Policy: B3 – Asset Protection, Last revised: April 9, 2010

**I report compliance with all parts of this policy except B3.4.**

Unless indicated otherwise all data covers the period from June 1, 2009 through May 31, 2010, and is accurate as of May 31, 2010.

I certify that the information contained in this report and attachments is true.

Signed\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, General Manager

Attachment: \_\_\_\_\_\_\_\_\_\_\_\_

The General Manager shall not allow assets to be unprotected, unreasonably risked, or inadequately maintained.

**Interpretation:**

In the sub-policies below, the board has fully interpreted this policy for all assets except for the Co-op’s retirement plan and deposits in financial institutions. For these two assets, see the Operational Definitions and Data here. For other assets, see each individual section below for further interpretations, operational definitions and data.

**Operational Definitions:**

* A system for protecting the Coop’s retirement benefits plan exists. Specifically the system will include identification and education of fiduciaries, a qualified third party administrator, an annual review of plan performance, and insurance to protect the fund.
* Deposits: The Co-op’s funds should be fully insured with limited exceptions. Compliance will be achieved by evidence that all cash holdings and investments are
	+ less than $250,000 in an FDIC or NCUA insured institution; or
	+ more than $250,000 in a single primary checking account in an institution that has the highest rating from a national rating service; or
	+ investments in other cooperatives made to further our Ends accomplishment.

**Data:**

* Retirement plan- The Co-op’s 401K plan meets each of the criteria:
	+ The fiduciaries have been identified and informed of their duties (see attached 401K summary document)
	+ The Co-op contracts ABC Company as its third party administrator.
	+ Co-op management reviews fund performance quarterly and the Plan Committee will review performance, expenses and diversification annually.
	+ The Co-op holds insurance coverage of $xxx for the plan.
		- Summary of Cash Holdings May 31, 2010

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Institution  | Rating | Rating service | Amount Deposited | Amount Insured  | Notes |
| ABC Bank | xx | xx | $xx | $xx |  |
| DEF Bank | yy | yy | $xx | $250,000 |  |
| GHI Credit Union | zz | zz | $xx | $250,000 |  |
| Co-op Fund of New England | N/A |  | $xx | $0 | See March 2010 Ends report  |

The GM will not:

1. Allow equipment and facilities to be inadequately insured, or otherwise unable to be replaced if damaged or destroyed, including coverage for any losses incurred due to business interruption.

**Interpretation:**

The Co-op will have in place insurance that would be considered usual and normal for a retail grocery business of our size in our region.

**Operational Definitions:**

* The Co-op will have sufficient insurance to cover property, inventory, vehicles and business interruption.
* A reliable 3rd party will assess our insurance coverage to determine its adequacy.

**Data**:

|  |  |  |
| --- | --- | --- |
| **Category** | **Insurer** | **Coverage amount** |
| Property (facilities & equipment) | ABC Insurance Company | $xxx |
| Inventory | ABC Insurance Company | Actual loss, no limit |
| Commercial Auto | ABC Insurance Company | $xxx |
| Business Interruption | ABC Insurance Company | $xxx |

* DEF Insurance Company has reviewed these overages and indicated that they appear adequate for our business.
1. Allow unnecessary exposure to liability or lack of insurance protection from claims of liability.

**Interpretation:**

“Unnecessary exposure to liability” refers to insurable risks that could have been prevented by knowledge of and adherence to labor laws and personnel regulations, safety procedures for staff and customers, and all policy and procedures of the Co-op.

Adequate liability insurance reasonably protects the Co-op’s assets in the case of a legal judgment against the Co-op.

**Operational Definitions:**

* The Coop has written policies regarding harassment, equal opportunity, progressive discipline, and safety.
* Insurance coverage for business liability insurance and Directors and Officers liability is deemed sufficient by Coop’s insurance broker. Additionally insurance carriers must have a Financial Strength rating of “A” or better as determined by Best Credit Rating Center.

**Data:**

* Policies: The Co-op’s Employee Handbook details our policies for harassment, equal opportunity and progressive discipline. Employment policies were updated in 2008 and reviewed by the Co-op’s attorney. The Safety Manual details all of the aspects of the Co-op’s safety program. Safety Manual was updated in 2009 and reviewed by a safety consultant.
* Insurance: The Co-op carries the specified coverage and was deemed customary and reasonable by the Co-op’s insurance broker, as stated in the Insurance Broker Memo 2009.

**Summary of Liability Insurance Coverage May 2010**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Type | Individual Occurence Limit | Aggregate Limit | Carrier | Rating |
| General Liability | $1,000,000 | $2,000,000 | ABC | A (excellent) |
| Workers Compensation | $100,000 | $500,000 | ABC | A |
| Directors & Officers | $1,000,000 | $2,000,000 | DEF | A+ (superior) |
| Fiduciary Liability  | $1,000,000 | $1,000,000 | DEF | A+ |
| Umbrella Coverage | $2,000,000 | $2,000,000 | DEF | A+ |

1. Allow inadequate security of premises and property.

**Interpretation:**

We will have procedures for security of cash handling, inventory, payables, payroll, fixed assets, and our building security. In addition, we will have no material losses due to inadequate security.

**Operational Definitions:**

* Documented procedures will be reviewed by management and outside experts (auditors) on a periodic and as-needed basis.
* We will keep written material concerning any breaches of security and will notify outside auditors of changes to be made.
* Any losses will be documented. Losses greater than $1000 are considered material.

**Data**:

* Summary of procedures (detail available for inspection)

|  |  |  |  |
| --- | --- | --- | --- |
|  | Proper Documentationexist? Y/N | Date of most recent review by outside expert / who? | Log kept? Y/N |
| Cash handling  | Yes | 8/2009Auditors | YesDaily Reports |
| Inventory  | Yes (outside service) | 8/2009Auditors | Yes Quarterly |
| Payables | Yes | 8/2009Auditors | Yes |
| Payroll | Y (outside service) | 8/2009Auditors | Yes |
| Fixed assets  | Yes | 8/2009Auditors | Yes |
| Building security | Y (weekly security report) | 6/2009City Police | Weekly report |

* In this reporting period there were no “breaches of security” and therefore no reason to notify our auditors.
* No losses above $1,000 to report in this reporting period.
1. Allow data, intellectual property, or files to be unprotected from loss, theft or significant damage.

**Interpretation:**

Sensitive co-op information is given adequate protection.

**Operational Definitions:**

* Paper records will be kept in locked files.
* Electronic records will be regularly backed-up.
* Access to sensitive co-op information will be determined and restricted by job description.
* There will be no reports of failure to protect data.
* Precautions will be in place to protect key intellectual property.
* Credit/debit transaction will be PCI (Payment Card Industry) compliant. (**GM Note**: PCI compliance is a new operational definition.)

**Data**:

* Sensitive printed information including employee records and other data are kept in locked filing cabinets.
* Computer data is stored in a server and the server is backed up daily with a weekly back-up copy stored off site.
* Access to sensitive co-op information is determined and restricted by job description. Only Human Resources staff has access to confidential employee records.
* There have been no reported instances of employee files being left unprotected.
* Our name and brand are protected by trademark. Our font is protected by licensing agreements.
* The Co-op was not PCI compliant in the reporting period.

**Explanation and Plan** to come into PCI compliance:

This operational definition wasn’t in the last Asset Protection report. The GM decided to include it in this report to keep the Board informed as to the plan of the Co-op to improve protection of credit/debit data.

In order to be in a position to come into compliance, the Co-op recently invested in substantial hardware and software modifications. These were necessary to conform to the Payment Card Industry (PCI) Data Security Standards (DSS). These voluntary standards are designed for use by merchants and service providers to enhance payment account data security. (A survey of selected national co-ops indicated zero PCI compliance.)

We anticipate that the Co-op will be PCI compliant by *[date]*. This will be a major step forward in asset protection. The hardware and software improvements will make possible that we never need to store an individual’s credit/debit cardholder data on site.

* 1. Allow improper usage of members’ and customers’ personal information.

**Interpretation:**

No member or customer should ever worry that their personal information is collected unnecessarily or is used improperly. This is an integral part of maintaining a trusting relationship with our members and customers.

**Operational Definitions:**

* The Co-op has in place clear guidelines for what information we collect from members and customers, who has access to the information, and proper usage of the information.
* No member or customer will submit a valid complaint regarding the use of their personal information.
* All complaints (valid or not) and any infractions of this policy will be investigated and reported to the board.

**Data**:

* Our operations procedure manual (available upon request) defines the limits for collecting and using personal information.
* No complaints (valid or otherwise) were received during this reporting period.
* No complaints received, so nothing to report to the board.
1. Allow uncontrolled purchasing or purchasing subject to conflicts of interest.

**Interpretation:**

Coop assets are protected via a complete set of purchasing controls for all aspects of purchasing, including products for sale, supplies and capital items.

**Operational Definitions:**

* The Co-op will have operating policies in place that define our purchasing procedures and controls.
* The auditor’s notes or management letter included in the annual independent auditors report will contain no significant criticism regarding receipt, processing or disbursement of funds.
* No material violations have occurred. Material violations are those that, according to existing procedure, require an employee be placed on probation or terminated due to the violation, or are included in the annual audit report.

**Data**:

* The Coop’s Operating Policies (available for inspection on request) limit the purchase of supplies and capital items according to employee’s position and address conflicts of interest and other possible improprieties.
* The 2009 audit by [*company name*] noted no procedural deficiencies in the audit report or management letter.
* No material violations to report. Auditor’s notes FY2009 include no material violations.
1. Allow lack of due diligence in contracts.

**Interpretation / Operational Definitions:**

Prudent investigation and evaluation will determine risk to the co-op assets when entering into contracts. This investigation and evaluation may include management team, legal counsel, industry experts, co-op peers and consultants and others as necessary.

In addition, “due diligence in contracts” requires that the General Manager and other management staff will not sign any long term contracts without review by co-op’s counsel providing input.

**Data**: Evidence of due diligence investigating risk to co-op assets is presented on a per contract or acquisition basis. Summary of due diligence. Detail available for inspection.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Date | Contract | Summary of Risk | Determination of appropriate level of due diligence by(management team, expert, etc) | Result (entered into contract, etc) |
| 10/2009 | Lease For xxx site for new CSA project | Risk is minimal for this new venture. One year lease is all that was possible with the City. Could pull the lease after one year before we recoup our investment in time and material.  | Have reviewed with counsel, *[name].**[Name]* negotiated the contract with xxx directly on our behalf. | Will be signed by July 15th or earlier. CSA is started with 50 shares sold ($35,000+). Expect to increase that to over 100 shares in the third year. |
| 8/12/09 | Purchase of xxx site  | High Risk and investment of time and money by co-op.  | Reviewed with Finance Manager, Co-op Board, lawyers *[name]* and *[name]*. Outside consultant assistance from the NCGA: C.E. Pugh and Debbie Suassuna (market study review and update). Real estate legal work handled by outside counsel, *[name].* Also had full engineering and architectural review completed before purchasing.  | Purchased property, 8/12/09. See my separate expansion update report for ongoing details. |

1. Allow damage to the Cooperative’s public image.

**Interpretation:**

The co-op will maintain its position as a trusted agent for members and the public. Evidence of this trust will be maintenance of our member and customer base. Also, because negative publicity could lead to decreased trust, there should be an absence of negative publicity in local media or other public arenas.

**Operational Definitions:**

* Our number of members will be at least as high as it was at the same time last year.
* Our total number of customer transactions for the year will be at least as high as it was at the same time last year.
* In the past 12 months, there will be no valid negative stories about our co-op in local news media outlets.

**Data**:

* Membership

|  |  |  |  |
| --- | --- | --- | --- |
| Date  | 5/31/08 | 5/31/09 | 5/31/10 |
| # of Members | 2478 | 3070 | 4602 |

* Total Customer Count

|  |  |  |  |
| --- | --- | --- | --- |
| 12 months ending: | 5/31/08 | 5/31/09 | 5/31/10 |
| Customer count | 199,798 | 286,561 | 365,831 |

* News Stories (A reference file of all stories is available upon request.)

 Note: Compliance is based on this year’s data. Previous years are included FYI only.

|  |  |  |  |
| --- | --- | --- | --- |
| 12 months ending: | 5/31/08 | 5/31/09 | 5/31/10 |
| # of stories found | 41 | 37 | 52 |
| # of negative stories | 0 | 1 | 0 |