



Ohio Office of
Budget and Management

Annual Report

Fiscal Year 2014
July 1, 2013 – June 30, 2014

This annual report is published by the Office of Budget and Management
pursuant to Ohio Revised Code sections 149.01 and 121.18.

August 1, 2014



Timothy S. Keen
Director

On behalf of the men and women of the Office of Budget and Management, I am pleased to present this annual report of our activities and achievements during the fiscal year ending June 30, 2014.

As described on these pages and its linked documents, a list of highlights for OBM in the past fiscal year is led by three significant budget accomplishments:

- Successful management of the first year of the state's biennial operating budget for Fiscal Years 2014 and 2015. This was the fourth consecutive fiscal year to end with a significant surplus, one that supported a \$300 million deposit in the Medicaid Reserve Fund, acceleration of the final phase of a 10 percent personal income tax cut, additional small-business tax relief and increased tax reductions for low- and middle-income Ohioans.
- Development and passage of the \$2.4 billion capital improvements budget for Fiscal Years 2015 and 2016, making fiscally responsible appropriations to maintain and improve the state's educational and public-service infrastructure.
- Leadership of Ohio's second-ever Mid-biennium Budget Review (MBR), a comprehensive process that produced a wide range of funding changes and policy improvements. The 2014 MBR resulted in legislation to provide tax reductions and reforms, improve K-12 education and higher education, strengthen support for Ohioans with mental illness and addiction, assist military veterans and create a more effective workforce development program for Ohio.

While budget preparation and implementation are OBM's most visible functions, the office also performs in a number of other important roles to ensure the fiscal integrity and efficiency of state government operations. Other significant accomplishments for OBM in Fiscal Year 2014 include a second successful year for the Ohio Fiscal Academy, which certified 49 fiscal officers representing 27 state agencies and continued to promote the consistent application of fiscal theory and practice across state government. Our Office of Internal Audit extended its audit and consulting services to include four new agencies, while statutory language was added to allow agencies outside the office's purview to request audit services. Also in Fiscal Year 2014, OBM was recognized as the top-scoring Cabinet agency for Minority Business Enterprise (MBE) set-aside performance over the previous fiscal year, qualifying 45.03 percent of our eligible expenditures.

Other notable accomplishments in Fiscal Year 2014 are described throughout this report, supplemented by on-line documentation and other resources for each area of responsibility. For a complete description of OBM activities and records, please visit our website: www.obm.ohio.gov.

A handwritten signature in blue ink that reads "Timothy S. Keen".

Timothy S. Keen
Director

Ohio Office of Budget and Management

John R. Kasich – Governor

Timothy S. Keen – Director

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, 2014

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

Fred Church – Deputy Director, Budget

Randy Cole – Controlling Board President and Policy Advisor

Kurt Kauffman – Deputy Director, Debt Management

Jim Kennedy – Deputy Director, State Accounting

Dave Pagnard – Deputy Director, Communications

Robin McGuire Rose – Chief Legal Counsel

Everett Ross – Deputy Director, Ohio Shared Services

Andy Shifflette – Legislative Liaison

Fiscal Year 2014 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. The section is also 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* [see Additional Resources, below].

During Fiscal Year 2014, the Budget Development and Implementation Section devoted much of its energies to development of the state's \$2.4 billion biennial Capital Improvements Budget for Fiscal Years 2015 and 2016, introduced by Governor Kasich to the General Assembly in March 2014 as HB 497.

For OBM, this process began in the fall of 2013, when the office issued capital budget planning guidance to state agencies, asking them to identify their most pressing priorities for infrastructure maintenance, repair and improvement. Importantly, this planning utilized a widely applauded process Governor Kasich had introduced for preparation of his first capital budget, calling upon the state's 37 public college and university presidents to collaborate on a single list of projects of most importance to the state. Similarly, the Governor asked local leaders to work with the economic development community, arts community and others to provide advice about local needs. The result was a collaborative process that identified important projects, while balancing the state's need for fiscal restraint. HB 497, which included capital reappropriations, was passed by legislators for the Governor's signature on April 1, 2014.

Also in Fiscal Year 2014, the Budget Development and Implementation Section provided leadership to state agencies in conducting a comprehensive Mid-biennium Budget Review (MBR). A Kasich Administration innovation first implemented in 2012, the MBR is a top-to-bottom analysis of state agency budgets, operations and programs. A process designed to make significant changes to streamline government operations, reduce costs, and revitalize Ohio's ability to keep and attract jobs resulted in 14 separate pieces of legislation.

Throughout the fiscal year, the section was also engaged in implementing the first year of the state's Fiscal Year 2014 and 2015 biennial operating budget (HB 59), signed by Governor Kasich on June 30, 2013. The fiscal year closed on June 30, 2014 with a surplus supporting a \$300 million deposit in the Medicaid Reserve Fund as well as accelerated income tax reductions, increased tax credits for low- and middle-income Ohioans, and a one-year increase in small-business tax credits.

Other implementation tasks undertaken by the section during this period included cash-flow management for state agencies, the development of agency allotment guidance, and the development and implementation of disbursement estimates needed to track and control agency spending levels.

Additional Resources

Governor's Executive Budget FY 2014-2015 and Related Documentation:

<http://obm.ohio.gov/Budget/operating/fy14-15.aspx>

FY 2014-2015 Biennial Budget as Enacted (Am. Sub. HB 59):

http://obm.ohio.gov/Budget/operating/fy14-15_enacted.aspx

FY 2014 Mid-Biennium Budget Review and Related Documentation:

<http://obm.ohio.gov/Budget/mid-biennium/2014.aspx>

FY 2015-2016 Capital Budget and Related Documentation:

<http://obm.ohio.gov/Budget/capital/fy15-16.aspx>

OBM Monthly Financial Reports:

<http://obm.ohio.gov/mfr>

Budget Stabilization Fund:

<http://obm.ohio.gov/bsf>

Controlling Board

The Controlling Board, administered as a section within 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 2014, the Controlling Board held 22 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 Purposes 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 2014, the Controlling Board allocated a total of \$721,560.08 from this fund.

Additional Resources

Controlling Board Overview:

<http://obm.ohio.gov/ControllingBoard/>

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 the issuance of new state debt, managing existing state debt, and ensuring that financial resources have been set aside to meet the State of Ohio'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 2005 through 2014), OBM has overseen the issuance of \$17.3 billion in debt backed by state revenues. Averaging \$1.7 billion annually, these bond issuances include all of the state's major capital programs (e.g., highways, prisons, elementary and higher education school facilities, local public works infrastructure, etc.), economic development programs (e.g., Third Frontier and site development) and efforts to lower the state's cost of borrowing through debt refinancing.

In Fiscal Year 2014, the OBM Debt Management Section presented a tax-exempt bond compliance program to capital finance managers across state agencies and departments, and an overview of the state's debt programs to two cohorts of the Ohio Fiscal Academy. In its role as staff for the Ohio Public Facilities Commission (OPFC), the section continued to take advantage of the historically low interest rates to refund more than \$400 million in outstanding higher-interest state debt. The reduction in future interest rate payments as a result of those refundings totaled \$52 million, or about 12% of the refunding par.

Additional Resources

Debt and Investor Relations Portal:

<http://obm.ohio.gov/BondsInvestors/>

Buy Ohio Bonds:

<http://obm.ohio.gov/BondsInvestors/ohiobonds/default.aspx>

Buckeye Tobacco Financing Authority:

<http://obm.ohio.gov/BondsInvestors/tobacco.aspx>

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, the Director of the Office of Budget and Management or designee is appointed to a local Financial Planning and Supervision Commission, serving either as the chair of local government commissions or as a voting member on school district commissions.

In the course of Fiscal Year 2014, OBM's Financial Planning and Supervision Section was assigned to chair 24 local government commissions and participated in eight school district commissions. During this period, five local governments moved out of fiscal emergency.

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 2014 include:

- The Fiscal Year 2013 CAFR resulted in an unqualified opinion (commonly known as a "clean audit"), which was issued on December 20, 2013. This was the first State of Ohio CAFR to be released within six months of yearend since 2004.
- Submissions for the Fiscal Year 2013 Single Audit, completed on target, for issuance on March 4, 2014 (almost four weeks before the federal deadline).
- The number of audit findings in the Fiscal Year 2013 State Single Audit was 33, compared to the prior year total of 37.
- The amount of federal questioned costs in the Fiscal Year 2013 State Single Audit was \$859,326, compared to \$3,555,020 in the prior year.

Additional Resources

State of Ohio Comprehensive Annual Financial Report (CAFR), FY 2013:

<http://obm.ohio.gov/StateAccounting/financialreporting/cafr.aspx>

Schedule of Expenditures of Federal Awards, FY 2013:

<http://obm.ohio.gov/StateAccounting/financialreporting/sefa.aspx>

State of Ohio Single Audit Report, FY 2013:

<https://ohioauditor.gov/auditsearch/detail.aspx?ReportID=106598>

Internal Audit

ORC 126.45 created the Office of Internal Audit (OIA) within the Office of Budget and Management to conduct periodic audits of major systems and controls at state cabinet agencies. In Fiscal Year 2014, OIA expanded its oversight from 22 to 26 agencies. Also in 2014, internal audit services were offered to agencies outside of OIA's oversight upon request by the agency. The Ohio Casino Control Commission elected to have OIA perform internal audit services during 2014 and will continue this relationship in 2015. In addition, OIA 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 OIA. 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.

In accordance with the Institute of Internal Auditors' *Standards*, OIA is required to have an external party conduct a peer review of its internal audit activities. OIA continues to maintain the highest standards contained within the IIA *Standards*.

During Fiscal Year 2014, the Office of Internal Audit completed 22 public reports, which resulted in 19 high- or moderate-risk observations. Of these observations, six were remediated by the client and validated by OIA. Ten of the remaining observations are not scheduled for remediation until Fiscal Year 2015 and three were delayed by the client. All remaining Fiscal Year 2013 observations except two have been remediated by the client and validated by the Office of Internal Audit. OIA assisted the Department of Job and Family Services in the successful remediation of the only material weakness reported in the Auditor of State's State of Ohio Fiscal Year 2012 report; the comment was first reported as a material weakness in Fiscal Year 2000.

OIA also completed 26 assurance and consulting engagements that met the definition of a "Security Record" pursuant to Ohio Revised Code sections 149.433 or 5703.21(B)(2), which are exempt from public disclosure. Results of these engagements are provided to agency management with a summary update to the State Audit Committee in executive session. In addition, four of OIA's IT audits were relied upon by the Auditor of State's office in reducing their external audit testing.

Assurance audits performed by the Office of Internal Audit in Fiscal Year 2014 provided an independent assessment on governance, risk management and control processes for state agencies. OIA's goal was to complete at least 80% of engagements originally documented in the 2014 Annual Plan. OIA completed 72 of 82 engagements (or 88%) included in the updated Fiscal Year 2014 annual audit plan. The 10 engagements not completed resulted from two of the audits actively being worked on but delayed completion into Fiscal Year 2015; six consulting engagements whereby the client shifted their priorities; and two projects that were delayed as a result of client requests and will be performed in a subsequent year.

In Fiscal Year 2014, the majority of OIA consulting services related to transition of fiscal processes, vendor contracting and monitoring, loan processing and monitoring, new or merging

programs, and providing advice on new policies, security risk assessments, and design and system development, taking into account the State's IT Optimization initiative. Consulting services consisted of nearly 33% of overall OIA audit effort in Fiscal Year 2014. This amount is expected to decrease to approximately 25% in Fiscal Year 2015.

Additional Resources

Office of Internal Audit Annual Plans and Reports and Additional Resources:
<http://obm.ohio.gov/InternalAudit/>

Internal Audit Reports, FY 2014 and Earlier:
<http://obm.ohio.gov/InternalAudit/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 2014, the OSS Center:

- Processed 160,960 Accounts Payable transactions and 82,770 Travel and Expense reports. Accounts Payable transactions represent a 17.26% increase over Fiscal Year 2013.
- Received 36,236 calls to the OSS Contact Center, achieving a 72.4% First Call Resolution rate.
- Processed 20,467 Vendor Maintenance requests.
- Transitioned Accounts Payable processing for an additional six Partner Agencies.
- Partner Agencies increased utilization rates of OSS Accounts Payable processing from 70.4% in Fiscal Year 2013 to 74.9% in Fiscal Year 2014 – an increase of 4.5%. Trending for utilization increased throughout the fiscal year to reach a new high of 85% in May 2014.

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 OBM 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 on a monthly basis and oversees state spending to ensure appropriations are not exceeded.

During Fiscal Year 2014, major accomplishments within State Accounting include:

- Development of an online State Accounting policy manual known as SAFE (State Accounting Fiscal Essentials). The initial policies will be effective July 1, 2014.

- Revised the state's expenditure account codes, which have not been updated in more than 30 years. The number account codes will be reduced from 1,052 to 350, effective July 1, 2014.
- Improved the ownership and monitoring of the state payment card (P-card) program. Agency agreements have been executed and monthly monitoring reports for P-card spend are sent to agency CFOs.
- Revised the State Accounting website to provide current information on State Accounting operations.

Additional Resources

State Accounting Information and Records:

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

Support Services

Additional sections and work teams 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

Value Management

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Annual Expenditures

Fiscal Year 2014

Office of Budget and Management
July 1, 2013 – June 30, 2014

BY APPROPRIATION LINE ITEM

Fund	ALI	Appropriation Line Item	Expenditures
GRF	042321	Budget Development & Implementation	\$ 2,335,313
GRF	042409	Commission Closure	\$ 157,277
GRF	042416	Office of Health Transformation	\$ 293,347
GRF	042425	Shared Services Development	\$ 1,240,756
Total GRF			\$ 4,026,693
1050	042603	Financial Management	\$ 12,488,148
1050	042620	Shared Services Operating	\$ 7,206,385
5EH0	042604	Forgery Recovery	\$ 15,100
3CM0	042606	Office of Health Transformation - Federal	\$ 240,527
7026	C10031	Operations Facilities Improvements	\$ 2,600
Total Non-GRF			\$ 19,952,760
Total All Funds			\$ 23,979,453

BY ACCOUNT CATEGORY

Fund	Account Description	Expenditures
500	Payroll & Benefits	\$ 20,075,723
510	Purchased Personal Services	\$ 1,108,713
520	Maintenance & Supplies	\$ 2,697,822
530	Equipment	\$ 79,495
570	Capital Improvements	\$ 2,600
596	Payment of Forged Warrants	\$ 15,100
Total		\$ 23,979,453



THE STATE OF OHIO
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