OHIO OFFICE OF

BUIDGET AND MANAGEMENT

ANNUAL REPORT

FISCAL YEAR 2015 July 1, 2014 - June 30, 2015

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, 2015



Timothy S. Keen Director

The Office of Budget and Management is pleased to present this annual report of our activities and accomplishments during the state fiscal year ending June 30, 2015.

For our office, this year was dominated by work on the state's biennial Operating Budget, passed by the General Assembly in bills totaling \$68.2 billion across all funds for FY 2016 and \$69.8 billion for FY 2017, which included \$34.9 billion in General Revenue Funds for FY 2016 and \$36.3 billion for FY 2017.

Development of that budget began for OBM's team early in 2014 and culminated when Governor John Kasich signed House Bill 64 on June 30, 2015. At a time when many other states have struggled with fiscal challenges, Ohio's new budget further reduces taxes while committing additional resources to priority areas like primary and secondary education, higher education and programs that help Ohioans move up and out of poverty.

Also during this period, OBM managed the second year of the state's biennial Operating Budget for Fiscal Years 2014 and 2015. FY 2015 was the fifth fiscal year to end on the Kasich Administration's watch and the fifth consecutive fiscal year to close with a budget surplus. This closing balance supported a \$526.1 million deposit in the Budget Stabilization Fund, bringing the state's rainy day reserves to a record-setting balance of more than \$2 billion.

In addition to the budgetary responsibilities for which OBM is best known to the public, our office fills a number of other important fiscal management and oversight roles for state government, each with significant accomplishments in over the past year, as outlined in this report.

For example, FY 2015 marked a third successful year for our Ohio Fiscal Academy, which certified an additional 17 fiscal officers representing 15 state agencies and continued to promote the consistent application of fiscal theory and practice across state government. With its purview extended by state law in 2014, OBM's Office of Internal Audit for the first time provided audit and consulting services to three non-Cabinet agencies: the Casino Control Commission, Ohio Elections Commission and Department of Education. Also in Fiscal Year 2015, OBM's State Accounting Section developed guidelines to implement a risk-based voucher review process, increasing OBM's ability to monitor operating expenditures while significantly reducing resources required for such reviews.

Other notable accomplishments in Fiscal Year 2015 are described here, 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*.

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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.

Strategric 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, 2015

Timothy S. Keen – Director

Christopher A. Whistler – Assistant Director

Jim Kennedy – Senior Deputy Director, Services and Operations

Bridget Brubeck – Deputy Director, State Accounting Fred Church – Deputy Director, Budget Rae Ann Estep – Deputy Director, Operations Kurt Kauffman – Deputy Director, Debt Management Cynthia Klatt – Acting Deputy Director, Internal Audit Dave Pagnard – Deputy Director, Communications Robin McGuire Rose – Chief Legal Counsel and President, Controlling Board Everett Ross – Deputy Director, Ohio Shared Services Andy Shifflette – Legislative Liaison

Fiscal Year 2015 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].

Throughout Fiscal Year 2015, the Budget Development and Implementation Section devoted much of its energies to development of the state's biennial Operating Budget for Fiscal Years 2016 and 2017, introduced by Governor Kasich as his Executive Budget proposal on February 2, 2015. The section's budget-development efforts began much earlier, however, beginning with months of initial preparation prior to release of budget guidance to state agencies, boards and commissions in June 2014. Based on that guidance, agency budget requests were received in the autumn of 2014 and further developed, in line with the Governor's policy initiatives, to result in the Executive Budget proposal. Introduced in the General Assembly as House Bill 64, the main operating budget bill was amended and passed by legislators for the Governor's signature on June 30, 2015. Two associated budgets, for transportation and workers' compensation, were also produced by the Budget Development and Implementation Section during this time and introduced in the General Assembly as separate bills.

Over the past fiscal year, the Budget Development and Implementation Section was also engaged in implementing the second year of the state's Fiscal Year 2014 and 2015 biennial Operating Budget (HB 59), signed by Governor Kasich on June 30, 2013. The section also continued to lead state agencies in the implementation of measures enacted as part of the 2014 Mid-Biennium Budget Review (MBR). A Kasich Administration innovation, the MBR is a comprehensive, OBM-led analysis of state agency budgets, operations and programs designed to streamline government operations, reduce costs, and revitalize Ohio's ability to keep and attract jobs.

Fiscal Year 2015 closed on June 30, 2015, ending with a surplus that supported a significant deposit in the Budget Stabilization Fund, Ohio's rainy day savings account. This account reached a record-high balance of \$2.005 billion, the highest reserve level in state history, following a \$526.6 million deposit authorized by Office of Budget and Management Director Timothy S. Keen on July 9, 2015. The state's rainy day account was down to just 89 cents at the beginning of Governor John Kasich's administration in 2011.

Other implementation tasks undertaken by the Budget Development and Implementation 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 2016-2017 and Related Documentation: <u>http://obm.ohio.gov/Budget/operating/fy16-17_executive.aspx</u>

FY 2016-2017 Biennial Budget as Enacted (Am. Sub. HB 64): http://obm.ohio.gov/Budget/operating/fy16-17_enacted.aspx

FY 2015 Mid-Biennium Budget Review and Related Documentation: <u>http://obm.ohio.gov/Budget/mid-biennium/2015.aspx</u>

FY 2015-2016 Capital Budget and Related Documentation: <u>http://obm.ohio.gov/Budget/capital/fy15-16.aspx</u>

FY 2014-2015 Biennial Budget as Enacted (Am. Sub. HB 59): http://obm.ohio.gov/Budget/operating/fy14-15_enacted.aspx

OBM Monthly Financial Reports: <u>http://obm.ohio.gov/mfr</u>

Budget Stabilization Fund: <u>http://obm.ohio.gov/bsf</u>

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 2015, the Controlling Board held 21 meetings and considered a total of 1,636 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 2015, the Controlling Board allocated a total of \$3,572,536.01 from this fund.

Additional Resources

e-Controlling Board Website – Meeting Minutes and Agendas: <u>https://ecb.ohio.gov/Public/Default.aspx</u>

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, debt and pension positions. 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 2006 through 2015), OBM has overseen the issuance of \$11.3 billion in debt backed by state revenue to fund capital projects across the state. Averaging \$1.1 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.) and its economic development programs (e.g., Third Frontier R&D and site development).

In Fiscal Year 2015, the OBM Debt Management Section presented a tax-exempt bond compliance program to capital finance managers at higher education institutions, trained the most recent cohort of the Ohio Fiscal Academy on matters relating to state debt issuance and management, and worked with the Treasurer of State (TOS) to complete a comprehensive update of the state's Debt and Interest Rate Risk Management Policy. OBM Debt Management, as staff for the Ohio Public Facilities Commission and working with the Treasurer of State, continued to take advantage of historically low interest rates to refund \$346 million in outstanding higher-interest state debt. The reduction in future debt service payments achieved by those refundings totaled \$54.8 million, or about 16% of the refunded 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 2015, OBM's Financial Planning and Supervision Section was assigned to chair 20 local government commissions and participated in five school district commissions. During this period, three 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 2015 include:

- The Fiscal Year 2014 CAFR resulted in an unqualified opinion (commonly known as a "clean audit"), which was issued on December 22, 2014. This continued the success of releasing audited financial statements within six months of the fiscal year's end, which is the ideal time period for the release.
- Submissions for the Fiscal Year 2014 Single Audit, completed on target, for issuance on February 26, 2015 (almost five weeks before the federal deadline).
- The amount of federal questioned costs in the Fiscal Year 2014 State Single Audit was \$35,599, compared to \$859,326 in the prior year.

Additional Resources

State of Ohio Comprehensive Annual Financial Report (CAFR), FY 2014: <u>http://obm.ohio.gov/StateAccounting/financialreporting/cafr.aspx</u>

Schedule of Expenditures of Federal Awards, FY 2014: http://obm.ohio.gov/StateAccounting/financialreporting/sefa.aspx

State of Ohio Single Audit Report, FY 2014: <u>https://ohioauditor.gov/auditsearch/detail.aspx?ReportID=113215</u>

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. Starting in 2014, internal audit services were offered to agencies outside of OIA's oversight upon request by the agency. The Ohio Casino Control Commission and the Ohio Elections Commission elected to have OIA perform internal audit services during 2015; the Ohio Department of Education also elected to have OIA internal audit services during 2015 and will continue this relationship in 2016. In addition, OIA coordinates its reviews, process analyses and information technology (IT) audits with the 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 committee exists to assist the Governor and the Director of OBM in fulfilling their oversight responsibilities in the areas of financial reporting, internal controls and risk assessment, audit processes and compliance with laws, rules and regulations

During Fiscal Year 2015, the Office of Internal Audit completed 30 public reports, which resulted in 36 high- or moderate-risk observations. Of these observations, three were remediated by the client and validated by OIA. Twenty-six of the remaining observations are not scheduled for remediation until Fiscal Year 2016 and seven were delayed by the client. All remaining Fiscal Year 2013 and 2014 observations except four have been remediated by the client and validated by the Office of Internal Audit.

OIA also completed 51 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, one of OIA's IT audits was completed on behalf of the Auditor of State's office, and another two IT audits were relied upon by the Auditor of State's office in reducing their audit testing.

Assurance audits performed by the Office of Internal Audit in Fiscal Year 2015 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 2015 Annual Plan. OIA completed 94 of 100 engagements (or 94%) included in the updated Fiscal Year 2015 annual audit plan. The six engagements not completed resulted from audits actively being worked on but completion will be delayed into Fiscal Year 2016.5

In Fiscal Year 2015, the majority of OIA consulting services related to transition of reviewing processes for efficiencies, vendor contracting and monitoring, new or merging programs/processes, 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 27% of overall OIA audit effort in Fiscal Year 2015.

Additional Resources

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

Internal Audit Reports, FY 2015 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 2015, the OSS Center:

- Processed 184,999 Accounts Payable transactions and 82,088 Travel and Expense reports. Accounts Payable transactions represent a 14.9% increase over Fiscal Year 2014.
- Received 37,163 calls to the OSS Contact Center, achieving a 72.3% Service Level (the percentage of calls answered within 30 seconds), an increase of 15.5% over last year's 56.8% Service Level rate.
- Processed 20,201 Vendor Maintenance requests.
- Partner agencies increased utilization rates of OSS Accounts Payable processing from 74.9% is Fiscal Year 2014, to 91.5% in Fiscal Year 2014. This was an increase of 16.6%.

Additional Resources

Ohio Shared Services website, with a wide range of additional information: <u>http://ohiosharedservices.ohio.gov</u>

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 2015, major accomplishments within State Accounting include:

- Established business leads for OBM-owned OAKS modules, used to manage an upgrade to the accounting system that will roll out later in calendar year 2015.
- Established guidelines for implementing a risk-based voucher review process. The riskbased approach will enable OBM to increase monitoring of operating expenditures, while decreasing the resources required to perform the review. As a result, the State Accounting Section anticipates the amount of spend monitored to increase by an estimated 110% or approximately \$1 billion.
- Identified payment card spend by supplier as it relates to the Controlling Board threshold. OBM used the information to assist agencies with preparing successful Controlling Board requests, which will increase the payment card rebate for the state.

Additional Resources

State Accounting Information and Records: <u>http://obm.ohio.gov/StateAccounting/</u>

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 2015

Office of Budget and Management July 1, 2014 – June 30, 2015

BY APPROPRIATION LINE ITEM

Fund	ALI	Appropriation Line Item		Expenditures
GRF GRF GRF GRF	042321 042409 042416 042425	Budget Development & Implementation Commission Closure Office of Health Transformation Shared Services Development	\$ \$ \$ \$	2,075,245. 4,632. 327,195. 1,064,925.
Total GRF			\$	3,471,997.
1050 1050 5EH0 3CM0 7026 Total Non-0	042603 042620 042604 042606 C10031 GRF	Financial Management Shared Services Operating Forgery Recovery Office of Health Transformation - Federal Operations Facilities Improvements	\$ \$ \$ \$ \$	12,810,900. 7,337,740. 26,831. 269,744. 20,445,215.
Total All Funds			\$	23,917,212.
BY ACCOUNT CATEGORY				
Fund		Account Description		Expenditures
500)	Payroll & Benefits	\$	19,317,868.
510)	Purchased Personal Services	\$	977,436.
520)	Maintenance & Supplies	\$	3,431,447.
530)	Equipment	\$	163,630.
570)	Capital Improvements	\$	
596)	Payment of Forged Warrants	\$	26,831.
Total			\$	23,917,212.

12



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