New Deal Café – Audit Committee Report
May 2013

Audit Committee Members:
Tom LeaMond – Chair
Michael Stark
William O'Grady

Summary

The 2012 audit committee for the New Deal Café was elected in May, 2012. The audit committee was represented in all Café Board of Directors (BOD) meetings conducted by the 2012 BOD and were included in BOD communications through email, in-person, and via the BOD list-serv. Audit committee members were available for consultation with members of the BOD, with co-op members, with café staff and volunteers, and with customers. Additionally, members of the audit committee were regularly present at the café observing operations and interacting with BOD members, co-op members, café customers, and café staff and volunteers.

Based on our observations and through interaction with the BOD, staff, volunteers, and customers the audit committee has compiled a list of recommendations that we respectfully submit to the New Deal Café BOD for consideration and to the co-op membership for consideration and acknowledgement.

Recommendations

Human Resources Recommendations

Over the past year the BOD has taken steps to create personnel rules/processes/procedures that are intended to assure that employees are treated fairly, justly and legally regarding employment issues such as hiring, performance reviews, employee discipline, and other employment actions. Independent of action taken by the BOD towards these goals the Audit Committee has prepared the following recommendations regarding human resources and personnel management at the New Deal Café (not including KMK employee operations).

Recommendations:

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, demotion, termination, etc.). It 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.

An employment tool kit should include:

1) Employee position description (roles and responsibilities) for each position.
2) A written employment policy outlining general terms of employment and employee expectations (at-will employment, arriving to your shift on time, informing others when you are unable to meet the responsibility of your shift, respecting other workers, honesty, etc.)
3) Documented employee performance review schedules and chain-of-responsibility.

4) The organizations non-discrimination and harassment policies.
5) Documented employee performance review schedules and chain-of-responsibility.
6) Other information that should be conveyed by the organization to its employees and/or volunteers.

Position Descriptions - all paid staff should have a current and signed position description on file. Signature acknowledges that the staff member has read, understands, and agrees with the responsibilities of the position. All non-paid positions should have a description and non-paid employees should be given a copy of the description. They should be expected to function as indicated in the non-paid position description.

Written **Employment Policy** which covers every position (paid and non-paid) at the NDC and includes: recruiting policies, hiring policies, establishment of position descriptions (for paid and voluntary position), employee action timeline, as well as policies for rewarding, punishing, improving performance, or terminating employees.

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. When identifying areas that need improvement it is best to use quantitative metrics that are tied to each employee's position description.

> For example: if a performance metric states, "Arrives on time and ready to begin their shift". A positive evaluation could say, "Arrives on time most of the time and tardiness has rarely been noted." Or, "Arrives on time and ready to work for every shift". A negative evaluation should be more specific, "Has arrived late to work more than 10 minutes at least 10 times in the past two months". Specific examples of under-performance are much easier to address than vague statements like, "Is always late".

A regularly scheduled **Mid-year Review** should be performed for each paid employee and should identify successes (behavior that should continue) and deficiencies (behavior that could be improved). For activities that are rated below average a written "individual" performance improvement plan should be developed in cooperation with the employee with the idea of improving the employee's performance in following performance reviews. If previous reviews include an "individual" performance improvement plan that plan and progress towards improvement of past deficiencies should be addressed.

A regularly scheduled **Annual Review** should be performed for each paid employee and should identify successes (behavior that should continue) and deficiencies (behavior that could be improved). For activities that are rated below average a written "individual" performance improvement plan should be developed in cooperation with the employee to the end of improving the employee's performance in following performance reviews. If previous reviews include an "individual" performance improvement plan that plan and progress towards improvement of past deficiencies should be addressed.

A **documented employee performance review schedules and chain-of-responsibility** should list when performance reviews will be performed (i.e. in June and December), what responsibility employees will have for providing information for reviews (i.e. self-evaluation, 360 degree input, etc.), who will be reviewing the employees performance (i.e. the employee's supervisor, the BOD, a BOD committee, etc.).

Non-discrimination and harassment policies should be documented and included in the staff tool kit. Each employee (paid and volunteer) should know the organization's non-discrimination and harassment policy and know what they need to do and who they need to report discrimination, harassment, and other abuses to in the workplace.

Finance Recommendations

Bookkeeping

The use of Quickbooks has put the NDC's bookkeeping on a much sounder basis than in the past, and it will better inform the Board of trends in income and expenses than previous approaches. However, there is some room for improvement in the following areas:

1. The profit and loss (P&L) statement for 2012 does not show sales taxes on either the income or expense side, while the check detail report does show that checks are being written properly to pay these taxes. The sales tax is appropriately accounted for on the balance sheet as a pass through account, which is appropriate for a tax we collect for the state; however, the balance sheet was not provided in the 2012 Financial Report. A summary of bank accounts and debts did include a "Tax Fund" line. If that represents the sales tax pass through account it should be labeled in a way that references sales taxes.
2. The second issue with the P&L is that the payroll information does not show a separate line for FICA in the taxes paid, although that is probably combined in with income tax withheld and paid to the state and federal governments. Further it does not show our gross payroll, and amounts withheld, so a casual reader of the P&L would underestimate the full payroll. This makes it more difficult for the Board to make rational personnel decisions.
3. The balance information presented in the end of year financial report confuses assets and equity in the first table. The assumption would be that BOA and "Deposit Account" represent bank accounts and the remaining 4 lines represent how they are allocated (equity). The member loans and City Kitchen bill are correctly represented as liabilities (debt). This information should be presented more clearly, perhaps using the Quickbooks balance sheet directly.
4. It would improve the Board's decision making to know actual cash flow for the main operating bank account (BOA). Simply showing beginning balance, amount deposited, amount withdrawn and ending balance for each month would give early alerts to income dips or larger than normal expenses.

Recommendations:

- Resolve the issues with the P & L statement and provide balance sheet to Audit Committee.
- Clarify the distinction between assets, liabilities and equity in the financial report and present the Quickbooks balance sheet in the recommended monthly report..
- Start tracking and reporting cash flow on the main bank account.

Appropriate information

In addition to bookkeeping itself, it is important for the Board to have appropriate and timely information, and there need to be clearly defined procedures that are understood by Board, staff and volunteers alike, as needed. These two issues are discussed below.

Reporting
When the General Manager assumed responsibility for producing financial reports the Board decided that a quarterly report would be sufficient. While that may be sufficient for a written analysis, the Board should take the responsibility to read monthly reports of the P&L statement and balance sheets as generated by Quickbooks. The Board holds the responsibility for managing resources prudently, which is not feasible looking at the data only 4 times a year.

While Quickbooks output provides the information needed for Board decision making, it contains details about employees that are normally confidential. This information is needed to guide Board decisions, but reports to membership need to protect employee rights. However, these financial reports should be *completely* public to promote transparent operations and an informed membership.

Finally, an extraordinary amount of time is wasted at meetings reading reports that should have been sent in advance by the General Manager and responsible Board members. It is important that financial reports be sent in advance so that the Board members can come to the meeting having already read the report and formulated questions. Audit committee work has also been affected by delays in providing requested information.

Unclear procedures
There are many management procedures that are routinely carried out, and most likely carried out without issue. However, these procedures are not documented and available to the Board for review. This creates vulnerabilities to fraud, and while there is no evidence of fraud, documenting procedures provide the added benefit of providing orientation and training for new employees, volunteers and Board members.

Areas where documented procedures would reduce vulnerability are:

1. *Counting out the drawer.* There is a worksheet used to do this, but no documented procedure.
2. *Tallying alcohol sales from the front register.*
3. *Oversight of the writing of checks.* Quickbooks provides the capabilities of showing all checks written over a time interval. The Treasurer should review these checks weekly to assure that they are assigned to the right expense account in Quickbooks and that the Café money is being spent appropriately. The General Manager provided two check detail reports to the Audit Committee for use in producing this report. The first covered the first three quarters of 2012 and was provided with a delay of approximately two months. The second was for the final quarter of 2012 and was provided in a timely manner along with the 2012 financial report.
4. *Oversight of Payroll.* It is not clear how the Treasurer currently oversees the payroll. There is a worksheet used to tally up employee hours, but there is no documented procedure in the Board handbook for how paychecks are computed or where these records are stored. This made it difficult for the Audit Committee to evaluate these procedures or whether employee paychecks are being generated in the correct amount. Had the existence of these timesheets been documented more transparently the Board and Audit Committee would have been better able to do their due diligence in this area.

Recommendations

- The General Manager should generate monthly Quickbooks reports of the balance sheet and the P&L statement *in accordance with deadlines set for generating reports before Board meetings.*

- The General Manager should continue to produce quarterly written reports summarizing Café finances and post them on the Members section of the Café's Web site. This report should replace the Quickbooks P&L with a summarized version that protects employee confidentiality.
- Write procedures to fill the gaps observed above, place them in the Board Handbook, and make them available to the staff and volunteers responsible for carrying them out.

Record keeping

The Café most recent financial records are at the General Manager's home, with Quickbooks installed on her computer. Older records are stored at a friend's house. It is not clear what considerations have been given by the Board to the following issues:

1. *Access to records.* The Café owns the financial records, so it would be more appropriate to have them filed in the office at the Café. Given the space limitations, it may only be feasible to procure a computer and install a copy of Quickbooks, but ideally all our files would be there.
2. *Off site backup.* Wherever the financial records are kept, they are important enough to have an offsite backup. Options for this include a backup service that automatically accesses and copies information from the Café's computer, or periodically burning a CD of the Quickbooks database and keeping it in a separate location.
3. *Retiring records.* The Café has been in business long enough that some of the older records could be discarded.

Recommendations

- Move records to the Café to the extent possible. At the minimum the Café should procure a computer and install it in the office, and keep Quickbooks on that computer. As the Café's office is heavily trafficked, the computer and Quickbooks should both be password protected.
- Define a records backup plan.
- Investigate legal requirements for keeping financial records and purge old records to the extent possible.

General Operations Recommendations

Board Operations

- Need to formalize "standards of conduct". Expectations should be included in the BOD handbook. Guidelines for disciplinary action need to be established. Discipline for misconduct needs to be public – censure in executive session is insufficient.
- Overuse of executive session.
- Complaints via Web site should be forwarded to all Board members and the audit committee, not just the Board Chair
- Reports by Board members and Audit committee need to be sent in advance, and with enough time to review.
- Roles of Board and GM need to be clarified to avoid confusion over who is responsible for what.

Streamlining operations

More consistency between front and back room operations

- Investigate credit card machine at the bar. This could increase sales, would likely increase improve bartender tips, and would improve the customer experience.
- In lieu of installing a credit card machine at the bar, make "cash only" sign more visible to customers, it's hidden behind an object on bar.
- Clear cooperation guidelines between KMK staff and volunteer bartenders.
- Continue to improve and document procedures for volunteers.
- Provide timely response to operational needs and equipment failures (i.e. piano replacement, bar-stools, sound equipment, etc.).
- Improve mechanism for inputs from volunteers.
- Address issues concerning bar tips. Tips given to bartenders paying cash at the bar vs. tips on credit card transaction with KMK at the front register (not currently going to NDC bar staff) vs. assistance provided to KMK table service staff by NDC bar staff.