



# Audit Committee Annual Report

May 2017

Tom Jones  
Michael Stark  
Dorian Winterfeld

## 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. We are elected by, and report to, the membership. This report to the membership summarizes our findings for the past year. Operations from May 2016 to May 2017 are the subject of this report, reflecting a full term of the Audit Committee.

Audit Committee members Tom Jones, Michael Stark, and Dorian Winterfeld were re-elected at the May 2016 annual meeting.

This report does not follow the format of our recent reports, because the Café began a major organizational and operational restructuring shortly after this term began. Prior reports listed detailed items to fine-tune café management and operation when operations remained the same year over year. This report contains a broad review of the past year.

## Audit Committee Activities

1. Every board meeting and work session was attended by one or more members of the Audit Committee (often all 3 members).
2. During all meetings and discussions, the Audit Committee monitored the process of running the cafe. On numerous occasions, the Audit Committee raised questions about various topics, including:
  - a. Reviewing the scope and content of financial reports.
  - b. Ensuring each topic covered in executive session has a valid, current reason not to be covered in open session.
  - c. Ensuring the Board deliberates and approves any long-term contracts, rather than delegating important contract-signing authority.
  - d. Ensuring the Board follows its approved process for email decisions on urgent matters.

The Audit Committee is pleased to report that the Board responded as quickly as could be expected, and took appropriate measures to ensure fidelity to reasonable, approved procedures.

According to the by-laws, the role of the Audit Committee is to ensure that the Board follows appropriate processes, not to second-guess operational decisions. We may recommend rewriting the employee handbook, but do not determine its contents. Our only authority, per the by-laws, is to make reports and recommendations to the Board and membership.

While some Board decisions in hindsight could have been more effective—such as the first selection of a kitchen manager—the Audit Committee feels the Board managed the Café's transition to its new management structure as well as could be expected under the circumstances.

## 2017 Audit Committee Recommendations

1. The Board should continually determine which concerns are most important, and **prioritize** its efforts and agendas accordingly. For instance, the financial well-being of the Café is generally paramount, so it is appropriate for **finances to be a key focus** at each meeting. To **ensure sufficient focus on the highest priorities**, some operational issues and customer suggestions must necessarily be deferred or delegated.
2. The Board's primary function is to **establish and optimize** management structure, and **appropriately distribute responsibility** to employees, volunteers, and contractors to ensure the Café survives and grows. For instance, just as in the co-op grocery store, the Board should trust management to determine products and set prices.
3. The agreement with the prior kitchen contractor included major structural weaknesses, resulting in inherent, persistent conflict between the Café and the contractor over issues ranging from daytime beer and wine sales, reservations for patrons of music but not dining, and even setting thermostats. In hindsight, these conflicts could have been prevented with a better agreement. When the Board considers any long-term contractual relationship, **directors must take great care to align motives and incentives**.
4. In the past year, Café management has made **major progress in tracking finances**. The Board must continue to monitor and manage finances extremely closely, evaluating trends and monitoring progress against budgets and the business plan. This includes monitoring and managing **daily cash register** reports, **weekly payroll** reports, and detailed consideration of all substantial **capital and operational expenses**. These reports must include clear, simple **metrics** and **trends**, and be **available** to the membership throughout the year.
5. As soon as the operational structure is stable and profitable, the Board must review and update written policies on **internal controls**, including authorization to make purchases, withdraw money, and sign contracts.
6. As soon as the operational structure is stable and profitable, the Board should also review the Bylaws to propose any changes needed to support the new structure.

The Audit Committee welcomes questions and comments from members.