

State of Ohio  
Office of  
Budget and Management

Annual Report

Fiscal Year 2016

July 1, 2015 – June 30, 2016

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, 2016*

## Timothy S. Keen Director



On behalf of the talented staff members who work at 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, 2016.

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 2016 and 2017. This was the sixth consecutive fiscal year to end with a significant surplus, one that supported a \$29.5 million deposit to Budget Stabilization Fund bringing the balance to a record-high \$2.034 billion.
- Development and passage of the \$2.6 billion capital improvements budget for Fiscal Years 2017 and 2018, making fiscally responsible allocations to maintain and improve the state's educational and public-service infrastructure.
- Leadership of Ohio's third Mid-biennium Budget Review (MBR), a comprehensive process that produces a wide range of funding changes and policy improvements. The 2016 MBR process resulted in legislation to provide protections to Ohioans from lead in drinking water, to make the Department of Natural Resources more efficient and improve customer service by merging divisions, to provide Ohioans with developmental disabilities more opportunity to live and work in their communities and eliminate a tax penalty and a significant rate increase for Ohio employers by repaying a federal unemployment compensation loan early.

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.

Significant in Fiscal Year 2016 was the launch of Ohio's Interactive Budget website (<http://interactivebudget.ohio.gov/>). This website is a first of its kind, comprehensive open checkbook that enables visitors to see how state money is spent, but also how revenue is generated and allocated via the state budget. Ohio's Interactive Budget website - an extension of the state accounting system - provides the public with access to the financial and transactional data maintained in the state's accounting system.

Another significant accomplishment is the graduation of cohort 5 from the Ohio Fiscal Academy, which has certified 116 participants representing more than 50 state agencies during its four year existence and continues to promote the consistent application of fiscal theory and practice across state government. Also in Fiscal Year 2016, OBM was recognized as a top-scoring Cabinet agency for Minority Business Enterprise (MBE) set-aside performance.

Other notable accomplishments in Fiscal Year 2016 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](http://www.obm.ohio.gov).

A handwritten signature in blue ink that reads "Timothy S. Keen". The signature is fluid and cursive.

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, 2016*

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 – Deputy Director, Internal Audit

John Charlton – Deputy Director, Communications

Robin McGuire Rose – Chief Legal Counsel

Christine Morrison – President, Controlling Board

Sherri Lowe – Deputy Director, Ohio Shared Services

Andy Shifflette – Legislative Liaison

# Fiscal Year 2016 Highlights

## Budget Development and Implementation

Under Ohio Revised Code 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*.

During Fiscal Year 2016 the Budget Development and Implementation Section devoted its energies to development of the state's \$2.184 billion biennial Capital Improvements Budget for Fiscal Years 2017 and 2018, introduced by Governor Kasich to the General Assembly in April as SB 310.

For OBM, this process began in the fall of 2015, 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.

In addition, legislators and community development advocates were instrumental in identifying projects that helped address local needs. The result was a collaborative process that identified important projects, while balancing the state's need for fiscal restraint. SB 310 was passed by the General Assembly and signed by the Governor on May 17, 2016.

Prior to the Capital Improvements Budget, OBM put together the Capital Reappropriations Bill which reauthorizes unexpended balances of capital projects previously approved by the General Assembly. This bill is necessary due to the constitutional provision prohibiting appropriations from being made for a period of more than two years and the fact that some capital projects take more than two years to complete. SB 260 includes an estimated \$1.48 billion in reappropriations and was signed by Governor Kasich on February 21, 2016.

Also in Fiscal Year 2016, 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 seven separate pieces of legislation.

Throughout the fiscal year, the section was also engaged in implementing the first year of the state's Fiscal Year 2016 and 2017 biennial operating budget (HB 64). The fiscal year closed on June 30, 2016 with a surplus supporting a \$29.5 million transfer to the Budget Stabilization Fund. During FY16, HB 64 continued the 75 percent tax cut for small businesses earning under \$250,000 in business income and, in FY 2017, eliminates these tax credits altogether. It also cuts the personal income tax rate for all Ohio taxpayers by 6.3 percent in calendar year 2015 for which returns were due in April of 2016.

Other implementation tasks undertaken by the section 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:

<http://obm.ohio.gov/Budget/operating/fy16-17.aspx>

FY 2016-2017 Biennial Budget as Enacted (Am. Sub. HB 64):

[http://obm.ohio.gov/Budget/operating/doc/fy-16-17/enacted/hb64\\_08\\_EN.pdf](http://obm.ohio.gov/Budget/operating/doc/fy-16-17/enacted/hb64_08_EN.pdf)

FY 2016 Mid-Biennium Budget Review and Related Documentation:

<http://obm.ohio.gov/Budget/mid-biennium/2017.aspx>

FY 2017-2018 Capital Budget and Related Documentation:

<http://obm.ohio.gov/Budget/capital/fy17-18.aspx>

OBM Monthly Financial Reports:

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

Budget Stabilization Fund:

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

Ohio's Interactive Budget:

<http://interactivebudget.ohio.gov/>

## Controlling Board

The Controlling Board, administered as a section within OBM, provides the Governor and General Assembly a mechanism for handling limited day-to-day adjustments needed in the state budget. Established by Ohio Revised Code 127.12, the Controlling Board consists of seven members: the Director of the Office of Budget and Management or designee, the chairs or vice-chairs of the Senate and House Finance Committees, a majority member appointed from both the Senate and House, and a minority member appointed from both the Senate and 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 2016, the Controlling Board conducted 23 meetings and considered 1,828 requests. Minutes and agendas for meetings can be accessed on the e-Controlling Board website

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 2016, the Controlling Board allocated a total of \$10,038,331.26 from this fund.

## Additional Resources

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 amortization schedule. For general obligation bonds issued by the Ohio Public Facilities Commission (OPFC), OBM as staff for the OPFC leads the financing team through the bond issuance process.

The section develops and distributes a monthly coordinated bond sale schedule for state bond issuers. It also regularly coordinates and presents key information to credit rating agencies on the state's economic, budget/financial, debt and pension positions. OBM's Debt Management Section is also responsible for providing up-to-date information to investors, including compliance with applicable SEC disclosure regulations.

In the past ten years (Fiscal Years 2007 through 2016), OBM has overseen the issuance of \$10.9 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 research and development and site development).

In Fiscal Year 2016, the OBM Debt Management Section trained the State's fiscal officers and capital project managers on post bond issuance compliance and provided general training on matters relating to debt issuance and management to the most recent cohort of the Ohio Fiscal Academy. OBM Debt Management, working with the Treasurer of State, continued to take advantage of historically low interest rates to refund \$524 million in outstanding higher-interest state debt. The reduction in future debt service payments totaled \$53.4 million, or about 10.2 percent of the refunded par.

In 2007, the Ohio legislature created the Buckeye Tobacco Settlement Financing Authority (BTSFA) – an independent legal entity staffed by OBM employees – and provided for the securitization of the state's interest in those future payments. Essentially, the BTSFA purchased the tobacco settlement revenue from Ohio and issued bonds secured by and payable from the purchased tobacco settlement revenues. The proceeds of the tobacco bonds were used in place of the State's traditional general obligation bonds to fund both K-12 and higher education school facilities across the State.

## 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 2016, OBM's Financial Planning and Supervision Section was assigned to chair 18 local government commissions and participated in six school district commissions. During this period, one local government and one school district moved out of fiscal emergency. The section also began working the OBM's communications office to develop a Financial Planning web page.

## 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, accounts receivable, travel and expense reimbursements, supplier operations and contact center assistance.

Among highlights of its performance in Fiscal Year 2016, the division of OSS:

- Processed 160,432 Accounts Payable transactions and 69,531 Travel and Expense reports.
- Received 35,653 calls to the OSS Contact Center, achieving an 86.14 percent Service Level (the percentage of calls answered within 30 seconds), an increase of 13.86 percentage points above last year's 72.30 percent Service Level rate.
- Processed 19,221 Supplier Operations requests.
- Processed 1,514 Accounts Receivable deposits consisting of 16,371 checks worth a total of \$271,095,317.18.
- Partner agencies increased utilization rates of OSS Accounts Payable processing from 91.5 percent in Fiscal Year 2015, to 94.4 percent in Fiscal Year 2016. This was an increase of 2.9 percent.

## Additional Resources

Ohio Shared Services website, with a wide range of additional information:

<http://ohiosharedservices.ohio.gov>

# Internal Audit

Ohio Revised Code (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 Department of Education has elected to have OIA internal audit services during 2015 and 2016 and will continue this relationship in 2017. In addition, OIA coordinates its reviews, process analyses and information technology (IT) audits with the Auditor of State 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 2016, the Office of Internal Audit completed 25 public reports, which resulted in 45 high or moderate risk observations. Of these, eight were remediated by the client and validated by OIA. Thirty of the remaining observations are not scheduled for remediation until Fiscal Year 2017 or 2018, and seven were delayed by the client. There are currently an additional 16 observations outstanding from public reports issued in fiscal years 2013 and 2015.

OIA also completed 20 assurance and consulting engagements that met the definition of a "Security Record" pursuant to ORC 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 overall risk.

Assurance audits performed by the OIA in Fiscal Year 2016 provided an independent assessment on governance, risk management and control processes for state agencies. OIA's goal was to complete at least 95 percent of engagements originally documented in the Fiscal Year 2016 annual plan. OIA completed 78 of 88 engagements (or 89 percent) included in the updated Fiscal Year 2016 annual audit plan. The ten engagements not completed resulted from six audits actively being worked on but completion will be delayed into Fiscal Year 2017; there were also four engagements that were completed but not presented to the State Audit Committee. If these four engagements could have been presented, OIA's completion percentage would have been 92 percent.

In Fiscal Year 2016, the majority of OIA consulting services related to vendor management, new or merging programs/processes, IT system upgrades, data analytics, and providing advice on how new legal requirements would affect processes. Consulting services consisted of nearly 38 percent of overall OIA audit effort in Fiscal Year 2016.

## Additional Resources

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

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

Internal Audit Reports, FY 2016 and Earlier:

<http://obm.ohio.gov/InternalAudit/auditreports.aspx>

# 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 2016, major accomplishments within State Accounting include:

- Upgraded the accounting system which included automating the intergovernmental vouchering process, expanding the use of the Travel and Expense module, and reducing customizations.
- Established a Grants Management section to facilitate state-wide grant coordination in preparation for implementing a grants system.
- Established the Financial Management Workgroup made up of members of the fiscal community in the State of Ohio. Led by OBM, it gives financial managers from state agencies an opportunity to stay up-to-date on fiscal business issues and their resolutions. The group's initial focus is on strategic business issues under the OBM purview.

## Additional Resources

State Accounting Information and Records:

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

# 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 2016 include:

- The Fiscal Year 2015 CAFR resulted in an unqualified opinion (commonly known as a "clean audit"), which was issued on December 22, 2015. This continued the success of releasing audited financial statements within six months of the fiscal year's end, which is common practice for state governments.
- Submissions for the Fiscal Year 2015 Single Audit, completed on target, for issuance on March 1, 2016 (a month before the federal deadline).
- The 2015 Single Audit contained 31 audit comments which was the lowest number in the past 10 years.

## Additional Resources

State of Ohio Comprehensive Annual Financial Report (CAFR), FY 2015:  
<http://obm.ohio.gov/StateAccounting/financialreporting/cafr.aspx>

Schedule of Expenditures of Federal Awards, FY 2015:  
<http://obm.ohio.gov/StateAccounting/financialreporting/sefa.aspx>

State of Ohio Single Audit Report, FY 2015:  
<https://ohioauditor.gov/auditsearch/detail.aspx?ReportID=113215>

## 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 2016

Office of Budget and Management  
July 1, 2015 – June 30, 2016

### BY APPROPRIATION LINE ITEM

Fund	ALI	Appropriation Line Item	Expenditures
GRF	042321	Budget Development & Implementation	\$ 2,550,274.
GRF	042409	Commission Closure	\$ ---
GRF	042416	Office of Health Transformation	\$ 211,006.
GRF	042425	Shared Services Development	\$ 1,012,189.
Total GRF			<hr/> \$ 3,773,469.
1050	042603	Financial Management	\$ 12,575,120.
1050	042620	Shared Services Operating	\$ 6,585,449.
5EH0	042604	Forgery Recovery	\$ 8,870.
3CM0	042606	Office of Health Transformation - Federal	\$ 210,991.
7026	C10031	Operations Facilities Improvements	\$ ---
Total Non-GRF			<hr/> \$ 19,380,430.
Total All Funds			<hr/> \$ 23,153,899.

### BY ACCOUNT CATEGORY

Fund	Account Description	Expenditures
500	Payroll & Benefits	\$ 18,741,276.
510	Purchased Personal Services	\$ 1,266,977.
520	Maintenance & Supplies	\$ 3,105,503.
530	Equipment	\$ 31,273.
570	Capital Improvements	\$ ---
596	Payment of Forged Warrants	\$ 8,870.
Total		<hr/> \$ 23,153,899.



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