



# City of Norfolk

TO: Honorable Council Members FROM: John H. Sanderlin, Jr., City Auditor *JHS*

DATE: June 26, 2014 SUBJECT: Audit of the Virginia Zoological Park

Please find attached our final audit report on the Virginia Zoological Park. Should you have any questions please feel free to contact me at 664-4045.

cc: Marcus Jones, City Manager  
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# Audit of the Virginia Zoological Park



City of Norfolk

Office of the City Auditor

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Audit Report No. 14-5R

June 26, 2014

## Table of Contents

	Page
Executive Summary .....	1
Background .....	2
Objective, Scope and Methodology .....	3
Audit Results and Recommendations.....	4

## Executive Summary

The Virginia Zoological Park (Zoo) is a popular City of Norfolk attraction that appeals to not only the citizens of Norfolk, but tourist, volunteers, and various educational groups such as childcare centers and school field trips. The Virginia Zoo is the largest accredited zoo in the State of Virginia and the nearest one for over 100 miles. It is vital that the Zoo provides a safe, entertaining environment for patrons. The Zoo also, with revenues averaging over \$4 million, needs to safeguard revenue generating assets such as the animals, animal habitats, buildings, and equipment. Therefore, as a part of our fiscal year 2013 audit plan, we conducted a review of the Zoo's operations. Our primary objective was to determine the adequacy of management controls and effectiveness and adequacy of controls over expenditures.

We found, in general, that the Zoo exercised good controls over expenditures, had sufficient operational controls, and adhered to city established policies and procedures for the areas we reviewed. However, we did note some areas for management to consider in improving the operation's overall effectiveness, efficiency and internal control system as follows:

- Implementing controls to manage the employee fuel card program
- Monitoring the disposal of expired medications to ensure proper segregation of duties

- Initiating a liability and indemnity clause on volunteer applications
- Completing timely fire extinguisher and building inspections
- Obtaining a position description for the Zoo Director
- Monitoring employee's activities and transactions
- Performing mid-shift cash counts and removing large bills from cash drawers
- Completing reconciliations of train tokens

The Zoo's management was very proactive, during our audit, in taking measures to address these observations.

We acknowledge the City's commitment to provide opportunities for public enjoyment and the Zoo's efforts to furnish management oversight and financial disclosure regarding these activities. Such oversight and disclosure is a means of increasing the understanding and effectiveness of the City's support. We discussed our results, conclusions, and recommendations with Zoo's management on May 29, 2014 and have included management's responses in this report. In addition, management's actions regarding our recommendations will be subject to a follow-up review.

Assistant City Auditor Bradford Smith conducted the audit under the direction of City Auditor John Sanderlin. We appreciate the cooperation of the department and the courtesies and assistance extended to us during this audit. We look forward to the continued success of the Zoo in its highly visible and active role in the City and the Hampton Roads community.



## Background

The Virginia Zoological Park (previously known as the Lafayette Zoological Park) began acquiring animals in 1900, making the Zoo more than 110 years old, and spans over 55 acres adjacent to Lafayette Park and is bordered by the Lafayette River. Zoo residents from around the world include more than 500 animals, ranging from mega vertebrates, like elephants and giraffes, to skinks and tree frogs. With one of the newest exhibits, additional exotic Asian species have been added, such as orangutans, moon bears tapirs, small-clawed otters and colorful birds.

According to its mission statement the Zoo seeks to increase understanding of the world's flora and fauna and to add to the growing body of knowledge about them; to display animals respectfully, in a way that encourages their natural behavior; to conserve animals and their habitats; and to offer opportunities for learning and enjoyment to the public. The Zoo will strive to fulfill this mission through education, conservation, research and recreation.

The Zoo functions as a true hybrid operation through the joint efforts and constant communication between the staffs of the Zoo and the Virginia Zoological Society (The Society). The Zoo staff maintains all animal exhibits and provides animal care and husbandry, maintains the lush grounds and gardens, oversees most building repair and maintenance, and manages the ticket booth. The Society staff operates the gift shop, restaurant and concessions, educational programs, special events and parties, membership program, marketing and promotions, and fundraising and grant writing through the private sector.

The Zoo is accredited by the Association of Zoos and Aquariums, (AZA). Accreditation is a detailed review and inspection process covering all aspects of an institution's operation including the animal collection; veterinary care; physical facilities; safety;

security; finance; staff; governing authority; support organization; involvement in education, conservation, and research; and adherence to AZA policies. Accreditation takes place every five years and is required for zoos and aquariums to be members of AZA. We applaud the Zoo's efforts for recently achieving accreditation status from the AZA.

Over the last few years the Zoo has accomplished the following: The first phase of the Zoo's master plan "Trail of the Tiger" Asia exhibits has opened, several animal species have been added to the Zoos collection, and the construction of the Animal Hospital has begun. In 2013, the Hampton Roads Magazine recognized the Virginia Zoo as a Best of Hampton Roads Readers Choice Award Winner: Best Local Attractions, Best of 757 and Best Family Friendly Attraction Southside. These achievements have been realized through the efforts of the Zoo and The Society with average revenues over the last three years of approximately \$4.7 million dollars and an average of approximately 460,000 visitors for the same time period.

Our audit did note in the four previous fiscal years expenditures exceeded income, resulting in the Zoo operating at a deficit. The chart below represents revenues and expenses for the Zoo and The Society. We recognize that during fiscal years 2011 and 2012 the losses were higher. This was the result of the construction of the permanent event field pavilion, the Trail of the Tiger and other exhibits.

<b>Fiscal Year</b>	<b>Revenue</b>	<b>Expenses</b>	<b>Deficits+</b>
2010	\$3,769,713	\$5,250,178	(\$1,480,465)
2011	4,594,177	7,719,841	(3,125,664)
2012	5,109,914	7,170,087	(2,060,173)
2013	<u>4,581,090</u>	<u>5,898,660</u>	<u>(1,317,570)</u>
Total	<u>\$18,054,894</u>	<u>\$26,038,766</u>	<u>(\$7,983,872)</u>

+ The City's General Fund covers losses through the Zoo's annual operating budget.



## Objective, Scope and Methodology

Our overall audit objective was to determine the adequacy of management controls and effectiveness and adequacy of controls over expenditures.

We conducted tests of records and other audit procedures as we deemed necessary. We reviewed policies and procedures, contracts, invoices, credit card statements and other applicable documents. Additionally, we performed the following to accomplish the stated audit objective:

- Performed a trend analysis of expenditures for fiscal years 10 through 12 to show percentage changes and dollar differences for General Fund accounts.
- Evaluated general controls of the information systems the Zoo uses to manage fiscal data and animal record keeping.
- Selected a random sample of the animals at the Zoo to verify the existence, accuracy and verification of the animal recordkeeping system.
- Shadowed and interviewed employees to gain an understanding of the zoo operations and employee's responsibilities.
- Reviewed the AZA accreditation questionnaire (application) to evaluate potential areas of improvement.
- Evaluated the animal medication inventory system for existence and accuracy and to determine the system adequately tracks control medication purchases, usage, spoilage and quantities on hand.
- Reviewed invoices, payroll records and interviewed applicable

employees to determine if it was cost beneficial to eliminate two security guard positions and replace them with outside agency guards.

- Analyzed written agreements between the City and The Society to support the incentive payments made to the Society were appropriate.
- Examined the Zoo's volunteer's application to ascertain if an indemnity clause or a liability waiver is included to reduce the City's responsibility in case of injury.
- Conducted a cash count of the change fund to validated adequate internal controls over cash management.

We also performed a follow up of our previous report, March 2012 to determine if management implemented the agreed upon corrective actions. However, we did not perform test work on the care or maintenance of the animals as this was performed during the Zoo's accreditation process.

Management is responsible for establishing and maintaining effective control to help ensure that appropriate goals and objectives are met; resources are used efficiently, economically, and effectively and are safeguarded; laws and regulations are followed; and reliable data is obtained, maintained and fairly disclosed. We are responsible for using professional judgment in establishing the scope and methodology of our work, determining the tests and procedures to be performed, conducting the work, and reporting the results.

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and



conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

## Audit Results and Recommendations

We found the Virginia Zoological Park had adequate management controls over expenditures and over the limited areas of operations we reviewed. Although not having a significant financial impact, we did, however, find some areas of improvement needed to enhance the overall internal control system and to mitigate the possible risk of fraud, waste, and abuse in the future as operations continue to grow. Our observations are summarized below.

### **Fuel Card Controls Need to be Enhanced**

During our review, we noted inadequate controls over the employee fuel card purchases. The Zoo purchased 3,847 gallons of fuel for an amount of \$11,491 for the period July 2012 to August 2013. Specifically, the following was noted:

- Fuel card issuance records were outdated.
- In house fuel usage documentation was not always properly completed.
- Fuel reports were not always obtained from Fleet Management.
- Reconciliations of fuel purchases were not performed to ensure purchases were for zoo daily operations only.

Further, adequate documentation was not maintained by the Zoo to validate that fuel cards were activated, lost, stolen, missing or deactivated. Therefore, the Zoo could not confirm the number of cards assigned to the department. Management stated the reasons controls were inadequate was due to turnover in the position that was

monitoring the fuel consumption and in the interim no one assumed the responsibility. Further, our testing revealed the former employee that had the responsibility for fuel purchases did not properly follow-up when fuel transaction reports were not received or either showed no fuel consumption.

We commend management for recognizing control weaknesses over employee fuel card purchases and beginning to implement some monitoring procedures.

### **Recommendations:**

1. Establish new processes to limit the number of transaction during a certain time period based on the Zoo's operations, restrict purchases during specific hours of the day and days of the week, and limit the number of employees that has authorization to use the miscellaneous fuel card.

#### **Management Response:**

*Zoo management does concur with these findings and will establish a schedule for acquisition of fuel for vehicles and assign two people the responsibility for purchasing fuel for on sight equipment – gas can fills then used for grounds equipment.*

2. Compare the Zoo's active list of fuel card holders to a current active list from Fleet Management and make a determination of which employees need to have a fuel card/PIN # to purchase fuel.

#### **Management Response:**

*Zoo staff is presently comparing Zoo fuel card holders with the list that is held by fleet management.*

3. Require each employee with a fuel card/PIN # sign a fuel card policy acknowledging their responsibilities for fuel card use.

#### **Management Response:**

*All Zoo employees that are fuel card users have signed an updated agreement*



*acknowledging their responsibilities for fuel card use. This reinstated process is headed by the Zoo's horticulture curator. Future Zoo hires that require fuel cards will also sign on to this policy.*

**Disposal of Expired Medication should be Segregated**

Disposal and reconciliation of expired controlled medications is not properly segregated. We noted the expired controlled medications mailed back to the vendor for proper disposal were not verified by an employee other than the one mailing them to the vendor. Proper segregation of duties is an essential internal control when expired medications are mailed back to the vendor to be destroyed. We recognize having only two employees responsible for animal medication can be challenging. However, not monitoring and verifying expired medications were mailed back to the vendor was an oversight. When a verification process is not in place to ensure controlled medications have been forwarded to be destroyed, there is the possibility that these items can be improperly distributed.

**Recommendation:**

4. Ensure an employee, other than the one completing the applicable documentation, verifies all medications to be destroyed are recorded and validated.

**Management Response:**

*Zoo management does concur with these findings and the Zoo's staff veterinarian and veterinary technician will begin to cross verify the applicable documentation and verify records for returned and destroyed animal medications.*

5. Verify receipt confirmation documentation from the vendor is reconciled to the documentation mailed from the Zoo to ensure expired controlled medications were received.

**Management Response:**

*Confirmation of receipt of expired medications will now also be verified by both the Zoo veterinarian and the veterinary technician.*

**A Liability Waiver and Indemnity Clause is Needed on the Volunteers Application**

The volunteer application does not have a liability waiver or indemnity clause as a precautionary measure to reduce the City's responsibility in case of an injury. An indemnity agreement is essential to make sure the City is not liable for another party's wrong doing. Our research supports having a liability waiver statement and indemnity clause on the volunteer's application is industry standard. It appears not having a liability waiver and indemnity clause on the application was an oversight. The absence of these items on the application exposes the City to unnecessary risks.

**Recommendation:**

6. Ensure a liability waiver or indemnity clause is put on the volunteer application and the City Attorney's Office be involved in this process.

**Management Response:**

*Zoo management does concur with these findings and a Zoo Volunteer Waiver of Liability has been created and reviewed by the City of Norfolk Legal Department and is now part of the Zoo volunteer sign-on process.*

**Inspections are Not Being Consistently Performed**

Fire extinguishers and building inspections have not been consistently performed. Eleven of 24 fire extinguishers selected for testing had not been currently inspected when our audit was performed. Also, building inspections should be performed to ensure: general neatness of the area, maintenance issues are identified, first aid kits are stocked and potential safety hazards that may jeopardize the overall well-being of the employees and visitors to



the zoo are assessed. It appears fire extinguishers and building inspections were not consistently inspected and performed because the Zoo's Safety Committee has not maintained the necessary communication to the employees performing the tasks.

Not performing building inspections can cause potential safety hazards and maintenance issues to go unattended and in turn employees and/or visitors could sustain injuries. In case of a fire, not having an operational fire extinguisher could jeopardize the safety and wellbeing of employees, visitors and structures at the Zoo. We recognize the Zoo has recently begun to implement practices and processes to verify fire extinguisher and building inspections are performed and we applaud their efforts.

**Recommendation:**

7. Ensure monthly building and fire extinguisher inspections are performed and provided to a central employee or division that has the authority to implement corrective actions of noted problems.

**Management Response:**

*Zoo management does concur with these findings and the Zoo's safety committee will monitor building and fire extinguisher reports to assure that they have been completed. Zoo area lead keepers are responsible for performing these monthly inspections. Beginning in July the Zoo's maintenance supervisor will maintain these records and implement spot checks and make corrective action when problems are noted.*

**A Position Description is Needed for The Zoo Director**

The Zoo Director does not have a position description. The Zoo Director also acts as the Executive Director for the Zoo Society, through a memorandum of understanding. The Director provides daily oversight, conducts performance evaluations, and

other duties for this organization. A detailed job description defines the specific job duties, responsibilities and tasks; lists the types of skills and the educational or experience level required for the position. It appears this was an oversight that a position description was not prepared. If a position description does not exist, there is no written document in place for management to assess performance expectations, or to conduct a proper job evaluation.

**Recommendation:**

8. Request a job description be prepared to document the duties and responsibilities of the Zoo Director in accordance with city guidelines.

**Management Response:**

*The Zoo's director will coordinate with the City of Norfolk Department of Human Resources to write this job description.*

**Monitoring Employee Activities and Analyzing Reviews of Transactions is Not Consistently Performed**

An ongoing real time review of the security video by supervisory personnel to help disclose non-policy-conforming and suspicious behavior is not being consistently performed. Also, analytical reviews of transactions and transaction reports are also not being consistently performed which could be helpful in determining such items as the "zero" count adult transactions. Performing these practices can be time consuming; however, being diligent in performing these activities will greatly improve the monitoring of the Customer Service Representatives (CSR). If these practices are not performed, there is a potential for misappropriation of funds to occur.

**Recommendation:**

9. Ensure real time reviews of security video as well as analytical reviews of transactions and transaction reports are performed on consistent bases. These



issues were noted in our previous report.

**Management Response:**

*Zoo management does concur with these findings and monthly security video reviews were begun in October 2013 and will continue by the Zoo's visitor services coordinator.*

**Mid-Shift Cash Counts and Removing Large Bills from CSR's Cash Drawers are Not Being Performed**

Random mid-shift cash counts are not being performed on the CSR's cash drawer and reconciled to the amount in the Point of Sales (POS) system. Also, during the day large bills are not removed from the CSR's cash drawer. A mid-shift cash count and reconciliation to the system sales information will disclose that additional funds are being collected but not reported. Further, removing large bills helps the CSR's to have available change for the patrons and helps to keep the entrance lines moving. If these practices are not performed, there is a potential for fraud to occur and increased waiting times for patrons to go through the entrance lines.

**Recommendation:**

**10.** Conduct mid-shift cash counts on consistent bases and large bills are removed from CSR's cash drawer and reconciled to the amount in the POS system on an as needed basis. These issues were noted in our previous report.

**Management Response:**

*Zoo management does concur with these findings and mid-shift cash counts have begun monthly since October 2013 with large bills being removed, if present, as part of this process. During the busiest visitor times when all of the zoo staff is engaged with visitors, cash counts and large bill removal will be performed as timely as practical.*

**A reconciliation of Train Tokens Stopped Being Performed**

A reconciliation of train tokens issued to and returned by CSR's stopped being performed. To mitigate the potential for misuse of funds, a reconciliation or internal control should be in place. Train token reconciliations were discontinued because it was time consuming and having the CSR's record the train token when a patron does not initially receive it is hard because of the volume of customers. When reconciliations are not performed there is an opportunity for fraud to occur.

**Recommendation:**

**11.** Ensure a reconciliation or an internal control process is put in place to diminish the potential of fraud. This issue was noted in our previous report.

**Management Response:**

*Zoo management does concur with these findings and will return to the process where train tokens held by CSR's will be counted prior to shifts and post shift during cash out.*