

Office of Budget and Management

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- Implementation of the Ohio Administrative Knowledge System (OAKS) will continue to be a major focus this biennium
- OBM received a total appropriation of \$29,000,444 for the biennium

OVERVIEW

Duties and Responsibilities

The Ohio Office of Budget and Management (OBM) is a cabinet level agency within the executive branch of state government. The primary mission of OBM is to provide financial management and policy analysis to help ensure the responsible use of state resources. OBM provides fiscal accounting and budgeting services to state government to ensure that Ohio's fiscal resources are used in a manner consistent with state laws and policies. OBM advises the Governor on budget concerns and helps state agencies to coordinate their financial activities. OBM also provides financial information to the Governor, state agencies, the General Assembly, and other interested parties, including local government units. The Director of OBM sits on the Governor's cabinet as the Governor's chief financial officer.

The Office is organized into three program series: Budget Development and Implementation (BDI), Financial Accounting Services, and Governmental Services. Financial Accounting Services maintains, manages, and supports the accounting and financial reporting activities of state government and the state's financial relations with the federal and local governments. It is also responsible for the pre-auditing of state expenditures. Budget Development and Implementation prepares and implements the operating and capital budgets of all state agencies. Governmental Services is responsible primarily for the development and implementation of the Ohio Administrative Knowledge System (OAKS) and for assisting Financial Planning and Supervision Commissions upon declaration of a fiscal emergency in a municipality or in a school district.

General Service Fund (GSF) funding through the Accounting and Budgeting Fund (Fund 105) makes up 68% of OBM's appropriations. GRF and SSR funding both account for 16% each.

Agency in Brief

Agency In Brief					
Number of Employees*	Total Appropriations-All Funds		GRF Appropriations		Appropriation Bill(s)
	2006	2007	2006	2007	
98	\$14,270,401	\$14,730,043	\$2,226,875	\$2,480,759	Am. Sub. H.B. 66

* Employee count obtained from Department of Administrative Services (DAS) payroll reports as of June 2005.

Challenges and Changes in FYs 2006-2007

Financial Planning and Supervision Commissions

Financial Planning and Supervision Commissions are established upon the occurrence or declaration of a fiscal emergency in any municipality or school district. These commissions oversee the finances and help the municipality or school district overcome financial difficulties. The Director of OBM or a designee serves as a member of each financial planning and supervision commission. Because of a recent swell in the number of school districts in fiscal emergency, the enacted budget dedicates additional resources to this program, which is GRF-funded, to help OBM carry out its duties. In the past, OBM budget analysts were responsible for several commissions. This is increasingly difficult with the current workload. The enacted budget will allow OBM to fund up to four positions on an intermittent or part-time basis, possibly regionally, depending on where the greatest need is. These four positions equal two full-time equivalents (FTEs). In addition, some analysts will still maintain commissions, but each will be responsible for a smaller number of them.

Ohio Administrative Knowledge System (OAKS)

Along with the Department of Administrative Services (DAS), the Auditor of State, and the Treasurer of State, OBM continues to move forward with the implementation of OAKS, which will integrate the functions of five major statewide business systems: capital improvements, financials, fixed assets, human resources, and procurement. When implemented, OAKS will replace the Central Accounting System (CAS), Capital Improvement Project Tracking System, Fixed Assets Management System, and the human resources system (HR2K). OBM released the systems integration services request for proposals (RFP) in December 2004. The systems integrator will configure PeopleSoft to fit OBM's business processes. In January 2005, the invitation for proposal (IFP) for business transformation architect was released. The financial modules are scheduled for implementation in 2006. Procurement, fixed assets, capital improvement projects, and human resources modules are scheduled to go live in late 2006 or early 2007.

There will be five OBM staff involved with the implementation of OAKS. OAKS contracts for a majority of the project management staff assigned to the project. Once in operation, the main source of funds used to support OAKS will come from charges to state agencies for their use of the system. The following table shows budgeted versus actual costs for OBM associated with the development of OAKS from FYs 2001 through 2005.

Item	Budgeted Expenses (FYs 2001-2005)	Actual Expenses (FYs 2001-2005)
Building/Equipment	\$2,682,476	\$2,250,947
Project Management Office Support Staff	\$7,436,645	\$6,049,860
Independent Validation and Verification	\$219,400	\$19,400
Training	\$98,300	\$34,650
Software/Hardware	\$8,307,128	\$3,474,745
Integrator	\$0	\$0
Business Needs Analysis	\$2,750,000	\$2,750,000
E-Controlling Board	\$0	\$280,695
Totals	\$21,493,949	\$14,860,297

The overall cost to implement OAKS is approximately \$158 million. A portion of funding for the OAKS project will come from the proceeds of the sale of Certificates of Participation (COPs). COPs are a form of tax-exempt debt issued by a third party agent other than the state. The state will make lease payments to the debt-issuing authority in order to support the debt maintenance payments associated with the COPs. The OAKS project was temporarily suspended for several months in 2004, but there were still some expenses associated with the project office during that time. Also during the temporary suspension, staff continued to work on the development of the "E-Controlling Board" application.

The OAKS Project Implementation Fund (Fund 5N4)

The OAKS Project Implementation Fund (Fund 5N4) consists of \$5 million received through an interagency agreement with the Auditor of State in FY 2001 and GRF transfers in FYs 2002 through 2007. The enacted budget directs state payment card rebates to this fund. The rebate amount, approximately \$600,000 in each fiscal year, will help reduce the fund's reliance on GRF transfers. While the enacted budget transfers \$675,000 in GRF each fiscal year, this amount is approximately \$575,000 less than the GRF transfer in each of FYs 2004 and 2005. In previous years, state payment card rebates were directed to the State Accounting Fund (Fund 105). The loss of payment card rebates in Fund 105 is expected to be offset by increased payroll check-off charges.

Budget Development Funding

Previously, the Budget Development program was funded entirely through GRF dollars. This funding alone was not sufficient for OBM to maintain its current staff and continue to offer current services. The enacted budget supplements GRF funding in this program with funding from the Accounting and Budgeting Fund (Fund 105) in the coming biennium. Fund 105 consists of payments from each agency that represent a percentage of each agency's payroll, a so-called "check-off." This is currently 0.295% of payroll and is expected to remain so during this biennium. Payroll revenue in this fund has declined in recent years; however, it is expected to increase and be sufficient to fund both the Budget Development and various Financial Accounting Services programs because of two factors. First, the state pay increase in FY 2006 will result in larger payroll check-off charges. Second, the check-off will be collected for all pay periods this biennium, whereas in recent fiscal years the check-off was not collected for three pay periods per year. This funding change will allow the Budget Development program to continue offering current services.

Vetoed Provisions

The Executive vetoed a provision that specified that if the Director of Budget and Management determines that the estimated ending fund balance of the GRF will be greater than the amounts assumed for FY 2006, the Director is required to transfer at least \$50,000,000 *at the end of FY 2006* to the Budget Stabilization Fund, if available unobligated balances exist. The provision now provides OBM the flexibility to make this transfer at any time during the biennium rather than only at the end of FY 2006.

ANALYSIS OF THE ENACTED BUDGET

Program Series 1

Budget Development and Implementation

Purpose: To promote the effective and efficient use of state resources and to facilitate the operations of state agencies consistent with the priorities of the Governor and the General Assembly and in accordance with state law.

The following table shows the line items that are used to fund this program series, as well as FYs 2006-2007 appropriations.

Fund	ALI	Title	FY 2006	FY 2007
General Revenue Fund				
GRF	042-321	Budget Development and Implementation	\$1,933,590*	\$1,926,536*
GRF	042-410	National Association Dues	\$27,089	\$28,173
General Revenue Fund Subtotal			\$1,960,679	\$1,954,709
General Services Fund				
105	042-603	Accounting and Budgeting	\$874,341*	\$923,317*
General Services Fund Subtotal			\$874,341	\$923,317
Total Funding: Budget Development and Implementation			\$2,835,020	\$2,878,026

*Amounts do not reflect total funding because line items are used to fund programs in other program series.

Funding for Budget Development and Implementation supports the following specific programs:

- **Budget Development, Program 01.01**
- **Controlling Board, Program 01.02**
- **Debt Management, Program 01.03**

Budget Development, Program 01.01

Program Description: The Budget Development program evaluates agencies' budget requests and prepares the state operating and capital budget recommendations for submission to the Ohio legislature every two years in accordance with sections 126.02 and 126.03 of the Revised Code. Biennial economic forecasts and revenue estimates are prepared as part of the budgeting process, to include estimates of future values of key economic variables such as gross domestic product, employment, unemployment, and inflation. Updates of these forecasts and estimates are prepared periodically during a biennium, and a monthly report is issued to the Governor that analyzes current economic trends, year-to-date state revenues and spending, and the GRF balance. The Budget Development program also oversees the preparation of annual allotment plans by agencies, and prepares estimates and monitors agencies' spending during the fiscal year to ensure it is done in accordance with state law and does not exceed appropriations.

The Budget Development program provides policy, program, and technical assistance as needed to state agencies, including assistance on emerging management issues both within individual agencies and extending across multiple agencies.

The Budget Development and Implementation program also funds the National Association of State Budget Officers' (NASBO) annual membership dues and helps support the internal administration functions.

Funding Sources: GRF and GSF Fund 105 (fees charged to state agencies)

Implication of the Enacted Budget: With the supplementary funding from payroll check-offs (Fund 105), the enacted budget will allow the Budget Development program to be able to continue its services at FY 2005 staffing levels. In addition, the enacted budget will permit OBM to hire consultants to help deal with the complexities of Medicaid and Education funding on an as-needed basis.

Permanent Law Provision: Accounting and Budgeting Fund (R.C. 126.25). This section requires that budgeting services provided by OBM be supported by user charges. In addition, it changes the name of the State Accounting Fund (Fund 105) to the Accounting and Budgeting Fund and directs user charges for budgeting services to that fund. In other words, Fund 105 will be used to support the Budget Development program in addition to Financial Accounting Services. The payroll check-off charge will not increase; rather, the charges will be collected every payroll period per year rather than every period except for three.

Controlling Board, Program 01.02

Program Description: The Controlling Board provides legislative oversight over certain capital and operating expenditures by state agencies and has approval authority over various other state fiscal activities. The Board meets approximately every two weeks to consider and vote on requests for action that are submitted to the Board by state agencies, boards, and/or commissions. OBM staff act as President and Executive Secretary to the Controlling Board, and provide administrative support and oversight. Also, an "E-Controlling Board" application was launched in February 2005, and state agencies are now submitting requests through this process.

Although GRF and other state funds are appropriated to the Board, it disburses none of these funds. Instead, the Board approves the transfer of these amounts to other state agencies as specified in temporary law. Among various other such actions, this involves state funds available to assist state agencies and local governments with disaster recovery and other emergency situations, as well as statewide ballot advertising expenses. The Board also approves the release of funds to help local governments defray the cost of specified unfunded mandates.

Funding Source: GRF

Implication of the Enacted Budget: The enacted budget supports the payroll and maintenance costs of two OBM staff members (President and Secretary) providing administrative support and oversight to the Controlling Board.

Debt Management, Program 01.03

Program Description: The Debt Management program coordinates the bond sales of all state bond issuers, reviews certain bond documents to ensure they are complete and accurate, keeps track of all debt service payments, projects future state debt service needs, and informs bond rating agencies of the state's debt and overall financial situation. This program also provides administrative support to the Ohio Public Facilities Commission, one of the state agencies authorized to issue debt.

Funding Source: GRF

Implication of the Enacted Budget: The enacted budget will allow the Debt Management program to continue its FY 2005 services.

Program Series 2

Financial Accounting Services

Purpose: To maintain, manage, and support the accounting and financial reporting activities of state government and the state's financial relations with the federal and local governments.

The following table shows the line items that are used to fund this program series, as well as FYs 2006-2007 appropriations.

Fund	ALI	Title	FY 2006	FY 2007
General Revenue Fund				
GRF	042-412	Audit of Auditor of State	\$55,900	\$58,700
General Revenue Fund Subtotal			\$55,900	\$58,700
General Services Fund				
105	042-603	Accounting and Budgeting	\$8,906,744*	\$9,053,372*
General Services Fund Subtotal			\$8,906,744*	\$9,053,372*
Total Funding: Financial Accounting Services			\$8,962,644	\$9,112,072

*Amount does not reflect total funding because line item used to fund the Budget Development program in Program Series 1.

Funding for Financial Accounting Services supports the following specific programs:

- **Accounting Operations and Processing, Program 02.01**
- **Electronic Commerce, Program 02.02**
- **Financial Reporting, Program 02.03**
- **Internal Accounting Control Program Oversight, Program 02.04**

Accounting Operations and Processing, Program 02.01

Program Description: Accounting Operations and Processing (AOP) monitors and controls both the spending and revenue collection activities of state agencies. The program oversees and maintains the state's Central Accounting System (CAS). The activities of this program are divided between two sections – State Accounting Operations (SAO) and Management Information Systems (MIS).

SAO enters all appropriations in the CAS and exercises control over spending to ensure that legally established appropriations are not exceeded. This section reviews in excess of 5,000 encumbering documents and payment requests a day from state agencies and audits over 400 petty cash accounts annually. SAO also completes a monthly reconciliation between CAS, the Auditor of State, and the Treasurer of State.

The MIS section is responsible for network administration, database management, programming, and production. This section maintains the CAS and supports all the information needs of OBM. MIS prepares and distributes daily, weekly, and monthly CAS production reports as well as ad hoc reports to state agencies, the Governor's office, and the public, upon request. MIS is also responsible for OBM's Internet and Intranet web sites.

Funding Source: GSF Fund 105 (fees charged to state agencies)

Implication of the Enacted Budget: The enacted budget will allow the Accounting Operations and Processing program to continue its activities at FY 2005 levels.

Electronic Commerce, Program 02.02

Program Description: The Electronic Commerce program manages the state payment card, financial electronic data interchange (EDI), electronic revenue, and the Statewide Cost Allocation Plan (SWCAP) functions.

The state payment card program provides state agencies with credit cards with enhanced controls and tracking for the purchases of small dollar goods and services. At the end of FY 2004, there were 5,300 active cards used to procure \$60 million in goods and services. The average purchase amount is \$206. Financial EDI enables the exchange of state purchase orders, invoices, and remittance information electronically with the state's vendor trading partners. In FY 2004, the state did business electronically for \$151 million. Electronic revenue facilitates the receipt and processing of electronic payments from the state's constituents. The SWCAP is filed annually with the federal government. This plan distributes costs like rent and utilities across state government in order to fairly allocate those costs to federally funded programs for reimbursement.

Funding Source: GSF Fund 105 (fees charged to state agencies)

Implication of the Enacted Budget: The enacted budget will allow the Electronic Commerce program to continue its activities at FY 2005 levels.

Financial Reporting, Program 02.03

Program Description: The Financial Reporting program compiles and publishes the Ohio Comprehensive Annual Financial Report (CAFR), the state's official annual financial report, which is prepared in conformity with Generally Accepted Accounting Principles as required under section 126.21 of the Revised Code. The CAFR officially documents the state's financial activity and financial position for Ohio citizens, taxpayers, elected officials, bond investors, the federal government, and other constituencies. The Financial Reporting program also provides several other financial reporting services. Finally, GRF expenditures in this program fund the separate annual financial audit of the Auditor of State's Office, as required by section 117.14 of the Revised Code.

Funding Sources: GRF; GSF Fund 105 (fees charged to state agencies)

Implication of the Enacted Budget: GRF appropriations of \$55,900 in FY 2006 and \$58,700 in FY 2007 will support the expenses of an independent accounting firm to conduct the annual financial audit of the Auditor of State's Office. Fund 105 funding will support payroll, maintenance, and equipment expenses in this program. The enacted budget will allow the Financial Reporting program to continue its activities at FY 2005 levels.

Temporary Law Provision: Audit Costs, (Section 203.57). Temporary language states that not more than \$420,000 in FY 2006 and \$425,000 in FY 2007 shall be used to pay for centralized audit costs associated with either Single Audit Schedules or financial statements prepared in conformance with generally accepted accounting principles.

Internal Accounting Control Program Oversight, Program 02.04

Program Description: The Internal Accounting Control Program (IACP) requires each cabinet agency to establish, maintain, and annually evaluate internal accounting control systems sufficient to provide reasonable assurance of accountable government. After agency management conducts self-assessments of the internal control environment, the respective agencies annually certify the results of their in-house reviews to OBM. When agencies identify "material" internal control weaknesses, agency management must draft improvement plans, and OBM reviews and monitors progress made on those plans. OBM provides ongoing training to agencies on internal control procedures, and provides more specific technical guidance on an as-needed basis for agencies through on-site consultations. OBM also conducts an Agency Review Evaluation Subprogram (ARES) assessment annually to review each agency's approach and methodology to completing their IACP review and to offer suggestions for improvement.

The IACP staff also provides technical and administrative support to the Ohio Internal Audit Committee (OIAC), comprised of internal audit staff members from the various state agencies.

Funding Source: GSF Fund 105 (fees charged to state agencies)

Implication of the Enacted Budget: The enacted budget will allow the IACP to continue its activities at FY 2005 levels.

Program Series 3**Governmental Services**

Purpose: To provide financial management services to other governmental entities, coordinate the state's Enterprise Resource Planning System initiative in coordination with other governmental units, and fund the transition costs of the Governor-elect.

The following table shows the line items that are used to fund this program series, as well as FYs 2006-2007 appropriations.

Fund	ALI	Title	FY 2006	FY 2007
General Revenue Fund				
GRF	042-321	Budget Development and Implementation	\$210,296*	\$217,350*
GRF	042-435	Gubernatorial Transition	\$0	\$250,000
General Revenue Fund Subtotal			\$210,296	\$467,350
State Special Revenue Fund				
5N4	042-602	OAKS Project Implementation	\$2,262,441	\$2,272,595
State Special Revenue Fund Subtotal			\$2,262,441	\$2,272,595
Total Funding: Governmental Services			\$2,472,737	\$2,739,945

*Amount does not reflect total funding because line item is used to fund the Budget Development program in Program Series 1.

Funding for Governmental Services supports the following specific programs:

- **Financial Planning and Supervision Commissions, Program 03.01**
- **Ohio Administrative Knowledge System (OAKS), Program 03.02**
- **Gubernatorial Transition, Program 03.03**

Financial Planning and Supervision Commissions, Program 03.01

Program Description: A Financial Planning and Supervision Commission is established upon the occurrence or declaration of a fiscal emergency in any municipality or school district for the purpose of overseeing the finances of and helping the municipality or school district overcome financial difficulties. The Director of OBM or a designee of the Director serves as a member of each Financial Planning and Supervision Commission.

Funding Source: GRF

Implication of Executive Recommendation: In recent years there has been an increase in the number of school districts declared to be in fiscal emergency. This has resulted in an increased workload for OBM staff in this program area. The enacted budget will allow OBM to hire up to four intermittent or part-time employees (the equivalent of two FTEs) to assist with the increased workload.

Ohio Administrative Knowledge System (OAKS), Program 03.02

Program Description: The OAKS program will integrate five major statewide business functions into an Enterprise Resource Planning (ERP) system. The business functions include capital improvements, financials, fixed assets, human resources, and procurement. When implemented, OAKS will replace the Central Accounting System (CAS), Capital Improvement Project Tracking System, Fixed

Assets Management System and, potentially, the human resources system (HR2K). The total cost to implement OAKS is approximately \$158 million, a portion of which will be covered by OBM's budget.

Funding Sources: SSR Fund 5N4 (\$5 million received through an interagency agreement with the Auditor of State in FY 2001, GRF transfers to SSR Fund 5N4 in FYs 2002 through 2007, and state payment card program rebates in FYs 2006-2007). In the future when the system goes live, charges to state agencies for their use of the system will likely be the main source of funds used to support OAKS. The exact future funding mechanism has not been finalized. OBM is still exploring methodologies.

Implication of Executive Recommendation: State payment card program rebates will provide approximately \$600,000 in revenue each fiscal year for Fund 5N4. GRF transfers to Fund 5N4 will provide up to \$675,000 each fiscal year. The enacted budget will support state employees, project management consultants, supplies, and equipment needed to maintain the OAKS project management office. OBM has indicated that there is a chance it will need to pursue a minimal amount of additional funding for OAKS operating expenses at some point during the biennium. The cost of the software and systems integration will be funded through a financing mechanism called Certificates of Participation (COPs), which are discussed in the "Overview" section of this analysis.

Temporary Law Provisions: OAKS Project Implementation, (Section 203.57). Temporary language states that in FYs 2006-2007 rebates from the state payment card program may be deposited into the OAKS Project Implementation Fund (Fund 5N4). The purpose is to further capitalize this operating fund.

GRF Transfer to Fund 5N4, OAKS Project Implementation, (Section 312.12). Temporary language requires the Director of OBM to transfer an amount not to exceed \$675,000 from the GRF to the OAKS Project Implementation Fund (Fund 5N4) each fiscal year. This will add to the available cash balance in this fund to support OAKS implementation.

Gubernatorial Transition, Program 03.03

Program Description: This program pays the transition costs of the Governor-elect. A new Governor will be elected in November 2006. The General Assembly is required by law to make an appropriation for this purpose.

Funding Source: GRF

Implication of Executive Recommendation: The enacted budget will support OBM's costs associated with the transition to a new Governor.