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From: Auditor of State's Center for Audit Excellence
To: All IPA Firms
Subject: Treasurer of State Ohio Pooled Collateral System
Date: May 24, 2018

Background

The Ohio Pooled Collateral System (OPCS) allows for an eligible public depository (financial institution) to pledge collateral to the Ohio Treasurer's Office to secure local governments deposits. The Treasurer of State administers and monitors the program. The Treasurer of State's Office maintains a perfected security interest in the collateral securities pledged by the enrolled financial institutions.

The Treasurer of State's Office maintains OPCS for financial institutions, public entities (local governments), and collateral trustees via an online portal. Financial Institutions report the amount of public deposits to OPCS daily. The collateral trustees report collateral detail to OPCS daily. OPCS compares total market value of collateral pledged by a financial institution to the uninsured public deposits of the financial institution each business day.

Under this program, public depositories that pledge a collateral pool using the method prescribed in Ohio Rev. Code § 135.18(A)(2) or Ohio Rev. Code § 135.37(A)(2) shall pledge to the Treasurer of State a single pool of eligible securities for the benefit of all public depositories to secure the repayment of all uninsured public deposits at the public depository; provided that at all times the total market value of securities so pledged is at least equal to either of the following:

- One hundred two percent of the total amount of all uninsured public deposits.
- An amount determined by rules adopted by the Treasurer of State that set forth the criteria for determining the aggregate market value of the pool of eligible securities pledged by a public depository. Such criteria shall include, but are not limited to, prudent capital and liquidity management by the public depository and the safety and soundness of the public depository as determined by a third-party rating organization.

As of May 23, 2018, fifty-five (55) financial institutions have enrolled in OPCS. When a financial institution enrolls in OPCS, the local governments with deposits in the financial institution are notified of the enrollment by email. OPCS enables local governments to have access to information regarding the collateral pledged by their financial institutions on a daily basis.

The OPCS online portal is located at <https://opcs.ohio.gov/login#/>

Auditors' Access to OPCS

Ohio Rev. Code § 135.182(K) indicates some of the information included in OPCS is confidential and not a public record under Ohio Rev. Code § 149.43; however, nothing in this section prevents

the Treasurer of State from releasing or exchanging this information as required by law or for the operation of the pooled collateral program.

The Auditor of State's Office (AOS) has worked with the Treasurer of State's Office to enable auditors to access information in the OPCS for use in completing the audits of government entities. Since some of the information is considered confidential, the AOS has developed a process to limit access to appropriate parties. As part of this process, the AOS will be able to provide read only accounts to IPAs with current contracts. In order to maintain appropriate control over the OPCS access, the number of accounts for each firm will be limited to an appropriate partner or partners when there are multiple locations for a firm. IPA firms are responsible for notifying the AOS when there is a change in the individual(s) who should have account access. We expect that such changes will be infrequent.

To establish the appropriate read only access to OPCS, each firm must identify the appropriate partner who will be responsible for the OPCS account for the firm. Each firm must provide the following information for selected individual to the AOS in order for these accounts to be established:

- Email address
- Name (First and Last)
- Organization / Firm Name
- Phone Number
- Address
- County

The OPCS Accounts will be maintained in coordination with IPA contracts by Ami Mayne, Director of Audit Administration. Please provide the required information noted above to Ami Mayne at IPACorrespondence@ohioauditor.gov in order to create your firm's account.

It will likely take a few weeks to create the IPA accounts in OPCS. Once the accounts are created, the firm's designated individuals will receive an email from OPCS to finalize the account access. There are user guides and training manuals available on the OPCS portal under FAQ/HELP in the portal.

Once the accounts are created, auditors will have read-only access to view the accounts and related collateral information for the auditees. This will enable the auditors to obtain appropriate information to complete the compliance testing included in section 2-9 of the 2018 *Ohio Compliance Supplement*.

OPCS Testing

Section 2-9 of the *Ohio Compliance Supplement* (OCS) provides suggested audit procedures that specifically apply when the financial institution is enrolls in OPCS. One of the procedures is to obtain and review the AOS State Region annual report related to the testing of the OPCS. This testing helps to gain assurance regarding various elements of the OPCS. The State Region has been working on the testing of the OPCS, and we expect to have the memo detailing their results by the end of this week.

If you have completed all other procedures and are waiting only on the State Region memo, you may be able to proceed without it depending on materiality. If a significant / material amount of the

entity's total cash balances are deposited in financial institutions enrolled in the OPCS subject to the pooled collateral requirements, the assurances gained from the memo are necessary for the reliance of the information from OPCS. However, if immaterial amounts of the entity's total cash balances are deposited in a Financial Institution enrolled in the OPCS subject to pooled collateral because funds are secured in additional ways (i.e. specific pledged collateral, FDIC etc.), this requirement may not be considered material. This logic should be applied not only to the custodial credit risk footnote disclosure, but also then to the compliance testing necessitating the memo. If the auditor can clearly document the judgment determining this as immaterial in the working papers, there is no need to wait for the memo.

If it is clearly material, you will need to wait until the state region testing is completed. Without it we have no assurances over the OPCS information, and there is currently no known way to apply alternative procedures in a timely/ effective manner at the local level.

While the testing has not been finalized, early results indicate the State Region testing could not provide assurance regarding the accuracy of the bank data. Therefore, auditors should compare balance in OPCS to confirmed balances at fiscal year-end and investigate any discrepancies.

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