

AMERICAN FORK CITY COUNCIL
JULY 21, 2020
WORK SESSION AGENDA

NOTICE OF ELECTRONIC MEETING

Pursuant to COVID-19 Federal Guidelines, this meeting will be conducted electronically. You may watch the meeting live-streamed at <https://www.americanfork.gov/AgendaCenter>.

WORK SESSION

The purpose of City Work Sessions is to prepare the City Council for upcoming agenda items on future City Council Meetings. The Work Session is not an action item meeting. No one attending the meeting should rely on any discussion or any perceived consensus as action or authorization. These come only from the City Council Meeting.

The American Fork City Council will meet in a work session on Tuesday, July 21, 2020, electronically, commencing at 4:00 p.m. The agenda shall be as follows:

1. Presentation on the water infrastructure bond. *(15 minutes)*
2. Discussion on downtown revitalization. *(30 minutes)*
3. Presentation of the Fraud Risk Assessment. *(10 minutes)*
4. Adjourn.

Dated this 17 day of July, 2020.



Terilyn Lurker
City Recorder

- In accordance with the Americans with Disabilities Act, American Fork City will make reasonable accommodations to participate in the meeting. Requests for assistance can be made by contacting the City Recorder at 801-763-3000 at least 48 hours in advance of the meeting.
- The order of agenda items may change to accommodate the needs of the City Council, the staff, and the public.

CITY COUNCIL STUDY ITEM

City of American Fork COUNCIL WORK SESSION JULY 21, 2020

Department Recorder

Department Terilyn Lurker

STUDY ITEM Presentation on the water Infrastructure bond.

BACKGROUND

This presentation is on the water infrastructure bond and what the project entails, the cost of the project, and how the bond will be paid.

SUPPORTING DOCUMENTS

Worksession 7.21 Water Bonds (PPTX)

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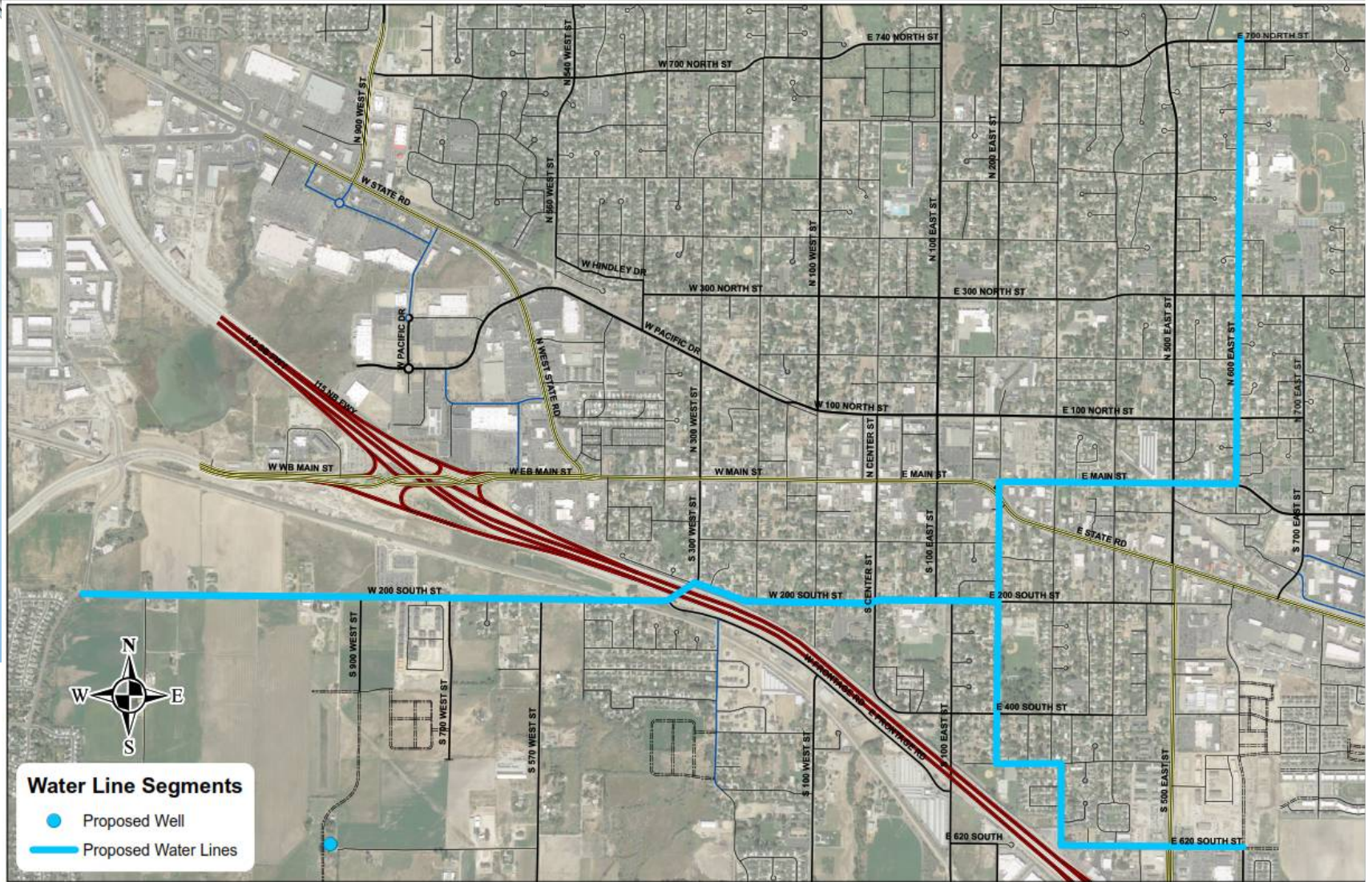
AMERICAN FORK CITY WATER SYSTEM IMPROVEMENTS LOAN ANALYSIS

WORK SESSION JULY 21, 2020

PROJECT DESCRIPTION

- Replaces old and undersized main line pipes with larger system main pipes along the backbone network of the culinary water system
- Replaces dilapidated main lines that suffer outages from routine breaks and leaks
- Necessary to provide adequate fire protection & culinary water to high-growth areas
- Provides additional supply from a new well in the southern portion of the city

PROJECT MAP



ESTIMATED PROJECT COST

Description	Estimated Cost
Transmission Pipe Line	\$21,447,868
Southwest Well	\$4,358,059
Total	\$25,805,927

Description	Estimated Financing
Out of Pocket Costs (15% project costs)	\$3,870,890
Cost of Loan (Board Fee 1%)	\$258,059
Retirement of 2013 Revenue Bonds	\$570,000
Total Out of Pocket Costs from Reserves	\$4,698,949
Total Loan Amount (85% project costs)	\$21,935,037

- Costs based on project estimates, subject to procurement of construction contract
- Parameters resolution states not to exceed \$29,500,000 in the case of open marking financing or other contingencies

OTHER FINANCING OPTIONS

AMERICAN FORK CITY, UTAH
2020 WATERLINE PROJECT BONDING COMPARISON
5/6/2020

Bond Details	Option 1 State Loan (Board of Water Resources)	Option 2 Private Placement	Option 3A Open Market (20 Years)	Option 3B Open Market (25 Years)
Construction Costs	\$27,907,961	\$27,907,961	\$27,907,961	\$27,907,961
Additional Construction Costs	\$1,395,398	\$0	\$0	\$0
	5% increase due to State and federal requirements			
Total Construction Costs	\$29,303,359	\$27,907,961	\$27,907,961	\$27,907,961
Bond Principal (Borrowed Amount)	\$27,908,000	\$27,961,000	\$25,155,000	\$25,210,000
Bond Premium (Market Driven, if any)	\$0	\$0	\$3,027,036	\$2,979,362
Total Bond Proceeds	\$27,908,000	\$27,961,000	\$28,182,036	\$28,189,362
Origination Fee/Underwriter Fee	\$279,080	\$0	\$100,620	\$100,840
	1% paid to State	None	Paid to underwriter	Paid to underwriter
Term	25 Years	20 Years	20 Years	25 Years
True Interest Cost	1.586%	2.400%	2.688%	2.940%
Average Annual Debt Service	\$1,338,640.80	\$1,759,356	\$1,812,599	\$1,582,452
Total Principal & Interest (Over life of bond)	\$33,466,020	\$35,187,126	\$36,251,983	\$39,561,300
Optional Redemption	Callable anytime	Varies	Market Standard: Callable in 10 years	Market Standard: Callable in 10 years

DEBT SERVICE COVERAGE

- Annual debt service is impact fee eligible
- Minimum debt service coverage is 1.25%
 - Average 4.71% with impact fees
 - Average 3.51% without impact fees
- Adequate reserve balance
- Impact fees from development will cover majority of debt service
- Includes annual ongoing capital repairs/maintenance
- Project is viable **WITHOUT** a rate increase for this project based on coverage ratios

ADDRESSING CONCERNS

- Current water rates will cover the debt service based on 2% growth rate over a 25 year loan term
- Impact fees will contribute to the majority of loan repayment
- Project will be competitively bid based on procurement policies and federal and state requirements
- Bond parameters defines amount, terms, interest rate as “not to exceed” – estimates are less than parameters limit with contingencies built in
- Would draw on the State loan only what is needed for each phase of the project
- Costs are closely tracked, reviewed, and audited
- Pledged with culinary water revenues only – will not increase property taxes or effect pressurized irrigation rates
- Using reserves/savings for non-impact fee eligible portions of the project

TIMELINE FOR PROJECT/LOAN APPROVAL

- April 13 Loan Application Submitted
- May 5 Moratorium Placed On New Development
- June 30 Parameters Resolution Authorized for project funding
- July 1 Notices Published In July Utility Bills
- July 28 Council Meeting / Public Hearing
- August 6 Utah Board of Water Resources Board Meeting (City seeking loan approval)
- TBD Moratorium Lifted pending approval of funding
- TBD Project Construction Kick Off pending availability of funding

CITY COUNCIL STUDY ITEM

City of American Fork COUNCIL WORK SESSION JULY 21, 2020

Department Recorder

Department Terilyn Lurker

STUDY ITEM Presentation of the Fraud Risk Assessment

BACKGROUND

Beginning in 2020, all local governments are required to complete a Fraud Risk Assessment/Questionnaire and present it to the governing body. The Assessment assigns an overall risk level of undetected fraud based upon points earned for the implementation of identified best practices. This assessment/questionnaire will also be certified by the Finance Director and City Administrator.

This assessment was designed by the State Auditor's Office to identify best practices in fraud detection and prevention. It is important to note the following:

- Best practices identified in the Assessment are not required, but highly recommended.
- All of the best practices in the Assessment may be implemented at a low or no cost.
- The Assessment is not a replacement or duplication of an internal control assessment performed by an independent auditor as part of a financial statement audit.

SUPPORTING DOCUMENTS

07-21-20 Fraud Risk Assessment Discussion(PPTX)

Fraud Risk Assessment Questionnaire (PDF)

American Fork City

**Fraud Risk
Assessment
Discussion
June 30, 2020**

FRAUD RISK ASSESSMENT – WHAT IS IT?

- Developed by Office of the State Auditor.
- Designed to help measure and reduce the risk of fraud, abuse, and noncompliance in local governments.
- Developed to help local government board members understand best practices in fraud detection and prevention.
- Assessment assigns an overall risk level of undetected fraud based on a “point” system.
- Same assessment is used for small governments (with no staff) to large entities (such as Salt Lake City).
- Assessment should be a “starting point” for regular review of internal controls.

FRAUD RISK ASSESSMENT – WHAT IT IS NOT

- An internal control assessment performed by an independent auditor as part of a financial statement audit. (Methodologies and purposes are different.)
- A “high” score does not necessarily indicate a lack of internal controls.

ASSESSMENT SCORING

Areas the City Scored High in:

- Separation of duties
- Written policies
- Staff training

Areas for Potential Improvement:

- Formal, adopted cash receipting policies (have internal procedures).
- Annual statement of ethical behavior (possibly other certifications/statements).
- Online State Auditor training at least every four years.
- Fraud Hotline.
- Audit committee

OVERALL SCORE: 310 OUT OF 395; "MODERATE" RISK LEVEL

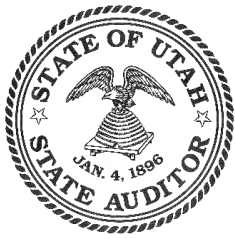
MITIGATING FACTORS

- Finance Director has Bachelor's and Master's Degrees in Accounting; 20 years of municipal Finance experience at all levels. Internal Audit function part of Finance Director's job description.
- Newly hired accountant is another level of separation of duties
- Finance has numerous policies in place; need to formalize into writing and integrate into approved Financial Policies.

MOVING FORWARD

- Cash receipting and deposits policy addition
- Holistic discussion of internal controls with Senior Staff and Finance Department personnel to ensure possible changes are achievable and contribute to strong internal controls within the City.

QUESTIONS?



Revised March 2020

Fraud Risk Assessment

INSTRUCTIONS:

- Reference the *Fraud Risk Assessment Implementation Guide* to determine which of the following recommended measures have been implemented.
- Indicate successful implementation by marking "Yes" on each of the questions below.
- Total the points of the questions marked "Yes" and put on the "Total Points Earned" line below.
- Using the points earned, circle the risk level on the "Risk Level" line below.

Total Points Earned: 290 Risk Level: Very Low Low Moderate High Very High
> 355 316-355 276-315 200-275 < 200

	Yes	Pts
1. Does the entity have adequate basic separation of duties or mitigating controls as outlined in the attached Basic Separation of Duties Questionnaire?	X	200
2. Does the entity have written policies in the following areas:		
a. Conflict of interest?	X	5
b. Procurement?	X	5
c. Ethical behavior?	X	5
d. Reporting fraud and abuse?	X	5
e. Travel?	X	5
f. Credit/Purchasing cards (where applicable)?	X	5
g. Personal use of entity assets?	X	5
h. IT and computer security?	X	5
i. Cash receipting and deposits?		5
3. Does the entity have a licensed or certified expert as part of its management team? (CPA, CGFM, CMA, CIA, CFE, CGAP, CPFO)	X	20
a. Do any members of the management team have at least a bachelor's degree in accounting?	X	10
4. Are employees and elected officials required to annually commit in writing to abide by a statement of ethical behavior?		20
5. Have all of the board members completed the State Auditor online training at least once in the last four years?		20
6. Regardless of license or formal education, does at least one member of the management team receive at least 40 hours of formal training related to accounting, budgeting, or other financial areas each year?	X	20
7. Does the entity have or promote a fraud hotline?		20
8. Does the entity have a formal internal audit function?		20
9. Does the entity have a formal audit committee?		20

Certified By: _____ Certified By: _____

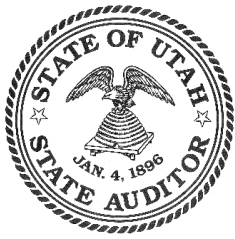
* MC = Mitigating Control

Basic Separation of Duties

See page 2 of this questionnaire for instructions and definitions.

	Yes	No	MC*	N/A
1. Does the entity have a board chair, clerk, and treasurer who are three separate people?	X			
2. Are all the people who are able to receive cash or check payments different from all of the people who are able to make general ledger entries?	X			
3. Are all the people who are able to collect cash or check payments different from all the people who are able to adjust customer accounts? If no customer accounts, check "N/A".	X			
4. Are all the people who have access to blank checks different from those who are authorized signers?	X			
5. Does someone other than the clerk and treasurer reconcile all bank accounts OR are original bank statements reviewed by a person other than the clerk to detect unauthorized disbursements?	X			
6. Does someone other than the clerk review periodic reports of all general ledger accounts to identify unauthorized payments recorded in those accounts?	X			
7. Are original credit/purchase card statements received directly from the card company by someone other than the card holder? If no credit/purchase cards, check "N/A".	X			
8. Does someone other than the credit/purchase card holder ensure that all card purchases are supported with receipts or other supporting documentation? If no credit/purchase cards, check "N/A".	X			
9. Does someone who is not a subordinate of the credit/purchase card holder review all card purchases for appropriateness (including the chief administrative officer and board members if they have a card)? If no credit/purchase cards, check "N/A".	X			
10. Does the person who authorizes payment for goods or services, who is not the clerk, verify the receipt of goods or services?	X			
11. Does someone authorize payroll payments who is separate from the person who prepares payroll payments? If no W-2 employees, check "N/A".	X			
12. Does someone review all payroll payments who is separate from the person who prepares payroll payments? If no W-2 employees, check "N/A".	X			

Attachment: Fraud Risk Assessment Questionnaire (Fraud Risk Assessment)



Revised March 2020

Basic Separation of Duties

Continued

Instructions: Answer questions 1-12 on the Basic Separation of Duties Questionnaire using the definitions provided below.

☑ If all of the questions were answered “Yes” or “No” with mitigating controls (“MC”) in place, or “N/A,” the entity has achieved adequate basic separation of duties.

☹ If any of the questions were answered “No,” and mitigating controls are not in place, the entity has not achieved adequate basic separation of duties.

Definitions:

Board Chair is the elected or appointed chairperson of an entity’s governing body, e.g. Mayor, Commissioner, Councilmember or Trustee. The official title will vary depending on the entity type and form of governments.

Clerk is the bookkeeper for the entity, e.g. Controller, Accountant, Auditor or Finance Director. Though the title for this position may vary, they validate payment requests, ensure compliance with policy and budgetary restrictions, prepare checks, and record all financial transactions.

Chief Administrative Officer (CAO) is the person who directs the day-to-day operations of the entity. The CAO of most cities and towns is the mayor, except where the city has a city manager. The CAO of most local and special districts is the board chair, except where the district has an appointed director. In school districts, the CAO is the superintendent. In counties, the CAO is the commission or council chair, except where there is an elected or appointed manager or executive.

General Ledger is a general term for accounting books. A general ledger contains all financial transactions of an organization and may include sub-ledgers that are more detailed. A general ledger may be electronic or paper based. Financial records such as invoices, purchase orders, or depreciation schedules are not part of the general ledger, but rather support the transaction in the general ledger.

Mitigating Controls are systems or procedures that effectively mitigate a risk in lieu of separation of duties.

Original Bank Statement means a document that has been received directly from the bank. Direct receipt of the document could mean having the statement 1) mailed to an address or PO Box separate from the entity’s place of business, 2) remain in an unopened envelope at the entity offices, or 3) electronically downloaded from the bank website by the intended recipient. The key risk is that a treasurer or clerk who is intending to conceal an unauthorized transaction may be able to physically or electronically alter the statement before the independent reviewer sees it.

Treasurer is the custodian of all cash accounts and is responsible for overseeing the receipt of all payments made to the entity. A treasurer is always an authorized signer of all entity checks and is responsible for ensuring cash balances are adequate to cover all payments issued by the entity.