
Minnesota Zoological Garden

Financial Audit

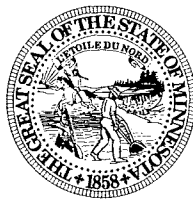
For the Period July 1, 1995, through June 30, 1997

April 1998

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Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

98-25



STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
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Minnesota Zoological Board

Members of the Minnesota Zoological Board

Dr. Kathryn Roberts, Executive Director
Minnesota Zoological Garden

We have conducted a financial related audit of selected activities of the Minnesota Zoological Garden for the period July 1, 1995, through June 30, 1997. We emphasize that this was not a complete audit of all Minnesota Zoological Garden programs. Our audit scope included: enterprise revenue, payroll, and administrative expenditures. The following Summary highlights the audit objectives and conclusions. We discuss these issues more fully in the individual chapters of this report.

We conducted our audit in accordance with generally accepted auditing standards and *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 also require that we design the audit to provide reasonable assurance that the Minnesota Zoo complied with the provisions of laws, regulations, contracts, and grants that are significant to the audit. Management of the Zoo is responsible for establishing and maintaining the internal control structure and for compliance with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the management 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 April 24, 1998.

Handwritten signature of James R. Nobles in cursive.

James R. Nobles
Legislative Auditor

Handwritten signature of Claudia Gudvangen in cursive.

Claudia Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: February 20, 1998

Report Signed On: April 20, 1998

SUMMARY

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Minnesota Zoological Garden

Financial Audit

For the Period from July 1, 1995, through June 30, 1997

Public Release Date: April 24, 1998

No. 98-25

Agency Background

The Minnesota Zoological Garden (Zoo), 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 Zoo is 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 is responsible for appointing a director who serves as the chief administrative officer of the Zoo. Dr. Kathryn Roberts has served as executive director since 1986.

Audit Scope and Conclusions

Our audit scope included enterprise activity revenues, Discovery Bay expenditures, and payroll and other administrative expenditures for the period July 1, 1995, through June 30, 1997. This was not a complete audit of all Minnesota Zoological Garden programs.

We found that over the last 11 years, the Zoo has experienced a 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 needs to improve its cash reconciliation procedures.

We found that the Zoo properly processed and recorded disbursement transactions relating to Discovery Bay. The Zoo also processed its payroll in accordance with applicable bargaining agreements and properly recorded the transactions in the accounting records. However, we found that the Zoo did not ensure that all travel reimbursement claims complied with applicable policies and regulations. We also found that Zoo employees used state purchased frequent flyer miles and cellular phones for personal use.

In its response to the audit report, the Zoo indicated that it agrees with the findings and has taken steps to resolve the issues.

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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	Audit Manager
Pat Ryan	Auditor-in-Charge
Anna Lamin	Auditor
Shane Smeby, CPA	Auditor

Exit Conference

The issues in this report were discussed with the following staff of the Minnesota Zoological Garden at an exit conference held on April 8, 1998:

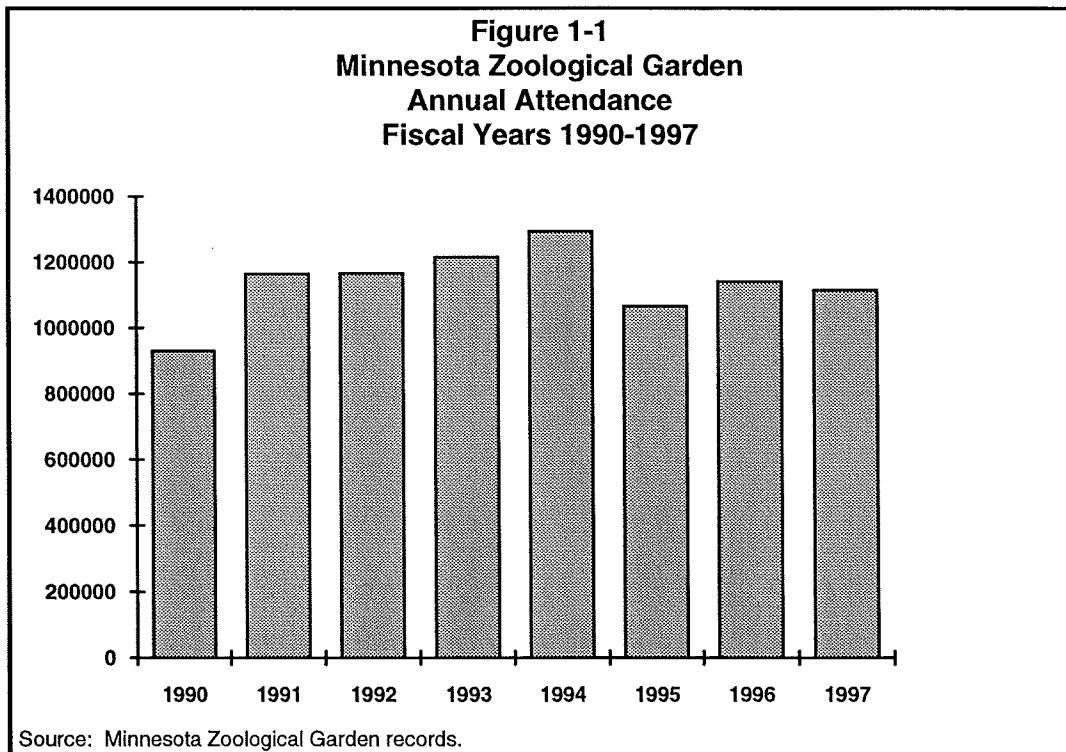
Kathryn Roberts	Executive Director
Connie Braziel	Director of Operations
Gloria Heinz	Director of Human Resources
Jeff Higgins	Finance Officer

Minnesota Zoological Garden

Chapter 1. Introduction

The Minnesota Zoological Garden (Zoo), 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 Zoo is 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 is responsible for appointing a director who serves as the chief administrative officer of the Zoo. Dr. Kathryn Roberts has served as executive director since 1986.

The Zoo has drawn over one million visitors per year over the last several years. Figure 1-1 shows the Zoo's attendance figures since fiscal year 1990.



The Zoo is situated in an area covering 500 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 Zoo collection currently stands at about 2,300 animals.

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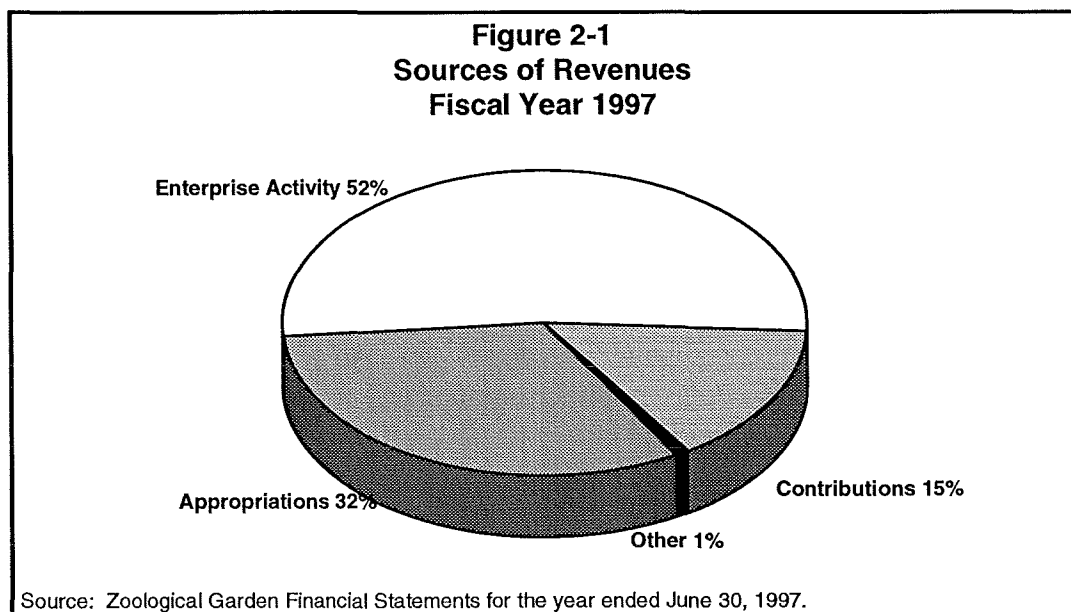
Chapter 2. Financial Management

Chapter Conclusions

Over the last 11 years, the Minnesota Zoological Garden has experienced a significant decline in its unrestricted retained earnings balance. As of June 30, 1997, its unrestricted retained earnings deficit was \$11,785,021 and its long-term debt liability was \$11,830,573. The Zoo did not operate within available resources in fiscal years 1996 and 1997. This was due, in part, to the fact that the Zoo did not achieve its projected attendance figures, especially in fiscal year 1997.

In order to pay for these revenue shortfalls, the Zoo miscoded certain transactions within the state's accounting system. At the end of fiscal year 1996, the Zoo shifted expenses into fiscal year 1997. At the end of fiscal year 1997, the Zoo obtained a cash loan from the Department of Finance in order to pay outstanding obligations.

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. This appropriation has stabilized at approximately \$5 million per year. The Zoo also 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 Zoo construction projects. Finally, the Zoo must generate enterprise activity income from various sources to fund its operations. Figure 2-1 shows the various sources of Zoo revenue for fiscal year 1997.



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Audit Objectives and Methodology

Our review of the Zoo's overall financial management focused on the following questions:

- Did the Zoo operate within its available resources and in compliance with legal requirements and management's authorization relating to its legislative appropriations?
- Did the Zoo design and implement controls to provide reasonable assurance that financial activities were properly recorded on the MAPS accounting system?

To answer these questions, we interviewed Zoo personnel to gain an understanding of the control system as it pertained to each of the individual program areas discussed in the following chapters. We also gained an understanding of management controls in place over budget preparation and monitoring. We reviewed transactions posted to the accounting records to determine if the Zoo properly recorded revenue and expenditure transactions on MAPS.

Finally, we also reviewed the Zoo's audited financial statements for the last several years. Pursuant to Minn. Stat. 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.

Budgeting Process

The Zoo prepares an annual budget detailing its projected revenues by source and expenditures for each of the Zoo's cost centers. The managers responsible for the cost centers prepare proposed spending budgets and present them to the division directors. The Zoo's finance office accumulates the cost center budgets and prepares an overall expense budget. The Zoo must also project annual attendance figures that form the basis for the Zoo's projected revenue from enterprise activities.

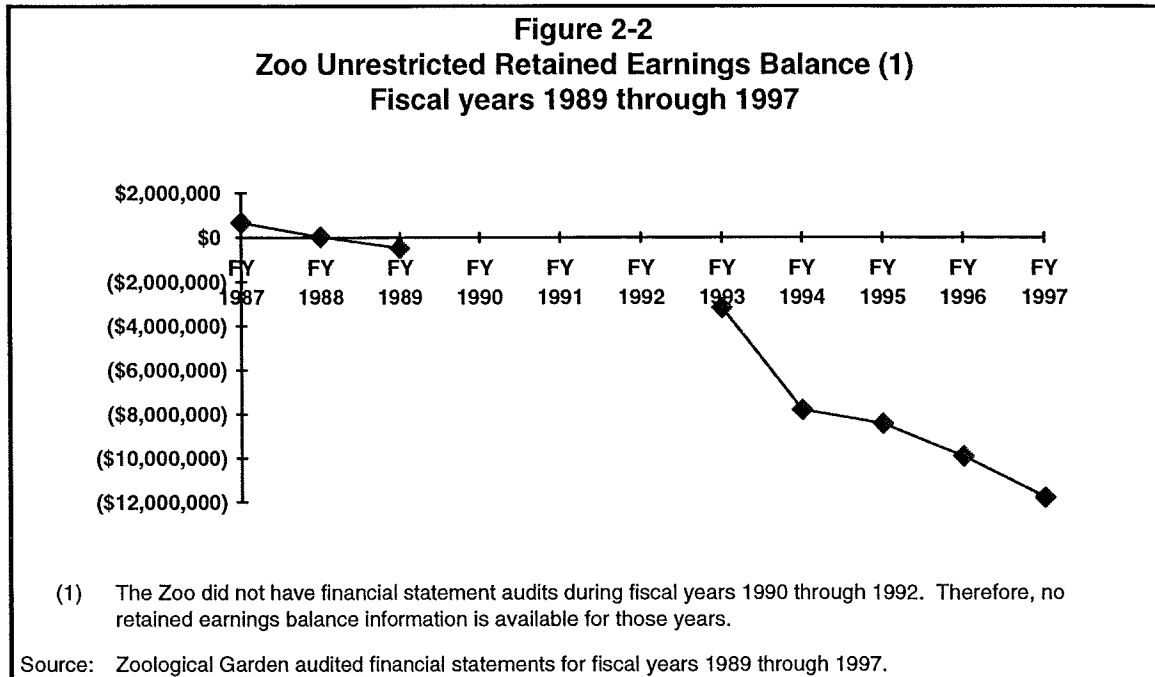
The Zoo includes a budget reserve of \$300,000 in its annual budget to provide a cushion for revenue shortfalls or expenditure overruns. After the proposed spending and revenues figures are developed, the Zoo's management adjusts department level budgets until the projected revenues will cover the budgeted expenditures and reserves. The budget is then 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. These comparisons are presented monthly to the board's Finance Committee for review.

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Financial Status

During the last few years, the Zoo has experienced increased financial stress. As Figure 2-2 shows, the Zoo's unrestricted retained earnings has declined significantly over the last 11 years. The unrestricted retained earnings are the accumulation of the Zoo's net income as of June 30 of each year.



One factor influencing the Zoo's declining retained earnings is its debt load. In 1989, the Zoo was virtually debt-free. Beginning in 1993, the state required the Zoo to pay for the long-term debt the state incurred by issuing general obligation bonds to finance capital projects at the Zoo. As of June 30, 1997, the Zoo's long-term debt liability for these projects, as well as assessments from the City of Apple Valley, totaled \$11,830,573.

Most of the Zoo's long-term liability resulted from funding its major new exhibit, Discovery Bay, which opened in May 1997. The project was funded by state bond proceeds of \$20,500,000. Until fiscal year 1998, the Legislature required the Zoo to pay all of the debt service costs on the bonds out of its dedicated receipts. Beginning in fiscal year 1998, the Zoo is required to pay 60 percent of the debt service costs with the state paying the remaining 40 percent. As of June 30, 1997, the Zoo's long-term liability relating to Discovery Bay was \$11,654,105.

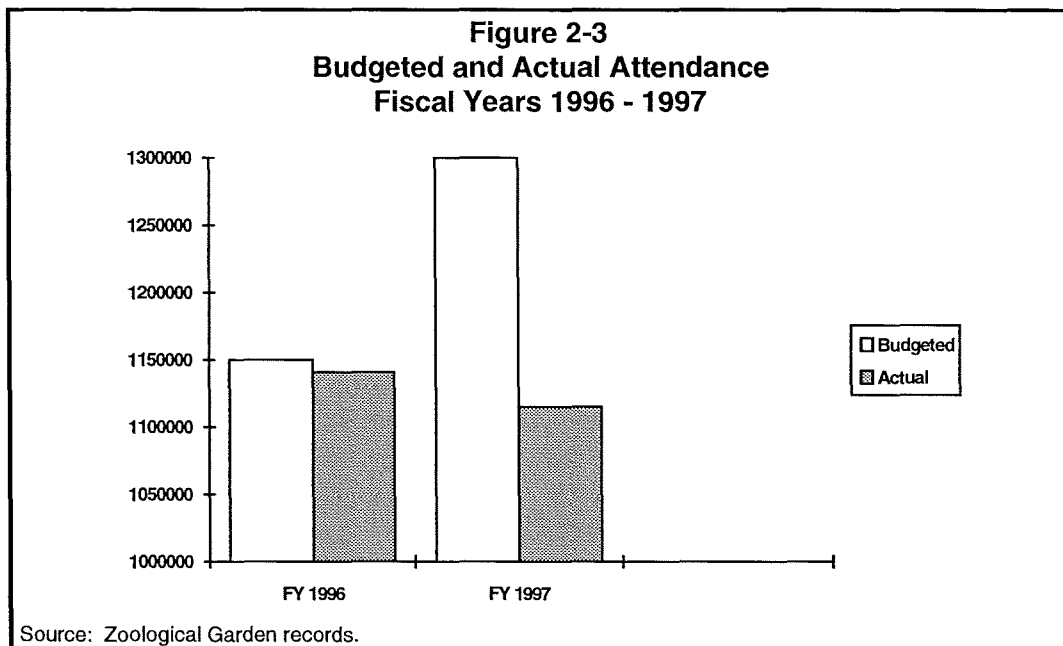
Another significant influence on the Zoo's financial position has been its ongoing projection of attendance. As part of its budgeting process, the Zoo estimates attendance revenues. The Zoo bases its annual attendance projections on past actual attendance plus increases for any special exhibits or promotions which may help draw additional visitors. The Zoo also attempts to factor in influences beyond its control, such as poor weather and competition from other similar attractions.

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The Legislature has also placed certain requirements on projected revenues from Zoo admissions. Minn. Stat. Section 85A.02, Subd. 17, requires the Zoo to admit elementary school children at no charge when they are a part of an organized school activity. It also requires the Zoo to "offer free admission throughout the year to economically disadvantaged Minnesota citizens equal to ten percent of the average annual attendance." Finally, as part of the Laws of 1996, Chapter 463, Section 54, the Legislature mandated that the Zoo not increase its admission fees before April 1, 2000.

Conclusions

As can be seen in Figure 2-3, the Zoo's actual attendance fell short of its projections for both fiscal years 1996 and 1997. As discussed below, due to these attendance shortfalls, the Zoo did not operate within its available resources in either fiscal years 1996 or 1997. As a result, the Zoo miscoded certain transactions within the state's accounting system both at the end of fiscal year 1996 and again at the end of fiscal year 1997.



1. The Zoo did not operate within its available resources during fiscal years 1996 and 1997.

The Zoo did not generate sufficient revenues in fiscal years 1996 and 1997 to fully fund its operations. During these years, the Zoo did not meet its budgeted attendance figures and related revenues. The Zoo originally budgeted its fiscal year 1997 attendance at 1,300,000. The Zoo expected the opening of the new Discovery Bay exhibit to provide increased attendance. There were various factors that impacted attendance including the death of six sharks, heavy rains in July, and increased competition from other family entertainment venues. The actual fiscal 1997 attendance was only 1,115,290.

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In order to fund its shortfall, the Zoo paid for at least \$60,000 of its fiscal year 1996 obligations with fiscal year 1997 revenues. Likewise, the Zoo paid for \$422,300 of fiscal year 1997 obligations with revenue earned in fiscal year 1998. At the end of fiscal year 1998, the Zoo is expecting to have a large deficit. To help alleviate the revenue shortfalls, the Zoo has requested a \$1,500,000 supplemental appropriation from the 1998 Legislature.

The Zoo has not accurately projected its attendance during the last two years. In addition, although the Zoo monitors its attendance monthly, it does not have a contingency plan in place to deal with revenue shortfalls of the magnitude it experienced during fiscal year 1997.

Recommendation

- *The Zoo should develop contingency plans to provide for decreased attendance and revenues.*

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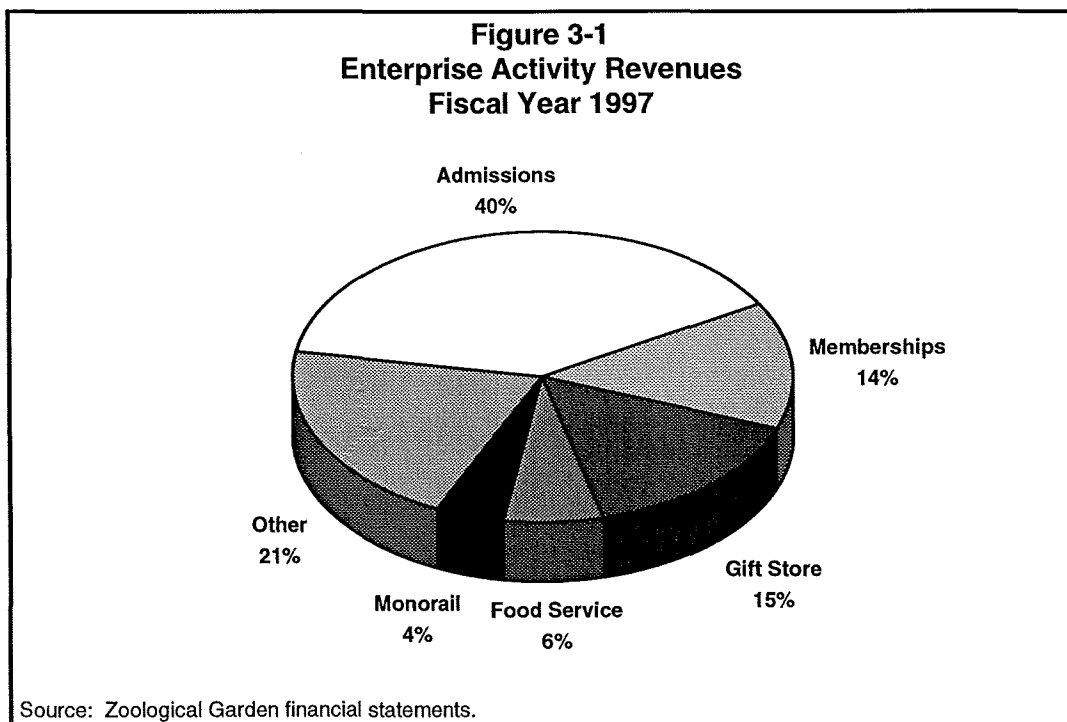
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Chapter 3. Enterprise Activity Revenues

Chapter Conclusions

The Minnesota Zoological Garden collected and appropriately deposited the revenues generated from admissions, memberships, monorail, and gift store activities. The Zoo designed and implemented internal controls to provide reasonable assurance that revenues were adequately safeguarded and properly recorded on the statewide accounting system (MAPS). However, the Zoo needs to improve its cash reconciliation procedures to ensure that any errors or irregularities are detected in a timely manner.

The Zoo generated approximately \$8.4 million in revenues from various enterprise activities in fiscal year 1997. Funds generated by the Zoo are deposited into a special revenue fund and may be used for operations and maintenance activities. Figure 3-1 shows the major sources of Zoo enterprise activity revenues.



Audit Objectives and Methodology

The primary objective of our audit of enterprise activity revenues was to answer the following question:

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- Did the Zoo design and implement internal controls to provide reasonable assurance that revenue generated from admissions and memberships, the monorail, the gift store, and other enterprise activities was safeguarded, deposited, accurately reported in the accounting records, and in compliance with applicable legal provisions?

To meet this objective, we reviewed controls over revenue processing, collection, and deposit. We performed analytical reviews of the Zoo's revenues. In addition, we tested samples of transactions to determine if the Zoo had accurately deposited and recorded the transactions on the MAPS accounting system.

Table 3-1 provides a summary of revenue generated by Zoo enterprise activities.

	<u>FY 1996</u>	<u>FY1997</u>
Admissions	\$3,438,876	\$3,315,115
Memberships	1,064,489	1,223,373
Gift Store (Gross Sales)	1,208,608	1,285,837
Food Service	516,144	553,056
Monorail	411,138	373,211
Other	<u>1,137,599</u>	<u>1,690,471</u>
Total	<u>\$7,776,854</u>	<u>\$8,441,063</u>

Source: Zoological Garden Audited Financial Statements for the years ended June 30, 1996 and 1997.

Admissions, Monorail, and Gift Store

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

Admission fees are the Zoo's most significant source of enterprise activity revenue. Admission fees have remained at the same level since fiscal year 1994. The cost of admission is \$8 for adults, \$5 for seniors, and \$4 for children age three and older. 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 \$2.50 for ages three and older to ride the monorail.

The Zoo also operates a gift store located in the main building. The gift store sells Zoo related merchandise, clothing, toys, and other items.

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

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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 contractor's gross sales.

Another revenue generating contractual arrangement exists between the Zoo and the Minnesota Zoo Theater Company for the operation of the IMAX Theater. The theater is located on Zoo property and is owned and operated by a private company. The Zoo leased the land to the theater and in return receives a percentage of the theater's net income. The contract also provides for monthly payments to the Zoo if annual Zoo paid attendance exceeds 1 million visitors. The IMAX Theater opened in April 1997.

Conclusions

The Minnesota Zoological Garden collected and appropriately deposited the revenues generated from admissions, memberships, the monorail, and gift store activities. The Zoo designed and implemented internal controls to provide reasonable assurance that revenues were adequately safeguarded and properly recorded on the statewide accounting system (MAPS). However, as explained below, the Zoo needs to improve its cash reconciliation procedures to ensure that any errors or irregularities are detected in a timely manner.

2. The Zoo did not perform independent reconciliations between the revenues processed in the cashroom and bank deposits.

The Zoo did not have sufficient control procedures to verify that the receipts collected and processed by the cashroom staff were properly deposited into the Zoo's bank account. The Zoo collected and processed approximately \$11 million in non-credit card revenues through its cashroom during fiscal years 1996 and 1997. The source of these revenues were mainly admission fees, gift store sales, and the monorail. Cashroom personnel are responsible for distributing change funds to the Zoo's cashiers, reconciling revenues to cash register summary totals, preparing the daily sales analysis, and processing the daily bank deposit. After preparing the bank deposit, cash room personnel forward copies of the sales and deposit information to the Zoo's finance office. The finance office enters the deposit information onto the MAPS accounting system based on the information sent from the cashroom. The finance office does not verify that the amount of the bank deposit processed by the cashroom staff agrees with the amount of receipts as shown on the cash register tapes and other support documentation.

Because cashroom staff have custody of the cash, prepare the daily sales analysis, and process the deposits, any errors or irregularities may not be detected without a separate, independent reconciliation. To ensure that the bank deposit agrees with revenues actually collected, employees without access to receipts should perform a reconciliation between the cash register tapes and the bank deposit.

Recommendation

- *The Zoo should perform an independent reconciliation between the bank deposit and the cash receipts support documentation.*

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Chapter 4. Discovery Bay

Chapter Conclusions

We found that the Zoo properly processed and recorded disbursement transactions relating to Discovery Bay in MAPS, the state's accounting system. For the items tested, expenditures charged to the Discovery Bay project during fiscal years 1996 and 1997 complied with the applicable finance-related legal provisions.

In the Laws of 1994, Chapter 643, Section 27, the Legislature appropriated \$20,500,000 "to design, construct, furnish, and equip a marine education center and related visitor improvements at the Zoo." The Zoo chose the design firm for the project in July 1994 and the project, later renamed Discovery Bay, opened to the public in May 1997.

Discovery Bay includes an amphitheater with three pools for dolphins, separate tanks for sharks, and a touch tank with small sharks and sting rays. The Zoo spent \$6,833,301 during fiscal year 1996 and \$12,075,898 during fiscal year 1997 on the Discovery Bay project.

Audit Objectives and Methodology

The primary objectives of our audit of Discovery Bay expenditures were to answer the following questions:

- Did the Zoo properly process and record Discovery Bay disbursements in the state's accounting records?
- Did expenditures charged to the Discovery Bay project comply with the applicable finance-related legal provisions?

To meet these objectives, we interviewed Zoo staff and reviewed related contracts. We tested a sample of disbursement transactions to verify that they were properly authorized, processed, and recorded, and complied with the applicable finance-related legal provisions.

Conclusions

We found that the Zoo properly processed and recorded disbursement transactions relating to Discovery Bay in MAPS, the state's accounting system. For the items tested, expenditures charged to the Discovery Bay project during fiscal years 1996 and 1997 complied with the applicable finance-related legal provisions.

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Chapter 5. Administrative Expenditures

Chapter Conclusions

The Zoo processed its payroll in accordance with applicable bargaining agreements and properly recorded the transactions in the accounting records. Administrative expenditures were reasonable and related to Zoo activities.

However, we found that the Zoo did not ensure that all travel reimbursement claims complied with applicable policies and regulations. We also found Zoo employees used state purchased frequent flyer miles and cellular phones for personal use.

Administrative expenditures of the Minnesota Zoological Garden are highlighted in Table 5-1 and discussed in the next three sections of this chapter.

Table 5-1
Administrative Expenditures
Fiscal Years 1996 and 1997

Administrative Expenditures:	Fiscal Year	
	1996	1997
Payroll	\$ 8,224,430	\$ 8,572,198
Travel	96,432	66,861(1)
Supplies and Equipment	2,033,919	3,527,175
Other	<u>3,935,606</u>	<u>4,258,195</u>
Totals	<u>\$14,290,387</u>	<u>\$16,424,429</u>

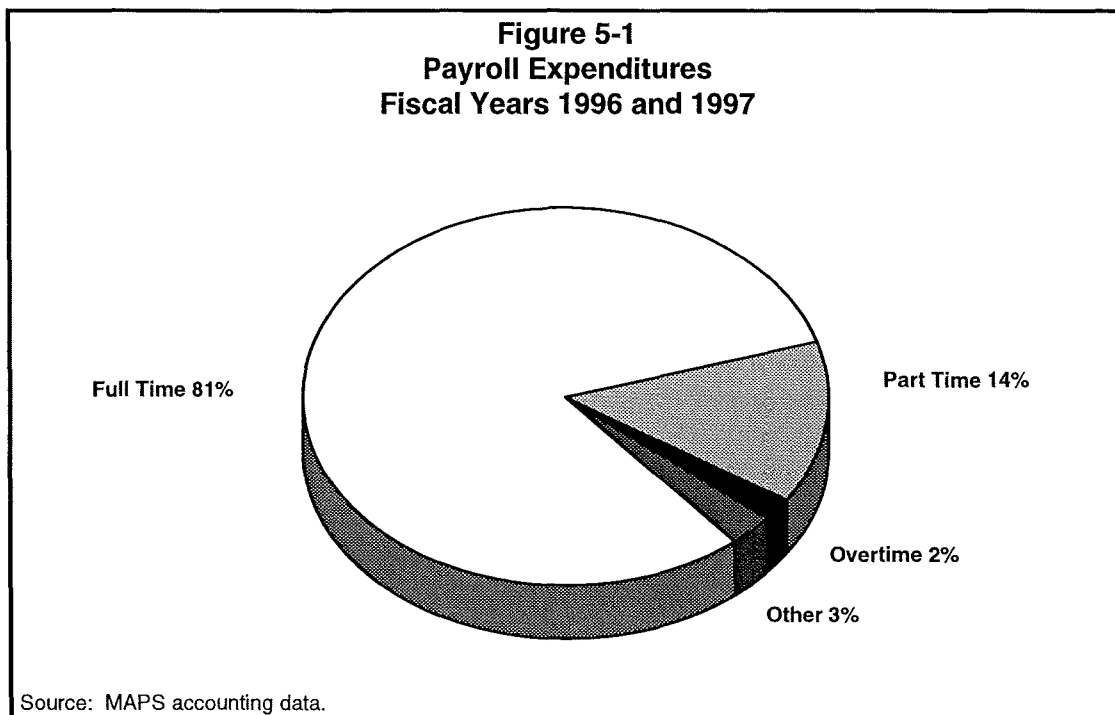
(1) Travel expenditures adjusted down by \$14,056 to reflect the effects of Finding 4.

Source: MAPS Accounting

Payroll

Payroll transactions for fiscal years 1996 and 1997 totaled approximately \$16.8 million. Figure 5-1 shows a breakdown of payroll expenditures by type.

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Objectives and Methodology

Our review of payroll processing focused on the following questions:

- Were payroll transactions accurately processed in accordance with applicable bargaining agreements and legal provisions?
- Did the Zoo design and implement internal controls to provide reasonable assurance that payroll transactions were properly recorded on the state's accounting system?

To answer these questions, we interviewed the Zoo's payroll staff 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.

Conclusions

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

Travel

Travel expenses for the agency amounted to \$163,293 for the two year period. The Zoo has specific policies and procedures for travel expense reimbursement. These policies cover

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reimbursement for the means of travel, meals and lodging, parking, telephone, and special expenses.

Objectives and Methodology

Our review of travel expenditures considered the following questions:

- Were travel expense transactions in compliance with the Zoo's travel expense reimbursement policy, employee bargaining unit agreements, and the Department of Finance's policy on employee travel expenses?
- Did the Zoo design and implement internal controls to provide reasonable assurance that travel expense transactions were properly authorized, adequately supported, and properly recorded on the state's accounting system?

To answer these questions, we interviewed Zoo staff to gain an understanding of the controls over employee expense reimbursement and travel expenditures. 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 these expenditures to determine if the Zoo complied with all applicable guidelines and regulations governing travel expenses.

Conclusions

As indicated in the findings below, we found that the Zoo did not ensure that all travel expense reimbursements were adequately supported and complied with the Zoo's travel expense reimbursement policy, employee bargaining unit agreements, and applicable Department of Finance policies. In addition, the Zoo did not accurately record some expenditures on the state's accounting system.

3. Some travel expense reimbursement claims did not comply with applicable policies and regulations.

The Zoo did not ensure that employee travel expense claims were always adequately supported and in compliance with applicable policies and regulations. We found several problems with the 19 employee expense claims we tested, including the following:

- In four instances, an employee did not provide meal receipts or provided receipts that showed they actually paid less than what they claimed for meals.
- In two instances, the Zoo reimbursed an employee for meals involving additional people without proper documentation.
- Finally, in three cases, the Zoo reimbursed employees for the cost of alcoholic beverages, which is not allowed under the state's travel reimbursement policy.

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The Zoo has not monitored travel expense claims sufficiently to ensure that they comply with the applicable travel related policies and regulations.

Recommendation

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

4. The Zoo incorrectly coded certain disbursements as travel expenditures.

The Zoo miscoded certain expenditures. In some cases, the Zoo assigned inaccurate travel object codes to disbursements. In other cases, the Zoo coded certain miscellaneous supply costs charged on expense reports as travel.

The Zoo miscoded over \$14,000 of catering and mailing expenses as out-of-state travel expenditures on MAPS. The coding errors arose when employees first entered purchase orders on the state's computerized purchasing system. Employees did not specify which object code to assign to the purchase orders, thus the computer system automatically defaulted to an object code for travel expenditures. The Zoo was not aware that purchase orders were incorrectly coded.

The Zoo also miscoded certain miscellaneous supply purchases as travel expenditures. In cases where employees claimed supplies on their expense reimbursement requests, the Zoo automatically assigned the purchases to travel-related object codes. The Department of Finance allows certain small supply purchases, not to exceed \$100, to be charged as in-state travel. However, we found several instances where such purchases exceeded \$100 and the Zoo still coded them as travel.

Because the Zoo uses the information on the state's accounting system for budgeting purposes, it is important that expenditures are accurately recorded.

Recommendation

- *The Zoo should ensure that all expenditures are properly recorded on the state's accounting system.*

5. The Zoo did not have a process in place to provide for the appropriate disposition of frequent flyer miles employees earned on Zoo business.

The Zoo did not have procedures in place to ensure that frequent flyer miles earned by Zoo employees traveling on state business were available for Zoo use. Minn. Stat. Section 15.435 requires that:

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Whenever public funds are used to pay for airline travel by an elected official or public employee, any credited or other benefits issued by any airline must accrue to the benefit of the public body providing the funding.

As part of their Zoo work assignments, two employees of the Zoo frequently traveled to Southeast Asia to work on a project. The travel expenses for these employees were paid in part by Zoo funds and in part by funds received through a private grant. Although there is no requirement for state employees to accumulate frequent flyer benefits, the two employees accrued frequent flyer miles as a result of these trips. In one case, the employee used some of the frequent flyer benefits to purchase a personal trip for the employee's spouse.

Recommendations

- *The Zoo should take necessary actions to ensure that any frequent flyer benefits accrued by employees on Zoo business are used for state business.*
- *The Zoo should recover the cost of the trip taken by the employee's spouse using Zoo frequent flyer miles.*

Supplies, Equipment, and Other Purchases

Generally, to initiate a purchase request for goods and supplies, Zoo employees must fill out a purchase requisition. Each employee has a set spending authority limit, if this limit is exceeded, a supervisor must authorize the purchase. The agency had a separation of duties over the purchasing process by having different employees order the item, receive the item, and authorize payment for the item.

Objectives and Methodology

The primary objectives of our audit of supplies, equipment, and other purchases were as follows:

- Did the Zoo design and implement internal controls to provide reasonable assurance that its procedures for purchasing supplies, equipment, and other items were adequate?
- Were the expenditures for supplies, equipment, and other purchases properly recorded on the state's accounting system?

To address these objectives, we interviewed agency personnel to gain an understanding of the purchasing process. In addition, we reviewed expenditure transactions by summarizing the information and analyzing trends and differences in the population. Finally, we extracted and tested a sample of transactions to determine whether the agency maintained adequate supporting documentation, properly authorized disbursements, paid the correct amount, and accurately recorded the transactions on the state's accounting system.

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Conclusions

On the basis of our testing, the Zoo accurately processed and properly recorded its expenditures for supplies, equipment, and other purchases on the state's accounting system. In addition, for the items tested, the Zoo complied with material finance related legal provisions, except for the use of cellular phones, as discussed below.

6. The Zoo inappropriately allowed employees to use their Zoo cellular phones for personal use.

The Zoo allowed employees to make personal calls on state provided cellular phones. Department of Finance policy number 0807-04 states, "Cellular telephones are for state use only." Minn. Stat. Section 43A.38 states, "An employee shall not use or allow the use of state owned equipment for the employee's private interests." Based on these references, we believe that cellular phones provided by the Zoo to its employees should be used for business purposes only and not be routinely used to make or receive personal calls.

The Zoo allowed personal calls, but required reimbursement for the cost of the calls. The Zoo finance section received the monthly cell phones bills and sent copies to the individuals using cell phones. These employees identified their own personal calls and submitted a check back to the Zoo. An analysis of cell phone calls indicated that over 14 percent of all cell phone calls were for personal use over the two-year period reviewed.

Recommendation

- *The Zoo should not allow cellular phones to be used for personal use.*

Minnesota Zoological Garden

Status of Prior Audit Issues As of February 20, 1998

Most Recent Legislative Audit

August 31, 1994, Legislative Audit Report 94-43 was a selected scope audit that examined two aspects of the Zoo's operations, receipts and fundraising, for the three years ended June 30, 1993.

We concluded that controls over receipts processing were adequate.

Concerning fundraising, we reported that the Zoo properly accounted for the receipt and deposit of gifts and donations. However, we made three recommendations to the Zoo regarding the foundation. The first two recommendations encouraged the Zoo to clarify its relationship with the foundation by revising its agreement with the foundation. The Zoo has since modified its agreement with the foundation to more clearly state the duties and responsibilities of each party. The revised agreement also included an audit clause, indicating that foundation records were subject to examination by the Zoo Board. The third recommendation cited needed improvements to the foundation's control structure. This recommendation was not relevant to the objectives of our current audit and, as a result, we did not pursue its status as part of this audit.

Other Audit Coverage

Pursuant to Minn. Stat. Section 85A.02, Subd. 5c, the Zoo employs a certified public accountant (CPA) 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, 1997, and was dated November 14, 1997. 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 to make significant audit adjustments to the financial records in order for them to agree to supporting documents. The firm also cited the growth of the Zoo's "other expense" category on the financial statements and recommended a periodic review of items being posted to that category.

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, boards, 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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April 17, 1998

Claudia Gudvangen
Deputy Legislative Auditor
Office of the Legislative Auditor
First Floor Centennial Building
658 Cedar Street
St. Paul, MN 55155

Dear Ms. Gudvangen:

We appreciate the opportunity to respond to your audit recommendations in your letter dated April 1998.

Chapter 2. Financial Management

Recommendation: The Zoo should develop contingency plans to provide for decreased attendance and revenues.

Response: The Zoo Board, in conjunction with the State Department of Finance and the Legislature, will develop contingency plans to provide for decreased attendance and revenues with a view toward a long-term solution to the financing challenges facing the Zoo.

Chapter 3. Enterprise Activity Revenues

Recommendation: The Zoo should perform an independent reconciliation between the bank deposit and the cash receipts support documentation.

Response: The Zoo will perform an independent reconciliation between the bank deposit and the cash receipts support documentation. In addition, with the installation of the new ticketing and admissions system this fall, the Zoo will be able to perform this comparison with the data directly from the cash register terminals.

Chapter 5. Administrative Expenditures

Recommendation #1: The Zoo should implement effective internal controls over employee travel expenses, especially in the area of meal reimbursements, to ensure that employee claims are adequately supported and comply with all applicable policies and regulations.

Response: The Zoo will implement new effective internal controls and has implemented new travel policies.

Recommendation #2: The Zoo should ensure that all expenditures are properly recorded on the state's accounting system.

Response: The Zoo will ensure that all expenditures are properly recorded on the state's accounting system.

Recommendation #3: The Zoo should take necessary actions to ensure that any frequent flyer benefits accrued by employees on Zoo business are used for state business. The Zoo should recover the cost of the trip taken by the employee's spouse using Zoo frequent flyer miles.

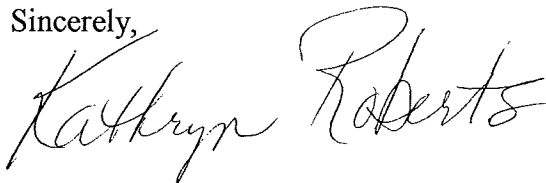
Response: The Zoo has revised its internal policies to require staff to maintain separate accounts for Zoo business and personal travel. The frequent flyer miles arising from Zoo business will be used for Zoo business. Staff have repaid the Zoo for frequent flyer miles used for personal travel.

Recommendation #4: The Zoo should not allow cellular phones to be used for personal use.

Response: The Zoo has reviewed cellular phone use. Phones issued are for business purposes. A Zoo policy has been developed and distributed to staff reflecting the Department of Finance Policy #0807-04.

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

Sincerely,

A handwritten signature in cursive script that reads "Kathryn Roberts". The signature is written in black ink and is positioned to the right of the word "Sincerely,".

Kathryn R. Roberts
Chief Executive Officer