

# OHIO AUDITOR OF STATE KEITH FABER



**From:** Auditor of State's Center for Audit Excellence  
**To:** All IPAs  
**Subject:** Office of the Ohio Treasurer of State (TOS) – Ohio Pooled Collateral System (OPCS)  
**Date:** April 23, 2020

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The memo for the period of July 1, 2019 through December 31, 2019 is now available (attached). Auditors should review and include this in the working papers for audits where the auditee had significant deposits with financial institutions enrolled in the Ohio Pooled Collateral System (OPCS) during this time period.

There is one identified error which relates to public unit attestation (which we test in the OCS). The error should not significantly change the reliance placed on the OPCS, but auditors should consider this memo when reacting to any issues identified in testing of related procedures.

In addition to the information communicated in the attached memo, the Treasurer of State's (TOS) office was asked about the impact/potential impact of the COVID-19 emergency. The TOS did not indicate any immediate concerns, but indicated the market impact is continuously being evaluated, and in response they are:

- Continuing the collateral monitoring/pricing as part of the established controls (tested within the Memo);
- Increasing the economic monitoring procedures to a daily process, with the formal procedure being conducted monthly;
- Reviewing the Ohio Rev. Code to consider additional investment types to be used as collateral in the event of a shortfall; and
- Considering an increase in the state's public deposit balances.

In the event additional information is needed regarding the value of collateral (for a subsequent event disclosure or otherwise), the collateral position is available in OPCS daily and the TOS is available to answer any related questions.

Questions related to the Ohio Pooled Collateral System can be directed to Jesse Carroll at [JMCarroll@ohioauditor.gov](mailto:JMCarroll@ohioauditor.gov).

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## MEMORANDUM

**TO:** Bob Hinkle, Chief Deputy Auditor  
**FROM:** Debbie Liddil, Chief Auditor, State Region  
**DATE:** April 17, 2020  
**RE:** Office of the Ohio Treasurer of State (TOS) – Ohio Pooled Collateral System (OPCS)

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As requested by senior management, the State Region performed audit procedures over OPCS for the period of July 1, 2019 through December 31, 2019 to support local audits. The procedures and results of the work performed are summarized below:

1. Control Procedures: We completed a systems narrative and control procedures were tested over application approvals, reduced collateral bank monitoring, collateral position, collateral compliance, collateral sufficiency, account reconciliation, Public Unit (PU) case monitoring, and PU attestation monitoring. There were no new FI applications for reduced collateral (SCALE); therefore, we only ensured the process was adequate as part of documenting the systems narrative. The manual controls were tested (for implementation) by the TOS financial auditors and the automated controls were tested by our ISA group (RCEC and application controls).

*Note: Automated controls were tested in relation to the RCEC and communicated as part of the June 30, 2019 memorandum.*

2. Substantive Procedures:

*Note: Procedures were performed over the collateral only. Confirmation of the deposit balances should be completed at the PU level.*

- Collateral – As of December 31, 2019, 57 financial institutions (FI) were enrolled in OPCS. We obtained the Pooled Collateral report, which included the collateral sufficiency analysis for the main pools of all 57 financial institutions in OPCS. We recalculated the collateral sufficiency for each of the 57 FIs.
- We selected a representative sample of 25 pledged securities out of 3,127 total pledged securities as of December 31, 2019 and tested to ensure:
  - (a) The collateral was appropriately priced.
  - (b) The securities pledged as collateral were eligible per ORC 135.182(E)
- Perfected Security Interest – Perfecting of the security interest is established as part of the application process. We reviewed the security agreement and financial application for the one new application during our audit period ensuring that the security interest was perfected in accordance with Section 1823(E) of Title 12.

- Bank Monitoring - We tested a FI with a reduced collateral floor to ensure:
  - (a) The SCALE Composite and Component average score was 2.25 or less for the current and past five quarters per OAC 113-40-04(A)6
  - (b) The SCALE Report met all the required variables for the average of the preceding five quarters per OAC 113-40-04(A)6
  - (c) The FI was in good standing with government regulators with respect to their deposit business per OAC 113-40-04(A)6
  - (d) The FI's public deposits did not exceed 30% of its total assets per OAC 11-40-04(A)6

**Conclusion:**

We noted the following error:

- The Case Management spreadsheet for PU attestations included evidence of follow-up procedures; however, upon review of one case within OPCS, the case was closed prior to properly being resolved. Once this error was brought to management's attention, the case was re-opened and the Case Management Spreadsheet (closed cases) was reviewed for any other improper closures.

No other errors were noted.

Attachments: PU Case Management Spreadsheet (as of 3/24/2020)