



# State of Ohio Office of Budget and Management

Annual Report  
Fiscal Year 2018





# OBM

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August 1, 2018

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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, 2018.

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

- Successful management of the first year of the state's biennial operating budget for Fiscal Years 2018 and 2019. State spending that came in below projections and income tax revenues that came in above projections made it possible – for the sixth time during this administration – to make a deposit into the Budget Stabilization Fund. The \$657.5 million deposit to the Rainy Day Fund brought the balance to a record-high \$2.7 billion.
- Development and passage of the \$2.63 billion capital improvements budget for Fiscal Years 2019 and 2020, making fiscally responsible allocations to maintain and improve the state's educational and public-service infrastructure.



While budget preparation and implementation are OBM's most visible functions, the office also performs several other important roles to ensure the fiscal integrity and efficiency of state government operations.

Significant in Fiscal Year 2018 was the continual improvement 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 7 from the Ohio Fiscal Academy. The Ohio Fiscal Academy (OFA) is an intensive nine-month certification program that equips fiscal professionals to lead Ohio. Through rigorous coursework and a team project, graduates achieve an enterprise philosophy and gain a solid background of fiscal knowledge. To date, the Fiscal Academy has certified 163 participants representing more than 50 state agencies during its 5-year existence and continues to promote the consistent application of fiscal theory and practice across state government.

Other notable accomplishments in Fiscal Year 2018 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".

Timothy S. Keen  
Director



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# State of 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, 2018

Timothy S. Keen . . . . . OBM Director

Fred Church. . . . . Deputy Director, Forecasting and Projections

Kurt Kauffman . . . . . Deputy Director, Debt Management

Jim Kennedy . . . . . Senior Deputy Director, Services and Operations

Rae Ann Estep. . . . . Deputy Director, Operations  
Acting Deputy Director, Ohio Shared Services

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

Andy Shifflette . . . . . Legislative Liaison



# Fiscal Year 2018 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.

During Fiscal Year 2018, the Budget Development and Implementation Section devoted its energies to development of the state's \$2.626 billion biennial Capital Improvements Budget for Fiscal Years 2019 and 2020, introduced by the Kasich administration to the General Assembly in February as House Bill 529. For OBM, this process began in the fall of 2017, 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 higher education.

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. HB 529 also included estimated capital reappropriations of \$1.263 billion for Fiscal Years 2019 and 2020. Reappropriations reauthorize previously approved but unspent appropriation authority. This reauthorization is necessary due to the constitutional provision prohibiting appropriations from being made for a period of more than two years and the fact that many capital projects take more than two years to complete. The Capital and Reappropriation bill was passed by the General Assembly and signed by the Governor in March 2018.

Fiscal Year 2018 closed on June 30, 2018, with a surplus supporting a \$30.0 million transfer to the Medicaid Local Sales Tax Transition Fund and a \$657.5 million transfer to the Budget Stabilization Fund.

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/>

## State Accounting

Pursuant to Chapter 126 of the Ohio Revised Code, the Office of Budget and Management is charged with housing and maintaining the state accounting system which contains state government expenditure, appropriation and revenue data. 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 monthly and oversees state spending to ensure appropriations are not exceeded. Additionally, State Accounting has a Requirements and Configuration Management (RACM) group which provides technical support for the OBM-owned OAKS modules. Technical support includes batch/file monitoring, Tier 3 helpdesk support, translating business requirements from business owners, and User Acceptance testing for new applications or processes.

During Fiscal Year 2018, major accomplishments within State Accounting include:

- Utilized a risk-based voucher review process. The risk-based approach enables OBM to monitor over \$3,000,000,000 in operating expenditures.
- Completed the development of a supplier portal, which provides a better user experience for suppliers. This will be rolled out in July 2018.
- Made great strides in automating paper processes including the development of the cash transfer process.
- Provided production support for the accounting system, which processed over eight million payments.

### Additional Resources

State Accounting Information and Records:

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



## 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 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 SEC disclosure regulations.

In the past eight years (Fiscal Years 2011 - 2018), OBM has overseen the issuance of \$10.1 billion in new debt backed by state revenue to fund capital projects across the state. Averaging \$1.26 billion annually, these bond issuances include all the state's major capital programs (e.g., highways, prisons, K-12 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 \$2.9 billion in outstanding higher-interest state debt and reduce future interest payments. The reduction in future debt service payments achieved by these refinancings totaled \$427.3 million, or about \$53.4 million annually.

In Fiscal Year 2018, the OBM Debt Management Section completed three of four scheduled post-bond issuance compliance trainings for State and higher education institution fiscal and project management staff that are involved in capital projects that are funded, at least in part, from the proceeds of State bonds. The section also expanded on its eligible capital expenditures guidelines to reflect the state's policies on funding of major new information technology projects. The section continues to provide training on matters relating to debt issuance and capital project management to Ohio Fiscal Academy cohorts.

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 Reporting

OBM's Financial Reporting unit, part of the State Accounting Section, primarily is 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. These policies create a centralized application of governmental accounting principles to be applied to all state agencies of the state.

Major accomplishments of the Financial Reporting Section in Fiscal Year 2018 include:

- The State of Ohio received an unqualified opinion (in auditor terms, "clean") on its financial statements. The state CAFR was released by OBM on its website in late December 2017.
- In a collaborative effort between the Auditor of State and agency management, the 2017 State Single Audit was released on February 28, 2018; the same time as last year's State Single audit and tied for the second earliest release date in 15 years.
- The State received no audit findings in the statewide letter on financial statement internal controls and compliance. Over the past 10 years, the number of findings in the letter have ranged from one to 16. Corrective action taken by state agency management have been successful in reducing the number of findings.
- The Auditor of State reported 32 audit comments in the 2017 State Single Audit report related to federal compliance and internal controls. The number of federal findings has ranged from 21 to 99 in the past 15 years. Although there is still work to do, the state is trending in the right direction.
- There were 6 findings which resulted in "questioned costs" that totaled \$77,690. "Questioned costs" are expenditure categories flagged by the Auditor of State for the federal agencies as containing possible problems. It is up to the federal agencies to determine whether there's an actual problem and to what extent. The amount and number of questioned costs is very low considering the State of Ohio disbursed \$27.9 billion dollars in Fiscal Year 2017 from 345 separate federal programs.

### Additional Resources

State of Ohio Comprehensive Annual Financial Report (CAFR), FY 2017:

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

Schedule of Expenditures of Federal Awards, FY 2017:

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

## Financial Planning and Supervision Commissions

The Ohio Office of Budget and Management (OBM) is responsible for convening and chairing financial planning and supervision commissions when the Auditor of State declares a unit of local government 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 24 local governments in fiscal emergency during Fiscal Year 2018. Seven of them were released from fiscal emergency, and one more requested release and is awaiting completion of a termination analysis. Seventeen local governments had financial planning and supervision commissions under divisions (A) through (K) of section 118.05 of the Revised Code.

Of the 24 local governments in fiscal emergency, there were seven local governments that did not have financial planning and supervision commissions. 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 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.

### Additional Resources

Office of Financial Planning and Supervision Commissions website provides additional information about local governments and schools in fiscal distress:

<http://www.obm.ohio.gov/FinancialPlanning/>

## 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 intra-state transfer voucher (ISTV) assistance.

Among highlights of its performance in Fiscal Year 2018:

- Processed and paid 148,795 Accounts Payable transactions for 29 agencies and 59,639 Travel and Expense reports for 81 agencies.
- Received 27,684 calls to the OSS Contact Center, achieving an 86.6 percent Service Level (the percentage of calls answered within 30 seconds).
- Processed 16,561 Supplier Operations requests (e.g., Supplier Information Form, banking verification, W9, electronic funds transfer).
- Processed 2,012 Accounts Receivable deposits consisting of 14,048 checks worth a total of \$332,029,104.12 for four agencies.
- Processed 26,200 ISTV invoices for two agencies and processed 2,029 ISTV coding updates for one agency.

### Additional Resources

Ohio Shared Services website, with a variety 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 elected to have OIA internal audit services starting in Fiscal Year 2015 and has since continued that relationship. In addition, OIA coordinates its planned 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 other 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 2018, the Office of Internal Audit completed 42 public assurance reports, which resulted in 35 high or moderate risk observations. Of these, seven were remediated by the client and validated by OIA. Twenty-eight of the remaining observations will be scheduled for remediation in Fiscal Year 2019. There are currently an additional nine observations outstanding from public reports issued prior to Fiscal Year 2018.

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.

Assurance audits performed by the OIA in Fiscal Year 2018 provided an independent assessment on 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 2018 annual plan. OIA completed 90 of 93 engagements (or approximately 97 percent) included in the updated Fiscal Year 2018 annual audit plan. The three engagements not completed will be carried forward to Fiscal Year 2019.

In Fiscal Year 2018, OIA performed consulting services of various topics, such as succession planning, vendor management, project management, risk management, security practices, new or merging programs/processes, and providing advice on how to make processes more efficient. Consulting services consisted of approximately 30 percent of overall OIA audit effort in Fiscal Year 2018.

In Fiscal Year 2018, OIA underwent an external quality assessment performed by a regional CPA firm. OIA successfully obtained an overall rating of "generally conforms" on the assessment.

### Additional Resources

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

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

Internal Audit Reports, FY 2018 and Earlier:

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

## 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 2018, the Controlling Board conducted 22 meetings and considered 2,214 requests. Minutes and agendas for meetings can be accessed on the e-Controlling Board website

The Controlling Board's Emergency Purposes Contingency 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 2018, the Controlling Board allocated a total of \$3,168,459.08 from this fund.

The Controlling Board's Disaster Services Fund may be used to transfer cash to state agencies for the payment of agency disaster relief programs for disasters declared by the governor. The primary recipient of cash transfers from the Disaster Services Fund is the State Disaster Relief Fund in the Department of Public Safety Emergency Management Agency to support two programs: the State Disaster Relief Program and the State Individual Assistance Program, which can be activated once the governor has declared a state of emergency. Local governments of the declared counties are eligible for state assistance to help pay the extra costs of emergency response, debris removal, and repairs. Communities have four years from the time of the emergency declaration to provide the required local match and apply for funding from the Ohio Emergency Management Agency. In Fiscal Year 2018, the Controlling Board transferred a total of \$12,014,017 from this fund to the State Disaster Relief Fund

### Additional Resources

e-Controlling Board Website – Meeting Minutes and Agendas:

<https://ecb.ohio.gov/Public/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. This includes Communications, Legal, Legislative, and Operations (Fiscal, Human Resources, Information Technology, Training Academy, and Value Management).

## Annual Expenditures - Fiscal Year 2018

### Office of Budget and Management

July 1, 2017 - June 30, 2018

#### By Appropriation Line Item

Fund	ALI	Appropriation Line Item	Expenditures
GRF	042321	Budget Development & Implementation	\$ 3,042,783
GRF	042409	Commission Closure	\$ 0
GRF	042416	Office of Health Transformation	\$ 291,202
GRF	042425	Shared Services Development	\$ 905,688
<b>Total GRF:</b>			<b>\$ 4,239,673</b>
1050	042603	Financial Management	\$ 14,799,079
1050	042620	Shared Services Operating	\$ 5,768,160
5EH0	042604	Forgery Recovery	\$ 28,891
3CM0	042606	Office of Health Transformation - Federal	\$ 248,311
7026	C10031	Operations Facilities Improvements	\$ 32,214
<b>Total Non-GRF:</b>			<b>\$ 20,876,655</b>
<b>Total All Funds:</b>			<b>\$ 25,116,328</b>

#### By Account Category

Account	Account Description	Expenditures
500	Payroll & Benefits	\$ 21,009,380
510	Purchased Personal Services	\$ 1,348,326
520	Maintenance and Supplies	\$ 2,630,877
530	Equipment	\$ 66,640
570	Capital Improvements	\$ 32,214
595	Payment of Forged Warrants	\$ 28,891
<b>Total:</b>		<b>\$ 25,116,328</b>





**State of Ohio  
Office of Budget  
and Management**

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