

CLERK-TREASURER DIRECTIVE

Policy on Materiality and Process for Reporting Material Items

Whereas, IC 5-11-1-27(j) requires erroneous or irregular material variances, losses, shortages, or thefts of political subdivision funds or property shall be reported immediately to the State Board of Accounts; and

Whereas, State Examiner Directive 2015-6 directs each political subdivision to determine its own policy on materiality; and

Whereas, the Township does not condone any erroneous or irregular material variances, losses, shortages, or thefts of political subdivision funds or property but recognizes that relatively small items may not justify the cost of the involvement of the State Board of Accounts;

Now, therefore, I, Teresa Duke, Clerk Treasurer of the Town of Greentown, direct as follows:

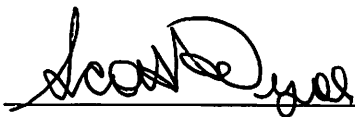
Section 1. All erroneous or irregular variances, losses, shortages, or thefts of the Town subdivision funds or property, or funds or property the Town holds in trust, shall be reported to the Clerk Treasurer or her designee promptly.

Section 2. It will be the policy of the Clerk Treasurer to report to the State Board of Accounts any erroneous or irregular variances, losses, shortages, or thefts of cash in excess of \$500, except for inadvertent clerical errors that are identified timely and promptly corrected with no loss to the Town.

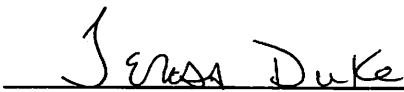
Section 3. It will be the policy of the Clerk Treasurer to report promptly to the State Board of Accounts any erroneous or irregular variances, losses, shortages, or thefts of non-cash items in excess of \$500, estimated market value, except for those resulting from inadvertent clerical errors or misplacements that are identified timely and promptly corrected with no loss to the Town, and except for losses from genuine accidents.

Section 4. All Town elected officials are asked, and all Town employees and agents are directed, to comply with this policy, and the Town Board is asked to endorse it.

Executed this 5th day of April, 2016



Greentown Town Council President



Greentown Clerk-Treasurer



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

STATE EXAMINER DIRECTIVE 2015-6

Date: November 18, 2015

Subject: Materiality threshold for reporting irregular variances, losses, shortages, and thefts

Authority: IC 5-11-1-10; IC 5-11-1-21; IC 5-11-1-27

Application: This Directive applies to all political subdivisions

From: Paul D. Joyce, CPA, State Examiner

For purposes of this directive, "political subdivision" means all counties, townships, cities, towns, school corporations, library districts, fire protection districts, public transportation corporations, local hospital authorities or corporations, local airport authority districts, special service districts, special taxing districts, and other separate local governmental entities that may sue and be sued. Ind. Code § 5-11-1-27(d); Ind. Code § 5-11-10.5-1.

Indiana Code § 5-11-1-27(j) states:

All erroneous or irregular material variances, losses, shortages, or thefts of political subdivision funds or property shall be reported immediately to the state board of accounts. For all material variances, losses, shortages, or thefts, the state board of accounts shall:

- (1) determine the amount of funds involved and report the amount to the appropriate government and law enforcement officials;
- (2) determine the internal control weakness that contributed to or caused the condition; and
- (3) make written recommendations to the appropriate legislative body or appropriate official overseeing the internal control system addressing:
 - (A) the method of correcting the condition; and
 - (B) the necessary internal control policies and internal control procedures that must be modified to prevent a recurrence of the condition.

A. Materiality Threshold for Political Subdivisions.

In general, each political subdivision must develop their own policy on materiality because the causes of irregular variances, losses, shortages, and thefts are as broad and varied as the political subdivisions in

which the incidents occur. For example, a \$500 variance in Fort Wayne is not necessarily as concerning as a \$500 variance in Pershing Township, Jackson County. On the other hand, a \$100 variance in Fort Wayne that occurs every Friday may be material.

Political subdivisions must recognize that variances, losses, shortages, and thefts may occur. If an incident occurs, the political subdivision should have a policy in place that outlines the steps to be taken. The policy should include a materiality threshold at which point the political subdivision reports incidents to the State Board of Accounts.

Each political subdivision is the best determiner of the qualitative and quantitative factors unique to the unit in arriving at materiality.

The policy should be detailed, and materiality thresholds should distinguish between incidents involving cash and other types of assets. The policy should also address maintenance of documentation and resolution of incidents that do not meet the materiality threshold.

The policy should also consider IC 5-11-1-27(l), which requires public officials who have actual knowledge of or reasonable cause to believe that there has been a misappropriation of public funds to immediately send written notice of the misappropriation to the State Board of Accounts and the prosecuting attorney.

If a political subdivision does not develop a policy on materiality, then the threshold is \$0.00 and the political subdivision must report *all* irregular variances, losses, shortages, and thefts to the State Board of Accounts.

B. Procedure to Report Material Variances, Losses, Shortages, and Thefts.

When an irregular variance, loss, shortage, or theft is determined material pursuant to a political subdivision's policy on materiality (or, if no policy on materiality is developed, whenever there is any incident of irregular variance, loss, shortage, or theft), the subdivision must report the incident to the State Board of Accounts.

On the State Board of Accounts' website there is a notification link, which allows public officials to report via e-mail material irregular variances, losses, shortages, or thefts. Telephone and in-person reporting is also acceptable. Reports will be followed up with a return e-mail or call to gather additional information as necessary. All reports of irregular variances, losses, shortages, or thefts are maintained by the State Board of Accounts.

When a report is received, the State Board of Accounts will use a qualitative and quantitative analysis to determine materiality for investigative and reporting purposes, as well as written internal control recommendations as required by Ind. Code § 5-11-1-27(j).

This Directive may be amended from time to time and may be rescinded at any time in writing by the State Examiner or a Deputy State Examiner.



Paul D. Joyce, CPA
State Examiner



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AMENDED STATE EXAMINER DIRECTIVE 2015-6

Date: April 7, 2016

Subject: Materiality threshold for reporting irregular variances, losses, shortages, and thefts

Authority: Ind. Code § 5-11-1-10; Ind. Code § 5-11-1-21; Ind. Code § 5-11-1-27

Application: This Directive applies to all political subdivisions

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- (2) determine the internal control weakness that contributed to or caused the condition; and
- (3) make written recommendations to the appropriate legislative body or appropriate official overseeing the internal control system addressing:
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as a \$500 variance in Pershing Township, Jackson County. On the other hand, a \$100 variance in Fort Wayne that occurs every Friday may be material. Moreover, each political subdivision is the best determiner of the qualitative and quantitative factors unique to the unit in arriving at materiality.

Political subdivisions must recognize that variances, losses, shortages, and thefts may occur. If an incident occurs, it is imperative that the political subdivision have a policy in place that outlines the steps to be taken. Such a policy must include a materiality threshold at which point the political subdivision reports incidents to the State Board of Accounts.

The policy must be detailed, and it is essential that materiality thresholds distinguish between incidents involving cash and other types of assets. The policy needs to address maintenance of documentation and resolution of incidents that do not meet the materiality threshold.

The policy must also consider Ind. Code § 5-11-1-27(l), which requires public officials who have actual knowledge of or reasonable cause to believe that there has been a misappropriation of public funds to immediately send written notice of the misappropriation to the State Board of Accounts and the prosecuting attorney. There is *no* materiality threshold applicable to Ind. Code § 5-11-1-27(l). Thus, whenever a political subdivision has actual knowledge or is reasonably certain that a misappropriation of public funds has occurred (regardless of the dollar amount), the political subdivision must send written notice of the misappropriation to the State Board of Accounts and the local prosecuting attorney. Misappropriation occurs when an employee or in-house contractor of the political subdivision wrongly takes or embezzles public funds. When there is a known misappropriation or embezzlement of public funds by an internal actor, materiality is irrelevant. Indiana law requires the political subdivision to report the activity to the State Board of Accounts and the local prosecutor. Ind. Code § 5-11-1-27(l).

If a political subdivision does not develop a policy on materiality, then the threshold is \$0.00 and the political subdivision is required to report *all* irregular variances, losses, shortages, and thefts to the State Board of Accounts.

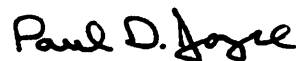
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Date: April 7, 2016

To: All political subdivisions

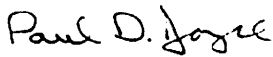
Re: Amended State Examiner Directive 2015-6
Materiality threshold for reporting irregular variances, losses, shortages, and thefts

The State Board of Accounts received several questions regarding the interplay between Ind. Code § 5-11-1-27(j), which requires a materiality policy for reporting irregular variances, losses, shortages, and thefts; and Ind. Code § 5-11-1-27(l), which requires written notice of any known misappropriation of public funds to the State Board of Accounts and the local prosecuting attorney.

In response to these questions, the State Board of Accounts amended State Examiner Directive 2015-6, which was originally issued on November 18, 2015. The amended directive addresses or clarifies the following issue:

Materiality policies must consider Ind. Code § 5-11-1-27(l), which requires public officials who have actual knowledge of or reasonable cause to believe that there has been a misappropriation of public funds to immediately send written notice of the misappropriation to the State Board of Accounts and the prosecuting attorney. There is *no* materiality threshold applicable to Ind. Code § 5-11-1-27(l). Thus, whenever a political subdivision has actual knowledge or is reasonably certain that a misappropriation of public funds has occurred (regardless of the dollar amount), the political subdivision must send written notice of the misappropriation to the State Board of Accounts and the local prosecuting attorney. Misappropriation occurs when an employee or in-house contractor of the political subdivision wrongly takes or embezzles public funds. When there is a known misappropriation or embezzlement of public funds by an internal actor, materiality is irrelevant. Indiana law requires the political subdivision to report the activity to the State Board of Accounts and the local prosecutor. Ind. Code § 5-11-1-27(l).

Sincerely,


Paul D. Joyce, CPA
State Examiner