

**FISCAL YEAR
2011**

TOP-BOTTOM REVIEW



JOSH MANDEL
STATE TREASURER OF OHIO



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A MESSAGE FROM TREASURER MANDEL



As State Treasurer of Ohio, I pledge to be a fiscal watchdog of Ohioan's hard-earned tax dollars. I am also committed to focusing on the core mission of the Treasury – to collect, protect and invest taxpayer dollars – with the highest degree of integrity, honesty and ethical standards. I am proud to present the *Fiscal Year 2011 Top-Bottom Review* to Ohio taxpayers to show some of the ways we are eliminating waste and improving treasury operations.

I am very pleased to report that at the end of the 2011 Fiscal Year we have accomplished a great deal. We not only ended Fiscal Year 2011 with a surplus of nearly \$400,000, but also reduced our general revenue fund operating budget for the next biennium by nearly \$1.2 million. For example, we have modernized banking practices to eliminate driving 89,000 checks per month from Columbus to Cleveland and are now using eBanking to process checks - which will save \$100,000 annually. I have been privileged to work alongside the men and women of the Ohio Treasury to audit practices and improve services for our constituents. During this review, we have identified many ways to increase efficiencies, lower risk and streamline operations.

The changes resulting from the top-bottom review will likely net over a million dollars in savings for Ohio taxpayers. Other improvements have provided smaller one-time savings or could result in new practices that will produce long-term benefits. My philosophy is every dollar counts. I'm working hard to make proud the 11.5 million Ohio constituents I'm honored to represent.

This top-bottom review is just a first step toward improving operations of the Ohio Treasury. While the initial phase of this review concluded at the end of the 2011 Fiscal Year, our review of best practices and ways to increase efficiencies will be ongoing. Put simply, my goal is to create and lead the best Treasurer's office in the nation. I am proud to present this report to Ohio taxpayers as I continue to work on behalf of all Ohioans to diligently collect, protect and invest taxpayer dollars and to make government more efficient and accountable at all levels.

Sincerely,


Josh Mandel
State Treasurer of Ohio



EXECUTIVE SUMMARY

State Treasurer of Ohio Josh Mandel was sworn into office on January 10, 2011. Even prior to assuming office, the transition team launched a top-bottom review of Treasury operations, staffing and business practices. Some highlights of the findings and select actions taken in response are included in this report. Many of the initiatives outlined in the first phase of the ongoing top-bottom review were completed by the end of the 2011 Fiscal Year.

Upon taking office, the Treasurer immediately started reducing expenses and reviewing the budget. Under the Treasurer's leadership, the office ended the 2011 Fiscal Year with a nearly \$400,000 surplus. The Treasurer reduced by 6.5% the previously submitted budget request for general revenue fund operating expenses. For the 2012-13 biennium, this budget decrease will amount to a nearly \$1.2 million reduction in taxpayer support of the office.

As part of the top-bottom review, Treasurer Mandel and staff went through the office budget line-by-line to examine not only large cost drivers, but also small expenses that are often overlooked. Directors and staff were asked to review and reprioritize expenditures, not just to continue the status quo. The review identified many ways to reduce costs and save tax dollars throughout the Treasurer's office.

Department by department, directors and staff conducted audits of operations, spending and costs. For example, the Information Technology Department conducted an audit that found more than \$30,000 in savings annually simply by turning off unused phone, fax, and mobile lines. An additional \$10,000 will be saved by lowering the minutes on cell phone plans. The Revenue Management Department found an estimated \$16,000 in savings annually by passing on the cost of postage for cigarette tax stamps to vendors, and more by switching non-urgent electronic fund transfers from same-day to next-day transfers. The Treasury also consolidated regional offices to save \$47,000. The review even found that nearly \$2,000 per year could be saved by terminating a plant watering contract.

\$47,000.00

saved by consolidating and reorganizing regional offices.

\$30,000.00

saved by turning off unused phone, fax and mobile lines.

\$16,000.00

saved by passing on the cost of postage for cigarette tax stamps to vendors.

\$10,000.00

saved by lowering minutes on cell phone plans.

\$2,000.00

saved by terminating a plant watering contract.



The Treasury has accomplished a great deal in not only ending Fiscal Year 2011 with a surplus of nearly \$400,000, but also reducing the general revenue fund operating budget by nearly \$1.2 million for the next biennium.

The Treasurer has directed the Investments Department to focus on safety, liquidity and yield – in that order. At the same time, he directed the Department to review ways to improve operations and increase returns for taxpayers. The review found that the Treasury could greatly increase return to taxpayers by reallocating bond proceeds to the liquidity portfolio. This allows the Treasurer’s office to take advantage of higher long-term yields as opposed to the very short-term investments that had been previously utilized. Under Treasurer Mandel, the liquidity portfolio has increased by nearly \$1.3 billion, putting more money to work for Ohio taxpayers.

The Treasurer initiated a review into whether custodial banks conducting foreign currency exchanges on behalf of state pension funds and the Bureau of Workers’ Compensation were bilking retirees, injured workers, businesses and taxpayers of tens of millions of dollars. Treasurer Mandel requested that the Attorney General join other states in investigating whether these banks exploited Ohioans by manipulating foreign currency exchange rates to maximize bank profits at the taxpayers’ expense.

The top-bottom review quickly revealed that the Treasurer’s office was using outdated banking practices that needed to be updated to be consistent with the best private sector practices. In response, a major initiative was launched to modernize banking practices to improve security and increase operational efficiencies. Treasurer Mandel invested in software, hardware and security upgrades to the QED system, the core inventory management system that facilitates office banking and investment record keeping and transactions. The Treasury is also working to eliminate many antiquated manual banking practices and replace them with automated processes. For example, as of the end of the 2011 Fiscal Year the Treasury utilized electronic banking to discontinue the daily practice of physically driving checks received by the Treasurer’s office in Columbus to the depository bank in Cleveland. Automated check processing of 89,000 checks per month will save over \$100,000 per year after start-up costs are recouped.

The review revealed that much information on state and local government spending is not readily available to, or electronically searchable by, the general public. In response, Treasurer Mandel initiated the Treasurer’s Transparency Project to promote a more open and accountable government and allow taxpayers and their elected representatives to make more informed decisions on spending. The goal of this initiative is to allow Ohioans to follow their tax dollars and see how public money is being spent. The Treasurer’s office believes that government information, including the costs of employee salaries, benefits and pensions, should be more readily available to taxpayers.

A review of the State Treasury Asset Reserve (STAR Ohio) program found ways to improve investment practices and reduce administrative costs, while still focusing on the core goals of preserving principal, maintaining liquidity, and maximizing return. The review found that over \$8,500 could be saved annually by switching from an out-of-state to an Ohio-based printing vendor. Also, in response to feedback from local government subdivisions participating in the program, the office has launched initiatives to make STAR Ohio more user-friendly through expanded online tools. The Investments Department is working with banking partners to provide more timely reports, quicker access to financial information, and a broader array of electronic banking options for STAR Ohio participants.

The Treasurer’s *Fiscal Year 2011 Top-Bottom Review* presents just a few of the many positive results that came from this effort. Some of the highlights of these results are expanded upon in greater detail in the ensuing report. While there is still much work to be done to modernize and bring banking practices in line with best practices, significant progress has been made to date. This report is an overview of some of the initial steps that Treasurer Mandel has taken to improve Treasury operations, which is the starting point toward a broader, ongoing goal of improving office operations and overall government efficiency.



TREASURER'S OFFICE: TOP-BOTTOM REVIEW HIGHLIGHTS

REDUCING EXPENSES WHILE IMPROVING OFFICE OPERATIONS

In tough economic times, the Treasurer's office has focused on doing more with less. One of the goals of the ongoing top-bottom review is to cut costs while delivering high quality services to constituents and increasing the safety and security of public funds. The top-bottom review resulted in cost savings – big and small – some of which are documented in this report.

REDUCING COSTS AND CONSOLIDATING OPERATIONS

Reduction of 6.5% of General Revenue Fund Operating Expenses
The Treasurer's office budget for the next biennium reduces operating costs out of the general revenue fund by 6.5% overall. This reduces taxpayer support of the Treasurer's office by nearly \$1.2 million over the current biennium.

Treasurer's Office Staff Reductions and Cost Savings

The total number of Treasurer's office staff fell from a high of 140 under the previous administration to 127 at the end of Fiscal Year 2011, and overall costs on salaries and benefits dropped by 7.78%, more than \$850,000.

Reorganization and Consolidation of Offices

Treasurer's office departments were reorganized and office locations were consolidated, saving over \$47,000. The Treasury also lowered travel costs by reducing reimbursement rates for personal vehicles from \$0.51 per mile to \$0.35.

Eliminated Giveaway Items from Office Budget

The Treasurer's office discontinued the purchase or use of promotional giveaway items with the Treasurer's name engraved or printed on them, including pencils, tote bags, piggy banks, fans, golf shirts, water bottles, jar openers, etc.

DEPARTMENT AUDIT RESULTS AND COST SAVINGS

Saving Money by Turning Off Unused Phone, Fax and Mobile Lines

The Information Technology (IT) Department completed a communications audit concluding that the Treasury could save tens of thousands of dollars per year on phone line costs. By consolidating and turning off unused or under-utilized phone, fax, and mobile lines, the Treasury will save over \$30,000 per year. IT also reviewed cell phone usage and determined the office could eliminate the wasted expense of unused cell phone minutes. Changing cell phone plan terms saved approximately \$10,000 per year.

Transferring Shipping Costs for Cigarette Tax Stamps to Vendors to Save \$16,000 Annually

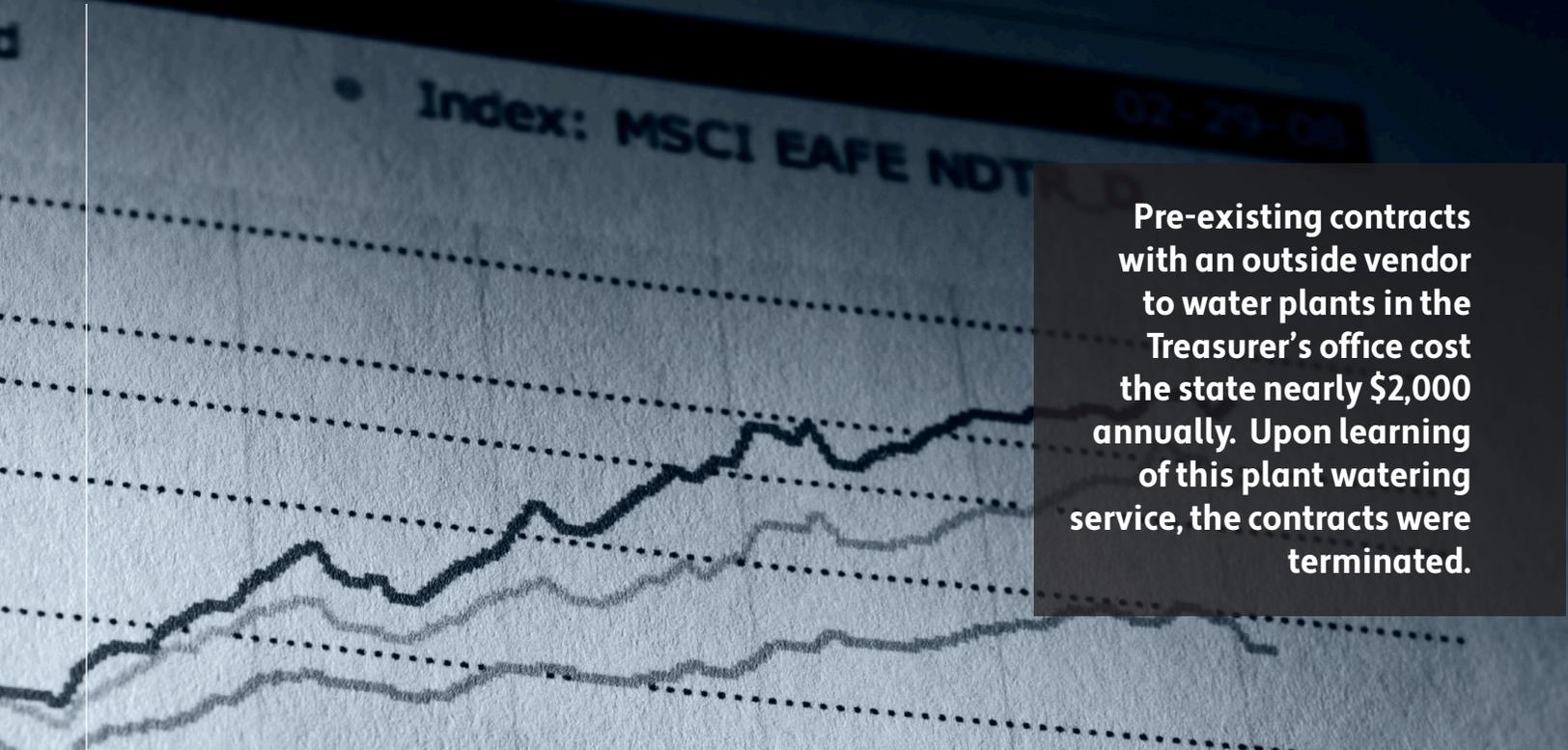
The Revenue Management Department adopted a new policy to pass shipping costs for cigarette tax stamps along to vendors, which will save taxpayers approximately \$16,000 annually.

Upgrading Programming Language to Save on Support and Maintenance

The IT Department is migrating the OhioTreasurer.gov website's programming language from Java to .NET. Once completed, the Treasurer's office can discontinue support and maintenance on the older platform, saving over \$15,000 annually.

Converting Non-Urgent Bank Transfers from Costly Same-Day Fund Wiring to More Affordable Next-Day Transfers

The Revenue Management Department successfully converted many bank transfers from a more expensive same-day method of wiring funds to a more cost effective next-day transfer system. Switching from the wire transfer method to the Automated Clearing House (ACH) method for non-urgent transactions will both save the state money and make the transfer process more efficient.



Pre-existing contracts with an outside vendor to water plants in the Treasurer's office cost the state nearly \$2,000 annually. Upon learning of this plant watering service, the contracts were terminated.

Making Unused Computers and IT Equipment Available to Other Agencies

The IT Department has salvaged over 180 pieces of equipment including computers, monitors and printers. This allows other state agencies and schools to acquire this equipment rather than purchase more expensive new equipment.

Ending Plant Watering Contracts

Pre-existing contracts with an outside vendor to water plants in the Treasurer's office cost the state nearly \$2,000 annually. Upon learning of this plant watering service, the contracts were terminated.

Eliminating Backlog of Linked Deposit Applications

The Treasurer's office plays an important role in promoting economic development in Ohio by providing reduced interest rates on loans through linked deposit programs such as GrowNOW, Ag-LINK and ECO-Link. An audit of the Economic Development Department revealed over 100 unprocessed applications for these programs. The applications were quickly processed and the backlog was eliminated. The Treasurer's office is currently looking to improve and expand existing programs and to launch new initiatives to make more capital available to small businesses, farmers, and Ohioans in need of assistance.

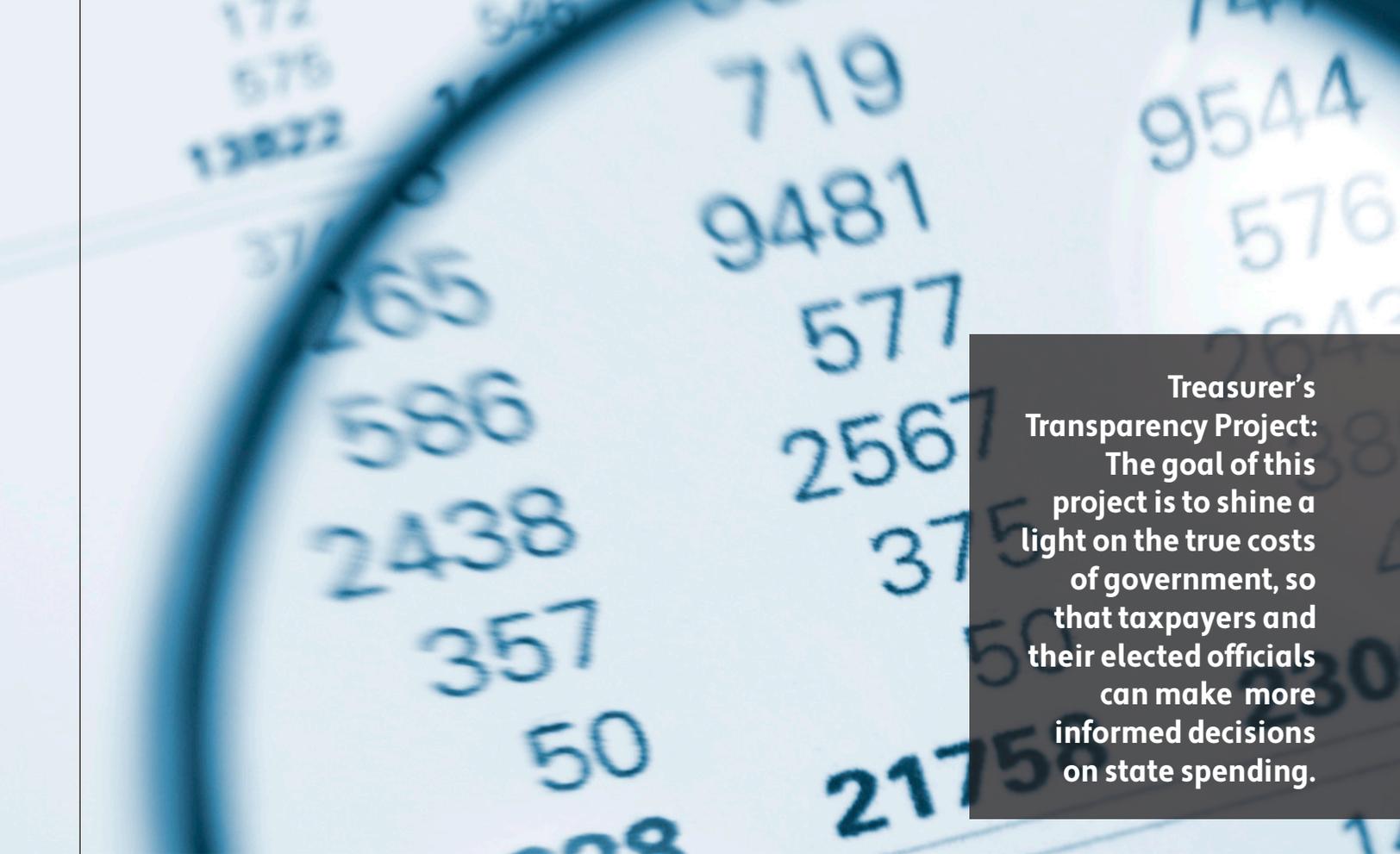
ENSURING THE SAFEKEEPING OF PUBLIC FUNDS

As the state's chief fiscal and investment officer, Treasurer Mandel is committed to being a fiscal watchdog, ensuring the safety and security of state assets.

Investigation into Banks Exploiting Ohioans over Foreign Currency Exchange Rates

The Treasurer's office reviewed banking practices and became concerned that banks conducting foreign currency exchange transfers on behalf of pension funds and the Bureau of Workers' Compensation may have illegally exploited taxpayers. In response, the Treasurer formally requested that the Attorney General launch an investigation into whether banks may have improperly manipulated foreign currency trade prices in order to maximize the banks' profit, at the expense of Ohio retirees, injured workers, businesses and taxpayers. If banks engaged in these practices, the net result over thousands of international transactions and more than a dozen years might be that Ohioans were charged tens of millions of dollars more than market rates.

Treasurer Requests Investigation: If banks engaged in these practices, the net result over thousands of international transactions and more than a dozen years might be that Ohioans were charged tens of millions of dollars more than market rates.



**Treasurer's
Transparency Project:**
The goal of this
project is to shine a
light on the true costs
of government, so
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on state spending.

PROMOTING GOVERNMENT ACCESSIBILITY & TRANSPARENCY

Treasurer Mandel believes government accessibility of information and transparency in government processes increases accountability of elected officials and helps ensure government is working in the taxpayers' best interests. As chief fiscal officer of the state, Treasurer Mandel is committed to promoting government transparency and increasing Ohioans' access to information.

Treasurer's Transparency Project

The Treasurer's Transparency Project is designed to allow Ohioans to follow their tax dollars and see how public money is being spent. As part of Treasurer Mandel's strong desire to make government more open and accountable to taxpayers, the Treasurer's office is working to develop a process for all government subdivisions in Ohio to make more readily available public information including the costs of salaries, benefits and pensions. The goal of this project is to shine a light on the true costs of government, so that taxpayers and their elected representatives can make more informed decisions on state spending.

Website Redesign to Increase Transparency, Simplify Online ePayments, and Expand Learning Opportunities

The OhioTreasurer.gov website is in the midst of a redesign to increase transparency. The new site will allow the public to better view where their taxpayer dollars are going, and improve access to assistance from the Treasurer's office. It will also make online ePayments more prominent and expand online financial education learning opportunities.



www.OhioTreasurer.gov

MANDEL
TREASURER OF OHIO

SEARCH SUMMARY NEWS & EVENTS PROGRAMS FINANCIAL EDUCATION PAYMENTS

Connect 21,422 Subscribers

facebook 25,953 Followers

twitter 45,375 Followers

YouTube 7,125 Views

What are you looking for today?

ASK JOE

A screenshot of the Ohio Treasurer's website. The header includes the name 'MANDEL' and 'TREASURER OF OHIO' next to the state seal. A blue navigation bar contains links for 'SEARCH', 'SUMMARY', 'NEWS & EVENTS', 'PROGRAMS', 'FINANCIAL EDUCATION', and 'PAYMENTS'. On the right side, there are social media buttons for 'Connect' (21,422 Subscribers), 'facebook' (25,953 Followers), 'twitter' (45,375 Followers), and 'YouTube' (7,125 Views). Below these is a search bar with the text 'What are you looking for today?' and a magnifying glass icon. On the left, there is a section titled 'ASK JOE' with a photo of a man in a suit.



Security Upgrades:
A review of the Treasurer's office software and hardware revealed that key financial software (QED) had not been upgraded since 2003, almost 10 years.

IMPROVING EFFICIENCY OF CORE TREASURY FUNCTIONS WHILE LEVERAGING TECHNOLOGY TO INCREASE SAFETY AND SECURITY

Treasurer Mandel is charged with the duty of collecting, protecting and investing public funds, which includes managing multi-billion dollar investment portfolios, as well as maintaining various state accounts and processing payments of state warrants (checks) for claims and expenses incurred in the operation of state government. The top-bottom review of core treasury functions resulted in various improvements, including upgrading banking practices and increasing the use of electronic and automated processes, which overall increases the safety and security of public funds. Additionally, the Treasurer's office is working to improve services provided to state agencies and local governments.

MODERNIZING BANKING PRACTICES

Canceling Check Drivers, Electronically Transferring Deposits
A review of operations revealed that checks from the Treasurer's office were physically driven from Columbus to Cleveland every day. In an average month last year, approximately 89,000 checks worth approximately \$234 million were transported this way. This process was not only antiquated, but also costly and less secure than electronic banking. The Treasurer's office ended this practice and is now utilizing electronic banking for deposits [See Physical Check Processing and Transport vs. eProcessing - Page 9].

Initiated Immediate Upgrade of Financial Software to Increase Security

A review of the Treasurer's office software and hardware revealed that key financial software (QED) had not been upgraded since 2003, almost 10 years. The old software possessed security weaknesses and was so outdated that programmers were no longer available to provide necessary support. Since this software is the engine for essential Treasury processes, if it were to malfunction, core treasury processes would be compromised. As a result, the Treasurer immediately launched an upgrade of this financial software to increase security and take advantage of other technological advances.

Automation in Trust Department Allows for Daily Post-Trade Compliance Review, Rather than Weekly

New updates to the QED platform in the Trust Department will allow for more frequent post-trade compliance reviews to ensure the portfolios adhere to investment and securities lending policies. Analysts will be able to do a daily rather than weekly review, allowing for any potential problem to be identified and resolved more quickly.

Phasing Out Hand-Written Daily Logging of Investment Trade Tickets

The Investments Department is phasing out manual entry of hand-written trade tickets into a daily log. The process is being automated so that trade tickets are electronically entered through the new QED system. Eliminating manual data entry reduces risk of error and increases efficiency by eliminating unnecessary processes.

Driving Checks vs. eProcessing

COST COMPARISON:

- In the 2011 Fiscal Year the Treasurer's office processed and transported over one million checks, worth approximately \$2.8 billion. This averaged out to approximately 89,000 checks worth approximately \$234 million per month. Courier fees quoted for Fiscal Year 2012 to continue to transport checks from the Treasurer's office in Columbus to the depository bank in Cleveland were approximately \$220 per day, 250 days a year. Therefore, electronic check processing averted \$55,000 annually in private courier fees.
- Annual maintenance costs associated with check processing were \$61,020 per year. eProcessing costs will provide an annual savings of \$25,020, with the eProcessing cost totaling only \$36,000 per year.
- The electronic check processing savings of utilizing electronic vs. paper deposit is estimated to be \$20,358 annually based on current volume of checks processed and including new estimated costs of \$300 per year to store and shred checks.

- **Total estimated annual savings from switching to electronic banking from physically driving checks is \$100,378, after initial one-time start-up costs are recovered.**

One-Time Costs of Switching Physical Check Processing and Transport to eProcessing

There is an estimated \$295,018 in one-time up-front costs associated with switching from physical check processing methods to electronic processing. This one-time cost includes new software/hardware, network administration, secured area setup, staff training, and bank costs for implementation. It will take less than three years to recover up-front costs.

Additional Benefits of eProcessing:

- **Modernized Banking Practices** – The investment in new processes will help to modernize Ohio's banking practices and bring government closer in-line with the best private sector practices.
- **Increased Security** – There will be heightened security with the new processing system, since 89,000 checks per month will no longer be driven by bank courier but instead will be electronically deposited via secure servers.
- **Money More Readily Available for Investment** – Under the old system, checks were only available for deposit once a day. Under the new system the Treasurer's office will have the flexibility to make multiple deposits at any time of the day. This means that funds will be available for investment and start accruing interest more quickly.



LEVERAGING TECHNOLOGY TO INCREASE SECURITY AND IMPROVE OPERATIONS

Improving Security by Encrypting Backup Tapes

A security audit in the IT Department revealed that backup tapes used to store and archive all Treasurer's office data were not encrypted. This was immediately identified as a security risk and policies were put in place to ensure that all backup tapes are fully encrypted. Encrypting backup tapes increases security by preventing unauthorized access to sensitive state data.

Centralizing Copier Reports for More Efficient Billing

The IT Department has deployed new software which tracks copier usage and reports that information to a central location, thus enabling more efficient billing practices. Previously, the Treasury's printing vendor would estimate printer usage and then credit or debit the account after a cumbersome manual audit was done to determine actual usage. Under the new system, the printers send data on print jobs and pages to a central computer, which sends these reports directly to the vendor. This new process saves time, money, and staff hours.

New Public Records Storage Protects Against Loss Due to Computer Crash

The IT Department is deploying a new network based information storage structure that will prevent public records from being lost due to a local computer crash, as well as create efficiencies for the IT help desk - enabling faster IT response times. Overall, this change increases security for the retention of public records.

Avoiding Duplication of Work when Entering Transactions

The Treasurer's office is the custodian for the State Teachers Retirement System (STRS) and processes their checks and payments. Previously, the Treasury handled checks for STRS through a third-party vendor using a manual process. The IT Department has deployed a new Automated Clearing House (ACH) application that has streamlined this process. This eliminates the need for a third party vendor, and eliminates the manual process of re-entering transaction information into the system. Overall, this change increases efficiency, productivity, and timeliness of check processing. The Treasurer's office anticipates the expansion of these automated processes to other government agencies.

IMPROVING INVESTMENTS AND INTER-GOVERNMENTAL SERVICES

Liquidity Portfolio Up \$1.3 Billion Under Mandel Administration

Upon taking office, Treasurer Mandel launched a review of investment practices to maximize investment opportunities to make tax dollars go further. The Treasurer identified \$1 billion in very low yielding bond proceed investments that could be reallocated to the liquidity portfolio for higher return. By reallocating the bond proceeds to the liquidity portfolio, these funds can be placed in longer term investments with the opportunity for higher yields. Since January 2011, the Treasury's liquidity portfolio increased by \$1.3 billion. Nearly \$1 billion of this increase is due to this reallocation of the bond proceeds.

Improved Timeliness and Accuracy of STAR Ohio Information for Participants

In response to an internal review of STAR Ohio, which included feedback from local government subdivisions, the Treasurer's office made it easier for participants to conveniently view how funds are safely invested on the STAR Ohio website. The STAR Ohio monthly statement schedule was also accelerated by ten business days to the first day of each month.

STAR Ohio Printing Costs Savings

The Treasurer's office reviewed the printing costs for STAR Ohio's annual report and digital media and identified \$8,500 in potential cost savings by switching from an out-of-state vendor to an Ohio based company.

Created Comparison of Credit Card Fees to Save State Agencies Money

The Treasurer's office created a resource for state agencies to compare credit card fees allowing state agencies to view the average fees associated with accepting each card type so they can make better financial decisions.

Streamlined Financial Transactions with the Department of Insurance by Placing Bills Online

The Treasurer's office streamlined processes with the Ohio Department of Insurance to allow insurance companies to view their insurance premium tax bills online. This will eliminate the need to mail over 1,500 bills to insurance companies across the country, and save thousands of dollars in postage, envelopes and staff hours by making insurance billing, collecting and processing a more seamless process.

By allowing insurance companies to view their insurance premium tax bills online, the Treasurer eliminated the need to mail over 1,500 paper bills.



Under Treasurer Mandel, the liquidity portfolio has increased by nearly \$1.3 billion, putting more money to work for Ohio taxpayers.



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