



togetherforbetter

Clark County Audit Committee

Clark County, Nevada

Michael Naft, Chair
April Becker, Vice Chair
William McCurdy II

The committee members of Clark County Audit Committee, met in joint regular session at the regular place of meeting in Clark County, Nevada, on Wednesday, April 23, 2025:

CLARK COUNTY GOVERNMENT CENTER
PUEBLO ROOM
500 S GRAND CENTRAL PKWY
LAS VEGAS, NEVADA 89106

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SEC. 1. CALL TO ORDER

CALL TO ORDER

The meeting was called to order at 9:30 a.m. by Chair Commissioner Michael Naft with the following members present:

Commissioners Present:

Michael Naft, Chair
William McCurdy II

Absent:

April Becker, Vice Chair

Also Present:

Lisa Kremer, Deputy County Manager
Les Lee Shell, Deputy County Manager
Jessica Colvin, Chief Financial Officer
Jennifer Green, Director of Budget and Financial Planning
Nicole Malich, Deputy District Attorney
Sarah Schaerrer, District Attorney
Nicole Kazimirovicz, District Attorney
Joshua Erickson, RPM Deputy Director
John Advent, RPM Deputy Director
Brett Wood, Deputy Director Purchasing
Anna Danchik, Comptroller
Chris Wardlaw, Budget Manager
Patrice Key, Senior Financial Analyst
Angela Darragh, Audit Director
Felix Luna, Principal Auditor
Daniel Partida, Auditor
Tracy Banks, Auditor (remote)
Mary Yanez, Auditor
Scott Routsong, Auditor
Chris Hui, Information System Auditor
Ariana Garay, Executive Assistant

SEC. 2. PUBLIC COMMENT

There were no comments from the general public.

SEC. 3. AGENDA APPROVAL

MOTION

MICHAEL NAFT

Move to approval, all in favor say aye.

VOTE

VOTING AYE: Michael Naft, William McCurdy II

VOTING NAY: None
ABSENT: April Becker
ABSTAIN: None

MICHAEL NAFT
Motion carries.

SEC. 3. MINUTES APPROVAL FROM AUDIT COMMITTEE MEETING ON JANUARY 29, 2025.

MOTION:
MICHAEL NAFT
Move for approval, all in favor say aye.

VOTE

VOTING AYE: Michael Naft, William McCurdy II
VOTING NAY: None
ABSENT: April Becker
ABSTAIN: None

MICHAEL NAFT
The motion carries.

SEC. 5. RECEIVE PRESENTATION FROM AUDIT STAFF REGARDING RPM JOHNSON CONROLS CONTRACT COMPLIANCE AUDIT REPORT

MICHAEL NAFT
Before we get started, for the record we understand who is here from RPM and Purchasing, and I understand there is no representative for Johnson Controls, right?

ANGELA DARRAGH
Correct.

MICHAEL NAFT
Can everyone introduce themselves for the record.
(Introductions were made by John Advent, Joshua Erickson, Brett Wood and Jessica Colvin respectfully.)

ANGELA DARRAGH
Johnson Controls provides materials and services related to Clark County HVAC systems, building access security, and surveillance systems. County payments to Johnson Controls for FYE 2024 were \$2,034,368. Contracts awarded to Johnson Controls include competitively bid contracts for County wide services as well as sole source, sole provider contracts. We conducted this audit to determine whether Johnson Controls complies with the terms of their various contracts with Clark County.

MICHAEL NAFT
What originated this audit?

ANGELA DARRAGH
We had a complaint come into our department stating there were concerns over the billing of Johnson Controls.

MICHEAL NAFT

The complaint was from someone internal to Johnson Controls?

ANGELA DARRAGH

Yes.

MICHEAL NAFT

Thank you

ANGELA DARRAGH

We also conducted this to determine whether Real Property Management is monitoring compliance with the terms of the contracts. The terms of the contract are consistent and address with the terms of the contracts. Purchasing conducted a separate prevailing wage review that was outside the scope of our review that is not included in any of our findings.

As most of you are aware, yesterday at 2 pm we received a letter from Johnson Controls saying that they disagree with the findings that they overcharged the County or are otherwise non-compliant with contract terms. They also stated that they would need more specific information to respond to each individual charge in the Audit Report. I just want to mention that we conducted a draft conference with Johnson Controls on February 11, 2025, at the time we went over the entire report and all the findings. They did ask for additional information which we provided on February 13, 2025. After that we have not received any additional details or support to change any of our audit findings.

First Finding: Vendor invoices submitted for payment should include documents supporting each invoiced expense. Vendor invoices are approved for payment based on a vendor quote estimate. Vendor invoice payment requests often do not include corresponding document support for each line-item expense on the invoice. We requested support from the vendor for 17 of 18 purchase orders resulting in 39 invoices totaling \$957,368.33 that we tested for accuracy and completeness. We found that there were instances where hours worked, and materials and equipment expense amounts reported were not supported.

For labor testing we found that for 12 of 18 purchase orders tested labor documentation provided did not match invoiced hours and charges. We identified a net labor overcharge of \$41,120 in this testing sample. We selected three specific purchase orders for a detailed labor review and for each of those three purchase orders we found potential labor overcharges. For materials and equipment charge testing we found that 11 of 18 purchase orders tested supporting documentation provided did not match invoiced charges. In this area we found a potential of net materials and equipment undercharges of \$2,540. Then we found some other errors in equipment calculations that resulted in undercharge of \$2,506.

Overall, for this section with the labor overcharges and two undercharges we found a potential of overcharges of \$36,074.

Recommendations: Implement written policies to ensure invoices are accurately billed and adequately supported. The procedures should include the following requirements.

- Detailed line-item quotes from all vendors and sub-contractors for construction projects.
- Reconciliation of vendor cost documentation to invoiced amounts prior to authorizing payment on the final invoice.
- Detailed vendor reports supporting hours and costs of labor affirmed as true by the vendor. Appropriate evidence supporting charges that are not cost but based on catalog or contract pricing.
- Pursue a recovery of \$36,074.

MICHAEL NAFT

For the first finding I will ask RPM and Purchasing if they have anything to add.

JOHN ADVENT

Management Response: Overall, we agree that we need to establish stronger SOPs when training our team to review invoices that come in with time and material basis. This will help remedy the issue.

ANGELA DARRAGH

Second Finding: Subcontracted work should include detailed quotes and be subject to contract terms. We found three instances where subcontracted work was charged in full, with the vendor mark up added. In each instance, the charges represented a material portion of the total cost of the purchase order. In all three instances: The subcontractor charges were documented with an invoice that had a single amount for the full charge and the documentation provided and vendor quotes for the work did not provide details for charges of materials or labor. In the report we have a breakdown of the three purchase orders, in one case the subcontractor charged 32% of the PO total and another one with 51% and another with 44%. The invoice that we received was just the contractor and the amount charged with no detail as to what they were charging for or how they were charging. And then of course Johnson Controls has their markup added to that. When this happens County personnel have no basis to understand the real costs associated with subcontracted work.

Per NRS 627.050 which lists subcontractors as those who should be held to the same compliance requirements as the primary vendor by those who are tasked with providing construction control. Per the contract for the Video management System (VMS) requires that all invoices include itemized pricing and total amount due.

Recommendations: To include clarifying that subcontractors are subject to the same quote requirements as the primary vendors in future contracts. Require subcontractors and vendors to submit detailed line-item quotes for work performed under the contract or purchase order. Require subcontractors as agents of the primary vendor to comply with negotiated pricing terms under the contract. Clarify and document in future contracts if the subcontractor and primary vendor can each apply the vendor's mark up to subcontracted work should apply.

JOHN ADVENT

Management Response: RPM's response is moving forward to simply to not allow JCI to subcontract any work, RPM will take that on to adhere with their contract. We would do it from time to time to speed up some things, but it won't be any additional burden to us to subcontract work directly. That is an easy one that we have already started implementing.

JOSHUA ERICKSON

We will work with the departments if when we are going to allow subcontract work, we will look at guidelines in the contract to make sure those are clear. As mentioned by Angela, this finding is one that we have moved forward to the State of Labor Commissioner with an audit for them to evaluate, that is currently working through the appeals process with the Commissioner if there are any means of recovery, we will pursue those.

ANGELA DARRAGH

Third Finding: Metasys HVAC maintenance contract pricing increase exceeded contract cap. This is a specific HVAC maintenance service agreement that was approved by the Board of County Commissioners on 09/03/2019 without a competitive bid on the grounds that Johnsons Controls is a sole-source vendor. The amount approved by the board is 1.3 million dollars annually. This includes monthly amount for maintenance and five hundred thousand dollars annual maximum for time and material costs outside of full coverage services. The contract includes a cap on price increases of 3% per year. We found that the

amount paid for the full coverage maintenance installments beginning October 2022 was \$76,094.82 per month, an increase of 7.8% over the contracted amount. The price increase of 7.8% to renew the contract for one year, instead of the listed cap of 3% was requested by the vendor. The support submitted by the vendor was "The Economy Daily" Report issued by the U.S Bureau of Labor Statistics and the Producer Price index increased by 9.8%. The change of contract was not submitted to the Board of County Commissioners. According to the contract the price adjustment per year may be the lesser percentage of PPI change or 3% percent for an increase or decrease. The vendor must provide proof of that when requesting the change.

The contract also includes drastic market conditions as items were foreseen to substantially change the cost of the contract to the vendor. In those cases, a submittable price increase is defined as the change of price from the date of the last price increase to date of performance by the amount exceeding ten percent. The general industry correspondence with regards to market conditions is not suitable proof. The vendor has to supply proof that the increase was greater than 10% in which case they can get a higher increase. In this case the evidence the price increase provided by the vendor was an article published by the Bureau of Labor Statistics which stated the Producer Price Index increased 9.8%, which doesn't not reach the 10% threshold. It does not include specific line items under the contract and did not compare and contrast pricing on specific line items to meet the criteria included in the contract.

With the 7.8% price increase from the vendor Clark County is paying \$40, 659 more annually than the contractual amount agreed upon.

Recommendation: Pursue a recovery of \$30,495 paid in excess of the contract agreement.

JESSICA COLVIN

Management Response: I want to respond to this finding, just a bit of context around this during the pandemic in 2020-2021 one of our cost containment efforts overtime was to ask our vendors to hold back on your escalators in your contract or even a price decrease. The variety of vendors did one of each, for Johnson Controls they did not have a price increase for 2020 and 2021. When we moved forward with a higher increase I agreed with what the contract terms state, this was a different scenario that we contemplated in the contract and I felt that we were still within the total contract authority so we did not bring it to the board , I don't think we need to recover the money since they did not receive those escalators for the years we were asking them to delay them or defer them. In the future we will take it to the board, I do want to put this on record that this is not the only contract where this occurred. I will talk to Counsel and come back and take those agreements to the board for ratification. And in the future, moving forward we will take them to the board for approval.

MICHAEL NAFT

Thank you, can you let this committee know what the finding of the Counsel was.

JESSICA COLVIN

Yes.

ANGELA DARRAGH

Fourth Finding:

Metasys HVAC Maintenance contract allows for markups on GSA contract materials. We reviewed two invoices under the HVAC maintenance contract that include pricing reference to General Services Administration Pricing. GSA pricing is a standard used by the Federal government to ensure fair rates for items and services. This is the final rate the Federal government would pay for an item. On invoices for both of these purchase orders, a 15% vendor mark up was added to the GSA pricing already includes the

vendor mark up we do not believe this additional markup should be allowed. However, we did not feel the contract language was clear at this point while the County paid \$22, 570 more for materials on these two invoices than they would have if there was no mark up on GSA pricing, we did not recommend a recovery of that overcharge.

Recommendation: Clark County specify that vendor markups is not applicable to GSA priced items in future contracts.

BRETT WOOD

Management Response: We will continue to review the available markups available in these types of agreements and we will be clearer in the contract as to what the contract is allowed to request in markup value.

ANGELA DARRAGH

Fifth Finding:

The Countywide Access Control systems contract contains outdated requirements. This contract was approved under a competitive bidding exception based on the fact that it is contracted from a sole source. The prior contract was based on a fee schedule which was attached as an exhibit to the contract. The new contract is based on cost-plus pricing model and requires the use of a cost of force account form for vendor quotes which was attached as an addendum. In the new contract the actual markups awarded under the terms of the contract did not appear anywhere in the body of the contract. The pricing terms are instead documented on the COFA form that was attached as an exhibit. Other sections of the contract include clauses that were not updated and no longer apply. This included phrasing related to items that were to be built of a certain percentage off the list price Since the contract was cost plus that will no longer apply. There was also a section for price adjustments requests because this was a cost-plus contract again, it should not have applied.

Recommendations: Future versions of the Access Control Systems contract should explicitly define the compensation terms for work under the contract in the contract body. These should clearly explain the labor markup, terms for materials, equipment, and the vendor surcharge and applicability. These compensation terms are clearly identified in other contracts.

JOSHUA ERICKSON

Management Response: RPM will work with Purchasing and Contracts to ensure future versions of this contract are updated.

ANGELA DARRAGH

Sixth Finding: Non-contract purchase orders were issued that did not follow prior or proposed contract terms. We reviewed nine non-contract purchase orders and found one that included labor charges that were significantly higher than those in either the expired or proposed contract. The invoice for this purchase order included a flat \$4, 980 charge for labor. Based on other JCI labor documentation we reviewed we found the data of a \$207.50 hourly rate. In the other contracts we found a rate of \$89.50 to \$118 and hour. In these cases, there was no contract in place at the time, therefore there were no contract violations, but we believe that the County could have coordinated on their own side to receive better contract terms that were more appropriate.

Recommendations: Require all departments contracting with Johnson Controls to coordinate with the owner of the main contract, Real Property Management, to ensure consistency in pricing, purchase order preparation and invoice detail completeness.

JOHN ADVENT

Management Response: We recommend a commodity stop which will require other departments to coordinate with RPM ensuring consistency in pricing and contract management.

ANGELA DARRAGH

Seventh Finding: RPM personnel should review IT licensing purchase orders for Contract Compliance. We reviewed two purchase orders for surveillance camera licenses, and we found a labor overcharge of \$5,030 and a material overcharge of \$ 1,039. In another one we found a labor overcharge of \$2,410 and a material overcharge of \$4,414. The Finance liaison in IT processes the purchase order, however this individual does not have access to the contract to review compliance criteria and is not involved in managing the RPM Project. The result is the the IT Finance liaison is unable to confirm that the work under the purchase order complies with the contract terms.

Recommendations: Implement a process where RPM project oversight representative review future software licensing purchase orders to ensure that the changes are justified and in accordance with contract terms prior to forwarding the invoice to the IT department. Forward information on the license renewals to IT Licensing Administration for cataloguing in the County annual renewals listing. To pursue a recovery of \$12,893.

JOSHUA ERICKSON

Management Response: RPM will implement a process where an RPM representative familiar with the contract reviews future software and licensing purchase orders to ensure justification of costs and contract compliance before forwarding to IT liaison.

ANGELA DARRAGH

Eight Finding: Contract labor markup rate varies significantly among contracts. During our testing we found that the amount added to labor for fringe benefits varies significantly. There were three contracts, two of them were no bid contracts and one bid contract. On the two no-bid contracts there was a labor market of 30% and the other one 42%, on the bid contract there was a markup of 33%. That mark up should be the burden that the vendor pays for fringe benefits and we should be able to go to them and see where they pay those amounts or those fringe benefits. However, they were not able to provide any details on how those numbers were established. I also want to point out that on top of that labor market there is an additional mark up that is meant to cover overhead costs and profit. For the first contract there is an additional 15% on top of the 30%, for the second there is 9.8% on top of the 33% and for the third there is a 20% on top of the 42%.

Recommendations: Document the components that determine labor markup while negotiating contract terms to increase transparency and allow for better invoice verification.

BRETT WOOD

Management Response: RPM will work with County Purchasing to increase consistency where possible in our future functions.

JESSICA COLVIN

I also wanted to add Comptroller's to work with Purchasing with all these contracts to make sure there is a consistently reasonable labor markup moving forward.

MICHAEL NAFT

Thank you, that is the last finding as this is a discussion item only are there any questions or comments.

WILLIAM MCCURDY

I would just like to add that when it comes to the corrective action date, that this committee be made aware that you have put this in place.

MICHAEL NAFT

Aside for finding 3.1 there are some recoveries that we believe are needed from Johnson Controls, this might be question for the District Attorney's office or someone else in the room, what basis do we have in this contract or any other mechanisms to go after a contractor that has already stated they disagree with the findings and don't have any intention to work with us.

SARAH SCHAERRER

Specific to the third finding of \$30,345, that is not something we can recover as there is no legal basis for breach of contract.

MICHAEL NAFT

Correct, that is what I was indicating aside from 3.1, there are still some other findings in the report.

SARAH SCHAERRER

Which finding is that one?

ANGELA DARRAGH

It's in the summary it states there was a net overcharge of \$50,327 for invoices we reviewed.

MICHAEL NAFT

Maybe the best thing to do if I can ask is that RPM, Purchasing, Finance and District Attorney's office provide an action memo to this committee explaining what remedies there could be. As this is a discussion item we can't take any action here today, but I do think it's important that we just don't walk away from these findings.

SEC. 7. PUBLIC COMMENTS

No public comment was made by the general public.

END PUBLIC COMMENTS

SEC. 8. ADJOURNMENT

This meeting was adjourned by Commissioner Naft at 10:05 a.m.

RESPECTFULLY SUBMITTED BY: _____
ANGELA DARRAGH, DIRECTOR OF THE AUDIT DEPARTMENT