STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

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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

Paul D. Joyce, CPA
State Examiner