

**Las Vegas Convention & Visitors Authority
Accounts Payable Audit
R&R Advertising Questions**

- 1. What is your general process for gathering and reviewing data and putting together information for billing?**

Fill out time sheet by project every day. Invoices go to accounting department. Ask Account Executive when jobs are closed. Turn job summaries into invoices. Only do estimates on television and broadcasting. Initiative cannot cross quarters with make goods.

- 2. Section 3.05 list of charges for other services letter for FY 2005-2006 due on or before July 1 of each year.**

Can obtain list from Sue Covey. [REDACTED] signed by Reese.

- 3. What companies are related subsidiaries or affiliates of R&R? What functions do Airwave and R&R Live perform? Do you know what the 10% miscellaneous production fee for Airwave includes?**

Airwave – In charge of production for television and radio spots. The 10% charge is for the labor involved. Separate accounting staff.

R&R Live – Events planning and set up. No commission added on total. Separate accounting staff. Everything R&R accounting staff gets regarding invoice backup is passed on to the LVCVA. R&R Live staff is small. Most of the other people they use are independent contractors.

Primedia – part of R&R. The Authority has already approved pricing for this division.

- 4. Describe the agreements with Initiative and CARAT. Who is the disclosure agreement between? Need to see copy of confidentiality disclosure for Initiative and CARAT.**

Advised that we need to talk with Steve Jaffe, Director of Media.

- 5. I would like to get a better understanding of what items are supposed to be marked-up and what items are not. Show example of Office Depot mark-up.**

No marking up on travel, research studies, resource materials, sales tax, bank fees, and shipping. Commission is charged on production from outside vendors, sponsorships, etc.

- 6. We feel that we are being overcharged for outdoor advertising. Do you agree?**

Note: These were questions answered as a result of a meeting with Kristi Larsen, Sue Covey, Tom Reese and Adam Pennell on 7/7/06.

AP 7/27/06 ✓
D-4a

Las Vegas Convention & Visitors Authority
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R&R Advertising Questions

Kristi Larsen contacted Mary Petersen to advise her that we have been overcharged for Outdoor Advertising.

7. How does pre-approval for travel greater than \$500 work?

There is not really any pre-approval for travel. R&R has a rubber stamp that is used on expense reports showing that they were pre-approved by Sue Covey.

11/22/06 ✓
D-46

Las Vegas Convention & Visitors Authority
Accounts Payable Audit
R&R/Initiative Media Buying

Internal Audit met with Sue Covey from the LVCVA and Jim King, Steve Jaffe, and Kristi Larsen from R&R Partners to discuss concerns with backup documentation provided to the LVCVA for media buys performed using Initiative Media, and to get a better understanding of the media buying process.

Internal Audit confirmed that there is a disclosure agreement between R&R and Initiative which will be provided. A copy of the agreement is to be forwarded to Internal Audit on August 18, 2006. Initiative does not disclose rates to R&R on the individual invoices; this is why they have white out over the rates. However, R&R is allowed to go in and audit Initiative if they so choose.

Jim King said he looks at the Initiative invoices the same way he looks at an invoice from a printing company. LVCVA gets the invoice but does not see how much it cost the printing company to buy paper and ink. The same can be applied to Initiative. Initiative is providing R&R and LVCVA with an invoice. The backup from the stations is only included in the information given to R&R to ensure that the commercials actually aired, not to show cost of individual air time.

In order to ensure that Initiative stays competitive and still makes sense for R&R to use, R&R performs shadow buys where they go out as R&R and get rates for the same buys previously placed by Initiative. R&R was not sure how often this process is performed or when it was last performed, but they ensured Internal Audit that the process is performed.

Process:

When decisions are being made on how to spend the advertising budget, R&R bases their decisions on the number of impressions or eyeballs that will view the media in the demographic they want to reach. The media rates are based on a cost per thousand impressions. R&R does not focus on the cost to run a single commercial on a given network, they focus on number of impressions.

Before the media is bought from Initiative, R&R determines the television budget. A good portion of the budget will be spent on up-fronts where we receive a lot of savings and added value. They allocate roughly 70% of the budget to cable buys and 30% to network buys. The allocation is also broken down into early morning, day time, and late night spots. A lot of the decisions made are based on last years allocation, what the ratings and what was the added value received. R&R can determine if they want to run a commercial on a specific show or during a time slot. It is much more expensive to buy media on a specific show.

Once R&R has a strategy, they negotiate rates with Initiative who in turn negotiates rates with the networks on R&R's behalf. R&R knows what Initiatives rates should be based on cost per thousand based on past experience and industry statistics. Once negotiations are final, the media buy is placed.

Dr 8/17/06
D-3

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R&R/Initiative Media Buying

R&R knows what the cost is per network per quarter based on viewing buy per quarter. They do not necessarily know or care what the individual cost per commercial is.

Credits:

R&R receives a billing master from Initiative which shows everything they are buying for their account. The report lists by month and by quarter what they are supposed to get.

R&R pays for rating points. For example, if R&R pays \$100 for 100 rating points, and they only receive 75 points because the shows received worse ratings than expected, then they either run more spots to bring it up to the full 100 points through make goods or credit back the additional money. Typically money stays within the quarter. Money cannot be moved across fiscal years.

As 8/17/06
D-36

Las Vegas Convention & Visitor's Authority
Accounts Payable Audit
Testing Procedures: Invoices \geq \$500k

1. Verified that the system information is accurate per the source documentation.
2. Determined that the discount, if applicable, was entered into the system and taken in a timely manner.
3. Verified that the expenses were coded to the correct general ledger account.
4. Verified that the invoice footed properly
5. Verified that the purchase order/check request, if applicable, matched the information on the invoice.
6. Verified that the purchase order/check request was properly authorized.
7. Verified that the receipt ticket, if applicable, matched the information on the purchase order/check request and the invoice.
8. Verified that the original documentation was maintained according to the records management policy.

Note: Procedures correspond with testing performed at WP F-12.

AB 6/21/06
F-1

Las Vegas Convention & Visitors Authority
Accounts Payable Audit
R&R Invoice Review - Finance

Internal Audit discussed the review of R&R invoices on May 19, 2006 with Shannon Szostek, Accounting Specialist.

Invoice Review Process

R&R invoices are paid on a weekly basis. The first step performed by the Accounting Specialist is to check for proper authorization on all of the invoices. If the invoices do not have proper authorization, they sent back to the person needing to sign. The backup for all invoices are then verified for completeness and appropriateness. It is verified that totals and information on the invoices match the backup. The payment terms on invoices are also reviewed. Finance takes all discounts on payment terms under the assumption that R&R is taking the discount when they pay the invoice. The Accounting Specialist calculates commissions on all commissionable items to verify that R&R is paid the correct amount. For items that are not insertion order related, R&R provides a Billing Report detailing the charges by job and type. The types of charges on a Billing Report include hourly charges by R&R employees (charged at \$70/hour), shipping costs, travel & entertainment expenses, etc. These reports and backup are also reviewed for completeness and appropriateness.

All invoices are entered into an Excel spreadsheet along with account numbers and descriptions. A register tape is run on all of the invoices to verify that the totals match the Excel spreadsheet.

After all the backup is reviewed and totals are verified, a check requisition is prepared by the Accounting Specialist. The backup along with the check requisition are then passed to the Accounting Operations Manager and then the Sr. Director of Finance for approval. The check requisition is then given to the Sr. VP of Operations and the President for approval. Finally, the Sr. Director of Finance signs the check requisition again authorizing its release.

Any items that are questionable are forwarded to the Accounting Operations Manager and Sr. Director of Finance to review for appropriateness. The items normally questioned are expense report items and whether certain items are commissionable.

Insertion Orders

Insertions orders are orders prepared by R&R for potential media buys. The Accounting Specialist receives the original insertion orders from the Advertising Executive. These are filed until the invoices come through for specific insertion orders. When an invoice for an insertion order is received, the insertion order is marked as paid and a copy of the insertion order is put with the invoice. The Accounting Specialist created an Excel spreadsheet in order to track the outstanding insertion orders. Every time an insertion order is received, paid, or cancelled, the spreadsheet is updated. R&R also provides a Media Activity Report on a weekly basis. The Accounting Specialist reconciles this

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R&R Invoice Review - Finance

report to the insertion orders on her spreadsheet. Any variances are discussed with R&R's accounting department.

AP 5/19/06 ✓
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