



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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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.

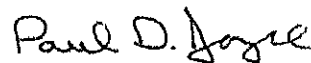
B. Procedure to Report Material Variances, Losses, Shortages, and Thefts.

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

ITA Responsibilities

The Indiana Township Association offers this guide and template to assist Indiana townships in complying with Indiana's requirement to develop policies for variance thresholds. It is only a guide, and each township must tailor it to local circumstances. ITA cannot guarantee that the township policy will be accepted by the State Board of Accounts or that the policies implemented will protect the township from erroneous or irregular material variances, losses, shortages, or thefts of political subdivision funds or property.

Board of Accounts Responsibilities

"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)." State Examiner Directive 2015-6

Township Responsibilities

The Township must determine its own policy on materiality. The Township must promptly report to the State Board of Accounts any erroneous or irregular material variances, losses, shortages, or thefts of political subdivision funds or property in excess of the thresholds determined in the Township's Policy on Materiality.

Steps:

The following should be done as early in the year as possible, and updated as needed. An annual update is recommended unless a more frequent update is needed:

1. Determine the variance policy (also called the “variance threshold” or “materiality policy”) of the Township. This policy is simply the dollar amount above which any erroneous or irregular variances, losses, shortages, or thefts of Township funds or property, must be reported to the State Board of Accounts. The Guide suggests \$500 for cash items and \$2000 for non-cash items, although very large townships may choose to adopt a policy with higher numbers. It is recommended not to exceed \$1000 for cash items and \$4000 for non-cash items. The Trustee should sign the “TRUSTEE DIRECTIVE: Policy on Materiality and Process for Reporting Material Items”, keep it as a public record for the auditors to examine, and present it to the Township Board as early as possible in the year.
2. Ask the Township Board to adopt a resolution: “TOWNSHIP BOARD RESOLUTION regarding variance thresholds applicable to _____ Township”, and include it in their minutes. Attached to the resolution should be the “TRUSTEE DIRECTIVE: Policy on Materiality and Process for Reporting Material Items.”

The following should be done as promptly as possible after an incident.

3. When an irregular variance, loss, shortage, or theft is determined material according to the Township’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 Township must report the incident to the State Board of Accounts. This reporting may take place through a reporting link on the Board of Accounts website, by email, telephone, or in person.

TRUSTEE 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, Julia Byers, Trustee of Wabash Township direct as follows:

Section 1. All erroneous or irregular variances, losses, shortages, or thefts of Township subdivision funds or property, or funds or property the Township holds in trust, shall be reported to the Trustee or his designee promptly.

Section 2. It will be the policy of the Trustee 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 Township.

Section 3. It will be the policy of the Trustee 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 \$2000, 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 Township, and except for losses from genuine accidents.

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

Executed this 10 day of February, 2016.

Julia Byers
TRUSTEE

TOWNSHIP BOARD RESOLUTION

Regarding variance thresholds applicable to Wabash Township

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 Board 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; and

Whereas, the Trustee has issued a directive, attached hereto as Appendix, stating a policy on materiality and a process for reporting material items;

Now, therefore, be it resolved:

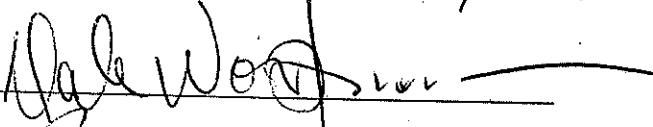
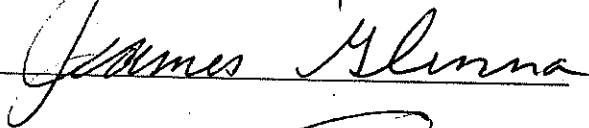

Section 1. The Township Board hereby endorses the Trustee's declaration, attached as Appendix, regarding a policy on materiality and a process for reporting material items.

Section 2. The Township Board calls upon the Trustee and all Township officials, employees, and agents to enforce and comply with the policy on materiality and process for reporting material items and to report noteworthy items to the Township Board Oversight Committee or the full Township Board.

Section 3. The Township Board directs its Oversight Committee to monitor, as it deems necessary, compliance with the policy on materiality and process for reporting material items and report noteworthy items to the full Township Board.

Section 4. The Township Board asks the Trustee to advise the Township Board of any changes in the policy on materiality and process for reporting material items.

Adopted this 10th day of February, 2016.

APPENDIX ATTACHED: TRUSTEE DIRECTIVE Policy on Materiality and a Process for Reporting Material Items.