Performance Audit of the Zoological Exhibits Fund

Changes are needed to improve fund budgeting, operations, and transparency

MAY 2013

Audit Report
Office of the City Auditor
City of San Diego
May 6, 2013

Honorable Mayor, City Council, and Audit Committee Members
City of San Diego, California

Transmitted herewith is a performance audit report on the Zoological Exhibits Fund. This report was conducted in accordance with the City Auditor’s Fiscal Year 2013 Audit Work Plan, and the report is presented in accordance with City Charter Section 39.2. The Results in Brief is presented on page 1. Audit Objectives, Scope, and Methodology are presented in Appendix A. The Administration’s and the San Diego Zoo’s responses to our audit recommendations are presented after page 22 of this report.

We would like to thank staff from the Financial Management Department, Office of the City Comptroller, and the San Diego Zoo for their assistance and cooperation during this audit. All of their valuable time and efforts spent on providing us information is greatly appreciated. The audit staff members responsible for this audit report are Amanda Lamb and Matthew Helm.

Respectfully submitted,

Eduardo Luna
City Auditor

cc: Jan Goldsmith, City Attorney
    Scott Chadwick, Interim Chief Operating Officer
    Nelson Hernandez, Assistant Chief Operating Officer
    Jeff Sturak, Financial Management Director
    Greg Bych, Interim Chief Financial Officer
    Ken Whitfield, City Comptroller
    Paula S. Brock, Chief Financial Officer, San Diego Zoo
    Andrea Tevlin, Independent Budget Analyst
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Results in Brief

The San Diego Zoo (the Zoo) attracts an average of 3.5 million visitors each year,\(^1\) and tourism spending from Zoo visitation provides significant direct and indirect benefits to San Diego’s economy. In 1934, San Diego voters approved an amendment to the City Charter to support the Zoo in recognition of its importance to the local economy. Specifically, Section 77a of the City Charter authorizes the assessment of a property tax levy within the City for the purposes of maintaining the Zoo’s exhibits.

The objectives of this audit were to:

1. Evaluate the operations and processes related to the Zoological Exhibits Fund; and
2. Assess the extent to which the Zoo’s expenditures of City property tax revenues are transparent and accountable.

In general, we found that the funds are assessed, collected, and expended in a manner broadly consistent with the City Charter for the period that we reviewed (FY 2003-2013). However, we also found several opportunities to improve the efficiency, transparency, and accountability of the process.

First, we found that the methodology for budgeting and the process for administering Charter Section 77a funds has evolved over time as an ad hoc set of departmental practices, but no specific policies or written guidance for administering the funds currently exist. As a result, there is inconsistency in budgeting and operating the Zoological Exhibits Fund, especially given staff turnover rates in recent years. For example, Financial Management does not have established policies or written procedures for calculating the Zoological Exhibits Fund budget. During the period of our review, we

\(^1\) Based on reported attendance figures from 2009 to 2012.
found that the process and methodology for the fund budget have varied widely. Accordingly, we recommend that Financial Management reevaluate the current methodology to improve accuracy and consistency.

Second, we found that there is an opportunity for greater oversight and transparent accounting of how Charter Section 77a funds are expended. Specifically, the City has not undertaken an effort to monitor how the Zoo expends the funds. Additionally, the Zoo accounts for Charter Section 77a funds only at the level of its general fund and are not currently able to determine if the funds have been expended specifically on maintenance of zoological exhibits. Although the language in Section 77a is very broad, efforts should be made by the City and Zoo to provide greater transparency and accountability over the use of funds collected from City residents under the Charter provision.

We made two recommendations to the City Administration to improve administration of the Zoological Exhibits Fund and increase oversight and transparency over how Charter Section 77a funds are used. The Administration and the Zoo agreed with both recommendations.
Background

The San Diego Zoo (the Zoo) is a conservation, education, and recreation organization in the City of San Diego’s Balboa Park. While the Zoo is a nonprofit organization and is not affiliated with the City, it does receive partial funding through property taxes assessed and collected by San Diego County. These funds are passed through the City’s Zoological Exhibits Fund and disbursed to the Zoo for the purposes of maintaining zoological exhibits.

The objectives of this audit were to:

1. Evaluate the operations and processes related to the Zoological Exhibits Fund; and
2. Assess the extent to which the Zoo’s expenditures of City property tax revenues are transparent and accountable.

Legal History

The San Diego Zoo receives partial funding from property taxes due to a voter-approved section of the San Diego City Charter (Section 77a). Section 77a was originally approved by San Diego voters in 1934, amended in 1941, and states, in part:

“The Council shall levy annually, in addition to all other taxes provided for in this Charter, not less than two cents ($0.02) on each one hundred dollars ($100.00) of the assessed valuation of the real and personal property within the City, to be used exclusively for the maintenance in Balboa Park of zoological exhibits.”

In 1981 the tax rate of $0.02 per $100 assessed value was adjusted to $0.005 per $100 of assessed value to account for changes to California’s Revenue and Taxation code. This tax rate has remained the same since that time.

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2 City Charter Section 77a requires a two-cent tax levy on each $100 of assessed valuation. California Revenue and Taxation Code Section 135 now defines “assessed value” as full value.
A 1979 lease agreement between the City and the Zoo for 55 years (expiring in 2034) reiterates that Section 77a monies are to be used exclusively for the maintenance of zoological exhibits. Section 77a also states that, when in the best interest of the City, the Council may enter into a contract with any organization “formed primarily for the purposes of maintaining zoological gardens and zoological exhibits,” and may pay Section 77a funds directly to that organization. Currently, the Zoo receives the funds directly from the City, and the Zoo has an in-house program to maintain zoological exhibits. There are no additional contracts or other agreements with the Zoo or any other organization governing the disbursement or expenditure of Section 77a funds.

There have been attempts in the past to amend Section 77a and apply those funds to programs other than the maintenance of zoological exhibits. For instance, in 2008, the City Attorney’s Office released a legal memorandum regarding the City’s obligation to support the San Diego Zoo with tax revenues as set forth in Section 77a. In that memo, the City Attorney found the City is required to continue to levy a tax to be used by the Zoo for the purposes of maintaining exhibits.\(^3\) Furthermore, the City Attorney reiterated that the City may not divert those funds for any other purposes, including using the funds for other Balboa Park programs. Additionally, the memo indicated the funds may not be used be used by any other organization other than one contracting with the City to perform maintenance of zoological exhibits.\(^4\)

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\(^3\) In 2004, the San Diego City Attorney also released a memorandum analyzing a ballot proposal to divert Section 77a funds from zoological exhibits to other purposes. The office concluded that Section 77a was not subject to the requirements of Proposition 13, which placed limits on property tax increases. Because Section 77a was approved prior to the passage of Proposition 13, its provisions were grandfathered in. However, any changes made to that Section, including diverting those funds to other purposes, are not entitled to grandfathered status and therefore would impose an unlawful property tax that would violate the California Constitution.

\(^4\) In 1941 and 1948, the City Attorney released opinions that stated (respectively) that any surplus funds from Section 77a money cannot be transferred to the City’s General Fund, nor may any increase in funds from the rise of property values be diverted for any other purposes than those stated in the City Charter.
Overview of the Section 77a Process

Section 77a of the City Charter requires the collection of $0.005 (one-half of one cent) per $100 assessed value and the disbursement of those monies to the Zoological Society of the San Diego Zoo for the purposes of maintaining the zoological exhibits. There are essentially three phases to the Section 77a process, as described in Exhibit 1.

Exhibit 1

Section 77a Process

COUNTY ➔ CITY ➔ ZOO

- Property tax assessment and collection
- Financial Management
- Comptroller
- Budgets for Zoological Exhibits fund
- Disburses property tax money to Zoo
- Expenditure on zoological exhibits

Source: OCA.
Each year, San Diego County assesses property values to determine taxes owed. This includes Section 77a property taxes, which are assessed at a rate of $0.005 per $100 assessed value, as set forth in the City Charter and an ordinance passed by the City Council each year. Total assessed values averaged $178.6 billion from 2008 to 2012.

The County sends an assessed values report to the City each year in July, so the City knows approximately how much revenue to expect for purposes of creating a budget for the Zoological Exhibits Fund. During the last five years, the Zoological Exhibits Fund budget has averaged $8.5 million, which is approximately equal to $0.005 per $100 of assessed valuation.

After the assessment process is complete, County and City residents and businesses receive and pay property tax bills. As property tax revenues are collected, revenues are apportioned to the City on a monthly basis.

The County does not remit collected funds directly to nongovernmental agencies. As a result, Section 77a money is passed through the City to be disbursed to the Zoo. The County Assessor’s Office first sends a report of the assessed values to the City’s Financial Management Department (FM). After receiving the assessed valuation report from the County, FM applies numerous adjustments to the figures before applying the $.005 levy per $100 of assessed value formula that sets the budget for the zoo fund. This process includes adjustments for:

- **Roll Corrections**: Done in anticipation of appeals and adjustments in assessed value; based on an average of the past three years’ roll corrections.\(^5\)
- **Delinquencies**: A conservative estimate of unpaid (delinquent) property taxes based on actual delinquency rates in previous years.

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\(^5\) This ordinance authorizes the County to collect property taxes at the rate set by the Charter.

\(^6\) A tax roll is a breakdown of all property within a given jurisdiction, such as a city or county that can be taxed. The tax roll will list each property separately in addition to its assessed value.
- **Homeowners Exemption**: Revenue and Taxation Code Section 218 provides every homeowner an exemption on the assessed value of their home. Since the revenues associated with this exemption are not subject to delinquency, and, as such are not included in the net valuation, the amounts are added back to establish an accurate base from which unsecured property tax revenues can be calculated.

These and other adjustments are subtracted from the total assessed value for both secured and unsecured property. After the adjustments are made, the tax rate of $0.005 per $100 of assessed value is applied, and the budget is set. The budget information is sent to the Offices of the City Comptroller and City Attorney, which prepare a report to the City Council. See Exhibit 2 below for the City’s Zoological Exhibits Fund budget.

**Exhibit 2**

**Zoological Exhibits Fund Budget, FY2003-2013**

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2003</td>
<td>$5,064,441</td>
</tr>
<tr>
<td>FY 2004</td>
<td>5,645,781</td>
</tr>
<tr>
<td>FY 2005</td>
<td>9,188,632</td>
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<tr>
<td>FY 2006</td>
<td>6,642,067</td>
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<tr>
<td>FY 2007</td>
<td>7,676,765</td>
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<tr>
<td>FY 2008</td>
<td>8,946,525</td>
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<tr>
<td>FY 2009</td>
<td>9,679,780</td>
</tr>
<tr>
<td>FY 2010</td>
<td>8,024,409</td>
</tr>
<tr>
<td>FY 2011</td>
<td>8,018,590</td>
</tr>
<tr>
<td>FY 2012</td>
<td>8,018,590</td>
</tr>
<tr>
<td>FY 2013</td>
<td>8,081,538</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$84,987,118</strong></td>
</tr>
</tbody>
</table>

Source: City of San Diego Adopted Budgets, FY 2003-2013.

The City Council then passes an ordinance to approve the tax rate. The ordinance provides the County Assessor’s Office with the authority to collect the tax on behalf of the City. Information on the adjustments made to the overall assessed values and the Zoological Exhibits Fund budget are also included in the ordinance.
The City receives Section 77a money from the County on a rolling (monthly) basis. Twice per year, the Zoo receives notification from the Office of the City Comptroller regarding the amount in the fund. The Zoo then invoices the City for the amount and the City Comptroller remits a payment to the Zoo. It should be noted that the disbursement of the funds to the Zoo is independent of the City’s budget process; that is, the Zoo receives all Section 77a property tax revenue regardless of the amount budgeted for the Zoological Exhibits Fund.

**Expenditure**

The final requirement is that the funds are expended by the Zoo in accordance with the City Charter and spent on maintaining zoological exhibits. After receiving the Section 77a money from the City, the Zoo adds that money to their general fund. The Zoo’s general fund covers a variety of non-revenue producing expenses. The Zoo does not have a separate fund dedicated solely to the receipt and expenditure of Section 77a money, although money from the Zoo’s general fund is used for maintenance of zoological exhibits. From 2008-2012, total Zoo expenses averaged $42.8 million and the average amount received in tax revenue was $9.9 million (representing approximately 23 percent of overall expenses). See Exhibit 3 below. Also, see Exhibit 4 for a recent example of exhibit maintenance underway and the San Diego Zoo.

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7 Excludes food service, merchandising, on-site marketing, and membership.
8 Years for which records on overall Zoo expenditures and total Section 77a money collected are available.
9 A small portion of this total amount includes other revenues the Zoo receives, such as cell towers fees, recycling, ATM/hotel fees, and education programs receipts.


Exhibit 3

Zoological Society Annual Expenditures, CY 2008-2012

Note: A small portion of the total revenue amounts shown includes other revenues the Zoo receives, including cell tower fees, recycling, ATM/hotel fees, and education program receipts.

Source: OCA analysis based on expenditure summaries and financial data provided by the Zoological Society.
Exhibit 4

Construction and Maintenance Underway at San Diego Zoo

Source: OCA
Audit Results

**Finding 1: Budgeting Methodology and Administration of the Zoological Exhibits Fund Lack Consistency**

The City’s methodology for budgeting and process for administering City Charter Section 77a funds have evolved over time as an ad hoc set of departmental practices. The lack of policies or written guidance has resulted in methodological inconsistencies and a lack of clarity in overall operation of the Zoological Exhibits Fund.

Financial Management has not established policies or written procedures for calculating the Zoological Exhibits Fund budget. During the period of our review (FY 2003-2013), we found that the process and methodology for establishing the fund budget have varied widely.

As previously mentioned, after receiving the assessed valuation report from the County, FM applies a series of adjustments to account for various issues, such as delinquencies and appeals, before applying the tax rate and setting the budget. While these adjustments are applied in an attempt to account for the difference between the assessed value of property and the actual property tax collected, it does not appear that the adjustments have necessarily improved the accuracy of the budgets. For instance, according to FM staff, the delinquency rate is a conservative estimate based on the actual percentage collected. In FY 2013, FM estimated a delinquency rate of 2.5 percent for secured property and adjusted the budget based on that estimation. However, the actual delinquency rate during the prior year (FY 2012) was 0.3 percent.

Furthermore, as Exhibit 5 illustrates, in most years there is a significant difference between the budgeted amount for the Zoological Exhibits Fund and the actual amount collected and disbursed. Disbursement of these funds to the Zoo depends solely on the actual tax collected and not on the budget.
Therefore, this disparity between the budgeted and the collected amounts does not impact the amount of money disbursed to the Zoo. However, the process of making adjustments prior to setting the budget requires FM staff time and resources, and does not appear to improve the accuracy of the budget.

Given the disparity between budgeted amounts and actual disbursements, FM should reevaluate the current budgeting methodology. For example, FM could consider using a five-year moving average based on previous years’ actual disbursed amounts. Under the current methodology, the difference between the Zoological Exhibits Fund budget and disbursed amounts averaged $1.8 million for FY 2010-2012. However, applying a simpler five-year moving average methodology would have been more accurate and yielded an average difference of $541,000 for the same period.

**Exhibit 5**

**Zoological Exhibits Fund Budget Vs. Actual, FY 2005-2012**

Source: OCA, based on City financial data and Adopted Budgets for the Zoological Exhibits Fund.
Additionally, these adjustments have not been applied in a consistent manner over the period of our review. For instance, from FY 2003-2009, a delinquency rate was set for both secured and unsecured property. In the years that followed, separate rates were set. Additionally, roll corrections were not taken into account until FY 2008.

According to FM, changes have been made to the process in order to increase the accuracy of the budget. However, there are not written policies or procedures for handling the Zoo fund. There is also significant turnover in the handling of the Zoological Exhibits Fund, with annual turnover of FM staff overseeing fund budgeting in the past several years. Consequently, a lack of consistent budgeting policies and written guidance, combined with staff turnover, have resulted in inconsistency in the budgeting process for the Zoological Exhibits Fund.

Opportunity to Improve Operational Processes and Coordination

We also found a lack of consistency in the City’s communication and operational processes with the Zoo. In general, we found little evidence of ongoing, regular communication between the City and the Zoo on fund budgeting issues. For instance, the Zoo does not receive regular reports on the fund balances from the Comptroller regarding the Zoological Exhibits Fund. Instead, twice a year the Zoo is notified of the amount to invoice the City in order to receive a disbursement. Interviews with Zoo and City personnel suggest that this is the only communication the City has with the Zoo regarding this fund. Increased and improved coordination between City departments and the Zoo would enable all parties to have a common understanding of processes and timelines, and would provide a foundation for greater oversight and transparency over the use of Section 77a funds.
Recommendation #1  The Financial Management Department should reevaluate and consider simplifying the current budgeting methodology for the Zoological Exhibits Fund. Additionally, the Financial Management Department should, in consultation with the Office of the City Comptroller, establish guidance related to management of the Zoological Exhibits Fund. The written guidance should address budget methodology, departmental roles and responsibilities, and general timeframes. (Priority 2)
Finding 2: The City Does Not Monitor Use of Zoological Exhibits Funds, nor Does the Zoo Specifically Account for How City Charter Section 77a Funds Are Expended

Based on our analysis of historical budget and legal documents, and interviews with cognizant City officials, we found that the City does not monitor whether the Zoo has expended Zoological Exhibit Funds in a manner consistent with the City Charter Section 77a. Further, we found that the Zoo accounts for Section 77a funds only at a broad level within the Zoo’s general fund. As a result, neither the City nor the Zoo can definitively determine that funds collected under Section 77a are being used specifically for maintenance of zoological exhibits. Transparent use of the Section 77a funds is further complicated by lack of a clear, agreed-upon definition of what constitutes “maintenance of zoological exhibits.”

City Does Not Monitor Zoo’s Use of Zoological Exhibit Funds

City Charter Section 77a authorizes the collection of property taxes to be used specifically for the maintenance of zoological exhibits. Although this requirement is not further defined in the Charter, nor in any other agreement between the City and the Zoo, the City does not require any reporting on the expenditure of Section 77a funds. Further, the City has not engaged in any other effort to determine if property taxes collected pursuant to Section 77a are expended in a manner consistent with the Charter.

The Zoo Does Not Specifically Track Expenditures of Section 77a Funds, and Definitional Issues Are Problematic

The Zoo deposits receipts from the City of property taxes collected under Section 77a directly into the Zoological Society’s general fund. Notably, the Zoo does not specifically track expenditures of revenues received from the City under Section 77a in more detail beyond the general fund level. However, as noted above, the City has never requested a detailed or general accounting of the Zoo’s use of Section 77a funds. Because the Zoo accounts for Section 77a revenues only at the general fund level, it is not possible to determine specifically whether the Zoo expends Section 77a funds on the maintenance of zoological exhibits.
Another complicating factor in determining use of Section 77a funds is the lack of an agreed-upon definition of what constitutes maintenance of zoological exhibits. Zoo officials noted that “zoological exhibits” can be broadly defined to include upkeep of the entire inventory of the Zoo’s flora, fauna, and related structures. Under that definition, the costs associated with maintaining zoological exhibits clearly exceed the amounts received from tax revenue. The same holds true even under a narrower definition of zoological exhibits. For example, the total expenses for the Zoo’s animal husbandry, which includes exhibits, was $19.3 million in 2011.\(^\text{10}\) In the same year, Section 77a revenues from the City totaled $10.5 million.

The Zoo’s process for accounting for Section 77a funds could be changed to improve transparency and accountability. The Zoo currently has the capacity to establish designated funds in its accounting system. For instance, some citizens or organizations will donate money to the Zoo for a specific capital project or even a specific animal. The Zoo has the accounting infrastructure in place to be able to track these types of restricted giving revenues and ensure that the funds are expended for the designated purpose.

A similar accounting structure would enable the Zoo to track the Section 77a money that the Zoo receives. Further, the issue of what constitutes “maintenance of zoological exhibits” could be addressed by defining an agreed-upon set of expenditures for the Zoo to track. Revising the Zoo’s current accounting structure to record a specified subset of expenditures related to maintaining zoological exhibits would enable both the City and the Zoo to ensure that the funds are used in a manner consistent with Section 77a. This would improve both transparency and accountability over the use of Section 77a funds.

\(^{10}\) According to the Association of Zoos and Aquariums, animal husbandry is generally considered to be a cost component of maintaining zoological exhibits.
Recommendation #2  In order to improve transparency and oversight of taxpayer funds, the City Administration should request that the Zoological Society establish an accounting structure to specifically account for San Diego Charter Section 77a funds. The revised accounting structure should include a clearly-defined set of expenditures related specifically to the maintenance of zoological exhibits. (Priority 2)
Conclusion

Nearly 80 years ago, San Diego taxpayers voted to allocate property tax dollars to the San Diego Zoo for the purposes of maintaining zoological exhibits. In so doing, the voters codified an appreciation for the economic and social impact the San Diego Zoo (the Zoo) has on the City and its residents.

The City Charter’s broad language provides little detail regarding the administration and oversight of these tax revenues. Further, the City has never undertaken a review of the mechanism—the Zoological Exhibits Fund—used to allocate the funds to ensure the fund is operating in an efficient and effective manner. While our review found no direct inconsistencies between current operations and the City Charter, we did identify opportunities to improve the efficiency, transparency, and accountability of the management and use of these taxpayer funds.

We encountered City Financial Management Department staff who are dedicated to establishing an intellectually honest budget for the Zoological Exhibits Fund. In order to effectuate this, the Department uses an ad hoc practice that has been developed over the years. However, the Department does not have set policies or guidance for budgeting and managing the fund to ensure consistency in the process.

Because the fund is the mechanism for directing property tax revenue to a nongovernmental organization, it is important that the process is consistent, transparent, and that both organizations are held accountable to taxpayers.

We also identified several areas where the City and the Zoo could work to improve transparency over the use of taxpayer money. Although the Zoo has not in past been required to report on how the property tax revenue is spent, the Zoo has an adequate accounting system and capacity to improve transparency over the use of taxpayer money.
The San Diego Zoo is an important part of the City’s economy and culture. San Diego citizens support the organization through the provision of property taxes for the maintenance of zoological exhibits. Making a few minor adjustments to the process of budgeting, operating, and overseeing the Zoological Exhibits Fund, as well as documenting procedures to enhance clarity, will allow the process to be more efficient, transparent, and accountable to the taxpayers.
Recommendations

**Recommendation #1**  The Financial Management Department should reevaluate and consider simplifying the current budgeting methodology for the Zoological Exhibits Fund. Additionally, the Financial Management Department should, in consultation with the Office of the City Comptroller, establish guidance related to management of the Zoological Exhibits Fund. The written guidance should address budget methodology, departmental roles and responsibilities, and general timeframes. (Priority 2)

**Recommendation #2**  In order to improve transparency and oversight of taxpayer funds, the City Administration should request that the Zoological Society establish an accounting structure to specifically account for San Diego Charter Section 77a funds. The revised accounting structure should include a clearly defined set of expenditures related specifically to the maintenance of zoological exhibits. (Priority 2)
Appendix A: Objectives, Scope, and Methodology

The objectives of this audit were to:

1. Evaluate the operations and processes related to the Zoological Exhibits Fund; and
2. Assess the extent to which the Zoo’s expenditures of City property tax revenues are transparent and accountable.

To evaluate the collection, disbursement, and expenditures of fund, we reviewed the City Charter, lease agreement between the City and the San Diego Zoo (Zoo), and legal opinions provided by the Office of the City Attorney on the scope of the Charter requirement.

We obtained and analyzed data from the County on assessed values and collected property taxes and the collection and disbursement of the funds from the City’s financial management system (SAP). We performed reliability testing on data used in this report, including verifying that the money contained within the Zoological Exhibits Fund was properly disbursed to the Zoo by comparing payments with invoiced amounts. We also reviewed tax documents and annual expenditure reports from the Zoo to verify the reported property tax revenues matched City records of payments. The data sets included all available data from fiscal year 2003 through 2013.

To determine the extent to which the operation of the Fund is efficient, transparent, and accountable, we interviewed staff members of the County Assessor’s Office, the City’s Financial Management Department, Office of the City Comptroller, and Zoo finance and facilities staff. We reviewed management documents related to the administration of the fund and the budget setting process. Additionally, we researched national standards and best practices for fund management, including best practice recommendations from the Government Finance Officers Association and the Government Auditing Standards Board.

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.

The Office of the City Auditor thanks the Financial Management Department, the Office of the City Comptroller, the San Diego Zoo, and the San Diego County Assessor’s Office for their assistance and cooperation during this audit. The valuable staff time and efforts spent on providing us information are greatly appreciated.
Appendix B: Definition of Audit Recommendation Priorities

DEFINITIONS OF PRIORITY 1, 2, AND 3 AUDIT RECOMMENDATIONS

The Office of the City Auditor maintains a classification scheme applicable to audit recommendations and the appropriate corrective actions as follows:

<table>
<thead>
<tr>
<th>Priority Class(^{11})</th>
<th>Description(^{12})</th>
<th>Implementation Action(^{13})</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Fraud or serious violations are being committed, significant fiscal or equivalent non-fiscal losses are occurring.</td>
<td>Immediate</td>
</tr>
<tr>
<td>2</td>
<td>A potential for incurring significant or equivalent fiscal and/or non-fiscal losses exist.</td>
<td>Six months</td>
</tr>
<tr>
<td>3</td>
<td>Operation or administrative process will be improved.</td>
<td>Six months to one year</td>
</tr>
</tbody>
</table>

\(^{11}\) The City Auditor is responsible for assigning audit recommendation priority class numbers. A recommendation which clearly fits the description for more than one priority class shall be assigned the higher number.

\(^{12}\) For an audit recommendation to be considered related to a significant fiscal loss, it will usually be necessary for an actual loss of $50,000 or more to be involved or for a potential loss (including unrealized revenue increases) of $100,000 to be involved. Equivalent non-fiscal losses would include, but not be limited to, omission or commission of acts by or on behalf of the City which would be likely to expose the City to adverse criticism in the eyes of its residents.

\(^{13}\) The implementation time frame indicated for each priority class is intended as a guideline for establishing implementation target dates. While prioritizing recommendations is the responsibility of the City Auditor, determining implementation dates is the responsibility of the City Administration.
The Financial Management department and Office of the City Comptroller have reviewed the City Auditor’s recommendations in the audit report examining the Zoological Exhibits Fund. Our response to each of the audit recommendations is documented below.

Finding 1:
Recommendation #1: Financial Management should reevaluate and consider simplifying the current budgeting methodology for the Zoological Exhibits Fund. Additionally, Financial Management should, in consultation with the Comptroller, establish guidance related to management of the Zoological Exhibits Fund. The written guidance should address budget methodology, departmental roles and responsibilities, and general timeframes.

Recommendation #1 Management Response: Agreed
The Financial Management (FM) Department will evaluate and consider the suggestions by the Office of the City Auditor to simplify the current budgeting methodology for the Zoological Exhibit Fund and take all steps necessary in efforts to improve the process. In addition, FM will work with the Office of the City Comptroller to expand the written guidance in the form of an instructional handbook available in tangible and electronic formats to ensure budgetary consistency through each fiscal year. The handbook will have sections such as budget methodology, departmental roles and responsibilities, as well as general time frames. This will be completed by February 2014, in time for the FY15 budget development cycle.

Recommendation #2: In order to improve transparency and oversight of taxpayer funds, City Administration should request that the Zoological Society establish an accounting structure to specifically account for San Diego Charter, Section 77a funds. The revised accounting structure should include a clearly defined set of expenditures related specifically to the maintenance of zoological exhibits.

Recommendation #2 Management Response: Zoo Agreed
This is a recommendation directed to zoo management. Please see the attached responsive letter from the Zoological Society of San Diego.
April 3, 2013

Eduardo Luna, CIA, CGFM
City Auditor
City of San Diego
1010 Second Avenue, Ste 1400, MS6148
San Diego, CA 92101

Dear Mr. Luna,

At the exit conference for the Performance Audit of the Zoological Exhibits Fund (SD City charter section 77a), the Zoological Society of San Diego (DBA San Diego Zoo) was presented with a draft of the audit report. This letter serves as our response to the recommendations included in the draft audit report pertaining to the Zoo’s accounting for Charter Section 77a funds (“Funds”).

The report identifies an opportunity to increase overall tracking and transparency regarding the use of the Funds. In response, the Zoo agrees to modify its internal accounting procedures as described below. We emphasize, however, that no improper expenditures of Funds have been made and at all times the Zoo has used the Funds strictly for the “maintenance of zoological exhibits” as provided for under Charter Section 77a, including only expenditures required to maintain the plant and animal collections and exhibition facilities (e.g., all animal collections activities, veterinary services, nutritional services, horticultural activities, browse, education outreach, guest services, facility maintenance, and facility administration.) As noted in the audit report, these expenditures far exceed the funding provided under Section 77a.

Going forward, the Zoo will take the following steps:

- establish a segregated account exclusively for the receipt and expenditure of Funds for the maintenance of zoological exhibits as specified under Charter Section 77a;

ZOOLOGICAL SOCIETY OF SAN DIEGO
Post Office Box 120551, San Diego, CA 92112-0551 USA Telephone (619) 231-1515

Zoological and Botanical Gardens: Accredited by the Association of Zoos and Aquariums and American Alliance of Museums
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• upon request from the city, produce a report identifying all such receipts and expenditures;
• on all future invoices to the City, the Zoo will provide an attestation statement signed by management that Funds received from the City will be used exclusively for the maintenance of zoological exhibits within Balboa Park.

We appreciate the opportunity to submit this response and look forward to working cooperatively with the City to provide unparalleled zoological exhibits to the citizens of San Diego and visitors from around the world.

Sincerely,

[Signature]
Paula S. Brock
Chief Financial Officer