

State of Ohio



Office of Budget
and Management



Fiscal Year
2017

July 1, 2016 -
June 30, 2017



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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, 2017.

For our office, this year was dominated by work on the state's biennial Operating Budget, passed by the General Assembly in bills that appropriated \$70.0 billion across all funds for FY 2018 (a 4.3 percent increase over FY 2017 spending) and \$71.3 billion for FY 2019 (a 1.8 percent increase over FY 2018), which included \$32.2 billion in General Revenue Funds (GRF) for FY 2018 and \$33.3 billion for FY 2019.

Development of the FY 2018 - 2019 budget began for OBM's team early in 2016 and culminated when Governor John Kasich signed House Bill 49 on June 30, 2017.

At a time when many states – including Ohio – have struggled with fiscal challenges, Ohio's new budget commits resources to priority areas like primary and secondary education, higher education and the opioid abuse crises as well as 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 2016 and 2017. Despite tax revenues falling well below estimated levels, we managed our way through a difficult fiscal year by spending significantly below appropriated levels and utilizing a large available GRF balance that was a result of our conservative budgeting practices.

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.

Our office of Shared Services (OSS) continues to demonstrate how the state can be more efficient as they provide cost-saving opportunities to state agencies. During the transition between fiscal years, following the annual year-end close of the system, OSS eliminated the usual backlog and returned all lines to Service Level Agreement (SLA) standards in less than three days, a task that in past years has taken at least two months to complete and hindered the efficient operation of many state agencies.

We continued to make improvements to Ohio's Interactive Budget website (<http://interactivebudget.ohio.gov/>) that was launched in 2016. This website is a first of its kind, comprehensive open checkbook that enables visitors to see how state money is spent, and 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 the sixth cohort from the Ohio Fiscal Academy, which has certified 139 participants representing more than 50 state agencies during its five-year existence and continues to promote the consistent application of fiscal theory and practice across state government. Also in FY 2017, OBM set aside and disbursed 65 percent of eligible expenditures to Minority Business Enterprises (MBE).

Other notable accomplishments in Fiscal Year 2017 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

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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, 2017

Timothy S. Keen OBM Director

Kurt Kauffman Acting Assistant Director

Fred Church. Deputy Director, Budget

Kurt Kauffman Deputy Director, Debt Management

Jim Kennedy Senior Deputy Director, Services and Operations

Rae Ann Estep. Deputy Director, Operations

Cynthia Klatt State Chief Audit Executive

Christine Morrison Controlling Board President and Policy Advisor

Bridget Brubeck. Deputy Director, State Accounting

John Charlton Deputy Director, Communications

Joy DeMarco Chief Legal Counsel

Sherri Lowe Deputy Director, Ohio Shared Services

Andy Shifflette Legislative Liaison

Fiscal Year 2017 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 budget submissions and makes recommendations on budget levels 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 2017, the Budget Development and Implementation Section devoted much of its energies to development of the state's biennial Operating Budget for Fiscal Years 2018 and 2019, introduced by Governor Kasich as his Executive Budget proposal on January 30, 2017. The section's budget-development efforts started much earlier, however, beginning with months of initial preparation prior to release of budget guidance to state agencies, boards and commissions in July 2016. Based on that guidance, agency budget requests were received in the fall of 2016 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 49, the main operating budget bill was amended and passed by legislators for the Governor's signature on June 30, 2017. Three associated budgets, for transportation, industrial commission 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.

During the past fiscal year, the Budget Development and Implementation Section was also engaged in implementing the second year of the state's Fiscal Year 2016 and 2017 biennial Operating Budget (HB 64), signed by Governor Kasich on June 30, 2015. The section also continued to lead state agencies in the implementation of measures enacted as part of the 2016 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 2017 closed on June 30, 2017, with a balanced budget and a General Revenue Fund ending balance of \$170.9 million in unencumbered, unobligated funds equal to the targeted balance of one-half of one percent of the FY 2017 revenues as provided for in the Ohio Revised Code 131.44.

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

OBM Monthly Financial Reports:

<http://obm.ohio.gov/Budget/monthlyfinancial/default.aspx>

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 2017, the Controlling Board conducted 21 meetings and considered 2,070 requests. Minutes and agendas for meetings can be accessed on the 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 2017, the Controlling Board allocated a total of \$8,756,640.14 from this fund.

Additional Resources

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

Debt Management

OBM's Debt Management Section is responsible for issuing 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 regularly coordinates and presents key information to credit rating agencies on the state's economy, finances/budget, and long-term liabilities. OBM's Debt Management Section is also responsible for providing up-to-date information to investors, including compliance with applicable Securities and Exchange Commission (SEC) disclosure regulations.

In the past seven years (Fiscal Years 2011 through 2017), OBM has overseen the issuance of \$8.2 billion in new debt backed by state revenue to fund capital projects across the state. Averaging \$1.2 billion annually, these bond issuances include all of the state's major capital programs (e.g., highways, prisons, elementary, secondary 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). The OBM-staffed Ohio Public Facilities Commission continued to take advantage of historically low interest rates over the term of the Kasich Administration to refund \$2.3 billion in outstanding higher-interest state debt and reduce future interest payment. The reduction in future debt service payments achieved by these refinancings will total \$341.3 million, or about \$48.8 million annually.

In Fiscal Year 2017, the OBM Debt Management Section held its first web-based training for the fiscal officers and capital project managers from the State's higher education institutions on post bond issuance compliance and updated its policies and procedures related to these tasks. The section also provided general training on matters relating to debt issuance and management to the most recent cohort of the Ohio Fiscal Academy.

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

The Ohio Office of Budget and Management is responsible for convening and chairing financial planning and supervision commissions when the Auditor of State declares a unit of local government with a population of 1,000 or more to be in a state of fiscal emergency.

The Ohio Department of Education is responsible for convening and chairing financial planning and supervision commissions when the Auditor of State declares a school district to be in a state of fiscal emergency and OBM is responsible for providing one commission member.

There were 25 local governments in fiscal emergency in the course of Fiscal Year 2017. Three of them were released from fiscal emergency, and five more requested release and were awaiting completion of a termination analysis. Of the 25 local governments in fiscal emergency, six local governments have populations less than 1,000 and fall under different rules. Nineteen local governments had or will have financial planning and supervision commissions under divisions (A) through (K) of section 118.05 of the Revised Code.

In September 2011, the General Assembly amended section 118.05 of the Revised Code to create a new form of oversight for those local political jurisdictions with populations under 1,000 that meet any of the six conditions for fiscal emergency. In these cases, the powers and duties previously assumed by a commission are delegated to a financial supervisor who is employed by the Auditor of State.

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 2017 include:

- The Fiscal Year 2016 CAFR resulted in an unqualified opinion (commonly known as a "clean audit"), which was issued on December 22, 2016. 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 2016 Single Audit, completed on target, for issuance on February 28, 2017, the second earliest release date in 14 years (over a month before the federal deadline).
- The 2016 Single Audit contained 21 audit comments which was the lowest number in over 15 years.

Additional Resources

State of Ohio Comprehensive Annual Financial Report (CAFR), FY 2016:
<http://obm.ohio.gov/StateAccounting/financialreporting/cafr.aspx>

Schedule of Expenditures of Federal Awards, FY 2016:
<http://obm.ohio.gov/StateAccounting/financialreporting/sefa.aspx>

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 had elected to have OIA internal audit services during 2015-2017 and will continue this relationship in 2018. 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.

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 2017, the Office of Internal Audit completed 46 public reports, which resulted in 38 high or moderate risk observations. Of these, nine were remediated by the client and validated by OIA. Twenty-nine of the remaining observations will be scheduled for remediation in Fiscal Year 2018. There are currently an additional 23 observations outstanding from public reports issued prior to fiscal year 2017.

OIA also completed 42 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.

Assurance audits performed by the OIA in Fiscal Year 2017 provided an independent assessment of governance, risk management and control processes for state agencies. OIA's goal was to complete at least 92 percent of engagements originally documented in the Fiscal Year 2017 annual plan. OIA completed 114 of 125 engagements (or 91 percent) included in the updated Fiscal Year 2017 annual audit plan. Of the 11 engagements not completed, two resulted from the reviews actively being worked on but completion will be delayed into Fiscal Year 2018, one was postponed to Fiscal Year 2018, one had a scope limitation in that OIA was not permitted to perform the audit, and the remaining seven have been completed but OIA was not able to present them to the State Audit Committee due to a lack of quorum. If those seven engagements had been presented and accepted, OIA's completion percentage would have been 97 percent.

In Fiscal Year 2017, the majority of OIA consulting services related to vendor management, new or merging programs/processes, IT system upgrades, security control assessments on behalf of agencies requesting IRS data, enhancing internal controls and compliance, and providing advice on how to make processes more efficient. Consulting services consisted of nearly 42 percent of overall OIA audit effort in Fiscal Year 2017.

Additional Resources

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

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

Internal Audit Reports, FY 2017 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, accounts receivable, travel and expense reimbursements, supplier operations, contact center assistance and ISTV assistance.

Among highlights of its performance in Fiscal Year 2017, the division of OSS:

- Processed and Paid 158,027 Accounts Payable transactions and 66,624 Travel and Expense reports.
- Received 28,771 calls to the OSS Contact Center, achieving an 85.63 percent Service Level (the percentage of calls answered within 30 seconds).
- Processed 18,255 Supplier Operations requests.
- Processed 1,848 Accounts Receivable deposits consisting of 24,172 checks worth a total of \$309,721,808.57. This was an increase of 22 percent on deposits and was a 48 percent on checks compared to Fiscal Year 2016.
- Attached 25,825 ISTV invoices and processed 2,355 ISTV coding updates.
- Partner agencies increased utilization rates of OSS Accounts Payable processing from 94.4 percent in Fiscal Year 2016, to 96.5 percent in Fiscal Year 2017. This was an increase of 2.1 percent.

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 2017, major accomplishments within State Accounting include:

- Utilized a risk based voucher review process. The risk-based approach enables OBM to monitor over \$815,000,000 operating expenditures, while decreasing the resources required to perform the review.
- Implemented a grants community of practice that meets monthly and shares information. Began the development of an enterprise grants management system project which will be rolled out Spring/Early Summer 2018.
- Provided production support for the accounting system which processed over eight million payments.

Additional Resources

State Accounting Information and Records:

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

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

Annual Expenditures - Fiscal Year 2017

Office of Budget and Management

July 1, 2016 - June 30, 2017

By Appropriation Line Item

Fund	ALI	Appropriation Line Item	Expenditures
GRF	042321	Budget Development & Implementation	\$2,816,140
GRF	042409	Commission Closure	\$0
GRF	042416	Office of Health Transformation	\$332,330
GRF	042425	Shared Services Development	\$1,187,796
Total GRF:			<u>\$4,336,266</u>
1050	042603	Financial Management	\$13,643,284
1050	042620	Shared Services Operating	\$5,901,318
5EHO	042604	Forgery Recovery	\$37,634
3CM0	042606	Office of Health Transformation - Federal	\$332,310
7026	C10031	Operations Facilities Improvements	\$10,628
Total Non-GRF:			<u>\$19,925,174</u>
Total All Funds:			<u>\$24,261,440</u>

By Account Category

Account	Account Description	Expenditures
500	Payroll & Benefits	\$19,942,006
510	Purchased Personal Services	\$1,247,434
520	Maintenance and Supplies	\$2,978,158
530	Equipment	\$45,580
570	Capital Improvements	\$10,628
596	Payment of Forged Warrants	\$37,634
Total:		<u>\$24,261,440</u>



The State of Ohio
Office Of Budget and Management

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