



Financial Audit

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**Minnesota Zoological Garden**  
**July 1, 1998, through June 30, 2001**



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## Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota State government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

The division has a staff of approximately fifty auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

Consistent with OLA's mission, the Financial Audit Division works to:

- Promote Accountability,
- Strengthen Legislative Oversight, and
- Support Good Financial Management.

Through its Program Evaluation Division, OLA conducts several evaluations each year and one best practices review.

OLA is under the direction of the Legislative Auditor, who is appointed for a six-year term by the Legislative Audit Commission (LAC). The LAC is a bipartisan commission of Representatives and Senators. It annually selects topics for the Program Evaluation Division, but is generally not involved in scheduling financial audits.

All findings, conclusions, and recommendations in reports issued by the Office of the Legislative Auditor are solely the responsibility of the office and may not reflect the views of the LAC, its individual members, or other members of the Minnesota Legislature.

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If you have comments about our work, or you want to suggest an audit, investigation, evaluation, or best practices review, please contact us at 651-296-4708 or by e-mail at [auditor@state.mn.us](mailto:auditor@state.mn.us)



**OFFICE OF THE LEGISLATIVE AUDITOR**  
State of Minnesota • James Nobles, Legislative Auditor

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Mr. Peter Myers, Chair  
Minnesota Zoological Board

Members of the Minnesota Zoological Board

Mr. Lee Ehmke, Executive Director  
Minnesota Zoological Garden

We have audited selected programs of the Minnesota Zoological Garden for the period July 1, 1998, through June 30, 2001. We emphasize that this was not a complete audit of all Minnesota Zoological Garden programs. Our audit scope included: enterprise activity revenue, selected construction projects, payroll, and administrative expenditures. The audit objectives and conclusions are highlighted in the individual chapters of this report.

We conducted our audit in accordance with *Government Auditing Standards*, as issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards require that we design the audit to provide reasonable assurance that the Minnesota Zoological Garden complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. The management of the Zoo is responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission, management of the Minnesota Zoological Garden, and the members of the Minnesota Zoological Board. This restriction is not intended to limit the distribution of this report, which was released as a public document on May 16, 2002.

/s/ James R. Nobles

James R. Nobles  
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA  
Deputy Legislative Auditor

End of Fieldwork: March 18, 2002

Report Signed On: May 13, 2002

# Minnesota Zoological Garden

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### Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Jeanine Leifeld, CPA, CISA	Audit Manager
Connie Stein	Auditor-in-Charge
Karyn Dee	Auditor

### Exit Conference

We discussed the results of the audit with the following staff of the Minnesota Zoological Garden at an exit conference on May 3, 2002:

Lee Ehmke	Director/CEO
Connie Braziel	Deputy Director
James Reinholdz	Chief Financial Officer
Jeff Higgins	Accounting Director

# Minnesota Zoological Garden

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## Report Summary

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The Minnesota Zoological Garden (Zoo) collected and appropriately deposited the revenues generated from enterprise activities. The Zoo provided reasonable assurance that revenues were adequately safeguarded and that revenue, payroll, and administrative expenditure transactions were properly recorded on the state's accounting system.

### Key Findings and Recommendations:

- The Zoo did not follow proper contracting procedures when administering the construction contract for a heating system project. We recommended that the Zoo approve construction supplemental agreements only in cases where there is a documented change in the scope of the project work. It also should request performance bonds as part of all construction project requests for bids. (Finding 2, page 8)
- The statutory requirements for the Zoo's contracting process are unclear. We recommended that the Zoo work with the Department of Administration to more clearly define which services the Zoo can contract for under Minn. Stat. Section [2001] 85A.02, Subd. 3. For all other contracting, the Zoo should obtain the necessary approvals from the Department of Administration, when required, or should receive a formal delegation from the commissioner of Administration to allow the Zoo to approve its own contracts. (Finding 4, page 13)
- The Zoo did not always clearly define the contractor's work products before work began. In addition, the Zoo did not always pay contractors in accordance with the signed contract. We recommended that the Zoo require formal written contracts before contractors are allowed to begin working. In addition, the Zoo should require standardized contracts that contain all necessary provisions and should monitor compliance with all contract terms. (Finding 5, page 14)
- Some travel expense reimbursement claims did not comply with applicable policies and regulations. We recommended that the Zoo implement effective internal controls over employee travel expenses. (Finding 6, page 15)

### Agency Background

The Minnesota Zoological Garden, which opened in 1978, is located in Apple Valley, Minnesota. It was established pursuant to Minn. Stat. Chapter 85A as "a partnership between the private sector and the state." The State Zoological Board manages and controls the Zoo. The board consists of 30 public and private sector members. The Governor and the Zoological Board each appoint 15 members. The board is responsible for appointing a director who serves as the chief administrative officer of the Zoo.

**Financial Audit Reports** address internal control weaknesses and noncompliance issues found during our audits of state departments and agencies. The agency's response is included in the report.

# Minnesota Zoological Garden

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# Minnesota Zoological Garden

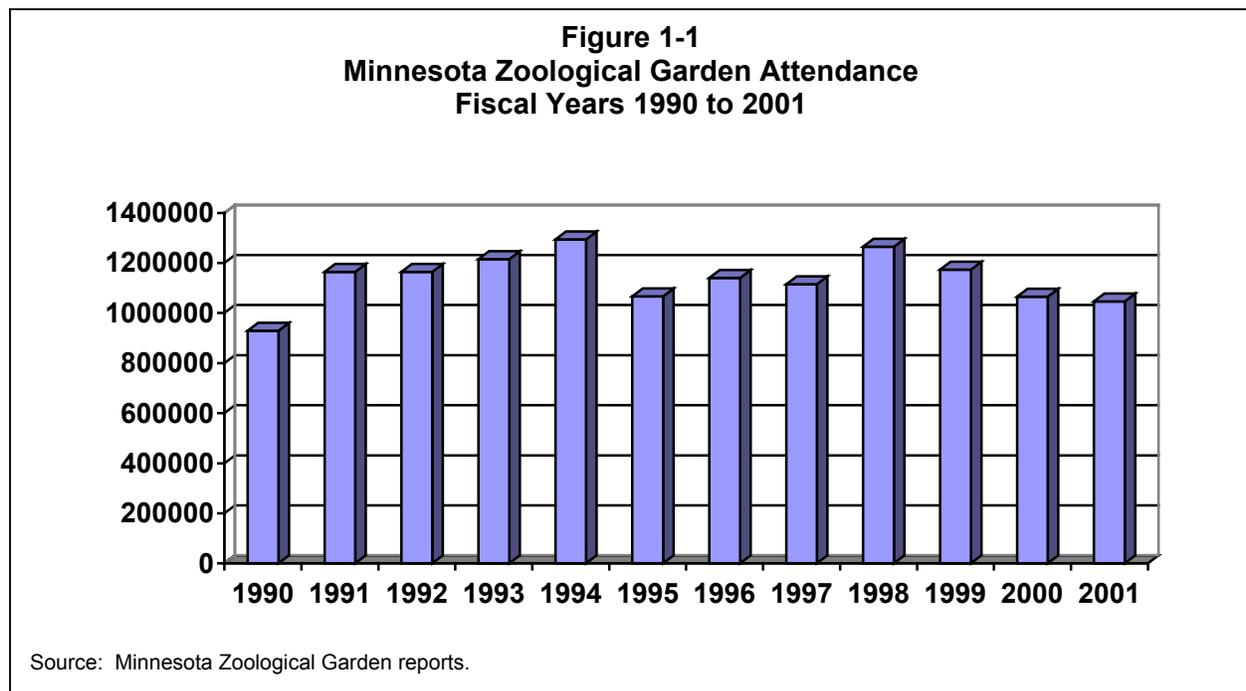
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## Chapter 1. Introduction

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The Minnesota Zoological Garden (Zoo), which opened in 1978, is located in Apple Valley, Minnesota. It was established pursuant to Minn. Stat. [2001] Chapter 85A as “a partnership between the private sector and the state.” The State Zoological Board manages and controls the Zoo. The board consists of 30 public and private sector members. The Governor and the Zoological Board each appoint 15 members. The board is responsible for appointing a director who serves as the chief administrative officer of the Zoo. Lee Ehmke is the current executive director.

As shown in Figure 1-1, the Zoo generally has drawn over one million visitors per year. However, the Zoo is anticipating a decrease in its total attendance in fiscal year 2002, due to a shutdown during the state employee strike in October 2001.

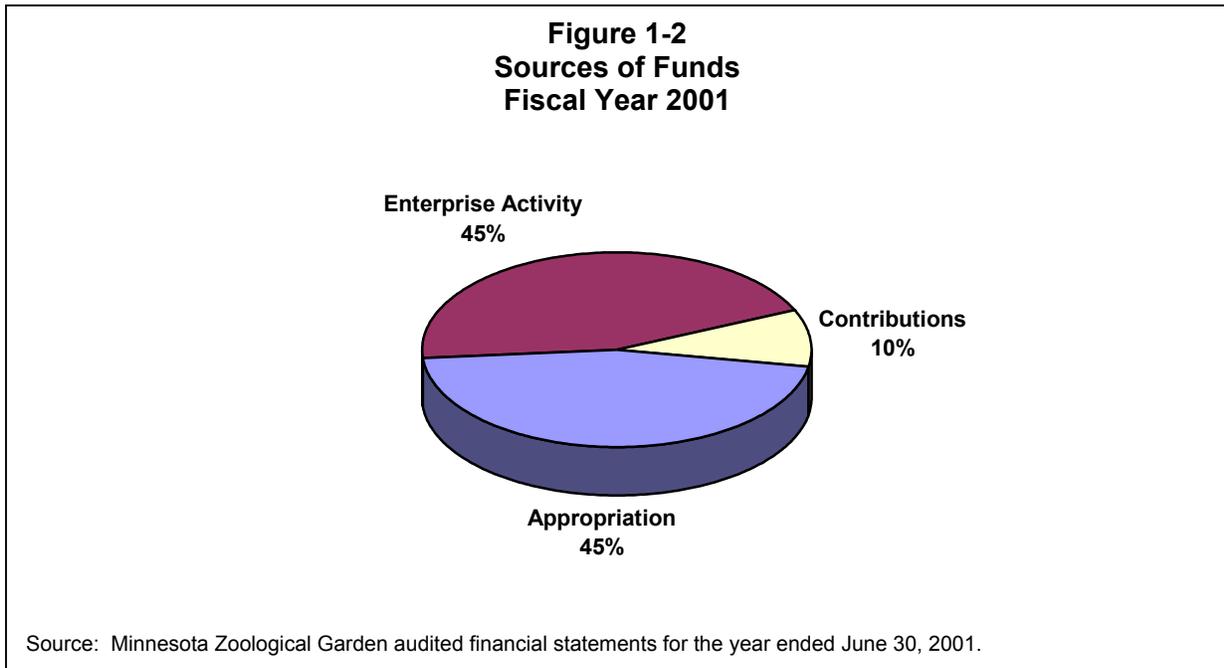


The Zoo is situated on 500 acres in which animals are displayed in settings similar to their natural environments. Approximately 40 percent of the land is developed, 30 percent is protected wetlands, and 30 percent is undeveloped. The Zoo collection currently stands at about 2,300 animals, with 105 animals representing 15 species on the United States Endangered Species Act list. The Zoo is involved with national and international programs to breed and preserve these species.

The Zoo finances its operations from several sources. The Legislature provides the Zoo with an annual appropriation to help fund general operations and biological programs. These

## Minnesota Zoological Garden

appropriations have been approximately \$7 million per year. Also, the Zoo is associated with the Minnesota Zoo Foundation. The Foundation is governed by a board of trustees and coordinates various fund-raisers each year, including capital campaigns for the Zoo construction projects. Finally, the Zoo generates enterprise activity income from various sources to fund its operations. Figure 1-2 shows the Zoo's various funding sources for fiscal year 2001.



Pursuant to Minn. Stat. [2001] Section 85A.02, Subd. 5c, the Zoo employs a certified public accountant each year to examine its financial records and provide an opinion on the Zoo's financial statements. According to its audited financial statements, the Zoo's operating revenues for the year ended June 30, 2001 totaled \$18,082,126; operating expenses totaled \$18,198,491; fund equity totaled \$37,960,497; and total assets were \$54,475,631 as of June 30, 2001.

### Budgeting Process

The Zoo prepares an annual budget detailing its projected revenues by source and expenditures for each of the Zoo's cost centers. Included in the annual budget is a budget reserve of \$500,000 to provide a cushion for revenue shortfalls or expenditure overruns. The budget is presented to the Zoological Board's Finance Committee. The Finance Committee is responsible for reviewing the budget and the assumptions used to develop it. Upon approval by the Finance Committee, the budget is presented to the board's Executive Committee for comments and additional review. The final budget is then submitted to the full board for approval.

During the course of the year, the Zoo compares budgeted attendance, revenues, and expenditures to actual results. Monthly, these comparisons are presented to the board's Finance Committee for review.

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## Chapter 2. Enterprise Activity Revenues

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### *Chapter Conclusions*

*The Minnesota Zoological Garden collected and appropriately deposited the revenues generated from admissions, memberships, monorail, and gift store activities. The Zoo provided reasonable assurance that revenues were adequately safeguarded and properly recorded on the state's accounting system. However, the Zoo has not exercised its option to review documentation supporting the food service contractor's reported gross food service sales.*

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The Zoo generated approximately \$8.6 million in revenues from various enterprise activities in fiscal year 2001. Funds generated by the Zoo are deposited into a special revenue fund and may be used for operations and maintenance activities.

### **Audit Objective and Methodology**

Our audit of enterprise activity revenues focused on the following objective:

- Did the Zoo provide reasonable assurance that revenue generated from admissions, memberships, monorail, gift store, and other enterprise activities were safeguarded, deposited, accurately reported in the state's accounting records, and in compliance with applicable legal provisions?

To address this objective, we interviewed Zoo personnel to gain an understanding of the controls in place over revenue collection, processing, and depositing. We performed analytical reviews of the Zoo's revenues. In addition, we tested samples of transactions to determine if the Zoo accurately deposited and recorded the transactions on the state's accounting system.

### **Admissions, Monorail, and Gift Store**

The Zoo collects much of its enterprise activity revenue from gate admissions, gift store sales, and the monorail using cash registers located throughout the Zoo.

Admission fees are the Zoo's highest source of enterprise activity revenue. The cost of admission is \$10 for adults, \$6.25 for seniors, and \$5 for children age three to twelve. The Zoo also offers annual membership plans ranging from \$30 to \$110. The monorail offers visitors the opportunity to ride on an elevated track and view the Zoo's outdoor exhibits. There is an additional cost of \$3 for ages three and older to ride the monorail.

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The Zoo operates two gift stores located in the main building and a few special store outlets around the Zoo during the summer. The gift stores sell Zoo-related merchandise, clothing, toys and other items.

The Zoo uses a central cashroom to accumulate incoming receipts from the Zoo's various cash registers. Cashroom employees receive cash register documentation, count and reconcile receipts, and prepare bank deposits. The Zoo's finance section enters the receipt transactions into the state's accounting system and independently reconciles between the bank deposit and the cash receipt supporting documentation.

### Contractual Arrangements

The Zoo also receives enterprise activity revenue through contractual arrangements with private vendors. One source of this revenue is from the Zoo's food service. The Zoo contracts out the food operations to a private company. The Zoo provides the contractor space and equipment. In return, the Zoo receives a percentage of the food service contractor's gross sales. The percentage varies depending on the service provided. For example, the Zoo concession percentage is 21 percent and catering is 6 percent.

Another revenue generating contractual arrangement exists between the Zoo and the IMAX Theater. The theater is located on Zoo property and is owned and operated by IMAX, Inc. The Zoo leased the land to the theater and, in return, receives a percentage of the theater's net income.

### Conclusion

The Minnesota Zoological Garden collected and appropriately deposited the revenues generated from admissions, memberships, monorail, and gift store activities. The Zoo provided reasonable assurance that revenues were adequately safeguarded and properly recorded on the state's accounting system. However, as discussed in Finding 1, the Zoo has not exercised its option to review documentation supporting the food service contractor's reported gross food service sales.

#### **1. The Zoo has not exercised its option to review documentation supporting the food service contractor's reported gross food service sales.**

The Zoo has not reviewed cash register tapes to verify the gross food service sales amounts reported by the food service contractor each month. The Zoo receives a percentage of food sales as its commission. Based on contract provisions, the Zoo has the legal right to review the food service contractor's financial records, including support for the sales it reports. However, the Zoo has not had the time or the staff to review these records. Without a periodic review of the food service contractor financial records, the risk of errors or irregularities occurring and going undetected increases.

#### *Recommendation*

- *The Zoo should periodically review the food service contractor's financial records supporting gross food service sales.*

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## Chapter 3. Selected Construction Projects

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### *Chapter Conclusions*

*The Zoo did not follow proper contracting procedures when administering the construction contract for the heating system project. In addition, the Zoo did not properly code its construction payments in the state’s accounting system. For the transactions tested, the Zoo complied with the applicable finance-related legal provisions relating to the two projects.*

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From fiscal year 1999 through 2001, the Zoo spent about \$4.2 million on land and building improvements. During our audit, we reviewed two significant Zoo construction projects, the Wells Fargo Family Farm, and the heating and cooling system upgrade project.

### **Family Farm**

In the summer of 2000, the Zoo opened the Wells Fargo Family Farm exhibit. The goal of this addition was to focus attention and educate visitors on the past, present, and possible future of Minnesota’s agricultural community. The total cost of this addition was approximately \$4.6 million. The Minnesota Zoo Foundation raised the total capital cost of the family farm exhibit through private fund raising efforts.

### **Heating and Cooling Project**

In 2000, the Zoo received a \$1 million appropriation from the legislature for its heating and cooling systems. Laws of Minnesota for 2000, Chapter 492, Article 1, Section 11 stated that the appropriation was “for design, repair, and upgrades to the heating and cooling systems at the Minnesota Zoo”. The first phase of this project, which occurred during fiscal year 2001, was a contract for construction of a new underground high temperature hot water system.

### **Audit Objectives and Methodology**

Our audit of the family farm revenues and construction expenditures focused on the following objectives:

- Did the Zoo provide reasonable assurance that family farm revenues and expenditures were properly recorded on the state’s accounting system?
- Did the Zoo follow proper contracting procedures for its heating and cooling system project?

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- Did the Zoo comply with applicable finance-related legal provisions relating to the two construction projects?

To address this objective, we interviewed Zoo personnel and reviewed related contracts. We tested a sample of transactions to verify that they were properly authorized, processed, and recorded, and that they complied with applicable finance-related legal provisions.

### Conclusion

As discussed in Finding 2, the Zoo did not follow proper contracting procedures when administering the construction contract for the heating system project. In addition, as discussed in Finding 3, the Zoo did not properly code its construction payments in the state's accounting system. For the transactions tested, the Zoo complied with the applicable finance-related legal provisions relating to the two projects.

#### **2. The Zoo did not follow proper contracting procedures when administering the construction contract for the heating system project.**

The Zoo approved an improper supplemental agreement with the contractor for the replacement of the Zoo's high temperature hot water system. The Zoo also did not require a performance bond as part of its request for bid for the project. Finally, the Zoo did not approve the two supplemental agreements relating to this project in a timely manner.

The Zoo approved a supplemental agreement (supplement 1) without a change in the work scope. In August 2000, the Zoo entered into a \$643,000 construction contract with a mechanical contractor for replacement of a hot water heating pipeline. The contractor was the lowest bidder. In the bid response concerning the scope of work, the contractor stated that "this price includes all excavation, backfill, [etc]. . . . associated with this work." In November 2000, the contractor notified the Zoo that they would not be able to perform the contract for the agreed upon price because a subcontractor on the project had gone out of business. In April 2001, after work on the project had started, the Zoo approved a supplemental agreement which included an additional \$118,020 to compensate the contractor for the increased cost of hiring a new subcontractor to perform the excavation work. Because this was not a change in work scope, the Zoo should not have been obligated to pay an additional amount to receive the original agreed-upon work.

In addition, in the original request for bids for the replacement of the heating pipeline, the Zoo did not require contractors to include a performance bond as a part of the cost of their bids. Zoo policy requires a performance bond and liability insurance for all construction contracts. As a result of this oversight, the Zoo had to include the cost of a performance bond, which totaled \$9,645, as part of a supplemental agreement (supplement 1) with the contractor. Without a performance bond, the Zoo has increased liability if the contractor does not perform according to the terms of the contract.

Finally, the Zoo did not approve the supplemental agreements relating to this project in a timely manner. The Zoo approved the first supplement, discussed above, after the contractor had begun

## Minnesota Zoological Garden

working on the project. A second supplemental agreement to the contract was necessary due to unforeseen changes in the routing of the water pipeline. The Zoo did not approve or encumber the second supplemental agreement until four months after the project was completed. It is important that the Zoo and its contractors have a clear understanding of scope of work throughout the project.

### *Recommendations*

- *The Zoo should approve construction supplemental agreements only in cases where there is a documented change in the scope of project work.*
- *The Zoo should ensure that all requests for bids for construction projects include a requirement that the successful contractor supply a performance bond.*
- *The Zoo should ensure that all supplemental agreements are approved and funds are encumbered as soon as possible, preferably before the supplemental work begins.*

### **3. The Zoo did not properly code construction payments in the state's accounting system.**

For payments relating to the two construction projects we reviewed, the Zoo routinely used the wrong record dates in MAPS, the state's accounting system. The record date is important because it indicates the date the Zoo incurred the liability for the construction work. In most cases, the Zoo used the payment date also as the record date. Correct MAPS record dates allow for appropriate determination of the state's liabilities at year-end for financial reporting purposes.

### *Recommendation*

- *The Zoo should ensure that it codes the correct record dates into MAPS when making payments.*

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## Chapter 4. Administrative Expenditures

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### *Chapter Conclusions*

*The Zoo processed its payroll in accordance with applicable bargaining agreements and legal provisions and properly recorded the transactions in the accounting records. Administrative expenditures were reasonable and properly recorded in the accounting records. However, we found that the statutory requirements for the Zoo’s contracting process were unclear. The Zoo also had weaknesses in its execution of and compliance with certain contracts. Finally, the Zoo also did not ensure that all travel reimbursement claims complied with applicable policies.*

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Selected administrative expenditure categories of the Minnesota Zoological Garden are highlighted in Table 4-1 and discussed in the next three sections of this chapter.

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**Table 4-1**  
**Selected Administrative Expenditures**  
**Fiscal Year 2001**

Payroll	\$9,686,235
Professional/Technical Services	395,181
Employee Travel	35,155

Source: Minnesota Accounting and Procurement System.

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### **Objectives and Methodology**

Our audit of administrative expenditures focused on the following objectives:

- Were payroll and employee travel expense transactions reasonable and accurately processed in accordance with applicable bargaining agreements and legal provisions?
- Were the Zoo’s travel expenditures made for appropriate business-related activities?
- Did the Zoo provide reasonable assurance that payroll, professional/technical service, and employee expense transactions were properly recorded on the state’s accounting system?
- Did the Zoo process professional/technical service expenditures in accordance with applicable finance-related legal provisions?

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To address these objectives, we interviewed Zoo personnel to gain an understanding of the controls over payroll expenditures. We tested a sample of payroll transactions to determine if they were properly authorized, processed, and recorded. We also reviewed payroll expenditures to determine if the Zoo complied with material finance-related legal provisions and bargaining unit agreements.

We also interviewed Zoo personnel to gain an understanding of the purchasing process. We performed analytical procedures and reviewed a sample of transactions to determine whether the Zoo maintained adequate supporting documentation, properly authorized disbursements, paid the correct amount, and accurately recorded the transactions on the state's accounting system. We also reviewed the expenditures to determine if the Zoo complied with applicable finance-related legal provisions.

Finally, we interviewed Zoo personnel to gain an understanding of the controls over employee expense reimbursement. We performed analytical procedures and reviewed supporting documentation for a sample of transactions to determine if they were properly authorized, processed, and recorded. We also reviewed the expenditures to determine if the Zoo complied with applicable bargaining agreements, regulations, and policies governing travel expenses.

### **Payroll**

The Zoo employs full-time staff to operate the facility; however, they rely heavily on the work of part-time and seasonal employees during the peak summer months. In fiscal year 2001, payroll expenditures were approximately \$9.7 million. Payroll costs were approximately 59 percent of the Zoo's total expenditures.

### **Professional/Technical Contracts**

The Zoo contracts for a great variety of services, including veterinary support, testing, and marketing. Minn. Stat. [2001] Section 85A.02, Subd. 5a(b) allows the Zoo to contract with individuals "to perform professional services" or "for the purchase of necessary species exhibits, supplies, services, and equipment." The Zoo generally begins the purchase of a professional/technical service when a Zoo employee fills out a purchase requisition. All professional/technical contracts should receive approval from an authorized Zoo representative, the vendor, and the Attorney General. Payment for the service is disbursed after the work has been completed and approved by the departmental representative.

The Zoo's enabling legislation, contained in Minn. Stat. [2001] Chapter 85A, exempts the Zoo from some of the state's procurement laws, which are contained in Minn. Stat. Chapter 16C. Specifically, Minn. Stat. Section 85A.02, Subd. 3 states:

The board may conduct research studies and programs, collect and analyze data, and prepare reports, maps, charts, and other information relating to the zoological garden or any wild or domestic animals or may contract for any of such services without complying with chapter 16C.

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Minn. Stat. [2001] Section 85A.02, Subd. 5b, goes on to list certain provisions of Chapter 16C that the Zoo is subject to, including:

- Section 16C.06, concerning solicitations and bidding
- Section 16C.08, concerning professional or technical service contracts
- Section 16C.09, concerning procedures for services contracts
- Section 16C.16, concerning small business procurement

### Employee Travel Expenses

Travel expenses for the Zoo totaled \$35,155 for fiscal year 2001. The Zoo has specific policies and procedures for employee business expense reimbursement. These policies cover reimbursement for the means of travel, meals and lodging, parking, telephone, and special expenses. The Zoo has a barter agreement with Northwest Airlines by which the Zoo receives free airline travel in exchange for the airline's name being displayed at certain Zoo shows.

### Conclusions

The Zoo accurately processed payroll transactions in accordance with applicable bargaining agreements and legal provisions. Payroll transactions were properly recorded on the state's accounting system.

For the items tested, the Zoo's professional/technical service expenditures were reasonable and properly recorded in the state's accounting system. However, we found that the statutory requirements for the Zoo's contracting process are unclear, as discussed in Finding 4. As discussed in Finding 5, the Zoo has weaknesses in its execution of and compliance with certain contracts. Also, as indicated in Finding 6, the Zoo did not ensure that all travel reimbursement claims complied with applicable policies. As a result, we could not verify that all reimbursements related to Zoo business. All reimbursements were, however, within applicable bargaining agreement limits.

#### **4. The statutory requirements for the Zoo's contracting process are unclear.**

It is not clear whether the Zoo is required to obtain certain approvals from the Department of Administration when contracting. Minn. Stat. [2001] Chapter 16C provides the statutory requirements for procurement and contracting within the state. This chapter gives the commissioner of Administration the responsibility to approve certain state contracts.

The Zoo's enabling legislation, Minn. Stat. [2001] Chapter 85A contains two different references to the Zoo's contracting requirements. First, Minn. Stat. Section 85A.02, Subd. 5b requires the Zoo to follow standard state procedures for professional/technical services and other service contracts. On the other hand, Minn. Stat. Section 85A.02, Subd. 3 allows the Zoo to contract for "research studies and programs, collect and analyze data and prepare reports, maps, charts, and other information relating to the zoological garden" without complying with any portions of

## Minnesota Zoological Garden

Minn. Stat. Chapter 16C and without obtaining approvals from the Department of Administration.

It is unclear which of the state's procurement policies and procedures the Zoo is required to follow. As a rule, the Zoo has not sought approval from the commissioner for any of its contracts.

### *Recommendation*

- *The Zoo should work with the Department of Administration to more clearly define which services the Zoo can contract for under Minn. Stat. Section 85A.02, Subd. 3. For all other contracting, the Zoo should obtain the necessary approvals from the Department of Administration, when required, or should receive a formal delegation from the commissioner of Administration to allow the Zoo to approve its own contracts.*

### **5. The Zoo had weaknesses in its execution of and compliance with certain contracts.**

The Zoo did not always clearly define the contractor's work products before work began. In addition, the Zoo did not always pay contractors in accordance with the signed contract. We found the following problems with contracts:

- In four instances, the Zoo used purchase orders rather than service contracts to document its arrangements with contractors. Purchase orders do not sufficiently document the understanding between the Zoo and its service contractors because they do not contain all of the standard contract provisions. In addition, contractors are not required to sign purchase orders. Because of this, it may be difficult for the Zoo to enforce certain expectations regarding specific contractor duties and performance, payment terms, or data practice requirements if disputes arise.
- In two instances, the Zoo did not disburse funds in accordance with applicable contract terms and did not file an amendment when the terms changed. The Zoo's standard professional/technical service contract requires that any amendment be in writing and that all original parties approve the change. In one case, the Zoo disbursed funds under a contract for work performed outside of the applicable period without processing an extension. In another case, the Zoo paid a vendor \$1,123 for additional work performed without amending the original scope of work description or contract amount.

We believe that comprehensive and clear contracts and policies are important when the Zoo purchases professional/technical services. They provide a way to document the duties and responsibilities of both the Zoo and the contractors.

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## *Recommendations*

- *The Zoo should require formal, written contracts to be signed before contractors are allowed to begin working on Zoo projects.*
- *The Zoo should require standardized contracts that contain the necessary provisions for professional and technical services, and the Zoo should monitor compliance with all contract terms.*

### **6. PRIOR FINDING NOT RESOLVED: Some travel expense reimbursement claims did not comply with applicable policies and regulations.**

The Zoo did not ensure that employee travel expense claims were adequately approved, supported, and in compliance with applicable policies and regulations. We found several problems with the 20 employee expense claims we tested, including the following:

- In eight instances, the employee did not submit a properly approved Travel Authorization Form for out-of-state travel expenses, as required by the Zoo's travel reimbursement policy.
- In ten instances, the employee did not provide a receipt, provided a receipt lacking sufficient detail, or provided a receipt that showed they actually paid less than what they claimed. The Zoo's travel reimbursement policy states that original receipts are required for reimbursement, and credit card bills and charge slips are unacceptable.
- The Zoo reimbursed one employee for the cost of alcoholic beverages, which is not allowed under the state's travel reimbursement policy.
- Finally, the Zoo did not ensure that the travel expenses of two employees appropriately related to Zoo business. The employees submitted expense reports that did not indicate a reason for travel, as required by the Zoo's travel reimbursement policy.

The Zoo has not monitored travel expense claims sufficiently to ensure that they comply with the applicable travel-related policies and regulations. It is important the Zoo receive adequate documentation from employees to support reimbursement requests in order to ensure that all travel expenses are legitimate and work-related.

## *Recommendation*

- *The Zoo should implement effective internal controls over employee travel expenses, especially meal reimbursement, to ensure that employee claims are adequately approved, supported, and in compliance with applicable policies and regulations.*

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## Status of Prior Audit Issues As of March 18, 2002

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**Legislative Audit Report 98-25**, issued in April 1998, was a selected scope audit that examined Minnesota Zoological Garden's enterprise activity revenues, Discovery Bay expenditures, payroll, and other administrative expenditures for fiscal years 1996 and 1997.

We concluded that the Zoo had experienced significant decline in its unrestricted retained earnings balance. The Zoo did not operate within its available resources in fiscal years 1996 and 1997. We also found that, although the Zoo collected and appropriately deposited the revenues generated by admissions, memberships, monorail, and gift store activities, it needed to improve its cash reconciliation procedures. These issues have been adequately resolved.

We also found that the Zoo did not ensure that all travel reimbursement claims complied with applicable policies and regulations. We report additional issues relating to travel reimbursements as Finding 5 of this report. We also found that Zoo employees used state purchased frequent flyer miles and cellular phones for personal use. These issues have been adequately resolved.

### Other Audit Coverage

Pursuant to Minn. Stat. [2001] Section 85A.02, Subd. 5c, the Zoo employs a certified public accounting firm each year to examine its financial records and provide an opinion on the Zoo's financial statements. The firm's most recent report covered the year ended June 30, 2001, and was dated November 16, 2001. As part of the audit, the firm issued a management letter to the Zoo's Board of Directors. The letter contained two comments regarding the Zoo's financial reporting procedures. First, the firm indicated that it had significant audit adjustments to the financial records to record the unrecorded liabilities. Also, the firm cited the Zoo for estimating the gift store inventory due to the Zoo's difficulties with the recording equipment during the physical inventory count.

The Department of Finance conducted an Internal Audit, which covered the Zoo's processes and related control activities supporting the entry of transactions into the state's accounting systems. This recent report covered October 1 through December 31, 2000, and was dated August 2001. We considered observations and recommendations from that report while conducting our audit.

#### State of Minnesota Audit Follow-up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota, any quasi-state organizations, such as the metropolitan agencies, or the State Agricultural Society, the state constitutional officers, or the judicial branch.

# Minnesota Zoological Garden

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## MINNESOTA ZOO

May 8, 2002

James R. Nobles, Legislative Auditor  
Claudia J. Gudvangen, Deputy Legislative Auditor  
Office of the Legislative Auditor  
658 Cedar St., 1<sup>st</sup> Floor  
St. Paul, MN 55155

Dear Mr. Nobles and Ms. Gudvangen:

We appreciate the opportunity to respond to your audit findings for the recently completed audit. We concur with the conclusions of the audit and will respond to each of the findings as indicated in the following.

### **Finding # 1**

The Zoo contracts annually with a CPA firm to review the Zoo financial operations. The task of reviewing the food service vendor financial records will be added to the auditing requirements for future periods.

### **Finding # 2**

Internal procedures on contracting were not adhered to by the project manager in the cited instance. The Zoo has since reassigned the oversight of construction contract processes to the Zoo Finance Office. This change is expected to ensure more complete adherence to contracting procedures in the future.

### **Finding # 3**

The Zoo Finance Office staff responsible for coding the record dates in MAPS have been instructed on the correct procedures to be used in entering record dates.

### **Finding # 4**

The Zoo is given statutory authority to directly purchase goods and services in M.S. 85A.02, Subd 5a, paragraph (b), and is exempted from most of the provisions of M.S. 16C, including 16C.05 which gives the Department of Administration authority over contracts. The Zoo is also required in M.S. 85A.02, subd. 5b to follow the requirements of certain provisions of M.S. 16C. This does create some uncertainty in determining the purchasing and contracting policies applicable to the Zoo. The Zoo has in the past worked with the Department of Administration (DOA) and the Attorney General Office (AG) to assure that processes are utilized to execute contracts and purchases that are in the best interest of the Zoo. We will again meet with the AG and the DOA to

reclarify the Zoo's statutory requirements related to contracts and purchasing and make any necessary revisions to the procedures followed by the Zoo.

**Finding # 5**

The oversight of P/T contracts at the Zoo was transferred to the Zoo Finance Office in March of 2001. This change has resulted in increased oversight of contracts and is expected to improve the level of compliance.

**Finding # 6**

The Zoo will conduct a review of the policy and internal processes related to expense reimbursements and make any necessary changes to ensure increased compliance with adopted policy.

Thank you and your staff for your efforts on this audit. We look forward to working with you in the future.

Sincerely,

*/s/ Lee C. Ehmke*

Lee C. Ehmke  
Director / CEO