

ESPARTO COMMUNITY SERVICES DISTRICT
ACCOUNTING POLICIES AND PROCEDURES MANUAL

**Adopted at a Regular Meeting of the
Board of Directors on**

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1. INTRODUCTION

This manual puts in place basic accounting, billing, and cash control policies and procedures designed to protect and secure Esparto Community Services District (ECSD), ensure the maintenance of accurate records of financial activities and ensure compliance with governmental and private funding source reporting requirements. Where this manual conflicts with specific Federal or State regulation or with ECSD's Board policy, the regulations or board policy shall prevail.

1.1. RESPONSIBILITIES

1.1.1. The Board of Directors formulates financial policies, delegates' administration of the financial policies to the General Manager, and reviews operations and activities.

1.1.2. The General Manager has responsibility for all operations and activities, including financial management.

1.1.3. Exceptions to these policies may be made on an individual basis, as necessary, with the approval of the General Manager.

1.1.4. The Fiscal Services Associate is responsible to the General Manager for all financial operations.

1.2. GENERAL POLICIES

1.2.1. Current job descriptions are maintained for all employment positions, indicating duties and responsibilities.

1.2.2. There are separations of financial duties and responsibilities so that no staff member has sole control over cash receipts, bank reconciliations or other accounting functions.

1.2.3. Financial Procedures are reviewed annually by the Board of Directors and General Manager.

1.2.4. Separate General Ledger accounts are maintained as required by funding source regulations.

1.2.5. Accounting forms and timesheets are typewritten or completed in ink. Whiteout or correction tape is not be used.

1.2.6. Passwords must comply with organizational standards. They are to be treated confidentially and are not shared with other staff. Policies may be established requiring the expiration

of passwords where appropriate. All passwords and subsequent changes are to be provided to the General Manager immediately.

1.3. COMPLIANCE WITH EXTERNAL POLICIES

ECSD's accounting policies and procedures are consistent with:

1.3.1. Generally Accepted Accounting Principles (GAAP).

1.3.2. OMB Circular A-133 "Audits of States, Local Governments, and Non-Profit Organizations".

1.3.3. GASB 34

1.4. SECURITY AND ACCESS

To ensure that only authorized staff can access the financial, personnel, payroll, computer, on-line and paper records of the organization:

1.4.1. Security and access are determined by the General Manager.

1.4.2. Access to computer or on-line systems for accounting, personnel, payroll, and online and phone banking is controlled by Board resolution naming those within the District who are authorized to access banking information (identified as signers on the accounts). Passwords are assigned by the General Manager. Within each system, access permission is set to allow the appropriate level of access depending on staff positions and job duties.

1.4.3. Upon separation of a staff member, the password is immediately locked to prohibit any unauthorized activities or entries and keys to ECSD's office(s) are returned.

2. OVERVIEW OF ESPARTO CSD ACCOUNTING SYSTEM

The financial records of ECSD are maintained on QuickBooks Accounting Software using the accrual basis of accounting. Access to the QuickBooks accounting system is controlled to maintain the reliability and integrity of the data.

Security is set by the General Manager to allow different levels of access. The General Manager has full access to the entire system including setup and administration. The Fiscal Services Associate has full access to the system in order to fulfill accounting duties such as issuing accounts payable in the event of the General Manager's absence.

2.1. DATA BACKUP

Backup is done daily to assure that the data is secure and will not be lost in the event of a computer failure. Daily backups are done to an external hard drive and off-site via the Internet - verified daily by

e-mail. In the event of a fire or other catastrophe at the ECSD Office, the off-site data will be used to restore the system. Year-end backups are kept indefinitely.

2.2. FUNDS RECEIVED

The funds received policies and procedures ensure that all in-coming funds are properly recorded and safeguarded through separation of duties and proper documentation. The General Manager designates which staff is authorized to collect in-coming ECSD funds.

2.3. FUNDS DISBURSED

Specialized procedures govern check writing and petty cash procedures. Only the General Manager or Board of Directors may authorize the issuance of checks. Two authorizations are required for the issuance of checks all ECSD checking accounts. Access to the check printing system is limited to the office staff and is controlled by password protected software. Checks are stored in a locked safe which only the General Manager and Fiscal Services Associate have access to. Petty cash access is also limited to General Manager.

2.4. PAYROLL SYSTEM

Access to the payroll system is controlled to assure accurate and confidential data. Access is limited to accounting staff responsible for payroll processes. Payroll is processed by the General Manager. Payroll data from employee time cards are processed through Payality Payroll Service. The General Manager will process payroll.

3. DETAILED ACCOUNTING PROCEDURES

3.1. FUNDS RECEIVED

3.1.1. Cash will be accepted from ECSD customers for payment of water, sewer and street light fees, copies, faxes, or other services.

3.1.2. Mail is to be opened promptly and distributed by the Fiscal Services Associate.

3.1.3. All checks, money orders and cash for the payment of water, sewer and/or street light fees are entered, on the same date they are received, into the CUSI District's billing system maintained by the Fiscal Services Associate. The Fiscal Services Associate will restrictively endorse the back of any checks received prior to distributing to the General Manager for deposit.

3.1.4. Office staff will enter all payments into the CUSI District's billing system. A pre-numbered receipt is automatically created at the time the payment is entered in the CUSI billing system. For all cash and non-cash payments received at the cashier's window in the office, the receipt that is

automatically created by the CUSI billing system will be printed and given to the customer at time the payment is received. Copies of ~~these~~ all printed receipts are kept for audit purposes. Printing a receipt for non-cash payments received in the mail, in the drop-box or paid online will be not be required. At the end of each day, a daily Receipt History report will be generated and included in the Closing Report Deposit documents for review and approval by the General Manager or his/her designee. The approved daily Receipt History report will be scanned and saved for audit purposes.

3.1.5. The Fiscal Service Associate will be responsible for the closing of each day's web payments and cash and checks including preparation of the bank deposit. Documentation for each closing batch along with the cash and checks will be reviewed and approved, prior to deposit, by the General Manager or his/her designee.

3.1.6. Funds awaiting bank deposit are kept in a locked safe with access limited to staff designated by the General Manager.

3.1.7. All cash and check deposits will be taken to the bank in a deposit bag by the General Manager. The General Manager is responsible for taking the deposits at least once per week.

3.1.8. The General Manager will give each daily batch deposit bank receipt to the Fiscal Services Associate which will be maintained with each batch deposit.

3.1.9. Daily batch closing report deposits are imported into the QuickBooks accounting system by the General Manager or his designee and then filed in date order in the Closing Report file for each month.

3.1.10. At the end of the month, the General Manager or his designee reconciles the monthly bank statement to the batch closing reports entered into the CUSI billing system verifying that all batch closing reports have been recorded in the QuickBooks accounting system and deposited into the bank account. Monthly bank statement reconciliation documentation will be reviewed and approved by the General Manager and maintained for the audit.

3.2. RECEIPT BOOKS

Receipts are issued for cash and/or checks received at the cashier's window in the office for copies, faxes, or other services. In the event that the CUSI billing system is unavailable, a receipt from the Receipt Book will be given to customers paying their water, sewer and/or street light bills. Each receipt will include the date, received from, dollar amount, the reason for the payment, the type of payment (cash, check or money order) along with the signature of the person issuing the receipt.

3.2.1. Each Receipt Book has three copies; the original is given to the person making the payment, one copy is kept with the money received and one copy remains in the Receipt Book. For any receipt that is voided, all three copies of the receipt are to remain in the Receipt Book.

3.2.2. In the event that the receipt is for a water, sewer and/or street light payment, when the CUSI billing system becomes available, that payment will be entered in the CUSI billing system and the receipt number from the CUSI billing system will be referenced on the copy of the receipt in the Receipt Book along with the date and CUSI billing system's Session Number.

3.2.3. Cash and/or checks received are kept in the safe until deposited in the bank.

3.2.4. Deposits are processed by the Fiscal Services Associate and reviewed and approved by the General Manager. Deposits for these types of receipts will be done at least monthly. The deposit backup documentation will include the copy of the receipt and monies deposited shall be balanced to the receipt backup.

3.2.5. All cash and check deposits will be taken to the bank in a deposit bag by the General Manager. The General Manager will give the deposit bank receipt to the Fiscal Services Associate who will write the date of the deposit on the copy of the receipt maintained in the Receipt Book and will keep a copy of the deposit documentation including the bank receipt in the appropriate file and available for the audit. The General Manager or his/her designee will be responsible for auditing the Receipt Book on a quarterly basis.

3.2.6. New and unused Receipt Books will be kept in a locked safe for which only the General Manager has access. Completed Receipt Books will be kept in a locked safe for which only the General Manager has access and will be available for the audit.

3.3. PETTY CASH

The purpose of a Petty Cash Fund is to facilitate small purchases or reimbursements needed in the day-to-day operations of the organization, without going through the check writing process.

The limit for the petty cash fund is set by the Board of Directors.

3.3.1. Petty cash is kept in a locked box and secured in a locked safe. Only the General Manager will have keys to the box.

3.3.2. Disbursements of up to \$200 may be made from the petty cash fund for miscellaneous expenses. Disbursements in excess of this may be made with prior approval of the General Manager.

3.3.3. If funds are requested to make a purchase, purchaser must complete a Petty Cash receipt for the amount of funds received prior to custodian providing the requested funds.

3.3.4. The purchaser must submit receipts for all purchases to the custodian of the fund, including change if funds were requested prior to purchase. In the case of a lost receipt, the General Manager or Board of Directors may approve a disbursement based on a memo describing the item and cost.

3.3.5. The custodian will ensure that the petty cash slip is properly completed and a proper receipt is attached.

3.3.6. The custodian will ensure that the petty cash box contains receipts and cash totaling the amount of the fund at all times.

3.3.7. Any irregularities in the petty cash fund are reported immediately to the General Manager.

3.3.8. Loans will not be made from petty cash funds.

3.3.9. Requests to replenish the fund are completed by the Fiscal Services Associate and approved by the General Manager. Petty cash replenishment shall come from will be made from the ECSD's Operation & Maintenance Checking account.

3.3.10. The General Manager will periodically make unannounced checks of petty cash. A "Cash Box Balance Sheet" spreadsheet is maintained by the General Manager. It is completed each time the cash box is checked to insure there are no irregularities. The Balance Sheet shows the beginning cash count, income/expense receipts, ending cash count. Irregularities will be addressed immediately.

3.4. PURCHASING POLICY

The Purchasing policy and procedures are designed to ensure that disbursements are properly made based on adequate documentation and proper authorization. All employees are required to follow this policy for all purchases of the Esparto Community Services District. All costs should be considered including sales tax, freight, and installation in defining "purchase" price for comparison with the dollar thresholds indicated in this policy.

It is the intent of this policy to ensure that District purchases are cost effective, encourage competition, and follow all applicable laws. Nothing in this policy shall preclude the District from using its own labor resources to complete any project for ordinary upkeep, maintenance, or repairs.

3.4.1. General Policy Provisions

For architectural, landscape architectural, engineering, environmental, land surveying, construction management and other professional services which are similar and require professional or expert

judgment; selection will be based upon demonstrated competence and on qualifications for the types of services to be performed, provided at fair and reasonable prices.

Orders for public works projects over \$1,000 shall require the payment of prevailing wages as mandated by California Law (California Labor Code Section 1720). Public works projects include construction, alteration, demolition or repair and/or maintenance work.

Orders for unbudgeted capital improvement items must be authorized by the Board of Directors at a properly noticed meeting prior to the order being placed.

3.4.1.1. Local Purchases \$0.00 to \$250

Employees may make local purchases up to \$250.00 per week for items needed to perform their daily duties without prior approval from the General Manager. Receipts shall be submitted to the Fiscal Services Associate for payment processing.

Local purchases are defined as those purchases made within the District service boundaries. Any purchases outside this defined area are not considered local purchases, including purchases made online.

3.4.1.2. Local Purchases \$250.01 to \$1,000

A completed "Purchase Request Form" (PRF) shall be submitted to the District's General Manager which has been approved by the appropriate supervisor and indicates budgetary account number(s).

Upon the General Manager's approval, the purchase may be made. A copy of the approved PRF and receipt will be submitted to the Fiscal Service Associate for payment processing. Local purchases are defined as those purchases made within the District service. Any purchases outside this defined area are not considered local purchases, including purchases made online.

3.4.1.3. Other Purchases \$0.00 to \$5,000

A completed "Purchase Request Form" (PRF) shall be required for all non-local purchases and all local purchases over \$1,000.01. The PRF shall be submitted to the District's General Manager which has been approved by the appropriate supervisor and indicates budgetary account number(s).

Upon the General Manager's approval, the purchase may be made, including purchases made online. A copy of the approved PRF and receipt will be submitted to the Fiscal Service Associate for payment processing.

3.4.1.4. Purchases of \$5,000.01 to \$14,999.99

A completed PRF is required. An order shall be approved by the General Manager prior to the order being placed. In the absence of the General Manager, the Board Chair should be contacted for approval

of any purchases that are considered an emergency or when the health and welfare of the community is involved.

3.4.1.5. Purchases of \$15,000.00 - \$25,000.00

District staff will obtain three (3) competitive quotes (if available) and approval by the General Manager (and by the Board of Directors for any unbudgeted purchases) prior to the order being placed.

3.4.1.6. Purchases exceeding \$25,000.01

District staff will obtain a minimum of three (3) competitive quotes (if available) or follow formal public bidding/competitive procedures when required as outlined in the Public Contract Codes; and all purchases shall be approved by the Board of Directors. Participating in or matching other government or purchasing coalition contracts which have recently been competitively awarded qualifies as having met the formal public competitive requirement.

3.4.2. Formal Bidding Procedures

For budgeted capital improvement outlay purchases or unbudgeted purchases, the General Manager will request authorization to advertise for bids from the Board of Directors.

The responsible party will submit to the General Manager completed specifications for the item(s) to be bid. Upon request, the General Manager will assist in developing specifications.

The General Manager will review all Requests for Proposals or other solicitation documents before publication and conduct all bidding procedures except for those that are conducted by outside consulting firms.

Bids will be opened by the General Manager at a regularly scheduled or special Board of Directors meeting. The bids will be evaluated with the assistance of the Board of Directors considered for award. The Board of Directors will set a change order threshold that can be approved by the General Manager at the time of award. Any change order over the set threshold must be approved by the Board of Directors.

3.4.2.1 Exemptions from Bidding

1. Purchase of services (excluding new construction, alteration, maintenance, or repair services). Also, if service is a substantial or critical portion of an article purchase, other methods of solicitation may be considered including but not limited to bid award based upon best value or solicitations which consider other cost, quality or service factors.

2. Purchase of commodities or services of (utilities) light, water, power, heat, transportation, telephone service or other means of communication. Or means for the disposition of garbage, sewage or refuse matter.
3. When contracting with suppliers awarded State of California price schedules, commodity contracts, master agreements, cooperative agreements, and other types of agreements that leverage the state's buying power (for goods, information technology, and services).

3.4.2.2 Exceptions to Bidding

In any of the following instances, the requirements of bidding may be dispensed with if decided by the Board of Directors:

1. When the item (merchandise or service) can be obtained from only one source.
2. When the item is required or is economically preferable to match or be compatible with other furnishings, materials or equipment presently on hand and the purchase is made from the manufacturer or supplier who supplied other such furnishings, materials or equipment.
3. When the item has been standardized by the District and can be purchased from only one source or is purchased from the original manufacturer or supplier.
4. When the Board of Directors determines that due to special circumstances, it is in the District's best interest to purchase an item or enter into a contract without compliance with the bidding procedures (i.e. competitive proposals would not be useful, would not produce an advantage or would be undesirable, impractical, or impossible).
5. When all bids are considered unsatisfactory or excessive and are rejected by the Board of Directors by a two-thirds vote (PCC 20206.1), the District may do any necessary work and make necessary expenditures in lieu of contracting for the proposed work.
6. When the Board of Directors declares an emergency by a four-fifths vote (PCC 22050), after finding that conditions will not permit a delay resulting from a competitive solicitation for bids. All actions thereafter taken will be reported to the Board until the emergency action is terminated (at the earliest possible date that conditions warrant).

Nothing in the policy shall prevent the General Manager of the District from ordering any action necessary and appropriate to respond to sudden, unexpected occurrences that pose a clear and imminent danger requiring immediate action to prevent, or mitigate the loss or impairment of life, health, property and essential public services.

If any portion of this policy is in conflict with rules, regulations or legislation having authority over the Esparto Community Services District, said rules, regulations or legislation shall prevail.

3.4.3. Approvals and Authorization

3.4.3.1. The Board of Directors and General Manager will authorize the following expenditures: General operations and maintenance expenses, payroll, purchases of equipment, contracts for services, any purchase over the amount of \$5,000. The General Manager has the authority to purchase items in excess of the \$5,000 if the items were approved by the Board of Directors as part of the annual budget and/or at a regular meeting of the Board. Authorization for expenditures may be delegated. Delegation of expenditure authority will be in writing and approved by the Board of Directors.

3.4.3.2. Payment for supplies or services will be made based on invoices, not statements.

3.4.3.3. Approved Payment Request Forms (PRF) are submitted with the original invoice attached. The PRF is coded by the staff requesting the payment as to the fund and expense code to be charged. The PRF is signed by an authorized supervisor indicating approval of the expenditure.

3.4.3.4. PRF /Invoices are processed by the Fiscal Service Associate. Each invoice is stamped "ENTERED" when entered as a payable in the QuickBooks accounting system and the check stub and all corresponding documentation is stapled together and retained per the Record Retention Policy.

3.4.4. Missing Invoices

In the event that an invoice for services or supplies is lost and for which a copy cannot be obtained from the vendor, a memo explaining the expense and detailing the cost is submitted with the Payment Request Forms for approval by the General Manager.

3.4.5. Vendor Documentation

All vendors must submit an IRS Form W-9 Request for Tax Payer Identification and Certification or equivalent to the Accounting Department, prior to payment. A determination is made by the General Manager on the need to file an annual IRS Form 1099-Misc. on payments made to vendors. Form W-9's should be mailed to all current vendors each year prior to Form 1099 preparation to assure information is current.

3.4.6. Check Writing Procedures

3.4.6.1. Checks are processed as needed.

3.4.6.2. Checks are created through the District's QuickBooks accounting system. The Fiscal Services Associate processes payables, on a weekly basis, through the District's QuickBooks accounting system, prints an Open Detailed Aging Report, highlights the invoices to be paid on the report which, along with the invoices, is reviewed and approved by the General Manager. Once the Open Detailed Aging Report is approved, checks are printed and the Claims Paid Detail Report is generated.

3.4.6.3. Checks are automatically numbered by the QuickBooks accounting system.

3.4.6.4. Checks are not to be postdated or made out to cash. On rare occasions where the District cannot be invoiced by a vendor, a check can be processed in the QuickBooks accounting system with the amount due to the vendor at the time of purchase by the General Manager. Blank checks will not be used for purchases.

3.4.6.5. The "Payment Record" portion of the check printed by QuickBooks is attached to the PRF /Invoice plus any other documentation, such as shipping documents, and filed by alphabetical order of the vendor's name by date in the District's vendor files maintained by the Fiscal Services Associate.

3.4.6.6. Voided or spoiled checks will have "VOID" written across all three sections of the check with a permanent Sharpie and will then be filed in numerical order in a cabinet maintained by the Fiscal Services Associate and will be available for the audit.

3.4.6.7. Checks are signed by the General Manager and the Board President or other Board Member in the Board President's absence. The Claims Paid Detail Report is provided for review along with invoices for review by both signees.

3.4.7. Check Approval Process

This procedure is designed to ensure that all checks have adequate documentation and authorization and that there are no missing checks or checks written to phantom vendors.

3.4.7.1. The Claims Paid Detail Report for the claims batch is reviewed by the General Manager and Board President, or other Board Member in the Board President's absence, in check number sequence to assure no checks are unaccounted.

3.4.7.2. The Claims Paid Detail Report will be reviewed by the General Manager and one Board Member to assure that the first check in each batch of checks begins with the next sequential check after last batch processed. The Claims Paid Detail Report log is signed by the reviewers to indicate that all checks in the current batch have been verified to assure there is no gap in the check sequence.

3.4.7.3. If there are no questions to be resolved, the Claims Paid Detail Report log and signed checks are returned to the General Manager as authorization to mail or release the check to the vendor.

3.4.7.4. Checks are mailed to vendors by the office staff unless specific arrangements had been made in advance for pickup of checks at the office. If a check is picked up, the person picking up the check must provide identification which agrees with the payee on the check or must have verifiable written authorization from the payee to pick up the check.

3.4.7.5. The Claims Paid Detail Report for each payables batch is placed on the next regularly scheduled Board meeting for approval. Each Board member reviews and signs the Claims Paid Detail Report upon approval of the Claims action item.

3.4.8. Electronic Payment and Transfers

These procedures ensure that unauthorized transfers will not be made. Procedures may vary based on the system of the banking institution. These guidelines pertain to banking accounts the District holds.

3.4.8.1. Only the General Manager has access to electronic banking.

3.4.8.2. Electronic banking allows for electronic transfers, stop payments on checks, and account balance inquiries be initiated and completed via computer or telephone.

3.4.8.3. Password security is set to allow electronic transfers between District bank accounts and stop payments to be set up by the General Manager as designated by the Board of Directors.

3.4.8.4. Electronic transfers can only be set up by the General Manager and can only be transferred between Esparto Community Services District bank accounts within the same banking institution. All transfer shall be reported at the next regularly scheduled Board meeting.

3.5. PAYROLL

These procedures are designed to assure that payroll is based on proper authorization and required documentation, is paid at the approved rate, is only paid to actual employees, and to assure that proper and timely reporting is made to federal, state, and local taxing authorities. Esparto Community Services District contracts with Payality payroll service to process payroll and make required payroll tax deposits.

3.5.1. ECSD payroll is processed on a bi-weekly basis. Pay periods are made up of a two-week period which ends every other Friday. Pay dates are a week from the pay period end date, every other

Friday but checks may be issued earlier if approved by the General Manager because a Friday falls on a holiday.

3.5.2. Payroll is based on time sheets completed by employees and approved by the General Manager. Each time sheet reflects the cost centers to which the employees' time is charged.

3.5.3. Time sheets will reflect the use of sick, vacation, or other leave time, if applicable. Overtime for non-exempt employees requires the prior approval of the employee's supervisor.

3.5.4. Time sheets must be completed in ink with no whiteout or correction tape. Changes are initialed by the employee. The time sheet will be signed by both the employee and the General Manager.

3.5.5. Salary and/or benefit changes must be approved by the Board of Directors. A memo detailing the changes and the effective day shall be maintained in the employee's personnel file.

3.5.6. Payroll records are maintained by the General Manager in a confidential manner. Information regarding payroll will not be discussed with other staff. Files must be in locked cabinets with access limited to designated personnel.

3.5.7. Documents that verify tax withholding and authorize other deductions such as health insurance premiums or voluntary contributions are filed in the employees' personnel files along with the I-9 forms by the General Manager.

3.6. PAYROLL PREPARATION AND PAYMENT

3.6.1. Payroll is prepared from employee time sheets which have been completed and signed by the employee and reviewed for accuracy by the Fiscal Services Associate. The timesheets are then approved, and signed by the General Manager.

3.6.2. The General Manager confirms the timesheet's accuracy when entering into the Payality payroll system.

3.6.3. Hours worked by cost center are entered into a pay period spreadsheet which is used to calculate the amount due to CalPERS for retirement, payroll taxes and other deductions and for entry into QuickBooks. The General Manager confirms that the pay period spreadsheets balance to the Payality payroll reports and CalPERS calculations.

3.6.4. The General Manager or other designee reviews the payroll checks and direct deposit reports, to assure that all of the checks and direct deposits are for actual employees or other required payments (i.e. garnishments).

3.6.5. If available, paychecks are directly deposited into the employees' bank accounts. Employees receive duplicate vouchers which detail all deductions such as garnishments or deductions for the employee's 457 Deferred Compensation Plan. Otherwise, checks are printed and issued to employees on scheduled pay days.

3.6.6. An electronic transfer of funds from the ECSD's Money Markey Account is made to the ECSD's Operation & Maintenance Checking account to cover payroll by the General Manager.

3.6.7. Payroll tax deposits are made by the Payality. The Payality Tax Reports are reviewed by the General Manager to verify the accuracy of the deposits.

3.6.8. The General Manager will deduct and forward employee and employer PEPRA, classic retirement contributions to CalPERS and employee 457 Deferred Compensation contributions to the plan of the employee's choosing.

3.6.9. Eligible employees may deduct up to the maximum amount allowed by the IRS. The District does not contribute toward an employee's 457 plan.

3.7. PURCHASING

3.7.1. Leases

3.7.1.1. Only the Board of Directors can approve lease agreements and designate the General Manager to sign the lease agreement.

3.7.1.2. Copies of all leases will be maintained by the General Manager. Payment for leases will be made in accordance with the lease terms.

3.7.2. Consultant/Contract Services

3.7.2.1. In accordance with the District's Bylaws, all contracts for materials and supplies for construction or completion of any building, structure or improvement, when the costs exceed \$25,000 shall be contracted in accordance with the provisions of Section 20680 of the California Public Contract Code.

3.7.2.2. The District has their legal counsel review and approve all agreements/contracts for consultant services.

3.7.2.3. The Board of Directors will review and approve proposed projects, usually a "Scope of Work" from the consultant, at properly noticed meetings of the Board. The Board of Directors may authorize the General Manager to sign the contract once the project and/or Scope of Work is approved.

3.7.2.4. Consideration is made regarding in-house capabilities to accomplish services before contracting for them.

3.7.2.5. Written contracts clearly defining work to be performed is maintained for each consultant and contract services by the General Manager.

3.7.2.6. The qualifications and reasonable charges for fees are considered in hiring consultants and proof of insurance and Form W-9, at minimum, will be required.

3.7.2.7. Requests for Proposals will be issued for all payments to consultants or professional services.

3.7.3. Furniture and Equipment

3.7.3.1. All furniture and equipment purchases must be pre-approved by the General Manager.

3.8. LOANS

3.8.1. Third Party Loans

3.8.1.1. Loans from outside sources (other agencies, banks, etc.) are authorized through board action and initiated by the General Manager or other designee.

3.8.1.2. Upon repayment of funds, the promissory note is returned to the General Manager.

3.8.1.3. Loans from the District to an employee are prohibited.

3.9. BANK ACCOUNTS

The Board of Directors may authorize by resolution the Board Chair or Vice-Chair to establish bank accounts and set signatory authority.

3.9.1. Bank accounts are established to meet the needs of the organization for separation of funds and the specific requirements of funding sources. Separate accounts for specific federal or state programs which exceed the FDIC limits must be collateralized by the bank to ensure the safety of the deposit. All other accounts, where possible, are established to maximize the use and earnings of cash.

3.9.1.1. A complete listing of all accounts and the account numbers shall be maintained by the General Manager.

3.9.1.2. Bank Reconciliations for each account are completed monthly by the General Manager or designee. The General Manager reviews and approves each bank reconciliation.

3.9.1.3. The bank statements are received by the Fiscal Services Associate, stamped with the received date and given to the General Manager or his/her designee.

3.9.1.4. Outstanding checks more than 90 days old are investigated and stop payments issued as deemed necessary by the General Manager. Replacement checks are reissued after appropriate documentation has been collected.

3.10. ACCOUNTS RECEIVABLE

For each water, sewer and/or street lighting user account, the General Manager will designate the staff responsible for preparation of monthly billing statement necessary to secure payment to Esparto Community Services District. The following procedures ensure that all requests for funds are properly recorded and tracked.

3.10.1. Accounts in the Name of the Owner or User of Services

This policy statement establishes account recording in the name of the owner or the user of services.

ECSD Policy #2100 states:

Accounts shall be established in name of the owner or the user of services renting the property. The property owner is ultimately responsible for any and all amounts owed the District.

IMPLEMENTATION:

3.10.1.1. Billing for accounts will be mailed to the service address or the requested mailing address of the customer on record at the District Office. In accordance with the District's policies, all late charges and shut off notices will be mailed to the service address or the requested mailing address of the customer on record at the District Office. The District will make a good faith effort to make contact with an adult residing at the premises by phone at least 48 hours prior to any termination of service. If we are unable to make personal contact, a notification tag will be hung at the property indicating the shut off date and approximate time of disconnection.

3.10.1.2. The District will not process meter reads for new renters or do adjustments to bills unless the home is sold to a new owner.

3.10.2. Customer Water Sales

3.10.2.1. Customer meters are read by District staff between the 20th and 28th of each month.

3.10.2.2. The Fiscal Services Associate or other office staff uploads the meter reads into the District's billing system. If meter reads indicate abnormal usage, the Fiscal Services Associate will issue a re-read of those meters. All corrections are entered into the billing system prior to statements being prepared.

3.10.2.3. Monthly water fees are charged to customers on the first day of each month for the prior month's usage. Billing Statement Postcards are mailed out no later than the 5th of each month.

3.10.2.4. Customers are expected to pay their account in full each month by the last day of the month. Accounts not paid and received by the last day of the month will be considered delinquent and in arrears on the first day of the next billing month and will be charged a penalty of 10% and the charges for the second month will indicate such. This billing will show the amount delinquent on the account.

3.10.2.5. Accounts not paid and received by the last day of the second month are considered thirty (30) days delinquent and in arrears on the first of the third month and shall get an additional 1% for the first month delinquent and an additional 10% for the second month becoming delinquent added to the account on this billing. A separate Shut Off Notice will be mailed to accounts in this status where the delinquency amount is greater than \$25.00 and shall contain the statement that the service will be discontinued on the expiration of fifteen (15) calendar days from the date Shut Off Notices are printed. The Shut Off Notice shall be Red in color and shall clearly state Shut Off Notice.

3.10.2.6. Following established District policy, the fifteen (15) day grace period shall begin to run on the day of mailing of the shut off notice is printed and shall expire on the fifteenth day thereafter. This fifteen (15) day grace period is the point in time that the customer can request the General Manager or his designee to approve special arrangements for payment when an extreme hardship exists, as discussed in Policy 2101. On the expiration of said fifteen (15) days, if such delinquency has not been fully paid, a 48-Hour Shut Off Notice will be hung on the customer's door. The 48-Hour Shut Off Notice will include the notice date and the account balance. On the expiration of said 48-Hour Notice, if such delinquency has not been fully paid, a 24-Hour Shut Off Notice will be hung on the customer's door. The 24-Hour Notice will include the notice date and the account balance. On the expiration of said 24-Hour Notice, if such delinquency has not been fully paid the General Manager or his designee shall disconnect the District water service for that account and lock the valve off. If, upon further inspection, the water service has been restored by cutting or breaking the lock, service shall again be shut off and there shall be an additional fee for the cost of the lock and an additional shut off fee charged to the account.

The District shall not terminate service for non-payment in any of the following situations:

1. During the pendency of an investigation by the District of a customer dispute or complaint.

2. When a customer has been granted an extension of the period for payment of a bill.
3. Is willing to enter into an amortization agreement (not to exceed 12 months) with the District with respect to all charges that the customer is unable to pay prior to delinquency. Termination shall commence if the customer fails to comply with the amortization agreement.

3.10.2.7. If a customer fails to comply with an amortization agreement, the District shall not terminate service without giving notice to the customer at least 48 hours prior to termination of the conditions the customer is required to meet to avoid termination, but the notice does not entitle the customer to any further payment arrangements. Full payment of the account balance is due to avoid service termination. On the expiration of said 48-Hour Notice, if such delinquency has not been fully paid, a 24-Hour Shut Off Notice will be hung on the customer's door. The 24-Hour Notice will include the notice date and the account balance. On the expiration of said 24-Hour Notice, if such delinquency has not been fully paid the General Manager or his designee shall disconnect the District water service for that account and lock the valve off.

3.10.2.8. The Fiscal Services Associate will issue work orders authorizing the disconnection of service for those accounts that remain unpaid. Water service will not be disconnected on Fridays, Saturdays, and Sundays, legal holidays or any time during which the business offices of ECSD are not open to the public.

3.10.2.9. Accounts receivable are reviewed by the Board of Directors and General Manager annually to ensure that receivables have a reasonable expectation of being collected and any necessary steps are to taken to ensure collection. If there is no reasonable expectation of collection, a decision is made on what action to take.

3.10.3. Amortization Agreements

The General Manager may agree to an Amortization Agreement to provide payment agreements for customers who have excessive water usage due to a line break or some other kind of failure in the water system on the customer's property or on the customer's side of the meter or who have fallen behind due to severe, unforeseen circumstances in paying the basic monthly rate charged by the District. Customers are responsible for all water usage at their property even if there is a break in the water lines on their property. Unfortunately, some leaks can go undetected until the meter is read by District staff or the homeowner discovers it.

If excessive water usage due to a line break or other similar system failure at the customer's property results in a bill the customer is unable to pay in one lump sum, the customer can request a "Payment Arrangement Agreement" from the District. The Customer must complete the "Payment Arrangement Agreement" form. It must be approved by the General Manager. Customers must provide proof of a line break or other similar system failure. This includes copies of invoices from plumbers for the repair, receipts for parts, or a visual inspection by District staff.

Under the payment arrangement agreement, the customer can have up to 3 months to pay for excessive water usage up to \$250.00. Customers can have up to 6 months for water bills in excess of that amount. The excessive water usage is defined as the total water bill amount minus the basic rate charged by the District at that time. If a rental property has excessive usage, homeowners are still responsible for the water bills (see Policy 2100).

Customers must pay their monthly water, sewer, street light charges and appropriate penalties and interest in addition to the agreed upon amount for the excessive usage. All payments must be received by the District in accordance to the agreement. Accounts not paid in full by the agreed date and time are subject to immediate disconnection of service. A Termination of Service Fee will be charged to the customer's account. The full amount due will be paid before the service will be restored.

3.10.4. Temporary Meter Water Sales

The District will sell water to water tanker trucks for various uses such as dust control. The responsible party will complete and sign the "Potable Water Agreement". Using a District provided temporary meter, trucks will draft water from a fire hydrant as directed by District staff.

The responsible party will return the temporary meter and be billed at the end of the job or at the end of the current month for the current "water rate", as specified by the "Schedule of Charges" for each gallon drafted.

3.10.5. Surplus Equipment

3.10.5.1. Determination of Surplus Property

The term "surplus property" shall mean any property other than real property that is no longer needed or useable by the District. The General Manager shall annually review the District's equipment and inventory and complete a surplus property form for each item deemed surplus. The General Manager

shall present a list of surplus property to the Board for its review and approval prior to disposition of the property.

3.10.5.2. Methods of Disposition

The General Manager is responsible for the disposition of District surplus property. Once the Board has approved the list of surplus property, the General Manager shall determine which of the following methods of disposition to use; the priority for disposition shall be in the order listed below:

1. Trade In – Property declared as surplus may be offered as a trade-in for credit toward the acquisition of new property. All trade-in offers will be submitted for the review and approval of the General Manager.
2. Sale – The District may offer surplus property for sale. All surplus property is for sale “as-is” and “where-is” with no warranty, guarantee, or representation of any kind, expressed or implied, as to the condition, utility, or usability of the property offered for sale.
3. Appropriate methods of sale are as follows:
 - a. Public Auction – Surplus property may be sold at public auction. The District may contract with a professional auctioneer.
 - b. Sealed Bids – Sealed bids may be solicited for the sale of surplus property. Surplus property disposed of in this manner shall be sold to the highest responsive bidder.
 - c. Negotiated Sale – Surplus property may be sold directly to a purchaser if it is determined that only one known buyer is available or interested in acquiring the property.
 - d. Selling for Scrap – Surplus property with a minimal fair market value may be sold as scrap.
4. Donation or Disposal – If the District is unable to sell surplus property after using the methods provided in sections 1 through 3, above, or if the cost of locating a buyer exceeds the estimated sale price of surplus property, the property may be donated to a charitable organization, recycled, destroyed, or disposed of as junk.

3.10.5.3. Proceeds

All sales of surplus property shall be paid to the District by certified check, money order, or in manner agreeable to the General Manager. The General Manager shall be authorized to sign bills of sale and any other documents evidencing the transfer of title to such surplus property by and on behalf of the District.

4. OTHER FINANCIAL SAFEGUARDS

4.1. PERSONNEL RECORDS SYSTEM

Access to the personnel records system is controlled to assure the confidentiality, privacy, and appropriate access to records and reliability of data. Access is limited to the General Manager, and key administrative staff. Hard copy personnel files are maintained in locked file cabinets. The files contain all personnel related information in sections, including:

4.1.1. Employee selection documents (resume, application, test results, offer letter, I-9, etc.).

4.1.2. Employee performance documents (evaluations and disciplinary actions).

4.1.3. Employee development (training certificates, education records, specialized licenses).

4.1.4. Miscellaneous data (tax forms, employee handbook receipt, requests to inspect personnel file, leave of absence requests, attendance records, letter of resignation, termination records and other employment related documents).

4.2. DISTRICT CREDIT CARDS

Esparto Community Services District authorizes credit cards for key staff for the purpose of facilitating business purchases including business travel that is not easily handled through normal disbursement processing. Due to the potential for theft, misuse, and auditing problems, use of Esparto Community Services District credit cards is monitored carefully. The General Manager reviews all credit card purchases, and approves all payments. Misuse of credit cards or failure to follow these procedures will lead to restrictions or loss of credit card privileges.

4.2.1. Card Use - Each card holder is given instruction when they receive the card designed to ensure that the cards are used for Esparto Community Services District business only and to protect against misuse and theft and must sign a declaration of his/her understanding.

4.2.2. Lost or Stolen Cards - The General Manager must be notified immediately if a card is lost or stolen. If the General Manager is unavailable, the Fiscal Services Associate or other designee will be contacted.

4.2.3. Credit Limits - Appropriate credit limits are established by the Board of Directors for each card and a list of all card holder and card holder numbers is maintained by the General Manager. In an effort to minimize disruptions to District operations, the General Manager may adjust the card holder's credit limit for one-time purchases approved by the Board of Directors.

4.2.4. Termination of Credit Cards - Credit cards for employees who resign or are terminated are canceled immediately by the General Manager.

4.3. EMPLOYEE BENEFITS

These procedures are designed to ensure that employees receive the appropriate benefits as specified in the Personnel Policy.

4.3.1. Paid Time Off

4.3.1.1. Vacation, sick leave and comp time balances are maintained by the General Manager on a computerized spreadsheet. Balances are provided to employees monthly.

4.3.1.2. Sick leave is not funded. There is no liability for payment to an employee for accrued sick leave when an employee leaves Esparto Community Services District employment.

4.3.1.3. The General Manager is responsible for approving all requests for time off and ensuring employees are provided paid time off benefits as outlined in ECSD Employee Handbook.

4.3.2. RETIREMENT

Esparto Community Services District offers CalPERS retirement based on the employee's date of hire. Employees may contribute to a 457 Deferred Compensation Plans through CalPERS. Employees can contribute up the maximum allowed by the IRS. The District does not contribute to an employee's 457 plan. Contributions are deducted from the employee's wages when payroll is processed. The **General Manager** will send all contributions to CalPERS. Written employee authorization is required before deferrals are deducted and sent to the appropriate fund. The deduction will continue as long as the employee is employed with Esparto CSD or sends a written notification to the **General Manager** to stop the deduction.

4.3.3. Other Employee Benefits

The General Manager is responsible for the administration and documentation of all benefits as listed in the ECSD Employee Handbook. The benefits may be adjusted by a majority vote of the Board of Directors at a properly noticed meeting of the Board.

4.4. TRAVEL

Travel policies and procedures assure that all travel costs are pre-authorized, documented and are consistent with applicable regulations.

4.4.1. Mileage Reimbursement

4.4.1.1. The reimbursement rate for privately owned vehicles is the rate paid by Federal agencies for the use of private vehicles, unless otherwise established by the Board of Directors, not to exceed the current GSA rates.

4.4.1.2. Mileage reimbursement forms must be completed in ink or typed and signed by the employee, and submitted to the General Manager. Reimbursement for mileage expense is made along with other vendor payments.

4.4.1.3. Employees are required to have proof of auto insurance on file with the General Manager. Employees will not be reimbursed for mileage unless proof of insurance is on file for the period in which mileage is incurred.

4.4.2. Travel out of service area

4.4.2.1. Travel out of the Esparto Community Services District service area must be pre-approved by the General Manager or other designee. Travel out of state requires pre-approval by the Board of Directors.

4.4.2.2. Federal per diem guidelines apply unless otherwise established by the board, not to exceed the current Federal GSA rates. Exceptions may be approved by the Board of Directors.

4.4.2.3. The General Manager or other designee may approve travel advances for employees. When authorized, the General Manager will process a Travel Advance Request for employees based on estimated per diem and other anticipated travel costs.

4.4.2.4. Following a trip, employees will submit to the General Manager a properly authorized Travel Expense Report. The report must detail all expenses, and required receipts must be attached. The report will reconcile the advance funds received and will show funds to be returned to Esparto Community Services District or additional expenses to be paid to the employee.

4.4.3. Board of Directors Travel and Reimbursements

4.4.3.1. Esparto Community Services District Board members may be paid allowances and reimbursements for business expenses incurred in the performance of their duties.

4.4.3.2. Board members are required to have proof of auto insurance on file with the General Manager. Board members will not be reimbursed for mileage unless proof of insurance is on file for the period in which mileage is incurred.

4.4.3.3. Claims for reimbursement must be approved by the General Manager.

4.5. ALLOCATION OF COSTS

The purpose of the cost allocation policy is to ensure that all programs are charged their fair share of the costs whose benefits are not readily identifiable with a specific program or funding source but are necessary to the general operation of the organization.

4.5.1. Indirect Costs - Indirect costs are those costs that are not attributable to a specific cost center and which generally benefit the organization as a whole, such as salaries, benefits and other costs relating to the General Manager, accounting staff, and other administrative staff. Costs relating to the Board of Directors are also considered indirect costs.

4.5.2. OMB Circular A122 established the federal requirements for determination of allowable and unallowable direct and indirect costs and the preparation of cost allocation proposals.

4.6. PROPERTY, INVENTORY AND CONTROL

Esparto Community Services District property inventory procedures provide for management control of Esparto Community Services District owned property and documentation of property for potential insurance losses and tax reporting. All property in excess of \$1,000.00 in value but less than the established capitalization threshold at the time of original purchase is included in inventory.

4.6.1. Esparto Community Services District will maintain property records to reflect furniture and equipment purchased, including tagging of these items, and include location, changes, deletions, etc.

4.6.2. Every year a physical inventory of all furniture and equipment is completed prior to year-end. Any discrepancies are brought to the attention of the General Manager for appropriate action.

4.6.3. Equipment to be retired is documented with an explanation for release. The listing of equipment to be retired is authorized by the General Manager. Any salvage value received is so noted on the records as miscellaneous income.

4.6.4. FIXED AND CAPITAL ASSETS

Esparto Community Services District has established a capitalization threshold of \$5,000.00 for property expected to benefit the operations of the organization for multiple years to be considered a fixed asset.

4.6.4.1. The cost of all property acquired through federal or state funds will be clearly designated on the Statement of Financial Position as Paid in Capital, including depreciation of such assets.

4.6.4.2. Capital Assets include buildings and improvements.

4.6.4.3. Property purchased meeting the fixed asset definition will be included on the list of fixed assets with the item's identifying information and location maintained by the accounting department. This list is categorized by type of fixed asset, i.e. buildings, furniture and equipment, plant assets, etc. and includes the asset number, date of installation, cost including taxes, shipping and installation fees, and life expectancy for depreciation purposes. A copy of the invoice(s) should be maintained with these asset records until asset is sold or deleted.

4.6.5. EQUIPMENT DEPRECIATION

The purpose of depreciation is to recognize the decreased value of the property over time (useful life) and to quantify this 'usage' as an expense to each cost center deriving benefit from its use.

4.6.5.1. A fixed asset, as previously defined, is depreciated according to the Depreciation Schedule maintained by the District's auditor.

4.6.5.2. The Depreciation Schedule sets the useful life of property types (Buildings, Capital Assets, Furniture & Equipment, Vehicles, etc.) which may differ from depreciation methods used for income tax purposes.

4.6.5.3. The fixed asset list is maintained by the **General Manager**. As depreciable property is purchased, it is added to the fixed asset list in the month following purchase/installation.

4.6.5.4. A journal entry is made at least annually, charging the depreciation expense to the appropriate program(s).

4.7. AUDITS

Esparto Community Services District is required to have a financial audit on an annual basis. Every five (5) years, a Request for Proposal is sent to audit firms qualified to provide the type of audit that meets Esparto Community Services District and/or funder need. The General Manager is responsible for soliciting bids, interviewing firms and making the recommendation to the Board of Directors when selecting the firm to be awarded the audit contract. Acceptance of the audit contract will be evidenced by a signed audit engagement letter that contains the type of service to be provided, the timeframe for providing the service, the cost for the service including incidental expenses, the term of the engagement and a clause stating "if unanticipated issues arise during the course of the audit that will result in additional fees, the audit firm will notify the Audit Committee for approval prior to incurring additional costs".

The audit is reviewed in detail by the General Manager, but presented to the board by the auditor and accepted by the Board of Directors based upon recommendation by the General Manager.

4.8. TAXES AND REPORTING REQUIREMENTS

4.8.1. The auditor prepares and submits all required forms and/or reports to the IRS and to the State of California. The General Manager is responsible for ensuring that all required forms and/or reports have been submitted by required deadlines.

4.9. GRANTS AND CONTRACTS

Contract and grant documents are reviewed and approved by appropriate staff, as well as the General Manager, prior to being approved by the Board of Directors.

4.9.1. The General Manager will carefully review each award to ensure that Esparto Community Services District will be in compliance with all financial provisions.

4.9.2. Original copies of signed grants and contracts are filed in the contract file with copies to the General Manager.

4.9.3. The General Manager will assign appropriate general ledger account numbers and customer numbers for each new grant or contract.

4.9.4. The General Manager will designate the appropriate staff responsible for preparation of reports, payment requests and/or invoices.

4.9.5. The General Manager will maintain individual contract files containing copies of the grant/contract, any amendments, relevant correspondence regarding the grant/contract, and reports of expenditures or billings.

4.9.6. A log of all grants/contracts is maintained by administrative staff detailing grant/contract numbers, effective dates, and reporting requirements.

4.10. BUDGETS

Budgets provide a standard by which to measure performance, encourage planning, and allocate resources in accordance with funding source requirements. Budgets should use reasonable assumptions of income and expenses. All budget assumptions should be documented to facilitate a thorough analysis and evaluation, not only of the budget, but of the actual revenue and expenditures as they relate to the budget.

4.10.1. The organization budget is prepared by the General Manager with input from staff. Budgets are estimates of the financial transactions for the year, based on previous years' spending and evaluating operation changes or needs.

4.10.2. The General Manager will submit an annual organization budget to the Board of Directors for their approval.

4.10.3. The Operations & Maintenance (O&M) and Capital Improvement Projects (CIP) budgets are established and approved by the Board of Directors. A long-term (5 – 15 year) plan for the Asset Management Program and Capital Improvements shall be reviewed annually and modified as needed.

4.10.4. Reports outlining budgeted amounts compared to actual spending will be presented to the Board of Directors once per month at the regular meeting of the Board.

4.11. INTERNAL REPORTING

Reports assist the Board of Directors, General Manager, and funders with managing and controlling of program activities and financial resources.

4.11.1. Monthly financial reports, including a revenue and expense report for all accounts and balance sheet where appropriate, will be provided to the Board of Directors at their regular monthly meeting.

4.11.2. The General Manager will prepare monthly and quarterly reports as required by funding sources.

4.11.3. The General Manager or designee will review the reports to the funding sources.

4.11.4. The General Manager or designee will sign all reports to funding sources.

4.11.5. The General Manager will prepare and maintain, on a current basis, a listing of reports and due dates for funding sources.

4.11.6. It is the responsibility of the General Manager to ensure that all financial reports are submitted on a timely basis.

5. RECORD RETENTION

The purpose of this policy is to provide guidelines to staff regarding the retention or disposal of ECSD records; provide for the identification, maintenance, safeguarding and disposal of records in the normal course of business; ensure prompt and accurate retrieval of records; and ensure compliance with legal and regulatory requirements.

Vital and important records, regardless of recording media, are those having legal, financial, operational, or historical value to the District.

5.1. AUTHORIZATION

The General Manager is authorized by the Board of Directors to interpret and implement Policy #2145, and to cause to be destroyed any or all such records, papers and documents that meet the qualifications governing the retention and disposal of records, as specified in Policy #2145.

5.2. GUIDELINES

Pursuant to the provisions of California Government Code 60200 through 60203, California Water Code 21403, and the guidelines prepared by the State Controller's office and the Controller's Advisory Committee for Special Districts, Policy #2145 will govern the retention and disposal of records of the Esparto Community Services District.

5.3. RETENTION OF ELECTRONIC MAIL (E-MAIL) POLICY

The General Manager is authorized by the Board of Directors to interpret and implement Policy #2430, for the retention and cause to be destroyed any or all such electronic records. as specified in Policy #2430.

6. RISK MANAGEMENT AND INSURANCE

In the implementation of the Risk Management, Esparto Community Services District will insure those risks which Esparto Community Services District deems appropriate using an insurance professional who is knowledgeable about the market, who understands or is willing to learn about Esparto Community Services District operations, is an assertive advocate for Esparto Community Services District's interests, and is organized and responsive to Esparto Community Services District's needs. Special District Risk Management Association (SDRMA) has covered the ECSD for a number of years, providing us with both Liability and Worker's Compensation coverage.

7. IDENTITY THEFT PREVENTION PROGRAM (RED FLAG RULES)

Procedures for Customer Credit Security in Accordance with the Fair & Accurate Credit Transactions Act of 2003.

7.1. PURPOSE

This document was created in order to ensure the District's compliance with regulations ("Red Flag Rules") issued by the Federal Trade Commissions (FTC) as part of the implementation of the Fair and Accurate Credit Transaction Act of 2003 (FACTA). FACTA requires financial institutions and creditors to implement written programs that provide for identification, detection, and response to patterns, practices or specific activities that could indicate identity theft ("Red Flags"). The District must comply with the Red Flag Rules because it is considered a creditor; it receives payments for water, sewer and street light service provided to its customers after the service is rendered.

The FTC regulations require that the program must:

1. Identify relevant Red Flags and incorporate them into the program.
2. Identify ways to detect Red Flags.
3. Describe appropriate responses to Red Flags.
4. Detail a plan for program updates.
5. Include a process for administration and oversight of the program.

This program shall, as appropriate, incorporate existing District policies and procedures that control reasonable foreseeable risks related to the protection of customer information.

7.2. ASSESSMENT OF EXISTING BUSINESS PRACTICES

Part 1 of the Identity Theft Prevention Program is used to identify areas of potential risk within the District's standard Customer Service business practices. The District has selected specific business processes associated with offering or maintaining accounts, or engaging in other activities that could raise "red flags" indicating the potential for identity theft.

7.2.1. The District provides Customer Service personnel with the ability to request and review a customer's personal identifying information when engaging in any of the following activities:

- Open new accounts
- Access existing accounts
- Modify existing accounts
- Close existing accounts

Also, if the District has identified a past occurrence of identity theft that was linked to a customer's utility account (an unauthorized opening, modifying or closing of an account), then they must perform the actions set forth in the following Program.

7.3. IDENTIFICATION OF RED FLAGS

Part II of the Identity Theft Prevention Program assists the District in identifying Red Flags that may arise during routine handling of new and/or existing accounts. The District has identified the following items as potential Red Flag sources or categories that might indicate an instance of identity theft.

- Documents provided for identification appear to have been altered or forged.
- Photograph, physical description and/or other information on identification is not consistent with the appearance of the person presenting the identification.
- Information on the identification is not consistent with readily accessible information that is on file with the District, such as property tax records.
- Social security number presented is the same or similar to that of another customer.
- Information provided is inconsistent when compared against external information sources (address does not match any address listed online, and/or social security number has not been issued or is associated with a deceased person).

- Information provided by the customer is inconsistent with other information provided by the customer.
- Information provided is associated with known fraudulent activity (address and/or phone number on application is the same as the address provided on a previous fraudulent application).
- Information provided is of a type commonly associated with fraudulent activity (address on an application is fictitious and/or phone number is invalid).
- Customer fails to provide all required personal identifying information on an application or in response to notification that the application is incomplete (however, by law social security numbers must not be required).
- Customer cannot provide authentication information beyond that which generally would be available from a wallet.
- Account used in a way that is not consistent with prior use (such as abnormally high water usage).
- Mail sent to the customer is returned repeatedly as undeliverable although transactions continue to be conducted in connection with the customer's account.
- District is notified that the customer is not receiving paper account statements.
- District is notified that it has opened a fraudulent account for a person engaged in identity theft.

7.4. DETECTION OF RED FLAGS

Part III of the Identity Theft Prevention Program addresses the process of detecting Red Flags as related to possible identity theft during the District's routine handling of new and/or existing accounts. The following is a list of detection methods that the District uses to prevent identity theft.

- Require customers to present government-issued identification information to open a new account. Types of necessary information include:
 - Name
 - Date of Birth
 - Address (both physical and mailing address)
 - Phone number
 - Photo identification

- Verify customer’s identity (for example, review a driver’s license or other identification card).
- Independently contact the customer (in case of phone setup of new utility accounts).
- When fielding a request to access and/or modify an existing account (such as a change in billing address), verify identity of customer by requesting specific pieces of personal identifying information (identification with the new billing address and/or documentation proving shift of financial liability).

7.5. PART IV. PREVENTION AND MITIGATION

Part IV of the Identity Theft Prevention Program details response actions for District personnel if the personnel have observed a Red Flag associated with a new or existing utility account. One or more of the following actions will be taken by the District to rectify the situation.

- District will not open a new account (after review of the presented identifying information and discussion with General Manager).
- For an existing account, the District may discontinue the services associated with the account and/or:
 - Continue to monitor the account for evidence of identity theft and contact the customer to discuss possible actions.
 - Change the passwords, security codes, or other security devices that permit access to an existing account.
 - Reopen an existing account with a new account number.
 - Close an existing account.
- For all instance of suspected or confirmed identity theft, the District will notify local law enforcement and will provide them with all the relevant details associated with the identity theft event.

7.6. PROGRAM ADMINISTRATION

Program administration is an important part of the Identity Theft Prevention Program. This section details the training requirements, annual program review, approval and adoption process and annual reporting requirements that are associated with this Program.

7.6.1. Staff Training

Any employee with the ability to open a new account, or access/manage/close an existing account will receive training on identifying and detecting Red Flags. They will also be trained in the appropriate

response actions in the event that an instance of identity theft is suspected. Key management personnel in appropriate departments will also receive training on the contents of this Program. As necessary, employees will be re-trained annually if the Program is updated to include new methods of identifying and detecting Red Flags, or if new response actions are implemented.

7.6.2. Program Review and Update

The District will review and update the Program annually to reflect changes in risks to customers from identity theft based on factors such as:

- Experiences of the District with identity theft.
- Changes in methods of identity theft.
- Changes in methods to detect, prevent, and mitigate identity theft.
- Changes in the types of accounts that the District offers or maintains.
- Changes in the business arrangements of the District, including mergers, acquisitions, alliances, joint ventures, and service provider arrangements.

7.6.3. Program Approval and Adoption

The Program has been reviewed and approved the Esparto Community Services District Board of Directors on January 15, 2020 at a regular meeting of the Board of Directors.

The District's Board of Directors has assigned the General Manager to be responsible for the oversight, development, implementation and administration of the Program. Annually, the designated staff member will develop the annual report as described in Section D that will address compliance of the District with this Program. The District's Board of Directors is responsible for reviewing this report and approving material changes to the Program as necessary to address changing identity theft risks.

7.6.4. Annual Reporting

The District will provide an annual report to the District's Board of Directors that details the District's compliance with the Federal Trade Commission's Red Flag Rule. The report will address matters related to the Program and address several topic areas including:

- Effectiveness of the policies and procedures of the District in addressing the risk of identity theft in connection with the opening of new accounts and with respect to the management of existing accounts;
- Service provider arrangements;
- Significant incidents involving identity theft and management's response; and

- Recommendations for material changes to the Program.

7.6.5. Service Provider Oversight

Whenever the District engages a service provider to perform an activity in connection with one or more of the customer accounts, the District will verify that the activity of the service provider is conducted in accordance with reasonable policies and procedures designed to detect, prevent, and mitigate the risk of identity theft. To accomplish this, the District will require the service provider by contract to have policies and procedures to detect relevant Red Flags that may arise in the performance of the service provider's activities, and either report the Red Flags to the District or to take appropriate steps to prevent or mitigate identity theft.