



HEATHER GLEN COMMUNITY SERVICES DISTRICT

POLICY TITLE: Finance Management and Internal Controls Policy

POLICY NUMBER: 2160

ADOPTED BY BOARD OF DIRECTORS: 06/26/2025

FOR CONSIDERATION BY BOARD OF DIRECTORS: 05/15/2026

AUTHORITY: California Government Code §§ 61053, 53600 et seq., and 16429.1 et seq.

This policy supersedes prior policies related to work contracts, consultants, and District workers; including the Contractors and Consultants Policy approved June 26, 2025.

2160.1 – Purpose and Scope

This policy establishes financial management procedures and internal control systems for Heather Glen Community Services District (HGCS D). It ensures fiscal responsibility, accountability, fraud prevention, and transparency in accordance with Government Code §61053. The policy supports current and future District operations, whether conducted by Board members or contracted service providers.

2160.2 – Governance and Oversight Roles

- **Board of Directors** – Maintains ultimate fiduciary responsibility for the District’s finances and policy approval.
- **Board Treasurer** – Appointed by the Board; responsible for treasury functions, financial oversight, fund transfers, check signing, and quarterly financial reporting. Must be bonded.
- **Bookkeeper** – A contracted financial professional responsible for bookkeeping, deposits, and report preparation, under the supervision of the Board Treasurer and General Manager. Must be bonded.
- **General Manager** – Provides administrative oversight for the implementation of this policy, ensures coordination between contracted financial professionals and the Board, maintains official financial records, and assists with policy compliance, documentation, and reporting.
- **Financial Operations Group (FOG)** – The District conducts ongoing financial operations review through an administrative coordination function consisting of the General Manager, Board Treasurer, and Bookkeeper.

This function:

- Provides oversight of financial operations, including receivables, payables, customer accounts, and internal controls
- Supports implementation of this policy and preparation of financial reporting
- Is administrative in nature and does not exercise policy-making authority

This group may be referred to informally as the “Finance Committee”; however, it does not constitute a standing committee of the Board of Directors, does not include a quorum of the Board, and is not a legislative body subject to the Ralph M. Brown Act.

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- **Ad Hoc Financial Committees**

The Board of Directors may establish ad hoc financial committees for specific, time-limited purposes, including but not limited to:

- Annual budget development
- Audit review and response
- Financial policy updates

Such committees:

- Shall be formed and dissolved in accordance with the District's Committees Policy
- Shall include one (1) to two (2) Board members, appointed in accordance with the District's Committee Policy to ensure Board oversight without constituting a quorum, and may include members of the public where appropriate
- Shall not exercise ongoing operational authority

Ad hoc committees are distinct from the Financial Operations Group (FOG) and shall not assume ongoing administrative financial responsibilities; however, FOG may support such committees where responsibilities overlap.

Bond certificates for all bonded roles are stored in a secure, access-controlled folder on Google Drive.

2160.3 – Bank Accounts and Transfers

- HGCSO maintains dedicated Checking and Money Market accounts.
- Upon adoption of a §61053 resolution, the District may transfer funds from the Placer County Treasury to its bank accounts.

Transfer Procedure:

- Board Treasurer prepares and signs a County Warrant.
- Warrant is submitted to the Auditor's Office for approval.
- Upon approval, funds are transferred via ACH or wire to the District's bank account.

In accordance with §61053, the Placer County Board of Supervisors and District shall determine a mutually acceptable fund withdrawal date.

2160.4 – Receivables and Deposits

- All physical checks are received by mail or District drop box and logged by the Bookkeeper.
- Deposits are made using a check scanner provided by the District's bank.
- Copies of deposits are uploaded to a restricted-access Google Drive folder and reported to the Treasurer via automated notifications.
- Access to online banking is password-protected and limited to the Bookkeeper and Board

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Treasurer.

- The District shall minimize cash handling where possible. Any cash receipts shall be logged upon receipt, safeguarded, and deposited promptly. Separation of duties shall be maintained where feasible, and all cash transactions shall be documented and subject to review as part of the District's internal control procedures.

2160.5 – Disbursements and Payables

Procedures:

- Bookkeeper compiles vendor invoices and prepares a list of payables.
- Two Board members must approve and sign each invoice.
- Board Treasurer reviews and signs all checks. If unavailable, the Board President may sign.
- Every check above \$50 must be signed by two authorized signers as determined by the District Board in Resolution 2020;

Internal Controls:

- The Bookkeeper may not alter deposit amounts or sign checks.
- The Bookkeeper generates checks but must have Board Treasurer approval before issuance.
- All paid invoices shall be so marked and filed for reference;

Budgetary Controls:

- All expenditures shall be consistent with the Board-adopted budget unless otherwise authorized by Board action. Budget-to-actual performance shall be reviewed quarterly as part of Financial Reporting.
- The District may track encumbrances or committed expenditures to ensure accurate budget monitoring and financial planning.

2160.6 – Internal Controls and Digital Safeguards

To ensure accountability and protect District funds:

- No single individual may authorize, record, and reconcile the same transaction. Where staffing limitations exist, compensating controls (such as increased oversight or independent review) shall be implemented.
- Bank reconciliations are performed monthly by someone not authorized to sign checks.
- ACH and wire transfer templates may only be created by the Board Treasurer or Bookkeeper and require dual approval for use.
- All financial records (invoices, deposits, approvals, bank statements) are stored in secure, access-controlled folders on Google Drive with two-factor authentication.
- Quarterly reports are jointly prepared by the Bookkeeper and Treasurer and filed with the General Manager.

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- Fed-wire or ACH transfers exceeding \$50,000 must be disclosed quarterly to the Board (except LAIF transfers).
- Any suspected fraud, financial irregularity, or misuse of District funds shall be reported to the Board Treasurer and Board President and investigated in accordance with District policy.

2160.7 – Financial Reporting and Board Review

- Quarterly Financial Reports must detail receipts, disbursements, and account balances.
- Reports are signed by the Board Treasurer and reviewed by the full Board of Directors to assess compliance and financial health.
- Supporting documentation is digitally archived in accordance with the District's Records Retention and Management Policy.
- Quarterly Financial Reports shall include summary reporting of outstanding customer credit balances and any refunds issued during the reporting period, as tracked through the District's Financial Operations Group (FOG).
- The Financial Operations Group (FOG) supports administrative financial oversight and reporting preparation but does not replace Board-level review, approval, or fiduciary responsibility.

2160.8 – Reserve, Investment, and LAIF Accounts

- The District may maintain cash reserves in the Local Agency Investment Fund (LAIF) up to allowable limits.
- Withdrawals from LAIF must be authorized by one of the following: Board President or Vice President. Requests must be documented and retained by the Board Treasurer.
- Additional long-term investments must be approved by Board resolution.
- Withdrawals from investment accounts require officer approval and must be transferred to an authorized District checking account.
- The District shall periodically evaluate reserve targets based on operational needs, capital planning, and risk exposure, and may establish minimum reserve levels through Board action.

2160.8.1 – Use of Reserve Funds for Infrastructure

The District may utilize reserve funds for infrastructure-related expenditures, including but not limited to capital improvements, system repairs, emergency replacements, and other long-term asset investments.

Such use shall be:

- Consistent with applicable California law and governmental accounting standards, reserve funds may be used for these purposes when properly authorized
- Approved by the Board of Directors, either through the annual budget process or by separate Board action
- Documented to demonstrate alignment with the District's long-term financial planning and infrastructure needs





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Where applicable, the District shall distinguish between:

- **Restricted reserves** (legally or contractually limited use)
- **Committed reserves** (Board-designated for specific purposes)
- **Unassigned reserves** (available for general use, including infrastructure)

The Financial Operations Group (FOG) shall periodically review reserve levels to ensure adequacy for both emergency response and planned capital needs.

Investment activities shall be conducted in accordance with the District's Investment of District Funds Policy (Policy 2130).

2160.9 – Audit and External Review

- The District may conduct annual independent financial audits and shall conduct audits as required by applicable law or Board direction. Results are presented to the Board and used to review internal controls.
- Biennial audits of specific programs (e.g., Property/Liability) may also be conducted.
- The Board will formally review this policy and control systems following each audit, with input from the external auditor.

2160.10 – Accounting Standards and Compliance

- The District adheres to Generally Accepted Accounting Principles (GAAP) as established for governmental entities, including standards issued by the Governmental Accounting Standards Board.
- This policy complies with:
 - **Gov. Code §§ 61053–61054:** Alternative depository and fund handling.
 - **Gov. Code §§ 53600–53686:** Public investment and deposit regulations.
 - **Gov. Code §§ 16429.1–16429.3:** Voluntary investment in Local Agency Investment Fund (LAIF).
- Investments shall be managed in accordance with the principles of safety, liquidity, and yield, in that order of priority, consistent with California Government Code §53600 et seq.
- Nothing in this policy precludes the District from using the Placer County Treasury when appropriate. This policy does not preclude the Board Treasurer from reinvesting funds with the County Treasury if in the District's best interest.
- The District utilizes fund accounting principles to ensure proper tracking of financial resources, including restrictions on the use of specific funds where applicable.

2160.10.1 – Capital Assets and Depreciation

The District shall maintain records of capital assets in accordance with applicable GASB standards. Capital assets shall be:



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- Capitalized based on thresholds established by the District
- Tracked for financial reporting purposes
- Depreciated over their useful lives where applicable

Infrastructure investments funded through reserves shall be recorded and tracked in accordance with these standards.

The District shall periodically evaluate capital asset inventories and useful lives as part of financial reporting and audit preparation.

Supporting documentation related to capital assets shall be retained in accordance with the District's Records Retention and Management Policy.

2160.11 – Customer Overpayments, Credits, and Account Balances

The District recognizes that customer accounts may occasionally result in overpayments or credit balances. These funds shall be managed in accordance with public agency best practices and applicable California law.

2160.11.1. Treatment of Overpayments

- Customer overpayments shall be retained on account as a credit balance unless a refund is requested in writing.
- Credits will automatically be applied to future charges on the account.

2160.11.2. Reconciliation and Refund Timing

- The District shall review and reconcile customer account balances:
 - **Annually**, as part of fiscal year-end review
 - **At the time of property transfer or escrow demand**, ensuring accurate settlement of all balances
- Refunds shall be issued:
 - Upon verified written request by the account holder; or
 - Automatically at escrow close if required to reconcile the account

2160.11.3. Accounting and Custody of Funds

- Overpayments shall be recorded as a **liability** in accordance with Generally Accepted Accounting Principles (GAAP).
- Funds may be held in the District's pooled cash and investment accounts (including LAIF), consistent with Government Code §§ 53600 et seq.

2160.11.4. Interest and Earnings

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- Any interest or investment earnings generated from pooled funds containing customer overpayments shall be retained by the District.
- Such earnings shall be allocated to the **General Fund** unless otherwise directed by Board policy or resolution.

2160.11.5. Unclaimed Credits

- Credit balances that remain unclaimed for a period consistent with California unclaimed property laws may be processed in accordance with applicable legal requirements.
- The District shall make reasonable efforts to notify account holders prior to any such action.

2160.11.6. Internal Controls and Transparency

- All account adjustments, credits, and refunds must be documented and approved in accordance with the District's internal control procedures.
- The District shall maintain clear records of:
 - Credit balances
 - Applications of credits
 - Refunds issued
- The Financial Operations Group (FOG) shall conduct periodic review of customer account balances, credit liabilities, and reconciliation activities in accordance with Section 2160.11 to support accurate reporting and financial controls.

2160.11.7. Prohibition on Misuse

- Customer overpayments shall not be treated as discretionary revenue and may not be expended except through lawful investment and cash management practices.

2160.12 – Policy Review and Amendment

This policy is intended to remain operational and adaptable as the District evolves regardless of future changes in personnel, technology, or regulatory environment. The **Financial Operations Group (FOG)** may propose amendments as needed, subject to Board approval.



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Summary of Proposed Amendments to Policy 2160 – Finance Management and Internal Controls Policy

The proposed amendments to Policy 2160 are intended to strengthen the District's financial management framework, improve internal controls and reporting clarity, and align District practices with applicable California law, governmental accounting standards, and California special district best practices.

Key updates include:

- Formalization of the District's Financial Operations Group (FOG) administrative review function and clarification of distinctions between administrative operations and Board ad hoc committees.
- Addition of budgetary controls, fraud reporting procedures, cash handling safeguards, and expanded internal control provisions.
- Addition of reserve fund management provisions, including clarification regarding use of reserve funds for infrastructure-related expenditures when properly authorized.
- Addition of accounting standards and capital asset provisions consistent with Generally Accepted Accounting Principles (GAAP) and standards issued by the Governmental Accounting Standards Board.
- Addition of customer account overpayment and credit handling procedures, including reconciliation, accounting treatment, refunds, interest earnings, and related reporting and internal control requirements.
- Clarification that investment activities are governed in coordination with the District's Investment of District Funds Policy (Policy 2130).
- General organizational, compliance, and policy clarification updates intended to support long-term operational consistency, transparency, and audit readiness.

