



# Minnesota Zoological Garden

## Donation and Income Contract Revenue

September 2018

Internal Controls and Compliance Audit

Financial Audit Division

**OFFICE OF THE LEGISLATIVE AUDITOR**  
STATE OF MINNESOTA

## Financial Audit Division

The Financial Audit Division conducts 40 to 50 audits each year, focusing on government entities in the executive and judicial branches of state government. In addition, the division periodically audits metropolitan agencies, several “semi-state” organizations, and state-funded higher education institutions. Overall, the division has jurisdiction to audit approximately 180 departments, agencies, and other organizations.

Policymakers, bond rating agencies, and other decision makers need accurate and trustworthy financial information. To fulfill this need, the Financial Audit Division allocates a significant portion of its resources to conduct financial statement audits. These required audits include an annual audit of the State of Minnesota’s financial statements and an annual audit of major federal program expenditures. The division also conducts annual financial statement audits of the three public pension systems. The primary objective of financial statement audits is to assess whether public financial reports are fairly presented.

The Financial Audit Division conducts some discretionary audits; selected to provide timely and useful information to policymakers. Discretionary audits may focus on entire government entities, or on certain programs managed by those entities. Input from policymakers is the driving factor in the selection of discretionary audits.

The Office of the Legislative Auditor (OLA) also has a Program Evaluation Division. The Program Evaluation Division’s mission is to determine the degree to which state agencies and programs are accomplishing their goals and objectives and utilizing resources efficiently.

OLA also conducts special reviews in response to allegations and other concerns brought to the attention of the Legislative Auditor. The Legislative Auditor conducts a preliminary assessment in response to each request for a special review and decides what additional action will be taken by OLA.

For more information about OLA and to access its reports, go to: [www.auditor.leg.state.mn.us](http://www.auditor.leg.state.mn.us).



## OFFICE OF THE LEGISLATIVE AUDITOR

STATE OF MINNESOTA • James Nobles, Legislative Auditor

September 19, 2018

Senator Mary Kiffmeyer, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Frank Weidner, Chair  
Minnesota Zoological Garden Board of Trustees

Mr. John Geisler, Chair  
Minnesota Zoo Foundation Board of Trustees

Mr. John Frawley, Director/President  
Minnesota Zoological Garden

This report presents the results of our internal controls and compliance audit of the Minnesota Zoological Garden for the period July 2014 through February 2018. The objectives of this audit were to determine if the Minnesota Zoological Garden had adequate internal controls over selected activities and complied with significant legal requirements.

This audit was conducted by Lori Leysen, CPA (Audit Director), Pat Ryan (Audit Coordinator), Heather Rodriguez (Auditor-in-Charge), and Shannon Hatch (Senior Auditor).

We received the full cooperation of the agency's staff while performing this audit.

Sincerely,

A handwritten signature in black ink, appearing to read 'James R. Nobles'.

James R. Nobles  
Legislative Auditor

A handwritten signature in black ink, appearing to read 'Christopher P. Buse'.

Christopher P. Buse  
Deputy Legislative Auditor



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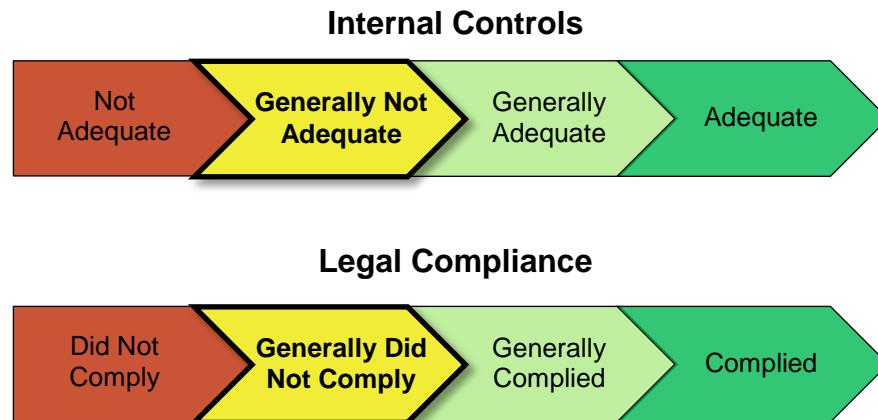
# Report Summary

The Minnesota Zoological Garden (Zoo) opened in 1978 in Apple Valley, Minnesota. Enabling legislation defines the Zoo as “a partnership between the private sector and the state,” providing unique opportunities for Minnesotans and out-of-state visitors to experience and learn about wildlife.<sup>1</sup>

The Office of the Legislative Auditor (OLA) conducted this selected scope audit to determine whether the Zoo had adequate internal controls and complied with significant legal requirements. The audit scope focused on ancillary revenue sources, including income from outsourced service contracts and contributions from the Minnesota Zoo Foundation. The period under examination went from July 2014 through February 2018.

## Conclusion

The Zoo’s internal controls over the selected activities that OLA audited were Generally Not Adequate. Also, the Zoo Generally Did Not Comply with the significant legal requirements we tested.



## Findings

**Finding 1.** The Zoo and the Foundation did not properly account for donor contributions.

**Finding 2.** Some contracts for outsourced services lacked appropriate competition.

**Finding 3.** Some Zoo employees received complimentary concert tickets.

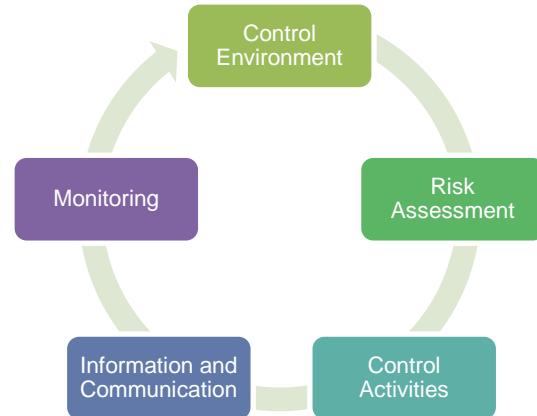
<sup>1</sup> Minnesota Statutes 2017, 85A.001.



# Audit Overview

This report presents the results of an internal controls and compliance audit of selected activities of the Minnesota Zoological Garden (Zoo). Management is responsible for establishing internal controls to safeguard assets and ensure compliance with applicable laws, regulations, and state policies.

A strong system of internal controls begins with management's philosophy, operating style, and commitment to ethical values. It also includes processes to continuously assess risks and implement control activities to mitigate risks. A successful internal controls system includes iterative processes to monitor and communicate the effectiveness of control activities.



## Agency Overview

The Zoo opened in 1978 in Apple Valley, Minnesota. Enabling legislation defines the Zoo as "a partnership between the private sector and the state," providing unique opportunities for Minnesotans and out-of-state visitors to experience and learn about wildlife.<sup>2</sup>

The Zoo attracted more than 1.35 million visitors in 2017 and had 43,452 member households. Through its Free to Explore Program, over 83,000 guests toured the Zoo without cost, simply by showing public assistance documentation.

The Minnesota Zoological Board (Board) provides oversight of the Zoo. The Legislature granted the Board broad authority to do what is "necessary or convenient...to operate the zoological garden in the manner which will best serve the public."<sup>3</sup> The Board consists of 30 public and private sector members and is responsible for appointing the director of the Zoo. The Board appointed John Frawley to this position in 2016.

<sup>2</sup> Minnesota Statutes 2017, 85A.001.

<sup>3</sup> Minnesota Statutes 2017, 85A.02, subd. 11.

## Minnesota Zoo Foundation

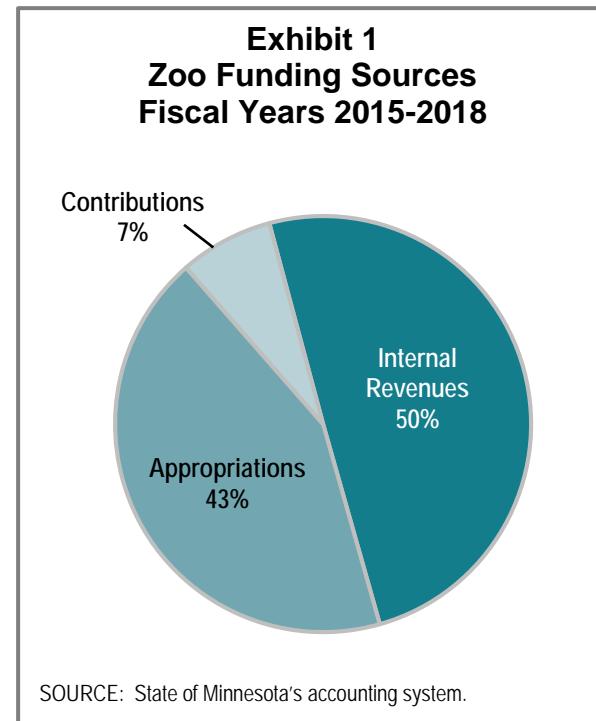
The Minnesota Zoo Foundation (Foundation) is a 501(c)(3) nonprofit corporation, organized in 1974 to raise funds for the Zoo and related conservation activities. The Foundation has 12 employees and 4 volunteers. The Foundation reports to its own Board of Trustees, separate from the Minnesota Zoological Board.

While legally separate, activities of the Zoo and the Foundation are highly intertwined. The director of the Zoo also serves as president of the Foundation. The Foundation operates on the grounds of the Zoo and receives technology and administrative support from Zoo staff. The Foundation also solicits contributions through the Zoo's website, and it hires a lobbyist to represent the Zoo's interests to the Legislature. Lastly, the financial activities of the Zoo and the Foundation are presented jointly in the Annual Financial Report on the Zoo's website.<sup>4</sup>

## Financial Activity

As shown in Exhibit 1, the Zoo finances its activities with internally generated revenues, legislative appropriations, and contributions. In fiscal years 2015 through 2018, these revenue sources averaged about \$30 million annually. Internally generated revenues financed about half of the Zoo's activities. Legislative appropriations accounted for about 43 percent of funding, and the remaining 7 percent came from contributions.

During our audit period, the Zoo saw an increase in support from the Legislature. Revenue from operations and expenditures remained fairly stable during this period, while contributions in the Zoo's state treasury accounts significantly declined. Exhibit 2 shows the Zoo's sources and uses of funds for fiscal years 2015 through 2018.



<sup>4</sup> Minnesota Zoo, <http://support.mnzoo.org/2017annualreport/>, accessed August 8, 2018.

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## Exhibit 2: Zoo Revenues and Expenditures

Dollars in Thousands

|                                 | Budget Fiscal Years |                 |                 |                   |
|---------------------------------|---------------------|-----------------|-----------------|-------------------|
|                                 | 2015                | 2016            | 2017            | 2018 <sup>a</sup> |
| Appropriations                  |                     |                 |                 |                   |
| General Fund                    | \$ 6,775            | \$ 8,250        | \$ 8,250        | \$ 9,067          |
| Arts and Cultural Heritage Fund | 1,750               | 1,750           | 1,750           | 1,550             |
| Asset Preservation <sup>b</sup> | 0                   | 0               | 4,000           | 6,000             |
| Other Funds                     | 540                 | 160             | 728             | 1,051             |
| Receipts                        |                     |                 |                 |                   |
| Departmental Earnings           | \$14,038            | \$14,575        | \$15,821        | \$15,020          |
| Contributions (from Foundation) | 3,507               | 1,832           | 1,815           | 1,594             |
| Other                           | 32                  | 93              | 78              | 165               |
| Transfers In                    | 5                   | 0               | 0               | 5                 |
| Total Sources                   | <u>\$26,647</u>     | <u>\$26,660</u> | <u>\$32,442</u> | <u>\$34,452</u>   |
| Expenditures                    |                     |                 |                 |                   |
| Payroll                         | \$16,064            | \$16,248        | \$17,188        | \$17,210          |
| Purchased Services              | 5,745               | 4,381           | 4,778           | 4,406             |
| Supplies and Equipment          | 2,131               | 2,346           | 2,480           | 2,155             |
| Other                           | 2,072               | 2,588           | 4,095           | 2,056             |
| Encumbrances <sup>c</sup>       | 0                   | 0               | 404             | 1,492             |
| Transfers Out                   | 100                 | 0               | 0               | 23                |
| Total Uses                      | <u>\$26,112</u>     | <u>\$25,563</u> | <u>\$28,945</u> | <u>\$27,342</u>   |

<sup>a</sup> This table includes state treasury Fiscal Year 2018 financial activity through June 2018. However, the scope of our audit only included Fiscal Year 2018 activity through February 2018.

<sup>b</sup> Asset preservation appropriations are available until spent or the purpose is abandoned. As a result, these funds were not encumbered or expended in the years received.

<sup>c</sup> Encumbrances reflect money that is reserved to pay vendors, based on purchase orders or other contract documents.

SOURCE: State of Minnesota's accounting system.

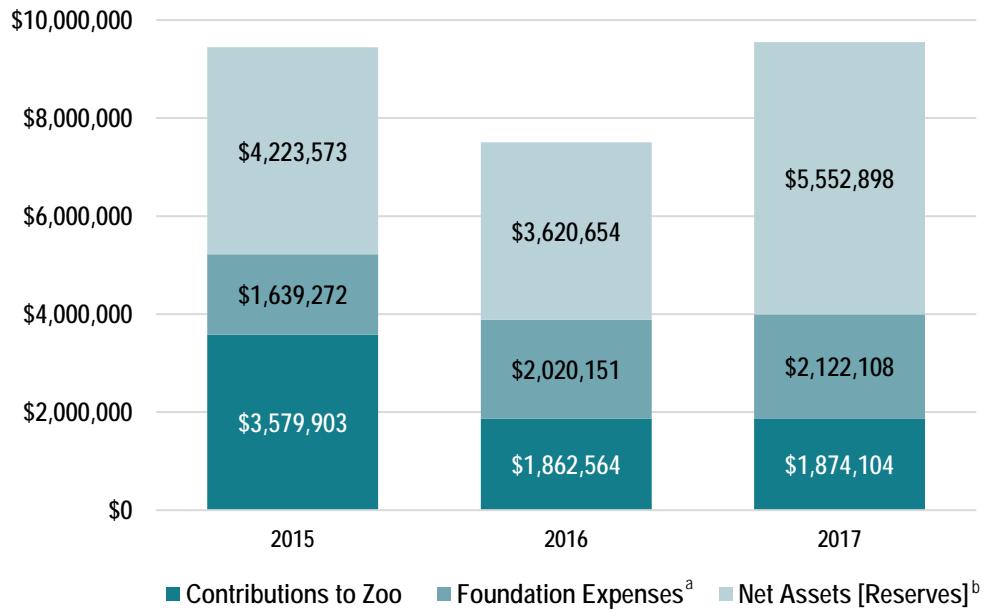
It is difficult to understand the complete financial picture of the Zoo without analyzing both the Zoo's state treasury accounts and the financial activity of the Foundation, which is outside the state treasury. For example, the sharp decline in contributions to the Zoo (depicted in Exhibit 2) seems to indicate a reduction in donor support. However, that is not the case. The Zoo and the Foundation deposit donor contributions in accounts outside the state treasury, managed by the Foundation. The Foundation then transfers contributions to the Zoo based on project needs and the wishes of donors. Fiscal Year 2017 was a very positive year for donor contributions, with total support and contributions of \$5.92 million.<sup>5</sup> Contributions forwarded to the Zoo's state treasury accounts were \$1.82 million during that same period.

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<sup>5</sup> Contributions consist of cash and other noncash items, such as pledges receivable.

Exhibit 3 summarizes the Foundation's use of funds. Further detail can be found in the Foundation's audited financial statements and tax reports, which are accessible from the Zoo's website.

### Exhibit 3: Use of Foundation Resources



<sup>a</sup> Foundation expenses include operational expenses such as payroll, which averaged \$908,000 annually. This category also includes conservation grants to entities other than the Minnesota Zoo.

<sup>b</sup> Net assets include cash and noncash reserves, such as pledges receivable from donors.

SOURCE: Minnesota Zoo Foundation's financial statements.

Contributions to the Zoo in the Foundation's financial reports are slightly higher than amounts recorded in the state treasury (depicted in Exhibit 2). State treasury amounts only reflect cash contributions, while contributions in the Foundation's financial statements include cash, in-kind, and capital contributions.

A portion of the contributions to the Zoo help support the salary of the director. Statutory provisions in the Zoo's enabling legislation state that:

The board shall set the salary of the administrator; however, any amount exceeding 95 percent of the salary of the governor must consist of nonstate funds.<sup>6</sup>

In Fiscal Year 2017, the director earned a base salary of \$280,000, plus benefits. Foundation contributions provided the funding to pay the director.

<sup>6</sup> Minnesota Statutes 2017, 85A.02, subd. 5a (a).

## Audit Scope

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Our audit scope focused on ancillary revenue sources, including income from outsourced service contracts and contributions from the Minnesota Zoo Foundation. The period under examination went from July 2014 through February 2018.

### Foundation Contributions

Foundation contributions are a significant revenue source for the Zoo. During the scope of our audit, about 7 percent of the Zoo's funding came from Foundation contributions, averaging about \$2.19 million annually. Contributions from the Foundation also provide the funding to pay the director's salary.

### Food and Beverage Concessions

The Zoo contracts with a vendor to provide food and beverage services in locations throughout the facility. The Zoo receives a commission on sales. In addition, the vendor is responsible for capital improvements needed to deliver the service. Lancer Food Service was the contract vendor throughout the scope of our audit, providing the Zoo with revenue averaging \$820,000 annually.

### Retail Operations

The Zoo contracts with a vendor to operate retail shops in the main building and at other locations throughout the facility. The contract provides the Zoo with a percentage of gross sales, but also requires the vendor to pay for some facility modifications to deliver the service. Service System Associates was the contract vendor throughout the scope of our audit, providing the Zoo with revenue averaging \$374,000 annually.

### Concert Series

The Zoo contracts with a vendor to host a series of concerts in the Weesner Family Amphitheater. The Zoo receives revenue from sponsorships, parking, venue rental, and day-of-concert convenience fees for tickets sold at the Zoo. Sue McLean and Associates was the contract vendor throughout the scope of our audit, providing the Zoo with revenue averaging \$101,000 annually.

## Audit Objectives

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We designed our audit to answer the following questions:

- Did the Zoo have adequate internal controls to safeguard assets, provide reliable financial data, and collect all revenue due from vendors?
- Did the Zoo comply with finance-related legal requirements?
- Did the Zoo resolve its prior audit findings?

## Audit Methodology and Criteria

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To answer the audit objectives, we interviewed staff to gain an understanding of policies and procedures. We also analyzed accounting data to identify unusual trends or significant changes in financial operations. Finally, we examined samples of financial transactions and reviewed supporting documentation to test whether controls were effective and to determine if transactions complied with legal provisions.

We conducted this performance audit in accordance with generally accepted government auditing standards.<sup>7</sup> Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our objectives.

We assessed internal controls against the most recent edition of the internal control standards, published by the U.S. Government Accountability Office.<sup>8</sup> To identify legal compliance criteria for the activity we reviewed, we examined applicable state statutes, income contracts, and policies and procedures established by the departments of Management and Budget, Administration, and the Minnesota Zoological Garden.

## Conclusion

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The Zoo's internal controls over the activities that OLA audited were Generally Not Adequate. Also, the Zoo Generally Did Not Comply with the significant legal requirements we tested.

The following *Findings and Recommendations* section provides further explanation about the inadequate internal controls and instances of noncompliance.

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<sup>7</sup> U.S. Government Accountability Office, Comptroller General of the United States, *Government Auditing Standards* (Washington, DC, December 2011).

<sup>8</sup> U.S. Government Accountability Office, Comptroller General of the United States, *Standards for Internal Control in the Federal Government* (Washington, DC, September 2014). In September 2014, the state of Minnesota adopted these standards as its internal control framework for the executive branch.

# Findings and Recommendations

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## FINDING 1

### **The Zoo and the Foundation did not properly account for donor contributions.**

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Our audit identified several issues with donor contributions. The Zoo did not always adhere to donor-imposed restrictions and did not follow a statutory requirement governing the deposit and oversight of donated funds. In addition, the Foundation did not always formally document the restrictions imposed by donors.

#### **Deposit and Oversight of Contributions**

The Zoo's enabling legislation requires that contributions be held in a state treasury account under the control of the Minnesota Zoological Board:

All receipts and interest from the operations of zoo concessions, memberships, and donations must be deposited in a special account in the special revenue fund and are appropriated to the board.<sup>9</sup>

The Foundation deposits and manages all donor contributions, including contributions solicited by Foundation staff and those made through the Zoo's website. This practice circumvents the statutory language and effectively transfers control of donor contributions from the Minnesota Zoological Board to the Foundation's Board of Trustees. Recording donor contributions outside the state treasury also makes it more difficult to ascertain the potential resources available to operate the Zoo.

Zoo management told us that contributors understand that they are donating to the Minnesota Zoo Foundation, a separate and independent legal entity. Therefore, contributions are not Zoo funds and are not subject to the statutory mandate, until the Zoo receives grants from the Foundation.

As illustrated in Exhibit 4, the Zoo's website references the Foundation on its donation pages. However, OLA questions whether donors that contribute through the Zoo's website would understand the complex relationship between the Zoo and the Foundation. Particularly when contributing through the website, donors may simply conclude that their contributions are going directly to the Zoo.

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<sup>9</sup> Minnesota Statutes 2017, 85A.04, subd. 4.

## Exhibit 4: Zoo Website Donation Page



**MINNESOTA ZOO**

[Buy Tickets](#) [Log In](#) [Log Out](#)

[BECOME A MEMBER](#) [DONATE NOW](#)

[Home](#) [Plan Your Visit](#) [Calendar](#) [Animals](#) [Education](#) [Get Involved](#) [Conservation](#) [Rent the Zoo](#)

[Login](#) · [Don't Have An Account?](#) · [Continue Shopping](#)

### Donate Today!

The Minnesota Zoo is devoted to becoming a state, national, and international leader in wildlife conservation and environmental education. Your gift will contribute to these efforts and enhance your Zoo experience. Explore the many giving opportunities listed below or contact the Minnesota Zoo Foundation at [donations@mnzoo.org](mailto:donations@mnzoo.org) or 952.431.9237.

I would like to make a gift   of \$

**Donate to the Minnesota Zoo**

Make a gift today to help the Zoo connect people, animals, and the natural world to save wildlife.

Your generosity will help care for the 4,700+ amazing animals living at the Zoo. You will be supporting efforts to save endangered species around the world, like tigers, rhinos, and even prairie butterflies. And you will be creating memorable wildlife encounters for children and families every day. Thank you!

**Donor Levels and Benefits**

To donate \$250 or more, please choose "Friends Plus (\$250+)" from the dropdown menu above. This will ensure we have all of the information needed to process your new Friends Plus membership.

This donation is on behalf of a company

Company Name

My company will match my gift

I prefer to make this donation anonymously. Please do not list my name in any public donor listings.

Is there anything else we should know about this gift?

The Minnesota Zoo Foundation is committed to responsible financial management and stewardship of gifts. The Board of Trustees and staff work together to ensure that all financial matters are addressed with care and integrity, and in the best interest of the Minnesota Zoo Foundation. As recommended by best practices within the non-profit community, the Foundation makes the following [documents available](#) in electronic and paper format to promote transparency and openness in its activities within the public domain. Please contact the Minnesota Zoo Foundation office 952-431-9237 for further information.

## Oversight of Donor-Imposed Restrictions

OLA tested 43 contributions to verify that the Zoo and the Foundation complied with donor-imposed restrictions. Our methodology included an end-to-end review of contributions, using records at both the Zoo and the Foundation. OLA expected to find support for all incoming donations, including documentation to determine whether donations had restrictions. After funds were transferred to the Zoo, OLA also expected to find evidence that the Zoo spent all funds on activities that were in alignment with the stated intent of donors.

Documentation shortcomings made it difficult to complete end-to-end testing. The Foundation provided OLA with a worksheet that listed all donations, along with restrictions. Unable to trace some restrictions to donation records, OLA staff were told that the Foundation sometimes added its own restrictions. This practice essentially converted unrestricted donor contributions into restricted contributions, with the Foundation as the new donor. Absent clear records identifying the source of restrictions, it is difficult to determine whether they came from the original donors or the Foundation.

OLA testing also revealed several situations where the Zoo did not comply with donor-imposed restrictions. Exhibit 5 details the types of exceptions encountered and the actual error counts.

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## Exhibit 5: Donor-Imposed Restriction Testing Exceptions

| Category          | Error Count | Dollar Value | Description   |
|-------------------|-------------|--------------|---|
| Recording Errors  | 3           | \$129,045    | Zoo employees erroneously put money in state treasury accounts that did not align with the stated intent of donors.   |
| Time Restrictions | 3           | \$ 9,836     | For some contributions with time restrictions, the Zoo did not spend money within the period specified by the donor. For example, in November 2014, a donor contributed \$20,000 to help eradicate buckthorn. Though the contribution had a one-year period, the Zoo only spent part of the money within the allowable time period and \$6,163 remained in a state treasury account at the end of our audit scope period. |

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SOURCE: Minnesota Zoo and Minnesota Zoo Foundation contribution records.

The complex relationship between the Zoo and the Foundation introduces opportunities for error and noncompliance with donor intentions. The Zoo and the Foundation need to work together to address the weaknesses outlined above to protect the integrity of this important revenue source.

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## RECOMMENDATIONS

**The Zoo should comply with contribution deposit provisions in state law, or work with the Legislature to amend those provisions.**

**The Zoo should comply with all donor-imposed restrictions, unless contributors grant explicit approval for departures.**

**The Foundation should retain documentation to support the source of all donor-imposed restrictions.**

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## FINDING 2

**Some contracts for outsourced services lacked appropriate competition.**

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The Zoo routinely extends vendor contracts without resoliciting the work to foster open competition. The Legislature exempted the Zoo from most government procurement requirements. This flexibility gives the Zoo an opportunity to develop long-term relationships with vendors. However, multiyear contracts with numerous extensions can restrict competition to the point where it is difficult to determine if the Zoo is getting the most economical outcome.

As illustrated in Exhibit 6, the Zoo has long relationships with the outsourced service providers that were included in our audit scope. In some cases, the Zoo resolicited the work to determine if it could obtain a more advantageous contract through open competition. In others, the Zoo amended the original contract terms without a competitive solicitation, often as part of an effort to get vendors to pay for facility improvements.<sup>10</sup>

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<sup>10</sup> All contract extensions in the audit scope predate the current Zoo director.

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## Exhibit 6: Outsourced Service Contracts

| Category   | Food and Beverage Services | Music in the Zoo Concert Series | Retail Operations         |
|--|----------------------------|---------------------------------|---------------------------|
| Vendor   | Lancer Food Service        | Sue McLean and Associates       | Service System Associates |
| Total Relationship Length (Years)                  | 27                         | 26                              | 17                        |
| Number of Contract Amendments <sup>a</sup>         | 9                          | 0                               | 4                         |
| Current Contract Expiration                        | 2020                       | 2018                            | 2020                      |
| Competitive Solicitations (After Initial Contract) | 0                          | 5                               | 1                         |
| Last Request for Proposal                          | 1992                       | 2013                            | 2016                      |

<sup>a</sup>Contract amendments included extension of terms in exchange for capital investments and altered service areas or commission rates.

SOURCE: Minnesota Zoo contract records.

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Entering into agreements with terms that extend several years can prove beneficial to the Zoo. However, as contract end dates approach, the Zoo can ensure that it is getting the best contract possible by conducting ongoing competitive solicitations.

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### RECOMMENDATION

**The Zoo should resolicit contracts prior to their expiration dates to determine if open competition can yield a more economical outcome.**

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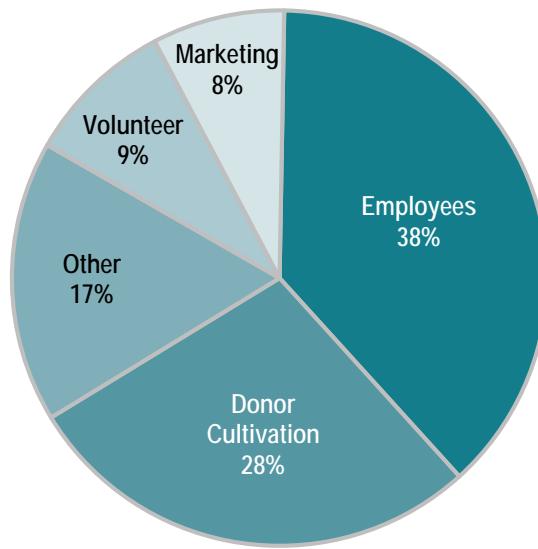
### FINDING 3

**Some Zoo employees received complimentary concert tickets.**

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Each season the Zoo receives a block of complimentary tickets to the Music in the Zoo concert series. The Zoo uses the tickets for various permissible purposes, such as donor cultivation and marketing. However, as illustrated in Exhibit 7, in Fiscal Year 2017, management of the Zoo distributed 119 of the 310 complimentary concert tickets to employees.

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**Exhibit 7: Music in the Zoo Complimentary Ticket Allocation, Fiscal Year 2017**

SOURCE: Minnesota Zoo records.

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The Legislature exempted the Zoo from many legal requirements that most state agencies must follow. However, the Legislature did not exempt the Zoo from the Code of Ethics for Employees in the Executive Branch, which expressly forbids the acceptance of gifts from vendors.<sup>11</sup> Zoo management violated the intent of the statute when they gave concert tickets to employees instead of using the tickets for marketing purposes.

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**RECOMMENDATION**

**The Zoo should discontinue the practice of providing complimentary concert tickets to employees.**

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<sup>11</sup> Minnesota Statutes 2017, 43A.38, subd. 2.



September 18, 2018

Mr. James Nobles, Legislative Auditor  
Office of the Legislative Auditor  
Centennial Office Building  
658 Cedar Street  
St. Paul, MN 55155

Dear Mr. Nobles,

Thank you for the opportunity to review and respond to your findings in a recent limited scope internal control and compliance audit of the Minnesota Zoological Garden. Integrity and responsible stewardship are two of the Minnesota Zoo's five core institutional values. We place a high priority on our fiscal and legal responsibilities, and take the results of this audit very seriously.

Unlike most state agencies, we contract for an independent audit of the Zoo's financial statements every single year. The 2015-2017 audits were unmodified (clean) audits. We value audits as a healthy process of self-examination, and see this audit as an opportunity to improve further our already strong management of the resources entrusted to us.

Zoo staff and board members worked in close partnership with your audit staff to examine these important issues and to discuss the best approach to managing what is admittedly a very different financial environment compared to most state agencies. We appreciated the thorough and professional work of your staff during this process.

Below are the Minnesota Zoological Garden's responses to the findings and the recommendations.

**Finding 1: The Zoo and the Foundation did not properly account for donor contributions.**

Recommendations:

- The Zoo should comply with the contribution deposit provisions in state law, or work with the Legislature to amend those provisions.
- The Zoo should comply with all donor-imposed restrictions, unless contributors grant explicit approval for departures.

Response:

The Zoo partially disagrees with this finding. The Zoo agrees we can strengthen documentation practices and internal controls to minimize the risk of accounting errors. However, the Zoo disagrees that we failed to comply with donor-imposed restrictions or to follow state law with respect to deposit of contributions.

Regarding compliance with donor restrictions:

- Recording errors: The Zoo identified and corrected two recording errors during later reviews of the deposits. In the third instance, we placed the funds in a holding account until we could set up the appropriate expense budgets, to ensure alignment between budgets and donor intent before



we authorized spending. **We never used the funds for purposes other than what the donors intended.**

- Time restrictions: When the Zoo experienced operational challenges that prevented using the funds during the timeframe indicated by the donors, the Foundation notified the donors of the extended timeline. **We never went beyond the time restriction without notifying the donors.**

Regarding compliance with state law for deposit of gift funds:

**The Zoo deposits all contributions received from the Minnesota Zoo Foundation in the state treasury as directed by law.** To fulfill our statutory responsibility to “foster a partnership between the private sector and the state” and “be active in soliciting nonstate contributions” (M.S. 85A.001), the Zoo partners with the Minnesota Zoo Foundation for fundraising and other development services. To fulfill our statutory directive to “operate independently, efficiently, and economically” (M.S. 85A.001) and therefore not duplicate efforts, the Zoo relies on its fundraising partner to manage all aspects of soliciting contributions—including solicitation methods, fiduciary oversight, and donor recognition. This practice has been in place since the Zoo’s creation; in fact, a foundation supporting the Zoo and operating outside the state treasury has existed in some form since before the statute creating the Minnesota Zoological Garden was enacted. The Zoo actively publicizes its partnership with the Minnesota Zoo Foundation to the Legislature and the public, including in the Governor’s Budget documents and in the Zoo’s annual report. The Zoo welcomes the opportunity to work with Legislature to clarify state statute to recognize the important role of the Minnesota Zoo Foundation, but disagrees with the perspective that our accounting practices conflict with current statute.

To minimize the risk of accounting errors the Zoo will revise its Restricted Gift Tracking procedure. To clarify statutory deposit language, the Zoo will seek guidance from legislators and staff on how best to proceed.

Person Responsible:

Abigail Mosher, Chief Financial Officer  
Missy Remick, Director of Board and Legislative Affairs

Completion Date:

November 30, 2018 (procedure)  
May 31, 2019 (guidance)

Also, please see the Zoo Foundation’s response inserted as pages four and five of this document.

**Finding 2: Some contracts for outsourced services lacked appropriate competition.**

Recommendation:

- The Zoo should resolicit contracts prior to their expiration dates to determine if open competition can yield a more economical outcome.

Response:

The Zoo agrees with this finding and recommendation. Zoo management is committed to fostering competition to maximize earned revenue to support the Zoo’s mission. We have already demonstrated this commitment by rebidding the concert and gift store contracts in the last five years, and laying the groundwork to rebid all three major partner contracts over the next few years.

Person Responsible:

Dave Frazier, Deputy Director

Completion Date:

Completed



**Finding 3: Some Zoo employees received complimentary concert tickets.**

Recommendation:

- The Zoo should discontinue the practice of providing complimentary concert tickets to its employees.

Response:

The Zoo agrees with this finding and recommendation. The Zoo had a practice of providing a limited number of complimentary tickets to employees, primarily through formal employee recognition programs or when the tickets would otherwise go unused for marketing and donor cultivation. Tickets used for employee appreciation represented fewer than ten of the 1200-1400 tickets available for each concert. The Zoo stopped issuing tickets for employee appreciation purposes prior to the 2018 concert series. There is a new procedure in place for approving use of complementary tickets for marketing or donor cultivation purposes, and we will incorporate that procedure into a formal agency policy prior to the next concert season.

Person Responsible:

Abigail Mosher, Chief Financial Officer

Completion Date:

December 31, 2018

Thank you again for the opportunity to respond, and for the professional work of your staff.

Sincerely,

A handwritten signature in black ink, appearing to read "JF".

John Frawley  
Director and President



September 18, 2018

Mr. James Nobles, Legislative Auditor  
Office of the Legislative Auditor  
Centennial Office Building  
658 Cedar Street  
St. Paul, MN 55155

Dear Mr. Nobles,

Thank you for the opportunity to provide a formal response to the limited scope internal control and compliance audit of the Minnesota Zoological Garden (Zoo) which incorporates significant mention of the Minnesota Zoo Foundation (Foundation). We appreciate the responsiveness of the OLA team throughout the process as well as the willingness to incorporate input from members of our staff and Board by the Audit team.

In Finding 1, the OLA report states the "Zoo and Foundation did not properly account for donor contributions". The underpinning of this finding is that the Foundation "circumvents" statutory language regarding donations to the Zoo. The Foundation is an independent, Minnesota 501c3 nonprofit charitable organization that has its own Board of Directors who are independent of the Trustees of the Minnesota Zoo. The Foundation and its practices are not governed by the statutory language referenced in the report and therefore cannot "circumvent" the statutory language. Based on this, it is inaccurate to assert that Foundation practices circumvent the language regarding donations.

Further to Finding 1, as discussed with the OLA, the Foundation's position is that we did provide appropriate documentation for donor contributions. Most importantly, in every case, the Foundation honored donor intent regarding restrictions on each gift. As we understand it, OLA's documentation concerns stem from the Foundation asking the Zoo to spend a number of gifts in a specific timeline in order to expedite the use of funds for their intended purposes. In each contribution examined by the OLA, the Foundation honored the specific restriction requested by the donor. By asking the Zoo to spend donor funds in a timely manner is not an example of "not properly accounting for donor contributions", indeed, it is an additional safeguard put in place by the Foundation in the best interests of the donor and their intended purpose.

In our review of the report, the Foundation consulted with both legal professionals and independent auditors who are subject matter experts in nonprofit audit and accounting rules. Based on those consultations, as well as our own professional knowledge of accounting for donor contributions, we are confident the Foundation properly accounted for donor contributions.

Concerning the "highly intertwined" activities of the Zoo and Foundation, it is common practice for independent, nonprofit foundations that support public entities to share resources, including the ability



**MINNESOTA ZOO  
FOUNDATION**

to make gifts through a shared web site. The purpose for depicting the financial results of the Zoo and Foundation in one report is in fact to be transparent about the difference and independence from one another by showing two distinct financial reports.

The report states in FY 2017, the Foundation reported total income of \$5.92 million. To provide clarity, it is important to understand that under nonprofit accounting standards, both cash and income (i.e. multi-year pledges) must be reflected in financial statements. In that year, for instance, the Foundation received two documented pledges of future support in the amount of \$500,000 each that are included in overall contributions in our financial statements; however, this was not cash-in-hand available to grant over to the Zoo. It is also important to point out that in FY 2017 the Foundation granted \$391,000 to organizations other than the Zoo. One of the activities of the Foundation is to fund outside organizations working in the field on conservation of threatened and endangered species both the Zoo and Foundation deem a priority. In Minnesota, those species would include endangered prairie butterflies, freshwater mussels, and bison.

While we are disappointed in the results of the report because our position is it inaccurately describes the Foundation as working outside of State statute and asserts that the Foundation did not properly account for donor contributions, we believe there are always opportunities for process improvement. We appreciate the OLA's suggestion that the Foundation provide clarity on the origin of time-restrictions placed on grants to the Zoo, and we will work collaboratively with the Zoo to strengthen our practices. The Foundation is committed to being a trustworthy nonprofit organization as well as an important source of revenue to support the Zoo's mission far into the future.

Sincerely,

Tony Grundhauser, Executive Director  
Minnesota Zoo Foundation



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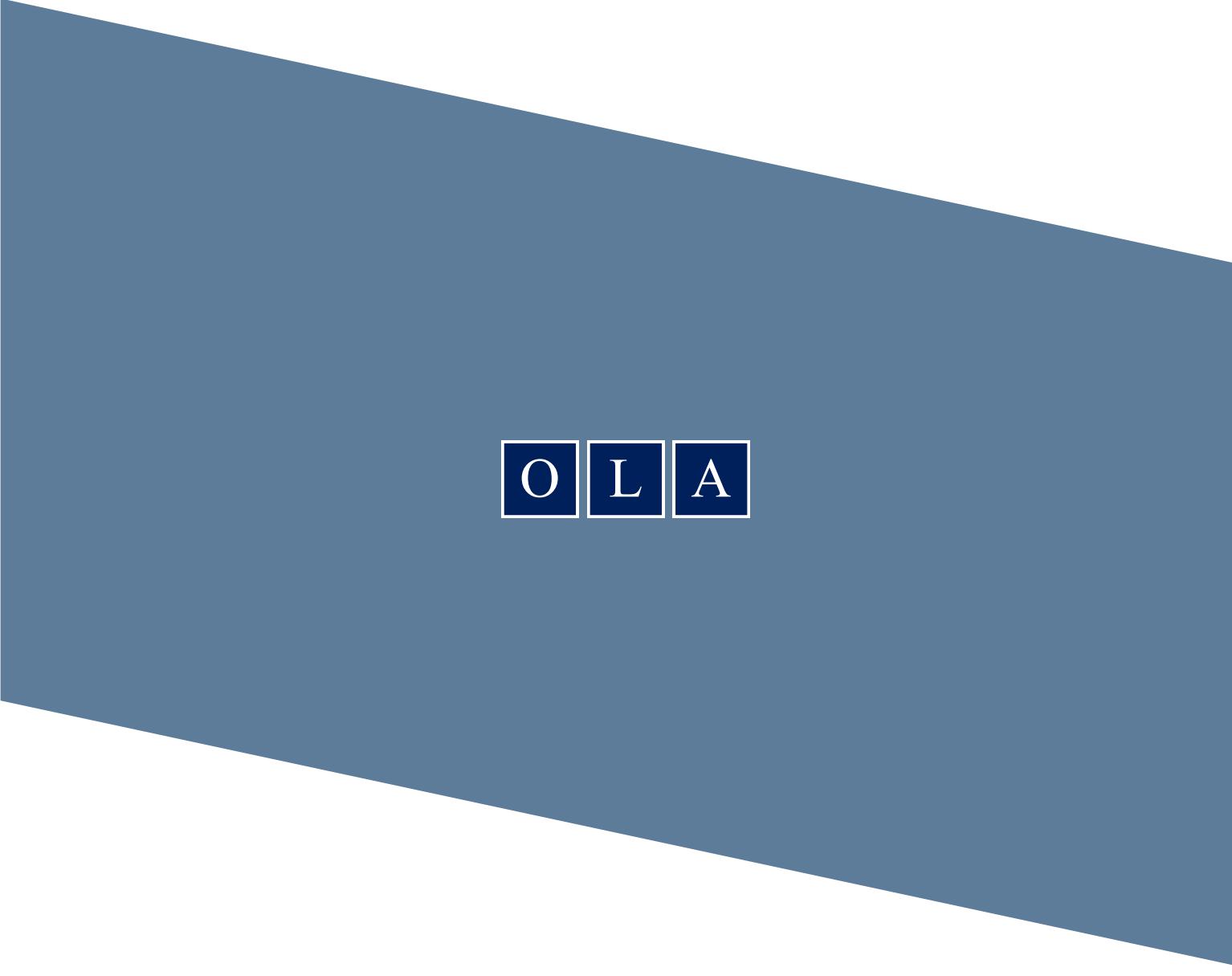
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