



Audit Committee Meeting

November 9, 2015

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SUMMARY OF AUDIT ACTIVITIES

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IT Penetration Testing Audit

Background

The Authority contracted with a third party to perform IT penetration testing services. The assessment focused on external network and application penetration testing in an effort to identify any potential security risks to the Authority.

Penetration testing is designed to identify security issues and potential avenues of exploitation in the target environment before malicious individuals use them and is a proactive measure a business can take to help defeat malicious activity. Penetration testing also helps provide Management with the knowledge required to understand the impact a successful attack might have on their business operations and in turn, can help validate the effectiveness of existing security controls, and justify additional security related investment if necessary.

Scope

The testing consisted of penetration testing of perimeter IP addresses and selected web applications.

The penetration testing examined the entire environment for as many vulnerabilities as possible, at all levels of the infrastructure including the network, operating systems, and common application services. Technical testing techniques included both automated scanning to find common issues, as well as full manual exploitation attempts to simulate the same activities a hacker would use. Any vulnerabilities found through the automated scanning process were also manually verified to ensure the issues were truly a risk to the organization.

Upon completion of the testing all identified vulnerabilities were documented with a detailed description of the issues, as well as recommended corrective actions to help eliminate the risks going forward. Each vulnerability's risk was evaluated from business and technical perspectives, and an overall risk rating was provided.

Summary of Audit Comments

The testing identified several vulnerabilities with risk rankings ranging from high to low. The findings were provided to the Director of Information Technology for substantiation. A detailed description of the issues as well as recommended corrective actions were then distributed to the appropriate system owner for review and resolution.

Internal Audit recommended that all issues be reviewed and resolved within a reasonable period of time depending on the complexity of the fix.

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According to Management, some issues have been addressed while others are in the process of being resolved. Management has created an action plan for mitigating the remaining risks and Internal Audit will continue to follow-up to ensure the issues are ultimately resolved.

Once all issues have been fixed, the consultant will re-test the high and medium ranked issues to help validate that the corrective actions were successful in remediating the vulnerabilities.

Workers' Compensation Audit

Background

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 CCMSI as the third-party administrator responsible for handling all workers' compensation claims. The term of the current Agreement is July 1, 2013 through June 30, 2015.

Scope

Audit tested a sample of workers' compensation claims occurring from August 1, 2012 through October 31, 2014. The audit consisted of reviewing a sample of claims for proper documentation and timeliness of completion in accordance with Nevada Revised Statute (NRS) 616 and 617, Nevada Administrative Code 616, 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 year ending June 30, 2014. The system of internal controls over workers' compensation payments was examined and evaluated for adequacy.

Summary of Audit Comments

Six department level comments were issued to the Senior Human Resources Manager and Senior Manager of Accounting Operations. The most significant issues and management responses are summarized below.

➤ *Average Monthly Wage*

A 12 week period was used by Human Resources to calculate the Average Monthly Wage (AMW) for three employees when one year would have been more appropriate.

This resulted in one employee being underpaid \$581 for Permanent Partial Disability (PPD), one employee receiving a PPD overpayment of \$3,902, and one employee

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receiving a PPD overpayment of \$1,128 and using 8.25 hours less PTO than was necessary for Total Temporary Disability supplemental pay.

Once the employee and employer have agreed to the PPD payment, the payment is final. Therefore, there is no money that needs to be exchanged between the employee or employer for these instances. Also, the employee whose PTO was understated no longer works for the Authority.

Human Resources Management will work closely with the Audit department to ensure accuracy when calculating the AMW.

➤ *Claim Payment*

Instances were noted where the Third Party Administrator failed to approve or deny a bill within 30 calendar days of receipt or failed to pay a bill within 30 calendar days of approval as required by NRS. Also, one invoice was not stamped as approved and a duplicate payment was noted.

Human Resources Management discussed the issues with CCMSI and was reimbursed for the duplicate payment.

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 one-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 Senior Manager of Customer Experience. The most significant issues and management's responses are summarized below.

➤ *Advertising Commission*

The total commissionable revenue for calendar years 2012 and 2013 was incorrectly reported to the Authority, resulting in a commission underpayment of \$1,742.50 in 2013.

SCN subsequently submitted payment for the commission underpayment. Going forward, they will report all commissionable revenue in the calendar month and year that the service was rendered.

➤ *Advertising Agreements*

Written agreements between SCN and show management / exhibitors could not be located for six of the fifteen advertising / creative service options tested.

Written agreements documenting services ordered are only utilized for full show buyouts purchased by show management and do not include a disclaimer stating that a relocation may occur and that the advertising agreement may be terminated without liability. These issues were noted in the prior Digital Advertising Audit. An agreement template including a disclaimer was created but was not implemented due to a change in staff at SCN.

As of April 2015, SCN Management implemented a service agreement template with a relocation disclaimer for use by all customers.

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. Audit reviewed contracts on a sample basis, to ensure that contracts were approved according to the delegation of authority, and were properly monitored

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until final closeout. The sample included various types of contracts (construction, cooperative, leases, memberships, professional service agreements, revenue, services, and sponsorships) with various contract owners.

Summary of Audit Comments

Three department level comments were issued to the Senior Manager of Accounting Operations and Senior Manager of Purchasing. The most significant issues and Management responses are summarized below.

➤ *Invoice Payment*

The description of the parts and lump sum pricing on the invoices for the lighting controls relay project could not be traced and agreed to the parts and pricing on the bid form.

Invoices should not be paid until the Authority is certain that the items provided and prices charged are correct and agree to associated bid forms.

The Electricians created a bridging document that allowed Internal Audit to determine that the items on the invoices agreed to the items on the bid form.

Finance management reminded staff to agree items to the purchase order and/or bid prior to payment.

➤ *Insurance Certificate*

The Authority did not have certificates of insurance on file for workers' compensation and employee fidelity insurance as required by one Property Management Agreement.

The project was completed so obtaining the insurance certificates at this point is not necessary.

Purchasing management subsequently verified that the property management firm had the appropriate insurance coverage in place over the term of this agreement and has implemented procedures so that a unique agreement as this will be reviewed more closely to ensure all requirements are fulfilled.

Procurement Card Audit

Background

Employees may be issued procurement cards for facilitating small purchases with the approval of the employee's supervisor and the Senior Manager of Purchasing.

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Finance is responsible for sending out weekly Procard transaction reports to applicable employees for review and approval. Finance processes the Procard payment on a monthly basis.

The System Administrator is responsible for ordering and issuing procurement cards as approved by the Senior Manager of Purchasing. Procurement cards shall be used to purchase items within the limits established for the cardholder and in accordance with the procurement card handbook for cardholders, the memorandum of understanding signed by cardholders and the Purchasing policies and procedures.

Scope

The audit consisted of reviewing a sample of procurement card statements from April 1, 2013 through February 28, 2015 for proper completion, approval, adequate backup and compliance with policy and procedures.

Summary of Audit Comments

Two department level comments were issued to the Senior Manager of Purchasing, Director of Client Services, and Traffic Manager. The most significant issue and management's action is summarized below.

➤ Limit Changes

Backup documentation approving a limit change for one cardholder could not be located. Also, a temporary limit increase was not changed back to the original limit for one cardholder.

Purchasing Management will ensure that approvals for limit changes are documented. Management has implemented a process to ensure changes are reverted back appropriately.

Las Vegas Events Follow-up Audit

Background

During the February 10, 2015 Audit Committee Meeting, the Audit Committee Members requested that Internal Audit perform a follow-up on several items noted during the audit of Las Vegas Events to make sure that the issues have been resolved moving forward.

Scope

The issues selected for follow-up were non-compliance with prevailing LVCVA expense report and travel policies, detailed accounts of deliverables and media components required by the Event Promotion Agreement (Agreement) not being submitted to LVCVA, and sponsorship agreements with sponsorship amounts greater than \$75,000

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that did not require the promoter to obtain event cancellation insurance as required by the Agreement.

Summary of Audit Comments

The follow-up testing noted no exceptions regarding the Travel & Entertainment Expenses or Sponsorship Deliverables.

The sponsorship agreements tested still were not in compliance with the current Agreement. However, the requirements were changed for the new Agreement effective July 1, 2015 which require cancellation insurance for the first three years of sponsorship by LVE of any event (with a sponsorship funding in excess of \$75,000 in any calendar year), or until the event, as deemed by LVE's Board, has ensured a successful achievement of marketing and financial objectives outlined by LVE's sponsorship agreement.

Internal Audit will ensure compliance with the new contract terms during the FY 2016 audit.

Accounts Payable Audit

Background

All invoices sent to Accounts Payable (A/P) are entered into the A/P system, reviewed for appropriateness and proper documentation, and posted to the general ledger. The A/P employees process invoices and pay vendors via check request, wire transfer or electronic funds transfer. A/P employees are also responsible for vendor file maintenance.

Internal Audit assisted the External Auditors on their audit of the financial statements by performing testing of accounts payable. This testing was used as the basis for the Accounts Payable Audit and was supplemented with additional testing for duplicate payments and the foreign currency payment process.

Scope

The audit consisted of reviewing invoices paid from July 1, 2013 to June 30, 2014. Invoices were tested to ensure that payments contained appropriate documentation and were properly reviewed and processed.

Duplicate payment testing consisted of reviewing invoices entered into the Accounts Payable system from January 1, 2013 to February 14, 2015 to ensure duplicate payments were not processed.

Foreign currency payment process testing consisted of reviewing the ordering and payment process, user access rights, and vendor maintenance. Payments made from

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January 1, 2014 to December 31, 2014 were tested to ensure that payments contained appropriate documentation and were properly reviewed and processed.

Summary of Audit Comments

There were no reportable issues noted during the audit.

Investment Audit

Background

It is the policy of the LVCVA to invest funds in a manner that will provide the highest investment return with the maximum security while meeting daily cash flow demands of the LVCVA and conforming to all Nevada Revised Statutes governing the investment of public funds. The primary objectives of the investment policy are to minimize risk, ensure that cash is available when it is needed, and ensure a competitive rate of return while complying with the laws of the State of Nevada, in that order.

The value of the LVCVA's total investments was \$175,266,585 as of April 30, 2015.

Scope

The audit consisted of a review of all backup documentation for a sample of investments. The actual practice followed by the Finance department was compared to the Investment Policies & Procedures. Full detail testing of a sample of investments made from May 1, 2014 through April 30, 2015 was performed. Portfolio balances and monthly reports were tested for the month ending March 31, 2015. The Investment Report for the 3rd Quarter of Fiscal Year 2015 was tested for accuracy.

Summary of Audit Comments

There were no issues noted during the audit.

Promotional Items Audit

Background

Authorized employees give business gifts as a customary way to strengthen business relationships and to show appreciation for a customer's business. Business gifts should be reasonable, appropriate for the situation, and presented on behalf of the LVCVA. Gifts of LVCVA promotional products are generally items marked with promotional labeling.

Promotional items are stored in the warehouse, and are categorized into three series: P series for General use, E series for Executive use and T series for temporary use during special events.

Scope

The audit consisted of the review of the purchasing and disbursement processes for promotional items. A sample of purchase orders and departmental requisitions from July 2013 through December 2014 were tested to ensure proper completion and compliance with applicable policies. Finally a physical inventory of all promotional items was performed and compared to the amounts recorded in the general ledger.

Summary of Audit Comments

There were no issues noted during the audit

Risk Management Audit

Background

Legal Counsel oversees the LVCVA policies on Risk Management and reviews insurance policies and coverage. In addition, the Legal Department processes and maintains claim files with potential risk.

Scope

The audit consisted of documenting how the Legal Department has identified, evaluated and controlled the contractual and physical risks. A sample of active claims was selected to test the effectiveness of the claim process.

Summary of Audit Comments

There were no reportable issues noted during the audit.

Transportation Audit

Background

Travel arrangements are typically made directly with the Authority's Corporate Travel Section using the Online Travel Request. This includes air, rail and car travel as well as hotel accommodations. The Travel Policy was last updated in October 2014.

Scope

The audit consisted of reviewing the travel process, policies and procedures, travel agent commissions, and travel credits. Travel arrangements made from 1/1/13 to 11/18/14 were also reviewed.

Summary of Audit Comments

There were no reportable issues noted during the audit.

Quarterly Expense Report Audits

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.

Scope

Audit performs quarterly expense report audits. The audits consisted of reviewing a sample of travel, local, and mileage expense reports reimbursed during the test periods for proper completion, approval, adequate backup, and compliance with policy and procedure. The reviews also included a sample of Board Member fees, education and shoe reimbursements.

There were no reportable issues noted during the FY15 2nd, 3rd, and 4th Quarter Expense Report Audits.

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 January through March, April through June, and July through September 2015 noted no reportable issues.