

CITY AND COUNTY



OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET ANALYST

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January 11, 1999

Honorable Tom Ammiano, President
and Members of the Board of Supervisors
City and County of San Francisco
Room 244, City Hall
1 Dr. Carlton B. Goodlett Place
San Francisco, California 94102-4689

Dear President Ammiano and Members of the Board of Supervisors:

Transmitted herewith is the Budget Analyst's Performance Audit Report of the San Francisco Zoological Gardens, which is under the management of the San Francisco Zoological Society. This management audit was conducted in accordance with Charter Section 2.114, which authorizes the Board of Supervisors to make inquiries concerning departmental operations.

In total, this report presents 15 findings containing 75 recommendations organized in four separate categories. The four categories are: (1) Animal Management and Care; (2) Visitor Services; (3) Objectives, Goals, and Compliance Responsibilities; and (4) Financial Management. If fully implemented by the Zoological Society, these recommendations would result in one-time cost savings of approximately \$4.53 million, \$3.73 million of which can be reallocated to construction of priority capital improvements and \$800,000 that should be transferred to a construction contingency account to increase the amount allocated for that purpose to an appropriate level. In addition, we have identified San Francisco Zoological Society operating budget savings in the amount of approximately \$197,857 that can be reallocated to high priority Zoo needs, such as facilities maintenance. Further, annual savings in the amount of approximately \$50,000 would result from the timely payment by the Zoological Society of the City's billings for sewer service charges and other utility expenses.

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A complete list of the Zoo's reported accomplishments is contained in the Introduction Section of our report beginning on page *vi*. Some of the Zoo's significant accomplishments are as follows:

- The quality of animal care has improved since the Zoological Society assumed management in 1993. The veterinary program has improved dramatically. The veterinarians have an excellent working relationship with the Animal Keepers. The Animal Keepers are professional, knowledgeable, and caring as a group. An independent evaluation was completed by Dr. Joel Parrott, the Oakland Zoo Director, retained by the Budget Analyst. Dr. Parrott, who is also a zoo veterinarian, concluded that veterinary care at the San Francisco Zoo is excellent and general care is good.
- The Zoo has an excellent animal acquisition and loan policy. In fact, the Zoo's policy is used as an example in the American Zoological Association's "Suggestions for Implementation of the AZA Animal Disposition Guidelines."
- The Zoological Society raised \$11,494,465 against the \$10 million minimum Founders' Fund commitment and expended in excess of \$7 million for operations in each of the first five years of the Management Agreement.
- The Zoo's admission fees appear to be reasonable compared to other zoos and facilities catering to families and children in the Bay Area. In the case of its resident child and senior admission prices, the Zoo was one of the lowest priced facilities of those surveyed. According to the May 1999 visitor survey, 82 percent of respondents rated value for admission price as "excellent" or "good."
- We found that, in general, the Development Department has been able to meet its fundraising goals for annual operating expenses. In addition, the Zoological Society has raised approximately \$21 million of the \$25 million required for capital improvements under the lease agreement, including written, contingency, and verbal pledges.

Notwithstanding the notable accomplishments that the Zoological Society has achieved, the Budget Analyst has identified various findings and has made appropriate recommendations as summarized below.

SUMMARY OF MANAGEMENT AUDIT FINDINGS

Section 1: Animal Management & Care

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Animal Management and Care is the primary business of zoos. Accordingly, we examined the status of animal management and care to determine whether 1) the management and care of the animals of the San Francisco Zoo are in accordance with applicable regulations and good practices, and 2) the Animal Management Department is accomplishing its objectives and goals in an economical and efficient manner.

Section 1.1: Animal Management & Care

- There are a number of animal exhibits that are out-of-date and can only be considered minimal facilities. The most glaring deficiencies in housing and exhibit design are the chimpanzees, orangutans, elephants, bears, sea lions, hippopotamus, giraffe, and siamang. All of these are recognized as minimal facilities by current Zoo management. All, with the exception of the bears and sea lions, are scheduled for new facilities within Phase II (\$73 million) of the Master Plan. Somewhere in-between are the enclosures for the greater cats. Although the Lion House is a public sentimental favorite, it is clearly dated in concept and design. The animal holding and exhibit facilities should be considered adequate but minimal. Many of the facilities overall show a lack of general maintenance. Rust is a major problem with the Sloat Boulevard location.
- A significant concern is that of the sea lion pool and bear grottos. The polar bears and Kodiak bear do not appear in the Master Plan. However, the collection plan indicates maintaining the polar bears, with the possibility of replacing the Kodiak bear with a grizzly bear. Since Phase II of the Master Plan is scheduled to be completed by the end of 2004, this means that the bears will be in the existing grottos for ten years, and possibly longer. This is also true of the sea lion and harbor seal exhibits. A decision should be made as expeditiously as possible on whether these species will be part of the Master Plan. If the seals and northern bears are not part of the long-term plan for the Zoo, the animals should be relocated to other institutions with better facilities. The bear grottos should then be removed. If the animals are part of the Master Plan, the existing facilities should be removed and new state-of-the-art bear and sea lion exhibits constructed. Ten to fifteen years is too long to address these concerns.
- An elephant restraint chute, which is used to immobilize and support elephants in order to perform certain procedures, and which can be relocated into the new exhibit when that facility is completed, is needed for the African elephants. This

will address a current limitation of the existing facilities for African elephant management.

- A survey of Animal Keepers to solicit ideas on improving animal and animal-related management produced a number of excellent ideas for improving such management and also reinforced our observations concerning several management issues. Among the more significant findings of the survey are that 1) morale among the various Animal Keeper Sections varies between reasonably good to extremely poor; 2) standards for selecting new animal keepers should be established, 3) there is a perceived wide variance in the performance of various Animal Keepers and a perceived wide variance in what is demanded of various Animal Keepers; 4) many animal keepers believe that their experiences and opinions concerning animal management are not sufficiently appreciated or considered prior to initiating animal management policies or implementing animal management projects; and 5) Animal Keepers have a high degree of confidence in the Zoo's Veterinarian and believe that the veterinary care afforded the animals is of the highest order.
- The leadership of the Board of Directors is aware of the existing morale problems, and recognizes that the existing organizational climate needs to improve greatly if the organization is to move forward. The Zoological Society has recently hired top-level management staff to improve operations and communications within the Zoo organization. Also, a consultant has been retained to assist in conflict resolution.
- Animal Keepers believe that the Zoo's greatest strength lies in its dedicated, talented, staff. The Education Center, the Animal Resource Center (ARC), and the Children's Zoo are mentioned prominently. Also, the Zoo's location is rated a plus.
- Animal Keepers would like to see, and believe the public would appreciate, more animals.
- Zoo management has not responded appropriately to non-compliance citations resulting from inspections conducted by the U.S. Department of Agriculture-Animal & Plant Health Inspection Service (USDA-APHIS). Since 1992, the Zoo has received one official warning "ticket," five letters of warning, and two warning statements on inspection reports from the USDA-APHIS. Most of these deficiencies dealt with repeated maintenance problems, such as wire mesh rusting in the Primate Discovery Center and deterioration in the walls of the Asian Rhino

housing area. Zoo management has recently initiated a better working relationship with the USDA-APHIS, beginning with a meeting with USDA representatives in July of 1999.

- Zoo management has still not decided whether African elephants or Asian elephants or both will be part of the long-term plan. This will need to be decided very soon, because elephant facilities occupy a central role in the thematic display, and will consume a significant portion of the space, funding, and energy of the Zoo. In addition, the elephant facilities are particularly inadequate.
- One of the most important considerations for animal management is the microclimate along Sloat Boulevard and the Great Highway. The toll that the weather (cool, wind, fog, and salt air) takes on the structures is mentioned in the accreditation report, as is the potential for the weather's affect on the animals' health. Zoo staff at all levels were asked if the primates seemed generally comfortable or uncomfortable in this climate, to see if the clinical picture suggested that these temperatures might be too low for these animals. The general impression of staff is that the animals acclimate to the climate and do well (even those that are tropical species). Primates are exhibited in other areas in temperate North America and voluntarily go outside when temperatures approach freezing. An advantage of this site is that the average low temperature in the coldest month is 45 degrees. It has rarely reached freezing.
- A site visit to the bison exhibit revealed a group of animals that appear to be in very good health. General care of the animals themselves appears to be good, although it was difficult to make full observations due to the generally poor condition of the site. A few piles of animal waste were present which should have been removed. The bison exhibit physical site appeared worn and overgrown. Much of the site was overgrown with weeds, and fencing appeared old and in some cases appeared to be oriented for some previous function. "Do Not Feed" signage was present but poorly displayed. Plans for new fencing and, more importantly, restoration of the main field are in place and scheduled for construction. The Bison Watch Committee volunteers have contributed project support and general maintenance work (weed pulling etc.) but would like to see more support for the facility. The facility improvements could be achieved at minor cost.
- Annual performance evaluations have not been regularly completed for most Animal Keepers.

- According to a comprehensive evaluation of animal care at the San Francisco Zoo conducted by Dr. Joel Parrott, Director of the Oakland Zoo and a zoo veterinarian, veterinary care at the San Francisco Zoo is excellent and general care is good. The greatest deficiency in animal care remains the physical plant.

Section 1.2: Animal Acquisitions and Dispositions

- The Zoo's acquisition/disposition practices have resulted in a significant reduction in the number of animals in the Zoo's collection. Excluding fishes and invertebrates, the number of Zoo animals decreased from 1,371 in 1972-73 to 895 in 1988-89 to 630 in 1997-98, a total decrease of 54 percent. The mammal count included in the total decreased from 558 in 1972-72, to 438 in 1988-89, to 276 in 1997-98, a total decrease of 51 percent. The General Curator has stated that the Zoo currently holds the species and specimens that it can care for properly and that the Zoo's collection of mammal and bird specimens will be increasing with implementation of Phase II of the Master Plan.
- In June of 1997, the Director of the San Francisco Zoo decided to request that the Asian elephant "Calle" be relocated to the San Francisco Zoo from the Los Angeles Zoo prior to obtaining the final results of a general health blood profile and a blood test to screen for tuberculosis. The decision to request shipment of the elephant prior to completion of health testing was a mistake; further tests revealed that Calle had contracted tuberculosis. As of August 1999, the cost of treating Calle's tubercular condition has been \$115,177, not including staff time. The Los Angeles Zoo has contributed \$30,000 toward that cost.
- The Zoo's practices governing animal acquisition, loan, and disposition actions should be amended to assure that such transactions fully provide for the well being of the animals. In that regard, we found that:
 1. The Zoo does not require American Zoological Association (AZA) facilities requesting Zoo animals to complete an application form. Further, the Zoo does not require non-AZA members to notify the Zoo of the death or relocation of an animal that had been previously relocated to the non-AZA member by the Zoo. These provisions are recommended in the AZA Guidelines.
 2. The Zoo's "Animal Disposition Agreement," which is the contract form used to bind both AZA and non-AZA recipients of Zoo animals, does not include reference to the AZA's Code of Professional Ethics nor does the Agreement contain the AZA's recommended language requiring the acquiring organization not to sell, trade, loan, or donate the acquired animal to any inhumane research program.

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3. The Zoo's Animal Acquisition/Disposition Guidelines contain evaluation forms with appropriate questions for evaluating proposed acquisition/disposition actions. However, Zoo management does not currently complete the evaluation forms in writing.

Section 1.3: Capital Projects

- In response to the Budget Analyst's recommendations to increase Phase II Master Plan funding for increased construction of capital projects, the Zoological Society has made design changes to the new Administration, Quarantine, and Holding facilities. This has resulted in an additional \$687,000 that will become available for construction of animal exhibits.
- The current Phase II budget allocates approximately 4.9 percent of total construction costs of \$48 million to Program Management, which is being performed by an outside consultant, and 3.9 percent of such costs to Zoological Society Administration, for a total of approximately 8.8 percent, or \$4,215,434. Further, the current Phase II budget allocates approximately 7.8 percent of total construction costs, or \$3,747,052, to Construction Management, which would be performed by the Department of Public Works (DPW). Thus, the total budgeted cost for these functions is currently 16.6 percent of total Phase II funding, or \$7,962,486. We recommend that this combined total of 16.6 percent be reduced to 10 percent, or \$4,800,000, in accordance with attainable program and construction management cost containment practices and in accordance with the Zoo Bond Program Report, thereby allowing an additional \$3.16 million to be expended on construction of capital improvement projects.
- The current Phase II budget allocates approximately 13 percent of total construction costs to Design Fees, based on a combination of a 14 percent factor for specialized animal facilities design and a 12 percent factor for all other projects. The total amount allocated for Design Fees, is \$6,235,722. We recommend that the combined percentage of 13 percent be reduced to 12 percent, which would produce savings of \$480,000, which can be used for the construction of additional capital improvement projects.
- The current Phase II budget allocates two percent of allowable Phase II construction costs calculated at \$40 million, or \$800,000, to the Public Art Program. The Zoological Society should negotiate with the Art Commission to reduce the percentage to 1.5 percent, thereby saving \$200,000.
- \$800,000 of the approximately \$4.53 million in cost reductions identified above should be allocated to increase the construction contingency for each individual project by 2.5 percent, from 5 percent to 7.5 percent. The remainder of the \$4.53 million in savings, or the approximate amount of \$3.73 million, should be allocated to a Management Reserve Account to be used for the construction of additional capital improvement projects to further enhance the Zoo.

Section 1.4: Facilities Maintenance

- The Zoo is an aging facility (the oldest structures still in use are over 70 years old) which has experienced many years of unfunded and deferred maintenance. The problems caused by deferred maintenance have been compounded by aging facilities, limited funding, and a harsh ocean climate.
- A review of United States Department of Agriculture (USDA) inspection reports from 1994 to 1999 shows that the Zoo is not adequately responding to violations that have been identified by the USDA. It is the responsibility of the Zoo to evaluate all structures and exhibits in the Zoo in light of the nature of the violations identified in the USDA inspections, make such repairs and replacements throughout the Zoo, and to establish a schedule of periodic inspections.
- As of July 7, 1999, the Zoo had a total of 173 maintenance requests pending. The requests range from minor projects, such as to fix dripping faucets, to major repair projects in need of outsourcing, such as repairing floors and grading exhibit areas. The oldest dated request had been submitted in July of 1997 to replace the public railing in the giraffe exhibit.
- We found that, out of a total of 292 maintenance requests which were submitted during 1998, 227 or 78 percent were completed as of July 7, 1999 and 65 requests or 22 percent were still pending, six months to one and a half years after they had been submitted. Of the 65 work orders still pending, 32 were deemed to be “emergency” or “critical.” For example, one such emergency request which has still not been addressed is to repair an unstable gate and replace the back perimeter fence in the giraffe exhibit.
- The Zoo will need to continue to enhance its animal care, the quality of its visitor experience, and address USDA compliance issues while the new Phase II capital projects are being constructed. It is recommended that Zoo management increase the maintenance department to address deferred maintenance items until maintenance is reasonably caught up. In order to accomplish this without increasing operating costs, new maintenance employees should be assigned strictly to Phase II program repair items, thereby qualifying all costs for the force-account labor category (Zoological Society maintenance employees) in the Phase II program. Zoo management has recently received approval to use such a force-account labor to perform necessary construction work related to its Phase II “Repair and Replacement” project.

Section 1.5: Browse Collection

- Our examination of the Zoo's workers' compensation claim data over the past four years found that a significant portion of claims were for injuries incurred by animal keepers while collecting fresh plant and tree cuttings for animal food and enrichment, known as "browse." From July of 1995 to March of 1999, there were ten browse related workers' compensation claims at an estimated total cost to the City's General Fund of \$270,389. These injuries resulted in the loss of 477 workdays, representing 14.3 percent of all claims submitted by animal keepers who are City employees and over 40 percent of the workers' compensation benefits paid for injuries incurred during that four-year period.
- The San Francisco Zoological Society has taken steps to address the rate of employee injury such as contracting with Recreation and Park Department for browse collection and assigning responsibility for a greater portion of the Zoo's browse collection to professional in-house horticultural staff. These efforts have recently resulted in a decrease in the number of browse-related injuries to City and Zoological Society staff. The Zoological Society's long-term plans also include meeting a portion of the Zoo's browse needs by planting trees and bushes within the Zoo to be used for browse.
- However, such solutions do not adequately address all of the Zoo's browse collection issues. The SFZS should establish a browse farm for the Zoo's ongoing browse needs, which could result in long term cost savings and would provide other benefits, such as eliminating potential exposure of the animals to toxins and ensuring an ongoing adequate supply of food and enrichment materials.
- In December of 1999, the Sheriff's Department reported to the Budget Analyst that it is still willing to consider the establishment of a browse farm at the San Bruno Jail site. The Zoo Director has advised the Budget Analyst that the Zoo will contact the Sheriff's Department in the very near future to discuss establishing a browse farm at the San Bruno Jail site.

Section 1.6: Free Admission Days

- All admissions to the Zoo are free on the first Wednesday of each month. These free days are the most highly attended of all days at the Zoo, especially during the summer months. For example, on the free day held in July of 1999, the Zoo

recorded 23,771 visitors, a six-fold increase compared to the total attendance of 3,875 on the following Saturday. On the July of 1999 free day we observed the animals in the Gorilla World exhibit completely surrounded with jostling adults and children two to three persons deep. Other exhibit areas, such as the Lion exhibit, were similarly overcrowded. In the Primate Discovery Center Gift Shop, the two clerks on duty were clearly overwhelmed by the large volume of visitors. By early afternoon, the trash receptacles near the Terrace Café were filled to overflowing and long lines had formed for the playfield restrooms. We observed security staff in some areas working to keep order by reminding children to stay off of railings and not to throw objects into the exhibits.

- The Zoo should consider a modification of its free day policy during the summer months to minimize stress on the Zoo's animals and facilities. This may become particularly important while the Zoo undergoes its planned capital improvements, which may concentrate or increase free day attendance during these peak summer months beyond the Zoo's capacity.
- One option is for the Zoo to modify its "free day" program by limiting free admission to only certain hours during peak summer months, as is done by some other zoos. For example, the Baltimore Zoo has free admission for children only on the first Saturday of each month between the hours of 10 a.m. and noon and the Portland Zoo has free admission on the second Tuesday of each month after 5:00 p.m. Another option is to attempt to schedule schools and other organized groups, including out-of-County groups, in order to avoid overcrowding on any given day.

Section 2: Visitor Services

As a part of this management audit, we included in our review an assessment of overall satisfaction of Zoo visitors, admission prices, the quality and pricing of concessions, and the attractiveness and cleanliness of the grounds and facilities.

- Based on the Zoo's semi-annual visitor surveys, the percentage of Zoo visitors who rate their overall satisfaction as "excellent" has been slightly below 40 percent or between 40 and 50 percent since August of 1996. Prior to that, from March of 1994 to February of 1996 visitors reporting an "excellent" rating averaged around 30 percent. While these ratings have improved, the Zoo has far to go in providing an "excellent" experience for all of its visitors.

- In the May 1999 Zoo visitor survey, when asked what one thing they would like to see changed at the Zoo, the most frequently mentioned suggestions (by 29 percent of visitors) concerned providing improved habitats for certain animals or all of the Zoo's animals in general.
- An inspection of the Zoo's food services by the City's Department of Public Health in June of 1999 found numerous minor, but no major, health violations. However, it was noted that the Zoo's concessions "...are falling into various stages of decrepitude."
- Although the Zoo has recently made efforts to improve its restroom facilities by painting stall doors and making other repairs, the poor condition of the restrooms is in large part due to aging structures and deferred maintenance that has resulted in unsightly and hazardous conditions.
- Exhibit signage is in poor condition in various areas throughout the Zoo. Damaged, worn out, dirty, and/or missing signage reinforces to the visitor an image of a Zoo in a state of disrepair and neglect.
- Although aged and deteriorating facilities hamper efforts to keep the Zoo grounds and facilities attractive and clean, the Zoo must allocate greater resources to managing the attractiveness, cleanliness, and information (educational and directional signage) aspects of the Zoo. The Zoo should strengthen the maintenance, horticultural, and custodial staffs, and provide them with the tools they need to perform efficiently.

Section 3: Objectives, Goals, and Compliance Responsibilities

As part of our performance audit of the San Francisco Zoological Gardens, we examined the extent to which the Zoological Society is accomplishing the objectives and goals for which the operation of the San Francisco Zoo was transferred from the Recreation and Park Department to the Zoological Society. In this section of the audit we also examined whether the Zoological Society is operating in compliance with the provisions of the Management Agreement and other relevant regulations.

Section 3.1: Financial and Operational Status; Compliance Issues

- The Zoological Society developed a planning document in July of 1993 entitled "5-Year Plan: 1993-1998." The 5-Year Plan was approved in concept on July 19, 1993, and, according to Zoo management, was used to guide the Zoo's development. The 5-Year Plan shows that the Zoological Society intended to

significantly upgrade and improve Zoo facilities and the overall Zoo experience within the first five years of the Zoological Society's operation, by expending \$30 million in funds raised by the Zoological Society on capital improvements and by instituting managerial and other improvements. A motion to approve a Capital Budget in the amount of \$30 million was passed unanimously by the Board of Directors of the Zoological Society on February 28, 1994. However, only \$10,377,210 of the planned \$30 million was expended on capital improvements (\$6,803,246 in Founders' Fund monies and \$3,573,964 in Capital Campaign monies). The Zoological Society shifted its capital campaign strategy to correspond with the City's Zoo Bond program after recognizing that obtaining significant capital contributions from its donor base was not feasible without the City's capital funding commitment, given the condition of the Zoo. In the professional judgment of the Budget Analyst, the Zoological Society's inability to raise and expend the additional funds on capital projects to upgrade the Zoo and the two-year delay in Zoo Bond sales due to the 49er Stadium bond lawsuit are the primary reasons the Zoological Society was unable to achieve its major operating and financial objectives during the first five years of the Management Agreement.

- Over the first five years of the Management Agreement, actual operating revenues, including bequests, were \$63,885,195 or \$15,633,805 less than the projected operating revenue estimate of \$79,519,000, which was the five-year operating revenue estimate presented by the Zoological Society when the Zoo Management Agreement was submitted to the Board of Supervisors for approval. Thus, the average annual operating revenue shortfall for the five-year period was \$3,126,761 (\$15,633,805 divided by 5). Actual operating expenditures over the five-year period were \$65,755,637, or \$15,004,259 less than the projected operating expenditure estimate of \$80,759,896. Thus, the average annual operating expenditure shortfall for the five-year period was \$3,000,852 (\$15,004,259 divided by 5).
- The retail sales contribution to Zoo revenue generation has been particularly poor. As shown in Table 3.1.3, for the five-year period of FY 1993-94 through FY 1997-98, actual retail sales revenue was \$7,567,200 less than projected. Further, a financial report generated by the Zoological Society titled "Revised Expected Budget Fiscal Year 1998-99" shows a \$537,428 negative variance for "Retail Operations," which constitutes approximately 81 percent of the entire negative variance amount of \$664,444.

- The Zoological Society has significantly increased its long-term debt to cover operating deficits and to provide advanced funding for capital projects. Long-term debt peaked in FY 1996-97 at \$2,428,741. As of August 1999, the balance owed on the Zoo's unsecured revolving line-of-credit was \$1,194,350.
- The revenue shortfalls experienced by the Zoological Society have had a very negative effect on Zoo staff. Many questions to Zoo staff concerning an operational issue have been answered with "that's not in the budget" or with "we don't have funding for that." As Dr. Parrott states in his evaluation beginning at the bottom of page 34 of this audit report, "The revenue urgency and sense of vulnerability permeates the organization."
- Zoological Society staff did not obtain required building and other permits for numerous capital projects and alterations at the Zoo. Thus, required plan checks and inspections were not accomplished and the Zoological Society did not pay required fees to the City. Accordingly, the City Attorney advises that the City could be held liable for injuries resulting from structural inadequacies as a direct result of required plan checks and inspections not having been performed.
- Our review of the "5-Year Plan: 1993-1998" revealed that the Zoological Society has accomplished many of that document's objectives and goals. However, in addition to effectively managing Phase II of the Master Plan, other objectives are important to the Zoo's success, such as improving internal communications.
- The Zoo has maintained its accreditation with the AZA and its license with the USDA. However, Zoo management has not appropriately addressed the findings resulting from USDA inspections, as covered in Section 1.1 of this audit report.
- For FY 1998-99, the Zoological Society did not transmit its audited financial statements to the Recreation and Park Department within 120 days of the end of the Society's fiscal year (June 30th of each year), as required by Section 15.10 of the Management Agreement.

Section 3.2: Payment and Invoicing Procedures for City Services Provided to the Zoo

- Section 6.1 of the Management Agreement requires that the Zoological Society pay to the City the cost of all services provided by the City to the Zoological Society within 30 days of receipt of a written invoice. However, the Zoological Society was late in paying the majority of Recreation and Park Department

invoices on time for City services provided to the Zoo. Of a total of 169 invoices issued from October 1993 to April 1999, 137 or 81% were paid late. The payments sampled were late an average of 34 days ranging from 1 day to 111 days overdue. The cost to the City, in terms of lost income from interest yields the City would have otherwise earned from invested funds, was \$80,262 over the course of five years.

- Independent of and in addition to the late payments caused by the Zoological Society, the Recreation and Park Department failed to invoice the Zoological Society in a timely manner after services were rendered to the Zoo. The longest delays in issuing invoices involved sewer service and water charges, maintenance services, and light, heat and power charges. For example, sewer service charge invoices sampled were delayed an estimated average of 284 days ranging from 122 to 726 days late. The delays experienced from October 1993 through December 1998 resulted in a loss of income from interest yields in the estimated amount of \$149,724 over the course of five years.
- The present system of appropriating funds to cover Zoo sewer service and Zoo light, heat, and power expenses in the annual Recreation and Park Budget and then having the Department bill the Zoo to reimburse the City for those expenditures is cumbersome and not cost effective. It has contributed significantly to costly delays in processing invoices and payments.
- Accordingly, at the suggestion of the Budget Analyst, the Public Utilities Commission (PUC) has agreed to have its Clean Water Department and Bureau of Light, Heat, and Power bill the Zoological Society directly instead of billing the Recreation and Park Department for PUC services at the Zoo. The Zoo Society has expressed its agreement to the change to direct billing.
- Implementation of our recommendations should result in avoiding the loss of interest income to the City in an estimated amount of \$50,000 per year.

Section 3.3: Compliance With Insurance Requirements

- Section 17.1 of the Management Agreement requires that, subject to the approval of the City Risk Manager as to the insurers and policy forms, the Zoological Society shall place and maintain throughout the term of the Agreement, and pay the cost thereof, various types of insurance coverages. The Management Agreement also provides for periodic reviews of the Zoological Society's insurance coverages, but does not specify a time period for such review.

- Prior to this performance audit, the Zoological Society did not obtain the City Risk Manager's approval of the insurers, policy forms, and insurance coverages procured, as required by the Management Agreement, and the coverages were never reviewed by the City Risk Manager.
- The City Risk Manager has recently reviewed the insurance coverages and has determined that the provision limiting the policy forms and amount of both Malpractice and Commercial Crime Insurance to those in effect on the commencement date of the Management Agreement is ambiguous.
- The Zoological Society maintains Property Insurance on City-owned Zoo buildings, even though such coverage is not currently required by the Agreement. The City Risk Manager believes that Property Insurance coverage is essential. Because the Recreation and Park Department does not insure its real property, the City Risk Manager recommends that the Zoological Society continue to provide such coverage without interruption, for the duration of the Management Agreement.

Section 3.4: Recreation and Park Commission Representation at Joint Zoo Committee Meetings

- Section 16.3 of the Management Agreement specifies that the "Joint Zoo Committee," which was established in 1982 prior to the Management Agreement and which consists of three members of the Recreation and Park Commission and three members of the Zoological Society's Board of Directors, shall be maintained throughout the term of the Agreement and shall hold public meetings at least 11 times per calendar year to discuss and hear public testimony regarding major policies affecting the Zoo, including without limitation the setting of fees, new animal exhibits, animal acquisition and disposition policies, land use, and capital and operating budgets.
- Although the Joint Zoo Committee is an advisory committee without any legislative authority, the Budget Analyst considers that a balanced representation between Recreation and Park Commissioners and Zoological Society Board Directors at Joint Zoo Committee meetings is required for effective public/private management of the Zoo. Virtually, all major operational and

financial matters and proposals are submitted to the Joint Zoo Committee for recommendation and referral to the full Recreation and Park Commission.

- Analysis of the minutes of the Joint Zoo Committee meetings for calendar years 1997 and 1998 revealed a wide disparity between the attendance by members of the Recreation and Park Commission and attendance by members of the Board of Directors of the Zoological Society. For the 22 meetings reviewed, the Recreation and Park Commission was fully represented by three Commissioners only 13.6 percent of the time whereas the Zoological Society was fully represented by three Directors 95.5 percent of the time. Further, nine of the 22 meetings reviewed included an agenda item that covered budget issues. The Recreation and Park Commission had full representation by three Commissioners at only two of the nine meetings, whereas the Zoological Society had full representation by three Directors at each of the nine meetings. Inadequate attendance by Recreation and Park Commissioners does not, in the judgment of the Budget Analyst, provide for effective public/private management of the Zoo.

Section 4: Financial Management

Section 4 examines and evaluates revenue development and financial administration, and includes sections on Fundraising and Development, Marketing and Public Relations, Cash Handling, and Purchasing. Zoo attendance is obviously a significant factor in the generation of revenue supporting the Zoo's operating budgets.

Section 4.1: Fundraising & Development

- From FY 1993-94 through FY 1998-99, the Zoological Society raised a total of approximately \$47.5 million in contributions, membership dues, fund raising, and bequests for operations and capital projects. However, there is potential for improvement in certain areas. For example, there is potential to improve the Zoological Society's performance in recruiting and retaining Zoological Society members. Also, costs for certain fundraising activities are excessive.
- The Zoological Society should implement cost reduction measures, including eliminating one Events staff position and the Associate Membership Director position, and continue to evaluate the profitability of certain events in order to determine whether there is potential to reduce costs or increase revenues, or whether certain events should be discontinued.

- The implementation of our recommendations would result in savings of approximately \$108,391 annually and would improve the profitability and performance of the Zoological Society's Development programs.

Section 4.2: Marketing & Public Relations

- The Zoological Society spent over \$4.2 million on marketing over the past six years, and its marketing budget increased by 136 percent (27 percent annually) between FY 1993-94 and FY 1998-99.
- Yet, during the same time period, attendance increased by only 19 percent (3.8 percent annually). In addition, in two years when marketing expenditures increased, attendance decreased, and in another year when marketing expenditures declined, attendance increased.
- Moreover, in the late 1980s, when the Zoo did not have a marketing budget, there were some years in which attendance exceeded 1,000,000 visitors versus the actual attendance of 842,958 visitors for FY 1998-99.
- Since large marketing expenditures do not necessarily result in increased attendance, the Zoological Society should limit its marketing budget to 5.0 percent of annual operating expenses, thereby saving expenditures of \$89,466.
- The Zoological Society should ensure that the corporate sponsorship program is consistent with its mission of conservation, education, and recreation. Zoo management has advised the Budget Analyst that each corporate sponsorship program is reviewed to insure its compatibility with the Zoo's mission.

Section 4.3: Cash Handling

- The Budget Analyst audited the procedures employed by the Zoo to ensure the security of cash and cash handlers. In general, we found that those procedures need to be significantly improved. We have provided Zoo management with our recommendations concerning safety and security of cash handling operations on a confidential basis in order to prevent sensitive information from being made public. Zoo management has provided the Budget Analyst with a set of actions that have been and will be taken to enhance the security of cash handling operations.
- The Budget Analyst conducted audit tests to evaluate the following cash handling operations for September 1998:

Reconciled cash receipts to bank deposits, computer summaries of cash received, and bank deposit statements;
Reconciled Daily Sales Summaries to the General Ledger and to the Zoo's financial statements;
Traced the opening statement balance to the ending balance on the prior checking account reconciliation. Traced deposits in transit on prior reconciliations to deposits on the current statement.

Although no irregularities were noted as a result of the foregoing audit tests, we noted the following deficiencies:

- The Zoo's Cash Handling Manual defines a cash overage or underage as 1) a deviation of more than \$5 from the amount of sales recorded on the cash register, or 2) a one percent deviation from the amount of sales recorded on the cash register. Our review of cash handling revealed that for the month audited, 81 of 577 cash register tallies, or approximately 14 percent, resulted in cash overages or underages. Further, only 46 percent of the underages and overages resulted in issuance to Cash Handlers of a Cash Handling Notification form, although procedures provide that every cash overage or underage should result in a Cash Handling Notification form.
- The Zoo Cash Handling Manual that we originally audited was not current and consistent, nor was there a control in place to ensure that each Cash Handler received a Cash Handling Manual. During the course of this performance audit, Zoo management developed a new Cash Handling Manual that meets auditing standards and has instituted controls to ensure that the Cash Handling Manual is issued to all Cash Handlers.

Section 4.4: Purchasing

- The Zoo has a rudimentary purchasing system, with the only significant control being payment for goods and services. Functional managers, such as the Commissary Manager (Animal Food), the Merchandise Sales Manager, and the Food Services Manager all order, receive, and authorize payment for goods from various vendors of their selection, primarily without contracts. This is a fundamental violation of the "separation of duties" internal control principle.
- The primary control over the purchasing system, authorization for payment, is exercised by the Finance Director, who until very recently also had primary staff responsibility for the purchasing function. This also is a fundamental violation of the "separation of duties" internal control principle.

- The Zoo does not have a purchasing policy and procedures manual that provides rules and guidance on economic quantity ordering, documentation requirements, inventory requirements, internal control requirements, and which also includes a purchasing “code of ethics.”
- In order to determine whether there are opportunities for price savings in Zoo purchasing, we asked the City’s Purchasing Department to review a sample of the prices paid by the Zoo for a variety of food items. That review revealed that in some cases the City is obtaining better prices than the Zoo, and vice versa. For example, for a 20-pound case of Grade A mixed vegetables the City pays \$15.88, but the Zoological Society pays \$21.80.
- According to the Zoo’s new Deputy Director, who has recently assumed responsibility for the management of purchasing, the Zoo will transition to a formal purchasing system, with centralized ordering, commencing upon completion of the new Zoo warehouse, which is scheduled for completion in late 2000.

SUMMARY OF RECOMMENDATIONS

Section 1: Animal Management & Care

The Zoological Society should:

- 1.1.1 Acquire an elephant restraint chute as soon as possible, which can be relocated into the new exhibit when that is completed. This will address a current limitation of the existing facilities for African elephant management.
- 1.1.2 Allocate more of the Maintenance Department’s time for general facility maintenance, rather than assignments to new exhibit construction projects.
- 1.1.3 Develop a better working relationship with the USDA-APHIS. Zoo staff should promptly address non-compliant items and negotiate for the best possible reasonable length of time for compliance. Zoo staff should not challenge minor findings, and reserve appeals for the rare major non-compliant items that may, in fact, not threaten an animal’s welfare and may not fairly qualify as non-compliant.

- 1.1.4 Ensure that the entire Zoo management participates in regular leadership training, to cultivate skills necessary to continue to improve staff morale.
- 1.1.5 Continue development of strategic planning, definition of the organization's values, and the conflict resolution process.
- 1.1.6 Recognize that the weather at the San Francisco Zoo is at the cooler limit for keeping many tropical species, without resorting to indoor temperature-controlled exhibits. New outdoor exhibits should be designed with ample windbreaks, outdoor shelters, and on-exhibit heat sources. The animal collection should be carefully selected, as much as possible, for an animal's ability to acclimate to cooler temperatures, or select species that originate from cooler climate zones, such as tropical zones at elevation or northern climate zones.
- 1.1.7 Ensure that enrichment items are regularly added and changed within the bison exhibit.
- 1.1.8 Decide within a short time period whether sea lions and northern bears (Polar bears and the Kodiak bear) will be part of the Master Plan. If the seals and northern bears are not part of the long-term plan for the Zoo, the animals should be relocated to other institutions with better facilities. The bear grottos should then be removed. If the animals are part of the Master Plan, the existing facilities should be removed and new state-of-the-art bear or sea lion exhibits constructed within the time period of Phase II. Ten to fifteen years is too long to address these concerns.
- 1.1.9 Ensure that its Exhibits Committee, on a priority basis, review plans for single specimens currently in the Zoo's animal collection.
- 1.1.10 Carefully consider each of the ideas presented by Animal Keepers in the "Animal Keeper Perspectives" section of this audit report and implement those ideas, were warranted.
- 1.1.11 Ensure that all Animal Keepers who have not received a performance evaluation within the past year be provided a performance evaluation as soon as practicable and annually thereafter.

The Department of Recreation and Park should:

1.1.12 Allocate greater resources to the bison facility. The site itself actually has exceptional potential, with the cooler climate and large open setting.

1.1.13 Implement the Bison Exhibit minor maintenance and long-term modification improvements contained in Attachment II to this report section.

Section 1.2: Animal Acquisitions and Dispositions

The Zoological Society should:

1.2.1 Require all institutions requesting an animal from the San Francisco Zoo to complete an animal acquisition application form.

1.2.2 Amend the "Animal Disposition Agreement" to require that all recipients of Zoo animals notify the Zoo upon the death of an animal and to require that non-AZA recipients obtain the Zoo's approval prior to dispositioning the animal to a subsequent recipient.

1.2.3 Increase the number of mammals and birds in the Zoo's animal collection, commensurate with providing animal care that meets or exceeds AZA standards. Zoo management reports that the Zoo intends to increase its animal collection as facilities are rebuilt and added during implementation of Phase II of the Master Plan.

Section 1.3: Capital Projects

The Zoological Society should:

1.3.1 Implement changes to the, Warehouse, Quarantine, and Holding facility construction plans thereby producing cost savings of \$687,000.

1.3.2 Reduce "soft costs" for program management and Zoological Society administration from 8.8 percent of construction costs to five percent of construction costs, thereby saving approximately \$1.82 million.

1.3.3 Reduce DPW construction management costs from 7.8 percent of construction costs to five percent of construction costs, thereby saving approximately \$1.34 million.

1.3.4 Reduce design fee costs from 13 percent of construction costs to 12 percent of construction costs, thereby saving approximately \$480,000.

- 1.3.5 Negotiate with the Art Commission to reduce Public Art Program fees from two percent to 1.5 percent, thereby saving \$200,000.
- 1.3.6 Allocate \$800,000 of the approximately \$4.53 million in cost reductions identified above to increase the construction contingency for each individual project by 2.5 percent, or from five percent to 7.5 percent.
- 1.3.7 Allocate the remaining \$3.73 million in cost reductions to the Management Reserve Account for further allocation to Phase II construction projects.
- 1.3.8 Develop a separate cost factor for market conditions and update it over the duration of the program.
- 1.3.9 Identify and separate as a new line item in the Phase II Program the wasted expenditures for re-starting the Program. Although these wasted expenditures are components of the Program's overall cost, they should not be included when evaluating the reasonableness of soft costs for implementing the projects.
- 1.3.10 Appoint an in-house Program Administrator with construction management expertise to oversee the work of the consultants. The function could possibly be adequately performed on a part-time basis.

Section 1.4: Facilities Maintenance

- 1.4.1 Develop a maintenance quality control program to insure that significant maintenance items are identified prior to USDA inspections.
- 1.4.2 Improve its maintenance work order log system by recording the date work orders were completed in order to provide Zoo management with improved record keeping and controls over the timeliness of repairs.
- 1.4.3 Increase the maintenance department staff to address deferred maintenance items until maintenance is reasonably caught up. In order to accomplish this without increasing operating costs, new maintenance employees should be assigned strictly to the Phase II program approved repair items, thereby qualifying all costs for the force-account labor category in the Phase II program.

Section 1.5: Browse Collection

- 1.5.1 Include an on-site or off-site dedicated browse farm in its new Zoo planning and establish such a farm as soon as possible.

Section 1.6: Free Admission Days

- 1.6.1 Modify its free entry policy during summer months to reduce stress on the Zoo's animals, staff, and facilities, particularly as the Zoo undergoes its planned capital improvements.

Section 2: Visitor Services

- 2.1 Consider the use of on-call custodians or maintainers who could fill in for personnel on vacation or leave. As resources become available, purchase labor saving equipment to facilitate cleaning tasks.
- 2.2 Ensure that restrooms are thoroughly cleaned either after closing hours or before opening, in addition to the daily servicing of restrooms. Sign-in sheets posted on the walls would assure the public that restrooms have been serviced as well as aid the custodial supervisor.
- 2.3 Review the detailed housekeeping report prepared by the custodial experts, which has been provided to the Zoo, and implement the recommendations contained in that report as resources become available.
- 2.4 Implement the following recommendations concerning signage in the Zoo:
- Assign responsibility for inventory, minor repairs, and cleaning of signs to one department, preferably to one or two persons who would then develop knowledge of the cleaning and maintenance requirements for each type of sign.
 - Establish a regular inspection and replacement schedule for all signs and replace signs that are currently of poor quality or damaged as soon as possible. In addition, consider the costs and benefits of obtaining higher quality signage which is more durable and may result in lowered long term costs in addition to enhancing visitor enjoyment and projecting a more positive image of the Zoo.

- Install temporary signs in empty exhibit areas that inform visitors that exhibits are “under construction” or with another appropriate explanation.
- Install “STOP” signs or similar highly visible and easy to understand signs at the pathway entrances to employee only areas in order to prevent visitors from mistakenly entering off limits areas in the Zoo which is disruptive to Zoo staff and potentially hazardous to visitors.
- Ensure that the text on the “For Your Information” signs is up to date and that the text is legible.

Section 3.1: Financial and Operational Status; Compliance Issues

The Zoological Society should:

- 3.1.1 Thoroughly clean up the Zoo and keep it that way.
- 3.1.2 Construct high quality signage.
- 3.1.3 Increase the number of mammals and birds in the Zoo collection commensurate with being able to care properly for the animals.
- 3.1.4 Beautify empty exhibits with conservation projects, landscaping, or anything else that is attractive and fits the motif of a Zoo whose primary concerns are conservation, education, and quality animal care.
- 3.1.5 Set goals for the Zoo that all of its employees can relate to and feel a part of.
- 3.1.6 Increase efficiencies by controlling expenses, including using the type of expense schedule shown in Exhibit 3.1.8.
- 3.1.7 Continue working with the Department of Building Inspection to obtain permits on all facilities maintenance projects and capital projects that require permits but that were not obtained prior to performing the work.
- 3.1.8 Emphasize to the Zoo staff that City, state, and federal rules and regulations are to be followed, especially with regard to obtaining building permits.
- 3.1.9 Emphasize to the Zoo staff that USDA inspections are to be responded to in an appropriate manner.

3.1.10 Enhance efforts to achieve the objectives and goals set in the 1993 planning document that have not yet been accomplished.

3.1.11 In accordance with Section 15.10 of the Management Agreement, deliver to the Recreation and Park Commission for its acceptance an original, signed copy of the Zoological Society's audited annual financial statements by the earlier of 30 days after the completion of the audit or 120 days after the end of the fiscal year covered by the audit.

3.1.12 Adopt a more "open door" policy to public inquiries and requests for information.

Section 3.2: Payment and Invoicing Procedures for City Services Provided to the Zoo

The Zoological Society and Recreation and Park Department should:

3.2.1 Arrange for the Zoo to be directly billed for sewer service and light, heat and power costs by the Clean Water Department and Bureau of Light, Heat and Power, respectively. This should expedite timely payment by the Zoological Society and free Recreation and Park staff to devote more labor-intensive time to billing and collection procedures for maintenance and payroll costs. The Recreation and Park Commission budget should be adjusted accordingly.

3.2.2 Set up and maintain a date stamping procedure to better manage, control, and expedite payments by the Society and facilitate timely invoicing by the Department.

Section 3.3: Compliance With Insurance Requirements

The Zoological Society should:

3.3.1 Increase the Malpractice Liability Coverage for the Assistant Veterinarian to the same level as that for Chief Veterinarian. The increased cost of \$26 in the annual premium is minimal compared to the increase in the amount of coverage.

The Recreation and Park Department and the Zoological Society should:

- 3.3.2 Develop a Memorandum of Understanding (MOU) to clarify specific amounts of coverage and minimum limits for both Malpractice Liability Insurance and Commercial Crime Insurance.
- 3.3.3 Develop an MOU providing that the Zoological Society maintain Property Insurance of City-owned buildings for the duration of the Management Agreement
- 3.3.4 Develop an MOU to provide that insurance coverage reviews occur every two years, or sooner if warranted by a substantial change in circumstances.

Section 3.4: Recreation and Park Commission Representation at Joint Zoo Committee Meetings

We recommend that the Recreation and Park Commission:

- 3.4.1 Ensure to the extent possible that three members of the Recreation and Park Commission attend each meeting of the Joint Zoo Committee.

Section 4.1: Fundraising & Development

The Zoological Society should:

- 4.1.1 Implement measures to improve and evaluate member recruitment and retention.
- 4.1.2 Implement cost reduction measures in the Fundraising, Membership and Events Programs as recommended in this section.
- 4.1.3 Continue to evaluate the profitability of certain events to determine whether they should be discontinued, or if there is any potential to reduce costs or increase revenues for these events. Zoo management has advised the Budget Analyst that all events are periodically reviewed in order to evaluate their profitability.

Section 4.2: Marketing & Public Relations

The Zoological Society should:

- 4.2.1 Limit marketing expenditures to no more than 5.0 percent of its annual operating budget.
- 4.2.2 Implement cost-cutting measures in its Marketing Department in accordance with the guidelines in this report.
- 4.2.3 Ensure that the corporate sponsorship program is consistent with the Zoo Society's mission.

Section 4.3: Cash Handling

The Zoological Society should:

- 4.3.1 Update the Cash Handling Manual to incorporate needed improvements cited in this audit report section.
- 4.3.2 Hold a workshop on cash handling, issue each employee involved in cash handling a Cash Handling Manual, and institute procedures that each new employee is issued a manual and has the opportunity to learn correct cash handling procedures.
- 4.3.3 Following the Cash Handling workshop previously recommended, institute the control of informing Zoo visitors that if a Cash Handler does not provide the visitor with a receipt at the time of purchase, the visitor will be given a free product.
- 4.3.4 Follow the cash handling procedures requiring that a Cash Handling Notification be issued to Cash Handlers for each cash variance, or that notation be made to the cash handling file explaining that the cash variance was due to an equipment problem or other extenuating circumstance.
- 4.3.5 The Zoological Society's financial auditors should review the implementation of increased cash handling safety and security as part of their audit of internal controls.

Section 4.4: Purchasing

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The Zoological Society should:

- 4.4.1 Establish a formal purchasing system with written procedures and with a Zoo employee responsible for placing purchase orders based on valid purchase requisitions and economic order quantities for common items.
- 4.4.2 Review major recurring supply requirements and establish contracts with vendors, where such contracts would be beneficial to the Zoo.
- 4.4.3 Review prices paid by the City and by another zoo for items used by the San Francisco Zoo in order to obtain the best value available.

It should be noted that the Zoological Society has recognized many of its challenges and has instituted various new programs and procedures as a result of this management audit.

The Zoo Director and his staff have had the opportunity to review and comment on this report. In addition, the Acting General Manager of the Recreation and Park Department has reviewed those sections that pertain to the Recreation and Park Department. The responses of the Zoological Society and the Recreation and Park Department are attached to our report beginning on page 206.

The Zoological Society's written response to the audit report characterizes the audit as presenting "three major themes" that reflect favorably on the Zoo's overall performance. This statement is a vast oversimplification. The audit report presents 15 specific findings and 75 recommendations that are thoroughly documented and have been reviewed at length and in great detail by all parties concerned. Despite this lengthy, detailed review, the Zoological Society has not provided the Board of Supervisors with specific responses to the Budget Analyst's findings and recommendations.

The Zoological Society's response states that the Zoo "...question some analyses and recommendations" presented in our report, without stating specifically what questions remain after our detailed review of findings and recommendations. The Budget Analyst has addressed all questions presented to us by the Zoological Society with specific facts, documentation and work papers.

Despite our concerns over the lack of a specific response to our findings and recommendations, the Budget Analyst would like to acknowledge and thank the management and staff of the Zoological Society for their cooperation during the course of this performance audit.

BOARD OF SUPERVISORS
BUDGET ANALYST

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Respectfully Submitted,

Harvey M. Rose
Budget Analyst

cc : Supervisor Becerril
Supervisor Brown
Supervisor Bierman
Supervisor Katz
Supervisor Kaufman
Supervisor Leno
Supervisor Newsom
Supervisor Teng
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