobacco Financing Authority:

<http://obm.ohio.gov/SectionPages/TobaccoSettlement/>

FINANCIAL PLANNING and SUPERVISION

OBM's Financial Planning and Supervision program assists financially challenged school districts and local governments to improve their fiscal condition by helping formulate and monitor fiscal recovery plans tailored to the specific nature and needs of each entity. Whenever the Auditor of State declares a school district or local government to be in a state of fiscal emergency, a representative of OBM is appointed to a local Financial Planning and Supervision Commission, serving either as chair of local government commissions or as a voting member of school district commissions.

Throughout Fiscal Year 2011, these responsibilities were provided primarily by one full-time OBM staff position, assigned to chair 24 local government commissions and participate in 10 school district commissions. While no local government commissions were able to move out of fiscal emergency in Fiscal Year 2011, three school districts successfully addressed their fiscal problems and were terminated from fiscal emergency status.

Statutory changes adopted in Fiscal Year 2011 included provisions in the Fiscal Year 2012-2013 budget bill (HB 153), which will in the future decrease OBM's participation in financial supervision of some local governments. As a result of these provisions, Financial Planning and Supervision Commissions will no longer be created for any village or township with a population of less than 1,000. The Auditor of State will serve as financial supervisor of these entities and will assume all the powers and duties of a commission.

FINANCIAL REPORTING

Financial Reporting is primarily responsible for publishing the state's official Comprehensive Annual Financial Report (CAFR) and compiling the Schedule of Expenditures of Federal Awards (SEFA). The CAFR covers all funds of the state's reporting entity and includes basic financial statements and required supplementary information. The SEFA reports the state's annual expenditures of all federal grants in compliance with the reporting requirements of federal agencies that provide funding to the state. In addition, the section establishes the state's accounting and financial reporting policies.

Major accomplishments of the Financial Reporting section in Fiscal Year 2011 include:

- Issuance of the Fiscal Year 2010 CAFR on January 21, 2011, the earliest release of the CAFR since the Fiscal Year 2004 CAFR which was released December 15, 2004
- Issuance of the Fiscal Year 2010 Single Audit by March 31, 2011 (the federal deadline), the earliest release since the Fiscal Year 2004 Single Audit, which was released March 31, 2005
- Receipt of an unqualified opinion (commonly known as a “clean audit”), which is reflected in the CAFR and the Single Audit
- Implementation of three new accounting standards, including reporting of intangible assets and derivative instruments
- Implementation of revised financial reporting processes for compiling the CAFR to remove obsolete and ineffective reporting procedures determined through a section-wide Kaizen event

ADDITIONAL RESOURCES

State of Ohio Comprehensive Annual Financial Report (CAFR), FY 2010:

<http://obm.ohio.gov/SectionPages/FinancialReporting/CAFR/2010/Default.aspx>

Schedule of Expenditures of Federal Awards, FY 2010:

<http://obm.ohio.gov/SectionPages/FinancialReporting/Sefa/2010/>

State of Ohio Single Audit Report, FY 2010:

http://www.auditor.state.oh.us/AuditSearch/Reports/2011/State_of_Ohio_Single_Audit_10_Franklin.pdf

INTERNAL AUDIT

ORC 126.45 created the Office of Internal Audit within the Office of Budget and Management in 2008 to administer the internal control architecture of 21 cabinet agencies and coordinate reviews, process analyses and information technology (IT) audits with the Auditor of State,

agency internal control staff and Inspector General in order to ensure proper coverage of risks and minimal duplication of effort.

Additionally, ORC 126.46 established the State Audit Committee to – among its responsibilities – review and comment on the annual internal audit plan prepared by the Office of Internal Audit. The mission of the State Audit Committee is to provide assurance to the Governor, legislative leadership and the general public that agencies of state government are identifying risks and implementing proper internal controls of those risks in order to mitigate circumstances of fraud, waste and abuse.

During Fiscal Year 2011, the Office of Internal Audit completed 15 public reports, which resulted in 21 high- or moderate-risk observations. Of these observations, three were remediated by the client and validated by the Office of Internal Audits. Fifteen of the remaining observations are not scheduled for remediation until Fiscal Year 2012 and three others were delayed by the client. Additionally, all 16 remaining Fiscal Year 2010 observations have been remediated by the client and validated by the Office of Internal Audit.

The office also completed 16 assurance audits that met the definition of a “Security Record” per ORC 149.433 or 5703.21(B)(2) and are exempt from public disclosure. These engagement results are provided to agency management with a summary update to the State Audit Committee in executive session. Three IT general control “security record” audits were leveraged by the Auditor of State to assist with audit coordination in completing the State of Ohio’s financial statement audit timely. In Fiscal Year 2012, one IT general control audit is planned to be leveraged by the Auditor of State for financial statement audit purposes.

Assurance audits performed by the office in Fiscal Year 2011 provided an independent assessment on governance, risk management and control processes for an agency. The office also provided consulting services related to process documentation, financial process reviews and new system development. The office’s consulting services consisted of 19 percent of overall audit effort in Fiscal Year 2011.

ADDITIONAL RESOURCES

Office of Internal Audit Annual Plans and Reports and Additional Resources:

<http://obm.ohio.gov/SectionPages/InternalAudit/Home/Default.aspx>

Internal Audit Reports, FY 2011 and Earlier:

<http://obm.ohio.gov/SectionPages/InternalAudit/PlansReports/AuditReports.aspx>

OHIO SHARED SERVICES

Through its Ohio Shared Services (OSS) operations, the Office of Budget and Management provides cost-saving opportunities to state agencies through consolidated management of business activities, including accounts payable, travel and expense reimbursements, vendor management and contact center assistance.

Among highlights of its performance in Fiscal Year 2011, the Ohio Shared Services Center:

- Processed 75,671 Accounts Payable transactions and 83,526 Travel and Expense reports
- Received 39,719 calls to the OSS Contact Center, achieving 94 percent First Call Resolution
- Processed 36,837 Vendor Maintenance requests
- Accounts Payable paid more than 95 percent of all processed invoices within 30 days
- Transitioned accounts payable processing for eight cabinet agencies, resulting in a reported savings of \$1.7 million

ADDITIONAL RESOURCES

Ohio Shared Services website, with a variety of additional information:

<http://ohiosharedservices.ohio.gov>

STATE ACCOUNTING

State Accounting monitors and controls both the spending and revenue collection activities of state agencies, providing up-to-date accounting information for the State of Ohio. This section reconciles the cash balance of the state's accounting system with the Treasurer of State's records and oversees state spending to ensure appropriations are not exceeded. During Fiscal Year 2011, State Accounting consolidated OBM's Payment Issuance Section and OBM's Accounting Review and Release Section in order to improve workflow processes. In addition, State Accounting incorporated various enhancements into OAKS to facilitate ease of use of the system and completed a successful fiscal year-end close, which encompassed the biennial Capital Purchase Order rollover.

ADDITIONAL RESOURCES

State Accounting Information and Records:

<http://obm.ohio.gov/SectionPages/StateAccounting/>

ANNUAL EXPENDITURES – Fiscal Year 2011

Office of Budget and Management

July 1, 2010 – June 30, 2011

By Appropriation Line Item

Fund	ALI	Appropriation Line Item	Expenditures
GRF	042321	Budget Development & Implementation	\$ 2,179,160
GRF	042410	National Association Dues	\$ 31,361
GRF	042412	Auditor of State Audit	\$ 38,992
GRF	042416	Medicaid Agency Transition	\$ 252,558
GRF	042435	Gubernatorial Transition	\$ 215,414
Total GRF			\$ 2,717,485
1050	042603	State Accounting & Budgeting	\$ 19,645,571
3CM0	042606	Medicaid Agency Transition - Federal	\$ 231,649
5EH0	042604	Forgery Recovery	\$ 22,182
5N40	042602	OAKS Project Implementation	\$ 1,044,944
7026	C10031	Operations Facilities Improvements	\$ 233,490
Total Non-GRF			\$ 21,177,836
Total All Funds			\$ 23,895,321

By Account Category

Account	Account Description	Expenditures
500	Payroll and Benefits	\$ 18,761,471
510	Purchased Personal Services	\$ 1,325,429
520	Maintenance and Supplies	\$ 3,355,388
530	Equipment	\$ 198,979
570	Capital Improvements	\$ 231,872
596	Payment of Forged Warrants	\$ 22,182
Total		\$ 23,895,321



The State of Ohio

Office of Budget and Management

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