AUDIT, FINANCE & ENTERPRISE COMMITTEE MINUTES

June 26, 2025

The Audit, Finance & Enterprise Committee of the City of Mesa met in the Study Session room at City Hall, 20 East Main Street, on June 26, 2025, at 11:18 a.m.

COMMITTEE PRESENT	COMMITTEE ABSENT	STAFF PRESENT
Alicia Goforth, Chairperson	Francisco Heredia	Jothi Beljan
Scott Somers		Mike Kennington
		Holly Moseley

Chairperson Goforth conducted a roll call.

Chairperson Goforth excused Committeemember Heredia from the entire meeting.

1.   Items from citizens present.

There were no items from citizens present.

2-a.   Hear a presentation, discuss, and provide Committee direction on recommended updates and changes to the Natural Gas Transportation Rate schedule for the City of Mesa natural gas utility.

Energy and Resources Program Manager Anthony Cadorin displayed a PowerPoint presentation. **(See Attachment 1)**

Mr. Cadorin explained the revisions to the natural gas transportation service rates and the goal of maintaining a balanced rate for new large customers and existing customers. (See Pages 2 and 3 of Attachment 1)

In response to a question from Chairperson Goforth, Mr. Cadorin replied that the other service providers have the same rate schedule.

Mr. Cadorin discussed the next steps and noted that if Council approves the adoption of the ordinance with the scheduled amendments, the effective date would be October 1, 2025. (See Page 4 of Attachment 1)

Chairperson Goforth stated the consensus is to move forward to full Council for consideration of the revisions to the natural gas transportation service rate schedule.

Chairperson Goforth thanked staff for the presentation.

2-b. <u>Hear a presentation, discuss, and provide a recommendation on the proposed Audit Plan for FY 2025/2026</u>.

City Auditor Joseph Lisitano displayed a PowerPoint presentation. **(See Attachment 2)**

Mr. Lisitano provided an overview of the proposed Audit Plan for Fiscal Year (FY) 26 and discussed the current departments being audited. (See Pages 2 through 4 of Attachment 2)

Mr. Lisitano reviewed the audits scheduled for FY 26 and noted that the audit on the City Clerk's Office focuses on the effectiveness of the public records request process administered by them and determines if the City Clerk's Office complies with applicable policy, statutes, and other requirements. He emphasized that the public records request audit of the City Clerk's Office is Citywide with the exclusion of the Police Department since they have their own process. He described the two new audits that will be performed in FY 26, Facilities Management and Code Compliance. (See Page 5 of Attachment 2)

Mr. Lisitano highlighted the follow-up reviews scheduled for FY 26, as well as other activities performed by the Auditor's Office. He indicated that although the Biennial Citywide Cash Handling Audit is conducted every two years, staff works continuously throughout the audit cycle, with a report presented every other year as cash transactions have become less common. (See Pages 6 through 8 of Attachment 2)

Chairperson Goforth stated the consensus is to move forward to full Council for review of the proposed Audit Plan for FY 26.

Chairperson Goforth thanked staff for the presentation.

2-c. <u>Hear a presentation and discuss the following audits</u>:

1. Cash Handling (Citywide)
2. Software Application Asset Management Follow-up Review (Department of Innovation and Technology)
3. Cybersecurity (Department of Innovation and Technology)

City Auditor Joseph Lisitano displayed a PowerPoint presentation. **(See Attachment 3)**

Mr. Lisitano highlighted the audit reports that were issued and described the scope of the work involved in performing the Citywide Cash Handling Audit, the recommendations, and goals. He said that staff will continue to work with Library Services to ensure the recommendations are implemented. (See Page 2 through 7 of Attachment 3)

In response to a question from Chairperson Goforth, Deputy City Manager/Chief Financial Officer Michael Kennington replied that the City of Mesa (COM) provides cash options for residents; however, the use of cash has decreased.

Mr. Lisitano summarized the follow-up review of the Department of Innovation and Technology (DoIT) Software Application Asset Management Audit and discussed the status of the recommendations. He pointed out that only one of the recommendations has been implemented and a second follow-up review will occur in nine months. (See Pages 8 through 11 of Attachment 3)

Responding to multiple questions from Chairperson Goforth, Mr. Lisitano stated that the audit timeframes vary, and some can take several years to complete, such as the audit of the DoIT. He commented that he expected more of the recommendations from the DOIT Software Application Asset Management Audit would have been implemented; however, progress was delayed due to the transition from an older system. He indicated that staff meet with the DoIT Department monthly to review progress, and DoIT has prepared an improved plan to address the recommendations.

Mr. Lisitano discussed the follow-up review for the DoIT Cybersecurity Audit and provided an overview of the audit, describing the work involved and the recommendations. He emphasized that due to the sensitive nature of the findings, an executive session is recommended. (See Pages 12 through 15 of Attachment 3)

Assistant City Attorney II Jothi Beljan advised that on August 25, 2020, Arizona Revised Statute §38-431.03, regarding executive sessions, was amended to specifically authorize discussions on information, technology, and security. She noted that this topic has been properly noticed for executive session and falls within that provision.

Chairperson Goforth thanked staff for the presentation.

3.   Convene an Executive Session.

It was moved by Chairperson Goforth, seconded by Committeemember Somers, that the Committee adjourn the meeting at 11:46 a.m. and enter into an Executive Session.

Upon tabulation of votes, it showed:

AYES – Goforth–Somers
NAYS – None
ABSENT – Heredia

Chairperson Goforth declared the motion carried unanimously by those present.

3-a.   Discussion and consideration of the City of Mesa Department of Innovation and Technology (DoIT) Cybersecurity Audit Report, a confidential record exempt from public inspection, and discussion and consultation on information technology security with the Committee's designated representatives. A.R.S. §§ 38-431.03(A)(2) and (A)(9).

4.   Reconvene the public meeting.

At 12:16 p.m., the Executive Session adjourned and the Committee reconvened their regular meeting.

5.   Adjournment.

Without objection, the Audit, Finance & Enterprise Committee meeting adjourned at 12:17 p.m.

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Audit, Finance & Enterprise Committee meeting of the City of Mesa, Arizona, held on the 26th day of June 2025. I further certify that the meeting was duly called and held and that a quorum was present.
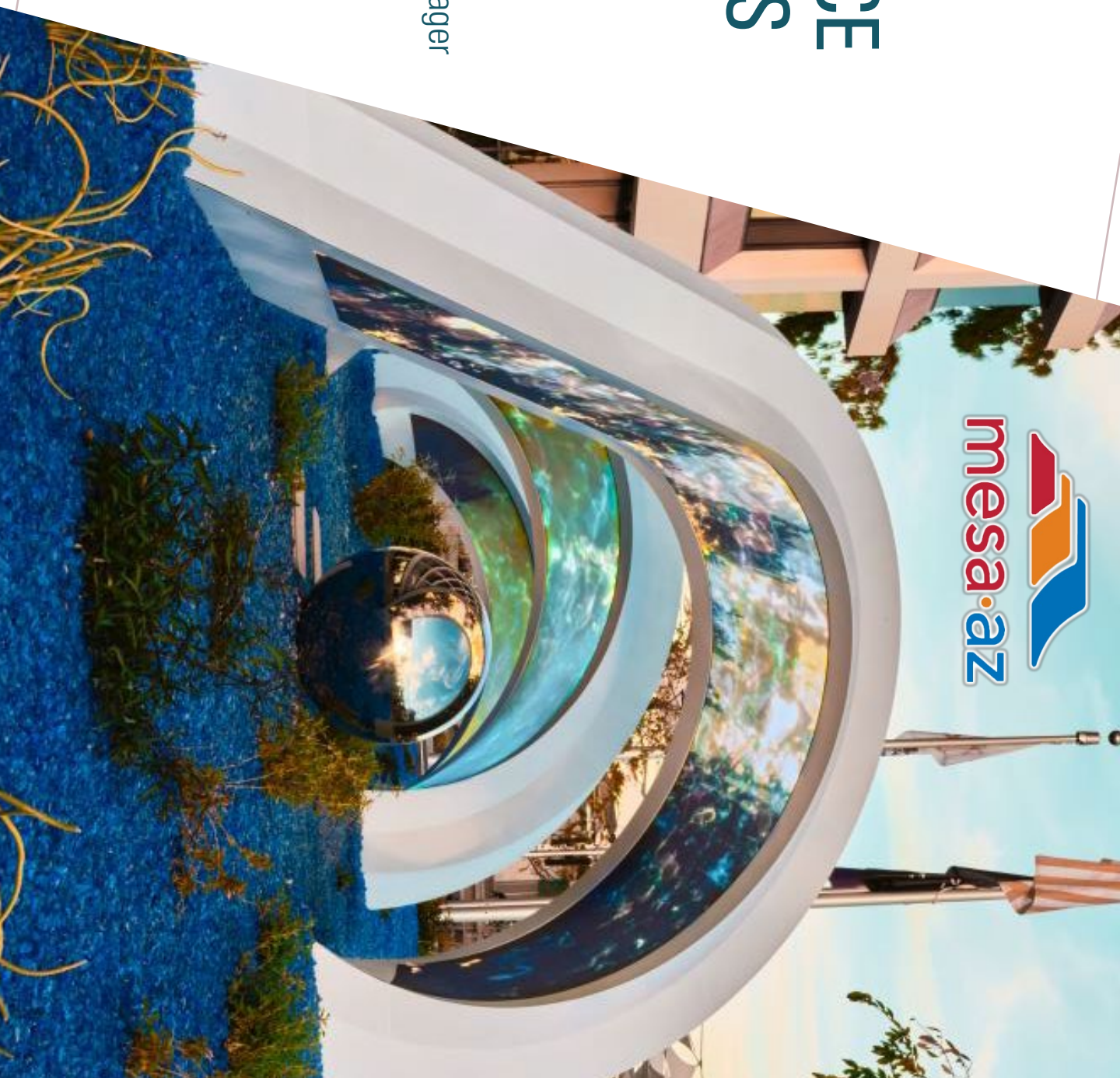

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HOLLY MOSELEY, CITY CLERK

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(Attachments – 3)

NATURAL GAS TRANSPORTATION SERVICE RATE SCHEDULE UPDATES

Audit, Finance, and Enterprise Committee

Presenters: Tony Cadorin – Energy Resources Program Manager

June 26, 2025

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Transportation Gas Service Rate Schedule

- Allows large customers to provide their own natural gas commodity

- Requires significant coordination between customer's gas supplier/agent and Mesa's third party asset manager

- Failure to balance natural gas deliveries with natural gas use (by either the customer or City of Mesa) can result in penalties

- No current active Transportation Gas Service customers

Transportation Gas Service Rate Schedule

- Mesa has enacted increasing levels of deterrents for keeping customers in balance

- Meant to keep a Transportation Gas Customer's actions from negatively affecting other customers

- Revisions to the rate schedule correct errors in the calculations for the penalties and imbalance charges to properly administer the rate

NEXT STEPS

City Council to consider adoption of ordinance with schedule amendments on **August 25, 2025.**

If approved by City Council, fee & charges adjustments are effective **October 1, 2025.**

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City Auditor

Proposed FY 2026 Audit Plan

Presentation to the Audit, Finance and Enterprise Committee

June 26, 2025

Joseph Lisitano, City Auditor

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Audit Plan Overview

- Current work in progress

- Audits planned for FY 2026

- Follow-up reviews due in FY 2026

- Other activities

Current Work in Progress

- Citywide – Take Home Vehicles

- Citywide – Special Pay Programs

- Engineering – ASU Facilities at Mesa City Center Post-Construction

- Arts & Culture – Mesa Arts Center Revenues

Current Work in Progress

- Police Department – Mental Health Support Team

- Human Resources – Hiring & Recruitment Practices

- City Attorney – VOCA Program

Audits Planned for FY 2026

- *City Clerk – Public Records Requests

- *Water Resources – Annual Ordering and Reporting

- *Police Department – Off-Duty Employment Program

- Facilities Management – Work Order Process

- Code Compliance – Case Management

*Carried over from the FY 2025 Audit Plan.

Follow-up Reviews

- Citywide – IGAs Cost Recovery

- DoIT – Software/Application Asset Management (2nd Follow-up)

- DoIT – Remote Access

Follow-up Reviews

- DoIT – Cybersecurity

- Police Department – Criminal Investigations Case Management

- Transportation Department – Street Maintenance

Other Activities

- Biennial Citywide Cash Handling Audits (next report FY 2027)

- Annual Credit Card Security Review

- Fraud & Ethics Hotline Investigations

- Consulting (limited reviews, other projects, etc.)

- Unscheduled Audits (if requested by City Manager or City Council)

Questions or changes?

City Auditor

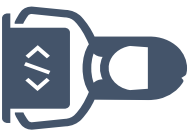Presentation to the Audit, Finance and Enterprise Committee

June 26, 2025

Joseph Lisitano, City Auditor

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Reports Issued May – June 2025

Citywide Cash Handling

DoIT – Software/Application Management Follow-up Review

DoIT – Cybersecurity

Citywide Cash Handling

Report Date: 6/30/2025

Biennial report on citywide audits of cash handling, change funds, and petty cash.

tywide Cash Handling

What did
we audit
and why?

Throughout the period, we verify:

- Compliance with City policies and procedures.

- Petty cash and change fund balances.

Goals:

- Early detection to avoid significant issues.

- Deterrence and consistent enforcement of compliance.

- Relationships – answer questions/concerns; offer help when possible.

...tywide Cash Handling

What did we find?

- No material discrepancies in fund balances.

- Issues related to cash handling training.

- Overall, effective processes in place to safeguard cash.

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tywide Cash Handling

What did we recommend?

Library Services should implement improved internal controls to ensure all employees receive training within the required timeframes.

Citywide Cash Handling

Response & Follow-up

- Management agrees with the recommendation and has begun implementing new controls.

- We will perform follow-up work as part of the FY2027 Citywide cash handling audit.

DoIT – Software/Application Asset Management Follow-up Review

Report Date: 5/15/2025

A follow-up review to ensure action plans were successfully implemented.

DoIT – Software Application Asset Management Follow-up Review

What did we find?

Status of recommendations from December 2021 report:

✔ Complete the transition of assets from the prior asset management system to the new management system.

◆ Conduct a Citywide inventory of software/applications.

◆ Perform periodic reconciliations between the asset management system and end user systems.

◆ Consider requiring departments to complete an annual software/application inventory and report the results to DoIT.

✔ Implemented

◆ In Progress

DoIT – Software Application Asset Management Follow-up Review

What did we find?

Status of recommendations from December 2021 report:

- ◆ Update policies and procedures to clearly state that software/application purchases must be approved by DoIT.

- ◆ Review purchasing reports to ensure software/application purchases (especially p-card purchases) are recorded in the asset management system.

- ◆ Periodically review the asset management system for completeness and accuracy.

- ◆ Consider an effective use of the Chart of Account codes to ensure software/application purchases are approved by DoIT and accurately recorded in the asset management system.

- ◆ A formal method to track and monitor software/application license compliance should be implemented.

✔ Implemented

◆ In Progress

OIT – Software Application Asset Management Follow-up Review

Follow-up

- We will perform a second follow-up review in approximately 9 months.

- We will remain engaged with the department throughout the process to help ensure successful implementation.

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DoIT – Cybersecurity

Report Date: 6/19/2025

An audit to determine whether effective controls are in place that would help prevent, deter, and/or respond to cyberattacks.

DoIT – Cybersecurity

What did we audit and why?

- Evaluated against the CIS Critical Security Controls, Implementation Group 2.

- Interviewed and performed walk-throughs with DoIT staff to gain an understanding of controls in place.

- Reviewed policies and procedures, DoIT standards, incident response and disaster recovery/business continuity plans, and inventory listings.

- Tested a sample of user accounts, including administrator and service accounts, and terminated employees.

- Reviewed documentation of vulnerability scans, audit logs, penetration test results, incident response exercises, and automated data backups and recovery tests.

IT – Cybersecurity

What did we audit and why?

- Examined third-party service provider contracts.

- Reviewed security awareness training materials and training certificates.

- Verified tools have been implemented to aggregate threat intelligence, manage software vulnerabilities and automated patch updates, and identify and monitor assets.

- Verified the use of firewalls, virtual private network (VPN), multi-factor authentication (MFA), anti-malware software, and networking monitoring tools.

- Reviewed network infrastructure diagrams, baseline configuration templates, and network traffic flow logs.

- Why? To ensure effective controls are in place that would help prevent, deter, and/or respond to cyberattacks.

IT – Cybersecurity

What did we find and recommend?

Several safeguards described in the CIS Controls have not yet been developed and implemented or could be further improved.

Recommendation:

- Due to the sensitive nature of the findings contained in the report, we recommend an executive session to discuss the issues and recommendations.

Questions?