



Audit Committee Meeting

February 14, 2017

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SUMMARY OF INTERNAL AUDIT ACTIVITIES

February 14, 2017

Overview

Since the last audit committee meeting in November, we have completed six internal audits. 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 audit level rating, were as follows:

- **5- Strong**
 - Room Tax and Gaming Fee Audit
 - Payroll Quarterly Review
- **4- Satisfactory**
 - Advertising Agreement Audit
 - Las Vegas Events Audit
 - Expense Reports Audit
- **3- Needs Improvement**
 - Credit Card Audit
- **2- Needs Significant Improvement**
 - None
- **1-Unsatisfactory**
 - None

A guide to the rating system is provided at the end of this summary.

Summary of Audit Comments

Credit Cards Audit

Audit Rating: (3) Needs Improvement

Background

The Authority provides employees with business credit cards when it has been determined that possession of a credit card is in the best interest of the Authority and the position requires regular use of a credit card.

The finance department is responsible for ordering and cancelling the credit cards upon request of a Senior Vice President. Finance staff also reviews credit card reports from both MasterCard and American Express for suspicious charges, late payments, no payment made, and partial payments. Credit cards should be used for business related expenses within the limits established for the cardholder and in accordance with the credit card and expense report policies.

American Express credit card purchases from November 2013 to June 2016 were approximately \$2,147,664 and MasterCard purchases were approximately \$1,320,180.

Scope

The audit consisted of reviewing a sample of credit card transactions performed between November 2013 to June 2016 for proper reimbursement submission of charges on expense reports, timely payment of the monthly balance in full, and compliance with policies. A comparison of credit card limits and monthly use was also conducted.

Summary of Notable Audit Comments

➤ *American Express Spending Limits*

Established spending limits were not placed on the American Express cards utilized by Authority employees.

Finance has established American Express card limits. Limits will be reviewed annually for appropriateness.

➤ *Reimbursed Expense Subsequently Credited*

Per review of all American Express credits over \$1,000 and all MasterCard credits over \$500 for the audit period, it was noted that one credited charge was not reimbursed to the Authority.

Finance recouped the funds not previously reimbursed and will add reimbursement guidelines to the policies. Further, the control structure was improved by the implementation of additional automated controls into the expense reporting process.

Advertising Agreement Audit

Audit Rating: (4) Satisfactory

Background

The advertising agreement dated July 1, 2015 was entered into between the Authority and R&R Partners and will 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.

Scope

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.

Summary of Notable Audit Comments

➤ *Annual Fee Adjustment Error*

The agreement includes annual adjustments for certain fees based upon annual changes in the Consumer Price Index (CPI). For the adjustments required for fiscal year 2017, the incorrect CPI amount was utilized.

The appropriate corrections have been made and new procedures have been developed to ensure accuracy going forward.

Las Vegas Events Audit

Audit Rating: (4) Satisfactory

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 \$8.3 million for event sponsorship and \$1.7 million for other expenses for fiscal year 2016.

Audit Scope

The audit consisted of a review of backup documentation for funds disbursed by the LVCVA to LVE for Fiscal Year 2016. Detailed backup/receipts for a sample of LVE's disbursements were reviewed for reasonableness. Internal Audit reviewed salaries & benefits, general & administrative, and advertising expenses for reasonableness. Internal Audit also ensured funds issued by LVCVA were spent on events as intended. The system of internal control over the LVE payment process was examined and evaluated for adequacy.

Summary of Notable Audit Comments

None

FY17 1st Quarter Expense Report Audit

Audit Rating: (4) Satisfactory

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.

Audit Scope

The audit consisted of reviewing a sample of travel, local, and mileage expense reports and payment request reimbursements paid between July 2016 and September 2016 for proper completion, approval, adequate backup, and compliance with policy and procedure. The sample also included reimbursements through payment requests. Audit reviewed 36 payments of the total 362 issued for expense reports during the audit scope representing approximately \$130,263 of \$648,421 (20%) in payments. Additionally, user access, application permissions, and expense processing procedures were reviewed for the electronic expense processing software, Chrome River.

Summary of Notable Audit Comments

None

Room Tax and Gaming Fee Audit

Audit Rating: (5) Strong

Background

The primary source of revenue for the Authority is from room taxes imposed on resorts, hotels, and other transient lodging establishments throughout Clark County and the incorporated cities therein. Clark County and the incorporated cities collect the full tax and remit to the Authority the required portion of the tax. The Finance department is responsible for receiving and depositing tax payments, filing documentation, tracking and posting payments, and reimbursing Clark County and the incorporated cities the tax collection allocation.

Summary of Audit Activities
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The total rate of tax levied varies from 12% to 13% for resort hotels and from 10% to 12% on other lodging facilities. The LVCVA's portion of the tax rate is 2% to 6%. Gaming fees are primarily quarterly license fees imposed on operators of games based on the number of table games and slot machines in operation. North Las Vegas collects gaming fees semi-annually.

The majority of room tax and gaming fees are collected within Clark County, amounting to approximately \$222.4 million (92.2% of the total \$241.1 million) for the fiscal year ending June 30, 2015 and \$240.8 million (92.0% of \$261.6 million) for fiscal year ending June 30, 2016. The City of Las Vegas is the second largest collector of the room taxes, at approximately \$12.0 million (5.0% - FY15) and \$13.7 million (5.2% - FY16). The other incorporated cities of North Las Vegas, Henderson, Boulder City, and Mesquite combined provide the remaining 2.7% in both fiscal years reviewed.

Scope

The audit consisted of reviewing a sample of room tax and gaming fee payments received in fiscal year 2015 and 2016. Internal Audit examined 6 months of payments received between July 2014 and June 2016 from each jurisdiction. Payments were reviewed for timeliness, accuracy, and proper coding and posting in the general ledger. Additionally, procedures were performed to validate the annual remittances for fiscal year 2016 by each incorporated city and Clark County.

Summary of Notable Audit Comments

None

FY 17 2nd Quarter Payroll Quarterly Review

Audit Rating: (5) Strong

Background

Authority employees are paid bi-weekly following the Payroll department's preparation, review, processing, distribution, and reporting for all full-time and part-time employees.

Scope

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. This scope for this review were payroll payments made between October 1, 2016 and December 31, 2016.

Summary of Notable Audit Comments

None

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
(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.
(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.

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(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.
(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.
(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.

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.

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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.