

ANNUAL REPORT

FISCAL YEAR 2012

July 1, 2011 — June 30, 2012



TIMOTHY S. KEEN DIRECTOR

The Office of Budget and Management is pleased to present this annual report of our activities and accomplishments during the fiscal year ending June 30, 2012.

In what would not have been a major budget-writing year on Ohio's traditional biennial-budget calendar, Governor John Kasich directed OBM and other Cabinet agencies to undertake a precedent-setting Mid-Biennium Budget Review. Important legislative improvements and agency reforms resulting from this review are now helping state agencies continue work begun by the Kasich Administration with the Fiscal Year 2012 and 2013 biennial operating budget to reduce the cost of government, improve services and strengthen efforts toward job creation and economic growth in Ohio.

While budget preparation is perhaps OBM's most visible function, our office performs a number of other important fiscal management and oversight roles, each of which saw significant accomplishments in the past fiscal year. To cite just three examples: through our newly established Audit Oversight Workgroup, OBM can now work collaboratively with each state agency to remedy control weaknesses and other issues raised in its state and federal audits; Ohio Shared Services continues to transition accounts payable processing for additional state agencies, with a goal of having all Cabinet agencies onboard by July 2013; and OBM has initiated development of the Ohio Fiscal Academy, a certification program for fiscal officers and others employed in a fiscal or budgetary capacity with a state agency.

In addition to summaries of OBM's Fiscal Year 2012 activities provided in this annual report, further detail can be found in on-line documentation and other resources referenced here. For a complete description of OBM activities and records, please visit our website: www.obm.ohio.gov.

Timothy S. Keen

Director

OHIO OFFICE OF BUDGET AND MANAGEMENT

MISSION STATEMENT

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.

STRATEGIC GOALS

Develop, implement, and monitor operating and capital budgets that support the Governor's strategic priorities.

Reengineer business processes and leverage technology to increase efficiency and effectiveness of services.

Explore, promote, and support shared service initiatives and standardization and consolidation of enterprise services to reduce costs and create efficiencies.

Promote financial literacy and increased awareness of service offerings within state government and the general public.

EXECUTIVE STAFF

June 30, 2012

Timothy S. Keen – Director

Christopher A. Whistler – Assistant Director

Janet Conkey - Senior Deputy Director, Services and Operations

Jason Barnett – Deputy Director, Operations

Joe Bell - Deputy Director, Internal Audit

Randy Cole – Controlling Board President and Policy Advisor

Tom Holsinger - Deputy Director, State Accounting

Kurt Kauffman – Deputy Director, Debt Management

David Pagnard – Deputy Director, Communications

Robin McGuire Rose – Chief Legal Counsel

Everett Ross – Deputy Director, Ohio Shared Services

Andy Shifflette - Legislative Liaison

FISCAL YEAR 2012 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 implementation of the budget by administering fiscal controls on – and providing technical assistance to – budgeted entities.

During Fiscal Year 2012, the Budget Development and Implementation section devoted much of its energies to managing an unprecedented Mid-Biennium Budget Review, a top-to-bottom analysis of state agency budgets, operations and programs. Produced at the request of Governor Kasich only months after passage of the FY12-13 Biennial Operating Budget, the MBR led to hundreds of recommendations for reforms designed to reduce the cost of government and revitalize Ohio's ability to keep and attract jobs.

Among its achievements, the MBR identified ways to cut more than \$113 million from agency budgets in the next fiscal year, while making significant changes that streamline government operations and improve delivery of services. Many reductions and reforms – including those focused on state healthcare and human services programs – were enacted by the General Assembly in House Bill 487, the Management Efficiency Plan, which was signed by Governor Kasich on June 11, 2012. Additional legislation resulting from the MBR incorporated reforms affecting education, energy policy, tax reform, workforce development, veterans' services and cost-saving tools for local governments and schools.

Also in Fiscal Year 2012, the Budget Development and Implementation section worked with state agencies and institutions to implement the Kasich Administration's capital budget proposal for the 2013/2014 fiscal biennium – the state's first capital budget in four years. The resulting legislation (HB 482) was enacted by the General Assembly and signed by the Governor on April 2, 2012. Focusing on schools, higher education, technological research and workforce development, this capital budget invests more than \$1.74 billion to maintain and improve the state's educational and public service infrastructure in ways that help keep Ohio a leader in the competitive world economy.

Throughout the fiscal year, the section was engaged in implementing the biennial General Revenue Fund operating budget for Fiscal Years 2012 and 2013, totaling \$55.8 billion, and an all-funds budget of \$112.2 billion, as signed by Governor Kasich on June x, 2011. The previous biennial budget, having ended on June 30, 2011 with a surplus balance, supported a transfer to the Budget Stabilization Fund on July 8, 2011 of \$246.9 million, increasing the fund's balance from its previous low of \$1.78.

Implementation tasks undertaken during this period also included development of agency allotment guidance and the development and implementation of disbursement estimates needed to track and control agency spending levels. Furthermore, the Budget Development and Implementation Section was responsible for forecasting and monitoring of revenue estimates, most notably those for the General Revenue Fund through the development and publication 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 2012 Mid-Biennium Budget Review and Related Documentation: http://obm.ohio.gov/SectionPages/Budget/MidBudget.aspx

FY 2013-2014 Capital Budget and Related Documentation: http://obm.ohio.gov/SectionPages/Budget/FY1213/Budget.aspx?Link=3

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 Controlling Board facilitates state government in making operating budget modifications as well as purchasing and contracting approvals. It is also empowered to make adjustments to the appropriations of state agencies, waive competitive selection purchasing requirements and release capital appropriations to effectively and efficiently complete capital projects.

In Fiscal Year 2012, the Controlling Board held 21 meetings and considered a total of 1,485 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 2012, the Controlling Board allocated a total of \$5,988,636.80 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 requirements. 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 credit 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 compliance with applicable SEC disclosure regulations.

In the past ten years (Fiscal Years 2002 through 2012), OBM has overseen the issuance of \$18.7 billion in debt backed by state revenues. Averaging \$1.8 billion annually, these bond issuances include all of state's major capital programs (e.g., highways, prisons, elementary 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 2012, OBM led issuers of state debt in updating and revising the state's comprehensive Debt and Interest Rate Risk Management Policy, completed the conversion of the state's debt portfolio from an Excel database to DBC Municipal Bond software (the industry standard), and launched a comprehensive new Debt and Investor Relations web portal.

ADDITIONAL RESOURCES

Debt and Investor Relations Portal: 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.

In the course of Fiscal Year 2012, Financial Planning and Supervision was assigned to chair 24 local government commissions and participated in 10 school district commissions. Two local governments were able to move out of fiscal emergency in Fiscal Year 2012, and four school districts successfully addressed their fiscal problems and were terminated from fiscal emergency status.

FINANCIAL REPORTING

OBM's Financial Reporting section is primarily responsible for publishing the State of Ohio'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 2012 include:

- The Fiscal Year 2011 CAFR, completed and submitted on target, resulting in an unqualified opinion (commonly known as a "clean audit"), which was issued on January 20 2012.
- Submissions for the Fiscal Year 2011 Single Audit, completed on target, for issuance on March 20, 2012 (the federal deadline).
- Implementation of a new accounting standard, GASB 54, affecting the reporting classification of fund balances.
- Continuing implementation of revised financial reporting processes for compiling the CAFR to remove obsolete and ineffective reporting procedures, as determined through a section-wide Kaizen event.

ADDITIONAL RESOURCES

State of Ohio Comprehensive Annual Financial Report (CAFR), FY 2011: http://obm.ohio.gov/SectionPages/FinancialReporting/CAFR/2011/Default.aspx

Schedule of Expenditures of Federal Awards, FY 2011: http://obm.ohio.gov/SectionPages/FinancialReporting/Sefa/2011/

State of Ohio Single Audit Report, FY 2011: http://www.auditor.state.oh.us/AuditSearch/detail.aspx?ReportID=94194

INTERNAL AUDIT

In 2008, ORC 126.45 created the Office of Internal Audit within the Office of Budget and Management to conduct periodic audits of major systems and controls at 22 cabinet agencies. The Office of Internal Audit coordinates its reviews, process analyses and information technology (IT) audits with the agency internal control staff, Auditor of State, and Ohio 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 2012, the Office of Internal Audit completed 14 public reports, which resulted in 14 high- or moderate-risk observations. Of these observations, one was remediated by the client and validated by the Office of Internal Audit. Nine of the remaining observations are not scheduled for remediation until Fiscal Year 2013 and four others were delayed by the client. Additionally, all 18 observations remaining from Fiscal Year 2011 have since been remediated by the client and validated by the Office of Internal Audit.

The office also completed 12 assurance audits in Fiscal Year 2012 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. One IT general control "security record" audit was 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 2013, no IT general control audits are planned to be leveraged by the Auditor of State for financial statement audit purposes.

Assurance audits performed by the Office of Internal Audit in Fiscal Year 2012 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 29 percent of overall audit effort in Fiscal Year 2012. This amount is expected to remain at approximately 30 percent in Fiscal Year 2013.

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 2012, the Ohio Shared Services Center:

- Processed 95,377 Accounts Payable transactions and 81,372 Travel and Expense reports
- Received 34,575 calls to the OSS Contact Center, achieving 91 percent First Call Resolution
- Processed 30,250 Vendor Maintenance requests
- Transitioned Accounts Payable processing for an additional seven cabinet agencies, with eight more scheduled to on-board by July 2013.
- Partner Agencies significantly increased utilization rates of Ohio Shared Services Accounts Payable processing from 49.2% in FY11, to 56.7% in FY12. An increase of 15.4%.

ADDITIONAL RESOURCES

Ohio Shared Services website, with a variety of additional information: http://ohiosharedservices.ohio.gov

STATE ACCOUNTING

Utilizing OAKS – the state's accounting system – the State Accounting section 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 in OAKS with the Treasurer of State's records and oversees state spending to ensure appropriations are not exceeded. During Fiscal Year 2012, State Accounting continued to streamline and consolidate OBM's Payment Issuance section and OBM's Accounting Review and Release section in order to improve workflow processes. In addition, State Accounting continued to incorporate various enhancements into OAKS to facilitate ease of use of the system and completed a successful Fiscal Year 2012 close.

During Fiscal Year 2012, State Accounting, in collaboration with other OBM sections, initiated a new Audit Oversight Workgroup. By working collaboratively with each state agency to remedy control weaknesses and other issues raised in its state and federal audits, the workgroup helps OBM to track audit-compliance trends across all state agencies and provides a better understanding of agencies' financial and operational strengths and weaknesses.

ADDITIONAL RESOURCES

State Accounting Information and Records: http://obm.ohio.gov/SectionPages/StateAccounting/

SUPPORT SERVICES

Additional divisions and sections in the Office of Budget and Management provide a range of administrative and technical support services for agency-wide operations:

COMMUNICATIONS

LEGAL

LEGISLATIVE

OPERATIONS

- FISCAL
- Human Resources
- Information Technology
- TRAINING ACADEMY

ANNUAL EXPENDITURES

FISCAL YEAR 2012

Office of Budget and Management July 1, 2011 – June 30, 2012

By Appropriation Line Item

| Fund | ALI | Appropriation Line Item | Expenditures | |
|--|--|---|----------------------------|--|
| GRF GRF GRF GRF GRF | 042321 042416 042409 042435 042423 | Budget Development & Implementation Office of Health Transformation Commission Closure Gubernatorial Transition Liquor Enterprise Transaction | \$ \$ \$ \$ \$ | 2,012,296 259,858 30,213 9,647 |
| Total GRF | | | \$ | 2,312,014 |
| 1050 3CM0 5EH0 5N40 5Z80 7026 | 042603 042606 042604 042602 042608 C10031 | State Accounting & Budgeting Office of Health Transformation Forgery Recovery OAKS Project Implementation Office of Health Transformation Administration Operations Facilities Improvements | \$ \$ \$ \$ \$ | 18,384,364 263,145 12,445 922,419 57,278 92,829 |
| Total Non- | GRF | | \$ | 19,732,480 |
| Total All Fu | ınds | | \$ | 22,044,494 |

BY ACCOUNT CATEGORY

| Accou | unt Account Description | Expend | Expenditures | |
|-------|-----------------------------|--------|--------------|--|
| 500 | Payroll & Benefits | \$ | 17,943,133 | |
| 510 | Purchased Personal Services | \$ | 1,322,136 | |
| 520 | Maintenance & Supplies | \$ | 2,537,854 | |
| 530 | Equipment | \$ | 136,097 | |
| 570 | Capital Improvements | \$ | 92,829 | |
| 596 | Payment of Forged Warrants | \$ | 12,445 | |
| | | | | |
| Total | | \$ | 22,044,494 | |



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