



Audit Department

500 S Grand Central Pkwy Ste 5006 • PO Box 551120 • Las Vegas NV 89155-1120
(702) 455-3269 • Fax (702) 455-3893

Angela M. Darragh, CPA, CFE, CISA, Director

June 18, 2014

Mr. Don Burnette
Clark County Manager
500 South Grand Central Parkway, 6th Floor
Las Vegas, Nevada 89106

Dear Mr. Burnette:

We recently completed an audit of the Staples Contract. The audit covers transactions from July 1, 2012, to June 30, 2013. The last day of fieldwork was December 6, 2013. The objective of our audit was to determine contractual term compliance and whether controls over office supply purchases adequately safeguard assets.

We found several opportunities to improve existing controls. Specifically, we found that user password information is not periodically changed as required by the Clark County Information Technology (CCIT) Security Policy. Also, the Purchasing Department does not maintain a user log for access onto EWay. In reviewing a system log provided by Staples, we found 8 accounts in "active" status where each employee is no longer employed by Clark County. In addition, we noted 5 individuals with multiple user accounts. Although we also found 5 generic accounts, these accounts are "view only" and appear reasonable.

In reviewing an SAP report of office supply transactions during the audit period, we found approximately 1,250 of 10,000 transactions were processed over 30 days after the invoice date. When this occurs, the County is not eligible for the 1 percent contractual discount.

We also noted 23 transactions where blocked items were purchased. In addition, we found 24 instances where purchases under the contractual minimum order policy of \$50 were processed.

A draft report was provided to the Purchasing Administrator for comment, and her response is included. We appreciate the cooperation and assistance provided by the Purchasing Department.

Sincerely,

A handwritten signature in blue ink that reads "Angela M. Darragh".

Angela M. Darragh, CPA
Audit Director



AUDIT DEPARTMENT

Audit Report



Administrative Services Staples Contract

June 2014

Angela M. Darragh, CPA, CISA, CFE
Audit Director

AUDIT COMMITTEE:

Commissioner Steve Sisolak

Commissioner Chris Giunchigliani

Commissioner Lawrence Weekly

TABLE OF CONTENTS

BACKGROUND	1
OBJECTIVES, SCOPE, AND METHODOLOGY	2
RESULTS IN BRIEF	3
DETAILED RESULTS	4
Improving System Access Controls (MEDIUM)	4
EWay User Log Issues (MEDIUM)	4
Contract vs. Invoiced Unit Pricing Differences (LOW)	5
Ordering Blocked Items (LOW)	6
Delay in Staples Invoice Payment Processing (LOW)	6
Purchase Transactions under \$50 (LOW)	7
MANAGEMENT RESPONSE	8

BACKGROUND In 2010, Clark County conducted an open and competitive bidding process in search of a new office supply vendor. Staples Advantage was awarded the contract, estimated at \$3.3 million per year, to service the office supply product needs of Clark County, the Las Vegas Metropolitan Police Department (LVMPD) and the Department of Aviation (McCarran). The original contract covered the period from the date of the award through June 30, 2011. It also contained options to renew for three two-year periods. The first extension option was exercised on July 1, 2011, with the contract running through June 30, 2013. The County entered into the second contract extension commencing July 1, 2013. The contract offers a 1% discount for payments received within 30 days of invoice date, net 31 days. For fiscal year ending June 30, 2013, Staples office supply purchases totaled \$2.7 million. Approximately \$1.8 million were purchases made by County Departments, and the other \$.9 million related to purchases made by McCarran and LVMPD.

Staples has a Las Vegas facility located at 6975 South Decatur Boulevard, Suite #190, Las Vegas, Nevada 89118. This facility consists of over 37,000 square feet of combined office and warehouse space, housing approximately 50 employees.

The office supply contract with Staples contains several key terms as follows:

- Insurance - Staples is required to have cumulative insurance coverage of at least \$2 million.
- Minimum order – Office supply orders must be a minimum of \$50.
- Order blocking – Clark County is restricted from purchasing the following items: fire extinguishers, first aid supplies, computer and peripheral devices, furniture from specific vendors, and certain cleaning and food items.
- Delivery – Staples bears the cost of freight. Also, delivery of stocked item orders should take no more than two business days. Non-stocked items should be delivered within 10 working days.

- Reports – The County is entitled to and Staples is equipped to provide a variety of reports such as: expenditure history by agency/department/division, usage by category/item, and authorized on-line user listings.

The on-line ordering system EWay is maintained by Staples. In October 2013, the system was upgraded and is now known as “Staples Advantage”.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of this audit are to:

- Determine adherence to contractual terms and County procedures for office supply purchases.
- Determine whether internal and system controls adequately safeguard County assets.

Our procedures consisted of interviews with management and staff, a review of the Staples contract, observations, walkthroughs, examination of documentation, and performance of detailed tests and analyses. We reviewed on-line ordering system (EWay) user reports with employee information from SAP (the County’s enterprise resource software) to determine whether employees with access were actively employed by the County. We also searched for duplicate and generic user accounts (IDs) and reviewed system password policy parameters. We compared fiscal year ending June 30, 2013, office supply purchase information between SAP and EWay.

We judgmentally selected 20 office supply purchase transactions with assigned purchase orders (POs), 5 non-PO transactions, 3 credit transactions, and 3 reversal transactions from a SAP report covering the audit period. We traced each selection to the Staples report and to supporting documentation filed by Accounts Payable. We verified that office supply orders were appropriate and filled timely. We confirmed that invoices were processed timely and accurately, and that discounts were earned and properly taken. Finally, we determined that blocked items were prohibited from being purchased and purchase transactions of less than \$50 were not being processed.

Our scope included transactions processed between July 1, 2012 and June 30, 2013. The last day of fieldwork was December 6, 2013.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

RESULTS IN BRIEF

We identified several concerns with current EWay system control processes which could potentially lead to undetected errors and fraudulent transactions. Specifically, user password information is not periodically changed as required by the Clark County Information Technology (CCIT) Security Policy, and the Purchasing Department does not maintain a user log for access onto EWay.

In reviewing an SAP report of office supply transactions during the audit period, we found approximately 1,250 of 10,000 transactions were processed over 30 days after the invoice date, eliminating the allowable 1% discount.

Further, based on our detailed testing of transactions, we found that invoices were being paid late, and blocked items were being purchased. We also found numerous transactions for less than \$50 were processed, and that the vendor payment terms set up in SAP need to be corrected.

Each finding includes a ranking of risk based on the risk assessment that takes into consideration the circumstances of the current condition including compensating controls and the potential impact on reputation and customer confidence, safety and health, finances, productivity, and the possibility of fines or legal penalties.

DETAILED RESULTS

Improving System Access Controls (MEDIUM)

Clark County Information Technology Security Policy (CCIT Security Policy) requires that user passwords be at least eight characters in length and consist of two or more of the following: capital letters, lower case letters, numbers, and special characters (%*\$@!). Also, user passwords must be changed every 90 days and may not be reused for at least six password change periods. However, user ID and password information for on-line ordering of office supplies has not changed since the County began using Staples in 2010. Not having CCIT Security measures in place may allow unauthorized access to the Staples EWay system, including the ordering of supplies.

Recommendation

1. Work with CCIT on creating a user ID and password policy for the EWay on-line office supply ordering system.
2. Communicate this user ID and password policy to Staples for Staples to incorporate onto its EWay system, or notify users periodically of the requirement to change passwords.

EWay User Log Issues (MEDIUM)

Typically, a user access log for a system is maintained internally for monitoring and controlling purposes. However, the Purchasing Department does not maintain a user log for access onto EWay. Purchasing provides information to Staples on whom should have access, and Staples creates user IDs and generic passwords (which should be changed by individual user upon initial log-in). Although Staples does maintain a user access log, Purchasing does not have a copy of that log, has not requested one, and does not monitor its contents.

We obtained the most recent EWay user log from Staples and performed a summary review of the report. We found 8 users in active status that no longer work with Clark County. We also found 5 individuals with multiple user accounts. In addition, although we found 5 generic accounts, these accounts are view only and appear reasonable. However, according to CCIT policy, generic accounts require department head and Clark County Chief Information Officer (CIO) approval.

Because users are allowed to order supplies with County funds, each purchaser needs to be an active County employee. While other controls are in place to prevent items from being purchased and sent to non-County locations, the control of user accounts that can be attributed to a specific employee is an important control in preventing theft or abuse.

Recommendation

1. Maintain an internal user access log for EWay.
2. Periodically request the user log maintained by Staples and compare logs.
3. Periodically request an EWay user log and review it for reasonableness.
4. Remind departments that generic accounts are not allowed by County IT policy.
5. Deactivate the user accounts identified by testing as belonging to former employees.

Contract vs. Invoiced Unit Pricing Differences (LOW)

Of the 31 transactions selected for detail testing, we found the following:

- 2 transactions where the invoice unit price differed from the catalog price.
- 5 transactions where the item was not found in the catalog, so the price could not be verified.

The differences identified above were immaterial. However, by not verifying invoice prices to the catalog, the County may be foregoing contractual savings on office supply purchase transactions.

Recommendation

1. Direct individuals responsible for processing Staples invoices for County departments to verify that they are being charged contractually agreed upon prices for ordered supplies.

2. Communicate and resolve any discrepancies found.

**Ordering Blocked Items
(LOW)**

Section III #11 "Special Conditions" of the Staples contract specifies items that are restricted from being ordered by the County. These items are blocked because they are covered under separate contracts. Blocked items include: fire extinguishers, first aid supplies, food, water, certain office furniture manufacturing lines, as well as computers and peripheral devices. In testing detailed transactions, we found 1 of 31 transactions where a department ordered (and Staples filled) two desktop scanners. In reviewing a Staples report of purchase transactions for the audit period, we found another 22 transactions of blocked items that were purchased. By ordering blocked items through Staples, we risk the loss of contractual savings from other contracts and/or risk violating the terms of those other contracts.

Recommendation

1. Communicate with all County departments that order office supplies and remind them that certain items are prohibited (per county Fiscal Directive #4 as well as the Staples contract) from being purchased.
2. Request and review periodic reports for blocked items purchased.
3. Communicated with the respective department as well as with Staples when blocked items are purchased.
4. Discuss with Staples personnel the possibility of the EWay purchasing system automatically blocking "contractually" prohibited items from being purchased.

**Delay in Staples Invoice
Payment Processing (LOW)**

The Staples contract allows the County to take an incentive of 1% if payments are made within 30 days of an invoice date. However, departments are not consistently processing and forwarding Staple invoices to Accounts Payable to meet the 30 day requirement. By not processing Staples invoices for payment within the 30 day contractual requirement, the County is foregoing the 1% incentive discount.

In reviewing an SAP report for the period covering July 1, 2012 through June 30, 2013, we found 1,258 of 9,935 line items were processed over 30 days after the invoice date approximating \$2,100 of discounts foregone.

Recommendation

1. Communicate with all County departments about the importance of ensuring that invoices are being processed in a timely manner to earn and withhold the 1% discount on purchases.

**Purchase Transactions
under \$50 (LOW)**

Section III #8 "cost containment" of the Staples contract specifies a \$50 minimum order policy. In reviewing a Staples report for office supply purchases made during the audit period, we found that 24 of the purchase orders were for less than \$50. If the County does not meet minimum order requirements, future contracts may be at an increased cost to compensate the vendor.

Recommendation

1. Request and review periodic reports for purchases made under \$50.
2. Purchases made under \$50 should be communicated with the respective department as well as with Staples.
3. Discuss with Staples personnel the probability of the EWay purchasing system automatically blocking purchases being made under \$50 from being processed or filled.

SABRA SMITH NEWBY
Chief Administrative Officer

MEMORANDUM

DEPARTMENT OF ADMINISTRATIVE SERVICES

ADLEEN B. STIDHUM
Purchasing Administrator

TO: ANGELA M. DARRAGH, AUDIT DIRECTOR
FROM: ADLEEN STIDHUM, PURCHASING ADMINISTRATOR /ADS
SUBJECT: RESPONSE TO STAPLES AUDIT
DATE: June 12, 2014

This memo serves as the response to the Staples Contract Audit. Please contact me if further information is needed.

FINDING 1

Improving System Access (MEDIUM)

Clark County Information Technology Security Policy (CCIT Security Policy) requires that user passwords be at least eight characters in length and consist of two or more of the following: capital letters, lower case letters, numbers, and special characters (%*\$@!). Also, user passwords must be changed every 90 days and may not be reused for at least six password change periods. However, user ID and password information for on-line ordering of office supplies has not changed since the County began using Staples in 2010.

RECOMMENDATION

1. Work with CCIT on creating a user ID and password policy for the EWay on-line office supply ordering system.
2. Communicate this user ID and password policy to Staples for Staples to incorporate onto its EWay system, or notify users periodically of the requirement to change passwords.

MANAGEMENT RESPONSE & ACTION PLAN

Purchasing will work with IT representatives to develop a user ID and password policy. Purchasing will work with Staples representatives to ensure the Eway system will notify users periodically of the requirements to change passwords.

FINDING 2

Eway User Log Issues (MEDIUM)

Typically, a user access log for a system is maintained internally for monitoring and controlling purposes. However, the Purchasing Department does not maintain a user log for access onto EWay.

We obtained the most recent EWay user log from Staples and found 8 users in active status that no longer work with Clark County. We also found 5 individuals with multiple user accounts. Although we found 5 generic accounts, these accounts are view only and appear reasonable. However, according to CCIT policy, generic accounts require department head and Clark County Chief Information Officer (CIO) approval.

RECOMMENDATION

1. Maintain an internal user access log for Eway.
2. Periodically request the user log maintained by Staples and compare logs.
3. If an internal log is not maintained, periodically request and EWay user log and review it for reasonableness.
4. Remind departments that generic accounts are not allowed by County IT policy.
5. Deactivate the user accounts identified by testing as belonging to former employees.

MANAGEMENT RESPONSE & ACTION PLAN

Purchasing will work with Staples representatives and request user logs quarterly. Purchasing will distribute user logs to the authorized end users for their review and verification; changes will be communicated back to Staples. Purchasing will prepare a department wide announcement to inform end users that generic accounts are prohibited per County IT policy, unless approved by the Department Head and Clark County Chief Information Officer (CIO). During the quarterly usage report review, end users identified as 'inactive', Purchasing will request Staples to "deactivate".

FINDING 3

Contract vs. Invoiced Unit Pricing Differences (LOW)

Of the 31 transactions selected for detail testing, we found:

- 2 transactions where the invoice unit price differed from the catalog price; and
- 5 transactions where the item was not found in the catalog, so the price could not be verified.

RECOMMENDATION

1. Direct individuals responsible for processing Staples invoices for County departments to verify that they are being charged contractually agreed upon prices for ordered supplies.
2. Communicate and resolve any discrepancies found.

MANAGEMENT RESPONSE & ACTION PLAN

Purchasing will issue department wide memo end users of their responsibility to cross check invoice prices against the contract price prior to processing for payment. When brought to the attention of Purchasing, Purchasing will continue to work with the end users to resolve any discrepancies.

FINDING 4

Ordering Blocked Items (LOW)

Section III #11 "Special Conditions" of the Staples contract specifies items that are restricted from being ordered by the County. These items are blocked because they are covered under separate contracts. For the audit period, we found 23 instances where blocked items were purchased. (Correction Session III, #9, Order Blocking)

RECOMMENDATION

1. Communicate with all County departments that order office supplies and remind them that certain items are prohibited (per county Fiscal Directive #4 as well as the Staples contract) from being purchased.
2. Request and review periodic reports for blocked items purchased.
3. Communicated with the respective department as well as with Staples when blocked items are purchased.
4. Discuss with Staples personnel the possibility of the EWay purchasing system automatically blocking "contractually" prohibited items from being purchased.

MANAGEMENT RESPONSE & ACTION PLAN

Purchasing will prepare a department wide memo to remind the end users that certain items are prohibited (per County Fiscal Directive #4) and the Staples contract. Purchasing will request Staples to provide a quarterly or upon request, if needed sooner report to review blocked items. Purchasing has already communicated with Staples to immediately block any items that may have been changes by product name, number and was not re-blocked and to contact County when blocked items is trying to be purchased. Staples representatives has already taken action and re-blocked items which are prohibited from being purchased.

FINDING 5

Delay in Staples Invoice Payment Processing (LOW)

The Staples contract allows the County to take an incentive of 1% if payments are made within 30 days of an invoice date. By not processing Staples invoices for payment within the 30 day contractual requirement, the County is foregoing the 1% incentive discount.

In reviewing an SAP report for the period covering July 1, 2012 through June 30, 2013, we found 1,258 of 9,935 line items were processed over 30 days after the invoice date approximating \$2,100 of discounts foregone.

RECOMMENDATION

1. Communicate with all County departments about the importance of ensuring that invoices are being processed in a timely manner to earn and withhold the 1% discount on purchases.

MANAGEMENT RESPONSE & ACTION PLAN

Purchasing will include in department wide memo as a reminder to the end users to exercise timeliness in processing Staples invoices after receipt of items in order for the County to earn the one percent discount per the contract.

FINDING 6

Purchase Transactions under \$50 (LOW)

Section III #8 "cost containment" of the Staples contract specifies a \$50 minimum order policy. In reviewing a Staples report for office supply purchases made during the audit period, we found that 24 of the purchase orders were for less than \$50. (Correction: Section III, #6 "Cost Containment")

RECOMMENDATION

1. Request and review periodic reports for purchases made under \$50.
2. Purchases made under \$50 should be communicated with the respective department as well as with Staples.
3. Discuss with Staples personnel the probability of the EWay purchasing system automatically blocking purchases being made under \$50 from being processed or filled.

MANAGEMENT RESPONSE & ACTION PLAN

Purchasing will request period reports from Staples for purchases made under \$50. Purchasing will include a department wide memo a reminder that order must be in excess of \$50. Purchasing will discuss with Staples representatives to implement or upgrade EWay system to automatically block purchases under \$50.