Audit Committee Meeting

November 7, 2016

SUMMARY OF AUDIT ACTIVITIES
November 7, 2016

Overview

Since the last full agenda audit committee meeting in June, we have completed nine internal audits. The Investments, Expense Reports and two separate Payroll Data Extractions audits identified no audit comments. The remaining five audits identified audit comments as outlined below. Throughout each audit, we received complete and timely access to the necessary documentation and personnel to perform the audit procedures. We appreciate the support provided by the Finance team and other members of management.

In addition to the audit work completed, we performed our annual risk assessment and developed our audit plan. Further, we have reviewed a number of our departmental policies and procedures, and will complete a full review in the coming weeks. As a result of our initial review, we determined that we could improve our communication of audit results by instituting a rating system to more clearly indicate the significance of individual comments and audit results as a whole. Starting with all audit reports issued after October 15, 2016, our audit reports will include both comment level and audit level ratings. A guide to the rating system we have implemented is attached at the end of this summary.

Summary of Audit Comments

Utility Services Agreement Audit Follow-Up

<u>Background</u>

The most recent Utility Services Agreement Audit noted that commission on some electrical and plumbing packages for calendar year (CY) 2013 and 2014 shows was not included by Freeman in the commission payment, resulting in an underpayment to the LVCVA. As a result of those audit findings, Freeman implemented a report to capture package revenue.

The purpose of this follow-up review was to ensure that the changes implemented by Freeman resolved the package commission reporting issue.

The preliminary review of commission payment documentation for various CY 2015 shows indicated that commission on electrical and plumbing package revenue continued to be improperly reported. Freeman management agreed with the assessment so Internal Audit decided to perform a full review of electrical and plumbing packages for current shows that had not yet been tested.

<u>Audit Scope</u>

Internal Audit reviewed electrical and plumbing package documentation for shows occurring from January 2015 through the beginning of February 2016.

Summary of Audit Comments

One department level comment was directed to the Vice President of Customer Experience. The issue and management's response is summarized below.

- *Freeman Package Commission*

  The review of electrical and plumbing package documentation noted that revenue on packages is still not properly captured by Freeman. This resulted in an additional commission of $152,194.18 being due for shows occurring from January 2015 through the beginning of February 2016.

  Freeman issued payment for the amount owed to the LVCVA on June 23, 2016.

  Management indicated that Freeman will provide backup documentation to the LVCVA for all shows offering electrical and plumbing packages that have occurred since February 2016 by September 1, 2016.

  Freeman has also been advised that once commission payments on packages are current, they must complete a package review for each show in conjunction with their regular commission calculation performed on a monthly basis until an automated solution is proven to be reliable.

Facilities Use Charges Audit

Background

The Authority provides space and amenities for various events at the Las Vegas Convention Center and Cashman Center. The Convention Services Department coordinates show management requirements according to the Authority's policies and procedures. Convention Services Managers (CSMs) are responsible for obtaining complete insurance certificates, ensuring that leases are signed timely, and ensuring all information regarding the show is kept on file. CSMs prepare all necessary information for invoicing, calculate floor plan square footage, and follow up with clients on invoice issues and payments.

Revenue billed by the Convention Services Department for the use of the Convention Center amounted to approximately $44,903,939 and for the use of Cashman Center to approximately $1,542,899 during fiscal years 2015 - 2016 (through February). The stated revenues primarily include exhibit halls, meeting rooms, parking lot rental, advertising, cable and recording fees, and equipment rental. Both centers generated additional revenues that were not within scope of the audit.

Audit Scope

The audit focused primarily on the billing of facilities use at the Convention Center and Cashman Center and lease agreement compliance. The Convention Center hosted 126 events and Cashman Center 246 events during fiscal years 2015 – 2016 (through February). A sample of 17 events held at the Convention Center, representing approximately $18,530,896 (41%) in billings, and 11 events at Cashman Center, representing approximately $286,160 (24%) in billings, were selected for review.

Internal Audit also verified compliance with registration forms, annual fees and insurance coverage for a sample of current Exhibitor Appointed Contractors (EAC).

Summary of Audit Comments

Three department level comments were issued to the Senior Director of Convention Services. The most important issue and management's response is summarized below.

- *Advertising Revenue Invoicing*

  Advertising revenue for one show was overstated, resulting in an overpayment to the Authority. The Authority invoiced the client for advertising revenue based on the client's spreadsheet which had two calculation errors overstating the advertising revenue.

  The overpayment refunded to show management via credit memo was issued on July 20, 2016. Moving forward, CSMs verifying the invoice will be required to review advertising revenue calculations for accuracy.

Aramark Audit

Background

The current food service concession lease between the Authority and Aramark was entered into in April 2001 for a period of 15 years. Since then, four amendments were made in April 2003, November 2007, August 2008 and January 2014.

The commission structure called for Aramark to pay the Authority 30% of gross receipts in 2014 and 2015. Gross receipts were approximately $24.7 million in CY 2014 and $23 million in CY 2015. Commissions for the periods were approximately $7.2 and $7.1 million respectively.

Audit Scope

The audit consisted of reviewing selected payments from October 2013 to September 2015 (FY 2014 and FY 2015 for Aramark) and tracing the calculation of the gross receipts to the daily sales for the various outlets for selected days. The terms of the lease were also reviewed for compliance and proper monitoring.

<u>Summary of Audit Comments</u>

Two department level comments were issued to the Vice President of Customer Experience. The most significant issue and management's response is summarized below.

- *Annual Submission*

  Differences were noted in comparing the annual submission of menu items and prices to register printouts, signs posted at the outlets, and catering menus. These included posted prices/items that differed or were not listed on the submission, register prices/items that differed or were not on the submission, menu prices that differed from the submission, and price increases not substantiated with backup documentation. Aramark Management corrected all noted issues during the course of the audit. The noted instances did not have a significant financial impact to the Authority.

  Authority Management stated that Aramark has made internal changes that will ensure price and portion compliance.

Website E-Commerce Services Agreement Audit

<u>Background</u>

The Website E-Commerce Services Agreement (Agreement) between LasVegas.com (LVC) and the Authority grants LVC the exclusive license to operate the travel website at the URL www.lasvegas.com.

LVC generally handles the day to day management and operations of the e-commerce portion of the site while the Authority generally handles the day to day management and operation of all elements not specific to e-commerce including marketing content and advertising for the site.

The Agreement requires LVC to pay the Authority $.50 per unit sold on the site. The units sold are made up of room nights, show tickets, tours, nightclub passes, and other products or services. The amount paid to the Authority shall be used to promote the branding of the site.

The term of the Agreement is from February 21, 2012, through February 21, 2022, with an option to extend the Agreement for an additional five (5) year term upon mutual consent.

<u>Audit Scope</u>

The audit included the review of the Agreement and associated deliverables. Documentation to substantiate units sold were reviewed for accuracy, completeness and compliance with contract terms.

Summary of Audit Comments

Two department level comments were issued to the Director of Marketing Systems. The most significant issue and management's response is summarized below.

- *Key Performance Indicators*

  The key performance indicators (KPIs) required by Exhibit B of the Agreement have not been established and agreed to by LVC and the LVCVA. The Agreement indicates that LVC working with the LVCVA, shall establish KPIs to measure the success of the Enhanced Site. KPIs shall include visitors to the Enhanced Site, conversion rate, room night revenue, repeat visitation, events, session length and other indicators as defined by both parties.

  Management indicated that general forecasts for bookings were initially estimated, but the key focus is on the delivery of services from LVC. The KPIs monitored by Management include the uptime and access to the booking services, as well as ensuring the Call Center performance targets are hit. We strongly feel that the KPIs being monitored are sufficient to ensure the marketing programs are working as intended.

  Based on the LVCVA's role it is not necessary to set specific levels of the KPIs mentioned in Exhibit B of the Agreement. This has been documented in the contract file at the request of LVCVA's Legal Counsel.

Contracts Administration Audit

Background

The Purchasing department is responsible for reviewing contracts involving lease agreements, commodity contracts, maintenance and service contracts, rental contracts, concession agreements and revenue agreements. Contract owners bear the primary responsibility for their contracts and actions associated with those contracts. The Purchasing department will follow-up with the contract owners to ensure that contract deliverables, terms and conditions are met and will provide assistance, if necessary.

Audit Scope

The audit included a review of the contracts administration process from initiation to contract closeout. Internal Audit also reviewed active contracts as of January 21, 2016, on a sample basis, to ensure that contracts are approved according to the delegation of authority and are properly monitored until final closeout. The sample included various types of contracts (i.e. construction, cooperative, leases, memberships, professional service agreements, revenue, services and sponsorships) with various contract owners.

Summary of Audit Comments

One department level comment was issued to the Senior Manager of Purchasing. The issue and management's response is summarized below.

- *Insurance Certificates*

  Insurance certificates for two agreements were not on file.

  The Senior Manager of Purchasing stated that the insurance certificates were missed but were requested and are now on file. It was determined that LVCVA was properly covered for the time period tested.

LVCVA Internal Audit Ratings

BACKGROUND

In the interest of making the Internal Audit results provided to management and the Audit Committee more useful, we have developed a rating system to provide the reader of the audit reports and summaries with a clear and concise indication of the risks identified as a result of our audit procedures.

RATING SYSTEM

Audit Level Ratings

The purpose of rating the audit is to provide management and the Audit Committee with a clear picture of the significance of the deficiencies noted in each audit so that the Audit Committee and management can focus their attention on the areas with the highest levels of identified risk. The audit level rating is created within the context of the scope of the audit and is Internal Audit's opinion based upon the results of the audit procedures. Audits with recurring audit exceptions may receive a lower rating due to the need for greater levels of attention due to the recurring nature of the issue.

The rating categories and the corresponding definitions are as follows:

Audit Rating	Definition
(5) Strong	Internal control systems were appropriate to the size and complexity of the processes reviewed during the audit and were operating as intended. Identified risks were effectively managed. No exceptions to established policies were identified.
(4) Satisfactory	Internal control systems may have exhibited some minor risk management weaknesses related to the processes reviewed during the audit. Identified risks were effectively managed. Internal control systems may have displayed modest weaknesses or deficiencies, but they are correctable in the normal course of business.
(3) Needs Improvement	Risk management practices may have exhibited weaknesses that required improvement for the processes reviewed during the audit. Identified risks may not be effectively managed. Weaknesses may have included risk management exceptions or failures that could have adverse effects on the organization if corrective actions are not taken.

(2) Needs Significant Improvement	Certain risk management practices, related to the processes reviewed during the audit, generally failed to identify, monitor and control significant risk exposures in at least one significant respect. Significant deficiencies that required substantial improvement in risk management procedures were identified, and significant risks were not effectively managed. Unless properly addressed, these conditions may result in a significant impact to the organization. The exceptions noted are significant enough to merit attention by those responsible for oversight of the organization's risk management practices.
(1) Unsatisfactory	Due to the absence of effective risk management practices, related to the processes reviewed during the audit, management was unable to identify, monitor or control material risk exposure. Material weaknesses that require substantial improvement in risk management procedures were identified, and risks were not effectively managed. Unless properly addressed, these conditions may result in a materially adverse impact to the organization. The exceptions noted were material and require the attention of those responsible for oversight of the organization's risk management practices.

Comment Level Ratings

The comment level rating is designed to indicate the level of the underlying risks identified by the audit comment. Within a report, the audit comments will be sorted in risk rank order with the higher risk comments noted first. Recurring audit exceptions may receive a more severe rating due to the need for greater levels of attention due to the recurring nature of the issue.

Comment Rating	Definition
Red	The comment relates to an underlying weakness that created a risk that a materially adverse impact to the organization could fail to be prevented and/or detected.
Orange	The comment relates to an underlying weakness that created a risk that a significantly adverse impact to the organization could fail to be prevented and/or detected.

Yellow	The comment relates to an underlying weakness that created a risk that an adverse impact to the organization could fail to be prevented and/or detected.
Green	The comment relates to a potential weakness that may have created a minor risk that an adverse impact to the organization could fail to be prevented and/or detected.
Blue	The comment relates to an opportunity for a process improvement that was identified during the audit. The comment is not indicative of an underlying risk management weakness.