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LOS ANGELES 90012
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www.lacity.org/ctr

June 16, 2009

Honorable Antonio R. Villaraigosa, Mayor
Honorable Rockard J. Delgadillo, City Attorney
Honorable Members of the City Council

SUBJECT: AUDIT OF REVENUES AND EXPENDITURES AT THE LOS ANGELES ZOO

I am releasing the enclosed report titled "Audit of Revenues and Expenditures at the Los Angeles Zoo." A copy of this report was provided to the Los Angeles Zoo.

If you have any questions or comments, please contact Farid Saffar, Director of Auditing, at (213) 978-7392.

Sincerely,


RUSHMORE D. CERVANTES
Acting City Controller

Enclosure



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LOS ANGELES 90012
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June 16, 2009

John R. Lewis, General Manager
Los Angeles Zoo
5333 Zoo Drive
Los Angeles, CA 90027

Dear Mr. Lewis:

Enclosed is a report entitled "Audit of Revenues and Expenditures at the Los Angeles Zoo." A draft of this audit report was provided to your Office on May 27, 2009. Comments provided by your Department at the meeting held on June 8, 2009, were evaluated and considered prior to finalizing this report.

Please review the final audit report and advise the Controller's Office by July 16, 2009 on planned actions you will take to implement the recommendations. If you have any questions or comments, please contract me at (213) 978-7392.

Sincerely,

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

FARID SAFFAR, CPA
Director of Auditing

Enclosure

cc: Robin Kramer, Chief of Staff, Office of the Mayor
Jimmy Blackman, Deputy Chief of Staff, Office of the Mayor
Ben Ceja, Director, Finance & Performance Management, Office of the Mayor
Shelby Kaplan Sloan, President, Board of Zoo Commissioners
Raymond P. Ciranna, Interim City Administrative Officer
June A. Lagmay, City Clerk
Gerry F. Miller, Chief Legislative Analyst
Independent City Auditors



City of Los Angeles Office of the Controller

Audit of Revenues and Expenditures at the Los Angeles Zoo

June 16, 2009

Rushmore D. Cervantes
Acting City Controller

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AUDIT OF REVENUES AND EXPENDITURES AT THE LOS ANGELES ZOO

EXECUTIVE SUMMARY

The Audit Division has completed an audit of Revenues and Expenditures at the Los Angeles Zoo (LA Zoo or Department). The primary objective of the audit was to evaluate the Department's fiscal operations and internal controls to ensure there is proper oversight and controls over revenues and expenditures and that there are adequate budgetary controls for effective management.

Background

The LA Zoo is responsible for operating and maintaining the Zoo, including curatorial services, animal exhibit and health services, public information and education, facility maintenance, capital improvement, administration and business operations. All revenues derived from the Zoo's operations or activities and all expenditures related to the Zoo's operation, maintenance, management, control and improvements are processed through the Zoo Enterprise Trust Fund. This fund is accounted for as a special revenue fund in the City's Financial Management Information System.

The City of Los Angeles, through the Zoo Department, has an Operating Agreement with The Greater Los Angeles Zoo Association (GLAZA) to assist the City in establishing, developing, beautifying and improving the Zoo. GLAZA is a private, nonprofit, fundraising organization to support the LA Zoo through fundraising, membership, special events, publications, volunteer programs, and concession contracts.

The LA Zoo's Fiscal Year (FY) 2007-08 revenues mainly consisted of \$6.7 million in admission fees, \$994,000 in membership fees, and \$971,000 in concession revenues, and its expenditures totaled \$19 million. The General Fund contribution was \$9.2 million. The LA Zoo's annual attendance is 1.6 million.

Scope

Our audit was performed in accordance with Generally Accepted Government Auditing Standards (GAGAS) and covered the period from July 1, 2007 through December 31, 2008.

Summary of Audit Results

In general, the Zoo properly accounts for revenues and expenditures, and there are adequate management controls for its operations, including oversight over GLAZA's operations. However, many control processes are not formally documented, which may lead to potential abuse and waste. The Department could improve the accountability of its expenditures by updating and formalizing its policies and procedures, especially in the areas of advertisement contracting, fixed assets, and payroll.

The Department is also encouraged to take a more proactive approach in seeking new revenue sources such as parking to reduce the General Fund contribution.

Key Findings

- The Department needs to increase oversight over the \$1.2 million advertising contract to ensure advertising expenditures are spent cost effectively.**

The Department hired a contractor because of its need for market analyses, strategic planning and media buying, and creative design to maintain and increase public awareness of the LA Zoo. The contractor's main deliverable is presumably to help the Department achieve its goals, which is measured only by annual attendance. However, the contract does not contain specific performance expectations such as formalized agreed-upon goals, product deliverables, timelines, key staff involved and total costs for each event; and Zoo staff does not formally evaluate or analyze the advertising/promotion after completion of the events. Also, we noted that the contractor invoices do not comply with contract requirements related to the supporting documents. For example, no time sheets are included with the invoices.

- The Marketing and Business Plan and Memoranda of Understanding (MOUs) are not kept current.**

The Department does not have a Marketing and Business Plan, which should contain marketing and financial projections for the Department for a maximum period of five years, as required under Ordinance 171636. The Department stated that it considers the annual budgets adopted by the Mayor and City Council as a replacement for the Marketing and Business Plan. However, the budget covers only one year and does not contain long-term marketing and business plans. The absence of a Marketing and Business Plan, which can serve as the Department's strategic plan, could hinder the Zoo's ability to attract additional visitors and to maximize revenues.

- **The Department has not conducted physical inventories of equipment in the Centralized Asset Management System (CAMS) for at least seven years.**

The Department's FY 2007-08 CAMS records show a total acquisition cost of \$725,000 for 45 capitalized assets. However, the Zoo has not conducted a physical inventory of these assets for at least seven years despite the fact that the Department certified that it conducted a physical inventory in February 2008. We also noted that the Zoo could not locate three machine shop equipment items, with an acquisition cost of \$35,000.

- **The Zoo could potentially generate additional revenues if it charged a parking fee.**

The City has not charged a parking fee since the Zoo opened in Griffith Park. We conservatively estimate that the Zoo could generate parking revenue of approximately \$1.9 million a year. This estimate is based on the attendance of 1.5 million visitors for FY 2007-08, with an assumption of four visitors per car and a \$5 parking fee. We realize that the Department would incur additional costs related to staffing, equipment, maintenance and other administrative support. These costs should be considered along with the potential impact on the attendance in determining the cost effectiveness of charging a parking fee.

Our audit identified several other areas where improvements can be made. These include formalizing its agreement with Western University of Health Sciences for its internship program, requiring Animal Care workers to certify their timecard, establishing formal policies for waiving fees for education fee-based programs, and providing closer oversight over lead pay.

Review of Report

We met with the Department of the Zoo management on June 8, 2009 to discuss the contents of the audit report. Department management generally agreed with the findings and recommendations and stated that it has already begun to address some of the recommendations. We would like to thank Department management and staff for their cooperation and assistance during the audit.

TABLE of RECOMMENDATIONS

	RECOMMENDATIONS	PAGE REFERENCE
	Zoo management should:	
1	Revise the current advertising contract to incorporate specific performance expectations and deliverables.	12
2	Consider issuing proposals such as task orders for each event to formalize agreed upon goals, deliverables, timelines, key staff involved and total costs for each event.	12
3	Evaluate the cost effectiveness of each event in accordance with the task order requirements.	12
4	Require the advertising contractor to comply with contract requirements related to the supporting documents to be included with the invoices.	12
5	Prepare and obtain approval for a Marketing and Business Plan from the City Council at least every five years.	14
6	Develop a Memoranda of Understanding based on an approved Marketing and Business Plan to cover annual goals and details of fundraising terms, conditions of membership in GLAZA, distribution of membership funds between the Zoo and GLAZA, and other activities to be performed by GLAZA.	14
7	Perform a cost benefit analysis to determine the feasibility of directly contracting for concession services.	15
8	Formally follow up with the City Attorney to determine whether GLAZA should be required to pay the City \$1.5 million for excess concession administrative fees and \$5.8 million for excess membership revenues retained by GLAZA.	16
9	Establish fixed asset procedures which ensure that the records in the Centralized Asset Management System (CAMS) and the Service Desk Online System (SOS) are updated timely to properly reflect acquisitions and dispositions.	17

	RECOMMENDATIONS	PAGE REFERENCE
10	List all medical and audio equipment in CAMS to properly track and monitor the usage of these equipment items.	18
11	Conduct a physical inventory of all equipment items, as soon as possible to verify the correctness of the inventory records in CAMS.	18
12	Conduct biennial physical inventories of equipment in CAMS and in SOS.	18
13	Resolve all discrepancies identified in the biennial inventories in a timely manner.	18
14	Execute a written agreement with the Western University to cover all relevant terms (such as payments and liabilities) in the internship program.	19
15	Maintain a billing system and send invoices monthly to the Western University based on the number of participating students.	19
16	Verify the checks received from the Western University against the number of participating students and deposit the checks in a timely manner.	19
17	Ensure that supervisors initial returned/voided tickets to indicate their approval.	20
18	Explore the feasibility of having the Galaxy Admission System produce management reports of voided transactions. These reports would indicate which cashier voided the transaction and which supervisor approved the void.	20
19	Ensure that employees certify the accuracy of their time by signing their timecard.	21
20	Ensure that workers receiving lead pay have been approved by management and develop criteria for what constitutes acting as a lead worker.	21
21	Generate reports showing workers receiving lead pay and use the reports to monitor and control lead worker pay.	21

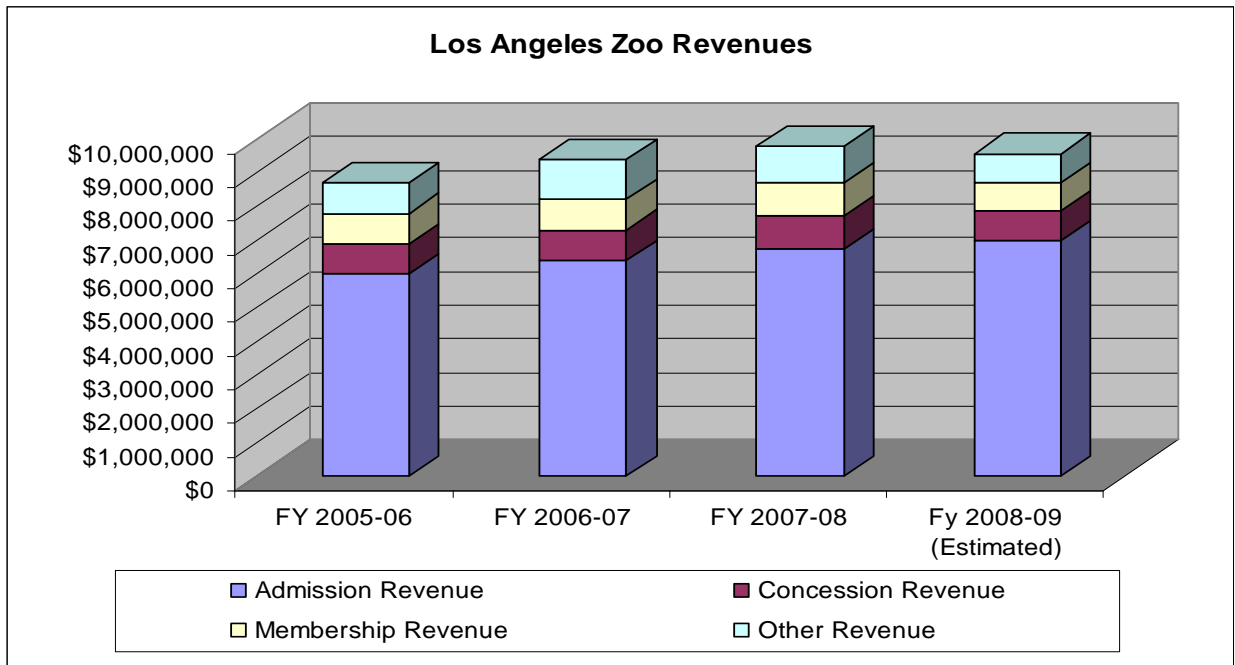
	RECOMMENDATIONS	PAGE REFERENCE
22	Formalize formal written policies and procedures for waiving fees for education fee-based programs, which ensure that all fee waivers are properly approved, and that the scholarship activities are properly accounted for and charged to GLAZA in a timely manner.	22
23	Prepare a comprehensive study to determine the feasibility of charging parking fees which takes into consideration the associated costs related to charging a fee and the potential impact on attendance.	23

BACKGROUND AND METHODOLOGY

BACKGROUND

The Los Angeles Zoo displays over 1,200 birds, mammals, reptiles, and aquatic animals within its 113 acres of parkland. The LA Zoo is responsible for operating and maintaining the Zoo, including curatorial services, animal exhibit and health services, public information and education, facility maintenance, capital improvement, administration and business operations. All revenues derived from the Zoo's operations or activities and all expenditures related to the Zoo's operation, maintenance, management, control and improvements are processed through the Zoo Enterprise Trust Fund. This fund is accounted for as a special revenue fund in the City's Financial Management Information System. The Zoo's fundraising, membership, special events, publications, volunteer programs, and concession contracts are handled by a private, nonprofit corporation, the Greater Los Angeles Zoo Association (GLAZA), based on an Operating Agreement between the Zoo and GLAZA. The operating agreement covers the period from September 29, 1997, through September 29, 2022.

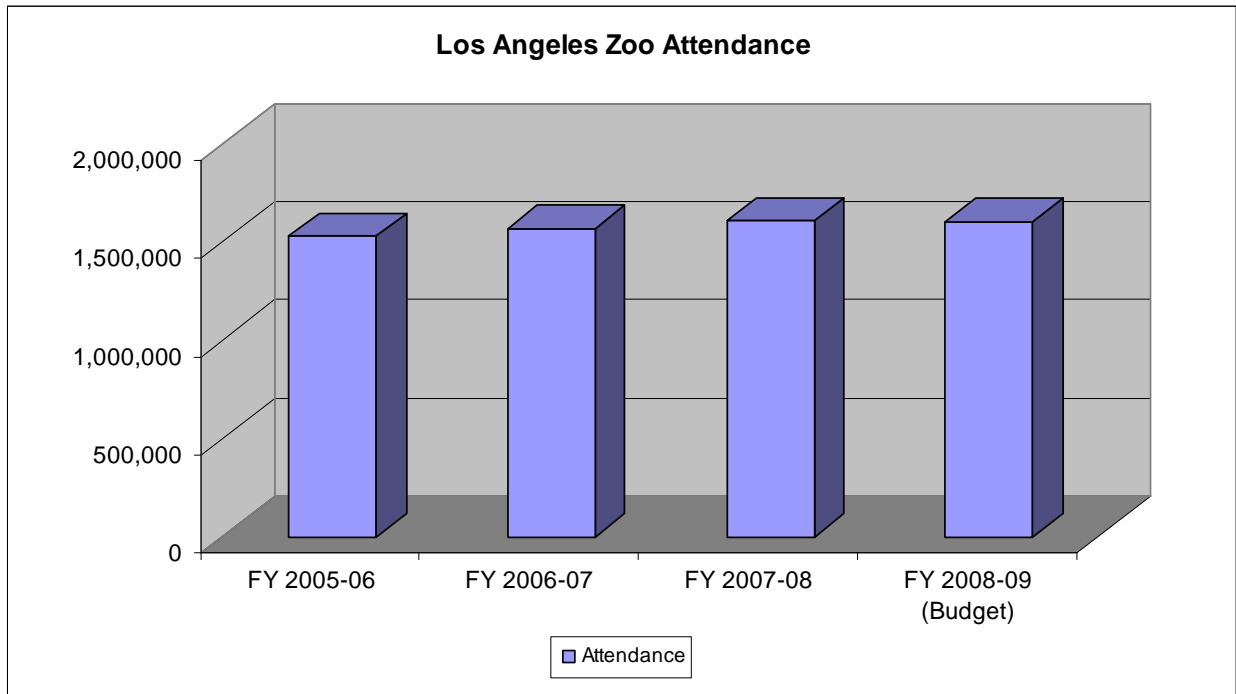
The Zoo's average revenue for FY 2005-06 to FY 2007-08 was \$9.3 million. Approximately \$6.4 million (69% of the total revenue) is derived from general admissions, and \$1.9 million (20% of the total revenue) comes from membership and concession services. Following is a graph showing the components of the revenue.



*Source of information: City's Financial Management Information System
(Note: The estimated revenue for FY 2008-09 is based on the Zoo's revenue through January 2009.)*

The Zoo's expenditures for FY 2005-06 through FY 2007-08 averaged \$18 million, consisting primarily of salaries (81%) and contractual services (8%). Since expenditures exceed revenues each year, the Zoo requires a General Fund contribution to sustain its operations. For FY 2007-08, the General Fund contribution was \$9.2 million.

As shown in the chart below, annual attendance increased from 1.5 million to 1.6 million between FY 2005-06 and FY 2007-08. The admission consists of approximately 58% paid admissions and 42% free admissions including season passes.



Source of information: LA Zoo Attendance Summary provided by auditee

OBJECTIVES, SCOPE AND METHODOLOGY

The primary objective of the audit was to evaluate the Zoo Department's fiscal operations and internal controls to ensure there is proper oversight and controls over revenues and expenditures and that there are adequate budgetary controls for effective management.

The specific objectives included the following:

- Ensure that fees and revenues are properly accounted for and received based on established policies and procedures.
- Ensure that the activities carried out by GLAZA are adequately monitored by Zoo management and fundraising activities are properly accounted for.

- Determine whether the Department has adequate procedures to ensure vendor selection is in accordance with established policies, and the payments are accurate, timely, and appropriate.
- Evaluate internal controls over salaries, overtime and related costs.
- Evaluate internal controls over capital and non-capital assets, including appropriate tracking systems.

The audit was performed in accordance with Generally Accepted Government Auditing standards and covered the period from July 1, 2007 through December 31, 2008. Fieldwork was conducted between January 2009 and May 2009. In conducting our audit, we interviewed management and key personnel. We also reviewed applicable City policies and departmental procedures and pertinent contracts to obtain an understanding of the Department's controls over revenues and expenditures.

The remainder of this report details our findings, comments, and recommendations.

AUDIT FINDINGS AND RECOMMENDATIONS

Finding #1: The Department needs to increase oversight over the \$1.2 million advertising contract to ensure advertising expenditures are spent cost effectively.

The Department hired a contractor because of its need for market analyses, strategic planning and media buying, and creative design to maintain and increase public awareness of the LA Zoo, its special events, programs, capital projects, and new exhibit openings (event). The finished products are understood to be advertisements, brochures and photo posters. However, the contract does not contain specific performance expectations such as formalized agreed-upon goals, product deliverables, timelines, key staff involved and total costs for each event; and Zoo staff does not formally evaluate or analyze the advertising/promotion after completion of the events. The contractor's main deliverable is presumably to help the Department achieve its goals, which is measured only by annual attendance. For example, the attendance goal is 1.6 million for Fiscal Year (FY) 2008-09.

Following is a comparison of the advertising expenditures with the admission revenue for FY 2005-06 through FY 2007-08:

Description	FY 2005-06	FY 2006-07	FY 2007-08
Total payments to the contractor	\$879,808	\$999,722	\$1,249,192
% of increase in payments	-	14%	25%
Attendance	1,523,469	1,564,674	1,602,171
% of increase in attendance	-	3%	2%
Admission fees	\$5,937,376	\$6,363,959	\$6,743,745 ¹
% of increase in admission fees	-	7%	6%
% of total payments to the contractor against admission fees	15%	16%	19%

The contractor promotes about ten advertisement events per year by developing advertisement plans, producing advertisements, and buying media time. The Zoo management indicates that it constantly keeps in touch with the contractor to monitor the progress of advertisement events along with all media coverage and verbally agrees with the contractor's plans prior to the start of the event. However, in the absence of formal monitoring over the contractor's performance, it is extremely difficult to evaluate the contractor's effectiveness.

¹ Effective May 2008, admission fees were increased by \$2.

The contract requires the contractor to submit invoices that conform to City Standards and include, at a minimum, information such as names of personnel working on tasks and timesheets supporting charges. In addition, the invoice must contain a certification by a duly authorized officer of the contractor. These requirements help ensure that the City only pays the contractor for actual worked performed.

We reviewed the contractor’s invoices for the two advertisement events; the Big Bunny Spring Fling and the Reindeer Romp. We noted that the contractor invoices do not contain the names of the contract staff working on tasks, are not supported by time sheets, and are not certified. The invoices only showed general information such as the event held, staff’s title, number of hours, hourly rate and the amount billed. As an example, for the Reindeer Romp event in 2007, the Zoo paid \$5,945 for advertisement production staff costs. The following year, the Zoo paid \$5,222 for the same event with only a voice-over from the prior year’s radio advertisement. Charging \$5,222 for voice-over the same advertisement appears questionable. There are no supporting documents, such as specific contractor’s tasks and timesheets for contractor’s personnel, to validate the voice over costs. However, invoices were approved by the Zoo without obtaining and analyzing required documents.

We also compared the total expenditures and admission fees with the comparative period before and after for the two advertisement events to evaluate the cost effectiveness of advertisement. For the Big Bunny Event, the contractor was paid \$87,500, which resulted in additional admission fees of around \$71,895². For the Reindeer Romp Event, the contractor was paid \$240,562, however, the admission fees decreased by \$52,105³.

Below is a summary of the two events’ attendance, admission fees and costs:

	Big Bunny Spring Fling from March 21, 2008 to March 23, 2008	Reindeer Romp from November 27, 2008 to January 1, 2009
Total attendance	36,173	119,654
Total admission fees during the event	\$163,420	\$513,046
Total advertising costs paid for the event	\$ 87,500	\$240,562
Total average admission fees before and after the events	\$ 91,525	\$565,151 ⁴

² Big Bunny Event’s total admission fees of \$163,420 minus \$91,525, the average admission fees the week before and the week after event.

³ Reindeer Romp Event’s total admission fees of \$513,046 minus \$565,151, the average admission fees the month before and the month after event.

⁴ Admission fees for month of November 2008, including Reindeer Romp Event fees from November 27 to 30, and admission fees for month of January 2009, including January 1, 2009 Reindeer Romp Event admission fees.

Zoo management explained that the total admission during the Reindeer Romp was low due to bad weather in December 2008. January 2009 had better weather, and visitors were motivated by the December promotion, which resulted in higher attendance in January. In addition, the Department stated that other related revenues, such as concession revenues were not considered in our comparison and that costs were high due to a first year television promotion.

We acknowledge that there are a variety of factors that can affect attendance. However, we believe that the Department needs a formal documented evaluation or analysis of the advertising promotion after completion of special events in order to assess the cost effectiveness of its advertising. Having pre-established goals would help in the assessment.

Because the Zoo does not have a formal process for evaluating the impact of advertisements on the Zoo's attendance and revenues for each event, and because contract invoice requirements are not enforced, the effectiveness of the advertising activities of \$1 million is difficult to assess.

Recommendations

Zoo Management should:

- 1. Revise the current advertising contract to incorporate specific performance expectations and deliverables.**
- 2. Consider issuing proposals such as task orders for each event to formalize agreed upon goals, deliverables, timelines, key staff involved and total costs for each event.**
- 3. Evaluate the cost effectiveness of each event in accordance with the task order requirements.**
- 4. Require the advertising contractor to comply with contract requirements related to the supporting documents to be included with the invoices.**

Finding #2: The Marketing and Business Plan and Memoranda of Understanding are not kept current.

The City of Los Angeles, through the Zoo Department, entered into an Operating Agreement with the Greater Los Angeles Zoo Association (GLAZA) to assist the City in establishing, developing, beautifying, and improving the Zoo. The Operating Agreement covers the period from September 29, 1997 through September 29, 2022. GLAZA is a private, nonprofit, fundraising organization that supports the Los Angeles Zoo through

fundraising, membership, special events, publications, volunteer programs, and concession contracts.

Marketing and Business Plan

According to Ordinance 171636, the Zoo Department shall prepare and submit to the Mayor and City Council, at least every five years, a Marketing and Business Plan (Plan). The Plan shall contain marketing and financial projections for the Department for a maximum period of five years and shall include methods to attract additional visitors and funds anticipated to be received from fundraising, admissions, membership, grants, concessions, and the City General Fund, etc. The Zoo Department does not have Marketing and Business Plan.

Also, according to a Follow-up Review of the Report on GLAZA issued by our Office on August 24, 2005 (Recommendation #8.3), at that time, the Zoo and GLAZA were developing a vision for the growth and development of the Zoo, that would be the basis for the Marketing and Business Plan. The Plan was scheduled to be completed by August 31, 2006. However, this recommendation has not been implemented and the Marketing and Business Plan was never finalized. Zoo management explained that it considers the annual budgets adopted by the Mayor and City Council as a replacement for the Marketing and Business Plan. Management also stated that the Department does not develop a Marketing and Business Plan beyond the annual budget since the annual budget is always subject to revision upon City Council's review.

Marketing and business plans contain marketing and financial projections for a maximum period of five years and include methods to attract new visitors and funds to the Zoo. Annual budgets for the Zoo cover only one year. Consequently, using the budget, it may be difficult for the Zoo to establish a long-term marketing and business plan. Also, the absence of a Marketing and Business Plan, which can serve as the Department's strategic plan, hinders the Zoo's ability to attract additional visitors and to maximize revenues.

Memoranda of Understanding

The Operating Agreement also states that the Zoo and GLAZA should enter written Memoranda of Understanding (MOUs) based on the approved Marketing and Business Plans. The MOUs should cover:

- annual goals and details of fund raising
- terms and conditions of membership in GLAZA and distribution of membership funds between the Zoo and GLAZA
- activities, other than fundraising, to be performed by GLAZA

Since there are no Marketing and Business Plans, there are no current MOUs. The latest MOUs for fundraising, membership, and concessions covered the period from December 1, 2005 through November 30, 2006. Earlier MOUs related to fundraising,

membership, concessions, publications, special events, and travel programs covered the period from July 1, 2001 through June 30, 2002.

Without fully executed MOUs, services performed by GLAZA may not be measurable and the current needs of the Zoo Department may not be addressed and legally enforced. Zoo management stated that it is in the process of updating the MOUs and expects to complete them by the end of FY 2008-09.

Recommendations

Zoo management should:

- 5. Prepare and obtain approval for a Marketing and Business Plan from the City Council at least every five years.**
- 6. Develop a Memoranda of Understanding based on an approved Marketing and Business Plan to cover annual goals and details of fundraising terms, conditions of membership in GLAZA, distribution of membership funds between the Zoo and GLAZA, and other activities to be performed by GLAZA.**

Finding #3: The Zoo management has not explored the possibility of directly subcontracting out concession services.

The City of Los Angeles (through the Department of Recreation and Parks) entered into a Concession Agreement in 1981 with GLAZA to cover the contractual relationship between the City and GLAZA whereby the City has granted to GLAZA the exclusive right and privilege to operate and maintain all approved concessions on Zoo premises. The Operating Agreement between the City and GLAZA allows GLAZA to subcontract for concession services.

In 1997, GLAZA subcontracted the concession operations to a concessionaire, Service America Corporation/Service System Associates, a joint-venture business. The contract between GLAZA and Service America Corporation/Service System Associates expired in 2007 but has two optional renewal terms of five years each.

In accordance with the second amendment to the Concession Agreement between GLAZA and the Service America Corporation/Service System Associates (SAC/SSA) from October 1, 2007 to September 30, 2009, the SAC/SSA is required to pay commissions on food sales, merchandise sales, stroller rentals, catering sales, etc. on an incremental scale. For FY 2005-06 to FY 2007-08, the average annual gross receipts of the concession operations was \$9.2 million and the SAC/SSA paid an average of \$1.6 million in concession commissions as follows:

- The City of Los Angeles receives approximately \$922,000 per year. The City is entitled to 10% per year of the gross receipts of the concession operations based on the Concession Agreement between the Zoo and GLAZA.
- GLAZA receives \$280,000 annually in administrative fees. GLAZA is entitled to 3% per year of the gross receipts of the concession operations, based on the latest MOU covering the Zoo concessions from December 1, 2005 through November 30, 2006.
- GLAZA receives \$418,000 annually and deposits the monies into GLAZA's Zoo Surplus Development Fund, based on the latest MOU. These monies are restricted for use by the Zoo Director for the Zoo's activities such as renovations and repairs, marketing and guest relations, city travel and meetings, play park project, sea lion maintenance, etc.

In providing sub-contracting services, GLAZA receives \$280,000 annually and uses the money for the cost of managing the concession. Accordingly, if the Zoo Department contracted directly for concession services, it would save the Zoo \$280,000 less the costs of managing the contract.

Recommendation

- 7. Zoo management should perform a cost benefit analysis to determine the feasibility of directly contracting for concession services.**

Finding #4: Zoo management has not formally followed up with the City Attorney to determine whether GLAZA should be required to pay the City \$7.3 million.

As a result of a previous audit, the Audit and Government Efficiency Committee (AGE) requested a legal opinion from the City Attorney in February 2006 on whether GLAZA should be required to pay the City \$1.5 million for excess concession administrative fees and \$5.8 million of excess membership revenues retained by GLAZA. Zoo management stated that it had verbally contacted the City Attorney on several occasions to inquire about the status. However, the Zoo has not made any formal requests to follow up on the status.

Since these recommendations have been outstanding for more than three years, Zoo management should take proper corrective action and formally follow up with the City Attorney to determine whether GLAZA should be required to pay the City the \$7.3 million.

Recommendation

- 8. Zoo management should formally follow up with the City Attorney to determine whether GLAZA should be required to pay the City \$1.5 million for excess concession administrative fees and \$5.8 million for excess membership revenues retained by GLAZA.**

Finding #5: The Zoo Department has not conducted physical inventories of equipment in the Centralized Asset Management System (CAMS) for at least seven years. Also, CAMS and Service Desk Online System (SOS) records are not consistently updated to properly reflect acquisitions and dispositions.

According to Section 2.4.2 of the Controller's User Manual, each department should maintain inventory records of equipment in its possession or under its charge, and any item with an acquisition cost of \$5,000 or more and a useful estimated life of at least three years should be entered into either CAMS or SOS or other authorized systems. Also, Section 2.4.1 of the Manual requires a biennial physical inventory of fixed assets at all department locations to verify correctness of the inventory records. Upon completion of the physical inventory, all changes/discrepancies should be annotated on the inventory listing and reported to the management for review and corrective actions. Physical inventories would help identify any misplaced or missing equipment items.

As discussed below, the Zoo has not complied with the Controller's User Manual:

Centralized Asset Management System (CAMS)

As of the fiscal year ended June 30, 2008, CAMS' records show a total acquisition cost of \$725,000 for 45 capitalized assets (with a value of \$5,000 and above) for the Zoo. However, the Zoo has not conducted a physical inventory of these assets for at least seven years despite the fact that the Department certified that it conducted a physical inventory count in February 2008.

We sampled 21 equipment items reflected in CAMS and attempted to verify their physical existence. Three machine shop equipment items, with an acquisition cost of \$35,000, were not found in the construction shop. The Zoo Department indicated that these items had been entered twice into CAMS. However, we were unable to verify this because the three inventory entries in the CAMS that were said to be duplicated showed a different cost and a different acquisition date from the correct entry. Also, the description for one of the items is a large drill, however, the Zoo stated that it was a duplicated item of a milling machine.

We also physically observed nine shop equipment machines and checked to see whether they are properly recorded in CAMS. Two items with a total cost of \$12,900 are not recorded in CAMS. The other items are not recorded in CAMS because they

each cost less than \$5,000. These items include a planer, drill presses, bandsaw, jointer, shaper and sander machine.

Beginning in 2005, the Zoo has maintained a list of audio equipment, with a total cost of \$60,000, separately from CAMS. Recently, upon our inquiries, the Zoo started to compile a list of medical equipment, with a cost of \$400,000. Most of these equipment items cost more than \$5,000. Because the items are not recorded in CAMS, they are not subject to the biennial certification of fixed assets since the Controller's Office uses CAMS to generate the inventory listings.

Zoo management stated that it is in the process of inspecting and recording all the medical and audio equipment in the CAMS and expects to complete the process by the end of June 2009.

Service Desk Online System (SOS)

SOS is used to record and track computer equipment items. As of January 28, 2009, SOS showed acquisition costs of approximately \$500,000 for 674 items for the Zoo Department. The physical inventory completed by Zoo staff on June 30, 2008 identified several salvaged or missing computer equipment items still listed in SOS. One of the missing computers (\$3,600) was used by a Bureau of Engineering (BOE) employee who was assigned to work for the Bond program at the Zoo. When the employee finished his project, he took the computer with him to the BOE. Zoo management stated that upon our audit inquiries, it is attempting to follow up with the BOE to resolve the issue. The other salvaged and missing computers have not been reported to management for review and corrective actions. The Zoo Department explained that some of the missing computer items may be placed in a different locations different from the SOS record. Accordingly, it is still in the process of verifying discrepancies identified in its 2008 physical inventory.

We sampled 17 computer equipment items from the SOS list and attempted to verify their physical existence. We noted that \$2,800 in computer equipment disposed on March 3, 2004 was not deleted in SOS. We also observed three computer equipment items and checked whether the items were recorded in SOS. We noted that a \$1,400 computer donated by GLAZA was not recorded in SOS.

Recommendations

Zoo management should:

- 9. Establish fixed asset procedures which ensure that the records in the Centralized Asset Management System (CAMS) and the Service Desk Online System (SOS) are updated timely to properly reflect acquisitions and dispositions.**

10. List all medical and audio equipment in CAMS to properly track and monitor the usage of these equipment items.
11. Conduct a physical inventory of all equipment items, as soon as possible to verify the correctness of the inventory records in CAMS.
12. Conduct biennial physical inventories of equipment in CAMS and SOS.
13. Resolve all discrepancies identified in the biennial inventories in a timely manner.

Finding #6: There is no written agreement with the Western University for the internship program even though the program began in August 2005.

The Zoo provides 3rd year veterinary students at the Western University of Health Sciences a two-week internship program. Currently, there is no formal written agreement between the Zoo and the University. However, according to the original draft agreement, the reimbursement paid by the University cannot exceed \$49,000 per year plus COLA adjustments. The University has been paying \$645 per student since the inception of the program over three years ago. Total payments made by the Western University from August 2005 to February 2009 were \$160,000 (approximately \$46,000 per year).

The Zoo does not prepare billings. Instead, the University makes monthly payments based on the number of students interned at the Zoo Hospital, and Zoo Hospital staff does not verify the number of students attending the program during the period. The first check made to the Zoo covering the period from August 2005 to May 2006 was never received. Although the University stated that they had made the payment, a replacement check was not received and deposited by the Zoo until December 2006, more than one year after the service was performed. Also, a \$1,500 donation from Western University to the American Association of Zoo Veterinarians (AAZV) in September 2008 was inadvertently deposited into the Zoo as part of the revenue from the Western University internship program. Upon our inquiries, the Zoo Department returned the \$1,500 to the Western University in April 2009.

Proper internal controls require that services provided be billed correctly and timely. Billings should be prepared based on records maintained by the Zoo Hospital in accordance with a written agreement between the Zoo and Western University. Also, payments should be verified with billings and properly accounted for in the City's financial records.

Zoo management stated that it had initially sent the draft agreement to the CAO for review on August 4, 2006, who added some liability clauses on August 18, 2006. The proposed draft agreement was re-sent on September 15, 2006 to the CAO. However,

the Department did not follow up with the CAO on the approval of the agreement. Based on our audit inquiries, the Zoo re-sent a draft to the CAO in March 2009.

Since there is no formal agreement, there have been no COLA adjustments in the rate, and the University has been paying the same rate for the last 4 years. Accordingly, the Zoo may have potentially lost \$7,000 in revenue.

Recommendations

Zoo management should:

- 14. Execute a written agreement with the Western University to cover all relevant terms (such as payments and liabilities) in the internship program.**
- 15. Maintain a billing system and send invoices monthly to the Western University based on the number of participating students.**
- 16. Verify the checks received from the Western University against the number of participating students and deposit the checks in a timely manner.**

Finding #7: Not all returned/voided admission tickets were properly approved, and currently, there are no management reports that show which supervisor approved the returned/voided tickets.

Good internal controls dictate that all voided transactions be approved by a supervisor and be properly documented. These controls help to minimize the risk of inappropriate transactions.

The Department's procedures require that returned/voided tickets be approved in the Galaxy Admission System by a supervisor.⁵ In addition, the procedures require the supervisor's initials on the ticket itself. We sampled 67 voided tickets from five days and noted that 17 (25%) were not initialed by a supervisor. Also, we noted that the Galaxy Admission System does not produce a management report that shows which supervisor approved the returned/voided tickets.

⁵ The Zoo uses the Galaxy Admission System to account for its admission ticketing and revenue recognition. The Galaxy Admission System provides pertinent ticketing information such as attendance by type of ticket (e.g. adult, senior, child, etc.), by geographic areas and by ticket purchase time.

Recommendations

Zoo management should:

17. **Ensure that supervisors initial returned/voided tickets to indicate their approval.**
18. **Explore the feasibility of having the Galaxy Admission System produce management reports of voided transactions. These reports would indicate which cashier voided the transaction and which supervisor approved the void.**

Finding #8: Animal care workers do not certify the accuracy of their reported time. Also, management has not approved Zoo employees who receive lead pay.

Signing of Timecards

Section 4.2 of the Controller's User Department Manual states that employees should certify the accuracy of their time by signing their weekly or daily time records. In the Animal Care Division, employees do not enter their time into D-time because they do not have access to computers. Therefore, the supervisors enter time information into D-time based on work schedules. However, the employees do not sign the timecard after their time has been entered into D-time to attest to the accuracy of the timecard.

Lead Pay

The various employees' MOUs indicate that non-supervisory employees who are designated by management to act as a lead worker over other employees, either on a regularly assigned or on a daily basis, are entitled to receive additional compensation of approximately 5.5% (two premium levels).

Based on our review of PaySR, 32 Zoo workers received approximately \$34,000 in lead pay (in addition to their normal pay) between July 2006 and April 2009. Twelve of these workers received lead pay for at least 100 days during this period. This included three employees (an Animal Keeper, a Cement Finisher, and a Clerk Typist) who worked for more than 50% of their time as a lead worker.

We noted that although supervisors approved the lead pay by approving the employees' timecards, the Zoo did not have documentation to show that Zoo management approved lead pay for the workers. Although it might not be practical for Zoo management to provide approval each day that a worker acts as a lead worker, management could, on a periodic basis (e.g., annually), approve a listing of employees or classes of workers who would be entitled to the pay when they work as a lead. This approval should also indicate the criteria for what constitutes acting as a lead worker.

We also noted that management does not receive any reports showing workers who have received lead pay and the amounts they have received. Such reports could be used to monitor and control lead pay.

Recommendations

Zoo management should:

- 19. Ensure that employees certify the accuracy of their time by signing their timecard.**
- 20. Ensure that workers receiving lead pay have been approved by management and develop criteria for what constitutes acting as a lead worker.**
- 21. Generate reports showing workers receiving lead pay and use the reports to monitor and control lead worker pay.**

Finding #9: There are no formal written policies and procedures for the waiver of fees for education fee-based programs. Also, there are no approval documents for fees waived on three education events.

The LA Zoo runs fee-based education programs such as ZooMobile, Zoo Camp, Wild Wonder Slumber, Sleepovers, and Zoopendous Nights, etc. GLAZA provides scholarships for these education programs, and the City bills GLAZA to obtain reimbursement. There are no formal written policies and procedures for the waiver of fees for the education fee-based programs.

We reviewed two education programs, the ZooMobile and Sleepovers, and checked whether fees have been charged based on approved program fees, whether monies are collected timely, and whether fee waivers are supported by properly approval documents. Out of 81 ZooMobile events, fees were waived for three events (\$400 each). These events included the 4th Annual Child Health and Safety Fair on October 6, 2007, the Del Rey City Services on November 3, 2007, and the Feria del Libro on June 7, 2008. The fee waivers for these events were not supported by approval documents.

The Department stated that two of these fee waivers did not have the Zoo Director's approval due to oversight by an employee who no longer works for the City. Also, the Feria del Libro event should be accounted for as a scholarship and not a fee-waiver. Accordingly, the Zoo inadvertently neglected to bill a \$400 program fee for the Feria del Libro event to the ZooMobile Scholarship fund that would have been reimbursed by GLAZA.

Zoo management stated that it is in the process of preparing formal written policies and procedures for the fee waivers.

Recommendation

22. Zoo management should formalize formal written policies and procedures for waiving fees for education fee-based programs, which ensure that all fee waivers are properly approved, and that the scholarship activities are properly accounted for and charged to GLAZA in a timely manner.

Finding #10: The Zoo could potentially generate additional revenues if it charged a parking fee.

The City has not charged a parking fee since the Zoo opened in Griffith Park. However, LA Zoo’s benchmarking with 13 comparable zoos in different states showed that nine zoos charge a parking fee. The fee averages \$6 and ranges from \$1 to \$10.

Comparable Zoos	Admission Fees	Parking Fees
Los Angeles Zoo	\$10.00 ^(Note 1)	\$0.00
Oregon Zoo	\$9.75	\$1.00
Woodland Park Zoological Gardens (Seattle)	\$15.00	\$4.00
Columbus Zoo and Aquarium	\$10.00	\$5.00
Detroit Zoo	\$11.00	\$5.00
Indianapolis Zoo	\$13.50	\$5.00
Cincinnati Zoo & Botanical Garden	\$12.95	\$6.50
Brookfield Zoo (Chicago)	\$10.00	\$8.00
Bronx Zoo	\$14.00	\$10.00
Philadelphia Zoological Garden	\$16.95	\$10.00

Source of information: LA Zoo's Benchmarking Studies in September 2007.

(Note 1: Effective May 2008, admission fees increased to \$12.00)


Zoo management stated that it has consulted with the City Attorney’s Office regarding the legality of charging a parking fee in relation to the Zoo's Proposition O funding for parking lot improvements. The City Attorney’s Office indicated that there are no legal impediments to charging a fee. Zoo management also stated that it had previously proposed to charge a parking fee at the ticket booth, but the proposal was withdrawn during the budget process.

We conservatively estimate that the Zoo could generate parking revenue of approximately \$1.9 million a year. This estimate is based on the attendance of 1.5 million visitors for FY 2007-08, with an assumption of four visitors per car and a \$5 parking fee. The corresponding costs for staffing, equipment, maintenance and other administrative support, and infrastructure improvements should be considered along with the potential impact on the attendance in determining the cost effectiveness of charging a parking fee.

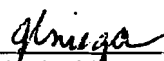
Recommendation

- 23. Zoo management should prepare a comprehensive study to determine the feasibility of charging parking fees which takes into consideration the associated costs related to charging a fee and the potential impact on attendance.**

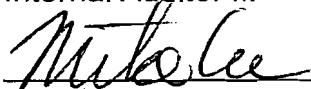
Respectfully submitted,



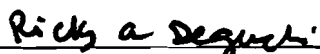
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May 8, 2009

Appendix A

OFFICE OF THE CONTROLLER

AUDIT OF REVENUES AND EXPENDITURES AT THE LOS ANGELES ZOO

Ranking of Recommendations

Finding Number	Description of Finding	Ranking Code	Recommendations
			Zoo Management should:
1.	The Department needs to increase oversight over the \$1.2 million advertising contract to ensure advertising expenditures are spent cost effectively.	U	1. Revise the current advertising contract to incorporate specific performance expectations and deliverables.
		U	2. Consider issuing proposals such as task orders for each event to formalize agreed upon goals, deliverables, timelines, key staff involved and total costs for each event.
		U	3. Evaluate the cost effectiveness of each event in accordance with the task order requirements.
		U	4. Require the advertising contractor to comply with contract requirements related to the supporting documents to be included with the invoices.
2.	The Marketing and Business Plan and Memoranda of Understanding are not kept current.	N	5. Prepare and obtain approval for a Marketing and Business Plan from the City Council at least every five years.
		N	6. Develop a Memoranda of Understanding based on an approved Marketing and Business Plan to cover annual goals and details of fundraising terms, conditions of membership in GLAZA, distribution of membership funds between the Zoo and GLAZA, and other activities to be performed by GLAZA.
3.	The Zoo management has not explored the possibility of directly sub-contracting out concession services.	N	7. Perform a cost benefit analysis to determine the feasibility of directly contracting for concession services.

Finding Number	Description of Finding	Ranking Code	Recommendations
4.	Zoo management has not formally followed up with the City Attorney to determine whether GLAZA should be required to pay the City \$7.3 million.	N	8. Formally follow up with the City Attorney to determine whether GLAZA should be required to pay the City \$1.5 million for excess concession administrative fees and \$5.8 million for excess membership revenues retained by GLAZA.
5.	The Zoo Department has not conducted physical inventories of equipment in the Centralized Asset Management System (CAMS) for at least seven years. Also, CAMS and Service Desk Online System (SOS) records are not consistently updated to properly reflect acquisitions and dispositions.	U	9. Establish fixed asset procedures which ensure that the records in the Centralized Asset Management System (CAMS) and the Service Desk Online System (SOS) are updated timely to properly reflect acquisitions and dispositions.
		N	10. List all medical and audio equipment in CAMS to properly track and monitor the usage of these equipment items.
		N	11. Conduct a physical inventory of all equipment items, as soon as possible to verify the correctness of the inventory records in CAMS.
		N	12. Conduct biennial physical inventories of equipment in CAMS and in SOS.
		N	13. Resolve all discrepancies identified in the biennial inventories in a timely manner.
6.	There is no written agreement with the Western University for the internship program even though the program began in August 2005.	U	14. Execute a written agreement with the Western University to cover all relevant terms (such as payments and liabilities) in the internship program.
		N	15. Maintain a billing system and send invoices monthly to the Western University based on the number of participating students.
		N	16. Verify the checks received from the Western University against the number of participating students and deposit the checks in a timely manner.
7.	Not all returned/voided admission tickets were properly approved, and currently, there are no management reports that show which supervisor approved the returned/voided tickets.	N	17. Ensure that supervisors initial returned/voided tickets to indicate their approval.

Finding Number	Description of Finding	Ranking Code	Recommendations
		N	18. Explore the feasibility of having the Galaxy Admission System produce management reports of voided transactions. These reports would indicate which cashier voided the transaction and which supervisor approved the void.
8.	Animal care workers do not certify the accuracy of their reported time. Also, management has not approved Zoo employees who receive lead pay.	N	19. Ensure that employees certify the accuracy of their time by signing their timecard.
		N	20. Ensure that workers receiving lead pay have been approved by management and develop criteria for what constitutes acting as a lead worker.
		N	21. Generate reports showing workers receiving lead pay and use the reports to monitor and control lead worker pay.
9.	There are no formal written policies and procedures for the waiver of fees for education fee-based programs. Also, there are no approval documents for fees waived on three education events.	N	22. Formalize formal written policies and procedures for waiving fees for education fee-based programs, which ensure that all fee waivers are properly approved, and that the scholarship activities are properly accounted for and charged to GLAZA in a timely manner.
10.	The Zoo could potentially generate additional revenues if it charged a parking fee.	N	23. Prepare a comprehensive study to determine the feasibility of charging parking fees which takes into consideration the associated costs related to charging a fee and the potential impact on attendance.

Description of Recommendation Ranking Codes

U- Urgent- The recommendation pertains to a serious or materially significant audit finding or control weakness. Due to the seriousness or significance of the matter, immediate management attention and appropriate corrective action is warranted.

N- Necessary- The recommendation pertains to a moderately significant or potentially serious audit finding or control weakness. Reasonably prompt corrective action should be taken by management to address the matter. The recommendation should be implemented within six months.

D- Desirable- The recommendation pertains to an audit finding or control weakness of relatively minor significance or concern. The timing of any corrective action is left to management's discretion.

N/A- Not Applicable