

MINNESOTA ZOOLOGICAL GARDEN
SELECTED SCOPE FINANCIAL AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1993

SEPTEMBER 1994

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

94-43

SUMMARY

State of Minnesota
Office of the Legislative Auditor
Centennial Office Building • St. Paul, MN 55155
612/296-4708

MINNESOTA ZOOLOGICAL GARDEN

SELECTED SCOPE FINANCIAL AUDIT FOR THE THREE YEARS ENDED JUNE 30, 1993

Public Release Date: September 9, 1994

No. 94-43

AGENCY BACKGROUND

The Minnesota Zoological Garden (Zoo) is a state agency supervised and controlled by the State Zoological Board. The Board has established three major purposes for its operations: conservation, education, and recreation. The Zoo opened in 1978 and has been drawing over one million visitors annually. Dr. Kathryn Roberts is the current General Director of the Zoo.

SELECTED AUDIT AREAS

♦ *Fundraising*

The Zoo delegated fundraising authority to the Minnesota Zoo Foundation (Foundation), an independent not-for-profit corporation. In the three years ended June 30, 1993, the Foundation contributed \$3.1 million to the Zoo. We found that the Zoo properly accounted for the receipt and deposit of gifts and donations. However, we believe the relationship between the Zoo and the Foundation should be clarified. We also have concerns about the adequacy of controls over receipts and disbursements at the Foundation.

♦ *Receipts*

The Zoo collects receipts for admission fees, gift store sales, monorail fees and other supplemental accounts, and deposits the collections in the Special Revenue Fund. Revenue from admission fees for the three years ended June 30, 1993 totalled \$8.9 million. Other Special Revenue Fund receipts totalled \$7.6 million. We found that the Zoo properly accounted for these receipts and that controls over receipt processing are adequate.

Contact the Financial Audit Division for additional information.
296-1730

FINANCIAL AUDIT DIVISION



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

CENTENNIAL BUILDING, ST. PAUL, MN 55155 • 612/296-4708

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Phil Riveness, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Dr. Kathryn Roberts, General Director
Minnesota Zoological Garden

Ms. Eleanor R. Crosby, Chair
Minnesota Zoological Board

Members of the Minnesota Zoological Board

Audit Scope

We have conducted a financial related audit of selected programs of the Minnesota Zoological Garden for the period July 1, 1990 through June 30, 1993. We emphasize that this has not been a complete audit of all Minnesota Zoological Garden programs. Our audit was limited to only that portion of the Minnesota Zoological Garden's financial operations as outlined below and as further discussed in the Introduction.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we consider the internal control structure in order to plan our audit of the selected programs, and that we perform tests of the department's compliance with certain material provisions of laws, regulations, contracts and grants. However, our objective was not to provide an opinion on the internal control structure or on overall compliance with the finance-related legal provision.

For purposes of this report, we have classified the significant internal control structure policies and procedures into the following categories:

- Admission Receipts
- Supplemental Receipts
- Monorail Receipts
- Gift Store Receipts
- Gift and Donation Receipts

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Members of the Legislative Audit Commission
Dr. Kathryn Roberts, General Director
Ms. Eleanor R. Crosby, Chair
Members of the Minnesota Zoological Board
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Management Responsibilities

The management of the Minnesota Zoological Garden is responsible for establishing and maintaining an internal control structure. This responsibility includes compliance with applicable laws, regulations, contracts, and grants. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition;
- transactions are executed in accordance with applicable legal and regulatory provisions, as well as management's authorization; and
- transactions are recorded properly on the statewide accounting system in accordance with Department of Finance policies and procedures.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Conclusions


Our review of fundraising identified some areas of concern relating to the relationship between the Minnesota Zoological Garden and its foundation. We found that the cost reimbursement agreement between the Minnesota Zoological Garden and the Minnesota Zoo Foundation needs to be clarified. We also have concerns about the adequacy of controls over receipts and disbursements at the Foundation. We believe that the Minnesota Zoological Garden and the Minnesota Zoo Foundation should review these areas of concern to determine if the cost reimbursement agreement can be revised and controls can be strengthened. We discuss our specific conclusions on fundraising in Chapter 2.


In Chapter 3 we discuss our review of revenue for admissions, the gift store, the monorail, and other supplemental accounts. We found controls in these areas to be adequate.

Senator Phil Riveness, Chair
Members of the Legislative Audit Commission
Dr. Kathryn Roberts, General Director
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Members of the Minnesota Zoological Board
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This report is intended for the information of the Legislative Audit Commission and the management of the Minnesota Zoological Garden. This restriction is not intended to limit the distribution of this report, which was released as a public document on September 9, 1994.

We thank the Minnesota Zoological Garden and the Minnesota Zoo Foundation staff for their cooperation during this audit.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: June 28, 1994

Report Signed On: August 31, 1994

Minnesota Zoological Garden

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Audit Participation

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

John Asmussen, CPA	Deputy Legislative Auditor
Claudia Gudvagen, CPA	Audit Manager
Lori Pellicci, CPA	Auditor-in-Charge
Carl Otto, CPA	Auditor

Exit Conferences

The issues in this report were discussed with the following staff of the Minnesota Zoological Garden and the Minnesota Zoo Foundation at the exit conferences held on August 18, 1994:

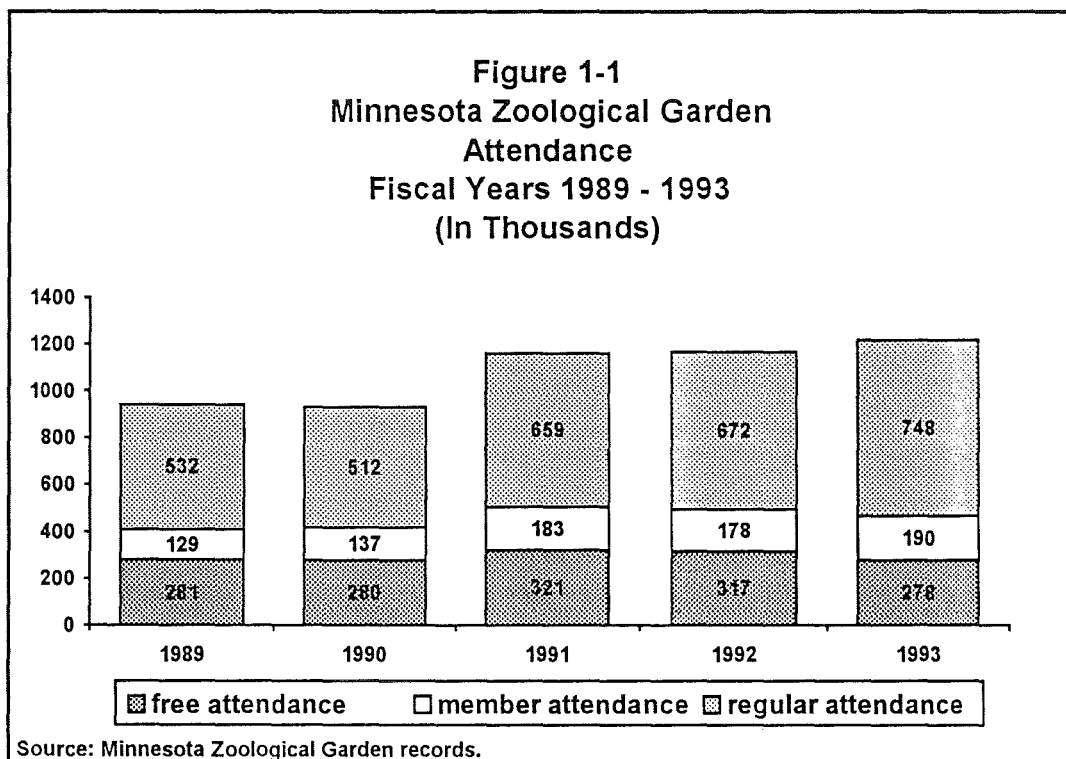
Dr. Kathryn Roberts	General Director
Steve Ordahl	Enterprise Programs Director
Anne Morrow	Director of Development
Connie Braziel	Operations Director
Jeff Higgins	Finance Manager

Chapter 1. Introduction

The Minnesota Zoological Garden (Zoo) is a state agency supervised and controlled by the State Zoological Board. The Board consists of 30 public and private sector members. The Governor and the Zoological Board each appoint 15 members. The board appoints a director who serves as the chief administrative officer of the Zoo. Dr. Kathryn Roberts was appointed General Director on November 10, 1986.

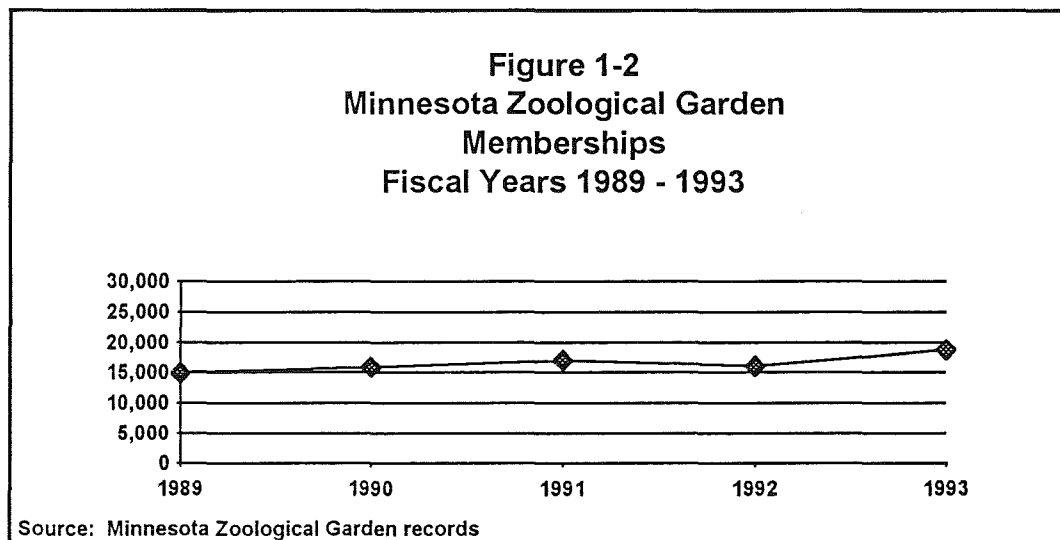
The Board has established three major purposes for its operations: conservation, education, and recreation. The conservation division is responsible for all of the conservation activities at the Zoo, both on site and throughout the nation and the world. The Zoo participates in several species survival programs, cooperative programs of many Zoos throughout the nation designed to help ensure the survival of selected species. The Zoo also provides a wide variety of educational activities for both children and adults. In addition, it wants to ensure that a Zoo visit is recreational and entertaining.

The Zoo opened in 1978 and is drawing over one million visitors annually. Figure 1-1 shows the free and paid attendance figures since fiscal year 1989. The Zoo offers two free days a month to meet statutory requirements. It also offers annual memberships which give the members free admission and other benefits. Figure 1-2 shows the total annual memberships since fiscal year 1989.



Minnesota Zoological Garden

The Minnesota Zoo Foundation, a separate not-for-profit corporation, solicits gifts and donations for the Zoo. It collects most gifts and donations and periodically transmits funds to the Zoo for various projects.



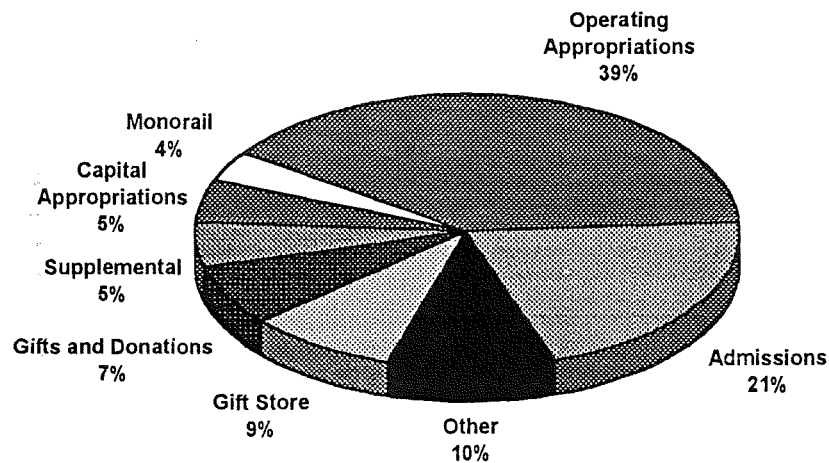
The Zoo is situated in an area covering 485 acres in which animals are displayed in settings similar to their natural environments. Approximately one-third of the land is developed, one-third is protected wetlands, and one-third is undeveloped. The animals are presented in natural social groups on theme trails that recreate geographic regions of the world. There are approximately 2,060 animal specimens representing 387 species and over 2,000 plant varieties. Temporary exhibits also usually run during the summer months. A number of new exhibits opened in recent years including the Coral Reef Exhibit, the Bird Amphitheater, the Sun Bears Exhibit, Zoofari Park, and the Takin Exhibit. The Zoo has a strategic plan for improving the Zoo which takes them through the year 2000. Currently the main project is the Marine Education Center.

During fiscal years 1990 through 1992, the Zoo deposited admission receipts as nondedicated revenue to the state General Fund. Receipts from the operation of Zoo concessions, memberships and donations were deposited in the Special Revenue Fund and were appropriated to the Board. Beginning in fiscal year 1993, the legislature gave the Zoo authority to deposit receipts from all sources in the Special Revenue Fund. The Zoo also receives a General Fund appropriation to support the costs of operation. As the Zoo has matured and its appropriation has decreased, it has become more profit oriented. The Board has split the Zoo into profit centers and monitors each center to determine if the program is beneficial for the Zoo.

Figure 1-3 shows the Zoo revenue and other funding sources by category for the three years ended June 30, 1993.

Minnesota Zoological Garden

Figure 1-3
Minnesota Zoological Garden
Revenue and Appropriations
Fiscal Years 1991 - 1993



Note: Operating appropriations for fiscal years 1991 and 1992 are shown net of admissions revenue which was deposited as nondedicated revenue to the General Fund.

Source: Statewide Accounting System accounting records and detailed transaction for the three years ended June 30, 1993.

Minnesota Zoological Garden

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Chapter 2. Fundraising

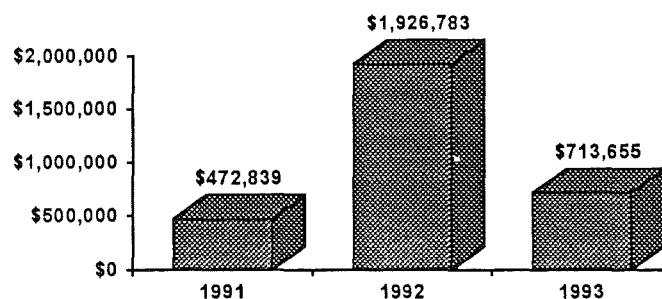
Chapter Conclusions

Most gifts and donations are collected by the Minnesota Zoo Foundation. The Zoo must bill the Foundation for a project or expenses to collect funds. The Minnesota Zoological Garden properly accounted for the receipts and deposit of gifts and donations. These receipts are deposited in the gift fund and properly restricted when necessary. We believe the relationship between the Zoo and Foundation should be clarified. We also have concerns about the adequacy of controls over receipts and disbursements at the Foundation.

The Minnesota Zoological Garden delegated fundraising authority to the Minnesota Zoo Foundation (Foundation), an independent not-for-profit corporation. The Foundation is governed by a board of trustees, four trustees must also be members of the Minnesota Zoological Board. The Foundation was reorganized in December 1989, after being inactive for a number of years, and has become increasingly active in fundraising for the Zoo. It coordinates various fund-raisers each year. In addition, it is involved in other fund-raisers sponsored by volunteer groups. It has an annual fund drive to raise operating funds and an ADOPT program where individuals or groups can adopt an animal at the Zoo. When necessary, it also has a capital campaign for construction projects. The Foundation is currently involved in raising funds for the Marine Education Center. It participates with the Beastly Ball Committee in raising funds for a selected project each year. The Foundation also receives any other donations made to the Zoo, with the exception of the wishing well receipts which the Zoo receives directly.

The Foundation contributes funds to the Zoo based on the needs of the Zoo. Figure 2-1 shows the funds transferred to the Zoo in fiscal years 1991 through 1993. In fiscal year 1992 the Zoo constructed a bird amphitheater which was paid for with gifts and donations.

Figure 2-1
Minnesota Zoological Garden
Gifts and Donations
Fiscal Year 1991 - 1993



Source: Statewide Accounting System accounting records and detailed transactions for the three years ended June 30, 1993.

Minnesota Zoological Garden

1. **The relationship between the Minnesota Zoological Garden and the Minnesota Zoo Foundation should be clarified and controls over Foundation financial activity should be improved.**

The cost reimbursement agreement between the Zoo and the Zoo Foundation is unclear regarding the requirements of each party. It also does not include the required audit clause. In addition, there is an inadequate separation of duties in the processing of Foundation receipts and disbursements.

The Zoo is authorized to solicit and accept gifts on its own behalf. State law requires the Zoo to deposit its receipts in the state treasury. In order for gifts to be deposited with the Foundation, there must be sufficient autonomy from the Zoo to demonstrate it is an independent entity. However, in some respects, the Foundation does not operate independently from the Zoo. For example, Foundation staff are actually Zoo employees.

The Foundation reimburses the Zoo for applicable salary and office expenses on a monthly basis. However, in fiscal years 1991 and 1992, the Foundation did not have enough operating funds to reimburse the Zoo. So the Zoo forgave \$110,468 in Foundation expenses, reclassifying them as a cost of fundraising. Since January 1990, the Foundation has reimbursed the Zoo \$441,810. Table 2-1 shows the amount the Foundation reimbursed the Zoo by fiscal year. The cost reimbursement agreement should refer to the amounts budgeted for the Foundation as expenditure limits, and clarify the sources of funding for administrative cost reimbursements.

Table 2-1
Minnesota Zoological Garden
Foundation Expense Reimbursements to the Zoo
Fiscal Years 1990 through 1993

Fiscal Year 1990	\$143,256
Fiscal Year 1991	\$ 77,275
Fiscal Year 1992	\$ 64,131
Fiscal Year 1993	<u>\$157,149</u>
Total	<u>\$441,810</u>

All contracts with State of Minnesota agencies are required to include an audit clause which provides that the books and records of the other party relevant to the contracts are subject to examination by the contracting agency and either the legislative auditor or the state auditor as appropriate. The Zoo's agreement with the Foundation does not include the required audit clause.

The Zoo employee who performs accounting duties for the Foundation has too much control over Foundation receipts and disbursements. The individual completes the majority of the receipt and disbursement procedures. The staff person sorts, records and deposits all receipts except for the ADOPT program. In addition, the employee prepares all checks for payment and may sign checks under \$100. Duties should be separated so that one individual does not have control over any one cycle.

Minnesota Zoological Garden

Recommendations

- *The Minnesota Zoological Garden should revise its agreement with the Minnesota Zoo Foundation to clarify the duties and responsibilities of the contracting parties.*
- *The Minnesota Zoological Garden should include an audit clause in all contracts and agreements.*
- *The Minnesota Zoo should work with the Foundation to separate duties over receipts and disbursements to ensure the assets are secure.*

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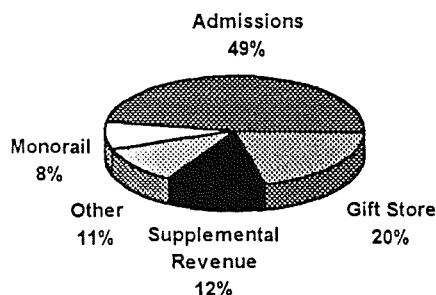
Chapter 3. Receipts

Chapter Conclusions

The Minnesota Zoological Garden properly accounted for the receipt and deposit of admissions, gift store, monorail and supplemental revenue accounts. These receipts are deposited in the Special Revenue Fund, in accordance with MS 85A.04, for operations and maintenance of the Zoo. We concluded that controls over receipt processing are adequate.

Figure 3-1 shows the major sources of Special Revenue Fund receipts for fiscal years 1991 through 1993. Admission fees, gift store sales, monorail fees and supplemental revenue accounts are the main source of Special Revenue Fund revenues. Receipts for admissions, gift store sales, the monorail, and some supplemental revenue accounts are collected through cash registers at various locations throughout the Zoo. The deposit information is given to the Zoo accounting office to properly deposit and record the receipt information. The receipts are coded to specific accounts for tracking purposes. Other supplemental revenue receipts are collected through the mail and processed by the Zoo accounting office.

Figure 3-1
Minnesota Zoological Garden
Special Revenue Fund Revenue
Fiscal Year 1991 - 1993



Note 1: In fiscal year 1991 and 1992, the admissions receipts were deposited to the General Fund as nondedicated receipts.

Source: Statewide Accounting System accounting records and detailed transactions for the three years ended June 30, 1993.

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Admission Fees

Admission fees are the Zoo's major revenue source, representing 48 percent of special revenue receipts. Table 3-1 shows the admission fees during the period reviewed.

Table 3-1
Admission Fees
July 1990 - June 1994

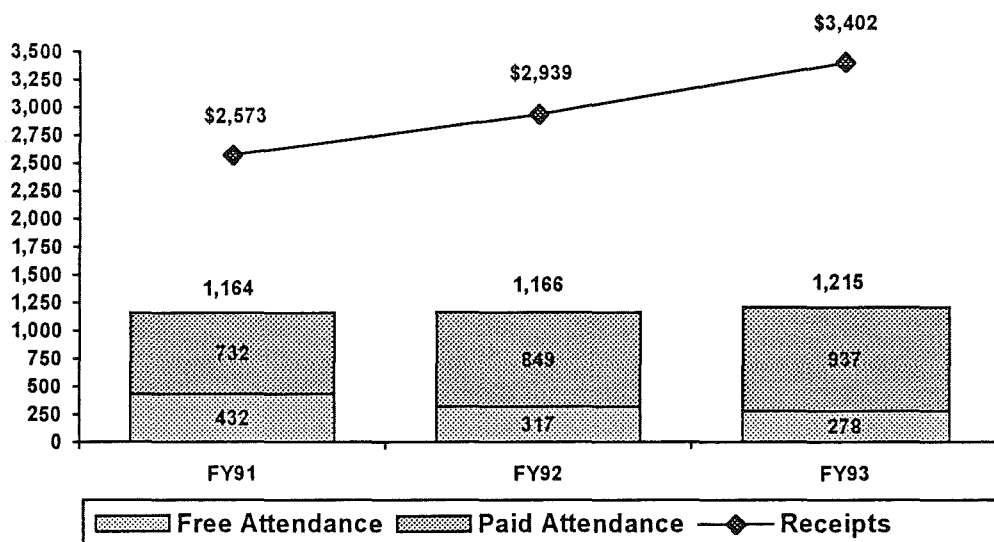
<u>Date</u>	<u>Adult</u>	<u>Senior</u>	<u>Youth</u>
January 1991	\$5.00	\$3.00	\$2.00
January 1992	\$6.00	\$4.00	\$2.50
May 1994	\$8.00	\$5.00	\$4.00

Source: Minnesota Zoo Records.

As required by Minnesota Statutes, the Zoo is open free to the public on the second and third Tuesday each month.

Paid attendance has increased steadily over the last three years. Figure 3-2 shows the correlation between attendance and admission receipts collected for fiscal years 1991 through 1993.

Figure 3-2
Minnesota Zoological Garden
Attendance and Admission Receipts
FY91-FY93
(In Thousands)

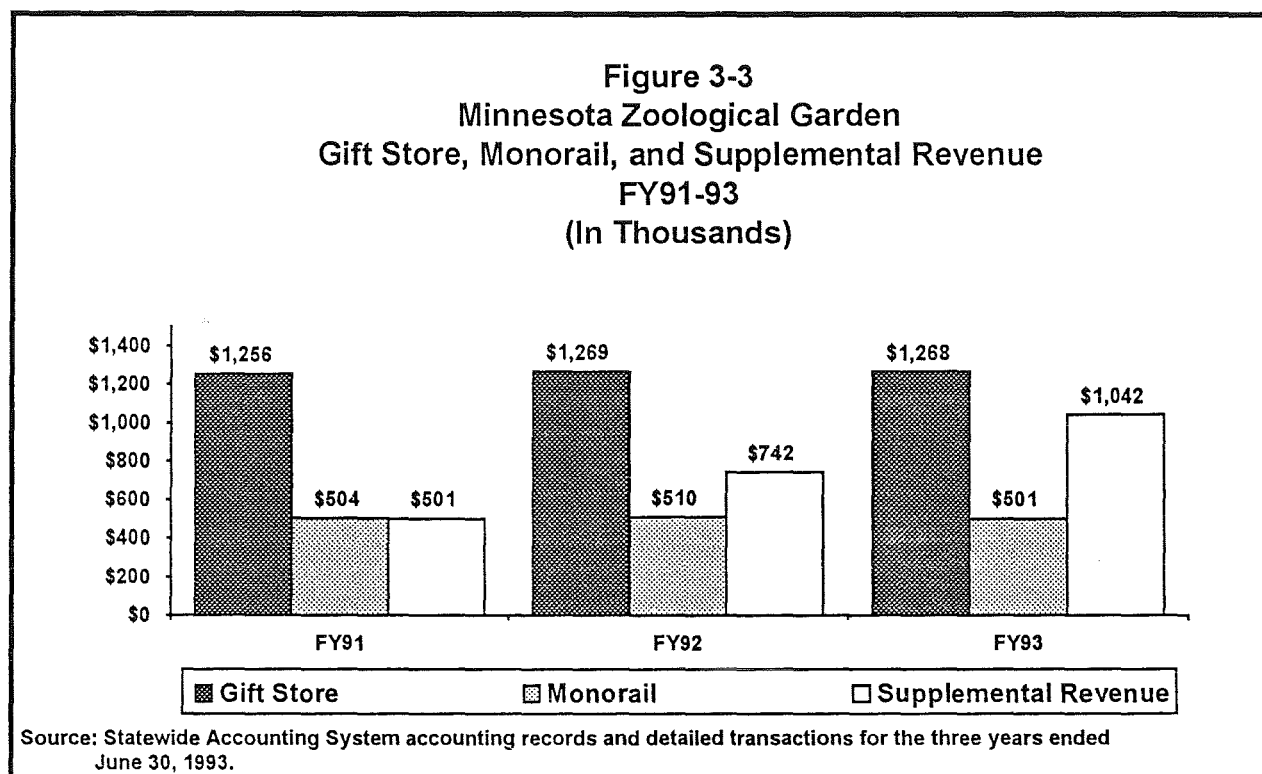


Sources: Receipts - Statewide Accounting System accounting records for the three years ended June 30, 1993.
Attendance - Minnesota Zoo Records.

Minnesota Zoological Garden

From our review of procedures and controls and testing of supporting records, we concluded that the Zoo was appropriately depositing and accounting for admission receipts.

Figure 3-3 shows selected other Special Revenue Fund receipts for fiscal years 1991 through 1993.



Gift Store

The gift store represents 20.4 percent of special revenue receipts. The gift store sells Zoo related merchandise, including clothing and books. In addition to its main location at the Zoo, the gift store sells merchandise at the major exhibits, such as the 1993 dinosaur exhibit and the 1994 bug exhibit. It also has a cart that can be placed at different Zoo locations. Sales have remained steady throughout the three fiscal years ended June 30, 1993.

From our review of procedures and controls and testing of supporting records, we concluded that the Zoo was appropriately depositing and accounting for gift store receipts.

Monorail and Supplemental Revenue

Monorail fees represent 8.2 percent of special revenue receipts. The Zoo charges visitors \$2 to ride the monorail. Supplemental revenue accounts represent 12.3 percent of special revenue receipts. The Zoo separately keeps track of various sources of revenue and codes them to a supplemental revenue account. Some of the major sources of supplemental revenue are: food service, animal rides, summer camp, after hours rental, school programs, strollers, and many other activities and special events. Supplemental revenue has increased significantly over the three

Minnesota Zoological Garden

fiscal years ended June, 1993. Improved attendance and the promotion of exhibits, such as the dinosaur exhibit, has helped to increase supplemental receipts.

Our review of procedures and controls and testing of transactions concluded that the Zoo had appropriately deposited and accounted for monorail and supplemental revenue.



13000 Zoo Boulevard, Apple Valley, MN 55124 612.431.9200

August 26, 1994

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

Dear Mr. Nobles:

I appreciate the opportunity to respond to the report on your audit of the Minnesota Zoological Garden for the three years ended June 30, 1993. In reviewing the report I am pleased to read that the Minnesota Zoological Garden properly accounted for the receipt and deposit of all special revenue fund accounts.

Following are our responses to your audit recommendations:

Recommendation: The Minnesota Zoological Garden should revise its agreement with the Minnesota Zoo Foundation to clarify the duties and responsibilities of the contracting parties.

Response: The Minnesota Zoo will revise its agreement with the Minnesota Zoo Foundation.

Recommendation: The Minnesota Zoological Garden should include an audit clause in all contracts and agreements.

Response: The Minnesota Zoo will include an audit clause in the revised Foundation agreement and in all zoo agreements.

Recommendation: The Minnesota Zoo should work with the Foundation to separate duties over receipts and disbursements to ensure the assets are secure.

Response: The Minnesota Zoo will work with the Foundation to separate duties over receipts and disbursements, consistent with resource limitations, to ensure the assets are secure.

I appreciated the professionalism demonstrated by your staff in their audit of the financial records of the Minnesota Zoological Garden.

Sincerely,

A handwritten signature in cursive script, reading 'Kathryn R. Roberts'.

Kathryn R. Roberts
Executive Director