



Memo

To: Board of Directors
From: Karl Drew, General Manager
Date: May 15, 2015
Subject: Budget and Financial Policies

At last month's Board meeting, staff was asked to include on the agenda a review of budget and financial policies. Attached to this report is some information from the District's Administrative Code, Board Minutes and the State Water Code regarding areas of responsibility, spending limits and other financial responsibilities.

While I did not go through the old minutes prior to 1987, I did not find reference to any District or state requirement for us to prepare an annual budget. If it had been part of an action by the Board of Directors, it would be included in the District's Administrative Code. It appears that our budget process is a management practice that was instituted prior to January 1987. There is no written District budget policy or written requirements for a budget.

Some larger entities such as the County of San Bernardino have very strict procedures and controls in place to assist in their oversight of the many financial transactions they process. These strict procedures and controls are required due to their size, the many different departments and special districts they oversee, and the lack of intimate knowledge of the various departments and districts. While these types of procedures and controls are necessary, they also contribute to budgeting and operational practices that lead to inefficiencies and waste. I will discuss some of these inefficiencies and waste later. The conditions listed above that require strict procedures and control are not present in our district and the District uses its budget and internal control procedures to review and control expenditures and other financial transactions.

Following is a discussion of internal controls and budgets:

Internal Controls: Internal control procedures for accounts receivable, accounts payable, payroll and other internal handling of District funds have been developed over the years. These internal controls were developed with input from the District Auditor. During the annual audit the auditors observe internal operational practices and review internal control procedures with the General Manager and Office Manager. The purpose of these internal controls is to protect District funds by providing checks and balances on the various steps involved in the different procedures. As an example of an internal control, following is an overview of the accounts payable internal controls:

- Purchases are approved by one of three people, the General Manager, Office Manager and Field Supervisor. The Field Supervisor has a \$300 per transaction approval limit. Most purchases require a purchase order. Some ongoing expenditures, such as utilities, do not require purchase orders, but receipts, invoices or documentation of some sort is required for all disbursements.

- Purchase Orders and other supporting documentation are checked and matched up with the appropriate invoice by a staff person.
- Invoices are approved for payment by the Office Manager or General Manager.
- Checks are prepared by a staff person and then signed by two authorized signers. Authorized signers are the Board Members, the General Manager and the Office Manager.
- Bank Reconciliations are performed by a staff person, which is then reviewed by the Office Manager. Bank reconciliations are periodically reviewed by the General Manager.
- A Monthly Disbursements Report, accompanied by budget comparison reports, is provided to the Board of Directors for their review and approval.

The purpose of the above procedures is to have different people looking at different parts of transactions. While no system is perfect, these controls provide a system where discrepancies should be noticed or questioned, reducing the risk of fraud occurring. The size of our office staff, three full-time employees and one part-time employee including the Office Manager, prevents us from having a different person performing each step, but we have enough people to be checking various step for discrepancies.

Budgets: The District uses its Cash Budget as an annual planning tool and to review its revenues, disbursements and financial position throughout the year. Monthly reports comparing the budget to actual revenues received and disbursements made are provided to the Board of Directors so they are aware of how we are doing financially.

The budget consists of several sections. These are the Cash Reserve Carryover from Prior Year, Operating Revenues and Expenses, Discretionary Appropriations or Capital Expenditures and Reserves. In prior years, there was also a Non-Discretionary Appropriations section which was for debt payments. Since the District has retired all bonds and notes, this section is no longer used.

The Operating Revenues and Expenses portion of the budget is prepared by looking at the current year line item revenues and expenditures and making projections to estimate the full year costs. These projections are reviewed and adjusted for anticipated operational and cost changes in the coming budget year. When the budget is approved by the Board of Directors, this becomes the yard stick that is used to measure the next year's performance.

Systems that use strict procedures and controls, and require Board approval to modify the budget so expenditures do not to exceed the budgeted amount during the year, lead to budgeting and operational practices that lead to inefficiencies and waste. In preparing budgets, line items will tend to inflated so that budget limits are not exceeded during the year. In the latter part of a fiscal year, unnecessary spending may occur if costs are below what was budgeted, so that the budgeted amounts are made to appear justified. Over time this contributes to over inflated budgets and wasteful spending.

The budgeting and reporting system that the District uses always shows the unmodified budget and compares revenues and expenses against that budget. In the Income Statement reports, the budgeted amounts are distributed monthly in an attempt to show projected spending patterns over the year.

With the current system, as long as there is appropriate reporting to the Board of Directors, the general manager is free to conduct business on a daily basis without restrictive budget constraints. Board members have the needed information to fulfill their oversight responsibility as budget variances and other financial information is reported on a monthly basis. In past years there has been no limits placed on operational budget variances. The Board has been satisfied with the regular financial reports being provided for their review. These reports have changed or been modified over the years as the composition of the Board of Directors has changed and more or less information has been requested.

Income Statement Reports: In the monthly Income Statement reports, there are four levels of detail

that are available in reviewing the District's financial activity and budget performance.

1. Overall Total: Do we have a Net Income or Net Loss for the year to date?
2. Total Revenues and Expenses: Are our total revenues and/or expenses above or below what was budgeted for the year to date?
3. Category or Cost Center Totals: How are the total revenues or expenses for a specific area of operations comparing to the budget? For example: How is our total Water Sales for the year comparing to budgeted numbers? How are we doing with total Water Treatment expenses?
4. Line item totals for revenue or expense accounts: How are the detail line items within a specific area comparing to the budget? Are Residential Water Sales in the Crestline area in line with our budget? Is the Supervision, Labor and Expense line item for Water Treatment within budget?

The current Income Statement reports provide detail down to level 4. Generally there are only two or three line items per category, but sometimes there are many more. Most of the category totals are within budget, but individual line items within the category may be over or under. The amount of line item data reported causes the whole report to be harder to read and digest. At the request of a past director, the "**Budget Comparison – Income Statement**" graph was created. It graphs the budget variance of levels 1, 2 and 3 so that a person can quickly see the overall District financial situation as compared to the current operating budget.

As previously mentioned, the reports have changed over the years and we would be happy to make any changes necessary to make them more readable to the Board. If the Board would like to see an Income Statement report that provides detail down to level 3 that would be very easy to do. This would provide a easy to read general overview of the operating revenues and expenses and staff would have supporting data available if there are any questions regarding a specific category. As an alternative, we could add the above report to reports provided so that the Board would have a summarized report in addition to the detailed report.

Recommendation: It is my recommendation that the method of budgeting and monthly reporting not be changed. The General Manager serves at the pleasure of the Board and is responsible in reporting to them. The Board has the opportunity each month to review the financial transactions and ask questions regarding these transactions. If the Board would like to see any report modifications or additional reports, we would be glad to accommodate these changes. If there are specific questions regarding certain transactions, we invite you to call us or come into the office to ask questions and review documents.

Budget & Finance Memo Reference Material

District Administrative Code

CHAPTER FOUR

4 FINANCIAL MATTERS

4.1 Appointment of an Auditor.

In accordance with Section 30540 (b) of the Water Code, the Board of Directors retains an auditor as an independent contractor to conduct an annual audit of the District's books, records and financial affairs.

(See, for example, Res. 1, May 18, 1954.)

4.2 Investment of Funds in Local Agency Investment Fund.

The Board authorizes the deposit and withdrawal of District monies in the Local Agency Investment Fund in the State Treasury in accordance with the provisions of Section 16429.1 of the Government Code for the purpose of investment as stated therein.

(Res. 220, December 8, 1983.)

4.3 Investment Policy.

The Board has adopted a formal investment policy and is required to review that policy each year in a public meeting as required by the California Government Code.

(Res. 296, February 20, 1996.)

4.4 Expenditures of District.

The Funds of the District shall be paid out and expended solely and only upon accounts approved by a majority of the members of the Board.

(Res. 127, March 7, 1978; amended by Res.186, January 15, 1981.)

4.5 Financial Institutions.

The Board shall designate the financial institution or institutions in which all funds of the District shall be deposited. The officers of the District and the members of the Board are authorized to execute such forms and signature cards as are required by such financial institution(s) to deposit and withdraw District funds.

(See, for example, Res. 2, May 18, 1954.)

4.6 Acceptance of Deeds and Easements.

The General Manager of the District, the Chief Engineer of the District, or the Secretary of the District, or any of them, are hereby authorized as agents of the District to accept and consent to deeds or grants conveying any interest in or easement upon real estate to the District. Either of the aforementioned agents of the District may execute a certificate of acceptance as provided in Section 27281 of the Government Code certifying that the interest in real property conveyed by any deed is accepted by the District pursuant to authority vested in said agents of the District by resolution, and further certifying that the grantee consents to the recordation of said deed by either of said duly authorized agents. Any of said agents are hereby authorized and directed to attach his written acceptance to any deeds or grants executed on authority of the Board of Directors and to be recorded.

(Res. 190, April 16, 1981.)

Excerpts from the:

**MINUTES OF THE REGULAR MEETING OF THE BOARD OF DIRECTORS OF
CRESTLINE VILLAGE WATER DISTRICT
OCTOBER 16, 2007**

SPENDING LIMITS POLICY FOR GENERAL MANAGER: Acting Manager Drew reviewed with the Board the current spending limit policy for the General Manager and staff. There currently is no written policy and with the change in General Manager that is occurring, staff would like to make sure there is a policy, written or unwritten, that is understood by the Board and staff.

Currently, if expenditures are within the normal operating budget that is approved by the Board, the expenditures are approved by the General Manager. Special purchases for vehicles or other capital expenditures are normally brought to the Board for approval prior to the purchase. The Board receives a monthly expenditures report in the agenda packet for their review. The Board did not feel there was a need to change the current policy.

The Board asked that Attorney Van Blarcom prepare a draft resolution which outlines the current spending policy for Board consideration. The Board also asked staff to include the monthly expenditures on the Board meeting agenda for formal approval by the Board.

**MINUTES OF THE ADJOURNED REGULAR MEETING OF THE BOARD OF DIRECTORS OF
CRESTLINE VILLAGE WATER DISTRICT
DECEMBER 4, 2007**

SPENDING LIMITS POLICY FOR GENERAL MANAGER: Manager Drew and Attorney Van Blarcom discussed the current spending limits policy and the check signing policy with the Board. Attorney Van Blarcom and Manager Drew reviewed several spending limit policies and found that most policies set specific dollars limits with additional Board approval required whenever the limits are exceeded. This type of language does not fit the way the District's policy has operated.

Under the current District policy, expenditures that fall within the budget, which is approved by the Board of Directors, may be approved by the General Manager regardless of the amount. Special purchases for vehicles or other budgeted capital expenditures are normally brought to the Board for approval prior to the purchase. The Board also receives monthly expenditures reports at the Board meetings for their approval.

In addition to the above policy, all checks require two signatures. Previously, the approved check signers were the five Board members, the General Manager and the Office Manager. With the change in the General Manager and Office Manager positions, the approved signers are the Board members and the General Manager. Under these circumstances, a Board member would have to sign all checks processed by the District.

Staff recommended that the new Office Manager not be added as an approved signer immediately. It was also suggested that Norman Hunt, the retired General Manager, be left as an authorized check signer as long as he is under contract with the District. He would be available to sign checks if there were no Board members available.

After considerable discussion, the Board did not feel there was a need to change the current policy. On a motion by Director Stone and a second by Director Huckell, the Board unanimously approved leaving Norman Hunt as an approved signer on the District's checking accounts for the duration of his employment contract with the District, which expires June 1, 2008. If the new Office Manager is added as an approved signer prior to that date, Mr. Hunt's status as an approved signer will be reevaluated.

California Water Code – Division 12: County Water Districts

Found in Sections 30000-33901 of Water Code

DIVISION 12. COUNTY WATER DISTRICTS	
PART 1. INTRODUCTORY PROVISIONS	
CHAPTER 1. SHORT TITLE	30000
CHAPTER 2. DEFINITIONS	30010-30027
CHAPTER 3. GENERAL PROVISIONS	30060-30068
PART 2. FORMATION	
CHAPTER 1. PETITION FOR FORMATION	30200-30205
CHAPTER 2. NOTICE OF HEARING ON FORMATION	30230-30232
CHAPTER 3. HEARING ON FORMATION	30260-30265
CHAPTER 4. ELECTION ON FORMATION	30290-30297
CHAPTER 5. ESTABLISHMENT OF DISTRICT	30320-30325
PART 3. INTERNAL ORGANIZATION	
CHAPTER 1. OFFICERS AND EMPLOYEES GENERALLY	
Article 1. Directors	30500-30516
Article 2. The Board	30520-30530
Article 3. Other Officers and Employees	30540-30547
CHAPTER 2. BOARD AND OFFICER ACTIVITIES	30575-30586

WATER CODE

SECTION 30575-30586

30575. The board is the governing body of the district.

30576. The powers of districts enumerated in this division shall, except as therein otherwise provided, be exercised by the board.

30577. Each member of the board, or the secretary, may administer oaths and affirmations in connection with the taking of testimony at any hearing, investigation, or other matter pending before the board.

30578. The president shall:

- (a) Sign all contracts on behalf of the district.
- (b) Perform other duties imposed by the board.

30579. The secretary shall:

- (a) Countersign all contracts on behalf of the district.
- (b) Perform other duties imposed by the board.

30579.5. Notwithstanding the provisions of subdivision (a) of Section 30578 and subdivision (a) of Section 30579, the board may alternatively authorize, subject to such limitations and conditions as it may determine, the execution of contracts on behalf of the district by another officer or officers of the district.

30580. The general manager shall:

- (a) Have full charge and control of the maintenance, operation, and construction of the water works or water-works system of the district.
- (b) Have full power and authority to employ and discharge all employees and assistants at pleasure.
- (c) Prescribe the duties of employees and assistants.
- (d) Fix and alter the compensation of employees and assistants subject to approval by the board.

30581. The general manager shall also:

- (a) Perform other duties imposed by the board.
- (b) Report to the board in accordance with the rules and regulations as it adopts.

30582. If the board appoints an auditor or treasurer pursuant to Section 30540, the auditor or treasurer shall install and maintain a system of auditing and accounting that shall completely and at all times show the financial condition of the district.

30586. The board of a district in existence on the effective date of this section shall file a certificate with the Secretary of State on or before January 1, 1964, listing:

- (a) The name of the district.
- (b) The date of formation.
- (c) The county or counties in which the district is located, and a description of the boundaries of the district, or reference to a map showing such boundaries, which map shall be attached to the certificate, or reference to the county recorder's office where a description of such boundaries has been recorded.

If the order declaring the district formed contains all of the information required to be in the certificate, the board may file a copy of the order in lieu of the certificate. If the certificate filed with the Secretary of State stating that the formation of the district was approved by the voters contains all of the information required by this section, no further certificate need be filed.

PART 6. FINANCIAL PROVISIONS

CHAPTER 1. GENERAL FINANCIAL PROVISIONS

- Article 1. In General [31300-31310](#)
- Article 2. Settlements and Statements [31320-31322](#)
- Article 3. Investments [31335-31339](#)

CHAPTER 2. BONDS

- Article 1. Notice [31370-31372](#)
- Article 2. Hearing [31385-31393](#)
- Article 3. Election [31405-31416](#)
- Article 4. Issuance [31425-31429](#)
- Article 5. Refunding [31440-31446](#)
- Article 6. Callable Bonds [31460-31461](#)
- Article 7. Revenue Bonds [31480-31482](#)

CHAPTER 3. ADOPTION OF IMPROVEMENT ACTS

- Article 1. Authorization of Improvements [31500-31506](#)
- Article 2. Definition of Improvement Act Terms [31520-31529](#)
- Article 3. Engineer of Work [31545-31548](#)

CHAPTER 4. IMPROVEMENT DISTRICTS

- [31575-31579](#)

CHAPTER 5. ALTERNATIVE PROCEDURE FOR FORMATION OF IMPROVEMENT DISTRICTS

- Article 1. In General [31585-31586](#)
- Article 2. Formation and Projects [31595-31611](#)
- Article 3. Taxes [31615-31618](#)

CHAPTER 6. KINGS COUNTY WATER DISTRICT IMPROVEMENT DISTRICT [31625](#)

CHAPTER 7. COACHELLA VALLEY WATER DISTRICT WATER REPLENISHMENT ASSESSMENTS [31630-31639](#)

**WATER CODE
SECTION 31300-31310**

31300. A district may borrow money, incur indebtedness, and issue bonds or other evidences of the indebtedness, and may refund or retire any indebtedness or lien against the district or its property.

31301. The district may issue warrants to pay its formation expenses bearing interest at 6 percent per year from date of issue until funds are available to pay the warrants.

31302. The auditor shall draw warrants to pay demands made against the district when the demands have been approved or authorized by the board, or at least three members thereof, and by the general manager; or, in his absence or inability to act, by an officer or director therefor authorized by the board.

31303. Any money belonging to a district may be deposited or invested and drawn out as provided in Article 2 (commencing with Section 53630) of Chapter 4 of Part 1 of Division 2 of Title 5 of the Government Code, as now or hereafter amended. References in that chapter to "treasurer" shall mean, for the purposes of a district, the auditor thereof and to "auditor" shall mean, for the purposes of a district, the secretary thereof. This

section provides for a deposit and investment procedure separate from that provided in Article 3 (commencing with Section 31335).

31304. The district, or the district on behalf of an improvement district thereof, may issue negotiable promissory notes which shall be payable from general taxes, revenues, and other available funds of the district or the improvement district, as the case may be, other than taxes levied for the payment of principal and interest on any bonded indebtedness of the district or an improvement district therein. The notes shall bear interest at a rate not exceeding 8 percent per annum and shall mature and be payable not later than five years from the date of issue. The balance of such notes unpaid shall not at any one time exceed 2 percent of the assessed valuation of the taxable property in the district or the improvement district, as the case may be, or, if said assessed valuation is not obtainable, 2 percent of the county auditor's estimate of the assessed valuation of the taxable property in the district, or the improvement district, as evidenced by his certificate; provided, however, that a district which has been formed for less than 18 months may borrow an amount not exceeding twenty-five thousand dollars (\$25,000), or an amount not exceeding 2 percent of the assessed valuation or estimated valuation of the taxable property in the district, whichever is greater.

No district shall borrow, pursuant to this section, for purposes other than flood control, in excess of one million dollars (\$1,000,000); provided, however, that any district with an assessed valuation in excess of one hundred million dollars (\$100,000,000) may borrow, pursuant to this section, for purposes other than flood control, an amount not exceeding 1 percent of the assessed valuation of all taxable property within the district.

31304.5. A district may contract with any state agency to finance any district improvement authorized by this division that is related to the provision of water for human consumption. The terms of the contract shall be consistent with this division. Notwithstanding any other provision in this division, the term of the contract may extend up to 30 years.

31305. The board may designate the county treasurer the depository to have the custody of all, or a portion of, the district's money.

31306. If designated as depository the county treasurer shall:

(a) Receive and receipt for all of the district's money received by him and place it in the county treasury to the credit of the district.

(b) Be responsible upon his official bond for the safekeeping and disbursing of all district money so held by him.

31307. When the county treasurer has been designated the depository to have custody of district money, he shall pay out that money, or any portion thereof, only upon warrants of the county auditor.

31308. The county auditor shall draw warrants to pay demands made against the district when the demands have been approved by at least three members of the board and the general manager.

31309. The county treasurer shall report in writing on the first day of July, October, January, and March of each year to the board with respect to each of the following:

(a) The amount of money he then holds for the district.

(b) The amount of receipts since his last report.

(c) The amount paid out since his last report. The report shall be verified and filed with the secretary.

31310. The board of supervisors of the county shall determine the charge to be made against the district for any services of either or both of:

(a) The county treasurer as custodian of the district's money.

(b) The county auditor in drawing warrants to pay demands made and approved against the district.