



## Audit Committee Meeting

February 11, 2014

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## SUMMARY OF AUDIT ACTIVITIES

### February 11, 2014

#### Utility Services Agreement Audit

##### Background

Electrical and plumbing set up for conventions, tradeshow, and special events is performed by several electrical companies. Contractors entered into contracts with the LVCVA and agreed to pay a commission for their work performed in the facilities. The commission is a fee percentage of their electrical and plumbing gross receipts. The fee percentages for the period tested were 15% for CY 2011 and 16% for CY 2012.

Electrical and plumbing commissions for services performed at the Convention Center were approximately \$12,190,000 from December 2010 through December 2012.

##### Audit Scope

The audit included tracing commission documentation to customers' invoices and work orders for selected shows organized by GES, Freeman, and Edlen between December 2010 and December 2012. Samples of association booths were traced to contractor order forms and billing invoices. Payment documentation for the commission payments was reviewed for accuracy, completeness, and compliance with contract terms.

##### Summary of Audit Comments

Five department level comments were directed to the Vice President of Customer Experience. The most significant issues and management responses are summarized below.

##### ➤ *Freeman Commission on Packages*

Electrical items purchased as part of a package for the shows tested were not included in the commission calculation. Freeman does not have a system report that can break out the electrical revenue part of a package.

Management has spoken with Freeman and they recognize the need to develop a system that will identify the electrical component of their package booth units. Once this is determined, estimated to occur by the end of February 2014, they will provide documentation for determining commission due for the 2011 through 2014 shows in which these packages were utilized.

##### ➤ *GES Commission on Packages*

Commission was not being paid for arm lights that were part of GEM packages. Once notified of the issue, GES issued a check for approximately \$6,100 for

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commission on GEM arm lights for shows taking place during 2011 and 2012 and shows for 2013 that occurred by the time they were notified.

➤ *GES Credit Testing*

The review of a sample of 63 credits taken by GES from 2011 and 2012 noted 22 (35%) where it appears that the credit should not have been taken. GES provides a list of credits to the Authority on a monthly basis. The commission on these credits is calculated and the revenue to the Authority is reduced by that amount.

GES agreed that 13 of the credits totaling approximately \$2,837 in commission should not have been taken. GES believes the remaining nine credits, totaling approximately \$1,428 in commission, were valid.

The remaining nine credits are being questioned by Audit because GES could not provide sufficient backup documentation to substantiate the credit, or the credits appear to have been given to the customer in good faith.

Management has advised GES that they need to maintain proper documentation and substantiate all credits, and that the term "good faith" is not acceptable. GES is expected to make payment of the \$4,265 by February 15, 2014.

## **Digital Advertising Audit**

### Background

The Digital Advertising Agreement (Agreement) grants Smart City Networks (SCN) the exclusive license to sell advertising on the digital signage system purchased and installed by SCN.

The Agreement allows SCN to sell digital advertising to show producers on a per spot basis or a buyout of space for the full show. The show producer can then resell the time to their exhibitors. If the show producer does not want to purchase spots, SCN can sell space directly to exhibitors. Up to 20% of the advertising space is available for SCN to sell to outside advertisers.

The term of the Agreement is from January 1, 2012 through December 31, 2016 with an option to extend the license an additional three (3) one (1) year terms upon mutual consent.

The Authority is paid a commission from 0% to 50% of gross revenue based on the different revenue tiers.

### Audit Scope

The audit included the review of the Agreement and associated deliverables. Documentation to substantiate gross revenue and commission payments was reviewed for accuracy, completeness, and compliance with contract terms.

### Summary of Audit Comments

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

#### ➤ *Advertising Agreements*

Orders approved by show management or exhibitors could not be located for 21 of the 24 advertising / creative service options included on the Monthly Commission Reports provided to the Authority for the sample of shows selected.

Other than for full show buyouts purchased by show management, written agreements documenting services ordered by the customer are not utilized.

Also, SCN does not have a disclaimer on advertising agreements with customers stating that a relocation may occur and that the advertising agreement may be terminated without liability.

Contracts including the disclaimer have been created and are being reviewed by SCN legal department. SCN expects to have approved contracts by January 31, 2014.

## **Las Vegas Events Audit**

### Background

Las Vegas Events (LVE) is a private, non-profit, Nevada corporation. LVE's purpose is to encourage, foster and stimulate special events that will in turn promote tourism, commerce, trade and business in Southern Nevada.

Each year, the LVCVA Board authorizes the LVCVA to provide LVE with a grant for the funding of certain special events and other expenses. LVE creates a budget for salaries and benefits, general and administrative expenses, advertising, rodeo events, and other events that the LVE Board approved funding for throughout the year. The LVCVA budgeted approximately \$5.7 million for event sponsorship and \$1.5 million for other expenses for fiscal year 2013.

### Audit Scope

The audit consisted of a review of backup documentation for funds disbursed by the LVCVA to LVE for Fiscal Year 2013. Detailed backup/receipts for a sample of LVE's disbursements were reviewed for reasonableness. Audit reviewed salaries & benefits, general & administrative, and advertising expenses for reasonableness. Audit also ensured funds issued by LVCVA were spent on events as intended. The system of internal controls over the LVE payment process was examined and evaluated for adequacy.

### Summary of Audit Comments

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

#### ➤ *Expense Allocation*

Seven expenses totaling \$3,732 were posted to LVE when they should have been allocated between the LVE and NFR accounts on a 60% / 40% basis.

Six expenses were properly allocated by LVE on the backup documentation, but were not properly posted. One expense was not allocated on the backup documentation.

The 40% over-allocation of \$1,493 was deducted from a subsequent payment to LVE.

### **Facilities Use Charges Audit**

#### Background

The Authority provides space and amenities for various events at the Convention Center and Cashman Center. The Convention Services Department coordinates show managements' requirements with the Authority. 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.

Revenue billed by the Convention Services Department for the use of the Convention Center amounted to approximately \$23,779,000 and for the use of Cashman Center to approximately \$798,200 during fiscal year 2013. 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 part of the audit.

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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 79 events and Cashman Center 122 events during fiscal year 2013. A sample of 14 events held at the Convention Center, representing approximately \$13,049,832 (55%) in billings, and 9 events at Cashman Center, representing approximately \$191,060 (24%) in billings, were selected for review.

Summary of Audit Comments

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

➤ *Show Management Concession Documentation*

The NAB Show subleased meeting rooms but was not charged an additional payment, as required by the lease. Management could not produce a document waiving the charge. NAB was also not charged for subleased meeting rooms during past shows.

Management indicated that a waiver to approve this year's concession of subleased room has been processed by the Executive team.

**Electronic Fund and Wire Transfer Audit**

Background

The Finance department pays expense reimbursements, vendor invoices, and payroll payments via electronic funds transfer (EFT). EFT provides a more efficient, less costly alternative to accounts payable payment processing than the traditional check. Bank supplied internet based software is used to transmit payment information from the Authority to the bank. According to Finance's check registers, payment processing using EFT from October 1, 2012 through September 30, 2013 was approximately \$177,963,083 and payroll payment processing was approximately \$31,647,745.

The Finance department also pays expenses, normally debt service, via wire transfer. Bank supplied internet based software is used to transmit payment information from the Authority to the bank. According to Finance's check registers, payment processing using wire transfer from October 1, 2012 through September 30, 2013 was approximately \$18,126,355.

Scope

The focus of the audit was the setup, administration, and processing of EFT and wire transfer transactions. This included the review of procedural as well as program

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controls of the processing software. EFT and wire transfer testing was performed for the period from October 1, 2012 through September 30, 2013.

Summary of Audit Comments

There were no reportable issues noted during the audit.

**FY14 1st Quarter Expense Report Audit**

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.

Scope

The audit consisted of reviewing a sample of travel, local, and mileage expense reports reimbursed from July 2013 through September 2013 for proper completion, approval, adequate backup, and compliance with policy and procedure. The sample also included reimbursements through payment requests (Board member fees, safety shoe reimbursements, etc.). Audit reviewed 37 checks representing approximately \$58,000 of \$602,000 (10%) in payments made for items appearing on expense reports for the test period.

Summary of Audit Comments

There were no reportable issues noted during the audit.

**Payroll Data Extractions**

Data extraction routines are run each payroll that identify various changes or exceptions to employees' pay. These items are reviewed for appropriateness and those outside of certain parameters are reviewed in more detail and traced to supporting documentation.

The reviews for October through December 2013 noted no issues.