

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.”**
- ◆ **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.**

As part of our performance audit of the San Francisco Zoological Gardens, we examined the Zoological Society’s system for purchasing materials and supplies, animal food, merchandise for resale, and restaurant food items in order to determine whether the controls over the purchasing system are reasonably adequate.

To accomplish these objectives, we:

- Interviewed the Zoo managers who are involved in the procurement of goods including the Finance Director, the Merchandise Sales Manager, the Commissary Manager (for animal food), the Food Services Manager, and the Zoo’s Deputy Director.

- Reviewed the methods used by the managers to select vendors, place orders, and submit invoices to Finance for payment.
- Reviewed prices paid for selected items to prices paid for like items by the City Purchasing Department in order to determine whether there are opportunities for savings by the Zoo.

Current Purchasing System

The Zoo purchases goods in the categories and approximate amounts shown in Table 4.4.1, on an annual basis. Each individual manager who receives goods from an outside vendor orders such goods, annotates the invoice with the account to be charged, and transmits the invoice to the Finance Department for payment. Thus, the Commissary Manager orders, receives, and authorizes payment for animal food, the Food Services Manager orders, receives, and authorizes payment for food items, etc. Proper internal purchasing controls require separation of ordering, receiving, and payment responsibilities.

The Zoo does not have a policies and procedures manual which would establish general policies for selecting vendors, determining economic ordering points, etc., and describing how the system is to work. We recommend that the Zoo develop a purchasing policies and procedures manual that covers the foregoing purchasing activities and that also covers contract documents, internal control requirements, documentation requirements, inventory requirements, and a code of ethics.

Table 4.4.1

Categories of Goods and Supplies and Amounts Ordered Annually

<u>Category</u>	<u>Amount</u>
Office Supplies	\$78,535
Computer Supplies	2,400
Other Supplies	45,814
Printing/Design Supplies	323,051
Building Materials	200,654
Animal Supplies	<u>480,649</u>
Total	\$1,131,103

Although there are some contracts with vendors for goods, such as for some Food Services needs, the large majority of the Zoo's purchasing needs are satisfied by vendors without contracts. Some of these purchasing relationships have existed for many years. We recommend that the Zoo review these long-standing relationships

to determine whether prices, quality, and delivery/shipment services are competitive with the market and to establish contracts where such contracts would be beneficial.

Controls Over Purchasing

A formal purchasing system, such as that used by the City, employs strict separation of the primary duties of placing orders, receiving goods, and effecting payment as a preventive control to provide reasonable assurance that no one individual will defraud the organization. However, controls have costs, and with smaller organizations, such as with the Zoo, it is often necessary to combine some duties and employ compensating controls, such as close supervision and unannounced audits, to lessen the opportunities for irregularities.

At the outset of our audit, the Zoo's purchasing function was the primary staff responsibility of the Director of Finance, who is also one of the authorized signatories in the Zoo's system of requiring dual signatures on checks. Combining those responsibilities in one staffperson unnecessarily, in our opinion, violates the separation of responsibilities control. As of the writing of this report, primary staff responsibility for the Zoo's purchasing has been assumed by the recently appointed Deputy Director.

Prices Paid for Goods

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, as shown below in Table 4.4.2, reveals that in some cases the City is obtaining better prices than the Zoo, and vice versa.

Table 4.4.2
Food Pricing Comparison

<u>Description</u>	<u>Zoo Price</u>	<u>CCSF Price</u>	<u>CCSF Details</u>
Burgers	\$37.80/cs	\$1.41/lb	80% lean USDA Choice, Round
Bacon	26.90/cs	2.19/lb	sliced, skinless, 16-18 slices/lb
Hot Dogs	15.35/cs	1.70/ lb	all beef, < 20% fat, 8 links/lb
Mixed Vegetables	21.80/cs	15.88/cs	20 lb/cs, grade A
Hamburger Buns	.89/pkg	.95/pkg	12 count/ egg type
Hot Dog Buns	1.00/pkg	1.68/pkg	12 count/ egg type
Oranges	13.48/cs	15.00/cs	113 count/ choice
Apples	13.21/cs	16.00/cs	113 count/ red delicious
Strawberries	13.50/cs	9.00/cs	#1 table, 12 pints/cs
Grapes	10.00/cs	17.00/cs	Table Seedless Red
Bananas	.83/lb	12.50/cs	Roughly 40 lb/cs, green tip

We have included prices for commodities based on disparate sizes in some cases, such as cases versus pounds, since the Zoo can obtain quotes based on the quantities used by the City. Some of the price differences of like measures may be due to differences in quality. However, we believe that the Zoo may be able to achieve some savings by comparing its purchasing requirements to like commodities procured by the City and taking the necessary steps to obtain better prices, where applicable. For those commodities not procured by the City, such as some types of animal food, we recommend that the San Francisco Zoo check its prices with those obtained by the Oakland Zoo or with another zoo.

A New Purchasing System

The position of Deputy Director/Chief Operating Officer, which had been vacant for more than one year, was recently filled. The incumbent, who has a background in administration and operations, has begun to implement new methods and procedures to strengthen the Zoo's operations. According to the Deputy Director, the Zoo plans to centralize the purchasing system as soon as planned facilities are completed to accommodate centralized ordering, receiving/quality assurance, and warehousing. The Deputy Director believes that a purchasing position created to perform those functions would pay for itself, and we agree that such a centralized purchasing system would be a significant improvement over the existing purchasing system.

CONCLUSIONS

We found that the Zoo has a primitive purchasing system that has worked reasonably well but lacks controls to provide reasonable assurance that irregularities or fraud will not occur or that optimal prices, quality of goods, and delivery/shipment services are being obtained.

According to the Zoo's Deputy Director, the Zoo intends to transition to a centralized purchasing system, which should, in our opinion, significantly improve the Zoo's purchasing function.

The Zoo Society should implement the recommendations made in this section, which are enumerated below.

RECOMMENDATIONS

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.

COSTS/BENEFITS

Implementation of the recommendations in this section would result in savings of an undetermined amount annually, would improve the operation of the Zoological Society's purchasing function, and would provide reasonable assurance against fraud.