



Book BYLAWS AND POLICIES  
Section FINANCE  
Title MATERIALITY THRESHOLD  
Code 6225  
Status Active  
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## 1) Background

The Indiana State Board of Accounts (SBOA), State Examiner Directive 2015-6 requires each political subdivision to develop their own policy on materiality for reporting erroneous or irregular variances, losses, shortages, and thefts.

*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:

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

Note: The materiality threshold policy does not apply if there is actual knowledge or reasonable cause to believe there has been a misappropriation of public funds.

## 2) Materiality Policy



Edison School of the Arts (“Edison”) has developed the following Materiality Policy to address the State Examiner Directive:

- a) Designation of point person(s)/position - All erroneous or irregular variances, losses, shortages, or thefts of funds or property either owned or held in trust by Edison must be reported to the Edison Board of Directors (“Board”) Chair and Treasurer.
- b) Cash and Non-Cash Materiality Threshold – Edison must report to the SBOA any erroneous or irregular variances, losses, shortages, or thefts of cash in excess of \$200,000 and non-cash items in excess of \$200,000 estimated market value. At its discretion, Edison may report items below the dollar thresholds based on a qualitative evaluation of the matter.
- c) Action steps when a matter is reported - The Treasurer will be responsible for initial logging a new incident report
  - i) The Treasurer will perform an evaluation of the matter using the following guidelines:
    - (1) Log-in all incident reports for permanent record using an adopted reporting system that sequentially numbers, dates and accounts for each report submitted.
    - (2) Read the incident report to determine the nature of incident and evaluate whether it is erroneous or irregular. Edison will document a conclusion on whether the matter is subject to the materiality policy. If not subject to the policy, Edison will close the incident and retain documentation in the reporting system.
  - ii) For matters that are considered erroneous or irregular, the Treasurer will perform the following steps to better understand the matter and measure the dollars at risk:
    - (1) Discuss and agree on what further questions or documentation may be required and discuss the investigation plan with the Board Chair.
    - (2) Conduct an investigation of the matter through interviews and documentation gathering based on an appropriate investigation plan.
    - (3) Measure the actual or potential dollar amounts at risk (cash and noncash) to determine whether the incident is considered material, or if the incident has qualitative issues that may require further escalation



- (4) Document conclusion on whether the incident is material or qualitatively significant.
- iii) For matters that are erroneous or irregular and considered material or qualitatively significant, the Treasurer will:
    - (1) Determine if there is actual knowledge or reasonable cause to believe that a misappropriation of public funds has occurred. If a determination is made that the incident involves misappropriation of funds, Edison will document its understanding of the incident, enlist the aid of the Indianapolis Police as appropriate, report the matter to appropriate Edison officials, and determine the communication protocol for timely and appropriate reporting to the SBOA and the local prosecutor's office. If circumstances so allow, the facts should be thoroughly investigated and a final report issued within 30 days of when the Executive Director or Treasurer become aware of the incident. The notification of the incident will be submitted the SBOA within 15 days of the date of the resolution of the reported incident.
    - (2) For matters that are not considered to be a misappropriation of public funds, Edison will document its understanding of the matter and document why Edison believes the matter was not considered a misappropriation of public funds. The incident will be reported to the SBOA within 15 days of the date of the resolution of the reported incident.
  - iv) For all matters (material or immaterial) reported under the materiality policy process, Edison will perform the following steps:
    - (1) Identify the core reason for the incident and document the ineffective internal control design and/or internal control implementation as applicable to each incident.
    - (2) Analyze and measure the risk of the matter to determine the significance of risk and perform cost-benefit analysis on what actions may be taken.
    - (3) Create a corrective action plan and/or document resolution of the matter.
    - (4) Design and implement, or update, internal controls to prevent and mitigate future risk.
    - (5) Maintain a centralized repository for documentation and resolution of all incidents reported, including:



- (a) Materiality policy document;
  - (b) Incident log;
  - (c) Incident reports and documentation submitted;
  - (d) Edison documentation supporting its investigation and evaluation of the matter;
  - (e) Support for determination that the incident qualifies as erroneous or irregular;
  - (f) Support for measurement of materiality related to each incident;
  - (g) Standard forms for reporting “incidents”;
  - (h) The centralized repository is a reporting system housed on a secure server with password access to authorized Edison personnel only (e.g., Board on Track). If original documents are provided by a person reporting an incident, they will be reproduced for the reporting system and then the original documents will be maintained using Edison’s document retention policy.
- d) Misappropriation of Public Funds - Edison acknowledges its responsibility under Ind. Code § 5-11-1-27(I), 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(I). Edison School of the Arts will utilize either the notification link on the SBOA website, telephone or in- person reporting, to report material erroneous or irregular variances, losses, shortages, or thefts