

O L A

OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial Audit Division Report

Minnesota Zoological Garden
July 1, 2003, through December 31, 2006



November 8, 2007

07-30

Financial Audit Division

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

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

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OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

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FINANCIAL AUDIT DIVISION

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

Representative Rick Hansen, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Harry Haynsworth, Chair
Minnesota Zoological Board

Members of the Minnesota Zoological Board

Mr. Lee Ehmke, Director
Minnesota Zoological Garden

We conducted an audit of the Minnesota Zoological Garden (Zoo) for the period July 1, 2003, through December 31, 2006. Our audit scope included expenditures for payroll and out of state travel and revenues for admission, membership, monorail, parking, and concession activities. Our objectives focused on a review of internal controls over these financial activities and the Zoo's compliance with applicable legal requirements. In addition, our office conducted a separate audit of security access and professional/technical services at several agencies, including the Zoo. We report the results from that in Chapter 4, Professional/Technical Services Contracts. The enclosed Report Summary highlights our overall audit conclusions. The specific audit objectives and conclusions for each area are contained in the individual chapters of this report.

We thank the staff from the Minnesota Zoological Garden for their cooperation during this audit.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Cecile M. Ferkul

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

End of Fieldwork: June 22, 2007

Report Signed On: November 5, 2007

Minnesota Zoological Board

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Audit Participation

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

| | |
|---------------------------------|----------------------------|
| Cecile Ferkul, CPA, CISA | Deputy Legislative Auditor |
| David Polisenno, CPA, CISA, CFE | Audit Manager |
| Jim Riebe, CPA | Audit Manager |
| Susan Kachelmeyer, CPA, CISA | Audit Coordinator |
| Thom Derus | Auditor |
| Melanie Greufe | Auditor |
| Jamie Majerus | Auditor |
| Zach Yzermans | Auditor |

Exit Conference

We discussed the results of the audit with the following representatives of the Minnesota Zoological Garden at an exit conference on October 29, 2007:

| | |
|----------------|--|
| Steve Kirchner | Board Member, Finance Committee Chair |
| Lee Ehmke | Director/CEO |
| Connie Braziel | Deputy Director |
| Peggy Adelman | Chief Financial Officer |
| Jeff Higgins | Accounting Director |

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Report Summary

Conclusion:

The Minnesota Zoological Garden (Zoo) generally had adequate internal controls over its financial activities; however, it should improve its separation of incompatible financial duties.

The Zoo should also improve compliance with legal requirements related to its revenue operations, imprest cash account, employee travel expenditures, and professional/technical contracts.

The report contains ten audit findings.

Key Findings:

- Prior Finding Partially Resolved: The Zoo did not ensure it received the correct amount of commission revenues from its service contractors. ([Finding 1, page 9](#))
- The Zoo overpaid its food service contractor by about \$30,000. ([Finding 2, page 9](#))
- The Zoo did not adequately separate key financial duties. ([Finding 3, page 10](#) and [Finding 7, page 16](#))
- The Zoo did not comply with imprest cash requirements. ([Finding 5, page 12](#))
- Prior Finding Not Resolved: The Zoo did not comply with applicable employee expense policies. ([Finding 8, page 17](#))

Audit Scope:

Period Audited:

- Security access controls as of January 2007.
- July 1, 2005, through June 30, 2006, for professional/technical expenditures.
- July 1, 2003, through December 31, 2006, for all other activity.

Areas Examined:

- Selected cash and revenue operations
 - Payroll and travel expenditures
 - Professional/technical services contracts
-

Agency Background:

The Minnesota Zoological Garden, which opened in 1978, is located in Apple Valley, Minnesota. It is governed by *Minnesota Statutes* 2006, chapter 85A, as a “partnership between the private sector and the state” to provide unique opportunities for Minnesotans and out-of-state visitors to experience and learn about wildlife. The Minnesota Zoological Board manages and controls the Zoo. The board consists of 30 public and private sector members. The board is responsible for appointing a director who serves as the chief administrative officer of the Zoo. Lee Ehmke is the current director.

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Minnesota Zoological Garden

Chapter 1. Introduction

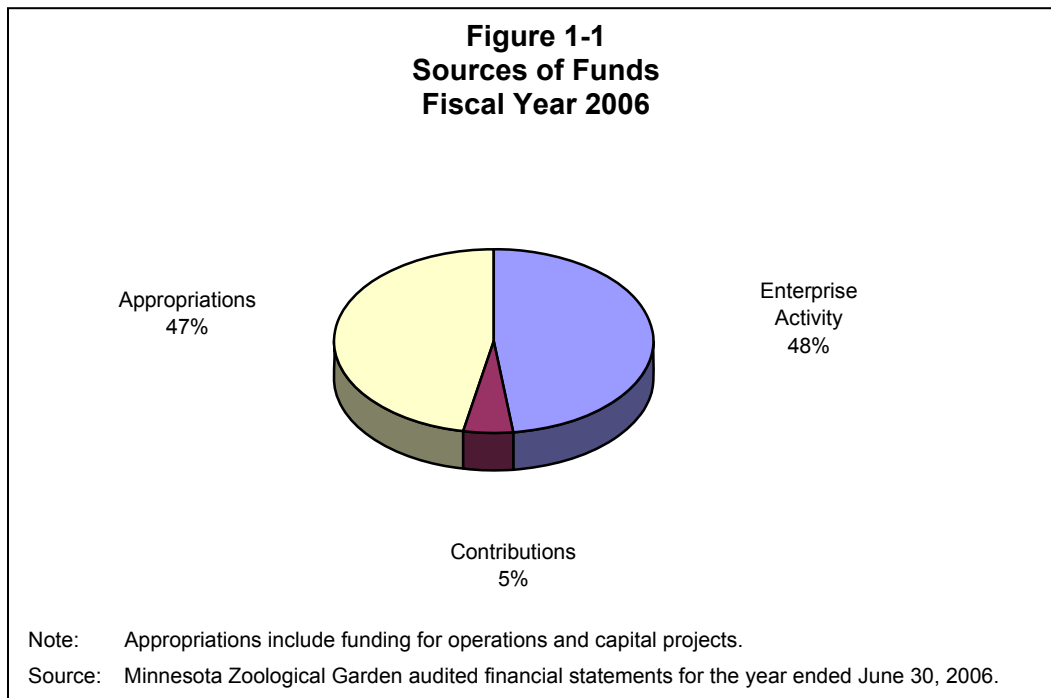
The Minnesota Zoological Garden (Zoo), which opened in 1978, is located in Apple Valley, Minnesota. It is governed by *Minnesota Statutes* 2006, chapter 85A as a “partnership between the private sector and the state” and provides unique opportunities for Minnesotans and out-of-state visitors to experience and learn about wildlife. The Minnesota Zoological Board manages and controls the Zoo. The board consists of 30 public and private sector members. The board is responsible for appointing a director who serves as the chief administrative officer of the Zoo. Lee Ehmke is the current director.

The Zoo is situated on 500 acres in which animals are displayed in settings similar to their natural environments. Approximately 40 percent of the land is developed, 30 percent is protected wetlands, and 30 percent is undeveloped. The Zoo collection currently stands at about 2,300 animals, with 350 animals representing 22 species on the United States Fish and Wildlife Service Endangered Species Act list. The Zoo is involved with national and international programs to breed and preserve these species.

The Zoo finances its operations from several sources. The Legislature provides the Zoo with an annual appropriation to help fund general operations and biological programs. These operating appropriations have been approximately \$6.5 million per year. For fiscal years 2005 and 2006, the state also provided the Zoo with special construction appropriations of \$22.6 and \$15 million, respectively. The unused portion of these construction appropriations is considered deferred revenue on the Zoo’s audited financial statements. In addition, the Zoo generates enterprise activity income from various sources to fund its operations. Finally, the Zoo benefits from the Minnesota Zoo Foundation. The foundation is governed by a board of trustees and coordinates fundraising events for the Zoo each year. The Zoo considers the foundation significant for financial reporting purposes and shows it as a discretely presented component unit in the Zoo’s audited financial statements.

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Figure 1-1 provides a summary of the Zoo's sources of funds for fiscal year 2006.



Pursuant to *Minnesota Statutes* 2006, 85A.02, subd. 5c, the Zoo employs a certified public accountant each year to examine its financial records and provide an opinion on the Zoo's financial statements. According to the Zoo's audited financial statements, operating revenues totaled \$18,713,374; operating expenses totaled \$19,387,260; net assets totaled \$41,663,792; and total assets were \$83,775,438 for the year ended June 30, 2006.

Budget Process

The Zoo prepares an annual budget detailing its projected revenues and expenditures for each of the Zoo's cost centers. Included in the annual budget is a reserve of \$500,000 to provide a cushion for revenue shortfalls or expenditure overruns. The Zoo submits the budget to the Minnesota Zoological Board's Finance Committee for review and approval before submitting it to the board's executive committee for additional review and comments. The board then approves the final budget for the Zoo. During the year, the Zoo compares budgeted attendance, revenues, and expenditures to actual results on a monthly basis. The Zoo sends these comparisons for review to the board's finance committee members who meet quarterly to discuss the budget.

The Office of the Legislative Auditor selected the Zoo for audit based on an annual assessment of state agencies and programs. We used various criteria to determine the entities to audit, including the size and type of each agency's financial operations, length of time since the last audit, changes in organizational structure and key personnel, and available audit resources.

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Audit Approach

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of the Zoo's internal controls relevant to the audit objectives. We used the guidance contained in *Internal Control-Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission,¹ as our criteria to evaluate agency controls. The standards also require that we plan the audit to provide reasonable assurance that the Zoo complied with financial-related legal requirements that are significant to the audit. In determining the department's compliance with legal requirements, we considered the requirements of laws, regulations, and contracts.

To meet the audit objectives, we gained an understanding of the Zoo's financial policies and procedures. We considered the risk of misstatements in the accounting records and noncompliance with relevant legal requirements. We analyzed accounting data to identify unusual trends or significant changes in financial operations. We examined a sample of evidence supporting the agency's internal controls and compliance with laws, regulations, and contracts.

¹ The Treadway Commission and its Committee of Sponsoring Organizations were established in the mid-1980s by the major national associations of accountants. One of their primary tasks was to identify the components of internal control that organizations should have in place to prevent inappropriate financial activity.

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Chapter 2. Selected Cash and Revenue Operations

Chapter Conclusions

The Minnesota Zoological Garden collected and deposited revenue generated from business and concession activities. However, the Zoo did not verify the amount of commission revenue it received, as discussed in Finding 1. The Zoo overpaid its food service vendor due to misinterpreting its contract with the vendor, as discussed in Finding 2. Finally, the Zoo did not adequately separate its cash receipts duties, as discussed in Finding 3.

For the items tested, the Zoo did not comply with finance-related legal requirements relating to selected revenue operations. The Zoo did not deposit its receipts in a timely manner, as discussed in Finding 4. In addition, the Zoo improperly used its imprest cash account, as discussed in Finding 5. Finally, the Zoo violated state statute by entering into a 36-year contract with one of its vendors, as discussed in Finding 6.

Audit Objective

The primary objective of our audit was to answer the following questions:

- Did the Zoo's internal controls provide reasonable assurance that it adequately safeguarded its receipts, accurately recorded the receipts in the accounting records, and complied with applicable legal requirements and management's authorization?
- For items tested, did the Zoo comply, in all respects, with the finance-related legal compliance provisions over selected cash and revenue operations?

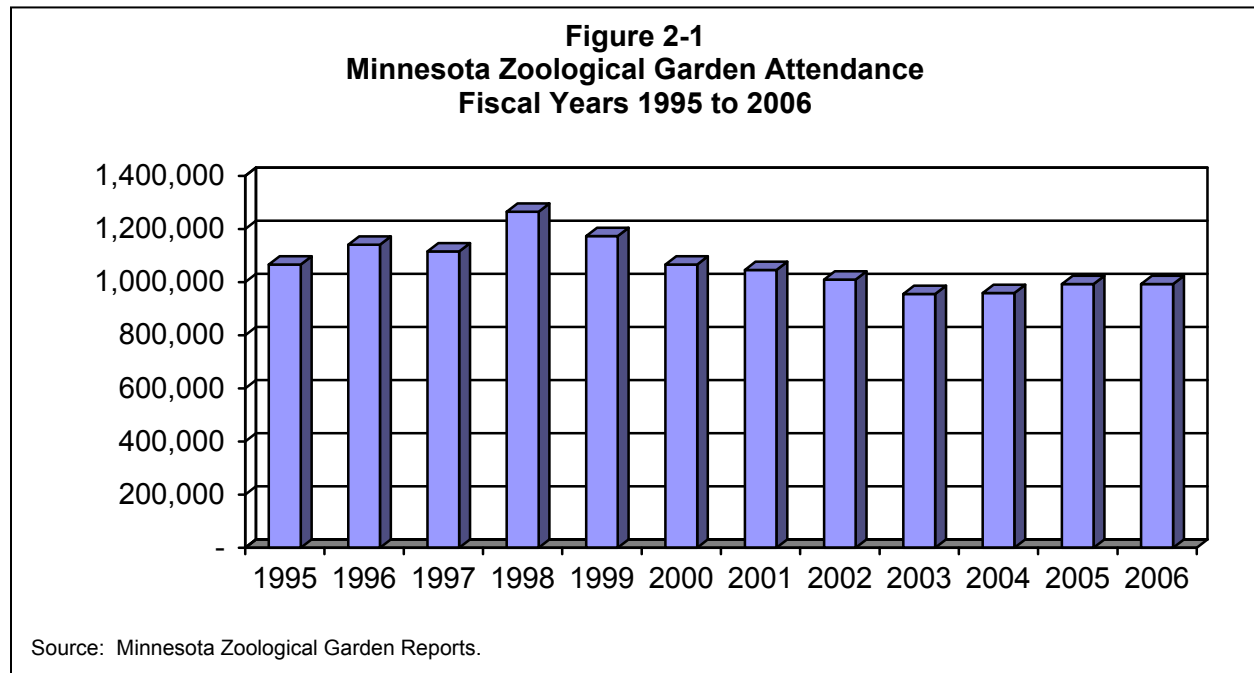
Background

Operating Revenue

Admission fees were the Zoo's main source of operating revenue, collecting approximately \$13 million. It also collected \$6.6 million from memberships and \$1.2 million from monorail fees for fiscal years 2004 through 2006. Admission to the Zoo was \$12 for adults, \$8.25 for seniors, and \$7 for children age three to twelve. The Zoo also offered annual membership plans ranging from \$35 to \$95 for individuals and families and \$175 to \$375 for daycare providers. The monorail offered visitors the opportunity to ride on an elevated track and view the Zoo's outdoor exhibits. The Zoo charged \$3.50 for riders ages three and older. Finally, the Zoo rented 2-3 person paddleboats for a charge of \$5 per person per half-hour for riders ages three and older.

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As shown in Figure 2-1, the Zoo exceeded one million visitors per fiscal year regularly until fiscal year 2003. Attendance was slightly less than one million for the next four fiscal years.



The Zoo collected much of its gate admissions, parking, and attractions revenue using cash registers located throughout the Zoo. Cashiers turned in their daily receipts along with supporting documentation to a central cash room. Cash room employees received cash register documentation, counted and reconciled receipts, and prepared bank deposits. The Zoo's finance unit entered the cash and credit card transactions into the state's accounting system and independently reconciled the bank deposit to supporting documentation. The Zoo processed most of its financial activity through the state's treasury bank account.

Contractual Arrangements

The Zoo also received revenue through contractual arrangements with private vendors such as food service, the gift store, and the theater.

- The Zoo provided dining space throughout the Zoo and, in return, the Zoo received a percentage of the food service contractors' gross sales. The percentage varied depending on the service provided. For example, the food court vending percentage was 21 percent and catering was 6 percent. During fiscal years 2004 through 2006, the Zoo received about \$1.7 million in food concession revenue.
- The Zoo also contracted out its gift store operations. The vendor operates the gift store located in the main building, the gift store in the Waterworks area and, during the summer, several kiosks throughout the Zoo. The gift stores sold Zoo-related

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merchandise, clothing, toys, and other items. This vendor had exclusive rights to sell its products and services on the Zoo premises. During fiscal years 2004 through 2006, the Zoo received about \$1.2 million in gift store commissions.

- The Zoo also contracted with an outside vendor to operate a 600-seat IMAX theater with a six-story screen. The Zoo allowed the vendor to use the land and parking lots, and the vendor pays the Zoo if attendance or the vendor's earnings met certain criteria. During fiscal years 2004 through 2006, the Zoo did not receive any revenue from theater operations because paid admissions and the vendor's earnings did not exceed contractual minimums.

Current Findings and Recommendations

1. Prior Finding Partially Resolved: The Zoo did not adequately monitor sales activity of its service contractors to ensure it received the proper amount of commission revenue.

The Zoo did not verify the accuracy of reported sales by the food service or gift store vendors to ensure that it received its proper commission. In addition, it did not review the theater vendor's financial statements to determine if it had earned any commission revenue from that operation. Based on contractual agreements, the Zoo had the right to receive monthly commissions from the food service, gift store, and theater vendors.

In response to our prior audit finding, the Zoo asked the public accounting firm that audits its financial statements to review the food service and gift store contractors' sales activity every other year. However, the Zoo did not include this service in its contract with the accounting firm and did not obtain documentation of the reviews. Instead, it relied on informal verbal discussions with the accounting firm. Without reviewing the supporting documentation, the Zoo could not ensure that it received the correct amount of commission revenue.

Recommendation

- *The Zoo should monitor activity of its service contractors on a periodic basis to ensure that it receives the correct amount of commission revenue.*

2. The Zoo overpaid its food service vendor nearly \$30,000.

The Zoo did not pay its food vendor in accordance with the contract. The terms of the contract were revised when the IMAX theater became part of the Zoo's attractions. The initial agreement between the Zoo and the theater holding company stipulated that the theater would provide all concessions at the theater, including food service. The holding company intended to provide its own food service to enhance the theater's profitability. However, the Zoo's existing food service vendor had exclusive rights to offer food service on the entire Zoo grounds, including where the theater is located.

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To resolve the dispute between the theater and the food vendor, the Zoo allowed the food vendor to provide food at the theater and waived the commission the Zoo would normally receive from those sales. In lieu of paying the Zoo a commission, the food vendor would pay the theater a monthly license fee, calculated as 42 percent of either a per capita amount or the actual gross revenue from food concessions at the theater, whichever was greater. The Zoo further agreed to repay the food vendor for a portion of the license fee it paid the theater, to create some equity between the license fee and what the commission to the Zoo would have been. The Zoo had intended to make a payment to the food vendor that would reduce the license fee from 42 percent of the per capita amount or actual gross revenue to 37 percent of that amount. However, the actual terms of the contract provided for the Zoo to pay the food vendor five percent of the license fee, which was a smaller amount than intended.

Honoring the contract's intent rather than its content, the Zoo overpaid the food service vendor nearly \$30,000 for the period from July 2004 through April 2007. The Zoo should have paid the food service vendor in accordance with the contract or amended the contract to match the intended terms.

Recommendations

- *The Zoo should comply with its food service contract or amend the contract.*
- *The Zoo should recover overpayments it made under the written contract.*

3. The Zoo did not properly separate incompatible duties in its cash receipt process.

The Zoo did not separate the duties of receiving receipts, preparing deposits, and entering the transactions into the state's accounting system. State policy² requires that the same employee should not receive cash or checks, prepare deposits for the bank, and enter receipts into the state's accounting system. These duties are incompatible because they allow one employee to control the entire cash receipt process. A fundamental internal control, the separation of incompatible duties, reduces the risk of lost or stolen receipts. In addition, it creates accountability among multiple employees for their assigned tasks. The Zoo should separate these duties or develop mitigating controls to ensure that it properly safeguards receipts.

Recommendation

- *The Zoo should separate the incompatible duties in the cash receipt process or implement mitigating controls.*

²Departments of Finance and Administration Operating Policy and Procedure Number 0602-03 "Recording and Depositing Receipts."

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4. The Zoo did not always document, deposit, or record its receipts in accordance with statutory requirements and state policy.

The Zoo did not always retain documentation to support deposit amounts, did not always deposit its receipts daily when they exceeded \$250, as required by statute,³ and did not record deposits on the state's accounting system in accordance with state policy.

- The Zoo did not have documentation to support 31 of the 42 tested deposit transactions; eight deposits were missing the actual deposit slip from the bank. The state's accounting record retention schedule requires agencies to keep cash receipt documentation for the current fiscal year plus the prior three fiscal years or until audited. Without adequate receipt documentation, the Zoo cannot show that it adequately safeguarded and deposited all receipts and accurately recorded those receipts in the accounting records.
- The Zoo did not deposit receipts daily for 34 out of the 42 deposits tested. For 29 of the deposits, we could not determine the exact date of deposit because, as discussed in the previous bullet, the Zoo did not have supporting documentation. In those cases, we performed additional procedures and concluded that the Zoo had deposited the majority of the receipts late. In 2001, the Zoo obtained a waiver from the Department of Finance⁴ exempting it from making daily deposits during its slow season (October through April), but the Zoo did not renew the waiver when it expired.
- The Zoo recorded 34 of 42 tested deposits in the state's accounting system from 5 to 55 days after the actual bank deposit. State policy requires that agencies record deposits in the state's accounting system on the same day they make the bank deposit. The Zoo usually aggregated several deposits when it recorded them on the accounting system. Consequently, the aggregated transaction did not properly identify the date of deposit on the accounting system, as required by state policy.⁵

Recommendations

- *The Zoo should ensure that it retains supporting documentation in compliance with applicable records retention schedule.*
- *The Zoo should deposit receipts in a timely manner in compliance with state statute.*
- *The Zoo should record receipts in the state's accounting system on the date the bank deposit occurs.*

³ *Minnesota Statutes* 2006, 16A.275.

⁴ Departments of Finance and Administration Operating Policy and Procedure Number #0602-06 "Daily Deposit Waiver."

⁵ Departments of Finance and Administration Operating Policy and Procedure Number 0602-03 "Recording and Depositing Receipts."

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5. The Zoo did not comply with imprest cash requirements.

The Zoo did not comply with certain provisions of the state's⁶ or its own⁷ imprest cash policies. The Zoo used the state's accounting system to process most of its financial activity and generate state warrants to its vendors for goods and services it received. However, the Zoo also used one local bank account to pay for certain goods or services, establish change funds at its gates, and make refunds to its patrons. The Zoo had the following weaknesses in its imprest cash activity:

- The Zoo erroneously used its imprest cash account to pay for repeated purchases from vendors and vendors already established on the state's accounting system. The Department of Finance's imprest cash policies⁸ prohibit state agencies from using its imprest cash account for repetitive business. The Zoo should have processed these expenditures through the state's normal purchasing process.
- The Zoo improperly used its imprest cash account for Building Fund activity. The Zoo did not have the authority to use its imprest cash account for purchases made out of this fund.
- Finally, the Zoo used its local bank account to process a transaction without recording the activity in the state's accounting system. The Zoo deposited an insurance check for \$3,000 for the death of a gazelle into the imprest cash account and then wrote a check for \$3,000 out of the account to the owner of the gazelle. The Zoo never recorded this transaction on the state's accounting system. Additionally, the transaction exceeded its own \$2,500 limit for imprest cash transactions.

The state established imprest cash accounts for agencies to use for minor disbursements or in emergencies. Improper use of imprest cash accounts allows agencies to circumvent various purchasing and disbursing controls.

Recommendations

- *The Zoo should ensure that it complies with state and its own policies related to imprest cash.*
- *The Zoo should promptly record all financial activity in the in the state's accounting system.*

⁶ Departments of Finance and Administration Operating Policy and Procedure Number 0608-01 "Imprest Cash Funds, Establishing or Increasing" and Number 0608-02 "Imprest Cash Funds, Using and Reimbursing."

⁷ Minnesota Zoological Garden Policy and Procedure Number 200 "Imprest Cash Funds"

⁸ Departments of Finance and Administration Operating Policy and Procedure Number 0608-02 "Imprest Cash Funds, Using and Reimbursing"

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6. The Zoo did not obtain written approval for the length of its theater vendor contract.

The Zoo's contract with the theater vendor did not comply with state statutes. The term of the original and amended contract is in excess of 36 years, running from February 1996 through June 2032. *Minnesota Statutes*⁹ require that original contracts not exceed two years unless the Department of Administration determines that a longer duration is in the best interest of the state. The statutes also required that the combined contract and amendments not exceed five years without specific, written approval by the Department of Administration. The Zoo did not obtain approval or amend its chapter for the agreement with its theater vendor. Although the Zoo has a statutory exemption¹⁰ from this provision for its food service and gift store operations, it does not have an exemption for its theater operations.

Recommendation

- *The Zoo should limit contract terms to two years, as required by statute, unless it obtains written approval from the Department of Administration.*

⁹ *Minnesota Statutes* 2006, 16C.09.

¹⁰ *Minnesota Statutes* 2006, 85A, subd. 17.

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Chapter 3. Payroll and Travel Expenditures

Chapter Conclusions

The Zoo accurately recorded payroll expenditures in the state’s accounting records and were properly authorized by management. However, the Zoo did not separate its payroll and human services functions, as discussed in Finding 7.

For the items tested, the Zoo complied with finance-related legal requirements and the bargaining unit agreements governing payroll expenditures. However, the Zoo did not always comply with legal requirements over employee expense reimbursements, as discussed in Finding 8. Finally, the Zoo did not ensure that employees complied with statutes that prohibit travel-related benefits, as discussed in Finding 9.

Audit Objective

The primary objective of our audit of payroll and travel expenditures was to answer the following questions:

- Did the Zoo properly record payroll and travel expenditures in the state’s accounting records?
- Did the Zoo have an adequate process to authorize and approve all payroll and travel related costs?
- Did the Zoo comply with finance-related legal requirements?

Background

Employee Payroll

Payroll was the Zoo’s largest administrative expenditure, averaging about \$11 million per year. The number of employees varied from about 230 during the winter to over 300 in the summer, with about 600 volunteers used throughout the year. About half of the employees entered their time through the state’s automated self-service time entry system, while the other half completed paper timesheets. The self-service time entry process automated employee timesheets and allowed for electronic supervisory approval. The employee’s supervisor reviewed the timesheet and clicked “approved” in the payroll system. At the end of the bi-weekly pay period, payroll employees processed the payroll information into the state’s personnel and payroll system.

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Employees using paper timesheets submitted them to their supervisor for approval, who forwarded them to the payroll unit for manual entry into the state's personnel and payroll system.

Guidelines¹¹ established by the Department of Employee Relations required agencies to verify the accuracy of employee self-service time entry. The Zoo performed this verification to ensure the accuracy of pay codes charged, hours entered, and supervisory approval.

Table 3-1 shows total payroll expenditures by budget fiscal year for 2004 - 2006.

| <u>Earnings Type</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> |
|------------------------------------|---------------------|---------------------|---------------------|
| Full-Time | \$ 8,436,937 | \$ 8,485,284 | \$ 9,290,607 |
| Part-Time, Seasonal, Labor Service | 1,607,949 | 1,647,393 | 1,617,615 |
| Overtime Pay | 209,909 | 181,911 | 201,620 |
| Premium Pay | 21,568 | 23,545 | 23,856 |
| Other Benefits | <u>321,935</u> | <u>300,729</u> | <u>320,371</u> |
| Total | <u>\$10,598,299</u> | <u>\$10,638,862</u> | <u>\$11,454,070</u> |

Source: Minnesota Accounting and Procurement System by budgetary fiscal year, as of December 31, 2006.

Current Findings and Recommendations

7. The Zoo did not adequately restrict security access to the state's payroll and personnel system.

The Zoo did not limit or mitigate four employees' incompatible access to the payroll and personnel system. Two employees had incompatible access that allowed them to change payroll and personnel data in the system. One of these employees did not need this access, and the other employee served as a payroll backup and only needed access on a limited basis. The Zoo also gave two employees the ability to initiate payroll transactions and set up direct deposit for employees. State policy¹² requires agencies to eliminate this incompatible access or implement mitigating controls. Granting incompatible access to employees increases the risk that they could improperly modify transactions without detection.

Recommendation

- *The Zoo should limit access to the personnel and payroll system to the minimum level needed by employees to perform their job duties. If access cannot be limited, the Zoo should design, implement, and monitor mitigating controls.*

¹¹ SEMA4 Operating Policy and Procedure PAY0028.

¹² SEMA4 Security Policy HR045.

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Employee Travel Expenditures

The Zoo either directly paid vendors for travel costs such, as airline and hotel charges, or reimbursed employees for costs they incurred. The Zoo used the state's personnel and payroll system to reimburse employees for travel costs they incur related to their work. Employees completed an expense reimbursement form and included the required receipts to support their claim. The employee signed the form and had it approved by the supervisor. The supervisor routed the form to the payroll unit, where payroll staff reviewed and processed the reimbursement for payment.

Table 3-2 shows total travel expenditures by budget fiscal year for 2004 - 2006. Travel expenditures increased significantly each year mainly due to the Zoo's increased involvement through the American Zoo Association. Minnesota Zoo staff attended national meetings and participated in workshops related to the preservation of endangered species. In addition, the fiscal year 2006 increase included trips to China, costing \$5,231. In 2006, the Zoo discontinued its rental of 15-passenger vans, opting for smaller vans and a school bus instead.

Table 3-2
Summary of Travel Expenditures
By Budget Fiscal Year

| <u>Travel Type</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> |
|--------------------|-----------------|-----------------|-----------------|
| Travel Out-state | \$ 9,064 | \$20,053 | \$28,895 |
| Travel In-state | <u>3,248</u> | <u>3,940</u> | <u>9,396</u> |
| Total | <u>\$12,312</u> | <u>\$23,993</u> | <u>\$38,291</u> |

Source: Minnesota Accounting and Procurement System by budgetary fiscal year, as of December 31, 2006.

8. Prior Finding Not Resolved: The Zoo did not always comply with applicable employee expense reimbursement requirements.

The Zoo did not ensure that employee expense reimbursements were adequately approved and supported, or that employees were paid in accordance with applicable collective bargaining unit agreements. The Zoo had the following problems in the 17 employee expense claims tested:

- Seven expense claims did not have the required travel pre-authorization forms for out-of-state travel expenses. One expense claim had the required form, but it had no evidence of approval. The state's expense reimbursement policy¹³ and by the Zoo's expense reimbursement policy¹⁴ requires employees to obtain pre-authorization for out-of-state travel.
- Seven expense claims did not have supervisory approvals, as required by state and Zoo expense reimbursement policies. In one instance, the expense reimbursement request did not have the employee's signature.

¹³ Department of Finance, PAY0021 "Employee Business/Travel Expenses."

¹⁴ Minnesota Zoological Garden Policy/Procedure C-19 "Travel Expense Reimbursement"

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- Three expense claims were not supported by original receipts or signed affidavits if the receipts were not available. Instead, employees had provided credit card statements and copies of receipts or credit card slips. The Zoo expense reimbursement policy requires employees to submit original receipts to support expenses; credit card statements, copies of receipts and credit card slips are not acceptable proof of the expense. The policy further states that if employees cannot provide original receipts, the employee must sign an affidavit stating that the expense was just and correct.
- The Zoo reimbursed two employees for the cost of alcoholic beverages, which state and Zoo policies prohibit.
- On seven expense claims, the Zoo reimbursed employees for meals without verifying that the employees did not exceed the allowed amounts, resulting in overpayments of about \$200. The Zoo allowed employees to report meal expenses as one combined amount, rather than breaking out the activity on a daily or per meal basis. As a result, the Zoo could not effectively monitor meal reimbursements, and overpayments occurred without detection. Requiring employees to account for expenses on a daily or per meal basis reduces the risk that the Zoo will pay erroneous reimbursement requests.
- The Zoo reimbursed one employee for travel expenses not related to state business. The Zoo paid for a \$129 flight change that the employee made for personal reasons. In another instance, the employee's reimbursement request did not state the business purpose for a \$29 cab ride in New York City.

Recommendations

- *The Zoo should ensure that it only reimburses employees for properly approved travel expenses that have appropriate supporting documentation and comply with applicable rules and regulations.*
- *The Zoo should seek repayment for identified travel reimbursement overpayments. The Zoo should examine other employee expense reimbursement claims to determine if other overpayments occurred and, if so, pursue recovery.*

9. The Zoo did not ensure that employees complied with statutes that prohibit travel-related benefits.

Four Zoo employees did not comply with legal requirements that prohibit employees from deriving certain benefits from state employment.

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- *Minnesota Statutes*¹⁵ require that when a state agency, including the Zoo, uses public funds for employee airline travel, any credits or other benefits issued by any airline must accrue to the benefit of the agency. The statute also requires a report to the “public body” paying for the travel within 90 days of receipt of the benefit. Four employees accrued frequent flyer miles and did not submit the required report to the Zoo about their accrued miles.
- In addition, one employee, mentioned above, did not obtain proper approval to use state-owned frequent flyer miles for an individual not employed by the state. The employee used frequent flyer miles earned through state business to purchase airline tickets for a nonstate employee to attend Zoo-related meetings in another state. Since, these miles were the property of the state, the Zoo should have approved and documented this arrangement to ensure it satisfied the state-related purpose requirement.
- Finally, the Zoo allowed one employee to accrue hotel rewards while on state business. *Minnesota Statutes*¹⁶ prohibit state employees from receiving any compensation, reward, or future benefit from any source except from the state for any activity related to the duties of the employee while on state business.

Recommendations

- *The Zoo should monitor employees’ business travel to ensure compliance with all travel-related regulations.*
- *The Zoo should ensure that it approves and authorizes the use of its frequent flyer miles.*
- *The Zoo should examine other employee reimbursement payments and determine if the employee accrued additional hotel rewards while on state business.*
- *The Zoo should ensure that all employees that could potentially earn travel-related benefits are aware of the applicable restrictions.*

¹⁵*Minnesota Statutes* 2006, 15.435.

¹⁶*Minnesota Statutes* 2006, 43A.38, subd. 2.

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Chapter 4. Professional/Technical Services Contracts

Chapter Conclusions

For professional/technical services contracts, the Zoo's internal controls provided reasonable assurance that the department paid for contractual services actually received, the amounts paid were reasonable and within the terms of the contract, and the payments were accurately recorded in the accounting system.

For the items tested, the board should improve its compliance with certain finance-related legal requirements. As discussed in Finding 10, the Zoo did not comply with certain legal requirements related to delegation of authority and retainage. In addition, the Zoo did not submit the required evaluation reports to the Department of Administration for completed contracts over \$50,000.

Audit Objective, Scope, and Methodology

The primary objective of our audit of professional/technical services contract expenditures was to answer the following questions:

- Did the Zoo's internal controls provide reasonable assurance that the board paid for contractual services actually received, the amounts paid were reasonable and within the terms of the contract, and it accurately recorded payments in the state's accounting system?
- For the transactions tested, did the Zoo comply with finance-related legal requirements concerning professional/technical contracts, including bidding requirements?

In fiscal year 2006, the Zoo spent \$585,887 for professional/technical services. Based on professional/technical services contract expenditures during fiscal year 2006, we selected the following three contracts for testing.

| <u>Contractor</u> | <u>Contract Amount</u> | <u>2006 Expenditures</u> |
|----------------------------|------------------------|--------------------------|
| Kerker Advertising | \$1,000,000 | \$131,235 |
| Sterns and Associates, LLC | 471,750 | 346,843 |
| Martin Pevzner Engineering | 122,000 | 40,210 |
| Total | <u>\$1,593,750</u> | <u>\$518,288</u> |

Note: We selected the contracts based on their dollar amount, the type of service being contracted for, and the method the department used to contract with the vendor.

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Background

Professional/technical services represent services that are intellectual in nature and include consultation, analysis, evaluation, prediction, planning, programming, or recommendation and result in the production of a report or completion of a task. Generally, agency personnel are unable to perform the needed services, and the agency must contract with outside vendors.

Minnesota Statutes gave the Commissioner of Administration broad authority to oversee and approve the professional/technical contracts entered into by state agencies. Consequently, for contracts over \$5,000, the Zoo submitted certain information to Administration before contracts were executed, including a certification that the work was necessary to advance the mission of the agency, state personnel were unable to provide the services, an explanation of how the proposed contract would be publicized, and how the Zoo planned to manage the contract. The Zoo is required to go through formal solicitations when contracting for professional/technical services estimated to exceed \$50,000 and must also submit performance evaluation reports to the Department of Administration at the completion of contracts exceeding \$50,000. Unlike other state agencies, the Zoo has statutory authority to sign its own contracts.

The Zoo had the following weaknesses in its administration of professional/technical services contracts:

Current Findings and Recommendations

10. The Zoo did not prepare performance evaluation reports on completed contracts exceeding \$50,000 and did not retain ten percent of the contract amount for one contract, as required by statute.

The Zoo did not prepare performance evaluations for completed contracts over \$50,000 and did not comply with contract retainage requirements, as described below.

- The Zoo did not prepare the required performance evaluation reports for completed professional/technical services contracts. Department employees were not aware that state statutes¹⁷ require them to submit to the Department of Administration a performance evaluation report within 30 days of completion of contracts that exceeded \$50,000. The required one-page report should summarize the purpose of the contract, the amount spent on the contract, and include a written evaluation of the contractor's performance. Other state agencies can use the evaluation report when evaluating future proposals submitted by the contractor.
- The Zoo did not retain ten percent of the total contract amount with Martin Pevsner Engineering before the completion of services. According to statutory requirements and the terms of the contract, the department should have withheld about \$12,000 since the contract amount was \$122,000. As of April 2007, the Zoo had paid \$120,000 to the

¹⁷ *Minnesota Statutes* 2006, 16C.08, subd. 4(c).

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vendor. *Minnesota Statutes*¹⁸ require that no more than 90 percent of the amount due under the contract may be paid until the final product has been reviewed by the head of the agency entering into the contract, and the head of the agency has certified that the contractor has satisfactorily fulfilled the terms of the contract, unless the retainage clause is specifically excluded in writing by the commissioner of Administration. The Zoo did not have procedures in place to ensure that it retained the proper amount on contracts until it determined the contractual services provided were acceptable. Withholding a portion of a contract to ensure satisfactory completion of services is important to create financial leverage against the contractor for substandard performance.

Recommendations

- *For any contract over \$50,000, the Zoo should complete the performance evaluation report and submit a copy to the Department of Administration.*
- *The Zoo should ensure that it retains 10 percent of the contract amount until the executive director certifies that the contractor has satisfactorily completed the contract.*

¹⁸ *Minnesota Statutes* 2006, 16C.08, subd. 5 (b).

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Status of Prior Audit Issues As of June 22, 2007

Most Recent Audit

May 2002 Legislative Audit Report 02-29 covered the three fiscal years ending June 30, 2001. The audit focused on the internal control structure over enterprise activity, selected construction projects, payroll, and administrative expenditures, as well as testing for compliance with finance-related legal requirements. The report contained six audit findings. One of the findings related to clarifying a state statute and has been fully resolved. The department resolved this issue by changing its contract approval process. The Zoo did not resolve Findings 1 and 6, which we repeat in this report as Findings 1 and 8, respectively. We did not follow-up on the construction contract issue as it was outside the scope of this audit.

State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, 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 metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.

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MINNESOTA ZOO
Changing how you see the world

November 5, 2007

James R. Nobles, Legislative Auditor
Office of the Legislative Auditor
Room 140 Centennial Building
658 Cedar Street
St. Paul, MN 55155-1603

Dear Mr. Nobles:

We appreciate the opportunity to discuss and respond to the recommendations made in your most recent audit of the Minnesota Zoological Garden. Below please find our response to each recommendation.

Recommendation

The Zoo should monitor activity of its service contractors on a periodic basis to ensure that it receives the correct amount of commission revenue.

Response

The Zoo will contract with our independent auditor to provide written reports of the annual audit work they perform reviewing revenues reported by our service contractors, in order to document compliance with the terms of the income contracts. In addition, a written report of the FY07 audit review will be made available to the Leg. Auditor by November 30, 2007.
Position responsible: Accounting Director Estimated completion date: December 2007

Recommendation

The Zoo should comply with its food service contract or amend the contract.

Response

The Zoo will amend our contract so that language is reflective of intent.
Position responsible: Deputy Director Estimated completion date: December 2007

Recommendation

The Zoo should recover overpayments it made under the written contract.

Response

The Zoo will seek the advice of the Attorney General's office on the issue of recovering any overpayments.
Position Responsible: Deputy Director Estimated completion date: December 2007

Recommendation

The Zoo should separate the incompatible duties in the cash receipt process or implement mitigating controls.

Response

The Zoo has implemented mitigating controls by separating the receipt of checks process from the deposit process.

Position responsible: Accounting Director Estimated completion date: October 2007

Recommendation

The Zoo should ensure that it retains supporting documentation in compliance with applicable records retention schedule.

Response

The Zoo agrees that records should be more secure and has taken action to secure a section of the warehouse for record storage. In addition the Zoo will follow the records retention schedule.

Positions responsible: Accounting Director working with Physical Plant Manager

Estimated completion date: December 2007

Recommendation

The Zoo should deposit receipts in a timely manner in compliance with state statute.

Response

The Zoo will deposit receipts in a timely manner and has filed a request with the Department of Finance for an extension of the seasonal deposit schedule.

Position responsible: Accounting Director Estimated completion date: December 2007

Recommendation

The Zoo should record receipts in the state's accounting system on the date the bank deposit occurs.

Response

The zoo is monitoring the on-line bank statement to verify the date of the deposit and is recording in MAPS each business day.

Position responsible: Accounting Director Estimated completion date: October 2007

Recommendation

The Zoo should ensure that it complies with state and its own policies related to imprest cash.

Response

The Zoo has informed staff that it will no longer process Bonding funded transactions through imprest cash. However the zoo will seek a waiver from the Department of Finance to allow Building Permit Fees in the future from imprest Cash. The Zoo will ensure that it complies with state and Zoo policies related to imprest cash.

Position responsible: Accounting Director Estimated completion date: November 2007

Recommendation

The Zoo should promptly record all financial activity in the state's accounting system.

Response

The Zoo will record all financial activity in the state's accounting system.

Position responsible: Accounting Director Estimated completion date: November 2007

Recommendation

The Zoo should limit contract terms to two years, as required by statute, unless it obtains written approval from the Department of Administration.

Response

The Zoo will seek a statutory change to provide that the contract with the IMAX Theater or similar venue receive the same exemption as those of other Zoo partners making significant capital investment.

Position responsible: Chief Financial Officer Estimated completion date: June 2008

Recommendation

The Zoo should limit access to the personnel and payroll system to the minimum level needed by employees to perform their job duties. If access cannot be limited, the Zoo should design, implement, and monitor mitigating controls.

Response

The Zoo has already changed security access to address this recommendation.

Positions responsible: Accounting Director and Human Resources Director

Estimated completion date: August 2007

Recommendation

The Zoo should ensure that it only reimburses employees for properly approved travel expenses that have appropriate supporting documentation and comply with applicable rules and regulations.

Response

The Zoo will ensure that it only reimburses for properly approved travel expenses that have appropriate supporting documentation and comply with applicable rules and regulations.

Position responsible: Accounting Director

Estimated completion date: October 2007/ongoing

Recommendation

The Zoo should seek repayment for identified travel reimbursement overpayments. The Zoo should examine other employee expense reimbursement claims to determine if other overpayments occurred and, if so, pursue recovery.

Response

The Zoo will seek repayment for identified travel reimbursement overpayments or provide documentation to the auditor substantiating the payment was allowable.

Position responsible: Accounting Director Estimated completion date: November 2007

Recommendation

The Zoo should monitor employees' business travel to ensure compliance with all travel-related regulations.

Response

The Zoo will monitor employees' business travel to ensure compliance with all travel related regulations. In addition, the Zoo will put together a check list and applicable forms that will be given to all employees planning to travel.

Positions responsible: Accounting Director and Chief Financial Officer

Estimated completion date: December 2007/ongoing

Recommendation

The Zoo should ensure that it approves and authorizes the use of its frequent flyer miles.

Response

The Zoo will ensure that it approves and authorizes the use of frequent flyer miles. Staff will be directed to submit quarterly reports on FF miles.

Position responsible: Accounting Director

Estimated completion date: November 2007/ongoing

Recommendation

The Zoo should examine other employee reimbursement payments and determine if the employee accrued additional hotel rewards while on state business.

Response

The Zoo has examined employee reimbursement payments. Further, the Zoo will contact employees who have traveled in the past year to discuss whether they registered for any hotel rewards programs when conducting state business.

Position responsible: Accounting Director Estimated completion date: December 2007

Recommendation

The Zoo should ensure that all employees that could potentially earn travel-related benefits are aware of the applicable restrictions.

Response

The Zoo will put together a check list and applicable forms that will be given to all employees planning to travel.

Position responsible: Chief Financial Officer Estimated completion date: December 2007

Recommendation

For any contract over \$50,000, the Zoo should complete the performance evaluation report and submit a copy to the Department of Administration.

Response

The Zoo has assigned responsibility to the Buyer position to follow up on all contracts over \$50,000 to ensure compliance.

Position responsible: Buyer Estimated completion date: October 2007/on-going.

Recommendation

The Zoo should ensure that it retains 10 percent of the contract amount until the executive director certifies that the contractor has satisfactorily completed the contract.

Response

The Zoo will ensure that it retains 10 percent of the contract amount until the executive director certifies that the contractor has satisfactorily completed the contract.

Position responsible: Accounting Director

Estimated completion date: November 2007/ongoing

It is the goal of the Minnesota Zoological Garden to provide accurate financial reporting, and to fully comply with all applicable laws, rules and policies. We appreciate the efforts of your staff in helping us to identify areas meriting additional attention.

Sincerely,

A handwritten signature in black ink, appearing to read 'Lee C. Ehmke', written in a cursive style.

Lee C. Ehmke
Director / CEO

cc: Connie Braziel, Deputy Director
Peggy Adelman, Chief Financial Officer
Jeff Higgins, Accounting Director