Outsourced Retail Operations –
Some Benefits Realized;
Better Zoo Oversight Needed

January 2006
A Report by the Office of the Auditor

Alexis Dow, CPA
Metro Auditor
January 24, 2006

To the Metro Council and Metro-area citizens:

In response to a Metro Council request and as part of the Metro Auditor’s risk assessment, we undertook an audit of the Oregon Zoo’s retail contract with Aramark. Just over two years have passed since the five-year contract commenced, providing an opportune time to assess activities under the agreement.

Our work focused on a comparison of performance against expected results, identification of any areas of non-compliance with contract terms, payments to the Zoo by the contractor, and a review of retail related internal controls. We found:

- Opportunities exist to enhance both profitability and community exposure for the Zoo from its retail operations. For example, approximately $17,500 is available from the Aramark marketing reserve to pay for advertising and marketing services. These monies should be used as intended.

- Actual results have fallen short of benefits projected when the decision to outsource the Zoo retail operations was initially made. However, some benefits accrued, as net income from retail operations improved 16% and 19% for the first two years under the Aramark contract.

- There were no exceptions related to the monthly reporting of financial results or the retail internal controls maintained by Aramark and the Zoo business office; however, we did identify other areas that require follow-up by Zoo management.

The report provides further information and recommendations to optimize the results of activities occurring under the Aramark agreement. The last section of the report presents the written response of Metro Chief Operating Officer Michael Jordan to each recommendation. The Zoo has already made progress in addressing some of the needed improvements.

We appreciate the assistance provided us as we gathered the information necessary to prepare this report and recognize the many people actively committed to improving the efficiency and effectiveness of Metro and its programs.

Yours very truly,

Alexis Dow, CPA
Metro Auditor

Auditor: The Rasmussen Group, LLC
Outsourced Retail Operations –
Some Benefits Realized;
Better Zoo Oversight Needed

January 2006
Report presented to Alexis Dow, Metro Auditor
January 24, 2006

Ms. Alexis Dow, CPA
Metro Auditor
600 NE Grand Avenue
Portland, Oregon 97232

Dear Ms. Dow:

The Rasmussen Group, LLC is pleased to submit this report on the Metro Zoo Retail Contract Project. This report summarizes the results of the contract compliance review, which included a review of payments to the Zoo by the contractor, a comparison of performance against expected results, a review of retail related internal controls, and review of compliance with contract terms. Our results are based on information obtained during interviews with Metro and Aramark personnel and by reading the contract, reviewing supporting documentation, observation, analysis, research and testing.

All findings have been discussed with the appropriate Zoo personnel. Improvements are currently underway as a result of the observations and recommendations.

We appreciate the cooperation we received from Metro and Aramark personnel during this review. The Zoo has made improvements in its retail operations since the inception of the contract and additional improvements are possible.

Thank you for the opportunity to support Metro on this important project.

Sincerely,

The Rasmussen Group, LLC

Karen Rasmussen
Principal
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Response to the Report  
   Metro Chief Operating Officer Michael Jordan
Executive Summary

Today’s environment requires both accountability and positive operating results in both business and government. These objectives are supported in this review of the Oregon Zoo’s Retail Services Operations Agreement with Aramark. Just over two years have passed under the five-year term of this contract, providing an opportune time to assess activities under the agreement for potential improvement.

Significant opportunities exist to enhance both profitability and community exposure for the Zoo from its retail operations. New revenues would provide the Zoo with more funding to help make its strong regional and nationwide presence even greater. In a recent industry survey, Oregon Zoo per capita merchandise sales ranked in the bottom quartile. This clearly indicates a strong potential for growth. Zoo personnel should work with Aramark to achieve that potential. Approximately $17,500 is available from the Aramark marketing reserve to pay for advertising and marketing services and should be used as intended. Also, internet sales have been minimal and could be strengthened by offering more merchandise on line and by better website development.

In planning for the potential outsourcing of retail services for the Zoo, projections were made to assess the probable financial benefit. Actual results have fallen short of those projections. However, net income from retail operations improved 16% and 19% for the first two years under the contract. In addition, the Zoo gained other benefits, such as reduced Metro cost allocation, higher quality merchandise, personnel responsibilities assumed by Aramark, and a more professional retail presence.

We reviewed compliance with contract terms and the monitoring of activities required by those terms to ensure effective operation. We found no exceptions related to the monthly reporting of financial results or the retail internal controls maintained by Aramark and the Zoo business office. However, we did identify other areas that were not in compliance, and we have made recommendations to help ensure these requirements are met. Our key recommendations beyond expanded advertising and internet sales efforts discussed above include:

- Monitoring and documenting contract performance and compliance with terms.
- Requiring Aramark to replace the Zoo’s point-of-sale system.
- Improving the tracking and accounting for Aramark’s required capital improvements.
- Surveying Zoo visitors on the customer shopping experience annually.
- Requiring Aramark to maintain the specified insurance and indemnity levels.

This report provides further information and recommendations to optimize the results of activities occurring under the Aramark agreement. The Zoo has already made progress to address some of the needed improvements.
Summary of Recommendations

1. **Update Aramark’s detail of capital improvements.** Aramark’s current detail of improvements made for the Zoo is not complete. We recommend requesting a complete list of all improvements made to Zoo premises by Aramark, with copies of supporting invoices provided. Aramark should update and provide this to Zoo management monthly for monitoring.

2. **Consider replacement of the point-of-sale system.** The contract provides for the replacement of the Zoo’s point-of-sale system by Aramark. The Zoo should consider requiring this replacement as specified in the contract. If the Zoo decides not to enforce this term, the contract should be amended to reflect the change.

3. **Expend available marketing funds to increase retail sales.** Aramark provides marketing and advertising funds in a reserve fund as required by contract. We recommend developing a plan to use these funds to increase the exposure, sales and profits of the Zoo’s retail operations.

4. **Educate and monitor the Zoo’s maintenance department.** The Zoo Deputy Director should review the contract requirements with the maintenance department, and monitor activities monthly, to ensure eligible services performed under contract are appropriately identified and billed to Aramark.

5. **Enhance the retail website.** The Zoo should work with Aramark to enhance the website, offering more merchandise and increasing exposure for the Zoo’s retail operations. Sales from this website should be separately reported and monitored monthly by management.

6. **Survey Zoo visitors on their shopping experience.** The Zoo visitor survey does not address the retail shopping experience and Aramark does not perform this survey as required by contract. Coordinate visitor survey activity with Aramark to obtain this visitor feedback and improve retail operations.

7. **Provide required insurance coverage.** The $100,000 coverage for money, security and employee dishonesty is not separately indicated on the Certificate of Insurance. We recommend that Aramark provide this separate coverage and that the insurer specify the coverage on the Certificate of Insurance.

8. **Monitor contract terms.** The Zoo should implement monitoring practices over contract requirements. This will minimize risks of non-compliance and provide more opportunity to improve operating performance and optimize the benefits sought by the Zoo under the contract.
Project Background and Scope

Metro entered into a five year contract beginning August 15, 2003 with Aramark Sports and Entertainment Services, Inc. (Aramark). This contract granted Aramark the exclusive right to operate the Oregon Zoo’s retail services. The contract encompassed all retail locations within the Zoo and the Zoo’s website.

In order to assess that contract compliance is maintained between Metro and Aramark, the Rasmussen Group, LLC was engaged by the Metro Auditor to review the activities performed under the contract to determine compliance with key contract terms as well as evaluate operational effectiveness. The broad categories of these activities include:

- Commission payments due under the contract
- Analysis of performance results under the contract against expected results
- Evaluation of the Zoo’s internal controls for the retail operations
- Monitoring and review of contract terms
- Existence of sound business practices over the retail operations and contracts.
Potential Risks

A primary goal in performing a review such as this is to ensure that the risks that could arise if processes are not monitored are properly identified and managed. The following potential risks were identified for focus in this project:

- **Payments under the contract** – Payments due under the contract may not be accurately calculated and paid. Improper payments could result in lost revenues or unrecorded liabilities.

- **Non-compliance with key contract terms** – Liabilities and obligations may be incurred, but not known. Rights and obligations of the contractor may not be recognized. These factors can result in lost revenues, increased costs, unmet or unrecorded obligations, and loss of reputation.

- **Retail internal controls** – Cash may not be properly collected and deposited. Cash may not be adequately safeguarded and recorded in the system. This could result in loss of assets through error, theft or improper collection practices.

- **Maintaining contract compliance** – Compliance with key contract terms may be met at certain points in time, but not maintained over the term of the contract if not properly monitored. This could result in lost revenues, increased costs, unmet obligations and loss of reputation.

- **Monitoring operating performance** – Operating performance under the contract may not be properly monitored, resulting in increased cost of operations that is not identified and managed. Poorly managed operations could result in dissatisfied customers and deterioration of profits.

- **Information systems** – Data may not be accurately and completely processed in the point-of-sale system. Appropriate controls may not be in place to safeguard the completeness and accuracy of recorded data. This could result in information being incorrectly processed in the system, increasing the likelihood of fraudulent activity.

- **Reputation risk** – Errors occurring in the retail operations, such as fraud, could become publicly known. Lack of sound business practice and operating procedure could result in customer dissatisfaction and lost business. Proactive identification of issues helps reduce the likelihood of reputation risk to Metro by limiting the likelihood of errors and proactively improving the control environment.
Objectives and Procedures

The review included the following key objectives and procedures:

**Contract compliance:**
- Reviewed contract requirements and evaluated Aramark and Zoo compliance with key contract terms, identifying any areas of non-compliance. These terms are further described in the observations and recommendations section of this report.
- Reviewed the accuracy and timeliness of payments made by Aramark to the Oregon Zoo.
- Assessed the proper inclusion in the payment calculations of commission and attendance guarantees.
- Reviewed contract requirements and evaluated Aramark and Zoo compliance with key contract terms. These terms are further described in the observations and recommendations section of this report.
- Evaluated contract monitoring practices

**Operating performance:**
- Reviewed the projected financial benefits expected under the contract.
- Compared the projected performance expectations to actual performance.

**Retail internal controls:**
- Assessed the control environment over retail cash collections and deposits.
- Performed sample testing of the cash collections to revenues reported.
- Assessed the efficiency and effectiveness of cash collection practices.
- Considered the role of the current point-of-sale system in maintaining compliance.

These objectives were accomplished through interviews of key personnel, review of the contract terms and supporting documentation, observation, analysis, research and testing.
Observations and Recommendations

**Contract compliance**

The following key contract terms were reviewed for compliance between Metro and Aramark.

**Payments to the Zoo**

Section 4 of the contract requires Aramark to pay a predetermined percentage of gross receipts, and defines the terms that affect the calculation of the payment. Section 5 of the contract defines the minimum guarantees that Aramark must pay the Zoo. Section 6 of the contract defines the minimum attendance guarantee threshold that the Zoo must maintain to avoid reduction of Aramark’s minimum guarantee payments.

We found no errors in our review and recalculation of the payments made to the Zoo by Aramark for the period August 15, 2003 through June 30, 2005. Aramark and Zoo business office personnel have been thorough and accurate in calculating and reviewing these payments.

**Improvements**

Section 7b of the contract requires Aramark to spend a minimum of $150,000, but not more than $185,000, to make substantial improvements to the premises over the five year term of the contract. Substantial improvements are defined as improvements that require capital expenditures of $25,000 or more. As of October 31, 2004, a list provided by the Zoo indicated Aramark had spent $165,579.43 on capital improvements to the Zoo retail operations. The Zoo provided some invoices to support the list, which included estimates.

Observation and recommendation:

There were estimates included on the list that did not agree to the invoice amounts provided. Although the actual invoices provided appeared to exceed the estimates, it is not possible to determine whether Aramark has complied with this term of the contract until a complete list is provided. We recommend the Zoo request a detailed list from Aramark of all improvements made and copies of invoices to support items listed to ensure this contract term has been met. In the future, Aramark should continue to record this information and provide it to Zoo management on a monthly basis.

**Sublet of rights**

Section 8 of the contract forbids Aramark from subletting any portion of their managed operations under the contract. No assignment has occurred.

**Operating covenants**

Section 9 of the contract specifies the operating covenants of the arrangement. Section 9j of the contract requires Aramark to install and maintain a computer point-of-sale system to process transactions and control inventory throughout the term of the agreement. Maintenance and any upgrade of both point-of-sale hardware and software systems are the responsibility of Aramark.
Observation and recommendation:

Aramark is currently using the Zoo’s outdated point-of-sale system that was onsite at the commencement of the contract with Aramark. Aramark has not replaced this system. Aramark supplements this system with their own system to manage inventory and perform certain functions not provided by the Zoo’s system. The Zoo’s system does not provide the needed functionality currently available. For example, prior period’s information is not retained on the system, and daily reports cannot be recreated for previous day’s activities.

We discussed with Metro Information Technology division this contract requirement to replace the point-of-sale system, as this division initially suggested that Aramark replace it as a term of the contract. However, they currently state that the intent of the contract was met if Aramark would maintain proper operation of the point-of-sale system and produce needed reports. In other words, if the existing system could provide the needed information without causing errors and inefficiencies, the Zoo would not require Aramark to replace it as specified in the contract. The prior Zoo Deputy Director agreed with this assessment.

This written term of the contract requires Aramark to purchase and install a new point-of-sale system. This appears to be Metro’s original intent in including the term in the contract. We recommend that the Zoo consider requiring the replacement of the point-of-sale system as specified in the contract. If the Zoo decides not to enforce this term of the contract, the contract should be amended to reflect the change.

Contractor staff and additional powers

Section 9k of the contract defines Aramark’s responsibility for all employees associated with retail sales. Section 9l grants the Zoo significant authority over Aramark’s sales policies and practices. No exceptions to contract terms were observed for sections 9k and 9l. Discussion with Zoo management indicated that Aramark has granted the Zoo the authority requested.

Taxes

Section 9n of the contract requires Aramark to pay all sales, business and occupational taxes, including any property taxes the Zoo may be assessed as a result of the contract. Aramark is not required to pay any real property taxes above $25,000 for any contract year. No exceptions were observed regarding this contract term.

Marketing

Section 9o of the contract requires Aramark to provide a marketing reserve fund in an amount equal to one-half of one percent of annual gross receipts and these monies are to be expended on marketing and advertising. Aramark is required to provide the Zoo with a quarterly statement of the reserve fund balance and a summary of the reserve fund activity. This contract term allows Aramark to exclude gross receipts up to a maximum of 1% if Aramark determines at its sole
discretion to spend more than what is in the marketing reserve fund for marketing and advertising. This calculation is not yet applicable since Aramark has not expended more than the 1/2% of gross receipts required to be reserved.

Aramark provided $17,580.08 for this reserve fund as required by contract through November 24, 2005, and had expended $246, leaving an unexpended balance of $17,334.08 available for marketing and advertising.

Observation and Recommendation:

Aramark has not expended the marketing and advertising funds as provided for in the contract. We recommend discussing a marketing and advertising plan with Aramark to expend the funds available under the contract. These funds will be very useful in increasing the Zoo’s retail operation exposure, sales and profits.

Existing inventory

Section 10 of the contract requires payment from Aramark to the Zoo for existing inventory. Inventory of $85,384.46 was purchased by Aramark. We verified that this payment occurred in accordance with the contract.

Maintenance and repairs

Aramark is required by Section 11d of the contract to reimburse the Zoo monthly for retail store maintenance and repair performed by Zoo personnel. We were provided with a list of maintenance and repairs billed by the Zoo to Aramark for the period September 2003 through October 2005. We were unable to determine whether the billings included all services provided. This list of services included:

- Phone expense - $2,705
- Warehouse expense - $5,360
- Wireless system installation - $494
- Telephone equipment - $796
- FedEx - $134
- Slatwall costs - $595
- Other miscellaneous expenses - $2,541

Observation and recommendation:

The activities billed by the maintenance department are not reviewed and monitored by management to ensure all eligible services performed by the maintenance department are billed. We recommend that the Zoo Deputy Director review the contract requirement with the maintenance department, and monitor their activities monthly to ensure eligible services performed are appropriately identified and billed.

Website

Section 13 requires Aramark to develop, host and operate the Zoo’s online store. Aramark has developed a site that they host. A link is provided from the Zoo website to the Aramark retail site.
Observation and recommendation:

The Zoo retail website is provided as a link from the Zoo’s website to the Aramark website where the merchandise is sold. The website carries a limited amount of merchandise compared to merchandise available at the store. Retail sales related to this website totaled $905.68 from the inception of the contract in August 2003 through December 15, 2005. There is significant opportunity to increase Zoo retail sales through the website. Additionally, there is a significant opportunity to promote the store through the website to encourage increased sales on site. More goods could be offered on the website. We recommend working with Aramark to enhance the website by offering more merchandise on the website, and to increase exposure of the Zoo’s retail operations. This on-line store should carry a much broader volume of merchandise, and be updated regularly. Sales from this website should be separately reported and monitored monthly by management.

Annual meeting

Section 16 of the contract requires Aramark to report their success in meeting targeted gross receipts, capital improvements to the premises, and staffing issues. The contract requires an annual meeting between Aramark and the Zoo to be held in January of each year to discuss Aramark’s operations on Zoo premises, including, but not limited to, the nature and type of merchandise being marketed. At least 90 days in advance of this annual meeting, the contract requires Aramark to develop a survey of the Zoo visitor shopping experience that will be administered by the Zoo. The results of the survey are to be discussed at the annual meeting. Based on our discussions with management and review of meeting documentation, these meetings are taking place and the discussion topics noted are discussed as required by the contract.

Observation and recommendation:

The current Zoo visitor survey circulated by the Zoo does not address the retail shopping experience, nor does Aramark perform such a survey as required by the contract. The Zoo should coordinate visitor survey activity with Aramark to ensure that visitor feedback is available to improve retail operations.

Financial statements

Section 17 requires Aramark to provide the Zoo with Aramark’s most recent statement of gross receipts for the Zoo retail operations, certified by Aramark’s Chief Financial Officer. Aramark provided the certified financial statement for the fiscal year ended in 2004 as required by contract. The 2005 certified financial statement is not yet due.

Indemnity and insurance

Section 19 of the contract requires Aramark to indemnify Metro at Aramark’s expense for certain levels of insurance to be confirmed by a certificate of insurance. These requirements include $2 million in general liability insurance per occurrence for bodily injury, property damage and automobile injury, and $100,000 for money, security and employee dishonesty coverage.
Observation and recommendation:

The certificate of insurance issued by Willis of Pennsylvania, Inc. to Aramark on September 3, 2004 indicated general liability coverage of $1 million, instead of the $2 million required by contract for the coverage described above. A new certificate of insurance was issued September 29, 2005 in response to this review with the required coverage of $2 million. The $100,000 coverage for money, security and employee dishonesty is not separately indicated on either certificate of insurance. We recommend that the contractor provide this separate coverage and have the insurer specify the coverage on the certificate of insurance.

Contract monitoring by Zoo management

Ongoing monitoring of contact compliance and operating performance by management is very important to adequately manage and minimize risks to Metro and the Zoo. There are several terms in the contract between Metro and Aramark that should be reviewed quarterly or annually to ensure optimal contract performance is maintained. Additionally, the operating performance should be formally reviewed on a regular basis to ensure the Zoo’s goals and objectives are being met. This process will increase awareness of performance and encourage redirection when needed to optimize the potential value of the agreement.

Observation and recommendation:

As disclosed in this report, there were several areas where compliance had not been monitored. We recommend implementing a program of contract monitoring over the Aramark contract process. A monitoring tool should be developed that specifies the frequency of review for each contract requirement needing monitoring. This will minimize risk of non-compliance and can significantly improve operating performance, thereby optimizing the benefits sought by the Zoo under the negotiated contract.

Operating performance

The budget impact of entering into the contract with Aramark was projected and presented as a key factor in deciding to outsource the Zoo retail operations. This budget impact, which was documented in a staff report dated April 17, 2003, included the following projections:

- **Additional revenues** of $800,000 over the five years of the contract.
- **Direct cost reductions** for in-house service delivery of approximately $1.2 million annually. These cost reductions include inventory, wages, benefits and PERS. Indirect cost savings included eliminating purchasing and accounting transactions, along with other related overhead charges.
- **An increase in per capita sales** of at least 50 cents compared to sales within two years of start-up.
The comparisons between the original projections outlined above, and the actual results through the year ended 6/30/05 are described below for each of the categories. The contract commenced August 15, 2003.

**Additional revenues**

Actual revenues from retail operations and the actual and projected increases based on actual revenues from the first two years under the contract are as follows:

<table>
<thead>
<tr>
<th>Original revenue increase projection</th>
<th>$800,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revised revenue increase projection</td>
<td></td>
</tr>
<tr>
<td>Year Ended</td>
<td>Revenue Increase</td>
</tr>
<tr>
<td>6/30/03</td>
<td>(N/A)</td>
</tr>
<tr>
<td>6/30/04</td>
<td>($1,935)</td>
</tr>
<tr>
<td>6/30/05</td>
<td>$78,289</td>
</tr>
<tr>
<td>6/30/06 (projected)</td>
<td>$80,000</td>
</tr>
<tr>
<td>6/30/07 (projected)</td>
<td>$82,000</td>
</tr>
<tr>
<td>6/30/08 (projected)</td>
<td>$84,000</td>
</tr>
<tr>
<td>Total revenue increase estimate</td>
<td>$322,000</td>
</tr>
<tr>
<td>Expected shortfall in revenue increase projection</td>
<td>$478,000</td>
</tr>
</tbody>
</table>

**Comparison of projected revenue increase vs. original goal**

![Cumulative Revenue Increase](image)

**Observation and recommendation:**

The projected increase in revenues over the life of the five year contract is $322,000\(^1\) compared to the original projected additional revenues of $800,000. It does not appear that the original goal will be achieved. However, expending marketing reserve fund monies for increased advertising and marketing and expanding efforts to improve internet sales can help increase revenues during the remaining term of the contract.

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\(^1\) The revised projection is based on actual increases for the first two years, and estimates for the remaining three years based on current performance adjusted for inflation.
The original estimate of direct cost savings is $1.2 million annually. The actual operating costs of retail operations and average annual savings since inception of the Aramark contract are displayed in the following chart and graph. The first year of operation under the Aramark contract was the fiscal year ended 6/30/04.

Revised estimate of annual cost savings

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct operating costs</td>
<td></td>
</tr>
<tr>
<td>Pre-contract</td>
<td></td>
</tr>
<tr>
<td>Year ended 6/30/03</td>
<td>$1,149,176</td>
</tr>
<tr>
<td>Contract period</td>
<td></td>
</tr>
<tr>
<td>Year ended 6/30/04</td>
<td>$1,085,985</td>
</tr>
<tr>
<td>Year ended 6/30/05</td>
<td>$1,145,514</td>
</tr>
<tr>
<td>Annual average direct operating costs</td>
<td>$1,115,750</td>
</tr>
<tr>
<td>Average annual savings – direct operating costs</td>
<td>$33,426</td>
</tr>
<tr>
<td>Average annual savings – overhead cost allocation</td>
<td>$36,400</td>
</tr>
<tr>
<td>Revised estimate of operating cost savings²</td>
<td>$69,826</td>
</tr>
</tbody>
</table>

Original estimate of annual cost savings $1,200,000

Observation:

The revised estimated annual cost savings of approximately $69,800 since inception of the Aramark contract are $1,130,200 short of the originally anticipated savings of $1.2 million. Since annual operating costs have been less than $1.2 million for all years reviewed, both pre-and post-contract, the $1.2 million in annual savings would not be possible.

² The total reduction includes both direct costs and the reduction in charges from Metro’s Central Services cost allocation for personnel-related charges.
Per capita sales

Per capita retail sales have increased to $1.31 for the year ended 6/30/05 from $1.23 for the year ended 6/30/03. This represents an actual per capita increase of $.08 as compared to the $.50 per capita increase projected within two years of start-up.

Comparison of actual vs. projected per capita sales increase

![Comparison chart]

Observation:

The actual per capita retail sales of $1.31 for the year ended 6/30/05 fall short of the projected $1.73 within two years of start-up by $.42.

Net Income from Retail Operations

Net income from retail operations after excise tax has increased from $373,317 for the year ended 6/30/03, to $432,548 and $447,225 for the years ended 6/30/04 and 6/30/05, respectively. This represents a 16% and 19% increase for each of those years respectively since contract inception. No net income projections were made prior to entering the agreement. This information is provided for comparative purposes.

Net income increase

![Net income increase chart]

Sales growth

The 2004 State of the Industry Zoo and Aquarium report provides an annual survey of operational data conducted by the Zoo and Aquarium Association. This survey disclosed average per capita sales from merchandise of $1.94 for Zoos and Aquariums. The Oregon Zoo, with reported 2004 per capita merchandise sales of $1.20, ranked in the bottom quartile as the 7th lowest of the 31 respondents. This clearly indicates a strong potential for growth in retail sales.
Response to the Report

Metro Chief Operating Officer Michael Jordan
Audit: Outsourced Zoo Retail Operations: Some Benefits Realized; Better Contract Management Needed
Date: January 2006

**AUDIT RESPONSE**

<table>
<thead>
<tr>
<th>Recommendation 1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Update Aramark’s detail of capital improvements.</strong> Aramark’s current detail of improvements made for the Zoo is not complete. We recommend requesting a complete list of all improvements made to Zoo premises by Aramark, with copies of supporting invoices provided. Aramark should update and provide this to Zoo management monthly for monitoring.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes <strong>X</strong></td>
</tr>
<tr>
<td>No _____ (specify reasons for disagreement)</td>
</tr>
</tbody>
</table>

**What action will be taken (if any)?**
- A master list detailing improvements, complete with copies of invoices, was requested of and supplied by Aramark.
- A review of the information occurred to confirm the capital improvement expenditures.
- Monthly auditing of the capital improvement expenses and review of invoices will occur.

**Who will take action?**
- Carmen Hannold, Deputy Director, made the initial request and will audit the information monthly.
- Terri Pelham, Retail Manager, will provide an updated detailed summary monthly and report on meeting project goals.

**When will action be accomplished?**
- On January 4, 2006, Deputy Director reviewed a master list and copies of invoices for capital improvements which occurred from contract inception through October 2005. In excess of $180,000 has been expended for improving the main retail shop and other retail points of sale.
- Monthly, a review of the capital improvement expenses and proposed expenses will occur.
- Annually, the master list will be revisited and evaluated against project goals.

**Follow-up necessary to correct or prevent reoccurrence.**
- A monthly contract compliance checklist has been developed and with proper use will ensure accountability.
**Audit Response**

**Recommendation 2**

**Consider replacement of the point-of-sale system.** The contract provides for the replacement of the Zoo’s point-of-sale system by Aramark. The Zoo should consider requiring this replacement as specified in the contract. If the Zoo decides not to enforce this term, the contract should be amended to reflect the change.

**Agree**

Yes  __X__

No  _____ (specify reasons for disagreement)

**What action will be taken (if any)?**

A thorough review as occurred regarding this recommendation. At the start of the contract, the intent of Point of Sale reference was to evaluate the back of the house reporting functions in regards to Retail Sales. Although the current POS is now eight years old, it daily provides the Zoo with the gross receipts, detailed sales department and cashier information. This has aided the Zoo in auditing receipts as we are able to compare Zoo master retail revenues against reported Aramark retail revenues. There are limitations to referencing old data on this system. However, it has not been necessary to access the past information because of the report structure in place, nor has it been a hindrance to Retail operations.

A greater need, replace the unreliable Retail DataWorks server, was identified along the way. A new computer system was purchased by Aramark to capture inventory information.

Aramark has indicated that if the Zoo proceeds with replacing the existing POS, conversations will occur for a joint purchase venture.

Contract will be amended to reflect new language regarding replacing the Point of Sale systems.

**Who will take action?**

Carmen Hannold, Deputy Director, will take the steps to amend the contract.

Patty Mueggler, Finance Manager, will be designated as the project lead, at which time the Point of Sale replacement project is warranted.

**When will action be accomplished?**

By June 2006, it is anticipated an amendment will be complete.

**Follow-up necessary to correct or prevent reoccurrence.**

By June 30, 2006, follow up with Metro contract department to ensure amendment completion.
Audit: Outsourced Zoo Retail Operations: Some Benefits Realized; Better Contract Management Needed

Date: January 2006

# AUDIT RESPONSE

## Recommendation 3

**Expend available marketing funds to increase retail sales.** Aramark provides marketing and advertising funds in a reserve fund as required by contract. We recommend developing a plan to use these funds to increase the exposure, sales and profits of the Zoo’s retail operations.

### Agree

| Yes ___X___ |
| No _____ (specify reasons for disagreement) |

### What action will be taken (if any)?

One half of one percent of Retail sales is placed in a fund for mutually agreed upon marketing opportunities. In order to establish a sufficient fund for advertising or printing, the monies have been allowed to accumulate.

Aramark presented a marketing plan at the first annual meeting. Many of the proposed opportunities focused attention at the new cart locations and new exhibits on Zoo grounds. At the upcoming annual meeting, Aramark will present an aggressive marketing and advertising plan aimed at increasing sales and profitability.

Monthly, to take advantage of the seasonality of the Zoo, marketing strategies and opportunities will be explored and pursued as appropriate. Strategies include ad placement, utilizing newsletters, sales, coupons, discounts and events to increase traffic.

### Who will take action?

Carmen Hannold, Deputy Director and Terri Pelham, Retail Manager will agree to a plan. The Zoo’s marketing manager, designers and select vendors to be solicited and involved as needed.

### When will action be accomplished?

This past quarter, we tapped into the marketing resources for the first time and we were pleased with the increased customer traffic and sales in the gift shop.

In February 2006, the new plan in its entirety will be unveiled at the annual meeting and beginning March 2006, strategies will begin to be implemented.

Additionally, the Retail Manager and Deputy Director will address opportunities to increase sales and profits monthly.

### Follow-up necessary to correct or prevent reoccurrence.

Marketing fund review and strategies have been included on the recently developed contract compliance checklist and will be addressed at every monthly meeting.
### Audit Response

**Recommendation 4**

**Educate and monitor the Zoo’s maintenance department.** The Zoo Deputy Director should review the contract requirements with the maintenance department, and monitor activities monthly, to ensure eligible services performed under contract are appropriately identified and billed to Aramark.

**Agree**

- Yes  **X**
- No  ____ (specify reasons for disagreement)

**What action will be taken (if any)?**

- Obtain a summary detailing expenses for the contract period.
- A review of the information occurred to confirm the maintenance expenses.
- A meeting with the involved parties, to review billable expenses, maintenance requests, and reporting expectations will occur.
- Protocol will be established for informing Carmen Hannold, Deputy Director and Patty Mueggler, Finance Manager of any expense to be included in the monthly billing.
- Monthly auditing of the maintenance and review of invoices will occur.

**Who will take action?**

- Finance Manager provided the year to date expense summary and conducted an assessment of prior expenditures with involved maintenance workers and support staff. All expenses to date had been accounted for.
- Finance Manager will provide a monthly summary of maintenance expenses.
- Deputy Director will formalize the protocol surrounding maintenance expenses in agreement with the contract, convene a meeting, instruct workers on reporting information and distribute written policy.
- Deputy Director and Terri Pelham, Retail Manager will review the summary information at the monthly meeting.

**When will action be accomplished?**

- In February 2006, a meeting will be convened to review maintenance requests and billable expenses.
- Monthly, the maintenance expense summary will be generated and reviewed. At the annual meeting, the year summary will be shared.

**Follow-up necessary to correct or prevent reoccurrence.**

- A monthly contract compliance checklist has been developed and with proper use will ensure accountability.
- Included on the maintenance summary are the approved, billable expenses to avoid over billing and ensure expected expenses are accounted for properly.
- Annually review protocol with the maintenance department.
## Audit Response

### Recommendation 5

**Enhance the retail website.** The Zoo should work with Aramark to enhance the website, offering more merchandise and increasing exposure for the Zoo’s retail operations. Sales from this website should be separately reported and monitored monthly by management.

### Agree

Yes _X_

No _____ (specify reasons for disagreement)

### What action will be taken (if any)?

Survey other Zoo’s for website content.

Enhance Oregon Zoo’s Retail website to generate sales and include website in marketing and advertising plan.

Survey customers for web store interest and merchandize options.

### Who will take action?

Terri Pelham, Retail Manager contacted other zoos and found a disappointing trend in zoo store sites. Most zoos found the sales not to be reflective of the effort to maintain the site. Additional surveys will be conducted.

The Retail Manager has begun to rework the existing items and displays on the website. In conjunction with Corporate Aramark, they will launch a new improved zoo store site and update the information regularly. Web savvy interns will be utilized to off-set the costs of maintaining and updating the website in addition to producing surveys and tabulating data.

Aramark will identify and report internet sales monthly and track the information for trending and seasonal sales.

Carmen Hannold, Deputy Director will review the sales information provided by Aramark.

### When will action be accomplished?

In April 2006, the new improved web store will be launched. Adding products and improving the site will be ongoing.

Monthly, the Deputy Director will review the sales summary.

At the annual meeting a summary will be provided for the internet sales in addition to a recap of popular merchandise, marketing strategies that were successful and proposed activities for the coming year.

### Follow-up necessary to correct or prevent reoccurrence.

Internet sales and strategies are included on the newly developed contract compliance checklist that will be utilized at the monthly manager meeting.
Audit: Outsourced Zoo Retail Operations: Some Benefits Realized; Better Contract Management Needed
Date: January 2006

AUDIT RESPONSE

Recommendation 6

Survey Zoo visitors on their shopping experience. The Zoo visitor survey does not address the retail shopping experience and Aramark does not perform this survey as required by contract. Coordinate visitor survey activity with Aramark to obtain this visitor feedback and improve retail operations.

Agree

Yes ___X___
No _____ (specify reasons for disagreement)

What action will be taken (if any)?

Make available zoo customer comment cards at Retail Point of Sales.
Include Zoo store experience questions on quarterly visitor survey.
Aramark will conduct at least one formal visitor survey annually to capture visitor experience benchmark information.
Add customer surveys as reporting topic at team meetings.
Survey internet site users for shopping experience.

Who will take action?

Terri Pelham, Retail Manager obtained and placed comment cards at sites.
Carmen Hannold, Deputy Director will coordinate quarterly survey gathering and questions.
The Retail Manager, in coordination with the Deputy Director, will coordinate the formal visitor surveys. This information will be shared at the annual meeting.
Retail representative shares recent survey information at monthly team meetings
Retail Manager will coordinate the internet site surveys.

When will action be accomplished?

The placement of comment cards and reporting the findings at team meetings has already occurred and will continue.
Visitor surveys are conducted quarterly. Formal results will be reported annually.

Follow-up necessary to correct or prevent reoccurrence.

Marketing fund review and strategies have been included on the recently developed contract compliance checklist and will be addressed at every monthly meeting.
## Audit Response

**Recommendation 7**

**Provide required insurance coverage.** The $100,000 coverage for money, security and employee dishonesty is not separately indicated on the Certificate of Insurance. We recommend that Aramark provide this separate coverage and that the insurer specify the coverage on the Certificate of Insurance.

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(specify reasons for disagreement)

**What action will be taken (if any)?**

- Contact insurance provider for valid Certificate of Insurance.
- Aramark secured a separate certificate as recommended.

**Who will take action?**

Terri Pelham, Retail Manager was instrumental in obtaining the specific valid Certificate of Insurance identifying the additional employee theft coverage.

**When will action be accomplished?**


**Follow-up necessary to correct or prevent reoccurrence.**

At contract year end in October, and as noted on the monthly contract compliance checklist, obtain valid, up-to-date certificates.
Recommendation 8

Monitor contract terms. The Zoo should implement monitoring practices over contract requirements. This will minimize risks of non-compliance and provide more opportunity to improve operating performance and optimize the benefits sought by the Zoo under the contract.

Agree

Yes ___X___
No ____ (specify reasons for disagreement)

What action will be taken (if any)?

Locate financial reports, review for format, and audit monthly.

Formalize meetings with Carmen Hannold, Deputy Director and Terri Pelham, Retail Manager. Currently, they meet as needed. This will continue, however, they will meet formally to review financials, internet sales trends, expenses reported, marketing strategies, completion of projects and other management issues.

Develop contract compliance checklist to capture specific audit timelines, ensure review, verify current information and cover standard issues.

Conduct monthly and annual meetings.

Who will take action?

Deputy Director will schedule the meetings with Retail Manager. Other significant staff will be involved as appropriate.

When will action be accomplished?

The monthly meetings have been calendared for the coming year.

The checklist has been developed and will be revised as regular items need to be addressed.

Follow-up necessary to correct or prevent reoccurrence.

Diligence in utilizing the contract compliance checklist as designed will aid in contract compliance.
Metro Auditor
Report Evaluation Form

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Your feedback helps us do a better job. If you would please take a few minutes to fill out the following information for us, it will help us assess and improve our work.

Name of Audit Report: Outsourced Retail Operations – Some Benefits Realized; Better Zoo Oversight Needed, January 2006

Please rate the following elements of this report by checking the appropriate box.

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Suggestions for our report format:
__________________________________________________
__________________________________________________

Suggestions for future studies:
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__________________________________________________

Other comments, ideas, thoughts:
__________________________________________________
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Name (optional):
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Thanks for taking the time to help us.

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Clean air and clean water do not stop at city limits or county lines. Neither does the need for jobs, a thriving economy and good transportation choices for people and businesses in our region. Voters have asked Metro to help with the challenges that cross those lines and affect the 25 cities and three counties in the Portland metropolitan area.

A regional approach simply makes sense when it comes to protecting open space, caring for parks, planning for the best use of land, managing garbage disposal and increasing recycling. Metro oversees world-class facilities such as the Oregon Zoo, which contributes to conservation and education, and the Oregon Convention Center, which benefits the region’s economy.

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