



# City of Chattanooga

Stan Sewell  
Director

INTERNAL AUDIT  
City Hall  
Chattanooga, Tennessee 37402

Ron Littlefield  
Mayor

March 23, 2010

Mayor and City Council  
City of Chattanooga  
City Hall  
Chattanooga, TN 37402

RE: Chattanooga Zoo, Audit 09-09

Dear Mayor Littlefield and City Council Members:

Attached is the Internal Audit Division's report on Chattanooga Zoo operations.

We thank the management and staff of the Chattanooga Zoo and Friends of the Zoo for their cooperation and assistance during this audit.

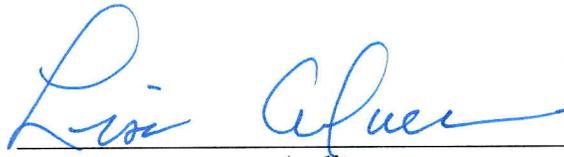
Sincerely,

Stan Sewell, CPA, CGFM  
Director of Internal Audit

cc: Dan Johnson, Chief of Staff  
Larry Zehnder, Parks and Recreation Administrator  
Gary Chazen, Board President of Friends of the Zoo  
Audit Committee

**PARKS AND RECREATION DEPARTMENT  
CHATTANOOGA ZOO  
AUDIT 09-09  
February, 18, 2010**

**PARKS AND RECREATION DEPARTMENT  
CHATTANOOGA ZOO  
AUDIT 09-09**

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Auditor

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Audit Director

**PARKS AND RECREATION DEPARTMENT  
CHATTANOOGA ZOO  
AUDIT 09-09**

**INTRODUCTION**

The Chattanooga Zoo is a division of the Parks and Recreations department. The zoo started its operations in 1937 with only two monkeys. Over the next twenty years, the zoo grew to house many varieties of animals including a petting zoo. By 1985, the poor conditions of the animal's housing were evident and a decision had to be made to either close the zoo or start improving the animal conditions. The Friends of the Zoo (FOZ), a not-for-profit entity was formed at this time. They sought to help with the zoo improvements through private donations and volunteers. Also, facility renovations began and educational programming was started.

**BACKGROUND**

The Chattanooga Zoo is currently being jointly operated and funded by two entities, the City of Chattanooga and FOZ. This venture started out with FOZ using their expertise and volunteers to raise private donations for improvements to the zoo. FOZ is a not-for-profit organization with a volunteer Board of Directors. Over the years, FOZ has expanded its involvement to include a substantial portion of the operations at the Chattanooga Zoo. Currently, FOZ supplies the majority of employees at the zoo. Generally, FOZ oversees the implementation of capital projects at the zoo. The City of Chattanooga's Zoo Director is also the Executive Director for FOZ. The City generally supplies six employees in the positions of Education Curator, Assistant Zoo Director and multiple Zoo Keepers. FOZ employs about thirty employees including Development Director, Business Manager, Graphic Designer, Visitor Services, Maintenance, Concessions, Education Assistants, and Zoo Keepers.

The zoo operations generate revenue from various sources. Revenue collected in the gift shop and concessions is deposited to the City and then remitted back to FOZ on a monthly basis. All other areas of revenue such as programs, birthday parties, rentals, camps, carousel, vending, memberships and donations are deposited directly into FOZ accounts. All revenues generated at the zoo are directly controlled by FOZ.

**STATISTICS**

Per the City of Chattanooga 2008 Budgeted Amount for the Chattanooga Zoo:

FY08	\$ 544,650	(Operations)
FY08	\$ 2,000,000	(Capital funds)*

Per Friends of the Zoo (FOZ) Audited Financial Statements:

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Increase in Net Assets	\$(134,197)	\$ 945,222	\$ (506,252)
Net Assets	\$ 975,188	\$ 1,920,410	\$ 1,414,158
Total Revenue	\$1,050,266	\$ 2,387,297	\$ 2,368,599
Total Operating Expenses	\$1,204,978	\$ 1,441,790	\$ 920,380

\* This appropriation is related to an interest free loan from the City to Friends of the Zoo. The funds were used to complete the front entrance complex and expansion.

### **STATEMENT OF OBJECTIVES**

This audit was conducted in accordance with the Internal Audit Division's 2009 Audit Agenda. The objectives of this audit were to determine if:

1. Zoo operations and activities are in compliance with applicable laws and regulations.
2. Friends of the Zoo has policies and procedures in place to protect the City's assets and to ensure funds and operations are well managed.
3. The current organizational structure of the zoo is an efficient and effective operation.

### **STATEMENT OF SCOPE**

Based upon the work performed in the preliminary survey and assessment of risk, the audit period covered the operations of the Chattanooga Zoo from July 1, 2008 to current. Source documentation was obtained from staff at the Chattanooga Zoo and the City Finance Office. Original records as well as copies were used as evidence and verified through physical examination. The scope was expanded as necessary to meet the objectives of the audit.

### **STATEMENT OF METHODOLOGY**

During the audit, interviews were conducted with Chattanooga Zoo staff (which includes both City and FOZ employees/volunteers) and FOZ Board members to gain an understanding of the operations of the zoo. Documentation was reviewed for FOZ and the City that covered transactions within the audit scope. Observations were made of the zoo and its operations. The City and State code were reviewed during the audit as well as the Internal Control Compliance Manual for Tennessee Municipalities.

## **STATEMENT OF AUDITING STANDARDS**

We conducted this performance 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 objectives.

## **AUDIT CONCLUSIONS**

Based upon the test work performed and the audit findings noted below, we conclude that:

1. The zoo's operations are not in compliance with all applicable laws and regulations.
2. There are not adequate policies and procedures in place to ensure the City's assets and funds are protected and well managed.
3. The current operational structure of the zoo is not efficient and effective. Full operational control of the Chattanooga Zoo needs to rest with one entity.

While the findings discussed below may not, individually or in the aggregate, significantly impair the operations of the Chattanooga Zoo, they do present risks that can be more effectively controlled. Although our findings, enumerated below, identify deficiencies in some areas, it is apparent that FOZ is and has been an asset to the City of Chattanooga. It should be noted that various violations of codes noted below are not the result of failures on the part of FOZ.

## **NOTE WORTHY ACCOMPLISHMENTS**

In 1998, the Chattanooga Zoo gained the American Zoo and Aquarium Association (AZA) accreditation for the first time. Since that time the zoo has gone through major improvements and renovations. These have included numerous exhibits such as the Gombe Forest Chimpanzee, Himalayan Passage with Red Pandas, Snow Leopards, and Hanuman Langurs and a renovated Education Building. The final touch in 2008 was a \$4.2 million new grand entrance complex which included a gift shop, concession pavilion and carousel. These substantial improvements appear to be a direct result of the creation and involvement of Friends of the Zoo.

## **MANAGEMENT CONTRACT OR LEASE**

The Chattanooga Zoo is currently being operated by both the City and Friends of the Zoo (FOZ). It is a joint operating venture that is not supported by any contractual agreement. There have been various agreements or memorandum of understandings addressing some issues between the City and FOZ over the last fifteen years. However, none of the agreements support or address the zoo's current operating arrangement.

## **RECOMMENDATION 1**

We recommend that the City review the total operations of the zoo and determine the most beneficial operating arrangement that would be in the best interest of the City. Should the final determination of structure involve activities of FOZ beyond fundraising, all necessary legal requirements should be met and a comprehensive formal document should be executed.

## **AUDITEE RESPONSE**

The Department of Parks and Recreation is in full agreement with this recommendation. It was not a priority of past administrations to have detailed formal arrangements. Learning that the current administration prefers a clearer arrangement several detailed and more comprehensive draft agreements have been submitted to the city administration for comment since September of '09. It is our intent to receive the appropriate direction and finalize an agreement with all parties engaged.

## **UNAUTHORIZED PAYMENTS TO NON PROFIT**

City Code Section 2-526 requires appropriations to nonprofits be approved by the City Council. The Code further requires the name of the nonprofit and amount be specified in the City budget. TCA 6-54-111 requires any disbursements to nonprofits (other than purchases procured following applicable laws and policies) be appropriated "under the direction and control of the legislative body of a municipality" following the City's specified guidelines for appropriations. TCA 6-54-111 specifically requires the City budget to include the name and amount of any such disbursements to nonprofits, as well as a specific adoption of the appropriation by the City Council. In addition, City Code Section 2-520 requires the City Finance Officer to examine all claims and demands against the City and "shall issue no warrant for payment unless he has found by diligent investigation that the claim is in proper form, correctly computed and duly approved."

During the audit, we noted a couple of instances over the last several years when disbursements to FOZ were properly appropriated by specific approval of the City Council. For example in 2009, a playground was purchased for \$30,000 and in 2006 \$250,000 was approved for zoo improvements. However, we noted numerous and substantial disbursements to FOZ without the proper disclosures and Council approvals. These

examples include the City's Finance Division remitting admission and gift shop sales to FOZ for years without a contract or council approval (several hundred thousand dollars per year). The City has disbursed funds from the Parks and Recreation Department capital fund to FOZ on an annual basis for many years. In addition, there are direct payments made to FOZ that were submitted as expense reimbursements from FOZ's Executive Director.

## **RECOMMENDATION 2**

We recommend the Finance Department follow all applicable City and State Codes when distributing funds to any not-for-profit organization. Further, the Administrator of Parks and Recreation, as well as the Director of the Zoo, should be aware of all relevant codes, regulations, and policies related to their areas of responsibility and they should exercise diligence in the administration of expenditures.

## **AUDITEE RESPONSE**

When requested by the City's Finance department to provide all required documentation generally required of all "outside" non-profits the zoo has complied to the present administrator's knowledge. Once documentation had been established, the need to keep sending the same information seemed somewhat wasteful especially considering all funds dispersed through the capital budget had the Council's approval and zoo projects were known to be managed by FOZ, a not for profit entity created to work on the sole behalf of the city owned facility and no other entity. However, now that the audit has emphasized that there are no shortcuts or assumptions permitted to following state law, the department will do everything possible to support the Finance Department and become more knowledgeable of all relevant codes, regulations and policies. In addition all funds are now deposited to the City of Chattanooga, as directed in a letter from the Mayor to the Zoo Director in January 2010. In addition, a meeting was held with Daisy Madison, Brian Smart, Larry Zehnder, and Dardenelle Long to determine how to manage cash collections so that they were conducted using city protocols, including but not limited to the use of a receipt book for all cash collections and custodial transfer of funds between parties.

## **AUDITEE RESPONSE (Finance)**

The Finance Department will work with the Department Administrator and City Attorney to ensure that a contract is in place authorizing use of city assets include city funds by the Friends of the Zoo and that council authorization is granted as appropriate in accordance with provisions of contract and City Code.

## **USE OF CITY PROPERTY AND STAFF**

City Code Section 2-756 states, “An official or employee shall not use or authorize the use of municipal time, facilities, equipment, or supplies for private gain or advantage to any private person or entity, except as authorized by legitimate contract or lease that is determined by the governing body to be in the best interests of the municipality.” Although the Administrator of Parks and Recreation entered into an agreement in 2000 which allowed FOZ to collect and retain admission fees, it was not a valid agreement (it was never approved by Council/it was not competitively bid) and it expired in 2005.

There has never been a management agreement or lease agreement (valid or invalid) put in place by the City to allow FOZ to control or use the City’s facilities. FOZ (a private not-for-profit entity) is operating various activities to generate revenues using City facilities and City staff. These operations include but are not limited to camp activities, event rentals, carousel rides, and the sales of memberships that provide access to the zoo. Additionally, some other activities that generate revenue for FOZ are supported by City staff. This includes: The City’s Education Curator provides outreach programs and a City Zookeeper handles event rentals. Further, the City’s Education Curator, supervises two FOZ staff.

## **RECOMMENDATION 3**

The Director of the Zoo should not allow private entities to utilize City property in violation of the City Code. Administration should take appropriate disciplinary action.

## **AUDITEE RESPONSE**

The Friends of the Zoo organization and the City of Chattanooga operate the zoo together for the purpose of Education, Conservation, and Recreation, as partners. The friends organization exists for the sole purpose of supporting the City of Chattanooga which as an entity must meet strict federal requirements and standards in order to provide a municipal zoological park. Without Friends of the Zoo and their operational and funding support of close to 80% of the total zoo's staffing, it is questionable as to whether the City would still have a zoo let alone a nationally accredited facility that brings positive attention to the City. The public/private venture as successful as this one has been should be encouraged in other areas of public service not minimized.

The very important agreement specifically addressing this audit's concerns will be the support this organization has been seeking from the City that has not been provided in 25 years. The Parks and Recreation Department is grateful for the opportunity to achieve this long sought goal. Attempts in the past to address and document arrangements have existed with many assumptions being made by the City and FOZ that were supported and even encouraged by past administrations. Providing collected revenues to FOZ in return for FOZ's efforts to search out matching private contributions was a deliberate choice made by the city

as a way to improve the facility at minimal cost to the tax payer. The issue of FOZ employees and City employees working side by side in functions that raise money for the City Zoo is acknowledged and will be addressed in the agreement.

**Auditor Comment:**

At no point in our report or during the audit process have we “minimized” the benefits provided by Friends of the Zoo. In fact, we have made particular effort to note the organization is a great asset to the City of Chattanooga. However, we can find no need for City management to violate the City Code to facilitate the benefits of a strong partnership. Likewise, we cannot fathom that a formal, comprehensive, and legal agreement would diminish such a relationship. In fact, such an agreement should clarify responsibilities, provide assurances for planning, and bring about more efficient operations.

**GRATUITOUS PAYMENTS**

The City’s Zoo Director also serves as the Executive Director for FOZ. It was discovered during the review of the FOZ 2009 payroll records that the Executive Director pay is being supplemented with a quarterly “bonus” of \$3,000. The acceptance of this bonus violates City Code Section 2-194 which states “No city employee shall, without the consent of the City Council, receive any money or gratuity or compensation in addition to his/her salary for any service he/she may render as an employee,” as well as City Code Section 2-754 which states “An official or employee shall not accept any substantial gift from anyone by reason of service as an official or employee....” Additionally, City Code Section 2-757 (2) states an employee “shall not use or attempt to use his or her position for personal financial gain...that is not authorized by the charter, general law, or ordinance or policy of the municipality.”

The City’s Zoo Director’s personnel file was reviewed and we determined that there was not an outside employment form on file as required by Executive Order 2007-0001. City Council minutes were reviewed and no approval could be located for the FOZ salary supplement as required by City Code. In addition, the Administrator of the Parks and Recreation Department stated that the Director of the Zoo had mentioned the potential of FOZ supplementing her pay in the past. However, until our audit, he was unaware that she was receiving any payments.

**RECOMMENDATION 4**

We recommend Administration take appropriate disciplinary action.

## **AUDITEE RESPONSE**

Due to the many references both verbal and written in the accreditation process relative to compensating the Director appropriately, the administrator wrote in response to the accreditation's findings " it is difficult to implement a further increase at this time."

"However, the City and Friends of the Zoo are currently working to establish a more formal relationship, and discussion of possible additional compensation for the director position will be a part of that". That was in September just prior to the Board's vote on accreditation, in the letter notifying the City of successfully achieving accreditation in October of 2008 they requested an update on the financial obligations between the operating parties and the Zoo Director. The administrator's letter of response provided them a proposed contract between the two organizations and again reiterated that " We intend to sign a document which will allow the zoo Director to receive compensation from Friends of the Zoo for an increase in that position's salary". The important item being addressed was the issue of accreditation, and making sure this one issue which was one of the only concerns left to be addressed, was not going to be a problem with the accreditation team. It may have been misleading to the FOZ, who were given the letters to mail, that it was an endorsement of any help they might give in order to satisfy the accreditation process. The intention was, in order to achieve and maintain accreditation, to communicate to AZA that this issue was being addressed, (but not fully satisfied).

## **CONFLICT OF INTEREST**

Over the years, FOZ has grown from a support organization of the zoo to controlling the majority of the operations and staff. This structure has evolved into a chaotic organization with no single entity having full control over the operations. We noted numerous violations of the City Code are occurring. It is the duty of the City's Zoo Director to ensure compliance with the City Code with regard to all areas under her oversight, as well as to protect the interests and assets of the City in general. At the same time, the FOZ Executive Director's position requires allegiance to FOZ. This allegiance became evident during the course of our audit. It appears since this one individual is representing two separate entities; a conflict has resulted, allowing various violations to occur. In addition, both of these entities are compensating this individual for her performance. City Code Section 2-758 states "An official or employee shall not accept or continue any outside employment if the work unreasonably inhibits the performance of any affirmative duty of the municipal position or conflicts with any provision of the municipality's charter or any ordinance or policy...." Section 2-757 states "An employee shall not use or attempt to use his or her position for personal financial gain or to secure any privilege or exemption for...others that is not authorized by the charter, general law, or ordinance, or policy of the municipality."

## **RECOMMENDATION 5**

Administration should take immediate action to eliminate any conflict of interest or appearance thereof. Further, Administration should take appropriate disciplinary action.

## **AUDITEE RESPONSE**

Departmental administration agrees that to eliminate any appearance of conflict of interest is in the city's best interest and it is believed that a structured agreement will accomplish this task. The issue of the FOZ bonus has been discontinued.

Both organizations have the same mission. In the zeal of the Director to provide the best possible facility for the City, the Director has unintentionally developed a structure that appears to include a conflict of interest. Although, it is the belief of the administrator that she has acted out of pure motives and for the sake of bettering the zoo, the current structure would in fact allow a less than honest person to work for their personal gain. Despite the good intent and pure motives, throughout the development of FOZ, the current operational structure gives the unfortunate appearance of wrong-doing and conflict of interest. Clearly these must be changed. Under the present Director's leadership the animal care has achieved monumental improvement from the animal menagerie of the past and the FOZ has been extremely successful in bringing private dollars to the City's facility.

While this does not excuse the need for a more formal agreement it must be part of the discussion. Again the immediate action that is required is the approval of an agreement.

## **FORMAL POLICIES NEEDED**

Friends of the Zoo does not have a comprehensive set of formal written policies and procedures concerning the operations of the zoo. We noted a lack of sufficient policies related to cash collections, procurement, nepotism, conflicts of interest, personal use of zoo property, and related party transactions. Interviews of zoo staff who handle funds revealed that they did not have written procedures that cover their job duties.

## **RECOMMENDATION 6**

We recommend FOZ develop a comprehensive set of written policies that governs their Board, employees and operations. If future operations at the zoo involve FOZ beyond fundraising, we recommend the City ensure that the organization has a comprehensive set of policies and procedures in place to address various issues such as conflicts of interest, related party transactions, nepotism, internal controls over cash collections, procurement, outside employment, and personal use of City/FOZ property.

## **AUDITEE RESPONSE**

Agreed, as part of her duties with FOZ the zoo director has already taken steps to include many of these suggestions and solutions into present existing documents and procedures. The response from FOZ will provide greater implementation detail.

## **INTERNAL CONTROLS OVER FUNDS**

During the review of the financial transactions of the zoo, interviews with employees and observations, it was noted that there is a lack of internal controls over funds at the zoo. Funds are collected in various points within the zoo's operations. These funds are often not receipted, reconciled, or accounted for properly. There is no mechanism in place to determine if all money received for any given day is accounted for. Furthermore, there is no process to determine if those funds that are collected are deposited into the bank intact.

Receipts from various areas and for multiple days are comingled into one deposit. There is not proper support for collections and deposits. Generally, the only documentation supporting a collection report or deposit is copies of checks. Other than revenues deposited to the City, there were not any receipts, cash register tapes, daily cashier summaries, nor any type of reconciliation or ledger to support funds collected. In addition, there was not any documentation showing who collected the funds or when the funds were collected.

Each cashier/employee is not assigned their own cash drawer for their shift. During the day, several employees may use the same cash drawer to ring sales and make change. Further, the zoo doesn't have a process for each individual cashier to summarize and document each day's sales. Each day the concession and carousel employees' pickup their cash drawers from the gift shop personnel without verifying the funds present. The gift shop staff reconciles all the cash drawers used at the zoo at the end of each day. However, there is no process to document the transfer of funds from the various cashiers to the gift shop personnel. When reconciling, gift shop personnel do not always identify cash shortages or overages.

FOZ utilizes a volunteer bookkeeper who generally visits on Saturdays to prepare deposits and update the organization's books. This individual has the authority to write and sign checks, make deposits, reconcile the bank statements, post entries into the accounting system and post payroll items. In addition, this individual handles cash from time to time.

## **RECOMMENDATION 7**

We recommend that all funds generated at the zoo be receipted and reconciled on a daily basis. Each individual cashier should be assigned a separate cash drawer. A predetermined amount should be set as startup money for each cashier and maintained at a constant amount. Each cashier should summarize and document their collections each day indicating any cash short or over. All deposits and collections should be properly supported. Gift shop staff

should consolidate the individual cashier collections into a daily report. This process should include reconciling the amounts present with supporting documentation (such as Z tapes). Further, when custody of funds is transferred from one employee to another, the money should be counted and documented by signature of both employees.

We also recommend the duties of cash handling be separated from the duties of recording and reconciling the financial data. Also, access to and the ability to sign checks should be limited to only a few employees that are not involved in the record keeping and reconciliation process. We further recommend FOZ have an employee knowledgeable about accounting system processes and controls with specified and required duties related to keeping the organization's books and records.

### **AUDITEE RESPONSE**

The procedures outlined by the audit for the FOZ to implement will be implemented and assured with the assistance of the Department of Finance and the Department of Parks and Recreation. As of January many of the recommended improvements have been initiated and continue to be made.

### **ZOO FUNDS NOT SECURE**

After observations and interviews at the zoo, it appears that funds are not secured properly. All gift shop staff has access to the safe that is located in the gift shop of the zoo. This safe is used to store the tills and the petty cash fund. There is also a drop safe which stores the daily collections. The drop safe can only be accessed by two gift shop personnel and the Zoo Director. Both safes are located in an office within the gift shop. Cash drawers for the concession and carousel employees are placed on a counter behind the gift shop cash register for pickup by the opening employees each day. Checks that are received at the zoo for numerous activities are placed in an envelope and taken to the Administrative building and left in an unlocked desk drawer to be deposited at a later date. The risk associated with this lack of security is exacerbated by the failure to properly receipt and reconcile funds (as noted in a separate finding above). Because there is no supporting documentation of the amount collected, a loss would most likely go unnoticed.

### **RECOMMENDATION 8**

We recommend that the zoo funds be secured at all times. All funds should be stored in a locked safe or locked drawer until time of use. Access to valuable assets should be restricted to a limited number of people to minimize risk. Receipts should be supported by appropriate documentation to flag any missing funds.

## **AUDITEE RESPONSE**

The department administration will seek a detailed procedural protocol from FOZ to ensure these funds are properly secured. Improvements initiated currently will be reported by FOZ.

## **RISK OF DUPLICATE EXPENDITURES**

We reviewed payments from both FOZ and the City on a limited basis. Payments were found that were made by both FOZ and the City for the same or similar services (security and pest control). It was explained that these weren't duplicate payments or an overpayment but extra coverage by FOZ to enhance security services for special events and to provide additional (specialized) pest control that the City's vendor was not capable of. While these instances may not have been actual overpayments or duplicate expenditures, they identify a significant problem that is inherent with the current operating structure of the zoo (two separate accounting systems are in place for the same operation).

As mentioned, our review in this area was very limited. However, we did note that the Director of the Zoo requested and received full per diem reimbursement for meals from the City for travel related to a Milwaukee AZA conference in September 2008. We further noted that the Director charged meals to the FOZ credit card during this same conference.

## **RECOMMENDATION 9**

We recommend the City either retain full operational control of the zoo or develop a lease agreement that will allow FOZ to take full operational control. If the City chooses to turn over full operational control to FOZ, we recommend the agreement require FOZ to have in place a comprehensive set of policies and procedures that ensure strong internal controls, proper documentation to provide an audit trail and assurance of accountability. The agreement should also provide for unfettered access to all facilities, records, and staff by the City.

## **AUDITEE RESPONSE**

The department administration concurs totally in the Audit's recommendation and will provide recommended language to the City Attorney for inclusion in the agreement. Clarification as to the apparent duplications will be explained by FOZ in their response.

### **FRIENDS OF THE ZOO RESPONSE:**

Friends of the Zoo and the Zoo Director have operated for almost 25 years with the full support and endorsement of 4 different administrations, and have operated in good faith that the leadership provided by Departmental Administrators and Mayor's office was valid and legal. Furthermore, they are eager to sign a lease agreement as soon as a mutually agreed upon one is offered by the City.

**Regarding the issue of a management contract or lease**, a lease agreement draft has been created and provided to the Administrator of Parks and Recreation and the City Attorney, as well as Friends of the Zoo. Drafts of agreements have been submitted multiple times since September 2008.

**Regarding the issue of unauthorized payments to a non-profit**, Friends of the Zoo has operated according to direction from administration, and has provided all materials requested. The organization has received no information until this audit that procedures and protocols utilized were not acceptable to the City government.

**Regarding the issue of use of City property and staff**, the agreement signed and executed in 2000 by the Administrator of Parks and Recreation permitted the collection of funds to be conducted by Friends of the Zoo. It was the understanding of the Zoo Director and FOZ that this agreement was valid and authorized. Although the agreement expired, both the City of Chattanooga and Friends of the Zoo continued to operate under the terms of the agreement after the expiration date. In addition to the above referenced document, an MOU was signed between FOZ and the department of (then) Parks, Recreation, Arts, and Culture, which further defined the relationship between the City and FOZ. This agreement was signed in 2004, and has no expiration date. The document is attached. Prior to 2000, there were countless fundraising and revenue producing activities held by FOZ at the zoo, with the full knowledge and support of the entire administration, including the office of the Mayor. City officials have, and continue to this day, to attend these events and support them. There have been numerous meetings and presentations to both Council and Administrations, including the current officials, outlining the relationship between FOZ and the City. At no time has there ever been a question or concern raised regarding the use of the Zoo by FOZ. In fact, the ongoing relationship has been further utilized by City officials for management of contracts, and the providing of staff and resources for City sponsored events. As an example, the TML event held at the zoo last summer revealed issues with the use of the facility and FOZ resources, which were brought to the attention of both parties, but there was no mention of the need for a contract or lease for this organization or the TML.

The indication that City staff support FOZ earned revenue activities is certainly valid, although it should be noted that a City Zookeeper no longer handles event rentals. Moreover, the use of a City Zookeeper for the above referenced function was only temporary and was necessary due to staff changes that occurred in Summer 2009. Since October 2009, zoo rentals have been managed by the FOZ Development Director. It should also be noted that

the City of Chattanooga has utilized FOZ employees and resources to execute various functions, most notably Go!Fest, but also Sweet Diversity meetings and other departmental functions.

**Auditor Comment:**

*We reviewed this finding with Friends of the Zoo's Board of Directors on February 23, 2010. At that time, the Board agreed with this finding.*

*The referenced agreement from 2000 did not allow for the unconditional collection of funds at the Zoo by FOZ. This document specifically limited FOZ's right to admissions fees. While the failure (presumably due to a lack of knowledge regarding the City and State Codes) to properly authorize the agreement may be appropriately placed with the Administrator of Parks and Recreation at the time, the City's Zoo Director was responsible for oversight of that contract on behalf of the City. The Director should not have allowed the collection of funds and use of City assets beyond that authorized in the agreement. Further, in fulfilling the duties of Director of the Zoo for the City, actions should have been taken to address the issue prior to expiration of the agreement in 2005.*

*There is no question that the City has benefited from Friends of the Zoo. However, our finding is related to a failure on the part of the City's management to follow appropriate policy/law. A city employee cannot override an ordinance of the City Council. It is also important to note that the execution and expiration of the agreement spanned two separate administrations (The Administrator executing the agreement was no longer in place at the time of expiration). The only constant in a responsible position over this time period was the Zoo Director. Further, the referenced MOU from 2004 had no provisions or discussions related to use of assets or collections of funds by FOZ, it contains no language providing for a lease to FOZ or a management contract with FOZ. Therefore, we fail to see the relevance to our finding and recommendation.*

*We reaffirm our finding and recommendation.*

**With regard to the issue of gratuitous payments,** (Dardenelle Long) During the AZA accreditation process in the summer of 2008, it was noted that the zoo director's salary was not within the range of appropriate salaries for that position. In meetings with Administrator Larry Zehnder, discussion of the possibility of compensation from FOZ to bring the salary to an acceptable level was discussed. In March of 2009, FOZ voted to compensate additional funds to the city salary. It was the understanding at that time that it was with the support and endorsement of the department administrator. In discussions regarding how to fill out the required form for outside employment, it was pointed out that the director's work for the City and FOZ was difficult to separate and did not meet the requirements of a second job. The role of Executive Director has never been officially attached, but Darde has certainly acted in that

role. In the MOU with PRAC of 2004, it was stated that the zoo director was to be responsible for all operational decisions for the zoo, including oversight of the operational budget for both City and FOZ. Upon being made aware that there was a potential issue with the payments of FOZ, she resubmitted the form for outside employment, but has not received a formal acceptance or denial of that form. Upon learning of the consideration of this as a violation of City Code, a FOZ board member, Dr. Tom Donovan has restricted a \$15,000 donation made by him to be used for repayment of the funds paid to the zoo director by FOZ. The board has been notified that she will not be accepting any further payments. AZA will also have to be notified that their concern regarding inadequate compensation for the zoo director still exists. This concern could impact the zoo's continued compliance with AZA accreditation standards.

It is in the opinion of FOZ that if disciplinary action is to be taken, it should be shared equally by all involved parties.

**Auditor Comment:**

*We reviewed this finding with Friends of the Zoo's Board of Directors on February 23, 2010. At that time, the Board agreed with this finding.*

*Multiple processes and avenues are available to address the issue of compensation within the bounds of the City Code and policy. As referenced in our finding, the City Code specifically prohibits any employee from receiving any money in addition to their salary for any service rendered as an employee unless approved by the Council. As stated by FOZ in their own response above, they did not view the payments as being for a "second job." The Zoo Director is a salaried position within the City that has responsibility for any activity taking place at the Chattanooga Zoo. Further, the Zoo Director never brought the issue before the City Council for approval.*

*The executive order regarding outside employment clearly states that it applies to "any employment." The Zoo Director was compensated by FOZ in the form of payroll checks and received a Form W-2. Further, this executive order specifically references and incorporates the above mentioned City Code regarding prohibiting the receipt of any additional compensation by a City employee. During a meeting with the City's Zoo Director on December 1, 2009, she stated explicitly to us that she was the Executive Director for FOZ and she stated that she was aware of the Executive Order regarding Outside Employment (indicating she was not sure if she had filed the required form or not).*

*We find the insinuation that FOZ was unaware of their payments to the City's Zoo Director as being a problematic issue to be disingenuous. The minutes of the May 19, 2009 Friends of the Zoo Executive Committee meeting minutes (provided to us by FOZ) state "Suggest a push to the City for an increase in Darde's salary, **but keep quiet about the FOZ supplement.**" [Emphasis added]*

*A contribution to cover the compensation paid by FOZ to the City's Zoo Director is not relevant. The issue of our finding is that the City's employee should not have accepted the offer without approval of the City Council in an open meeting.*

*Although requirements for AZA accreditation are not relevant to our finding, because the issue was raised on multiple occasions, we reviewed the AZA accreditation report, along with their follow-up report and noted there was a "lesser concern" related to the Directors pay "appearing" to be below average. AZA recommended comparing the Directors pay to similar organizations in our area. We attempted to obtain supporting documentation for this concern. We requested documentation from AZA to support their statement that the Executive Director's pay appeared to not be competitive. They supplied us with summarized data from 5 organizations in the Southeast with operating budgets under \$2,000,000. They would not provide us with the specific salary and budget for each of the five. Because there is as substantial difference in a \$1,000,000 operation and a \$2,000,000 operation, it is difficult to determine if the City's Zoo Director's pay is competitive utilizing the consolidated AZA data. It does appear that two of the five salaries included are at or below that of the City's Zoo Director.*

*We searched for comparable director salaries in the Southeast via publicly available Form 990s (IRS information return for non-profits) and found only one that appeared to have a truly comparable operating budget: Greenville Zoo with a salary of \$53,807 (no retirement/benefits) during 2008 vs. Chattanooga Zoo Director with a current salary of \$56,850 (and full benefits). Although repeated comments have been made about an increased Zoo Director salary being necessary for accreditation, we can only note that the AZA report only states there is the appearance of a problem and recommends a comparison to other organizations be made. We have seen no direct evidence that the City's Zoo director is not receiving a competitive compensation package from the City. Further, the City completed a comprehensive compensation study in 2008 that provided a full adjustment for any employee falling below the minimum for a specific job classification. We believe this meets the AZA recommendation to make a compensation comparison.*

*We reaffirm our finding and recommendation.*

**Regarding the issue of a conflict of interest**, there is no conflict of interest in the relationship between the Zoo Director and FOZ. The sole interest and reason for existence of FOZ is to support the operation and development of the Chattanooga Zoo. Exclusive of the earned revenues referenced elsewhere in this report, FOZ has contributed millions of dollars from private individuals and has procured grant monies that have been solely used for the expansion and development of the zoo. The relationship of the Zoo Director to FOZ is directly responsible for these contributions. As to Section 2-757, there has been no attempt to use the position for personal gain, but only for the improvement and continued accreditation of the Zoo, as detailed in MOU from 2004. For 24 years, there has been no personal gain, until the FOZ board voted to address the concerns of AZA as noted in the accreditation report regarding the deficiency in the director's salary. This is in response to the MOU directive

which states “Any recommendation from the American Zoo and Aquarium Association should be implemented and adhered to by both PRAC and FOZ.”

The reference to “allegiance” to FOZ has been misconstrued. The Zoo director has simply tried to point out the importance of the relationship and ensure that that relationship’s value was understood and acknowledged by representatives of the City of Chattanooga.

**Auditor Comment:**

*We reviewed this finding with Friends of the Zoo’s Board of Directors on February 23, 2010. At that time, the Board agreed with this finding.*

*Our report has clearly detailed the issue of a conflict of interest. We refer the reader to review those findings above. The City’s primary agent in dealing with FOZ is the Zoo Director. This individual also serves as FOZ’s Executive Director. Multiple decisions were made by the City’s Zoo Director regarding the agreements and operations between the City and FOZ. More importantly, it appears issues that should have been brought to the attention of City Administration and/or Council, were not.*

*The fact that she is the City’s Zoo Director is the means by which and the reason that she became the Executive Director for FOZ. This is the direct reason for the compensation received by the City’s Zoo Director from FOZ. The result is a clear violation of the City Code.*

*We noted multiple occasions during our audit when the City’s Zoo Director was conflicted in providing information when related to FOZ. The City’s Zoo Director should be aware of all activity taking place at the Chattanooga Zoo and should have a complete allegiance to the City. This statement should not be construed as to insinuate the need for anything other than a positive and cooperative relationship between the City and FOZ. However, agreements and operational decisions should be made at arm’s length and following all applicable laws and policies.*

*We reaffirm our finding and recommendation.*

**With regard to the issue of formal policies needed**, there is a Gift Shop Protocols for Handling Money document which was signed by all gift shop personnel in May 2009 which outlines procedures for counting money, drops Box/ Safe etc. The Chattanooga Zoo Employee Manual has a description of job duties for the gift shop which outlines register procedures, end of day reporting etc. The entire manual is attached to this response. The Visitor Services job descriptions also describe the job duties for the positions. In addition, the employee responsible for collection reports has been furnished with all collection report protocols that are available, including the new Oracle documents. The employee manuals also contain a number of employee policies including conduct, dress code, etc. The policies noted as deficient by Recommendation 6 are being reviewed by FOZ board of directors to determine what updates need to occur. Cash collections are described more in detail below.

**Auditor Comment:**

*We reviewed this finding with Friends of the Zoo's Board of Directors on February 23, 2010. At that time, the Board agreed with this finding.*

*We interviewed Zoo gift shop staff, as well as FOZ's bookkeeper during our audit. All indicated that they did not have written policies and procedures for their specific job duties or for handling collections, beyond the standard employee manual. Our finding does not state and is not intended to give the perception that there are no policies and procedures in place at the Chattanooga Zoo. As stated in our finding, the policies are not comprehensive, do not cover key areas that are commonly recognized as necessary in not-for-profit management, and are severely lacking key control points with regard to finances/cash collections.*

*We reaffirm our finding and recommendation.*

**With regard to the issue of internal controls over funds**, it should be noted that all deficiencies in cash protocols mentioned above concern funds previously managed, collected and deposited by FOZ to their account according to protocols acceptable to that private organization and acknowledged by previous and current administrations. Funds which were designated by previous agreement to be deposited to the City Treasurer have been managed according to City Collection Policies. Their financial records are reviewed monthly by the executive committee and annually by an independent auditor.

All cash generated at the zoo is now receipted and processed through the POS systems. Receipts are issued for cash collected as well. Per the meeting with the City Finance officer, the funds from vending machines and petting zoo are collected weekly. There are generally two cashiers working and two separate cash drawers. Each cashier has a separate log on code for the POS systems. As of March 16<sup>th</sup>, 2010, separate drawers will be issued for those employees taking over operation of registers. There are register tapes for concessions and carousel, and those have been provided, so the statement that those do not exist is not true. There have been no receipts for cash collections such as Penny Press, etc. but those are now being receipted in a City issued receipt book. The money is collected by one individual, and then recounted, entered into the POS system and deposited to City Treasurer by a second person.

It is also incorrectly stated that there is no opportunity to reconcile the day's sales per cashier: as the zoo's POS system includes the capability to properly reconcile sales each day. The points of cash collection at the zoo, which were not previously receipted, included the Penny Press, coke machines, petting zoo food machine. The products for all of these processes are purchased by FOZ.

**Auditor Comment:**

*We reviewed this finding with Friends of the Zoo's Board of Directors on February 23, 2010. At that time, the Board agreed with this finding.*

*During our initial meeting with the Chairman of Friends of the Zoo, he stated that it was his understanding that FOZ was following the City's policies and procedures with regard to all funds collected at the Chattanooga Zoo. It was further his belief that all funds collected were being remitted to the City and subsequently disbursed back to FOZ. Further, when we questioned the City's Finance staff, they indicated that it was their understanding that all funds collected at the Chattanooga Zoo were being collected per City policy and remitted to the City. Therefore, the statement that all funds were collected and deposited into FOZ's account, by protocols acceptable to FOZ and City administration, appears to be incorrect. When we questioned the Administrator of Parks and Recreation, he stated that it was his understanding that FOZ did generate revenues that were not deposited to the City by running various programs.*

*We are unaware of the "previous agreement" that is mentioned in the response as designating funds to be deposited to the City. During our audit, we noted that the City's Zoo Director utilizes her own discretion in determining which funds will be submitted to the City and whether or not funds collected will be documented by receipts. This is a disturbing operation to us that provides opportunities for misappropriation with minimal (or no) controls to prevent or detect such activity.*

*We do not disagree that register tapes are generated for concessions and at the carousel. Concessions revenues appear to have generally been a portion of the funds that were remitted to the City. As stated in our finding, these funds (deposited to the City) appear to be supported with receipts. Funds generated from the carousel have not generally been deposited to the City Treasurer. Although receipts are generated at the carousel, they are not submitted to the FOZ bookkeeper for reconciliation (there is no supporting documentation for funds deposited).*

*Nowhere in our finding or recommendation have we "stated that there is no opportunity to reconcile the day's sales per cashier." The POS system is capable of providing cashier accountability. However, because all funds are not recorded in the POS system and because cashiers do not have separate cash drawers, it is not possible to reconcile each day's sales per cashier. As noted in our finding, this problem is exacerbated by a comingling of funds for multiple days of collections. Further, the insinuation that the only funds not entered into the POS system were from the Penny Press, coke machines, petting zoo and food machine is incorrect. Memberships, rentals, outreach fees and at times admissions fees have not been entered into the system. We tested one day's collections and noted a substantial amount of collections that could not be accounted for (in the City deposit or the FOZ deposit).*

*We reaffirm our finding and recommendation.*

**With regard to the issue of zoo funds not secure,** while there are no cameras inside the office referenced, there are cameras which provide a view of who enters and exits this office. There are cameras at each point of sale position in concessions, ticket booth, gift shop and carousel. As noted above, funds are stored in a locked safe and drop safe. Only Gift Shop Personnel have access to the safes, and this process will have to continue due the seven day operation of the zoo and the inability to have only 1 individual over this. Cash drawers for the POS stations in the gift shop have always been kept in the safe until put into use, and now the cash drawers for concession and carousel are kept in the safe until the arrival of the employee who will be using it, and new sheets have been developed for the purpose of documenting the transfer of funds from one to the other employee. The checks referenced (no cash has ever been placed in an unsecured area that is not manned at all times) are now put in a lock box in the desk drawer of the Interim Business Manager. These are donation checks to FOZ, not for activities occurring at the zoo.

**With regard to the issue of duplicate expenditures,** there are numerous payments by FOZ that might appear as duplicate payments, but are in reality supplements to an extremely deficient city appropriation for zoo operations. These include security for special events, exterminating from a company that stepped forward when our city contracted organization could not provide the specialized service needed for animal exhibits, food and medical supplies for animals, staff, maintenance costs, landscaping costs, and numerous professional development payments. AZA requires that a percentage of staff attend conferences, trainings, and meetings, and City funds are inadequate to even send major City staff. The Milwaukee conference reference is valid; the Zoo Director did receive a per diem reimbursement from the City of Chattanooga. The FOZ card used was issued in her name, but used to cover the cost of all meals for the 7 other employees attending as well as any amounts exceeding the per diem provided to the zoo director. There was no duplication of payment.

**Auditor Comment:**

*By the very nature of a per diem reimbursement, an additional payment for “any amounts exceeding the per diem provided to the zoo director” is inappropriate. However, as stated in our finding, our review in this area was limited and was not intended to flag misappropriations. Our purpose was to bring to light an inherent problem in the current structure.*