



# Agenda

DATE 6/29/14 TIME 9:10a  
PREPARED BY Yolanda Green  
REVIEWED BY [Signature]

CITY OF SANTA FE AUDIT COMMITTEE MEETING  
CITY COUNCILORS' CONFERENCE ROOM  
Wednesday, June 4, 2014 - 2:00 P.M.

1. CALL TO ORDER
2. ROLL CALL
3. APPROVAL OF AGENDA
4. APPROVAL OF MINUTES:
  - May 13, 2014
5. STATUS REPORT FROM CITY OF SANTA FE, AUDIT & FINANCE DEPARTMENTS:
  - Status of Audits (Internal Audit) (send in advance & attach);
  - Gross Receipts Tax Report (quarterly) - (July, October, January, April);
  - Lodger's Tax Report (quarterly) - (July, October, January, April);
  - Investment Report, Helene Hausman (quarterly) - (August, November, February, May);
  - Discuss follow up on CAFR Findings – quarterly.
7. SUB-COMMITTEE REPORTS:
8. OLD BUSINESS
  - Park Bond Audit –
    - Updated status
    - Request for the audit committee audit committee to delegate authority to a Hazeldine Romero and to Marc Tupler to review and recommend regarding scope of Park Bond Audit – so that we can move forward with the RFP process in between audit committee meetings. If they feel it is necessary to have the full audit committee review the audit committee chair can call a special meeting for this purpose.
  - Internal Audit Policies and Procedures
  - Audit Committee Report
9. NEW BUSINESS
  - Muchas Gracias Randy Randall
  - ALGA Conference Highlights
  - Lodger's Tax Draft Report
10. OTHER MATTERS FROM THE COMMITTEE
11. ITEMS TO REPORT TO THE CITY MANAGER
12. NEXT MEETING DATE:
  - Next meeting scheduled – July 2, 2014? Or July 9<sup>th</sup>?
13. ADJOURNMENT

Persons with disabilities in need of accommodations, contact the City Clerk's office at 955-6520 five (5) working days prior to the meeting date.

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**CITY OF SANTA FÉ AUDIT COMMITTEE**  
**June 4, 2014**

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**MINUTES OF THE**  
**CITY OF SANTA FÉ**  
**AUDIT COMMITTEE**

June 4, 2014  
2:00 p.m. – 4:00 p.m.

**1. CALL TO ORDER**

A regular meeting of the City of Santa Fé Audit Committee was called to order by Mr. Clark de Schweinitz, Chair on this date at approximately 2:00 p.m. in the City Councilors' Conference Room at City Hall, 200 Lincoln Avenue, Santa Fé, New Mexico.

**2. ROLL CALL**

Roll call indicated the presence of a quorum as follows:

**Members Present:**

Clark de Schweinitz, Chair  
Cheryl Pick-Sommer  
Marc A. Tupler

**Members Absent:**

Hazeldine Romero, Vice Chair [excused]  
One vacancy

**Others Attending:**

Liza Kerr, Internal Auditor  
Carl Boaz, Stenographer

NOTE: All items in the Committee packet for all agenda items are incorporated herewith to these minutes by reference. The original Audit Committee packet is on file in the Finance Department.

**3. APPROVAL OF AGENDA**

Chair de Schweinitz asked to move the Lodger Tax Report right after the minutes.

**Mr. Tupler moved to approve the agenda as amended. Ms. Pick-Sommer seconded the motion and it passed by unanimous voice vote.**

**4. APPROVAL OF MINUTES: May 13, 2014**

Chair de Schweinitz referred to page 3, line 175 and asked if that was really the CAFR.

Ms. Kerr said it really was FAA.

Chair de Schweinitz said at the top of page 4, he asked what was meant by "The auditors would do that."

Ms. Kerr said the Airport would follow up on resolving the findings. She had agreed to email Francey Jesson and Jon Bulthuis about it. The FTA auditors were the ones to decide if the resolution is sufficient.

Mr. Tupler thought they already heard that everything was resolved.

Ms. Kerr agreed.

Ms. Kerr noted on line 189 did refer to the financial audit.

Mr. Tupler said on page 2, line 104 didn't read correctly. Ms. Kerr agreed. Ms. Romero did not second her own nomination. Somebody else seconded the motion. Mr. Tupler said he seconded it.

**Ms. Pick-Sommer moved to approve the minutes as amended. Mr. Tupler seconded the motion and it passed by unanimous voice vote.**

Mr. Tapia arrived at this time.

## **9. NEW BUSINESS [amended agenda order]**

### **c. Lodger's Tax Draft Report.**

Mr. Doug Fraser and Ms. Chelsea Martin were present to report. Mr. Fraser handed out two documents and explained that as part of selection process they categorized the lodgers by high risk, medium risk and low risk and also short term rentals. They were reporting everything to the Committee. There were small errors and some big ones. Some lodgers had no records and a few were not cooperative at all.

In summary they found that some had underpaid and some had overpaid. Their accounting systems were not very sophisticated. So they might have charges to the room that should not be included in the Lodgers Tax. Maybe Quick Books at best and others were spread sheets. One of them said they had no records and all he got from them were the credit card charges. The bottom line was about 60% exceptions.

Many, especially the smaller ones, were confused about Lodgers' Tax. In the trend analysis, some were selected because there were variations that didn't make sense. Larger hotels have better systems and track it well. Some didn't understand how to calculate the tax. Some had turnover in personnel. Some didn't care.

The City could charge interest or impose fines when payments were late.

He shared their recommendations for the next cycle. He first recommended making sure the spread sheet tied to the G/L. Also, a lot of explanation about why their calculations were done incorrectly should be

done. On page 7, the City might want to expand on how to calculate the tax. Because right now it was just the form with a very brief explanation on it. Many lodgers were just not very clear on accounting. Short term renters didn't have very good records.

There were a lot of lodgers on the web sites that have not registered or paid the City. Some of them might be filing under a DBA. It was hard to track who owned them.

Going through the report, they worked out classifications and also by fiscal year.

Ms. Pick-Sommer asked how they were selected.

Mr. Fraser said they had a 3 year history. Some had declining revenues and he wondered if they were under construction or remodeling during that time. Some had reported in a previous cycle. Others were picked for sheer size.

Ms. Kerr added that sometime random selection pulled out some. Ms. Kerr used random selection and Mr. Fraser used judgmental selection.

Ms. Pick-Sommer asked what did high, moderate and low risk meant.

Mr. Fraser said Hotel Santa Fé was a large hotel but never had a problem paying the right amount. Neither did the Eldorado. So they were low risk. But something in the variations could reveal a problem and bear further scrutiny. So they were higher risk and had more information examined.

A lot of the problems were not tying back to financial statements; some were late payments. The one with no records did provide credit card records. Some of them said some people were exempt from the tax.

Ms. Kerr clarified that this was a public document and could be posted or released to those who inquire but the City didn't have to advertise its availability.

Mr. Tapia preferred just releasing the numbers.

Ms. Kerr explained that there only a few exemptions on Lodgers' Tax.

Mr. Fraser said no names were ever put in audit findings.

Chair de Schweinitz asked if short term rentals was a big deal.

Mr. Tapia said there was no distinction on what a room was.

Mr. Fraser said Home Away was a big one.

Mr. Tapia suggested maybe they could go out and find all the lodgers that were available but he didn't have enough staff to do it.

Mr. Fraser referred to page 4 at #26 which was the Hyatt and they filed for bankruptcy. The City could file a lien in order to collect the tax.

Mr. Tapia said he had talked with Mr. Shandler about it.

Mr. Fraser said the bankruptcy was filed in 2012 so it might be closed already. They should have notified the City about it.

Mr. Tapia agreed to research that.

Mr. Tupler asked if there was enforcement.

Mr. Tapia said some lodgers used slow months as a loan and then paid when they got a letter. The first form letter came from David Tapia and then one from Zach Shandler. After the second one, it usually got fixed fairly quickly. If David saw anomalies, they looked at it.

Ms. Pick-Sommer asked what the revenues paid for.

Mr. Tapia said the tax revenue went to CVB (now Tourism Santa Fé) It didn't go into the General Fund or spent for recreation at Chávez Community Center. There were a lot of businesses out there without proper licenses. The only ones they could find were through the Certificate of Occupancy processes. He had one staff member for Lodgers' Tax. Now that they've seen us come, they know it would likely to come to them.

Chair de Schweinitz asked if the Committee should make a recommendation to Council.

Mr. Tapia said: # 1 - he had to do better advertising on the website for who they could contact for reporting correctly; # 2 - to look at our procedures so those without accounting background could fill it out correctly. And # 3 - issue an RFP for a collection agency or some agency that could see who should be paying and could get a percent of collections due for the first year.

He would love to have more staff to enforce licensing and one inspector to have at his disposal.

Chair de Schweinitz noted that some amounts were huge. He added that the City wouldn't get a lot out of one particular hotel.

Mr. Tapia said if they wanted to stay in business yet not pay, the City could put a lien on their property. Another one asked for a year to repay their debt. He felt it would be reasonable to allow up to six months. They used the tax money to make improvements on the building. Now the City would charge interest. He thought they would collect from those who wanted to stay in business.

Ms. Kerr asked if the auditors did a business license check.

Mr. Fraser said they didn't check for that. He said that #15 was delinquent but said they had signed a payment agreement.

Mr. Tapia didn't think he could make agreements with lodgers and would have to find out.

Mr. Tupler thought the Committee should create a procedure for dealing with delinquencies.

Mr. Tapia suggested 1% /month.

Mr. Tupler thought that sounded reasonable.

Mr. Fraser referred to page 6 where one of them said they would pay it back.

Mr. Tapia reported that Silver City asked Santa Fe for help on it. He sent them our ordinance and our procedures.

Mr. Fraser said it was better to not use the same auditor. The State Auditor had to bless everything.

Mr. Tapia asked when the Committee might get the final report

Mr. Fraser said it would be very soon. All of their findings were done and today was the last day of field work and this was their report.

Ms. Kerr said she needed it by June 13<sup>th</sup>.

Mr. Fraser agreed.

Ms. Kerr asked if they included any of the web site data to the report.

Mr. Fraser said they added just one, on page 7.

Mr. Fraser said they did include some property management companies. Some didn't do GRT. TRD could piggy back with GRT and Lodgers Tax. He referred to entry 39 on page 7. They didn't pay GRT.

Chair de Schweinitz asked what the Committee wanted to do.

Mr. Tapia said they should wait to see the final report first.

Ms. Kerr clarified that this was going straight to the Council. Meeting on June 26<sup>th</sup>.

Mr. Tapia advised that next month the Committee send recommendations to Finance Committee or to Council itself.

Ms. Kerr asked if Mr. Fraser or Chelsea could report at the Council meeting. They agreed.

Mr. Tupler thought nothing stood out too dramatically. But collectively, it had to be addressed.

Mr. Tapia said since it had been 3 years since they examined the records we knew this would happen.

Next year the amount would go way down. They might get legal action going on the collections.

Ms. Pick-Sommer added that they still didn't know how many were out there that the City were not aware of. It could be a lot of money.

Chair de Schweinitz thanked Mr. Fraser and Ms. Martin for their work and the report.

Ms. Martin said some of them were very angry at her when she called.

Mr. Fraser agreed and some of them were clear off the grid if they weren't paying GRT or Lodgers' Tax at all.

Mr. Tapia said they had been dealing with those because of annexation. It was a good idea.

Chair de Schweinitz asked if they had the authority to take off the last page [key to numbers with names].

Mr. Tapia said the Mayor wanted everything out in the open but the audit report itself wouldn't be part of it.

Mr. Fraser explained that the names were not included in the audit report.

Mr. Tapia said there were lawsuits going on from some of the web sites right now.

## **5. STATUS REPORT FOR CITY OF SANTA FE, AUDIT & FINANCE DEPARTMENTS:**

Chair de Schweinitz favored this quarterly frequency on reporting except maybe for the CAFR.

Mr. Tupler and Ms. Pick-Sommer were okay with quarterly.

Mr. Tapia said it would be best to report the final numbers for end of fiscal year in August.

Ms. Pick-Sommer proposed August, November, February and May.

Chair de Schweinitz asked about the investment report schedule.

Ms. Kerr said it would be right after she presented the report to Council. There was more flexibility with the CAFR. She suggested July, October, January and April.

Mr. Tapia said they cutoff at June 30. After April and May he had to do a report to the auditors on the status of prior year audit findings and the Audit Committee would also get it.

He liked what the Committee was proposing. After December 1, it didn't matter. They already had the audit plan for this year and the new auditor's expectation was different than the one last year. They would



probably want things in depth this year. One of their team members knows the city and it would make it a little easier.

Ms. Kerr asked if they could get a milestone chart by August.

Mr. Tapia agreed. They had not met with the auditors yet because the audit had not been approved yet by the State Auditor. But he didn't have a problem meeting with them prior to approval of the contract.

Ms. Kerr explained that the state auditor was reviewing the capacity for the new auditor to do the CAFR, given their other work load.

Mr. Tapia added that if the auditor was here at the meeting, one of our staff would be here, too.

Ms. Kerr said they would make sure the milestones matched up.

Mr. Tapia asked them to speak up if there was any problem with other departments. And he might come here if he thought the auditors were not doing their due diligence and didn't have enough people here. He would need the Committee to ask them why they didn't meet the deadline.

Chair de Schweinitz thought it was more ad hoc rather than quarterly.

Mr. Tapia said he expected to meet with them next week for planning and expected the Audit Committee would be at the entrance conference.

#### **b. Gross Receipts Tax (quarterly) (July, October, January, April)**

Mr. Tapia said there was a dip in GRT after the biggest month in a long time. The businesses in the annexation area he didn't see in January. Some were waiting to get a city business license.

Mr. Tupler asked if the projections included the annexed areas.

Mr. Tapia said it would starting on July 1. He was hoping that Santa Fe didn't have something that would deter tourists because that would drive GRT way down. They had five police officers for the annexation money and might have to reduce that to three if they didn't get the revenue. GRT was very volatile and property taxes were very low.

Ms. Kerr said in looking at the GRT sheet that it had a percentage compared to December and wondered why that was there.

Mr. Tapia didn't know and would share that question with Ms. Hausman. The he realized what it was and explained it.

Mr. Tupler asked what "other" meant.

Mr. Tapia said he was going to find out that information from TRD through the legislature. They have tax breaks or incentives and there might only be one company. Right now they couldn't tell us who that taxpayer was by statute.

Councilor Maestas wanted Ms. Kerr to go to TRD and to make sure if all local businesses have been paying their GRT.

**a. Status of Audits (Internal Audit)**

Ms. Kerr said the only thing to report was the RFP that went out for 2014 through 2017 for Lodger's Auditing. It also included a contingency on short term rentals so they wouldn't have to hire a separate entity.

She reported she was working on the platform subcommittee.

**c. Lodger's Tax Report (quarterly)**

This item was addressed earlier in the meeting.

**d. Investment Report, Helene Hausman (quarterly)**

Ms. Hausman was not present but her written report was distributed to the Audit Committee members.

**e. Follow up on CAFR Findings (quarterly)**

Mr. Tapia said they had Ms. Jesson as Airport Manager and at the airport they allowed a third party to manage a federal grant. But they didn't know about the Davis-Bacon Act requirement that persons working under that grant must sign off on their time sheets. We have to sign off on that.

He was trying to convert a staff member to be an accountant and to have their own grants section within Finance because some of those reports were horrific and Finance gets blamed for things that other departments did in programs that have huge federal monies. He was surprised when he arrived that the City didn't have that.

The City has gone to a new utility billing and now they were up to date with it. Not all the information was transferring to G/L as it should, however.

The 1303 bond non-compliance finding was that the City had to separate the payment for the bond separately. That wasn't done for the MRC and Ms. Hausman was very upset by it. She handled all debt through her office. The City would be paying over \$26 million in debt service and principal. It was getting paid but was not designated as debt service in the MRC budget.

Lastly, the finding 0606 - budgetary was that if we find a budget was over expended in one area, they should take care of it. He didn't worry about that but he did worry about the bottom line. They did a mid-year review this past year and made corrections and adjusted revenue projections.

Mr. Tupler asked how often that was done.

Mr. Tapia said at present he was doing them monthly. They had two departments in the negative but as a whole the city they were doing okay. The MRC was allowed to overspend. The other was department was the E-1 system. We were not allowed to have a deficit there. So those were audit findings.

Mr. Tapia discussed the issue of using CIP funds for operating expenses. He said direct costs to capital projects could be use those funds but could not for administrative salaries. It was only allowed for those who were actually doing the work. It was more a change of philosophy. He explained that after Kathryn Raveling was Finance Director there was a change of philosophy. It allowed the City to put a lot of people to work during a downturn.

Mr. Tupler asked if CIP budgets had employees in them. Mr. Tapia agreed.

## **7. SUB-COMMITTEE REPORTS:**

There were no Sub-Committee reports.

## **8. OLD BUSINESS**

### **a. Park Bond Audit**

- **Status update**
- **Request for delegation of authority for Park Bond Audit RFP Process**

Mr. Tupler explained the request which would allow the Task Force to approve the RFP issue.

Ms. Kerr clarified that the resolution said the Audit Committee would review the scope and two members of the Audit Committee were serving on the Task Force.

Mr. Tupler said the question was whether we could do it as if we were the subcommittee.

Ms. Kerr said if it had to be the full Audit Committee, Chair de Schweinitz might have to call a special meeting to help get it rolling.

Mr. Tupler said he would like to speed it along.

**Ms. Pick-Sommer moved that Mr. Tupler and Ms. Romero serve as designees of the Audit Committee and have the authority to act regarding the Parks Bond Audit on behalf of the Audit Committee. Mr. Tupler seconded the motion and it passed by unanimous voice vote.**

Mr. Tupler said there were promotional materials produced by another entity and some people had wanted the scope of the audit to include that.

Ms. Kerr clarified that an Attorney General's opinion was the City didn't have to abide by every claim that was made in a promotion.

Mr. Tupler concluded they only needed to be bound by the language that was actually in the bond.

Ms. Kerr agreed. That really helped to focus their attention.

Ms. Kerr said the other concern was that the spreadsheets provided by Finance did not foot and crossfoot. She and Anna Hansen, Chair of POSAC, had met and went over her concerns. She had Ms. Garcia email the spreadsheet. What she found were several hidden columns and hidden rows and she got it to tie out with the arbitrage. Then she worked on tying it out with the Implementation Plan and brought the reconciliation to the Task Force meeting. They were comforted that all the beginning numbers were reconciled. Now they were getting all the financial details by park location.

#### **b. Internal Audit Policies and Procedures**

Ms. Kerr incorporated the changes from last time into the policy document and the revised document was shared with the Committee. She said if it was in place now it would be ready for consideration. She explained that information she learned at the ALGA conference helped her with the revisions. She briefly explained the need for peer review every three years and how they would accomplish that.

Chair de Schweinitz thought they needed the presence of the Audit Committee intact too. On page two of the structure, the key ordinance should include amendment 7, that the Audit Committee would be even more authorized or legitimized. Also in the ordinance it said they would report directly to the City Manager. He suggested to add a reference to define her relationship to the Audit Committee to recognize the Committee's role in this.

Ms. Kerr said she gave a direct quote out of the ordinance concerning her reporting directly to the City Manager.

Mr. Tupler thought it should have quotation marks around it and he agreed how she related to the Audit Committee.

Chair de Schweinitz referred to the ordinance where it was not just a responsibility to the City Manager.

Ms. Kerr said she also had a connection to City Council.

Mr. Tupler suggested “serves as staff liaison to the Audit Committee.”

Ms. Kerr suggested, “Has a dual reporting relationship to the Finance Committee, the Audit Committee and the City Manager.”

Ms. Pick-Sommer clarified there was an employment relationship in reporting to the City Manager but this was to explain and legitimize the purpose of the Audit Committee.

Ms. Kerr said she was required to report to the Audit Committee and agreed to add that.

Mr. Tupler commented it helped to keep her independence as well. Ms. Kerr agreed.

Chair de Schweinitz went to page 8 concerning confidentiality and felt the exceptions section might not be sufficient.

Ms. Kerr agreed and said she found that out yesterday. She said Ms. Brennan told her they were going to revise the ordinance to take care of that issue.

Ms. Pick-Sommer advised no change in the manual until that was done.

Chair de Schweinitz referred to page 9 and asked to whom the customer satisfaction surveys would be sent.

Ms. Kerr said it would be sent to the auditee but might not always be an auditee.

Chair de Schweinitz noted that at the bottom of page 9 it specified one staff.

Ms. Kerr agreed and it could be revised when the department was expanded.

Chair de Schweinitz said on page 10, 5<sup>th</sup> paragraph and asked about “work guidelines.”

Ms. Kerr said that was taken directly out of her job description. Her job description was pretty lame because it was written as if for a whole department. That term was coined by Dr. Morgan and was now out of date. She needed to talk with Mr. Snider about changing that.

Chair de Schweinitz went to additional duties on page 10 and suggested, “Other duties as agreed upon by the Internal Auditor and the Audit committee.”

Ms. Kerr disagreed and said she spent a lot of time preparing for these meetings as if she were a secretary and that was not really her job.

Chair de Schweinitz agreed that was a real issue.

Ms. Kerr agreed she did report to the Audit Committee and she would add that in there.

Mr. Tupler asked if the City Manager had seen it.

Ms. Kerr said he would see it tomorrow and if the Committee approve it, it could get signed off tomorrow so she didn't have to wait another month.

Ms. Kerr said Ms. Romero had suggested a change in Section 5.2.4 on page 3 regarding contact with the Governing Body and members of the media. She made the change to say, "Contact with members of the Governing Body is required from time to time." That was also a recommendation from the conference. The conference advised her not to box herself in but to be careful and use discernment.

She said Ms. Romero felt the Auditor should inform the media only after informing the City Manager and Media Relations but Ms. Kerr felt she wouldn't want to have to do that but was okay with reporting it to them after the fact.

Mr. Tupler didn't think it was ever wise to talk with the media but she needed to have the Committee back her up.

Ms. Kerr said at the conference she was advised to be sure and have a direct line to the media.

Mr. Tupler understood but the Committee needed to protect her independence. "You probably don't want to have direct contact with the media."

Ms. Kerr believed this was an important part of independence.

Ms. Pick-Sommer said the section title needed to be changed if media was included.

Mr. Tupler advised that she needed protection with media.

Ms. Pick-Sommer suggested a change everyone liked which said, Contact with the Governing Body is required and is an important aspect of independent judgment and prudence, as well as discerning if and when contact with the media is necessary."

Ms. Kerr agreed with that.

Mr. Tupler said with regard to email with the Mayor that the policy should include more than just e-mail.

Ms. Pick-Sommer recommended a separation of Governing Body from the media.

Ms. Kerr said okay.

**Mr. Tupler moved to recommend approval of the policies and procedures as amended. Ms. Pick-Sommer seconded the motion and it passed by unanimous voice vote.**

Chair de Schweinitz signed the document indicating the Audit Committee's approval.

**c. Audit Committee Report**

Chair de Schweinitz said the report was out and ready for Council on June 26<sup>th</sup>.

Ms. Kerr agreed and said also the Lodgers Tax Report and the Muchas Gracias for Mr. Randall.

**9. NEW BUSINESS**

**a. Muchas Gracias Randy Randall**

Ms. Kerr said this would be on the afternoon agenda.

The Committee endorsed the Muchas Gracias recognition.

**b. ALGA Conference Highlights**

Nothing further was mentioned.

**c. Lodger's Tax Draft Report**

This item was considered earlier in the meeting.

**10. OTHER MATTERS FROM THE COMMITTEE**

A new appointee had been made and needed Council approval.

**11. ITEMS TO REPORT TO THE CITY MANAGER**

There were no items to report to the City Manager except the approved policies document.

**12. NEXT MEETING DATE: – July 2, 2014 or July 9, 2014**

The Audit Committee agreed to meet next on July 9th.

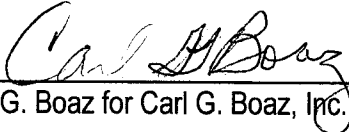
**13. ADJOURNMENT**

Ms. Pick-Sommer moved to adjourn and the meeting was adjourned at 4:20 p.m.

Approved by:

  
Clark de Schweinitz, Chair

Submitted by:

  
Carl G. Boaz for Carl G. Boaz, Inc.