



Highway Patrol Retirement System

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August 20, 2008

The Honorable Kirk Schuring
Chairman, Ohio Retirement Study Council
88 East Broad Street, Suite 1175
Columbus, Ohio 43215

Dear Chairman Schuring:

Senate Bill 133 (2004) requires the Ohio Public Pension Funds to provide an internal audit report each year to the Ohio Retirement Study Council. This report is submitted in compliance with that requirement.

Annually, the Auditor of State selects an auditing firm to conduct a financial audit of the Highway Patrol Retirement System. Given the size of the HPRS it was not practical to hire an employee to serve as the internal auditor to perform the services required under SB133, so since 2004 the financial auditors have conducted the internal audit functions.

In this year's report the financial auditors – Kennedy Cottrell Richards, LLC – noted that the HPRS was in full compliance with established accounting procedures and that no material or significant errors were noted during the audit. (report attached)

Prior to the commencement of the audit we met with the auditors to discuss specific internal control issues and asked them to review these areas.

CONFLICTS OF INTEREST:

The auditors conducted interviews and surveys to determine that no HPRS Trustee or staff person had an inappropriate financial or business relationship with any vendor doing at least \$10,000 of business with the HPRS. The auditors noted that the HPRS was not doing business with former Trustees or Staff.

INSURANCE AND BONDING:

The auditors verified that the HPRS was providing appropriate insurance coverage for errors and omissions of Trustees and Staff, that bonding was maintained where appropriate, and that liability protection was maintained for facilities that are a part of the HPRS investment portfolio. Ohio Treasurer bonding was verified.

LICENSING AND REPORTING:

The auditor confirmed that appropriate licensing was maintained for the Chief Investment Officer, as required by SB133; and that reporting requirements to the Ohio Ethics Commission and Joint Legislative Ethics Committee were completed.

INTERNAL OPERATIONAL POLICIES:

The auditor examined internal travel policies and tested expense reports submitted by Trustees and Staff. The purchase of office supplies and other minor business equipment was reviewed. The auditor made a recommendation for the improvement in the policy relating to the use of HPRS communication equipment that was immediately implemented by the Board.

FIDUCIARY DUTIES:

The auditors reviewed the compliance with appointed Board Member qualifications; new active member enrollment; and employer rate certification. Ethics training for Trustees and Staff was verified.

FINANCIAL AUDIT ISSUES:

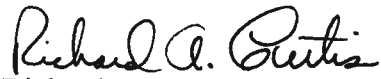
After determining that no material deficiencies existed in the financial audit of the HPRS for the calendar year 2007 the auditors offered several recommendations.

- During the review of financial documents some non-material errors were noted and corrected by staff. The auditors suggested the hiring of an additional Certified Public Accountant to review these reports prior to the commencement of the annual audit. After considering this recommendation and the costs involved the Audit Committee recommended to the Board that such an action would be cost prohibitive.
- The HPRS is self-funded for health care benefits and employs Aetna and Medical Mutual of Ohio to administer claims. Periodically, Aetna and MMO submit requests for payment from the HPRS. The auditors noted that these requests for payment are not itemized by patient and service. The auditors recommended that such itemization should be considered. Both Aetna and MMO could offer such services but the cost would be nearly as much as the cost of the annual audit. The contracts with each of these vendors provides for a "true -up" annually to adjust any overages/underages based on claims data. Additionally, the Ohio public pension systems provide for an external audit of the health care providers on a periodic basis. After considering this information the Board elected to continue with the current practice.

- As previously noted the auditor recommended changes to the HPRS policy on personal use of system communication equipment. The Board adopted those changes at the next meeting.

Please contact me if you have any questions or need additional information.

Sincerely,

A handwritten signature in cursive script that reads "Richard A. Curtis".

Richard A. Curtis
Executive Director

INDEPENDENT AUDITOR'S REPORT

The Retirement Board
Ohio State Highway Patrol Retirement System

We have audited the accompanying combining statement of plan net assets of the Ohio State Highway Patrol Retirement System (HPRS), a component unit of the State of Ohio, as of December 31, 2007, and the related combining statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of HPRS' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in the notes to the financial statements, during the year, HPRS implemented GASB Statement No. 50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27*.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of HPRS as of December 31, 2007, and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2008 on our consideration of HPRS' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 13-15 and Required Supplementary Information on pages 24-25 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

We conducted our audit to form an opinion on the financial statements that collectively comprise the HPRS' basic financial statements. The accompanying financial information listed as Additional Information in the table of contents is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

The introductory section on pages 3-10, the investment section on pages 29-44, the actuarial section on pages 45-54, and the statistical section on pages 55-60 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.



Kennedy Cottrell Richards LLC
June 23, 2008

MANAGEMENT LETTER

To the Retirement Board
Ohio State Highway Patrol Retirement System

In accordance with *Government Auditing Standards* applicable to financial audits, we have audited the combining statement of plan net assets of the Ohio State Highway Patrol Retirement System (HPRS), as of December 31, 2007, and the related combining statement of changes in plan net assets for the year then ended, and have issued our report thereon dated June 23, 2008.

Government Auditing Standards also require that we describe the scope of our testing of internal control over financial reporting and on compliance and other matters and report any irregularities, illegal acts, other material noncompliance, and significant deficiencies and material weaknesses in internal controls. We have issued the required report dated June 23, 2008 for the year ended December 31, 2007.

In addition to any items we may have disclosed to you in the reports described above, we are also submitting for your consideration the following comment on HPRS' internal controls. This comment reflects a matter that, while in our opinion does not represent a material instance of noncompliance or significant deficiency or material weakness in internal control, we believe represents a matter for which improvements in compliance or internal controls or operational efficiencies may be achieved.

Due to the limited nature of our audit, we have not fully assessed the cost-benefit relationship of implementing the recommendation suggested below. However, this comment reflects our continuing desire to assist HPRS. If you have any questions or concerns regarding this comment please do not hesitate to contact us.

1. Control Deficiency – Financial Statement Preparation

The compilation and presentation of materially correct financial statements and the related footnotes is the responsibility of management. It is important that management develop control procedures related to drafting financial statements and footnotes that enable management to prevent and detect potential misstatements in the financial statements and notes prior to audit. It is also important to note that independent auditors are not part of an entity's internal control structure and should not be relied upon by management to detect misstatements.

As a result of our audit, we identified misstatements pertaining to (1) the classification of the Drop Liabilities and (2) the classification of Interest and Dividend Income. We provided adjusting entries to management who subsequently corrected the misstatements. Though inconsequential to the financial statements as a whole, we believe the misstatements to be indicative of a control deficiency in regard to the financial statement preparation process.

We recommend that HPRS implement sufficient control procedures over the financial reporting process in order to enable management to prevent and detect potential misstatements in the financial statements and footnotes. Control procedures could include a separate review and analysis of the compiled financial statements and related journal entries by someone knowledgeable of generally accepted accounting principles.

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This comment is intended for the information and use of management and the members of the Board of the Ohio State Highway Patrol Retirement System and is not intended to be, and should not be, used by anyone other than those specified parties.

Kennedy Cottrell Richards LLC

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June 23, 2008