

Office of Budget and Management

House Transportation and Justice Subcommittee

*Deborah Hoffman, Budget Analyst
Legislative Service Commission*

April 5, 2007

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LSC Redbook for the Office of Budget and Management

House Transportation and Justice Subcommittee

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April 5, 2007

Office of Budget and Management

- Implementation of the Ohio Administrative Knowledge System (OAKS) will continue to be a major focus in the upcoming biennium
- Planned Transfer of DAS's Office of Information Technology to OBM

OVERVIEW

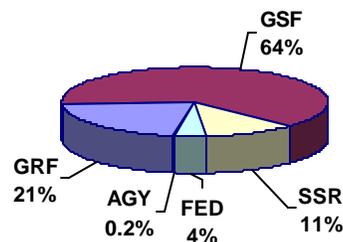
The Ohio Office of Budget and Management (OBM) is a cabinet-level agency within the executive branch of state government. The primary mission of OBM is to provide financial management and policy analysis to help ensure the responsible use of state resources. OBM provides fiscal accounting and budgeting 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 Services, Financial Accounting Services, and Governmental Services. The largest program series, which accounts for approximately 64.7% of OBM's recommended budget, 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. The next largest program series, Budget Development and Implementation Services, represents approximately 23.6% of OBM's recommended budget. This area prepares and implements the operating and capital budgets of all state agencies. Governmental Services, which represents 11.7% of OBM's recommended budget, is responsible primarily for the 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.

FYs 2008-2009 Executive Recommendation and Funding Overview

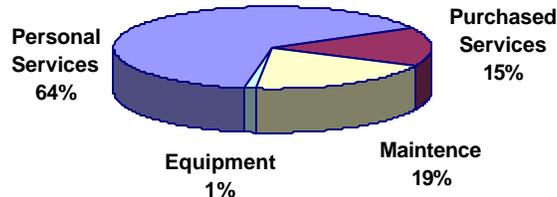
Recommended funding for FY 2008 is a 12.3% increase over estimated FY 2007 expenditures of \$15,730,043. The executive recommends funding of \$17,657,832 in FY 2008 and \$21,278,216 in FY 2009, a 20.5% increase in the second year of the biennium; this is primarily caused by \$3 million in Medicaid agency transition appropriations in FY 2009. As the first pie chart shows, GSF funding through the State Accounting and Budgeting Fund (Fund 105), which consist of changes to agencies for budget services, makes up 64% of OBM's recommended funding. GRF accounts for 21%, and SSR accounts for 11%.

Total Recommended Budget by Fund Group



As shown below, personal services accounts for 64% of OBM's recommended budget. Expenditures for information technology services in the Financial Accounting Services area make up the primary portion of maintenance expenses, which account for 19% of the recommended budget.

Total Recommended Budget by Object of Expenditure



Changes in FYs 2008-2009

Medicaid Agency Transition

OBM will provide \$3 million to support the transition of Medicaid becoming a stand-alone agency, which is scheduled to take place in FY 2009. The recommended appropriation for GRF line item 042-416, Medicaid Agency Transition, is \$1.5 million, matched with \$1.5 million in new line item 042-606, Medicaid Agency Transition. OBM anticipates additional full-time equivalents (FTEs) for this transition process, but is uncertain about the total required.

Ohio Administrative Knowledge System (OAKS)

Along with the Department of Administrative Services, the Auditor of State, and the Treasurer of State, OBM continues to move forward with the implementation of OAKS, which integrates the functions of five major statewide business functions: capital improvements, financials, fixed assets, human resources, and procurement. In July 2006, the financial modules were implemented, followed by the human resources module in December 2006.

Once fully implemented, OAKS will replace:

- Central Accounting System (CAS) - scheduled for implementation in July 2007;
- Capital Improvement Project Tracking System – scheduled for implementation in July 2008; and
- Fixed Assets Management System - scheduled for implementation July 2008.

The OAKS Program Manager is an OBM employee and the OBM budget supports the operating costs of the OAKS program management office. A total of 5.5 FTEs work in the OAKS Project Implementation program. 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 actual costs for OBM associated with the development of OAKS from FYs 2001 through 2005, the actual expenses for continued development and implementation in FYs 2006 and 2007, and the budgeted expenses for FYs 2008 and 2009. After the FY 2008-2009 biennium, once OAKS is fully operational, the program will be supported by user fees and OBM will no longer require project development costs.

Table 1: OAKS Project Implementation Costs, To Date (Fund 5N4)			
Item	Actual Expenses (FY 2001-2005)	Actual Expenses (FY 2006-2007)	Budgeted Expenses (FY 2008-2009)
Building/Equipment	\$2,250,947	\$1,297,921	\$621,893
Project Management Office Support Staff	\$6,049,860	\$3,922,026	\$3,626,000
Independent Validation and Verification	\$19,400	\$0	\$0
Training	\$34,650	\$1,550	\$10,000
Software/Hardware	\$3,474,745	\$171,761	\$75,000
Integrator	\$0	\$0	\$0
Business Needs Analysis	\$2,750,000	\$0	\$0
E-Controlling Board	\$280,695	\$0	\$0
Totals	\$14,860,297	\$5,391,708	\$4,332,893

There are large capital equipment costs associated with this new system. 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), 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 Implementation Fund (Fund 5N4)

The OAKS Project Implementation Fund (Fund 5N4) consists of GRF transfers in FYs 2008 and FY 2009. To help with the funding source of OAKS implementation, state payment card rebates were directed to this fund in FYs 2006-2007. For FYs 2008-2009, it is proposed that these rebates be redirected to the State Accounting and Budgeting Fund (Fund 105) to help cover the personnel expenses involved with implementing the accounting module of OAKS that will begin July 2007. This will require 8 FTEs. As the phases are completed, OBM will require less funding for implementation, but will require ongoing appropriations for management, funded through charge backs to user agencies.

Transfer of the Office of Information Technology (OIT)

Beginning in FY 2008, The Office of Information Technology (OIT) will begin transferring from the Department of Administrative Services (DAS) to OBM. This transfer is expected to be completed by FY 2009. All OIT funding will transfer to OBM from DAS as a part of this office change.

Transfer of Warrant Issuance from Auditor of State's Office

Starting in January 2007, OBM assumed the responsibilities and the costs associated with the issuance of warrants and electronic fund transfers to state employees, vendors, taxpayers, and other recipients of state payments, which were previously handled by the Auditor of State (AUD).

Staffing Levels

The following table shows staffing levels for OBM from FYs 2004 through 2007, as well as estimates for FYs 2008-2009.

Office of Budget and Management Staffing Levels						
Program Series/Division	2004	2005	2006	2007	Estimated	
					2008	2009
Budget Development and Implementation	31.5	35.5	37.5	37.5	37	49
State Accounting Division	68.5	70	70	70	90.5	90.5
OAKS Project Implementation	4.5	5	5	5	5.5	5.5
Totals	104.5	110.5	112.5	112.5	133	145

The increase in the Budget Development and Implementation division, from 37 in FY 2008 to 49 in FY 2009, is primarily attributable to the Medicaid Agency Transition, planned to take place in FY 2009. Due to the transfer of warrant issuance from Auditor of State (AUD) to OBM, there are 9 additional FTEs (7 from AUD) in the State Accounting Division. Additionally, a total of 11 FTEs related to the OAKS transition will be necessary, 8 in the State Accounting processing areas, and 3 in the Financial Reporting division. The Governmental Services program series includes OAKS and Gubernatorial Transition, but staffing for OAKS stands alone on the table and staffing for Gubernatorial Transition is not included in the table since the program is of a short-term duration.

MASTER TABLE: EXECUTIVE'S RECOMMENDATIONS FOR FY 2008 AND FY 2009

The following table provides a comprehensive presentation of the executive's recommendations for each of the agency's line items and the programs each line item supports. Please note that some line items may provide funding for multiple program series and/or programs. See the Analysis of Executive Proposal section for more information on specific program funding.

Office of Budget and Management, Executive Recommendations for FY 2008 and FY 2009, By Line Item and Program				
Fund	ALI	Title	FY 2008	FY 2009
General Revenue Fund				
	042-321	Budget Development and Implementation	\$2,026,011	\$2,128,284
		<u>Program Series 1: Budget Development and Implementation Services</u>	\$1,916,579	\$2,015,876
		Program 1.01: Budget Development	\$1,502,649	\$1,575,482
		Program 1.02: Controlling Board	\$199,638	\$209,968
		Program 1.03: Debt Management	\$214,292	\$230,426
		<u>Program Series 3: Governmental Services</u>	\$109,432	\$112,408
		Program 3.01: Financial Planning and Supervision Commissions	\$109,432	\$112,408
	042-410	National Association Dues	\$28,700	\$29,561
		<u>Program Series 1: Budget Development and Implementation Services</u>	\$28,700	\$29,561
		Program 1.01: Budget Development	\$28,700	\$29,561
	042-412	Audit of Auditor of State	\$60,460	\$60,460
		<u>Program Series 2: Financial Accounting Services</u>	\$60,460	\$60,460
		Program 2.03: Financial Reporting	\$60,460	\$60,460
	042-413	Payment Issuance	\$1,191,802	\$1,150,192
		<u>Program Series 2: Financial Accounting Services</u>	\$1,191,802	\$1,150,192
		Program 2.01: Accounting Operations and Processing	\$1,191,802	\$1,150,192
	042-416	Medicaid Agency Transition	\$0	\$1,500,000
		<u>Program Series 1: Budget Development and Implementation Services</u>	\$0	\$1,500,000
		Program 1.01: Budget Development	\$0	\$1,500,000
General Revenue Fund Subtotal			\$3,306,973	\$4,868,497
General Services Fund Group				
Fund 105	042-603	Accounting and Budgeting	\$12,115,134	\$12,742,551
		<u>Program Series 1: Budget Development and Implementation Services</u>	\$1,056,220	\$1,156,211
		Program 1.01: Budget Development	\$1,056,220	\$1,156,211
		<u>Program Series 2: Financial Accounting Services</u>	\$11,058,914	\$11,586,340
		Program 2.01: Accounting Operations and Processing	\$8,905,488	\$9,329,850
		Program 2.02: Electronic Commerce	\$600,285	\$628,568
		Program 2.03: Financial Reporting	\$1,312,963	\$1,374,491
		Program 2.04: Internal Accounting Control	\$240,178	\$253,431

Office of Budget and Management, Executive Recommendations for FY 2008 and FY 2009, By Line Item and Program				
Fund	ALI	Title	FY 2008	FY 2009
		Program Oversight		
General Services Fund Subtotal			\$12,115,134	\$12,742,551
Federal Special Revenue Fund Group				
Fund 3CM	042-606	Medicaid Agency Transition	\$0	\$1,500,000
		Program Series 1: Budget Development and Implementation Services	\$0	\$1,500,000
		Program 1.01: Budget Development	\$0	\$1,500,000
Federal Special Revenue Fund Subtotal			\$0	\$1,500,000
State Special Revenue Fund Group				
Fund 5N4	042-602	OAKS Project Implementation	\$2,200,725	\$2,132,168
		Program Series 3: Governmental Services	\$2,200,725	\$2,132,168
		Program 3.02: OAKS	\$2,200,725	\$2,132,168
State Special Revenue Fund Subtotal			\$2,200,725	\$2,132,168
Agency Fund Group				
Fund 5EH	042-604	Forgery Recovery	\$35,000	\$35,000
		Program Series 2: Financial Accounting Services	\$35,000	\$35,000
		Program 2.01: Accounting Operations and Processing	\$35,000	\$35,000
Agency Fund Subtotal			\$35,000	\$35,000
Office of Budget and Management Total Funding			\$17,657,832	\$21,278,216

ANALYSIS OF EXECUTIVE PROPOSAL

Program Series **1: Budget Development and Implementation Services**

Purpose: Budget Development and Implementation Services strives 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 the Governor’s recommended funding levels.

Fund	ALI	Title	FY 2008	FY 2009
General Revenue Fund				
GRF	042-321	Budget Development and Implementation	\$1,916,579	\$2,015,876
GRF	042-410	National Association Dues	\$28,700	\$29,561
GRF	042-416	Medicaid Agency Transition	\$0	\$1,500,000
General Revenue Fund Subtotal			\$1,945,279	\$3,545,437
General Services Fund				
105	042-603	State Accounting and Budgeting	\$1,056,220	\$1,156,211
General Services Fund Subtotal			\$1,056,220	\$1,156,211
Federal Revenue Fund				
3CM	042-606	Medicaid Agency Transition	\$0	\$1,500,000
Federal Revenue Fund Subtotal			\$0	\$1,500,000
Total Funding: Budget Development and Implementation Services			\$3,001,499	\$6,201,648

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

- **Program 1.01: Budget Development**
- **Program 1.02: Controlling Board**
- **Program 1.03: Debt Management**

Budget Development

Program Description: The Budget Development program evaluates agencies’ budget requests and prepares the state operating, tobacco, and capital budget recommendations for submission to the General Assembly 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 Source: GRF, GSF Fund 105 (fees charged to state agencies), and FED Fund 3CM (for Medicaid agency transition)

Line Items: The following lines item fund this program:

Line Item	FY 2008	FY 2009
GRF 042-321, Budget Development/Implementation	\$1,502,649	\$1,575,482
GRF 042-410, National Association Dues	\$28,700	\$29,561
GRF 042-416, Medicaid Agency Transition	\$0	\$1,500,000
105 042-603, State Accounting and Budgeting	\$1,056,220	\$1,156,211
3CM 042-606, Medicaid Agency Transition	\$0	\$1,500,000
Program Total	\$2,587,569	\$5,761,254

Implication of Executive Recommendation: The executive recommends \$2,587,569 in FY 2008 and \$5,761,254 in FY 2009. With the supplementary funding from payroll check-offs (Fund 105) and state payment card rebates, the Budget Development program will be able to continue the National Association membership, maintain internal administration, fund preparation of the operating and capital budget recommendations, and support the transition costs of the Medicaid agency.

Temporary Law Provision

Budget Adjustments to Reflect Tobacco Securitization (Section 518.03). (1) Requires the director of OBM to make appropriation and other budget-related adjustments related to the plan to securitize the revenues derived from the Tobacco Master Settlement Agreement, (2) Requires OBM to report these actions to the Controlling Board as soon as these actions are taken.

Controlling Board

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.

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

Line Item: 042-321, Budget Development and Implementation

Implication of Executive Recommendation: The executive recommends \$199,638 in FY 2008 and \$209,968 in FY 2009. The recommended appropriations support the payroll and maintenance costs of two OBM staff members (President and Secretary) providing administrative support and oversight to the Controlling Board. Funding at the recommended level will allow OBM to continue to offer current services.

Temporary and Permanent Law Provisions

There are no temporary or permanent law provisions affecting this program within the OBM appropriations. However, section 249.10, which outlines Controlling Board appropriations, contains extensive earmarking and transfer language related to compensation for unfunded mandates, ballot advertising expenses, and disaster assistance.

Debt Management

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

Line Items: 042-321, Budget Development and Implementation

Implication of Executive Recommendation: The executive recommends \$214,292 in FY 2008 and \$230,426 in FY 2009. Funding at the recommended levels will allow the Debt Management program to continue its current services.

Temporary Law Provisions

General Obligation Debt Service Payments (Section 518.06). Appropriates necessary funds for debt service and financing costs on general obligation bonds or notes of the state issued pursuant to the Ohio Constitution and acts of the General Assembly.

Authorization for Treasurer of State and OBM to Effectuate Certain Debt Service Payments (Section 518.12). Directs OBM to initiate and process disbursements from general obligation and lease rental payment appropriations during the period of July 1, 2007, to June 30, 2009, relating to bonds or notes issued under Sections 2i, 2k, 2m, 2n, 2p, and 15 of Article VIII, Ohio Constitution, and Chapters 151. and 154. of the Revised Code. Disbursements shall be made upon certification by the Treasurer of the State and Office of the Sinking Fund, of the dates and the amounts due on those dates.

Program Series

2: Financial Accounting Services

Purpose: 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.

The following table shows the line items that are used to fund this program series, as well as the Governor’s recommended funding levels.

Fund	ALI	Title	FY 2008	FY 2009
General Revenue Fund				
GRF	042-412	Auditor of State	\$60,460	\$60,460
GRF	042-413	Payment Issuance	\$1,191,802	\$1,150,192
General Revenue Fund Subtotal			\$1,252,262	\$1,210,652
General Services Fund				
105	042-603	State Accounting and Budgeting	\$11,058,914	\$11,586,340
General Services Fund Subtotal			\$11,058,914	\$11,586,340
Agency Fund Group				
5EH	042-604	Forgery Recovery	\$35,000	\$35,000
Agency Fund Subtotal			\$35,000	\$35,000
Total Funding: Financial Accounting Services			\$12,346,176	\$12,831,992

Funding for Financial Accounting Services supports the following specific programs:

- **Program 2.01: Accounting Operations and Processing**
- **Program 2.02: Electronic Commerce**
- **Program 2.03: Financial Reporting**
- **Program 2.04: Internal Accounting Control Program Oversight**

Accounting Operations and Processing

Program Description: The largest program within OBM with approximately 72 FTEs, 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 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 per 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 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.

Beginning in FY 2008, OBM will support the costs associated with the issuance of warrants and electronic funds transfers to state employees, vendors, taxpayers, and other recipients of state payments.

Funding Source: GRF, GSF Fund 105 (fees charged to state agencies and state payment card rebates), and Fund 5EH (moneys collected by the Attorney General's office from cases of fraudulent state warrants)

Line Items: The following line items fund this program:

Line Items	FY 2008	FY 2009
GRF 042-413, Payment Issuance	\$1,191,802	\$1,150,192
105 042-410, State Accounting and Budgeting	\$8,905,488	\$9,329,850
5EH 042-416, Forgery Recovery	\$35,000	\$35,000
Program Total	\$10,132,290	\$10,515,042

Implication of Executive Recommendation: The executive recommends \$10,132,290 in FY 2008 and \$10,515,042 in FY 2009. Funding at the recommended levels will allow the Accounting Operations and Processing program to continue its activities at current levels and to add 9 additional FTEs (7 from AUD) to manage state warrant issuance.

Permanent Law Provisions

Responsibility for Preauditing a Request for Payment from the State Treasury (R.C. 126.07 and 126.08). Transfers responsibility for the preaudit function regarding expenditures and other accounting transactions of a state agency from OBM to the chief administrative officer of the agency, or to a person that the chief administrative officer designates for the purpose to examine all invoices, claims, vouchers, and other documents related to the payment and determine whether they meet all the requirements of OBM for making payment. If they do, the person is to certify his or her approval to OBM for payment. Additionally, gives OBM responsibility for review and audit of a voucher and other documentation prior to drawing a warrant on the state treasury. After approving a payment, OBM shall perform such reviews and compliance checks as OBM considers necessary.

Use of a Payment Card by a State Agency (R.C. 126.21). Requires the chief administrative officer (or a designee) of a state agency that uses a payment card for purchases to ensure that purchases are made in accordance with guidelines issued by OBM and that the purchases do not exceed the unexpended, unencumbered, unobligated balance in the appropriation to be charged for the purchase.

Auditing and Accounting Services to be Provided by OBM (R.C. 126.22). Adds other accounting services to the responsibilities of OBM, such as the maintenance and periodic auditing of the financial records of and submission of vouchers by state agencies, and provisions of assistance in the analysis of the financial position of state agencies.

Forgery Recovery Fund (R.C. 126.40). Creates the Forgery Recovery Fund in the state treasury, consisting of all moneys collected by the attorney general from the resolution of cases of fraud or forgery involving warrants issued by OBM. OBM shall use the fund to pay costs associated with the reissue of state warrants to payees whose warrants were fraudulently redeemed.

Temporary Law Provisions

The following are general accounting provisions that apply broadly to various state agencies and involve OBM but have no specific, direct fiscal impact on OBM:

Transfers to the General Revenue Fund from Non-GRF Funds (Section 512.03). Authorizes the Director of OBM to transfer cash from non-General Revenue Fund funds that are not constitutionally restricted to the GRF. The total amount of cash transfers made during FY 2008 and FY 2009 shall not exceed \$70,000,000.

Transfers to the General Revenue Fund of Interest Earned (Section 512.06). Gives the Director of OBM authority to transfer to the GRF interest earned in any Central Accounting System (CAS) fund, with the exception of funds that are restricted or protected by the Ohio Constitution, federal tax law, or the federal Cash Management Improvement Act. This language has the possible fiscal effect of decreasing balances in certain nonrestricted state funds while increasing the balance of the GRF. OBM estimates the interest proceeds will be approximately \$25.2 million in FY 2008 and \$25.8 million in FY 2009.

Transfer Balance of Continuous Receipts (in the Auditor of State's budget) Fund (Section 233.20). Transfers unencumbered cash balance in Continuous Receipts Fund (Fund R06) to the Forgery Recovery Fund (Fund 5EH) within OBM.

Personal Service Expenses (Section 503.03). Requires any appropriation from which personal services expenses are paid to bear the employer's share of various costs, unless otherwise prohibited by law. These costs shall be determined in conformity with the appropriate sections of law and paid in accordance with procedures specified by OBM.

Capital Project Settlements (Section 503.09). Specifies that an additional and supplemental procedure to provide for payments of judgments and settlements if the Director of OBM determines that sufficient unencumbered moneys do not exist in the particular appropriation to pay the amount of a final judgment rendered against the state or a state agency, including the settlement of a claim approved by a court, in an action upon and arising out of a contractual obligation for the construction or improvement of a capital facility if the costs under the contract were payable in whole or in part from a state capital projects appropriation.

Re-issuance of Voided Warrants (Section 503.12). Provides funds for the reissuance of voided warrants under section 117.47 of the Revised Code, when approved by OBM.

Reappropriation of Unexpended Encumbered Balances of Operating Appropriations (Section 503.15). Reappropriates an unexpended balance of an operating appropriation or reappropriation that a state agency encumbered prior to the close of a fiscal year on the first day of July of the following fiscal year for various time periods based on the type of encumbrance.

Appropriations Related to Cash Transfers and Re-establishment of Encumbrances (Section 503.18). Specifies that any cash transferred by OBM under section 126.15 of the Revised Code (for the purpose of making adjustments to capital or operating budgets) and any amounts necessary to re-establish appropriations or encumbrances under that section are appropriated.

Establishment of custodial funds in the state treasury (Section 512.41). Allows OBM, in collaboration with the Treasurer of State, to take any action necessary to establish funds in the state treasury that were previously held in the custody of the Treasurer of State, including, but not limited to,

the transfer of cash from the custodial funds to the state treasury and the establishment of appropriations and encumbrances to support outstanding obligations.

Federal Government Interest Requirements (Section 521.08). Authorizes the Director of OBM to designate funds to retain their own interest earnings in order to reduce the payment of adjustments to the federal government.

Federal Cash Management Improvement Act (Section 521.12). Allows the Director of OBM to cancel and re-establish all or part of encumbrances in like amounts within the funds identified by the Federal Cash Improvement Act as required by section 131.36 of the Revised Code.

Electronic Commerce

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. 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)

Line Items: 042-603, State Accounting and Budgeting

Implication of Executive Recommendation: The executive recommends \$600,285 in FY 2008 and \$628,568 in FY 2009. Funding at the recommended levels will allow the Electronic Commerce program to continue its activities at current levels.

Temporary Law Provisions

Statewide Indirect Cost Recovery (Section 521.06). Appropriates from available receipts amounts required for the statewide indirect costs, when it has been determined that an appropriation made to a state agency for this purpose is insufficient.

GRF Transfers on Behalf of the Statewide Indirect Cost Allocation Plan (Section 521.07). Specifies that the director of an agency may certify to OBM the amount of expenses not allowed to be included in the Statewide Indirect Cost Allocation Plan under federal regulations; authorizes OBM to transfer from the GRF into the fund for which the certification is made, up to the amount of the certification upon determining that no alternative source of funding is available to pay for such expenses; requires the director of an agency receiving such funds to include a request for funding for such activities from an alternative source as part of the next budget submission; and specifies that total transfers made from the GRF by OBM shall not exceed the amounts transferred into the GRF under section 126.12 of the Revised Code (statewide indirect costs).

Financial Reporting

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

Line Items: The following line item funds this program:

Line Item	FY 2008	FY 2009
GRF 042-412, Audit of Auditor of State	\$60,460	\$60,460
105 042-603, State Accounting and Budgeting	\$1,312,963	\$1,374,491
Program Total	\$1,373,423	\$1,434,951

Implication of Executive Recommendation: The executive recommends a total of \$1,373,423 in funding for FY 2008 and \$1,434,951 for FY 2009. Recommended GRF funding of \$60,460 in FY 2008 and FY 2009 supports expenses of an independent accounting firm to conduct the annual financial audit of the Auditor of State’s Office. Fund 105 appropriations in the recommended amounts of \$1,312,963 in FY 2008 and \$1,374,491 in FY 2009 supports payroll, maintenance, and equipment expenses in this program. Funding at recommended levels will allow the Financial Reporting program to continue its activities at current levels.

Temporary Law Provision

Audit Costs (Section 233.10). Requires that not more than \$435,000 in FY 2008 and \$445,000 in FY 2009 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 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)

Line Items: 042-603, State Accounting and Budgeting

Implication of Executive Recommendation: The executive recommends \$240,178 in FY 2008 and \$253,431 in FY 2009. Funding at the recommended levels will allow the Internal Accounting Control Program Oversight program to continue its activities at current levels.

Temporary and Permanent Law Provisions

None

Program Series

3: Governmental Services

Purpose: This program series provides financial management services to other governmental entities, coordinates the state's Enterprise Resource Planning System initiative with other governmental units.

The following table shows the line items that are used to fund this program series, as well as the Governor's recommended funding levels.

Fund	ALI	Title	FY 2008	FY 2009
General Revenue Fund				
GRF	042-321	Budget Development and Implementation	\$109,432	\$112,408
General Revenue Fund Subtotal			\$109,432	\$112,408
State Special Revenue Fund				
5N4	042-602	OAKS Project Implementation	\$2,200,725	\$2,132,168
State Special Revenue Fund Subtotal			\$2,200,725	\$2,132,168
Total Funding: Governmental Services			\$2,310,157	\$2,244,576

Funding for Governmental Services supports the following specific programs:

- **Program 3.01: Financial Planning and Supervision Commissions**
- **Program 3.02: Ohio Administrative Knowledge System (OAKS)**

Financial Planning and Supervision Commissions

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

Line Items: 042-321, Budget Development and Implementation

Implication of Executive Recommendation: The executive recommends \$109,432 in FY 2008 and \$112,408 in FY 2009. Commissions are getting out of fiscal emergency quicker and OBM requires just over one FTE for this program. As of March 2007, there are 17 local governments and 5 school districts that OBM is involved with assisting. OBM is exploring bringing on contract or intermittent employees to help with commission supervision.

Temporary and Permanent Law Provisions

None

Ohio Administrative Knowledge System (OAKS)

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.

OBM purchased the ERP system from PeopleSoft in October 2004, the design and development of which began in spring 2005. The financial module was implemented in July 2006. The human resources module went live in December 2006 and procurement, fixed assets, capital improvement projects are scheduled for implementation in FY 2008 and FY 2009. The total cost to implement OAKS is approximately \$158 million, a portion of which will be covered by OBM's budget. To date during the current FYs 2006-2007 biennium, OBM's costs have been \$5,391,708, largely for project management staff and building rent and equipment.

Funding Source: SSR Oaks Project Implementation Fund (Fund 5N4: GRF transfers in FYs 2008 and 2009). 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.

Line Items: 042-602, OAKS Project Implementation

Implication of Executive Recommendation: The executive recommends \$2,200,725 in FY 2008 and \$2,132,168 in FY 2009. Funding at the recommended levels will support state employees, project management consultants, supplies, and equipment needed to maintain the OAKS project management office. The capital equipment costs of the software and systems integration will be funded through a financing mechanism called Certificates of Participation (COPs).

Permanent Law Provision

OAKS Support Organization Fund (R.C. 126.24). Creates the OAKS Support Organization Fund in the state treasury for the purpose of paying the operating expenses of the system. The fund consists of cash transfers from the Accounting and Budgeting Fund (Fund 105) and the Human Resources Fund (Fund 125), and other revenues designated to support the operating costs of OAKS.

Temporary Law Provisions

GRF Transfer to Fund 5N4, OAKS Project Implementation (Section 512.21). Requires the Director of OBM to transfer an amount not to exceed \$2,200,725 from the GRF to the OAKS Project Implementation Fund (Fund 5N4) on July 1, 2007, or as soon thereafter as possible, and \$2,092,779 on July 1, 2008, or as soon thereafter as possible. This will add to the available cash balance in this fund to support OAKS implementation.

OAKS Support Organization (Section 233.20). Requires OBM to use the OAKS Support Organization financial management module to support the activities of its office. The OAKS Support Organization shall recover the costs to establish and maintain the enterprise resource planning system through billings to OBM. Effective July 1, 2007, OBM is to include the recovery of costs to administer the financial module of the OAKS System in the Accounting and Budgeting Services payroll rate. These revenues shall be deposited to the credit of the Accounting and Budgeting Services Fund (Fund 105). Not less than quarterly, OBM shall process the intrastate transfer voucher billings to transfer the Accounting and Budgeting Services Fund (Fund 105) to the OAKS Support Organization Fund (Fund 5EB) to pay for the OAKS Support Organization Costs.

Temporary Transfer to the OAKS Support Organization Fund (Section 512.31). Allows the director of OBM to transfer an amount not to exceed \$1,000,000 in cash from the Human Resources Services Fund (Fund 125) to the OAKS Support Organization Fund (Fund 5EB). These amounts will support the establishment of the OAKS Support Organization. Amounts transferred to the OAKS Support Organization Fund and interest earnings on these amounts transferred during FY 2008 shall be returned to the Human Resources Services Fund not later than January 1, 2008.

REQUESTS NOT FUNDED

The executive budget fully funds the Office of Budget and Management at requested levels of \$17,657,832 in FY 2008 and \$21,278,216 in FY 2009.

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General Revenue Fund

GRF 042-321 Budget Development and Implementation

2004	2005	2006	2007 Estimate	2008 Executive Proposal	2009 Executive Proposal
\$2,225,924	\$2,383,772	\$1,578,990	\$2,143,886	\$2,026,011	\$2,128,284
	7.1%	-33.8%	35.8%	-5.5%	5.0%

Source: GRF

Legal Basis: ORC 126; ORC Sections 127.12, 127.13, 118.05 and 3316.05; Section 203.75 of Am. Sub. H.B. 66 of the 126th G.A. (originally established by Am. Sub. H.B. 215 of the 122nd G.A.)

Purpose: Moneys in this line item pay for personnel, maintenance, and equipment costs for the Budget Development and Implementation program within OBM, including the state Controlling Board. This fund is also used for OBM's involvement in municipal and school district financial planning commissions.

GRF 042-401 Office of Quality Services

2004	2005	2006	2007 Estimate	2008 Executive Proposal	2009 Executive Proposal
\$35,003	\$0	\$0	\$0	\$0	\$0

Source: GRF

Legal Basis: Discontinued line item (originally established by Am. Sub. H.B. 152 of the 120th G.A.)

Purpose: These moneys were used to pay for all expenses of the Office of Quality Services (OQS), which facilitated the quality effort throughout state government.

GRF 042-410 National Association Dues

2004	2005	2006	2007 Estimate	2008 Executive Proposal	2009 Executive Proposal
\$26,300	\$26,300	\$27,089	\$28,173	\$28,700	\$29,561
	0.0%	3.0%	4.0%	1.9%	3.0%

Source: GRF

Legal Basis: Section 203.75 of Am. Sub. H.B. 66 of the 126th G.A. (originally established by Am. Sub. H.B. 694 of the 114th G.A.)

Purpose: The moneys in this line item pay annual membership dues in the National Association of State Budget Officers (NASBO).

GRF 042-412 Audit of Auditor of State

2004	2005	2006	2007 Estimate	2008 Executive Proposal	2009 Executive Proposal
\$62,110	\$55,760	\$55,900	\$58,700	\$60,460	\$60,460
	-10.2%	0.3%	5.0%	3.0%	0.0%

Source: GRF

Legal Basis: ORC 117.14; Section 203.75 of Am. Sub. H.B. 66 of the 126th G.A.

Purpose: This appropriation is used to pay for an annual audit of the State Auditor's office.

GRF 042-413 Payment Issuance

2004	2005	2006	2007 Estimate	2008 Executive Proposal	2009 Executive Proposal
\$0	\$0	\$0	\$0	\$1,191,802	\$1,150,192
					-3.5%

Source: GRF

Legal Basis: New line item; Section 233.10 of H.B. 119 of the 127th G.A.

Purpose: Moneys in this line item pay for personnel, maintenance, and equipment costs for the issuance of warrants and EFTs to state employees, vendors, tax refund recipients, and entitlement program recipients

GRF 042-416 Medicaid Agency Transition

2004	2005	2006	2007 Estimate	2008 Executive Proposal	2009 Executive Proposal
\$0	\$0	\$0	\$1,000,000	\$0	\$1,500,000
			N/A		

Source: GRF

Legal Basis: Section 203.57 of Am. Sub. H.B. 699 of the 126th G.A.

Purpose: Moneys in this line item will fund the costs of transitioning to a new Department of Medicaid.

GRF 042-435 Gubernatorial Transition

2004	2005	2006	2007 Estimate	2008 Executive Proposal	2009 Executive Proposal
\$0	\$0	\$0	\$250,000	\$0	\$0
			N/A		

Source: GRF

Legal Basis: As needed line item (originally established in ORC 107.30; Section 203.57 of Am. Sub. H.B. 66 of the 126th G.A.)

Purpose: Moneys in this line item fund the salaries, supplies, and other reasonable expenses of the governor-elect during the period of transition.

General Services Fund Group

105 042-603 State Accounting and Budgeting

2004	2005	2006	2007 Estimate	2008 Executive Proposal	2009 Executive Proposal
\$7,984,879	\$7,751,975	\$8,845,315	\$9,976,689	\$12,115,134	\$12,742,551
	-2.9%	14.1%	12.8%	21.4%	5.2%

Source: GSF: A fee charged to state agencies, equal to 0.628% of each agency's payroll in FY 2008, and 0.619% in FY 2009; and state payment card rebates

Legal Basis: ORC 126.25; Section 203.75 of Am. Sub. H.B. 66 of the 126th G.A.

Purpose: Moneys in this line item pay for the cost of accounting and budgeting services provided to state agencies by OBM. Of this appropriation, up to \$435,000 in FY 2008 and \$445,000 in FY 2009 may be used to pay the cost of Single Audit Schedules or related financial statements associated with the Auditor of State's annual audit of OBM.

Federal Special Revenue Fund Group

3CM 042-606 Medicaid Agency Transition

2004	2005	2006	2007 Estimate	2008 Executive Proposal	2009 Executive Proposal
\$0	\$0	\$0	\$0	\$0	\$1,500,000

Source: FED: Federal Medicaid reimbursement for administration under Title XIX Medical Administration of the Social Security Act.

Legal Basis: New line item; Section 233.10 of H.B. 119 of the 127th G.A.

Purpose: Moneys in this line item will fund the costs of transitioning to a new Department of Medicaid (federal share).

State Special Revenue Fund Group

5N4 042-602 OAKS Project Implementation

2004	2005	2006	2007 Estimate	2008 Executive Proposal	2009 Executive Proposal
\$1,724,168	\$2,591,932	\$3,119,113	\$2,272,595	\$2,200,725	\$2,132,168
	50.3%	20.3%	-27.1%	-3.2%	-3.1%

Source: SSR: GRF transfers to SSR Fund 5N4 in FY 2008 and 2009

Legal Basis: Sections 203.75 of Am. Sub. H.B. 66 of the 126th G.A. (originally established by Controlling Board on December 18, 2000)

Purpose: Moneys are used to pay the costs of the Ohio Administrative Knowledge System (OAKS) project implementation planning. During the FY 2008-2009 biennium, this fund will be used for OAKS related technology projects, staffing costs, rental payments, and maintenance expenses.

Agency Fund Group

5EH 042-604 Forgery Recovery

2004	2005	2006	2007 Estimate	2008 Executive Proposal	2009 Executive Proposal
\$0	\$0	\$0	\$0	\$35,000	\$35,000
				N/A	0.0%

Source: AGY: Monies collected by the Attorney General's Office from the resolution cases of fraud involving state warrants

Legal Basis: New line item; ORC 126.40 as proposed in the H.B. 119 of the 127th G.A.

Purpose: Moneys in this line item are used to reissue state warrants that were fraudulently redeemed.

LSC Budget Spreadsheet by Line Item, FY 2008 - FY 2009

<i>Fund</i>	<i>ALI</i>	<i>ALI Title</i>	<i>2006</i>	<i>Estimated 2007</i>	<i>Executive 2008</i>	<i>% Change 2007 to 2008</i>	<i>Executive 2009</i>	<i>% Change 2008 to 2009</i>
<i>OBM Budget and Management, Office of</i>								
GRF	042-321	Budget Development and Implementation	\$ 1,578,990	\$2,143,886	\$ 2,026,011	-5.5%	\$ 2,128,284	5.0%
GRF	042-410	National Association Dues	\$ 27,089	\$28,173	\$ 28,700	1.9%	\$ 29,561	3.0%
GRF	042-412	Audit of Auditor of State	\$ 55,900	\$58,700	\$ 60,460	3.0%	\$ 60,460	0.0%
GRF	042-413	Payment Issuance	----	\$0	\$ 1,191,802	N/A	\$ 1,150,192	-3.5%
GRF	042-416	Medicaid Agency Transition	----	\$1,000,000	\$ 0	-100.0%	\$ 1,500,000	N/A
GRF	042-435	Gubernatorial Transition	----	\$250,000	\$ 0	-100.0%	\$ 0	N/A
General Revenue Fund Total			\$ 1,661,979	\$ 3,480,759	\$ 3,306,973	-5.0%	\$ 4,868,497	47.2%
105	042-603	State Accounting and Budgeting	\$ 8,845,315	\$9,976,689	\$ 12,115,134	21.4%	\$ 12,742,551	5.2%
General Services Fund Group Total			\$ 8,845,315	\$ 9,976,689	\$ 12,115,134	21.4%	\$ 12,742,551	5.2%
3CM	042-606	Medicaid Agency Transition	----	----	\$ 0	N/A	\$ 1,500,000	N/A
Federal Special Revenue Fund Group Total			----	----	\$ 0	N/A	\$ 1,500,000	N/A
5N4	042-602	OAKS Project Implementation	\$ 3,119,113	\$2,272,595	\$ 2,200,725	-3.2%	\$ 2,132,168	-3.1%
State Special Revenue Fund Group Total			\$ 3,119,113	\$ 2,272,595	\$ 2,200,725	-3.2%	\$ 2,132,168	-3.1%
5EH	042-604	Forgery Recovery	----	----	\$ 35,000	N/A	\$ 35,000	0.0%
Agency Fund Group Total			----	----	\$ 35,000	N/A	\$ 35,000	0.0%
Total All Budget Fund Groups			\$ 13,626,407	\$ 15,730,043	\$ 17,657,832	12.3%	\$ 21,278,216	20.5%