

INTERNAL AUDIT REPORT

LAS VEGAS CONVENTION and VISITORS AUTHORITY

ADVERTISING AGREEMENT AUDIT

REPORT DATE: September 12, 2007

REPORT TO: Rossi T. Ralenkotter

DISTRIBUTION

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ADVERTISING AGREEMENT AUDIT

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ADVERTISING AGREEMENT AUDIT

EXECUTIVE SUMMARY

Background

The Advertising Agreement Audit Report is an extension of the work included in the Accounts Payable Audit Report issued on October 23, 2006 which included several issues with invoice payments. The following issues were not included in the Accounts Payable report because they deal more with contract interpretation and compliance than proper payment of invoices.

The advertising agreement dated May 11, 1999 was entered into between the Authority and R&R Advertising, Inc. (currently R&R Partners) or any related company or subsidiary (the Agreement).

Audit Scope

Audit tested a sample of R&R Partners invoices paid with checks issued from July 1, 2005 through March 10, 2006. The audit consisted of reviewing the sample of invoices for proper documentation and authorization in accordance with the Agreement. Audit also reviewed compliance with other terms of the Agreement.

The audit included an examination and evaluation of the adequacy of the system of internal controls. Adequate internal controls assure proper safeguarding of assets, appropriate segregation of functions, adequate levels of authorization and approval, compliance with policies and regulations, accurate and reliable records, and operational efficiency.

Conclusions were based on discussions with personnel, observations, and the results of test work performed. The audit conclusion for each control objective indicates whether the system of internal controls, as it existed at the time of the audit allowed management to achieve the stated objective.

Summary of Audit Comments (see page 8 for definitions)

Executive Level Comments:

Three executive level comments were issued. The issues and management responses are summarized below.

Advertising agreement issues. The Agreement was entered into between the Authority and R&R Partners or any related company or subsidiary. R&R Live is an event planning company and is a subsidiary of R&R Partners.

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Executive Summary

The issues below were noted during the review of R&R Live invoices and appear to be non-compliant with the terms of the Agreement.

The services provided and rates charged by R&R Live are not mentioned in the Agreement.

Events are proposed based on estimated costs. Commissions are then charged on top of the estimates and normally range from 17.65% to 43%. The actual cost of the service is not taken into consideration when being billed.

The mark-up on travel and other items is normally 17.65%. The Agreement with R&R Partners has these expenses being charged to the Authority at cost.

- The daily rates for internal personnel range from \$286 to \$1,144 and have not been approved by the LVCVA. The majority of the daily rates work out to be higher than the \$70 hourly rate normally charged by R&R Partners for their services.

The proposals for the events are signed by R&R Partners employees. No evidence of written approval by LVCVA employees could be located, however, it is said to be common practice to get verbal approval from the LVCVA employee putting on the event.

- The Authority does not receive detailed backup for R&R Live invoices. Only the summary invoice is received. In one instance it appeared that charges on an R&R Live summary invoice were correct but it could not be determined since detailed backup is not received. After reviewing the backup, it was determined that the LVCVA was over billed. The LVCVA has received a credit for the overpayment.

Management indicated that R&R Live did not exist as a subsidiary of R&R Partners at the time the current contract between the LVCVA and R&R Partners was negotiated and executed on May 11, 1999. R&R Live was created in 2000 and in subsequent years, as R&R Live services were utilized by the LVCVA, billing procedures were in accordance with standard industry practices for the event production industry. Commencing July 1, 2007, a determination was made, and mutually agreed to by R&R Partners, R&R Live and LVCVA, to process R&R Live hourly staff costs in accordance with the Agreement. Hourly charges for outside producers will be billed at their rates and will be subject to the mark-up allowed in the Agreement.

In addition, expenses for hard costs and production charges for R&R Live will contain the contracted mark-up of 17.65%, excluding those items in the contract that are specifically exempted. The reformatted invoice for R&R Live will also provide the required detailed backup for these charges.

Additional services approval. Pursuant to the Agreement, a list of charges for additional services is to be provided by R&R for the coming fiscal year. A memo dated August 23, 2005 was addressed to the LVCVA President proposing the charges for additional services for the 2006 fiscal year, but signed approval by the LVCVA President acknowledging acceptance of the charges for additional services could not be located.

Management indicated that while a written approval for FY 06 could not be located, both parties confirm a verbal approval was discussed and issued. The written documentation by both parties for the subsequent years of FY 07 and FY 08 is on file. Management will ensure that this process continues for all future fiscal years.

Expense Pre-approval. Pursuant to the Agreement, individual printing, postage, delivery, travel expenses and entertainment in an amount in excess of \$500 shall require prior approval by the LVCVA. Current practice is that these expenses are approved after the fact.

Management indicated that staff has received additional training to ensure compliance with the pre-approval requirements and procedures. In addition, the method for pre-approval of expenses within this category has been updated to ensure that appropriate checks and balances are in place and a documented paper trail is standardized for each approval.

Division Level Comments:

Department Level Comments:

Control Objectives

Audit work was planned and reported based on control objectives. Control objectives express a statement of results desired from the system of internal controls. Conclusions for control objectives are “**achieved**,” “**partially achieved**,” or “**not achieved**.”

- An “**achieved**” conclusion indicates that the internal control structure in place meets management expectations.
- A “**partially achieved**” conclusion indicated that there are elements to the control structure that need to be improved, but that most of management’s expectations for internal control are being met.
- A “**not achieved**” conclusion indicates that there are serious deficiencies related to the objective and that most of management’s expectations are not being met.

Advertising Agreement Audit
Executive Summary

| Control Objective | Conclusion |
|--|--|
| Payments made are for items and services for agreed upon amounts as per the Agreement. | Partially Achieved (See Comments 1) |
| Payments are only made for approved expenses as per the Agreement. | Partially Achieved (See Comments 2 and 3) |

I wish to extend my appreciation for the cooperation extended by staff during the audit.



Jon E. Reese
Director of Internal Audit

ADVERTISING AGREEMENT AUDIT

EXECUTIVE LEVEL COMMENTS

Comment 1 – Advertising agreement issues.

Issue

The Agreement was entered into between the Authority and R&R Partners or any related company or subsidiary. We have confirmed with management of R&R Partners that R&R Live is a subsidiary of R&R Partners.

R&R Live is an event planning company. R&R Partners hires R&R Live to plan events for the LVCVA. R&R Live charges a commission on top of the estimated event cost for each event and then invoices R&R Partners. R&R Partners then invoices the LVCVA for the amount charged by R&R Live. R&R Partners does not charge a commission to the LVCVA for work performed by R&R Live. Documentation for four R&R Live events was reviewed. The issues below were noted during the review and appear to be non-compliant with the terms of the Agreement.

The services provided and rates charged by R&R Live are not mentioned in the Agreement.

- Events are proposed based on estimated costs. Commissions are then charged on top of the estimates and normally range from 17.65% to 43%. The actual cost of the service is not taken into consideration when being billed.
- The mark-up on travel and other items is normally 17.65%. The Agreement with R&R Partners has these expenses being charged to the Authority at cost.

The daily rates for internal personnel range from \$286 to \$1,144 and have not been approved by the LVCVA. The majority of the daily rates work out to be higher than the \$70 hourly rate normally charged by R&R Partners for their services.

The proposals for the events are signed by R&R Partners employees. No evidence of written approval by LVCVA employees could be located, however, it is said to be common practice to get verbal approval from the LVCVA employee putting on the event.

The Authority does not currently receive detailed backup for R&R Live invoices. Only the summary invoice is received.

In one instance it appeared that charges on an R&R Live summary invoice were correct but it could not be determined since the LVCVA does not receive detailed

Advertising Agreement Audit
Executive Level Comments

backup for R&R Live invoices. After reviewing the backup, it was determined that the amounts charged did not take into consideration special terms which resulted in the LVCVA being over billed a total of \$2,129.88. The LVCVA has received a credit for the overpayment.

Recommendation

Since R&R Live is a related company as mentioned in the Agreement between the LVCVA and R&R Partners, it should be determined whether R&R Live will follow the terms of the written agreement between R&R and the LVCVA, or if an addendum or separate contract should be drafted detailing the approved services and agreed upon rates for those services allowable to be performed and charged by R&R Live. Also, backup for the R&R Live invoices should be provided to the LVCVA.

Management's Response

R&R Live did not exist as a subsidiary of R&R Partners at the time the current contract between the LVCVA and R&R Partners was negotiated and executed on May 11, 1999. R&R Live was created in 2000 and in subsequent years, as R&R Live services were utilized by the LVCVA, billing procedures were in accordance with standard industry practices for the event production industry. Charges for services were determined and mutually agreed upon by both parties, R&R Live and LVCVA staff. Commencing July 1, 2007, a determination was made, and mutually agreed to by R&R Partners, R&R Live and LVCVA, to process R&R Live hourly staff costs in accordance with Section 3.04 (Inside Charges), at an hourly rate charge of \$70. Consistent with the contract, hourly charges for outside producers will be billed at their rates and will be subject to the mark-up allowed in section 3.03 (Outside Charges). The R&R Live invoice form has been reformatted to document the detailed hourly rate charges for both Inside Charges and Outside Charges.

In addition, in compliance with sections 3.02 and 3.03, expenses for hard costs and production charges for R&R Live will contain the contracted mark-up of 17.65%, excluding those items in the contract that are specifically exempted, such as travel, postage, delivery, copies, etc. The reformatted invoice for R&R Live will also provide the required detailed backup for these charges.

Comment 2 – Additional services approval.

Issue

Pursuant to section 3.05 of the Agreement, a list of charges for additional services is to be provided by R&R for the coming fiscal year. A memo dated August 23, 2005 was addressed to the LVCVA President proposing the charges for additional services for the 2006 fiscal year. However, an approval memo signed by the LVCVA President acknowledging acceptance of the charges for additional services could not be located.

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Executive Level Comments

Recommendation

Management should ensure that written approval is given for charges for additional services to show that both parties agreed to the additional services and charges.

Management's Response

Written documentation prepared by the advertising agency detailing the FY 06 list of additional charges, as required by section 3.05, is on file and subsequent expenditures for the subject fiscal year were billed and executed in accordance with this documentation. While a written response for FY 06 by the LVCVA staff was not able to be located on file, both parties confirm a verbal approval was discussed and issued. The written documentation by both parties for the subsequent years of FY 07 and FY 08 is available and on file. Management will ensure that this process continues for all future fiscal years.

Comment 3 – Expense Pre-approval.

Issue

Pursuant to section 3.02 of the Agreement, individual printing, postage, delivery, travel expenses and entertainment in an amount in excess of \$500 shall require prior approval by the LVCVA. Current practice is that these expenses are approved after the fact. R&R Partners has a stamp that is used on invoices with the LVCVA Advertising Executive's signature, which gives the appearance that the above mentioned expenses over \$500 were pre-approved when they really were not.

Recommendation

Management should ensure that the pre-approval process is performed as stated in the contract. If it is determined that the over \$500 pre-approval amount is too low, then section 3.02 of the Agreement should be updated to reflect a more reasonable amount.

Management's Response

Staff has received additional training to ensure compliance with the pre-approval requirements and procedures. In addition, the method for pre-approval of expenses within this category has been updated to ensure that appropriate checks and balances are in place and a documented paper trail is standardized for each approval. All modifications in procedures and staff training has been completed and implemented as of July 1, 2007. Management is recommending that the \$500 pre-approval remains status quo.

ADVERTISING AGREEMENT AUDIT

DEFINITIONS

Executive Level Comments:

Actual or likely violations of laws, regulations or control deficiencies that could result in significant financial loss to the Authority or result in bad publicity. Also, control deficiencies that require the President's attention to adequately address the situation.

Division Level Comments:

Control deficiencies that present a level of exposure requiring division management attention or are not easily correctable by departmental management.

Department Level Comments:

Control deficiencies that do not present a level of exposure requiring senior management attention and can easily be corrected by departmental management.

MEMORANDUM

DATE: February 6, 2007
TO: Rossi Ralenkotter, President & CEO
FROM: Jon Reese, Sr. Manager of Internal Audit *Jon*
SUBJECT: R&R Live Discussion

We met on January 17, 2007 to discuss R&R Partners and R&R Live issues. This memo includes the answers to your questions brought up in the meeting. A spreadsheet is also attached which gives examples of the mark-up percentages charged on actual and estimated costs for different functions to illustrate the commissions ultimately charged to the LVCVA for the services provided by R&R Live. The information for the attachment was gathered by reviewing documentation from four events put on by R&R Live.

Adam and I are available to discuss this in more detail or answer any questions you may have. I have also sent a separate memo for your response that details the three issues we discussed in our meeting.

Background

R&R Live is an event planning company that is two-thirds owned by R&R Partners. R&R Live charges a commission on top of the estimated event cost for each event and then invoices R&R Partners. R&R Partners then invoices the LVCVA for the amount charged by R&R Live. R&R Partners does not charge a commission to the LVCVA for work performed by R&R Live.

Questions

What are the reasons behind the different commission levels used by R&R Live?

Per Julie Gilday-Shaffer of R&R Live, the Industry Standard commission for "Above the Line" Management positions is a 43% mark-up on net. The industry standard commission for "Below the Line" talent positions is a 17.65% mark-up on net.

"Above the Line" positions apply to industry-specialized workers which include producers, directors, stage managers, lighting designers, audio engineers, set designers, choreographers, production assistants, etc.

"Below the Line" positions apply to workers that could be hired directly by a client and includes models, dancers, specialty acts, headline talent, make-up artists, hair stylists, vocalists, musicians, etc.

R&R Live Discussion
February 6, 2007

For the events reviewed, the mark-up charged for the majority of the functions was consistent with the guidelines provided by Julie Gilday-Shaffer. (see Mark-up (Estimate) section of the Attachment).

When an R&R Live employee travels, is a commission charged on top of the estimated cost?

- Yes. The mark-up on travel and other related items is normally 17.65%. This commission is applied to expenses for contracted employees, as well as R&R Live employees. (see Travel section of the Attachment)

The Agreement with R&R Partners has these expenses being charged to the Authority at cost.

Why was the \$500 limit added in the contract for postage, travel, etc.?

The Agreement states that the Client agrees to reimburse the Agency for amounts actually incurred by the Agency for printing, postage, delivery, travel expenses, and entertainment and any other expenses. A discussion with Luke Puschnig disclosed that this is standard language put in most contracts. It does not necessarily mean that these types of expenses will be incurred, but if they were to be incurred in an amount greater than \$500, they would necessitate approval from the Authority. The \$500 limit was added in the May 1999 contract. Luke was not sure why greater than \$500 was the agreed upon amount. He said that it is not the dollar amount that is important, it is the authority to approve or disapprove this type of expense.

Current practice is that these expenses are approved after the fact. R&R Partners has a stamp that is used on invoices with the LVCVA Advertising Executive's signature, which gives the appearance that the above mentioned expenses over \$500 were pre-approved when they really were not. The contract does not specify that written approval is required.