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.

DC 8/17/06
D-3

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.