



Audit Committee Annual Report

May 2015

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Introduction

The Audit Committee is an independent group of three Café members elected by the membership to monitor not just financial operations, but all activities conducted by Café leadership. This report to the membership summarizes our findings for the past year. Operations from May 2014 to May 2015 are the subject of this report, reflecting a full term of the Audit Committee. This report reviews last years' recommendations, evaluates the year, and recommends further considerations for going forward.

Audit Committee members Tom Jones and Michael Stark were re-elected at the May 2014 annual meeting; they were joined by former Board member Dorian Winterfeld who was newly elected to fill the position vacated by Frank Gervasi, who was elected to the Board and has served the past year as Café Treasurer.

The Café fiscal year runs from January 1 through December 31, and the membership year runs from each annual meeting to the next. This scheduling allows for completion of budget and financial reports after the end of each year, for review by the membership at the annual meeting.

The Year in Review

This past year has been the most successful year in Café history. Diverse superb music has drawn crowds near or at capacity nearly every Friday and Saturday night. The Board contracts food operations to KMK, a corporation managed by Karim and Maria, which has successfully served thousands of patrons. Significant facility upgrades included replacement of the two remaining out-of-date HVAC units, new tables and chairs in the back room, significant upgrades to 2 out of 3 bathrooms, and expanded WiFi capacity now available throughout the Café facility.

Management operations have also been more productive and effective. Improved budgeting meant the 2015 budget was prepared reflecting prior year expenditures. A newly-hired professional accounting firm is bringing clarity to the books, providing unprecedented budget management. While unification of budget and expense categories remains as a crucial challenge, the Café is on a solid track to continue its operational and financial success.

Progress on Prior Audit Committee Recommendations

In representing the membership and promoting successful and professional ongoing Café operation and management, the 2014 Audit Committee Report included 35 recommendations. These recommendations have been highly successful. The Board, Audit Committee, and Membership have made major progress, as shown later in this report: In summary, of the 35 recommendations:

- 13 have been fully resolved.
- 4 have resolution pending membership approval of bylaw amendments at the 2015 annual meeting
- 16 have progress under way
- 2 are unresolved

In addition, this 2015 report identifies a new recommendation.

2015 Bylaw Amendments

Resolution of 4 items from the 2014 Audit Committee report should be enacted through bylaw amendments. The 2015 annual meeting agenda includes 3 bylaw amendment proposals intended to maintain and clarify current Café operations, and 1 proposed amendment to the special rules of order:

- 1) The first proposed amendment codifies the role, purpose, and function of the Audit Committee. The Café bylaws do not currently establish the Audit Committee as an independent entity, reporting directly to the membership, and not to the Board.
- 2) The second proposed amendment provides a deadline for a petition proposing a bylaw amendment to the membership.
- 3) The third proposed amendment clarifies that members need to pay the current year's dues in order to vote at a membership meeting, but that there is no need for members to pay dues for any prior years.
- 4) The proposed amendment to the special rules of order removes the statement that the Board should make "strong efforts" to hold the meeting in January. Recent annual meetings have taken place in May.

Following on its 2014 recommendations, the Audit Committee submitted drafts of these amendments to the Board, and supports all proposed amendments on the 2015 agenda.

Audit Committee Recommendations

The following tables track recommendations provided in the 2014 Audit Committee Report, plus new recommendations for 2015.

Board Work & Member Relations

2014 Observations	Recommendations	2014-15 Status
<p>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.</p>	<p>1) Audience members should address the chair, not each other.</p> <p>2) Discussion should focus on the agenda item at hand. Off-topic discussion should be ruled out of order.</p>	<p>1 & 2) RESOLVED Audience members have generally been focused on discussion at hand. While discussion sometimes drifts off topic, the chair has generally limited such discussions. Meeting chairs should continue to keep speakers on point.</p>
<p>Handling Disruptions: At times, the Board has needed to eject an attending member for sustained disruptive and disorderly conduct.</p>	<p>3) The Audit Committee believes that the Board has exercised this authority appropriately and should continue to do so.</p>	<p>3) RESOLVED – there has been no need to eject a member this year.</p>
<p>Meeting Minutes: Meeting minutes should include more information about the background of decisions.</p>	<p>4) More detail should be included in board minutes regarding decisions.</p>	<p>4) RESOLVED: More detail is included in meeting minutes, although ongoing attention should ensure timely posting.</p>
<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>5 & 6) RESOLVED: #5 & #6 were resolved when the membership approved a bylaw amendment at the 2014 annual meeting.</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>	<p>7) RESOLVED: The Board is continuing member appreciation on an ongoing basis, including a likely proposal to distribute beer glasses to members attending the 2015 annual meeting.</p>

<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>	<p>8 & 9) RESOLUTION PENDING: A proposed bylaw amendment addressing both of these issues is on the agenda for the 2015 Annual membership meeting</p>
<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>	<p>10) UNRESOLVED: No committee has been created to comprehensively review the bylaws.</p> <p>11 & 12) RESOLUTION PENDING: A proposed bylaw amendment addressing both of these issues is on the agenda for the 2015 Annual membership meeting</p>

Staff & Human Resources

2014 Observations	Recommendations	2014–15 Status
<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>	<p>13 & 14) IN PROGRESS: The Board has made significant progress toward updating the employee manual, and Café operations under the current staffing structure are effective, functional, and stable.</p>
<p>Employee Dispute Resolution Process: The employee handbook lays out options to deal with employee issues, but makes it clear that ultimately 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>	<p>15) IN PROGRESS: A new employee handbook is in works.</p>
<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>	<p>16–19) IN PROGRESS: Some of these are being addressed by the Employee handbook currently in works.</p>

<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 an egalitarian 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 the prior 2 years' Audit Committee Reports.</p>	<p>20) RESOLVED. Since 2014, the Café has changed from the prior model of a General Manager overseeing all staff toward a flatter structure where paid bartenders report to the bar manager, and all other positions report to the Board president.</p>
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Finance

2014 Observations	Recommendations	2014-15 Status
<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 the General Manager for accounting, providing greater expertise.</p>	<p>21) RESOLVED – the Board initially hired a Greenbelt accountant based on resume and proximity; when this did not work out gave all accounting business to the Harding Group, which had already been doing the Café's taxes.</p>
	<p>22) An accountant can help address the financial issues from the 2013 and 2014 Audit Committee Reports.</p>	<p>22) IN PROGRESS: The new accountant is making progress.</p>

<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>23) The Board should use the budget to manage Café finances. A budget should track and manage ongoing income and expenses. Each year’s incremental improvements should guide the next year’s budget.</p> <p>24) Budget and accounting categories should be synchronized. After this synchronization, categories should generally remain consistent from year to year.</p> <p>25) Quarterly and annual financial reports should compare actual revenue and expenses to the budget, explaining any significant discrepancies.</p> <p>26) The annual budget should be prepared based on the prior year’s expenditures. Significant deviation from 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.</p>	<p>23–26: IN PROGRESS: Much progress has taken place in this multi-year effort. The accountant is working on unifying our budget categories and updating Quickbooks. This will allow budgeting based on the previous year’s actual spending. Subsequent reports by the Treasurer will be able to reference budgeted and actual amounts with respect to these categories when reporting.</p>
<p>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.</p>	<p>27) Revamp P&L and Balance Sheet for greater clarity and to follow general accounting practices of identifying assets, liability and equity.</p>	<p>27) IN PROGRESS: The new accountant is making progress.</p>

Operations

2014 Observations	Recommendations	2014-15 Status
<p>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 (even the presence of public WiFi) is not posted. This is a significant change from the public WiFi service for which the Café received a grant from the Greenbelt Community Foundation to offer unencumbered WiFi access to the public in the Café and Roosevelt Center plaza.</p>	<p>28) The Board should consider and make a deliberate decision on this matter. We propose two options:</p> <ul style="list-style-type: none"> 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. 	<p>28) RESOLVED : Unencrypted WiFi has been made available to all café patrons and the nearby public visiting the Roosevelt Center Plaza.</p>
<p>Weak WiFi Signal in the Back Room With implementation in 2013 of a mobile card payment system for bar purchases, WiFi access throughout the Café serving area is crucial.. The WiFi access point on the front window sill provides good access only in the front room and outdoor tables.</p>	<p>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.</p>	<p>29) RESOLVED: A new wireless access point has been mounted on the ceiling in the back room, providing a strong signal.</p>

<p>Physical Security: Improve security measures to protect Café assets</p>	<p>30) Follow recommendations from the Greenbelt Police. These include:</p> <ul style="list-style-type: none"> a. Make wine bottles less visible on the shelf holding glasses. b. When closing, leave cash register drawers open and empty. c. Consider how to secure smaller sound system components such as microphones and the sound board. 	<p>30) IN PROGRESS: Item b is resolved, but items a and c may require more consideration.</p>
	<p>31) Etch “New Deal Café” or “NDC” on more portable equipment for deterrence and tracking.</p>	<p>31) NEW: This new recommendation has not yet been addressed.</p>
<p>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.</p>	<p>32) Take the following measures to increase customer and staff comfort:</p> <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. 	<p>32) UNRESOLVED: With return of warm weather, the Board and Karim need to discuss and determine appropriate procedures.</p>
<p>Roofing: During summers, the uninsulated black roof produces excessive heat in and near the ceiling.</p>	<p>33) Evaluate the potential of coating the black roof to be a more reflective surface to increase passive cooling.</p>	<p>33) IN PROGRESS: The Board has evaluated options and discussed them with the landlord, but has yet to implement the plan or determine it infeasible.</p>

<p>Facility Condition: The front counter, flooring, and ceiling all exhibit considerable wear & tear.</p>	<p>34) First, prepare cost estimates for desirable facility upgrades. 35) Second, prioritize and budget facility upgrades.</p>	<p>34 & 35) RESOLVED. New tables and chairs have been purchased, and 2 of 3 bathrooms have been upgraded with new fixtures and flooring. Further facility upgrades are being discussed and prioritized.</p>
<p>Full House: The back room is exceedingly crowded on weekend evenings.</p>	<p>36) Start process of strategic planning to address immediate improvements and potential expansion.</p>	<p>36) IN PROGRESS: The facility upgrades provide greater comfort, and the board has begun to discuss potential expansion as a long-term topic.</p>

Summary and Future Considerations

The Café has made significant improvements during the past year. We have transitioned from paying off old bills and member loans to reinvesting income into the tangible improvements to the Café noted in this report. Our financial position is sound, and our financial recordkeeping is improving rapidly with the guidance of the Harding Group's accountant.

There is still significant work to be done in the area of staffing and human resources, but that is due to the Board placing higher priority on finance and operational improvements. The drafting of an employee manual in April 2015 is a demonstration of intent that should carry over into continued action by the next Board.

While the Audit Committee has not made many new recommendations, there are two areas of concern that the new Board should consider. First, the bulk of 2014 profits were reinvested in items such as new furniture and renovated restrooms. In Fiscal Year 2015 the Board should consider a greatest focus on building reserves. Reserves should be maintained for at least 3 purposes:

- *Long Term Maintenance* –savings based on the expected lifetime and replacement cost of high-priced items such as the HVAC system. This covers “known unknowns” that are at least somewhat predictable.
- *Rainy Day Fund* –savings to take care of unanticipated setbacks that would cause loss of income not covered by insurance. This covers the “unknown unknowns” that one can't reasonably anticipate but still cost money.
- *Expansion Fund* – savings to be applied to expanding and improving the Café as a business.

The bookkeeping associated with reserve funds could be accomplished by modifying the balance sheet to show how much money is saved for each of these purposes.

The other consideration for the next Board is long range planning. The Café has made good progress on a long backlog of issues, it is time that it can start looking to the future. Further, the opportune time is the first half of the new Board's term. There are two reasons for this. First, the Board's workload tends to increase as the annual meeting approaches; second, this look towards the future should precede the preparation of the 2016 budget.

Any plans to improve a member-owned cooperative, particularly when they involve major expenditures, need to reflect the beliefs and visions of the membership. Thus any strategic planning exercise taken on by the Board should begin with a major effort to discern what the membership sees as the Café's future.

There are major decisions to be made and work still to be done to keep the Café on its path of improvement. But it is well worth pausing and reflecting on how far the Café has come since the fall of 2007 when member loans were needed to prevent bankruptcy. The state of the Café is strong and on a path to remain strong.