

STATE OF OHIO GENERAL OBLIGATION BONDS AND BOARD OF DEPOSIT

FRANKLIN COUNTY

JUNE 30, 2007

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON-PROCEDURES

Jake Wozniak, Sinking Fund Director
Commissioners of the Sinking Fund
30 E. Broad St., 9th Floor
Columbus, OH 43215

Cynthia L. Klatt, Assistant Chief Auditor
Auditor of State
88 E. Broad Street, 10th Floor
Columbus, OH 43215

Kurt Kauffman, State Debt Manager
Office of Budget and Management
Asst. Secy., Ohio Public Facilities Commission
30 E. Broad St., 35th Floor
Columbus, OH 43215

Stacey Cumberlander, Secretary
State Board of Deposit
30 E. Broad St., 9th Floor
Columbus, OH 43215

Dear Mr. Wozniak, Ms. Klatt, Mr. Kauffman, and Ms. Cumberlander:

We have performed the procedures enumerated below, which were agreed to by the management of the Commissioners of the Sinking Fund (CSF), Ohio Public Facilities Commission (OPFC), State Board of Deposit (BOD), and Auditor of State solely to assist you in gaining assurance over (1) the accuracy and completeness of the Schedule of General Obligations Bonds from the Semi-Annual Report January 1, 2007 to June 30, 2007, issued by CSF, (2) compliance with debt issuance procedures and (3) compliance with Revised Code Chapter 135 requirements and accuracy of bank fees paid during the fiscal year ended June 30, 2007. This agreed-upon-procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. Our procedures and findings are described in the following section of this report.

1. To help assure the accuracy and completeness of the Schedule of General Obligation Bonds from the "Semi-Annual Report January 1, 2007 to June 30, 2007" issued by CSF (attached), examine supporting documentation for the bonds authorized, bonds issued, outstanding bond debt, interest paid through June 30th, remaining interest through maturity, and cash balance in the applicable bond service funds and describe the documentation used to support the amounts.

Findings:

Bonds authorized – Various sections of Article VII of the Ohio Constitution, as approved by voters, authorizes the issuance of Highway Capital Improvement Bonds, Coal Research and Development Bonds, Natural Resources Capital Facilities Bonds, Common Schools Capital Facilities Bonds, Higher Education Capital Facilities Bonds, Public Infrastructure Capital Improvements Bonds, Conservation Projects Bonds, Third Frontier Research and Development Projects Bonds, and Third Frontier Job Ready Site Development Bonds. The authority to issue bonds in amounts authorized was conferred upon the CSF, OPFC, and the Treasurer of State of Ohio through legislation of the General Assembly.

According to the Semi-Annual Report January 1, 2007 to June 30, 2007, there have been 51 individual bond authorizations granted by the General Assembly. We traced 44 of the 51 bond authorizations to the supporting legislation of the General Assembly. For the remaining 7, we traced the authorized amount to a bond authorization schedule maintained by the Office of Budget and Management.

Bonds issued – The bonds issued balance reported on the Schedule of General Obligation Bonds includes bonds issued and refunded, but excludes refunding bonds in cases when issued. This balance traced and agreed to bond issuance documents without exception.

Outstanding Bonded Debt – The outstanding bonded debt balance reported on the Schedule of General Obligation Bonds excludes bonds refunded, but includes refunding bonds in cases when issued. This balance traced and agreed to debt-service-to-maturity schedules without exception.

Interest Paid through 06/30/07 - The interest paid through 06/30/07 balance reported on the Schedule of General Obligation Bonds as of June 30, 2007 consists of both fixed and variable rate bond interest paid. This balance traced and agreed to debt-service-to-maturity schedules without exception.

Remaining Interest through Maturity – The remaining interest through maturity balance reported on the Schedule of General Obligation Bonds as of June 30, 2007 consists of future interest payments. This balance traced and agreed to debt-service-to-maturity schedules without exception. The debt-service-to-maturity schedules for the State's nine variable rate bonds, each of which have a swap agreement establishing a fixed swap rate, contain estimates for future interest payments to bondholders. For seven of the nine variable rate bonds, the CSF estimated future interest rates at 4% through maturity. For the other two, the CSF estimated future interest rates at the fixed swap rate through the duration of the swap agreement, then at 4% through maturity.

Cash Balance in Bond Service Fund – The cash balance in Bond Service Fund balance reported on the Schedule of General Obligation Bonds as of June 30, 2007 traced and agreed to the Central Accounting System Balance Report as of June 28, 2007 without exception.

2. We will review the process for issuing debt at OPFC and determine: what debt was issued during the fiscal year; whether this debt issuance was properly approved; which purpose the debt served (primary and secondary education, higher education, natural resources and conservation, coal research and development, infrastructure improvements, third frontier research and development, or site development); and the debt was accurately reflected as "bonds issued" as of June 30th on the "Schedule of General Obligation Bonds" in the CSF semi-annual report.

Findings:

Debt issued by OPFC during fiscal year 2007 was as follows:

Purpose	Series	Amount
3rd Frontier Research and Development	2006A	\$50,000,000
Common Schools	2006D	\$250,000,000
Public Infrastructure	2006A	\$120,000,000
3rd Frontier Job Ready Site Development	2006A	\$30,000,000
Higher Education	2006B	\$150,000,000
Common Schools	2007A	\$250,000,000
3rd Frontier Research and Development	2007A	\$30,720,000
Natural Resources	L	\$30,000,000
Conservation Projects	2007A	\$50,000,000

Each issuance was properly approved via Resolution and was accurately reflected as "bonds issued" as of June 30th on the "Schedule of General Obligation Bonds" in the CSF semi-annual report.

3. If the Treasurer of State issued general obligation debt for Highway Capital Improvements during the fiscal year, we will review the process for issuing debt at the Treasurer of State/CSF; determine whether the debt issuance was approved by the proper authority; and determine that the debt was accurately reflected as "bonds issued" as of June 30th on the "Schedule of General Obligation Bonds" in the CSF semi-annual report

Findings:

During fiscal year 2007, the Treasurer of State issued \$190 million in Highway Capital Improvement bonds. Pursuant to our review of bond issuance documents, the bonds were properly certified by the Office of the Treasurer of State and Director of the Ohio Department of Transportation. The debt was accurately reflected as "bonds issued" as of June 30th on the "Schedule of General Obligation Bonds" in the CSF semi-annual report.

4. We will review the monthly BOD minutes to determine whether a quorum was present, prior minutes were approved, and minutes contained sufficient facts and information to understand rationale behind decisions made. The BOD is required to meet monthly per Section 135.02, Revised Code.

Findings:

Pursuant to our review of the monthly BOD minutes, we noted that a quorum was present and prior minutes were approved each month. In addition, the minutes contained sufficient facts and information to understand the rationale behind decisions made.

5. We will determine that interim deposits (investments) were approved by the BOD on a monthly basis. Section 135.09, Revised Code states that interim deposits may be awarded by the treasurer or governing board as interim moneys become available.

Findings:

Pursuant to our review of the monthly BOD minutes, we noted that a motion was moved and carried each month to ratify the previous months' interim funds.

6. We will select two monthly bank statements of the approved depository bank for the State of Ohio's active deposits and determine that the Treasurer of State paid the appropriate amount of bank fees to the public depository by recalculating the bank fees. The BOD designates the public depositories of state monies biennially per Section 135.12, Revised Code.

Findings:

Key Bank is the approved depository bank for the State of Ohio's active deposits. We obtained the Key Bank Account Analysis Statement, which details all service charges for the month, for the months of September 2006 and March 2007, and attempted to recalculate the bank fees by tracing AFP Codes/Unit Prices to the banking services agreement and Quantity to appropriate supporting documentation. Our results were as follows:

September 2006 (40 bank accounts included in the Account Analysis Statement):

- For 18 of the bank accounts, we were able to recalculate bank fees without exception;
- For 19 of the bank accounts, we were unable to trace certain Quantities to appropriate supporting documentation;
- For two of the bank accounts, we were unable to trace certain AFP Codes/Unit Prices to the banking services agreement;
- For two of the bank accounts, the Unit Price for certain AFP Codes did not agree with the Unit Price stated in the banking services agreement for that AFP Code; and
- For 10 of the bank accounts, we were unable to trace FDIC Assessments to appropriate supporting documentation.

March 2007 (38 bank accounts included in the Account Analysis Statement):

- For 25 of the bank accounts, we were able to recalculate bank fees without exception;
- For seven of the bank accounts, we were unable to trace certain Quantities to appropriate supporting documentation;
- For two of the bank accounts, we were unable to trace certain AFP Codes/Unit Prices to the banking services agreement;
- For four of the bank accounts, the Unit Price for certain AFP Codes did not agree with the Unit Price stated in the banking services agreement for that AFP Code; and
- For 10 of the bank accounts, we were unable to trace FDIC Assessments to appropriate supporting documentation.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the accuracy and completeness of the Schedule of General Obligations Bonds from the Semi-Annual Report January 1, 2007 to June 30, 2007, issued by the Commissioners of the Sinking Fund, as well as compliance with debt issuance procedures and Revised Code Chapter 135 requirements and accuracy of bank fees paid during the fiscal year ended June 30, 2007. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The specified parties' response to our findings is attached to this report. We did not audit the response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Commissioners of the Sinking Fund, Ohio Public Facilities Commission, State Board of Deposit, and Auditor of State, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Kennedy Cottrell Richards LLC". The signature is written in a cursive, flowing style.

Kennedy Cottrell Richards LLC
August 15, 2008

Response to Findings:

Upon taking office, Treasurer Cordray undertook a comprehensive analysis on behalf of the Board of Deposit of its banking contract with KeyBank and related billing, dating back to 1997. It was determined after reviewing service fees and earnings credits that \$417,890.83 should have been credited to the State over the last ten years. Treasurer Cordray then initiated a painstaking review of the Board's other banking contracts and billing, spanning 168 separate accounts at six other main depositories, which resulted in an additional recovery of \$470,205.27 for service fee errors and earnings credits that had not been properly paid to the State over the past several years. During this contract review process in 2007, the Treasury discovered shortcomings in its recordkeeping systems under prior administrations that allowed these errors to go unnoticed historically. These shortcomings included the inability to track AFP codes/unit prices and quantities of particular transactions. These deficiencies have been addressed with the hiring of new staff and the continued implementation of updated software, which will allow the Treasury to work with state agencies to track more accurately AFP codes/unit prices and the quantities of particular transactions going forward.



Mary Taylor, CPA
Auditor of State

STATE OF OHIO GENERAL OBLIGATION BONDS

FRANKLIN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 18, 2008**