

New Deal Café

Audit Committee Annual Report

May 2014

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Introduction

The Audit Committee is an independent group of three Café members elected by the membership for one year to monitor not just financial operations, but all activities conducted by Café leadership. This report is a summary of our findings and recommendations for the past year, delivered to the membership. Operations from May 2013 to May 2014 are the subject of this report, reflecting a full term of the Auditing Committee. We review last years' audit recommendations to evaluate our progress, evaluate this past year, and recommend further considerations for going forward.

At least one member of the audit committee attended every board meeting (public and executive sessions) and contract negotiating session. The committee composition changed last fall when elected member Tom LeaMond moved out of state; the remaining two members selected Tom Jones to fill the remainder of the term.

As a cooperative, the Café is owned by its members. Once someone has paid their initial dues, they are always a member—but voting rights require payment of annual dues. Under current by-laws, the membership year ends 1 week after each annual meeting. One surprising result is that members who pay dues at the annual meeting find their membership expires the next week. Although no fixed annual term would preclude someone making a dues payment just before expiration, this term surprises many members. Issuing memberships on a rolling basis would pose a huge workload on the volunteer secretary and treasurer. Therefore, we propose a bylaw change to revise the membership year to either start the date of an annual meeting through the day before the next annual meeting, or to begin January 1 through December 31. One such proposal was submitted by petition for inclusion on the 2014 annual meeting agenda.

In addition, the cost of a new membership is posted on the website and application—but the annual renewal rate of \$25.00 is not. It should be posted.

The big picture is that the New Deal Café has prospered over the past year. As the Café reaches structural stability and prospers as a business operation, the members and board should also consider a structural benefit for owner-members. Many consumer cooperatives—such as the Greenbelt Consumer Cooperative grocery store—give discounts or dividends to members. Implementing either must be carefully considered to ensure it is not an accounting burden. However, as the Café completes its debt resolution—and presuming the café achieves and maintains professional financial and budget management—discussion of how to return profits to the owner-members should begin.

The Café membership year runs from one annual meeting to the next, different from the fiscal and tax years of January 1 to December 31. We look at our New Deal year as being from spring to next spring, the time of rebirth and renewal. The fiscal and membership are not synchronized, but each is optimized to its own situation, and neither requires change.

Year in Review

Highlights since the 2013 Annual Meeting are as follows:

- 1) The Café continues to generate significant operating profits, which have been used to pay debts and invest in structural improvements. Total sales have risen every quarter for the past year, and operating profits are consistent. Further detail is provided in the Treasurer's Report.
- 2) The kitchen management contract agreement with Karim and Maria was renegotiated and extended for 3 years. This agreement involved many hours of mostly cordial negotiations, and all parties appear pleased with the revised agreement.
- 3) The lengthy process of repaying outstanding debts to the Café is nearly complete. All personal loans have been fully repaid or waived by the lender—except one unresolved loan to the estate of deceased member Susan Jones, which is being resolved with the estate's personal representative.
- 4) The employment termination of general manager Terri Rutledge. At the January 27 board meeting, board of directors voted by majority to dismiss Terri, a long time volunteer and paid GM since 2011, on January 27.

This is currently our most contentious issue. While four out of five board members voted for the dismissal, the fifth member voted against and is critical of the dismissal and the manner in which it occurred. The Audit Committee observed over the past year a sustained contentious relationship between the Board and Terri, including issues related to employee performance.

- 5) The Board implemented a human resource committee. It began work on personnel issues, and has reported on need for revisions the General Manager job description.
- 6) A professional accounting firm has been hired to prepare payroll, profit and loss statements, and to submit state and federal tax filings. Previously, the General Manager had been performing these tasks. Since January, these functions have been performed by the accounting firm Finance World of Maryland, Inc.

The Treasurer has identified three other candidate firms or sole proprietorships to handle our accounting needs, and has obtained written bids. Selecting from those bids is a responsibility of the new 2014 term of the board of directors.

- 7) Many bartending staff have shifted from volunteer to paid staff positions. The Café Board received a legal recommendation that at least one bartender on all shifts be a paid employee. Further, insurance regulations provide markedly different approaches to volunteers and employees. The Café found was not operating in a proper manner regarding labor law. The Café's continued profitability has provided funds for this legally-mandated change.
- 8) Various repairs and upgrades to the physical plant, including:
 - A. *New front room HVAC system.* The old system even with some previous repairs, had ceased functioning and required replacement. 3 bids were solicited and the lowest price, with a known reliable contractor, was chosen and is up and running.
 - B. *Back room credit card reader.* This was a long needed improvement, enabling credit card sales at the bar. The system appears to be running smoothly.
 - C. *Repair of the grease trap separator and WSSC approval.* Craig Tooley led the volunteer repair effort along with a licensed electrician to replace a defective motor and enable the unit to function properly.

- D. *Front room door glass replacement.* The lower of two bids was chosen to replace the broken door glass. It is not clear whether the break was intentional or accidental. Because of a recent spate of break-ins and broken door glass in Roosevelt center, we have begun a process of investigating alarm systems to improve security at the cafe. The Board requested a visit from a Greenbelt police representative who suggested security improvements for the Cafe.
 - E. *Painting (and re-painting) the front room and hall.* The newest color scheme was chosen by a professional interior decorator courtesy of Michael Smallwood and with the concurrence of Karim, Maria and numerous cafe patrons and volunteers.
 - F. *Roof Repairs.* Due to leaks in the roof, building owner George Christacos was compelled to replace the existing EPDM rubber roof. This work has recently been completed. The owner is also responsible for repairing or replacing suspended ceiling tiles damaged by the leaks; this should be done soon, and Café leadership should continue to pursue this matter as needed.
- 9) Continuing excellence in music programming, art shows, festival productions, films with special vegan meals and discussions, poetry readings, food and drink offerings, and more.

The Café's growing popularity has raised the question of whether more physical space might be made available, especially on crowded weekends. Some expansion may be possible and should be evaluated.

Status of Prior Audit Committee Recommendations

This report examines progress toward implementing and resolving recommendations included in the 2013 Audit Committee Report. The bulk of the Board's time has been consumed by contract negotiations with Karim and Maria and the dismissal of the General Manager. Therefore, progress has been achieved on many of these recommendations, but few have been completely resolved.

The table below reports on the status of the 2013 recommendations; some of them are slightly paraphrased as they are extracted from the report. There were a total of 24 recommendations in the 2013 Audit Committee Report, and 7 recommendations in the Conflict of Interest recommendations published in July.

Recommendations addressed and closed last year include:

- 1) Obtaining and installing a credit card machine, which also resolved the recommendation to post a sign that all payments must be made with cash.
- 2) The Human Resources (HR) committee was formed and made initial recommendations for position description changes.
- 3) Addressed the sharing of bar tips between KMK and NDC staff in the new contract.
- 4) The Board's use of executive session in the past year has been restricted to personnel and contractual matters, as is appropriate.

Observations & Recommendations

This section presents current Audit Committee recommendations in a series of tables documenting specific observations made over the past years and recommendations motivated by these observations. They are in the areas of Board Work & Member relations, Staff & Human Resources, Finance, and Operations:

Board Work & Member Relations

#	Observations	Recommendations
1	Board Meeting Effectiveness: Meetings have become more orderly, but there is still room for improvement. Meetings should focus on specific business matters, rather than extended off-topic discussions that often result in no action.	<ol style="list-style-type: none"> 1) Audience members should address the chair, not each other. 2) Discussion should focus on the agenda item at hand. Off-topic discussion should be ruled out of order.
2	Handling Disruptions: At times, the Board has needed to eject an attending member for sustained disruptive and disorderly conduct.	<ol style="list-style-type: none"> 3) The Audit Committee believes that the Board has exercised this authority appropriately and should continue to do so.
3	Meeting Minutes: Meeting minutes should include more information about the background of decision process.	<ol style="list-style-type: none"> 4) .More detail should be included in board minutes regarding decisions.

#	Observations	Recommendations
4	<p>Annual Dues Term: There is currently one principal benefit to active membership: the ability to vote at membership meetings. As a result, most members pay annual dues at the start of the membership meeting. The bylaws specify the membership term expires one week after the annual meeting. The result is widespread misunderstanding of the period of membership for most dues payments. Members generally pay past, not future dues.</p>	<p>5) The period of membership should be defined as either the calendar year, or a period starting the day of each annual membership meeting.</p> <p>6) Waive membership fee from the end of the annual meeting to December 31, 2014 (or whenever the interim period ends).</p> <p>7) As the Café grows and becomes a stable and profitable business without outstanding loans, consider providing member benefits such as dividends or member discounts.</p>
5	<p>Audit Committee Charter: In the bylaws, the Audit Committee is not defined as an independent entity reporting to the membership. Under Roberts Rules, unless otherwise specified, a committee is presumed to report to the deliberative body (the Board). Further, the bylaws do not specify a process for filling Audit Committee vacancies.</p>	<p>8) Working with the Audit Committee, the Board should propose a bylaw amendment specifying that the Audit Committee is elected by, and reports to, the membership.</p> <p>9) Working with the Audit Committee, the Board should propose a bylaw amendment specifying an appointment process when an Audit Committee vacancy occurs. As an independent entity reporting to the membership (not the board), the Audit Committee (not the board) should make appointments to fill vacancies until the next annual membership meeting.</p>
6	<p>Bylaws Review: The bylaws are over-specific in some areas (such as setting member dues) and vague in others (such as defining the role of the Audit committee).</p>	<p>10) The Board should create a committee to review all bylaws and propose updates as needed.</p> <p>11) Bylaws should be amended to set a deadline for receipt of bylaw amendment petitions to be included on annual meeting agenda.</p> <p>12) Bylaws should be amended to clarify whether someone who does not pay annual retains the privileges of membership</p>

Staff & Human Resources

#	Observations	Recommendations
1	<p>General Manager Dismissal: The dismissal of the General Manager (GM) came after a long period of deteriorating relations between the Board and the GM. This dispute has continued into discussion of whether or not the Board followed proper procedures in both the hiring and the dismissal of the GM. The issue is expected to be raised—and hopefully, resolved—at the 2014 Annual Membership Meeting.</p>	<p>13) The Board should reevaluate the staffing structure.</p> <p>14) The Board should review and clarify the process for hiring and terminating employees.</p>
2	<p>Employee Dispute Resolution Process: The employee handbook lays out multiple options in how to deal with employee issues, but makes it clear that ultimately these decisions are at the Board's discretion.</p>	<p>15) Consider implementing a resolution process that involves the HR committee prior to escalation to the Board.</p>
3	<p>Creation of HR Committee: The Board established a human resources committee which began its work. There are several unresolved recommendations from the 2013 Audit Committee Report to be addressed.</p>	<p>16) Recruit new members as needed.</p> <p>17) Create a plan of action that sets priorities for these recommendations and any other work they deem appropriate</p> <p>18) Produce or update the policies and procedures identified as needed by the Audit Committee.</p> <p>19) The Board should consider whether some form of the ad hoc HR committee might be best preserved for the long term. For example, should a committee be assigned with addressing employee grievances?</p>
4	<p>Management Structure: The General Manager model of having the GM be in charge of all other staff may create too many layers of management for such a small organization. Co-operatives by definition should be run on as egalitarian a basis as is feasible.</p>	<p>20) The Board (or a designated committee) and the membership at large should rethink how the staff is organized. This can be done in conjunction with position description updates of position and other recommendations from last year's Audit Committee Report.</p>

Finance

#	Observations	Recommendations
1	<p>Accounting Operations: In the wake of dismissing the General Manager, the Board is temporarily hiring Finance World of Maryland, Inc to manage the books and has started a search for a permanent accountant.</p>	<p>21) As part of increased professionalism of Café operations, the Audit Committee endorses hiring an accounting professional rather than relying on a General Manager to perform accounting duties. This change provides greater expertise at a reasonable price.</p> <p>22) An accountant can help address the financial issues still unresolved from last year's Audit Committee Report, as well as new financial issues raised in this report.</p>
2	<p>Need for Budget Management: The Budget process has been entirely isolated from expenditures and reporting. Expense and revenue categories on the budget do not match those on financial reports. Until 2014, no reports identified financial performance in comparison to the ratified budget.</p> <p>For instance, the 2013 budget for Repairs & Maintenance was \$610. During the year, the board approved expenditure of \$1,602—without referring to the budget. When the 2014 budget was submitted in January, it would have reasonable been increased significantly. However, for unknown reasons the submitted annual budget for Repairs & Maintenance was <i>reduced</i> by 18%. Since then in 2014, the Board has already authorized expenditure of \$6,500—<i>thirteen times the budget</i>—for HVAC work. As a result, the budget is overly optimistic by at least \$6,000 from this one decision. Other budget categories also have large deviations as a result of consistent poor management of the budget</p>	<p>23) The Board should use the budget as a tool for managing Café finances. The purpose of a budget is to track and manage ongoing income and expenses. Each year's incremental improvements should guide development of the next year's budget.</p> <p>24) Budget categories should be synchronized with Quickbooks expenditure categories. After this synchronization, categories should remain consistent from year to year, except for occasional revision necessitated by structural financial revisions.</p> <p>25) Quarterly and annual financial reports should compare actual revenue and expenses to the budget, and explain significant discrepancies.</p> <p>26) The annual budget should be prepared based on the prior year's expenditures. Significant deviation from <i>either</i> the prior year's budgeted amount, or from the prior year's actual amount, should be explained in a descriptive document accompanying the budget for review before it is approved. The Treasurer and a member of the Audit Committee have already started this work, reflected in the Treasurer's report given at the 2014 annual meeting.</p>

#	Observations	Recommendations
3	Financial Reporting: The Profit and Loss (P&L) and Balance Sheet presented at year-end made much information difficult to discern. For example, sales tax collections were identified only on the Balance sheet, but not on the P&L statement. The P&L in turn only presented the amount of checks written to staff and did not present enough information to discern payroll deductions and gross income for each staff member.	27) Revamp P&L and Balance Sheet for greater clarity and to follow general accounting practices of identifying assets, liability and equity.

Operations

#	Observations	Recommendations
1	Restricted WiFi Internet Access In December 2013, the Café WiFi system was changed from unencrypted public access to an encrypted signal with a password. This change was made without prior board approval. The password is not posted; in fact, even the presence of public WiFi is not posted. The result is a significant change from the original public WiFi service for which the Café received a grant from the Greenbelt Community Foundation to offer unencumbered WiFi access to the public at large in both the Café and Roosevelt Center plaza.	28) The Board should consider and make a deliberate decision on this matter. We propose two options: a. The unencrypted public WiFi signal should be restored (so no password is required), or b. If the Board determines the signal should be encrypted, the WiFi password should be prominently posted in the Café near the menu board and bar. Unless the Board decides the Café WiFi is no longer intended for use by public visiting the Roosevelt Center Plaza, the password should also be prominently posted on the Café door for, easily visible both to Café patrons at outdoor tables, and to the public when the Café is not open.
2	Weak WiFi Signal in the Back Room With implementation in December 2013 of a mobile credit card payment system for bar purchases, WiFi access throughout the Café serving area is now important to support customer payment. The WiFi access point on the high window sill in the front room provides good access in the front room and outdoor tables, signal strength in the back room is consistently usable only within a line-of-sight of the access point.	29) The Board should work with volunteer experienced IT professionals to identify and implement a solution to providing WiFi throughout the Café, at minimum reasonable cost.

#	Observations	Recommendations
3	Physical Security: Improve security measures to protect Café assets	30) Implement recommendations received from the Greenbelt Police. These include: <ul style="list-style-type: none"> a. Make wine bottles less visible on the shelf holding glasses. b. At the end of the night leave cash register drawers open with the money tray removed and secured. c. Consider how to secure the more portable elements of our sound system (such as microphones and the sound board).
4	Environmental Operation: HVAC systems have been on when not needed or have been set at uncomfortable levels, resulting in higher electricity bills and lowered patron comfort.	31) Take the following measures to increase customer and staff comfort: <ul style="list-style-type: none"> a. Relocate the thermostat from the end of the bar adjacent to the kitchen, as kitchen heat means the temperature there is not representative of the room at large. b. Label each system's thermostat clearly with instructions for when to turn systems on or off and how to set temperature correctly. c. Determine and communicate who should be responsible for turning off the HVAC system when appropriate.
5	Roofing: During summers, the uninsulated black roof produces excessive heat in and near the ceiling.	32) Evaluate the potential of coating the black roof to be a more reflective surface to increase passive cooling.
6	Facility Condition: The front counter, flooring, and ceiling all exhibit considerable wear & tear.	33) First, prepare cost estimates for desirable facility upgrades. 34) Second, prioritize and budget facility upgrades.
7	Full House: The back room is exceedingly crowded on weekend evenings.	35) Start process of strategic planning to address immediate improvements and potential expansion.

Status of Past NDC Audit Committee Recommendations

Date	#	Topic	Recommendation	Progress	Status
05/19/13	1	Staff/HR	The BOD should develop and adopt a comprehensive Staff Action Plan which includes written policies and procedures outlining employee recruitment, hiring, reviewing employee performance, rewarding satisfactory performance, discipline for unsatisfactory performance, employee actions (promotion, satisfactory performance, discipline for unsatisfactory performance, employee actions (promotion, demotion, termination, etc.)	Formation of an HR committee is the first step.	open
05/19/13	2	Staff/HR	The Board should develop/adopt an employment tool kit clearly outlining expectations of employment and responsibilities of BOD and the co-op towards employees, and co-op management towards subordinates.	not yet started	open
05/19/13	3	Staff/HR	Position Descriptions- all paid staff should have a current and signed position description on file.	HR committee has started that with the revision of the General Manager position. The Board Handbook contains the current versions of each position. These all still need review	open
05/19/13	4	Staff/HR	Written Employment Policy which covers every position (paid and non-paid) at the NDC	There is a current policy that needs updating.	open
05/19/13	5	Staff/HR	Performance Reviews- performance reviews for paid staff should occur twice annually and performance metrics should be based on the responsibilities of the current job description.	Performance reviews were started during the 2012-13 year. At the behest of members, the system was revised on the fly, and ultimately was put on the back burner before the Board reached consensus on ratings. Doing these correctly depends on establishing clear policies in advance.	open
05/19/13	6	Staff/HR	Non-discrimination and harassment policies should be documented and included in the staff tool kit.	still open	open

Status of Past NDC Audit Committee Recommendations

05/19/13	7	Finance	Resolve the issues described in the 2013 Audit Committee report with the P & L statement and provide balance sheet to Audit Committee.	This needs to be revisited with accountant	open
05/19/13	8	Finance	Clarify the distinction between assets, liabilities and equity in the financial report and present the Quickbooks balance sheet in the recommended monthly report	This needs to be revisited with accountant	open
05/19/13	9	Finance	Start tracking and reporting cash flow on the main bank account.	No action. This can be done by treasurer or General Manager examining bank accounts	open
05/19/13	10	Finance	The General Manager should generate monthly Quickbooks reports of the balance sheet and the P&L statement <i>in accordance with deadlines set for generating reports before Board meetings.</i>	General Manager was reluctant to provide monthly Quickbooks report. While it is not necessary to have a detailed, fully vetted report every month, it is important to give the Board a snapshot of the Café's financial performance, and generating this report from Quickbooks is not a burdensome task. This may be overtaken by events in that we now have an accountant doing this.	open
05/19/13	11	Finance	The General Manager should continue to produce quarterly written reports summarizing Café finances and post them on the Members section of the Cafe's Web site. This report should replace the Quickbooks P&I with a summarized version that protects employee confidentiality.	The GM produced these reports at meetings, but the reports did not make it to the Web site. It is not clear whether this is due to GM not providing electronic copy or an electronic copy not being put on web site.	open
05/19/13	12	Finance	Write procedures to fill the gaps observed in the report, place them in the Board Handbook, and make them available to the staff and volunteers responsible for carrying them out.	This issue was not addressed last year	open
05/19/13	13	Board work	Formalize standards of conduct and place expectations in Board Handbook. Any disciplinary action against a Board member should be made in public, executive session alone is not sufficient.	no action	open

Status of Past NDC Audit Committee Recommendations

05/19/13	14	Board work	Overuse of executive session	In the 2013-14 year the Board's use of executive session focused on sensitive aspects of contract negotiations and personnel matters.	closed
05/19/13	15	Board work	Forward web feedback to entire Board and Audit committee	Still not going to audit committee	open
05/19/13	16	Board work	Reports need to be sent out enough in advance to review before meeting	This was never resolved with the GM, Board appears to be doing relatively well at this.	open
05/19/13	17	Board work	Clarify role of Board and GM	reached impasse, GM was fired, work still needs to be done. Must correlate with staff action plan work.	open
05/19/13	18	Operations	Credit card machine at bar	Was finally ordered and seems to be working well.	closed
05/19/13	19	Operations	In lieu of installing a credit card machine at bar, make "cash only" sign more visible	Not necessary, as credit card machine was bought	closed
05/19/13	20	Operations	Define clear cooperation guidelines between KMK staff and volunteer bartenders	still applies with paid bartenders; the kitchen and bar work well together but streamlining and better understanding can build on this and potentially improve customer service. This is also important as new staff comes on board for either KMK or NDC	open
05/19/13	21	Operations	Continue to improve and document procedures for volunteers	Amethyst has written opening and closing procedures for the bar; this should be expanded to include music & sound volunteers, arts, publicity and web site maintenance.	open
05/19/13	22	Operations	Provide timely response to operational needs and equipment failures (e.g., broken barstool used by bartenders)	Operational needs have been met, timeliness has been a mixed bag. This recommendation should also be interpreted to include proper status reporting to the Board.	open
05/19/13	23	Operations	Improve mechanisms for inputs from volunteers	No explicit policy or procedure has been written.	open
05/19/13	24	Operations	Address issues concerning bar tips.	Addressed in contract	closed

Status of Past NDC Audit Committee Recommendations

07/31/13	25	Board work	The appearance of conflict of interest has existed at the café. This includes potential family conflict in the case of a board member and the Bar manager, potential self dealing of the general manager in her role as Board President when the job was created, and appearance of conflict of interest for an audit committee member then engaged (now married) to an unpaid bartender (who no longer works at the NDC). In a small cooperative where couples and families are involved, this conflict of interest is inevitable and should be managed, rather than turning away scarce volunteers.	close when policy is adapted and supporting HR documentation is written.	open
07/31/13	26	Board work	The BOD should establish a Conflict of Interest Policy that addresses the appearance of conflict of interest, and actual conflict of interest should it occur. The policy should address self-dealing, outside employment, family interests, gifts, and other common threats (Appendix 1a). The Conflict of Interest Policy should cover definitions, responsibilities, actions and remedies, and consequences.	Merge with #13 (Board Handbook update) to address by the 2015 annual meeting.	merged
07/31/13	27	Board work	All BOD members and employees with decision-making responsibility should read and sign a copy of the Conflict of Interest Policy.acknowledging their agreement to abide by the policy. Signed copies should be kept in the BOD records	no action	open
07/31/13	28	Board work	The BOD should consistently apply the Conflict of Interest Policy to any/all BOD members, employees, and volunteers with decision-making power over NDC business and/or NDC employees or volunteers.	no action	open

Status of Past NDC Audit Committee Recommendations

07/31/13	29	Staff/HR	The NDC BOD should form a Human Resource Committee (HRC) that is independent of the BOD. Ideally the HRC would consist of two or more individuals who have experience with human resources policy. Members of the HRC do not have to be members of the BOD, but at least one member of the BOD should be a part of the HRC or the official liaison to the HRC.	done in 2013-14 year, may need to recruit new members	closed
07/31/13	30	Staff/HR	The HRC should review all human resources documents including but not limited to: Café HR polities, position descriptions, performance reviews, and employee manual to recommend modifications based on HR best practices – at a minimum the responsibilities outlined in job descriptions should be aligned with performance metrics in performance evaluations.	this should be treated as reference material for staff/HR recommendations in 2013 Audit Committee report (#1-6 in this spreadsheet)	merged
07/31/13	31	Board work	All recommendations, changes, documents, etc. made by the HRC should be considered and voted on by the BOD (the implementers of Café policy). Where appropriate BOD members with apparent conflict of interest should be excluded.	no action as no new policies have been generated yet.	open