Audit Committee Meeting

February 27, 2018

Overview

Since the last audit committee meeting in November 2017, we have completed nine internal audits and one follow-up review, as well as two non-audit services. 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.

The audits completed, categorized by finding rating, were as follows:

Payroll Data Extract Second Quarter 2018

Background

It is the Las Vegas Convention and Visitors Authority's policy to pay all employees for time worked in an accurate and timely manner, in accordance with applicable laws (Nevada Revised Statues Chapter 613 – Employment Practices, Fair Labor Standards Act, the Family and Medical Leave Act, etc.), and to maintain the required supporting documentation and records.

During the period from October 1, 2017 to December 30, 2017, the Authority had gross payroll expenses of $11,413,014. Procedurally, Payroll processes payments every other week with each pay period beginning at midnight on Sunday and ending at midnight on Saturday. Payday occurs every other Friday, and compensation is for the period ending the previous Saturday. Normally, there are 26 paydays during the calendar year. If a payday falls on a holiday, employees will be paid the preceding business day. Per Finance policy FIN-13, payroll staff have the responsibility to ensure that all payments through the LVCVA Payroll System are made to bona fide employees of the Authority and that these employees have earned the amount to be paid by performing duties, using leave, and/or receiving taxable fringe benefits as appropriate for their authorized positions in accordance with the Fair Labor Standards Act (FLSA) and other applicable federal and state laws.

Objectives, Scope, and Methodology

The objective of this audit was to determine whether the Authority's controls over payroll processing are complying with documented policies and procedures (i.e. Collective Bargaining Agreement, FIN-13 Payroll, Employee Handbook, and applicable "For The Record" policy memorandums) and applicable state and federal laws (i.e. NRS 613, Fair Labor Standards Act, Family and Medical Leave Act, etc.). Our work covers the period from October 1, 2017 to December 31, 2017.

Conclusion

While Internal Audit determined that the overall controls in place are adequate, we found one instance where People and Possibilities authorized a deviation from the Employee Handbook without documenting the exception to policy via a separation agreement.

The finding below includes a risk ranking. Risk ranking takes into consideration one or all of the following: compensating controls and the potential impact on reputation and customer confidence, safety and health, finances, productivity, and the possibility of fines or legal penalties. Management has addressed the finding.

Finding 1 – Paid Time Off Payout (Medium)

Section Three: Personal Time Off (PTO) of the Employee Handbook (effective September 2016) states, "E/M Employees with less than two years' service are entitled to payment of unused PTO at the rate of 60 percent of their PTO balance. Employees with two years of service or more in the E/M class are entitled to payment of unused PTO at 100 percent of the PTO balance."

During the bi-weekly data extraction routines run for pay period ending October 7, 2017, one payment of unused PTO for one terminated employee did not follow the terms of the Employee Handbook. One M-Class employee with less than two years' service at the M-Class level received 100 percent payout of unused PTO, resulting in an additional payout of $2,388.33. The Separation Personnel Action form was approved by a representative in the Office of People and Possibilities. No separate separation agreement was signed.

Legal Counsel advised us that all deviations from the Employee Handbook should be documented in a separation agreement with consideration on both sides (i.e. terms restated and agreed by both the employee and the employer). The Office of People and Possibilities has had signed separation agreements in the past. Without separation agreements, payments not made in accordance with the Employee Handbook could be perceived as being discriminately applied.

Additionally, Board Policy Article III – Powers and Functions of Legal Counsel, Policy 3.01 states the responsibilities of Legal Counsel. Specifically, under 3.01.6, LVCVA's Legal Counsel shall: "Review and approve as to form and legality all agreements, contracts, leases, bonds, insurance policies, instruments and other documents to which LVCVA proposes to become a party or otherwise bound." We believe this policy minimizes litigation and potential liability. Legal Counsel has not been a party to all past settlement agreements.

RECOMMENDATION

We recommend all deviations from the Employee Handbook be documented via a separation agreement between the Authority and the terminated employee with consideration from both the Authority and the terminated employee. We further recommend that settlement parameters and agreements be submitted to and reviewed by Legal Counsel prior to final settlement.

MANAGEMENT RESPONSE

The People and Possibilities Department will send settlement agreements to the Legal department for review before they are executed. However, there are occasions where the consideration (payment) is not sufficient to warrant a settlement agreement. In such cases, the policy exception, justification and payment will be documented in the form of a memo to the separating employee's employment file, which will be provided to Legal Counsel for comment before separation, if possible.

Purchasing and Contracts Audit

Background

The Purchasing department is responsible for the procurement of goods and services in accordance with the Nevada Revised Statutes (NRS) and current policies and procedures. The Purchasing department also assists end users in developing competitive specifications, advising end users of new products and services, contract administration, bid issuance, and resolving any discrepancies.

Contract owners bear the primary responsibility for their contracts and actions associated with those contracts. The Purchasing department follows-up with contract owners to ensure that contract deliverables are received, terms and conditions are met and to provide assistance, if necessary.

Objectives, Scope, and Methodology

Internal Audit's main objective was to ensure purchasing and contract processing procedures are established and maintained in accordance with Authority policies/procedures, Nevada Revised Statutes, and good business practices. To achieve our objective, we judgmentally identified significant risk areas, gathered documentation sufficient to obtain an understanding of the purchasing and contracts process (i.e. policies, procedures, and text of applicable laws/regulations), utilized audit software to randomly select purchase orders and contracts from the audit period and then obtained documentation and performed detailed testing and analyses sufficient to accomplish our objectives.

Internal Audit judgmentally selected 77 out of 1,551 purchase orders (5%) representing approximately $9,210,351 out of $96,283,176 (8%) issued between June 1, 2015 and January 31, 2017. If a PO selected for testing had a contract associated, the contract was also selected for testing. Internal Audit reviewed 26 out of 181 contracts (14%) representing approximately $6,741,290 out of $95,804,794 (14%). Additionally, Internal Audit reviewed system user profiles, requisition and purchase order limits, quarterly reporting to the Board of Directors, and database analysis.

Conclusion

While Internal Audit determined that the overall controls in place are adequate, we found three findings needing management attention. The findings are listed below along with a risk ranking. Risk ranking takes into consideration one or all of the following: compensating controls and the potential impact on reputation and customer confidence, safety and health, finances, productivity, and the possibility of fines or legal penalties. Management has addressed the findings.

Finding 1 - Purchasing and Accounting System Access (Medium)

The purchasing and accounting system (Eden) provides segregation of duties of incompatible responsibilities through user access controls. Lack of controls would allow individuals the possibility to circumvent purchasing authority.

The following was noted during the review of Eden system access:

- Two non-Purchasing employees were given buyer access in Eden.
- Three terminated employees had permission profiles in Eden.
- One employee had Accounts Payable (AP) and Finance access. The AP access was unnecessary.
- System administrators have the ability to add and edit vendor information and also belong to the AP, FIN, and Buyer user groups.

We conducted follow-up procedures and determined additional factors that mitigated the severity of the findings. For example, while employees with buyer access can add and update vendors in Eden, we found that by running the Menu Activity Report in Eden that there was no inappropriate use by the employees as a result of the incorrect system access. Additionally, the risk of a terminated employee accessing Eden is low. To access Eden, an employee must first have network access. The IT department removes network access immediately after an employee is terminated. Also, the AP employee's access is limited at the user level which restricts the employee from initiating payment.

System Administrators have historically been given "super user" access. The principle of least privilege recommends that most users and applications run under an ordinary account to perform their work, as a super user account is capable of making unrestricted, potentially adverse, system-wide changes. It is often recommended that no-one use the super user account as their normal user account. Instead, when the super user account is used, an audit trail is provided of who has used the command and what administrative operations were performed.

RECOMMENDATION

Management should update or remove unnecessary user access. In the future, new access should be reviewed by someone other than the system administrator setting up the access, to insure propriety of system access; and further that access changes for terminated employees should be made in a timely manner. Finally, we recommend that an audit trail be established and provided to someone in Finance when the super user account is used.

MANAGEMENT RESPONSE

Two non-Purchasing employees were given buyer access in Eden.

- Both employees were apparently granted buyer permissions in error. Access has subsequently been removed as recommended.

Three terminated employees had permission profiles in Eden.

- As discussed, and described in your narrative, while the employees had permission profiles still in the Eden system, the existence of these profiles did not give the terminated employees access to Eden because their master AD network accounts were disabled upon termination.
- Permission profiles will be removed on a regular basis after database references to the user's transactions have been reconciled and closed in Eden.

One employee had AP and Financial access. The AP access was unnecessary.

- Employee was assisting in multiple financial areas at the time access was granted. As noted, the AP access did not allow payment initiation. This access has since been removed.

System administrators can add and edit vendor information and belong to the AP, FIN, and Buyer user groups.

- Add and Edit access has since been removed for system administrator accounts.
- As recommended in your narrative, system administrators do not use "the super user account as their normal user account"
- Each administrator logs in with their own account username and password; not the system's super user account.
- As recommended, by using individual and unique administrator accounts, accountability of actions is then tied to a specific user.
- According to Tyler Technologies, technically the system's super user account could be inactivated within the Eden system although the vendor does not recommend it. This account is used by system level processes and deactivation could result in malfunction of the software.
- Further testing shows that the system's super user account cannot be created as a normal user in Active Directory and automatically assume super user permissions in Eden.
- Further auditing actions have already been implemented as recommended, such as notifying finance staff to any bank account changes when they occur in the vendor profile.
- Management will explore implementing additional database level auditing using 3rd party software.

<u>Finding 2 - Purchase Requisition Delegation of Authority (Low)</u>

The LVCVA Delegation of Signature Authority (DOA) lists requisition limits by title and was established to control the acquisition process in Eden.

The review of purchase requisition approval limits in Eden noted the following:

- One employee's limit was $5,000 when it should have been $2,500.
- Seven employees with requisition limits were not listed on the LVCVA Delegation of Signature Authority list. Without such Authority, employees should not be allowed to approve requisitions in Eden.

RECOMMENDATION

We recommend that the incorrect limit be updated. Also, the titles for the employee's in question should be added to the LVCVA Delegation of Signature Authority list.

MANAGEMENT RESPONSE

The current DOA lists are under review for title additions and responsibility as it relates to changes to this list. With the numerous changes in personnel, the list proves challenging to maintain with approvals required up to the CFO. Approval levels for administrative changes are being discussed and compared to best practices to mitigate delays. As recommended, the incorrect limit for the one employee has been updated to $2,500.

Finding 3 - Vendor Maintenance (Low)

Accounts payable is the key control in performing the match between the purchase order, receiving report, and vendor invoice. The best practice for the task of entering new vendors or updating current vendor information is to have it performed by someone outside of the accounts payable process.

Two accounts payable employees have full vendor maintenance access in Eden.

Finance currently has mitigating controls in place including multiple levels of review prior to payment and review of vendor file changes after they occur that would make it very difficult for a fictitious vendor to be added and paid without it being detected.

RECOMMENDATION

The vendor maintenance function should be performed by someone outside of the accounts payable function.

MANAGEMENT RESPONSE

Cost benefit analysis of current resources and job duties indicate limited ability to implement this solution effectively. Since current mitigating controls properly reduce risk, management will look to implement the best practice suggestion when developing workflow in the future ERP system or in future staffing realignments.

Worker's Compensation Audit

Background

Per the Nevada Division of Insurance, "Workers' compensation is a no-fault insurance program in the State of Nevada, which provides benefits to employees who are injured on the job and protection to employers who have provided coverage at the time of injury." Unless specifically excluded by statute, all employers with one or more employees in the state of Nevada must provide workers' compensation insurance. All employees "in service of an employer" are covered by workers' compensation laws (i.e. full-time, part-time, 'under the table', etc.). Nevada is an "exclusive remedy" state meaning all benefits for employees are set forth in the workers' compensation statutes.

The Board of Directors approved the Authority's request to become a self-insured entity for workers' compensation. The Authority received a certificate allowing them to become self-insured starting July 1, 2002. As of July 1, 2009, the Authority contracted with Cannon Cochran Management Services Inc. (CCMSI) as the third-party administrator responsible for handling all workers' compensation claims. The term of the current Agreement is July 1, 2015 through June 30, 2017.

Objectives, Scope, and Methodology

Our audit work was planned, performed and reported based upon the following identified control objectives:

a) Workers' compensation claims are processed and documented in accordance with applicable laws and company policy.
b) All applicable documentation is properly maintained and made available for review.
c) All payments are made timely and for the correct amount.
d) Workers' compensation expenses are recorded and reported properly.

Our audit objective was to determine if the identified control objectives were being achieved for the period covered by our audit procedures utilizing the following methodology.

Internal Audit tested a sample of workers' compensation claims occurring between November 1, 2015 and April 1, 2017. The audit consisted of reviewing a sample of claims for proper documentation and timeliness of completion in accordance with Nevada Revised Statute (NRS) 616 (A-D) and 617, Nevada Administrative Code (NAC) 616 (A-D), and the LVCVA Workers' Compensation Handbook. Payment documentation and calculations were reviewed and traced to the general ledger for a sample of claims. The audit also included a review of the Self-Insured Employer's Annual Claims Information

Report for the fiscal years ending June 30, 2015 and June 30, 2016. Finally, the system of internal controls over workers' compensation payments was examined and evaluated for adequacy.

Conclusion

Our conclusion is that the internal control system needs improvement as outlined in the comments below. The findings are listed below along with a risk ranking. Risk ranking takes into consideration one or all of the following: compensating controls and the potential impact on reputation and customer confidence, safety and health, finances, productivity, and the possibility of fines or legal penalties. Management has addressed the findings.

Finding 1 – Annual Claims Information Report Inconsistencies (Medium)

A copy of the bond rider issued by Safety National Casualty Company for the workers' compensation security deposit was not attached to the report submitted to the State of Nevada Department of Business and Industry, Division of Insurance for fiscal year 2016. (Recurring Item; Prior Audit: 2015 Worker's Compensation Audit; Comment #4)

Additionally, Internal Audit could not confirm the number of employees listed in the "I. Employee Information" section for FY2016 and FY2015. Via review of the active employees listed in the Authority's human resources information system from each fiscal year, differences of 422 employees from FY2016 and 40 employees from FY2015 were noted. (Recurring Item; Prior Audit: 2015 Worker's Compensation Audit; Comment #4)

Finally, the Administrative Expense (Claims Report Line 3a) could not be validated to the general ledger. The report lists the expense as $25,555 while the general ledger lists $24,955, a difference of $600 which Internal Audit confirmed with CCMSI's State Compliance Manager.

RECOMMENDATION

Management should utilize and retain a report that indicates the number of active employees the Authority has in Nevada as of a given date to more accurately complete the Annual Claims Information Reports. Management should ensure a copy of the current security deposit is attached as required. Management should also consider resubmitting these historical reports.

MANAGEMENT'S RESPONSE

All documentation was reviewed and the bond writer was sent for 2017 filing. Once files are submitted, Human Resources (HR) will reach out for receipt confirmation from the Nevada Department of Business and Industry, Division of Insurance. Additionally, Human Resources has obtained a packet detailing all the information required to be in the reports and implemented a review process before future reports are issued.

The FY2016 discrepancy was due to a misunderstanding of which employee population was needed for reporting. Full-time benefit eligible headcount was sent; however, all employees (part-time included) should have been sent on the report. Without the reporting for FY2015 to view the actual difference, the variance of 40 employees could be timing when the report was run and the changes that occur daily with terminations, transfer, etc. To ensure this variance doesn't occur in the future, HR will provide a time stamped report with detail behind the headcount. Finally, CCMSI has a hearing fee of $150 that occurred four times in 2016, and believes this was the reason for the $600 discrepancy. They have put in place a new process to provide all billed hearing fees as part of the annual billing review done between the Authority and CCMSI for accurate billing detail.

Finding 2 – Information Posters – Contact Information (Low)

The D-1 Informational Posters required by Nevada Administrative Code 616A.480 did not include the name, business address, telephone number and contact person for the third-party administrator of the Authority's workers' compensation program.
(Recurring Item; Prior Audit: 2015 Worker's Compensation Audit; Comment #3)

RECOMMENDATION

The D-1 Informational Posters should include the name, business address, telephone number and contact person for the third-party administrator of the Authority's workers' compensation program.

MANAGEMENT'S RESPONSE

All D-1 Informational Posters have been updated with the Authority's third-party administrators contact information, CCMSI with a note to first contact Human Resources. As annual updating of posters occurs, Human Resources will ensure all contact information is updated prior to their placement in employee areas.

Finding 3 – Evidence of Required Workers' Compensation Documentation (Low)

Documentation evidencing performance of required workers' compensation procedure was not completed and/or available for review during the audit.

- Two of twelve claims tested (17%) did not include a completed "Notice of Injury or Occupational Disease Incident Report (Form C-1)".
- Two of twelve claims tested (17%) did not include a completed "Notice of Intent to Test".
- Five of twelve claims tested (42%) did not include a completed "American Toxicology Drug Test Results".
- One of twelve claims tested (8%) did not include a completed "Employer's Report of Industrial Injury or Occupational Disease (Form C-3)".

- One of twelve claims tested (8%) did not include a copy of the "Safety Investigation Report" and was not signed by the injured employee.
- Six of twelve claims tested (50%) did not include a completed "Temporary Transitional Duty" form before the employee returned to unrestricted duty.

RECOMMENDATION

All documentation required by the applicable Nevada Revised Statutes, Nevada Administrative Codes, and Authority Workers' Compensation policies and procedures should be completed and maintained as necessary. All employees involved in a work-related injury that required medical treatment should be drug tested. All Temporary Transitional Duty Forms should be completed, discussed with the employee's supervisor, agreed upon and documented with employee and supervisor signatures before the employee begins working on TTD.

MANAGEMENT'S RESPONSE

All future work-related injury forms will be reviewed for accuracy and completion by the Total Rewards Administrator and the Senior Manager of Total Rewards. If a drug test was performed, Human Resources will ensure a copy of the results are located with the file. If a temporary transition into another job classification or light duty is required, a Temporary Transitional Duty Form will be completed for the file. If the employee was on a leave, a note to file will be present with the return to work indicating transitional duty was unnecessary.

Finding 4 – Temporary Total Disability Overpayment (Low)

The third-party administrator overpaid one instance of temporary total disability. The claimant was out of work for 46 days but was paid for 47 days, an overage of $106 (2%).

Claimants are eligible to receive temporary total disability only after being at least incapacitated for five consecutive days or five cumulative days within a 20-day period (NRS 616C.400). Once minimum number of days are reached, the claimant is entitled to receive compensation for every day incapacitated (NRS 616C.475).

RECOMMENDATION

Management should review the noted issue with CCMSI, and request reimbursement for the overpaid amount.

MANAGEMENT'S RESPONSE

Human Resources will start requesting all reporting of temporary total disability payments be sent monthly for review to the Senior Manager of Total Rewards to ensure overpayment does not occur.

Finding 5 – Unauthorized/Duplicate Billing – Third-Party Administrator Services (Low)

The Authority was billed for repricing services for five medical bills out of 175 reviewed (3%) which should not have been repriced. Additionally, three of the five denied bills were subsequently submitted for re-evaluation by the service provider and the Authority was billed again for repricing services.

Per Exhibits D and E of the service agreement with the third-party administrator, Cannon Cochran Management Services Inc., "Account Management and Administration" is covered in the "Annual Administration Fee" and the "Provider Bill Re-Pricing" is covered by a $9.00 flat fee for each instance of "Usual and Customary re-pricing/Fee Schedule state re-pricing." In addition to the flat fee, a 33% commission on savings from utilization of PPO/pharmacy network utilization is added to every repricing service conducted by the third-party administrator.

RECOMMENDATION

Management should discuss the noted bills with CCMSI, clarify the corresponding terms of the service agreement, and request reimbursement for duplicate charges.

MANAGEMENT'S RESPONSE

Human Resources requested a meeting with CCMSI to understand the process behind repricing bills. Adherence to the current pricing structure will be reiterated during the meeting to ensure the Authority is being accurately billed for services provided. Human Resources will review denied claims as they occur, and ensure CCMSI is rebilling appropriately.

Finding 6 – Assessment Payment Timeliness (Low)

Two assessment payments out of twelve (17%) were paid after the invoice deadlines.

Annually, the Nevada Division of Industrial Relations prepares an invoice assessing each self-insured employer for their portion of the costs to cover the State's administration of the workers' compensation program. These assessments are completed in accordance with NRS 232.680 and NAC 616.680 through 616B.740 and are supported by "Estimated Assessment Calculation & Billing as Insurer of Workers Compensation for Fiscal Year" reports which sets quarterly deadlines for each of the four assessment payments.

RECOMMENDATION

All assessment payments should be paid on or before the deadline set by the Nevada Division of Insurance.

MANAGEMENT'S RESPONSE

Human Resources will ensure all payment deadlines are met. All received invoices will be date stamped, validated, and submitted within two weeks of the invoice due date to Finance to provide enough time for processing. Because we know the quarterly amounts due for the next calendar year, HR will submit all requests by the above-mentioned deadline for all quarterly payments to be processed.

Finding 7 – CCMSI Initial Deposit to Fund Claims – Contract Language (Low)

The Authority made a $40,000 deposit to fund the workers' compensation claims account with Cannon Cochran Management Services, Inc. (CCMSI) on July 8, 2009, but the initial contract, the supporting documentation for the initial deposit, and the contract current as of June 2017, did not explicitly address the deposit requirement or any right for the Authority to receive the deposit balance upon termination of the working relationship with CCMSI.

RECOMMENDATION

Language should be added to the contract to address the deposited funds in all subsequent contracts with CCMSI.

MANAGEMENT'S RESPONSE

New language was put into the most recent contract to ensure all deposits made are refundable to the Authority upon termination of the contract. HR will ensure all future contracts have this same language.

Advertising Agreement Audit

Background

The Authority and R&R Partners signed an advertising agreement on July 1, 2015 which is set to expire on June 30, 2018 with a two-year renewal option. R&R Partners provides a broad base of comprehensive marketing services for the Authority that supports all facets of the Authority's organization. The company serves as the official advertising and marketing communications agency for the Authority. R&R Partners develops marketing plans for both long and short-term initiatives and works with the Authority in all areas of implementation.

Objectives, Scope, and Methodology

The audit consisted of reviewing a sample of payments from July 1, 2015 to June 30, 2016 for proper documentation and authorization in accordance with the Agreement. Audit also reviewed compliance with other terms of the Agreement. The system of internal controls over the Agreement payment process was examined and evaluated for adequacy.

Conclusion

While Internal Audit determined that the overall controls in place are adequate, we found one finding needing management attention. The findings are listed below along with a risk ranking. Risk ranking takes into consideration one or all of the following: compensating controls and the potential impact on reputation and customer confidence, safety and health, finances, productivity, and the possibility of fines or legal penalties. Management has addressed the finding.

Finding 1 - Payment Requisition Approval (Low)

Per review of 12 payments, it was noted in one instance that a payment requisition for over $1 million was not properly approved.

According to the Cash Disbursements policy, last updated January 2015, checks and EFT's to one vendor of $1 million or more must be approved for release, as indicated on the payment request, by the Senior Vice President of Finance. At the time of the policy update, the Chief Financial Officer position was not created. The current standard practice is for the Chief Financial Officer to sign the payment requisition form for vendor payments of $1 million or more. The proper signer was not available resulting in the payment to be released without the signature of the Senior Vice President of Finance or Chief Financial Officer.

Although the total payment exceeded $1 million, each individual invoice contained in the requisition was properly approved according to delegation of authority.

RECOMMENDATION

Vendor payments of $1 million or more should be approved for release before making payments. The Cash Disbursement policy should be reviewed and updated if the CFO is required to approve the release of payments to one vendor of $1 million or more.

MANAGEMENT RESPONSE

Management agrees with the recommendation and will review the policy.

Capital Assets Audit

Background

Capital assets play an important role in the success of the LVCVA and represent a significant investment of resources. As such, it is LVCVA policy that all assets are inventoried, safeguarded, maintained, and controlled in accordance with applicable laws and good stewardship. It is the joint responsibility of Finance and each department to maintain accurate capital assets records. According to the Capital Assets policy issued in July of 2015, a capital asset is a tangible or intangible asset that meets all three of the following: (1) it must have an initial useful life that extends beyond a single reporting period, i.e., one year, (2) it must be used in the operations of the LVCVA, and (3) it must meet the adopted capitalization threshold cost.

According to the Comprehensive Annual Financial Report for the year ended June 30, 2016, the LVCVA recorded approximately $679,077,000 in capital assets (net of accumulated depreciation and amortization).

Objectives, Scope, and Methodology

Our audit work was planned, performed and reported based upon the following identified control objectives:

- Capital assets are inventoried, safeguarded, maintained, and controlled in accordance with applicable laws and policies.
- Capital assets are properly classified and capitalized.

Our audit objective was to determine if the identified control objectives were being achieved for the period covered by our audit procedures. The audit period covers capital assets for fiscal year 2016.

To achieve our objectives, we reviewed the previous Capital Assets audit, applicable laws, company policies and procedures, and interviewed personnel. We then obtained documentation and performed detail testing and analysis sufficient to accomplish our objectives.

Conclusion

While Internal Audit determined that the overall controls in place are adequate, we found one finding needing management attention. The findings are listed below along with a risk ranking. Risk ranking takes into consideration one or all of the following: compensating controls and the potential impact on reputation and customer confidence, safety and health, finances, productivity, and the possibility of fines or legal penalties. Management has addressed the finding.

Finding 1 - Bulk Item Retirement (Low)

Per review of two selected bulk items from the FY 2016 Capital Asset listing and per further inquiry, it was determined that, for bulk items, discrepancies between the accounting records and the physical inventory did not result in the adjustments to the accounting records due to a lack of reliance on the Client Services count.

According to Nevada Administrative Code 354.750, local governments are required to take a physical inventory at least once every two years. According to LVCVA Finance

Policy, Finance establishes a capital asset team to conduct the LVCVA-wide inventory. It is the joint responsibilities of Finance and each department to maintain accurate capital assets records.

Per inquiry, bulk assets are retired from the Capital Asset listing if there is a difference between the current inventory and the previous inventory of more than 10%. Client Services indicated 23% less round tables and 31% less banquet tables. Audit's count indicated 14% less round tables and 22% less banquet tables. Inventory counts are conducted by Client Services one to two times per year and are provided to Finance. Currently, Finance must wait on several counts to obtain an average count. Finance last recorded a retirement of 228 eight-foot banquets tables in FY13. While the assets in the inventory are probably fully depreciated, an accurate count is important to safeguard and properly list functional assets, and to know when to approve reordering bulk items.

RECOMMENDATION

We recommend the discrepancies identified during fixed asset inventories be researched and, if appropriate, Client Services adjust their procedures so that accurate, reliable and appropriate adjustments can be made to the fixed asset inventory. We further recommend that Finance help Client Services with the components of the inventory process such as locations, access, procedures, logistics and key personnel to identify and eliminate impairments so that proper steps are taken to ensure that capital asset counts are dependable.

MANAGEMENT'S RESPONSE

Management agrees with the recommendations and Finance will assist Client Services as requested during the next inventory process.

Cox Contract Audit

Background

The Authority and Cox Nevada Telcom, LLC (Cox) entered a Telecommunication Provider Agreement (Agreement) on August 13, 2013. The Preliminary Term was from August 13, 2013 through September 28, 2013. The initial term is from September 29, 2013 through September 28, 2020 with the option to extend for an additional three-year period upon mutual agreement.

Cox has been awarded the exclusive license to provide all labor, materials, equipment and supervision necessary to provide defined telecommunication and digital antenna system (DAS) services to visitors, lessees and users of the LVCC and Cashman.

According to the agreement, Cox must pay the Authority forty-six percent (46%) of Gross Revenue as a "License Fee". The commission payment and backup documentation are sent to the Financial Resources Department for review.

Objectives, Scope, and Methodology

Our audit work was planned, performed and reported based upon the following identified control objectives:

- Payments for revenue share were accurately calculated and reported in accordance with the contract.
- Prices charged to customers were in accordance with approved prices.
- Commission payments are received timely and are properly recorded by the LVCVA.
- The agreement was properly monitored by Management.

Our audit objective was to determine if the identified control objectives were being achieved for the period covered by our audit procedures. The audit period covered selected shows between August 2013 and March 2016

Conclusion

Our conclusion is that the internal control system is satisfactory but could be further improved as outlined in the comments below. The findings are listed below along with a risk ranking. Risk ranking takes into consideration one or all of the following: compensating controls and the potential impact on reputation and customer confidence, safety and health, finances, productivity, and the possibility of fines or legal penalties. Management has addressed the findings.

Finding 1 - Service Rate Sheets (Low)

During the testing of a sample of work orders, deviations from the services rate sheet were noted as follows:

- Six services charged to clients by Cox were not on the services rate sheet. The services included 200 Mbps, 1000Mbps, 3rd party circuit extension, custom fiber run, generic data, and business casual WiFi.

- Differences were noted between the services rate sheet and the item price charged for 20 of 64 (31%) services in July 2015 and January 2016.

According to section 4.02 of the Agreement, "pricing of the Services shall be in accordance with the "Initial Rate Sheet". PROVIDER agrees to meet with AUTHORITY on a periodic basis to review the Rate Sheet and analyze whether the rates charged to the LVCC and Cashman lessees thereunder, when considered in their totality, are competitive in the aggregate with those rates assessed at the Convention Center locations set forth on Exhibit D. In the event such fees are deemed not competitive with the rates assessed at the Comparison Convention Centers, PROVIDER shall work with AUTHORITY in good faith to revise the Rate Sheet in a mutually agreeable context."

RECOMMENDATION

Management should ensure that all known services and rate changes are acknowledged by LVCVA management and permanent changes are included on the rate sheet.

MANAGEMENT'S RESPONSE

The "Initial Rate Sheet" (Exhibit D) outlined services and prices similar to those of Smart City Networks that were in place when the contract was signed. The basic pricing remains unchanged, but due to the nature of evolving technology and customer requirements, additional customized services have been engineered to meet the specific needs of our clients. Cox has doubled the amount of bandwidth on internet/network services with no corresponding adjustment to price. Allowing Cox to introduce new, expanded services has increased customer satisfaction and generated additional revenue.

At the point that Cox requests pricing adjustments to the initial rate sheet, a full competitive analysis will be provided to justify any contemplated changes in pricing. Analysis will focus on major convention center venues that compete with the LVCC.

Finding 2 - Competitive Pricing (Low)

There was no documentation showing prices were compared to the comparison convention centers for rate changes on the pricing sheet dated October 5, 2015.

Section 4.02 of the Agreement states that the PROVIDER agrees to meet with AUTHORITY on a periodic basis to review the Rate Sheet and analyze whether the rates charged to the LVCC and Cashman lessees thereunder, when considered in their totality, are competitive in the aggregate with those rates assessed at the Convention Center locations set forth on Exhibit D (the "Comparison Convention Centers").

RECOMMENDATION

Documentation showing prices were compared to comparison convention centers for rate changes should be maintained.

MANAGEMENT'S RESPONSE

At the time that Cox submits a request to adjust pricing of the initial rate sheet, data will be provided to show a comparison with major convention centers to make sure any new rate changes are competitive.

Finding 3 - Customer Satisfaction Measurements (Low)

The key performance indicators (KPI's) for total work time average hours per line, cellular reception satisfaction level, and connection reliability and speed of connection satisfaction levels for internet wireless service are not provided to the LVCVA.

Exhibit G of the Agreement lists KPI's to be provided to the Authority including total work time average hours per line, cellular reception satisfaction level, and connection reliability and speed of connection satisfaction levels for internet wireless service.

RECOMMENDATION

The KPI's should be added to the KPI dashboard provided to the LVCVA.

MANAGEMENT'S RESPONSE

Cox conducts its own customer satisfaction surveys and provides the LVCVA with a dashboard of year end results. Included within the survey are questions regarding overall satisfaction, cell reception, connection reliability and speed of connection. The customer satisfaction survey report is now being submitted to the Customer Experience Department on a quarterly basis.

Finding 4 - Third-Party Subcontractors (Low)

Approval by the Senior Vice President of Marketing was not documented for three subcontractors.

Section 4.01 of the Agreement states that any third-party subcontractor or vendors hired or retained by PROVIDER shall be approved in writing by the AUTHORITY's Senior Vice President of Marketing prior to (except for emergency situations) any contract, such approval not to be unreasonably withheld, delayed or conditioned.

RECOMMENDATION

Third-party subcontractors hired or retained by Cox should be approved in writing by the Authority's Senior Vice President of Marketing.

MANAGEMENT'S RESPONSE

A memorandum has been approved by the Senior Vice President of Marketing to allow the Vice President of Customer Experience to approve third-party subcontractors or vendors hired or retained by Cox. The memorandum also approved the same change in signing authority for Tech Fund requests that do not exceed the authority limit of the Vice President of Customer Experience (currently $25,000).

Records Management Audit

Background

The policy of the Las Vegas Convention and Visitors Authority (LVCVA) records management program is to make records serve the purposes for which they were created as efficiently and economically as possible, and to provide for proper disposition after they have served their purposes. Accordingly, the Records Management department is responsible for ensuring compliance with applicable laws, facilitating the development of an electronic filing system, implementing record retention schedules, training and supporting LVCVA employees on records management and systems, and managing the conversion of records from paper to electronic records.

Objectives, Scope, and Methodology

The objectives of this audit were to ensure the following:

- Records are filed and disposed of in accordance with LVCVA policies and State and Federal Regulations.
- The Records Management database is accurate and complete.
- Access to records are appropriate and authorized.
- Records and personal information are protected.

To achieve our objectives, we judgmentally identified significant risk areas, conducted a walkthrough, gathered documentation sufficient to obtain an understanding of the records management process (i.e. policies, procedures, and text of applicable laws/regulations), utilized audit software to randomly select documents from the audit period and then obtained documentation and performed detailed testing and analyses sufficient to accomplish our objectives.

Internal Audit randomly selected 24 hard copy documents from 24 out of 1,202 boxes (2%) for testing. Internal Audit also tested digital documents stored in ApplicationXtender Imaging (Imaging). Four folders were judgmentally selected and a sample of 10 digital documents per folder were randomly selected for testing. I-9 (Employment Eligibility Verification) form retention was tested by randomly selecting 10 current employees, 10 employees terminated since 7/1/16 and 10 employees terminated before 7/1/16. Additionally, Internal Audit reviewed system user profiles and conducted database analysis.

Conclusion

While Internal Audit determined that the overall controls in place are adequate, we found two findings needing management attention. The findings are listed below along with a risk ranking. Risk ranking takes into consideration one or all of the following: compensating controls and the potential impact on reputation and customer confidence, safety and health, finances, productivity, and the possibility of fines or legal penalties. Management has addressed the findings.

Finding 1 – New Account Setup Request Process (Low)

The Records Management department has a formalized process in place for ApplicationXtender Imaging (Imaging) user access requests. A Financial Systems User Access Request Form is filled out for existing employees and sent for proper authorization by the record owner. The form is then sent to Financial Systems to ensure the request was properly authorized. Financial Systems then instructs the IT department (ITD) to assign the user's active directory account to the appropriate Imaging group. During the audit, Financial Systems moved from the Records Management department to ITD.

The process for user access requests is different for new hires. New hire user access is setup using the New Account Setup Request on the Intranet. The New Account Setup Request form is completed by a requestor. ITD obtains the request and assigns the active directory account for the employee to the requested programs. For Imaging, ITD assigns the user's active directory account to an Imaging group that has access rights assigned by Financial Systems. This process bypasses the record owner and Records Management and could lead to incompatible or improper access.

We found that specific user access in Imaging was not authorized by the record owner for five employees. In all five instances, access was assigned using the New Account Setup Request form on the Intranet. Additionally, although access given to the five employees appeared to be appropriate based on their job duties, Records Management was not aware of the new access being given to four employees.

RECOMMENDATION

We recommend that the New Account Setup Request process not be used to provide Imaging access to new hires. Requests should only be submitted using the Financial Systems User Access Request Form to ensure that access has been authorized by the record owner.

MANAGEMENT RESPONSE

Effective immediately, the New Account Setup Request form (and subsequent automated processing) has been modified as follows:

- In the Software Needed section of the form, Imaging (Full) and Imaging (Web) have been replaced with one line item, "Imaging".
- Requests for access to Imaging will generate an automatic email to the Records Management Manager; the confirmation email sent to the person submitting the form will show "Imaging access requires approval from Records Management" to indicate access is not automatically granted.
- Imaging access is not "per position," so simply because the person who previously held the position had access doesn't mean the new person in the position will have the same access.

- Records Management will determine what access (if any) is granted and submit a form to the designated record owner to approve the access request (i.e. Finance, People & Possibilities).
- Once access rights are determined, the Records Management Manager will generate a request to the Help Desk with specific access details. Requests for Imaging access which include a "Model Network Access After" will not automatically mirror a person's access to Imaging without following the steps noted above.

Finding 2 - Image and Tab Fusion File Clean-up(Low)

ApplicationXtender Imaging User Access

For existing employees, a Financial Systems User Access Request Form is filled out and sent for proper authorization by the record owner for permanent and temporary access. The form is then sent to Financial Systems to ensure the request was properly authorized. Financial Systems instructs ITD to assign the user's active directory account to the appropriate Imaging group.

The following issues were noted during the review of ApplicationXtender Imaging (Imaging) user access:

- Specific user access in Imaging was not authorized by the record owner for one employee. The employee was given access via email by an unauthorized approver.
- One test user profile was no longer used in Imaging. The profile was last used in January 2017.
- Temporary access to Imaging was not removed timely for three employees.
- Financial Systems User Access Request Form was not properly authorized for one employee. The employee's supervisor and the SVP of Finance did not authorize the access request.
- Authorization of temporary access was not provided for two employees. According to Financial Systems, access for the two employees was under the purview of Records Management, as they are currently assisting with a special project.

Tab Fusion User Access

Tab Fusion is the computer software used for the management of records that are not scanned into Imaging. The software is accessed by Records Management, Financial Systems and the Human Resources Records Technician.

The following Tab Fusion user access issues were noted:

- Four default accounts were created by Tab Fusion that are not currently utilized. Two are assigned to a group within Tab Fusion and two were not assigned.
- One unassigned generic user was created to test settings.
- Three test users were created that are not needed.

RECOMMENDATION

We recommend that these low risk errors be cleared by Records Management.

MANAGEMENT RESPONSE

Annual User Access Listings (UALs) have been sent to all records owners for 2018. Over 80% have been returned, and once completed, all current user access will be validated. Going forward, with the new request form, we will have a clear oversight on new and temp users and access will be tracked more efficiently leaving less room for error. All unneeded account access has been removed, along with those missing proper documentation.

Expense Report Audit Fourth Quarter 2017

Background

Employees' travel, entertainment and other business expenses are reimbursed upon completion and approval of a travel or local expense report. The travel expense report is completed for all out of town expenses while the local expense report is completed for those expenses incurred in town. Employees who frequently incur expenses on behalf of the Authority are issued business credit cards. Those incurring expenses on an infrequent basis either check out a travel business card, which they must return to Finance upon the conclusion of the trip, or use their personal card or funds.

Objectives, Scope, and Methodology

Internal Audit's over-arching objective of this audit was to determine whether the LVCVA's *Credit Card*, *Travel*, *Expense Reports*, and *Gifts* policies and procedures were functioning as management intended, adequately addressed policy objectives, and complied with applicable state and federal laws (i.e. *Nevada Revised Statues (NRS) 281.160, IRS Publications 15 – Employer's Tax Guide, IRS Publication 463 – Travel, Entertainment, Gift, and Car Expenses,* etc.).

Internal audit randomly selected ten percent of all payments (rounded up to the nearest whole number) of the 396 payments (totaling $705,772) made between April 1, 2017 and June 30, 2017. Additionally, all payments with single expense reports with payments greater than $25,000 were judgmentally included in the sample selection. Ultimately, 49 payments of the total 396 (12%) issued, representing approximately $132,584 of $705,772 (19%), were tested.

Conclusion

Based on testing performed on sampled expense reports, no findings were noted. 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.

Expense Report Audit First Quarter 2018

Background

Employees' travel, entertainment and other business expenses are reimbursed upon completion and approval of a travel or local expense report. The travel expense report is completed for all out of town expenses while the local expense report is completed for those expenses incurred in town. Employees who frequently incur expenses on behalf of the Authority are issued business credit cards. Those incurring expenses on an infrequent basis either check out a travel business card, which they must return to Finance upon the conclusion of the trip, or use their personal card or funds.

Objectives, Scope, and Methodology

Internal Audit's over-arching objective of this audit was to determine whether the LVCVA's *Credit Card*, *Travel*, *Expense Reports*, and *Gifts* policies and procedures were functioning as management intended, adequately addressed policy objectives, and complied with applicable state and federal laws (i.e. *Nevada Revised Statues (NRS) 281.160, IRS Publications 15 – Employer's Tax Guide, IRS Publication 463 – Travel, Entertainment, Gift, and Car Expenses,* etc.).

Internal audit randomly selected ten percent of all payments (rounded up to the nearest whole number) of the 400 payments (totaling $786,215) made between July 1, 2017 and September 30, 2017. Additionally, all payments with single expense reports with payments greater than $25,000 were judgmentally included in the sample selection. Ultimately, 42 payments of the total 400 (11%) issued, representing approximately $186,109 of $786,215 (24%), were tested.

Conclusion

Based on testing performed on sampled expense reports, no findings were noted. 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.