

## CLIENT BULLETIN – JULY 26, 2024

### New SPDA Requirements

#### *Did you know?*

As a public depositor, you are now responsible for verifying your funds are properly reported to the Treasury Board on a quarterly basis.

Effective July 1, 2023, the Commonwealth of Virginia’s amended Security for Public Deposits Act (“SPDA”) regulations **require** Virginia public depositors to use the Treasury web-based Public Funds Search feature ([HERE](#)) to ensure the banks they use are accurately reporting their public funds to the Treasury Board. Historically qualified public depositories provided the Treasury Board a quarterly listing of all their public fund accounts and the balances in those accounts. The Treasury Board had no way of knowing whether depositories were reporting all of their public funds to the Treasury Board. This policy change requires public depositors to access this data quarterly via Treasury’s web portal to ensure their public fund accounts are being correctly reported to the Treasury Board. This new requirement will provide assurance to public depositors that their public fund accounts are correctly reported to the Treasury Board. This, in turn, will ensure these public fund accounts are adequately collateralized in accordance with the SPDA.

This new requirement applies to all public fund bank accounts (demand deposits, savings deposit, and non-negotiable certificate of deposits) opened and maintained by all of Virginia’s public entities to include local boards and authorities, public schools, and other public entities established under the Code of Virginia or local ordinance. The new SPDA Account Verification feature contains account data beginning with Quarter 4 2023 (quarter ended 12/31/2023). Section 1VAC75-20-160 requires state and local public entities to verify to Treasury that their accounts and account balances are being correctly reported to the Treasury Board by their financial institutions, beginning with Q4 2023.

Balances for the quarter ended June 30, 2024 will be available on 8/1/2024 for review and verification. The account information must be verified no later than 9/28/2024. **This verification process must be completed each quarter.**

## *How does this impact your audit?*

In Virginia, the auditor has additional responsibility with regard to cash accounts held in banks and other financial institutions. The Auditor of Public Accounts (APA) Audit Specifications state that the auditor should determine the following:

The balances in all official bank accounts held by the Treasurer, Director of Finance, or other Constitutional Officers are appropriately reported in the entity's annual financial statements.

- The entity has properly complied with Treasury's Verification process in the new SPDA system and confirmed their account balances to ensure public funds accounts are being properly reported to the Treasury Board. Auditor should review for applicable quarters that occurred during the fiscal year time frame.
- All of the entity's public funds held by the Treasurer, Director of Finance, or other Constitutional Officer are properly insured against loss in accordance with current FDIC coverage for demand and savings accounts and the Virginia Security for Public Deposits Act.

To determine whether the entity has adequate protection against loss for bank balances in excess of the FDIC limit, the auditor should obtain a listing from the state Department of Treasury's SPDA website application and agree the SPDA information to the entity's reported balances per the entity's bank statements.

Please keep in mind that due to the SPDA system changes, Treasury is currently working on a possible alternate view-only type of access for auditors to search and confirm SPDA account balances; they are working to try to resolve this during the month of July 2024.

These changes are applicable for audits, including School Activity Funds, for the year ended June 30, 2024. At this time, there is no auditor view-only access. In order to review an entity's verified account balances, the auditor must coordinate with the entity to obtain documentation of verification. The APA recommends auditors perform alternate procedures to perform SPDA confirmations by working alongside the appropriate personnel and requesting the staff log in to the new system through their established access and bring up the applicable accounts information for the auditor to view.



# COMMONWEALTH of VIRGINIA

Department of the Treasury

June 22, 2023

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## MEMORANDUM

TO: City and County Treasurers

FROM: David L. Richardson

*David L. Richardson*

SUBJECT: Newly Amended Security for Public Deposits Act Regulations

On July 1, 2023, the newly amended Security for Public Deposits Act (SPDA) Regulations (Regulations) become effective. This completes a three-year process to amend the Regulations through the Virginia Administrative Process Act. In August 2020, the Virginia Treasury Board began the process to amend the Regulations. We appreciate all the comments and review provided by all interested parties during this process.

Provided with this memorandum is both a clean and blacklined copy of the amended Regulations and a document outlining the policy changes incorporated into the newly amended Regulations. Numerous "housekeeping" changes have also been made throughout the Regulations 1) to be in sync with changes made to the SPDA in the last decade; 2) to reflect current practices; and 3) to provide clarification and consistency where needed.

A summary of the policy changes that become effective July 1, 2023, are provided below. **Please pay special attention to the last policy change that impacts all public depositors.**

- Corporate notes are no longer an eligible collateral type. (IVAC75-20-60)
- There will now be a 10 percent and a 20 percent haircut, respectively, applied to the market value of Virginia and non-Virginia municipal securities pledged by pooled depositories as collateral. The haircuts are the same as those now required of depositories that use the dedicated (opt-out) method to collateralize their public deposits and pledge municipal securities. Depositories that are impacted by this change must pledge additional municipal securities as collateral (taking into account the new haircuts) or substitute other security types with lower or no haircuts in order to maintain sufficient collateral. Qualified public depositories that use the pooled method of collateralization have six months until January 1, 2024, to adjust their pledged collateral to meet this new requirement. (IVAC75-20-70.B.)

- Eligibility criteria for becoming and remaining a qualified public depository and an escrow agent have now been established in sections **IVAC75-20-130** and **IVAC75-20-140** of the Regulations. These new eligibility criteria will ensure that only financially sound banks are allowed to hold Virginia public deposits and hold the collateral pledged against these deposits. We also want the banks and trust companies that hold collateral under the SPDA to have a presence in Virginia; therefore, escrow agents must "be located in Virginia", meaning they have a main office or branch office in the Commonwealth where deposits are accepted, checks are paid, and money is lent, or where similar services required by an escrow agent under the SPDA Master Custodial Agreement are offered. Banks and trust companies that currently function as escrow agents under the SPDA are exempt from this requirement.
- Compliance requirements have been added to the Regulations to outline the steps that will be taken if a depository or escrow fails to meet the compliance requirements in the SPDA, Regulations, and SPDA Guidelines. We are formalizing our current practices which have been in place for many years but are not formally documented.
- **Virginia public depositories will be required (no longer voluntary) to use Treasury's web-based Public Funds Search feature to ensure the banks they use are accurately reporting their public funds accounts to the Treasury Board.** Currently, qualified public depositories provide the Treasury Board a quarterly listing of all their public fund accounts and the balances in those accounts. This policy change requires public depositories to access this data quarterly via Treasury's web portal to ensure their public fund accounts are being reported to the Treasury Board and are being reported correctly. Currently, Treasury Board has no way of knowing if depositories are reporting all their public fund accounts to the Treasury Board, except by an annual review required to be performed by the depositories' external or internal auditors. This new requirement will close a loop to provide assurance to public depositories that their public fund accounts are correctly reported to the Treasury Board. This, in turn, will ensure these public fund accounts are adequately collateralized in accordance with the SPDA. Treasury's web-based Public Fund Search feature is currently being enhanced to facilitate ease of use, especially for public depositories with many bank accounts. Instructions on the use of the enhanced Search feature will be provided later this summer. In the meantime, the unenhanced Search feature remains available for use on a voluntary basis at <https://spda.trs.virginia.gov/quarterlysearch.aspx>. **(IVAC75-20-160)**

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The quarter ended September 30, 2023, will be the first quarter that public depositors will be required to use the Public Funds Search feature. Treasury Board will be monitoring the use of the Search feature and following up on accounts that are not verified by public depositors.



This new requirement applies to all public fund bank accounts (demand deposit, savings deposit, and non-negotiable certificate of deposits) opened and maintained by all of Virginia's public entities to include local boards and authorities, public schools, and other public entities established under the Code of Virginia or local ordinance. Please ensure the custodians of these accounts in your jurisdictions are made aware of this new requirement so all public fund bank accounts can be accounted for and collateralized in accordance with the SPDA.

All the changes outlined above become effective July 1, 2023. Please take the time to read and understand the amended SPDA Regulations. We are here to address any questions that you may have about these changes. Please address your questions to Kristin Reiter, Director, Operations Division at (804) 225-3240. You may also email her at [kristin.reiter@trs.virginia.gov](mailto:kristin.reiter@trs.virginia.gov).

Attachments

cc: Treasury Board Members