



POLICY ON MATERIALITY: GUIDE FOR INDIANA TOWNSHIPS

*For compliance with the Indiana State
Examiner Directive 2015-6*

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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, _____, Trustee of _____ 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 _____ day of _____, _____.

TRUSTEE

TOWNSHIP BOARD RESOLUTION

Regarding variance thresholds applicable to _____ 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 _____ day of _____, _____.

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