

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: October 2, 2019

Below is the guidance we sent to AOS auditors relating to the bi-annual memo over the Office of the Ohio Treasurer of State (TOS) – Ohio Pooled Collateral System (OPCS) (referred to in Ch. 2-9 of the OCS). IPAs should determine the audit implications for their specific audits.

The memo for the period of January 1, 2019 through June 30, 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 the noted time period.

Questions related to the Ohio Pooled Collateral System can be directed to Jesse Carroll at JMCarroll@ohioauditor.gov.

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MEMORANDUM

TO: Bob Hinkle, Chief Deputy Auditor

FROM: Debbie Liddil, Chief Auditor, State Region

DATE: September 4, 2019

RE: Office of the Ohio Treasurer of State (TOS) – Ohio Pooled Collateral System (OPCS)

As requested by senior management, the State Region performed audit procedures over OPCS for the period of January 1, 2019 through June 30, 2019 to support state and 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 (SCALE) applications, reduced collateral bank monitoring, collateral position, collateral compliance, collateral sufficiency, account reconciliation, and Public Unit (PU) case monitoring. 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: The PU attestation occurs annually in September and was not applicable during the testing period (outside of process documentation). However, we did perform control testing over TOS' monitoring procedures in place regarding open cases from the PU attestation completed in September 2018. We have attached a current case management spreadsheet of open cases for consideration at the PU level.

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 June 30, 2019, 56 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 56 financial institutions in OPCS. We recalculated the collateral sufficiency for each of the 56 FIs.
- We then selected a sample of 25 pledged securities out of 3,165 total pledged securities as of June 30, 2019 (note: we selected each security from a different FI) 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.

- Reduced Collateral Banks - During the audit period, one FI went live within OPCS for a reduced collateral floor. We tested this FI ensuring:
 - (a) The FI participated in OPCS for at least thirty days prior to implementing the reduced collateral floor per OAC 113-40-03(D)
 - (b) All data elements of the SCALE checklist were completed prior to the approval of the reduced floor.
 - (c) 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.
 - (d) The SCALE Report met all the required variables for the average of the preceding five quarters per OAC 113-40-04(A)6.
 - (e) The FI is in good standing with government regulators with respect to their deposit business per OAC 113-40-04(A)6.
 - (f) The FI's public deposits do not exceed 30% of its total assets per OAC 113-40-04(A)6.

Conclusion

No errors were identified during testing.