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AUDIT REPORT

**RPM Johnson
Controls Contract
Compliance Audit
Found Lack of
Contract Oversight
and Contract
Ambiguity Hinders
Contract
Compliance and
Increases Costs**

April 2025

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CLARK COUNTY AUDIT DEPARTMENT

Audit Executive Summary

RPM Johnson Controls Contract Compliance Audit

April 23, 2025

Background | 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 \$2,034,068. Contracts awarded to Johnson Controls include competitively bid contracts for Countywide services as well as sole source, sole provider contracts.

Objectives | We conducted this audit to determine whether:

- Johnson Controls complies with the terms of their various contracts with Clark County.
- Real Property Management is monitoring compliance with the terms of the contracts.
- The terms of the contracts are consistent and address risks identified during testing.

Summary and Key Findings |

Overall, we found Johnson Controls is not invoicing in compliance with contract terms and conditions. They were unable to support charges for labor hours. We also found Real Property Management is not verifying vendor costs to invoices. Finally, we found a wide variation in contract terms, including markups in excess of what we consider reasonable.

We identified net overcharges of \$50,327 on \$1,178,816 in invoices reviewed. We also identified an additional \$30,495 paid in excess of the contract price increase allowance. We believe Clark County can save a significant amount of money by implementing additional controls and re-evaluating future contract terms

There were 8 findings.

Recommendations |

- Pursue a recovery of \$50,327 for net overcharges identified during the audit. See Appendix B
- Pursue a recovery of \$30,495 for contract service fees paid in excess of the price increase cap stated in the contract agreement.
- Develop written policies and procedures to document vendor compliance with contract terms, including the following:
 - Reconciling cost documents to quotes;
 - Obtaining detailed documentation of labor hours and costs from the vendor to support labor charges;
 - Obtaining documentation for pricing based on catalogs or sales contracts.
- As contracts are renewed and renegotiated:
 - Require the use of detailed line-item quotes;
 - Include a fixed or similar range of markups for labor overhead so vendor markups are comparable and reflect actual costs;

- Require detailed line-item quotes for subcontracted work and require subcontractor pricing to agree with contract terms;
- Address pricing issues so vendor markups are not applied to items which include a markup.

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Background

Johnson Controls International is a multinational corporation that produces fire, heating, ventilation, and air conditioning systems (HVAC), and security equipment for buildings. This includes building automation and controls.

Johnson Controls USA is a subsidiary of Johnson Controls International and is headquartered in Milwaukee, Wisconsin. They have an affiliated office located in Las Vegas, Nevada. The office performs installation, maintenance, and monitoring of systems installed in Clark County buildings, including HVAC, video surveillance, and building access systems.

Real Property Management (RPM) is an internal service department of Clark County that provides design and construction services for buildings, structures, and parks owned or leased by the County. This includes project management and oversight, and construction contract administration as part of their mission.

Johnson Controls has existing contracts with Clark County, Clark County Metropolitan Police Department, and Harry Reid International Airport. Our audit reviewed purchase orders and contracts for Clark County only.

The three contracts that fell within the scope of our audit are:

Contract CBE 605386-19 Contract for Metasys Full-Coverage Maintenance, Repair, Addition, and Modification Services Countywide. This is a service contract for HVAC maintenance. It includes cost-plus provisions for work that falls outside of the umbrella of services and maintenance. The contract was awarded under a competitive bid exception based on the fact that the system is proprietary to Johnson Controls and was approved by the Board on September 3, 2019.

Contract BID 605639-20 Contract for Video Management System Countywide. This is for maintenance, repair, and replacement of the existing CCTV system throughout the County. The contract was awarded following a competitive bidding process and approved by the Board on September 15, 2020.

Contract CBE 606007-21 for Purchase, Installation, Repairs, and Maintenance of Countywide Access Control Systems. The contract was awarded under a competitive bidding exception based on the fact that Johnson Controls is the sole distributor and authorized installer of the P2000 system in Clark County. It was approved by the Board on November 1, 2022.

All three contracts include cost-plus provisions for pricing of labor and materials for purchase orders approved under the contracts.

Total County payments to Johnson Controls for fiscal year 2024 were \$2,034,068.

Objective

The objective of this audit was to determine whether:

- Johnson Controls complies with the terms of their various contracts with Clark County.
- Real Property Management is appropriately monitoring compliance with the terms of the contracts.
- The terms of the contracts are consistent and address risks identified during testing.

Conclusions

Overall, we found Johnson Controls is not invoicing in compliance with contract terms and conditions. They were unable to support charges for labor hours. We also found Real Property Management is not verifying vendor costs to invoices. Finally, we found a wide variation in contract terms, including markups in excess of what we consider reasonable.

We identified net overcharges of \$50,327 on \$1,178,816 in invoices reviewed. We also identified an additional \$30,495 paid in excess of the contract price increase allowance. We believe Clark County can save a significant amount of money by implementing additional controls and re-evaluating future contract terms.

Findings are rated based on a 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. It also considers the impact on confidentiality, integrity, and availability of data.

8 Total Audit Findings

4 High Risk Findings



High risk findings indicate an immediate and significant threat to one or more of the impact areas.

4 Medium Risk Findings



Medium risk findings indicate the conditions present a less significant threat to one or more of the impact areas. They also include issues that would be considered high if one control is not working as designed.

0 Low Risk Findings



Low risk findings are typically departures from best business practices or areas where effectiveness, efficiency, or internal controls can be enhanced. They also include issues that would be considered high or medium risk if alternate controls were not in place.

Findings, Recommendations, and Responses

Vendor Invoices Submitted for Payment Should Include Documents Supporting Each Invoiced Expense



Vendor invoices are approved for payment based on the 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.

Contracts 605639-20 and 606007-21 each include provisions requiring daily manpower reports documenting labor used on purchase orders. All contracts include provisions requiring the reporting of prevailing wage hours using certified labor reports.

Labor Charge Testing:

We found that for 12 of 18 purchase orders tested, labor documentation provided did not match invoiced hours and charges. We found potential net labor overcharges of **\$41,120** in this testing sample.

We selected a single purchase order from each contract for additional labor testing. We obtained vendor timesheet reports and employee earnings statements to verify labor hours and expenditures for each purchase order. We found potential overcharges for each of the following tested:

(Note: these are highlighted individual purchase order labor assessments for example)

Contract 606007-21 Access Control Systems

PO 4500362335 - \$14,408 in potential labor overcharges

Contract 605639-20 Video Management System Countywide

PO 480010899 - \$14,165 in potential labor overcharges

Contract 605386-19 Metasys (HVAC) Services Countywide

PO 4500352986 - \$16,271 in potential labor overcharges

Materials and Equipment Charge Testing:

We found that for 11 of 18 purchase orders tested, supporting documentation provided did not match invoiced charges. We found potential net materials and equipment undercharges of **\$2,540** in this sample.

Additionally, errors in equipment cost calculation on PR 10701970 / PO 4500359700 for CBE 606007-21, translated to a net invoice undercharge of **\$2,506** due to this calculation error.

Invoices are approved based on vendor quotes and Cost of Force Account (COFA) forms. However, RPM does not verify charges to supporting documentation prior to payment and was unable to provide us with written policies and procedures requiring this type of review.

Net Potential Overcharges for Labor, Materials & Equipment Combined

Vendor invoices submitted for payment without supporting documentation for review can result in overpayment by the County. Based on our testing, to summarize, we identified the following net variances from overall testing:

Net Labor Overcharge of \$41,120

Net Materials and Equipment Undercharge of (\$2,540)

Purchase Cost Calculation Undercharge Error of (\$2,506.00)

This calculation represents a net total of \$36,074 in potential overcharges for this testing.

Recommendation

- 1.1 Implement written policies and procedures 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 of the final invoice.
 - The reconciliation should be documented and retained by RPM.
- 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.

- 1.2 Pursue a recovery of \$36,074.

*Management Response***Real Property Management Response:**

- 1.1 RPM will strengthen and improve internal controls as it relates to invoice processing. This will include an improved written policy and SOP to ensure invoices are accurately billed and adequately supported. Staff will be trained on reconciliation of vendor material costs and how to verify vendor reports which support the labor costs of the vendor. RPM will write a comprehensive SOP and include it in its overall training manual provided to all staff. RPM supervisor staff will train their individual staff on the SOP. RPM Supervisor team and Manager will enforce the SOP and backstop invoice review and approval for contract compliance.
- 1.2 Recovery of funds could be applied as a future credit on incoming project work. Out of RPM purview.

Anticipated Correction Action Date: End of June 2025

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 markup 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.

The subcontracted work is summarized in the table below.

Contract	PO	JCI JOB #	Contractor	Amt Charged	Vendor Markup	Total	% of PO total
605639-20	4500359690	3N0Q0046	Sturgeon Pipe & Cable	\$13,572.00	\$1,330.06	\$14,902.06	32%
606007-21	4500359700	3N0Q0047	ANS Electric Inc.	\$84,682.00	\$16,936.40	\$101,618.40	51%
606007-21	4500362335	3N0Q0079	ANS Electric Inc.	\$50,659.00	\$10,131.80	\$60,790.80	44%

Allowing subcontracted work to be charged at a flat amount without details is a material cost-control weakness. Even if the work is approved by RPM construction managers, the lack of

detail means that RPM managers and other County personnel have no basis to understand the real costs associated with the subcontracted work. Basic questions such as the pricing and amount of material used, the labor hours expended, and rates paid, cannot be answered without detailed quotes. This approach creates a cost management weakness, as these unsupported costs contribute to increased project costs.

Compliance with the pricing terms of the specific contracts cannot be determined without detailed line-item quotes submitted by subcontractors. Various NRS address payments to subcontractors, including 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.

NRS 627.190 covers the duties of construction control; section 14 states that prior to disbursing money to a subcontractor, a true copy of the bill must be obtained. Additionally, the contract for the Video Management System (VMS) requires that all invoices include itemized pricing and total amount due (Section B: Invoicing).

Contracts address requirements for subcontractors to comply with prevailing wage terms, but do not include subcontractor compliance criteria with quote terms or pricing.

The County is unable to evaluate subcontracted charges for reasonableness, or compliance with negotiated pricing terms, potentially overpaying for items and services.

Recommendation

- 2.1 Include language clarifying that subcontractors are subject to the same quote requirements as the primary vendors in future contracts.
- 2.2 Require subcontractors and vendors to submit detailed line-item quotes for work performed under the contract or purchase order.
- 2.3 Require subcontractors as agents of the primary vendor to comply with negotiated pricing terms under the contract.
- 2.4 Clarify and document in future contracts if the subcontractor and primary vendor can each apply the vendor's markup to subcontracted work, or if only the vendor's markup on subcontracted work should apply.

Management Response

Real Property Management Response:

- 2.1 RPM will discontinue allowing JCI to subcontract work and will procure any necessary subcontractor services from the vendor directly.
- 2.2 See above.
- 2.3 See above.
- 2.4 Future contracts to call out that sub-contracted work necessary to facilitate scopes of work will be procured by the County/Owner.

Anticipated Corrective Action Date: Immediate for 2.1-2.3.
Item 2.4 in progress (June 30, 2025 bid; remaining contracts pending renewals.)

Purchasing and Contracts Division Response:

- 2.1 Purchasing will include guidelines in the contract for obtaining quotes from subcontractors with agreement from the using department.
- 2.2 See above.
- 2.3 The Purchasing and Contracts Division has completed a prevailing wage compliance audit of the Johnson Controls contracts and is working through that with the State Labor Commissioner. If there are any approved fines or fiscal recovery as a result of that action, we will pursue those findings.
- 2.4 Purchasing will inquire in the future and ensure clarity in the contract on any subcontractor mark-up.

Anticipated Corrective Action Date: The changes noted in this finding are ones the Purchasing Division can implement on contracts moving forward from April of 2025.

Metasys HVAC Maintenance Contract Pricing Increase Exceeded Contract Cap



Contract CBE 605386-19 is an HVAC maintenance service agreement approved by the Board of County Commissioners on 9/3/2019. It was approved without competitive bid on the grounds that Johnson Controls is a sole-source vendor for this particular service and the services are more efficiently provided by Johnson Controls. The amount approved by the board is \$1,347,066.68 annually. This includes \$847,066.68 annually for full-coverage maintenance, to be paid in 12 monthly installments of \$70,588.89, and \$500,000 annual

maximum for time and material costs outside of full-coverage services to be billed as actual costs as they occur. The contract includes a cap on price increases of 3% per year.

We found 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 increase changes the annual amount for full-coverage maintenance under the contract from \$847,066.68 annually to \$913,137.84, an increase of \$66,071.16. The maximum increase allowable under the contract is 3% of \$847,066.68 or \$25,412 annually.

The contract states that vendor price increases must include specific reasoning for the increase request if it was due to drastic market conditions. 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 on 9/13/2022. The support submitted by the vendor was “The Economics Daily” report issued by the U.S. Bureau of Labor Statistics and reported the Producer Price Index increased 9.8% from July 2021 to July 2022.

The change to the contract was not submitted to the Board of County Commissioners.

The contract addresses price adjustments in section EE of the contract:

“EE. Price adjustment requests

Commencing on the date of the award, prices shall not be subject to change during the initial contract thereafter, there may be price adjustments. All price adjustment requests, including suitable proof, shall be submitted, at least thirty (30) calendar days in advance of CONTRACTOR’S expectation of price increase commencement, to the Clark County, Nevada, Administrative Services Department, Purchasing Manager, 500 South Grand Central Parkway, Las Vegas, Nevada 89155. Price increases shall not be retroactive. A price adjustment can only occur if CONTRACTOR has been notified in writing of COUNTY’S approval the new price(s).

Only one (1) written price adjustment request(s) will be accepted from CONTRACTOR per one (1) year term. The reference months/period and indexes to be used to determine price adjustments will be the most recently published index between 14-16 months prior (using the final index) and 2-4 months prior (using the first published index) to the anniversary date of the Contract, using the price index specified below.

Producer Price Index (PPI) for the net output of selected industries and their products, not seasonally adjusted, will be used as the index for the price adjustments. The price adjustment per year may be the lesser of the percent of PPI change or three (3) percent for an increase or decrease.

Suitable Proof:

Print-out of PPI index and calculated increase, Letter from Manufacturer/Distributor (if applicable)

Discontinued Price Index:

Should the above-referenced price index be discontinued or otherwise no longer be published by the U.S. Bureau of Labor Statistics, a similar index may be mutually agreed to in writing by both parties.

Drastic Market Conditions:

Should drastic market conditions occur which dictate a significant price increase of any line item(s) during the term of the Contract, COUNTY may consider these increases in addition to the allowed increases, providing CONTRACTOR submits written documentation and suitable proof by line item to COUNTY requesting permission and explaining in detail the unforeseen circumstances predicated the request to increase pricing. Suitable proof shall be required as defined above. A significant price increase means a change in price from the date of the last price increase to the date of performance by an amount exceeding ten (10) percent. General industry correspondence with regards to market conditions are not suitable proof.

The contract outlines two conditions under which a price increase may be granted by the County. In the first case, an increase in the PPI price index supported by documentation may be granted with a cap of 3% or the amount of the increase, whichever is lower.

The other case is if the price of a line item under the contract increases by more than 10%. This is the "Drastic Market Conditions" clause. It requires documented evidence by line item that the price has increased by more than 10% since the date of the last price increase. This clause specifically states that "General Industry correspondence with regards to market conditions is not suitable proof."

The evidence for the price increase provided by the vendor was an article published by the Bureau of Labor Statistics which stated that the Producer Price index increased 9.8%. This is evidence in regard to market conditions. It does not

include specific line items under the contract and does not compare and contrast pricing on specific line items and does not exceed 10% so it does not meet the criteria under which a price increase in excess of the 3% cap may be granted.

The contract cap on annual increases is capped at 3% maximum per year.

The Clark County Department of Administrative Services, Purchasing and Contracts, approved the price increase based on the documented request without considering the limitations on price increases documented in the approved contract agreement.

With the 7.8% price increase from the vendor in excess of the contractually stipulated 3% cap, Clark County is paying \$40,659.16 more annually above the contractually agreed upon allowable capped amount. There were 9 monthly payments of \$76,094.82 from October 2022 through June 2023. Based on the maximum allowable increase and the actual increase, these payments exceeded the 3% cap by \$3,388.36/month or \$30,495 in actual payments.

Recommendation

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

Management Response

Real Property Management Response:

- 3.1 RPM complied and followed the price increase based on the recommendation and approval of CC Purchasing and Contracts.

Anticipated Corrective Action Date: Not applicable.

Purchasing and Contracts Division Response:

- 3.1 To clarify, CBE 605386-19 is not a full-coverage HVAC contract, this is a Metasys Building Controls System full-coverage contract. This system is proprietary to Johnson Controls. Clark County has researched replacement systems and options for opening the protocols of the current systems. The results of the research proved to be either unavailable or financially unattainable.

To provide context, Johnson Controls did not request their allowable 3% price increase in the prior two years of 2020 and 2021 at the height of the pandemic. Their request for 8.5% in 2022 would have been in line with the allowable 3% per year over three years. In negotiations, the Purchasing Division denied their request citing the inability to approve increases

retroactively, however, recognizing the economic environment and the impact to the County should the County have to re-negotiate a new contract with Johnson Controls, both parties agreed to the 7.8% increase.

Anticipated Corrective Action Date: The Purchasing Division has conferred with counsel and been advised that there are no legal grounds to pursue the recovery noted, however, the Finance Department will work further with counsel to determine if Board ratification is required.

Metasys HVAC Maintenance Contract Allows for Markups on GSA Contract Materials



We reviewed two invoices under the HVAC maintenance contract (605386-19) that include pricing referenced to General Services Administration (GSA) 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 markup was added to the GSA amount for covered materials. Since this is a cost-plus contract, and GSA pricing already includes the vendor markup, we do not believe this additional markup should be allowed.

Section VV. of the contract “Services Outside of Full-Coverage” defines pricing terms for work that is not included in the service contract. The text of this section of the contract is as follows:

“VV. Services Outside of Full-Coverage

For services deemed outside of the full-coverage umbrella, CONTRACTOR shall provide quotes in accordance with the following cost structure.

1. Prevailing wage rates and benefits, as provided by the State Labor Commissioner, for the actual labor used on each job including any zone pay for rural areas; plus, thirty percent (30%) mark up as a labor surcharge plus;
2. Verifiable Equipment rates based on paid invoices / receipts or RS Means Cost Data for the year in which the work is performed, no markup to be added, plus;
3. Materials, Permits, and Fees cost based on paid invoices / receipts submitted, no markup to be added, plus;
4. Bidder’s surcharge of fifteen (15%) percent will be applied to the total of (A) Total Labor plus (B) Total Cost of Equipment plus (C) Total Cost of Materials, and is the only overhead, profit, or markup figure that will be

allowed, CONTRACTOR'S surcharge shall remain fixed throughout the CONTRACT and renewals.

CONTRACTOR shall supply not to exceed quotes for any services defined herein as outside of CONTRACTOR'S responsibility or control under this contract. All quotes from CONTRACTOR must include a not to exceed time for completion. Where materials have an extended lead time, the timeframe for delivery of materials must be listed separately. CONTRACTOR shall present their purchase invoice for all materials listed in CONTRACTOR'S invoice, when possible (sic) CONTRACTOR shall quote materials against General Services Administration (GSA) contract No. GS-246-25 or replacement GSA contract, whichever is in effect at the time the quote is requested. All invoices for repairs and call-out services shall be for actual time only. No minimum billing times for labor or travel time shall be allowed."

While contract section VV.4 clearly states that the markup will be applied to the cost of materials, and is the only profit or markup allowed, the subsequent paragraph referring to the GSA contract does not specifically state that the 15% does not apply.

The County paid \$22,570 more for materials on these two invoices (invoices totaling \$383,265), than they would have if there was no markup on GSA pricing.

Recommendation

- 4.1 Specify that vendor markup is not applicable to GSA priced items in future contracts.

Management Response

Real Property Management Response:

- 4.1 RPM followed the contract pricing which does not specifically state that the 15% markup is not applicable to GSA pricing. RPM will coordinate with CC Purchasing and Contracts to amend existing contracts if possible and ensure language is inserted specifically not allowing markups on GSA priced materials in all future contracts.

Anticipated Corrective Action Date: Changes will apply to upcoming new contracts.

Purchasing and Contracts Division Response:

- 4.1 Purchasing will continue to review available price indexes to confirm that the County receives the best possible pricing. Purchasing will also ensure clarity in

future contracts on what is allowed to be marked-up in pricing.

Anticipated Corrective Action Date: Purchasing will continue to review available price indexes to confirm that the County receives the best possible pricing. Purchasing will also ensure clarity in future contracts on what is allowed to be marked up in pricing.

Countywide Access Control Systems Contract Contains Outdated Requirements



Contract CBE 606007-21 for the Purchase, Installation, Repairs & Maintenance of Countywide Access Control Systems was approved by the Board of County Commissioners on November 1, 2022. It was approved under a competitive bidding exception based on the fact that it is contracted from a sole source. It replaced the prior contract CBE 604162-16.

The prior contract for access control services was based on a fee schedule attached as an exhibit to the contract. This schedule included fixed pricing for specific hardware, hourly rates for labor, software update pricing, and discount rates for JCI branded equipment not listed in the schedule. The fee schedule was incorporated by reference in the body of the contract.

The new contract for access control services is based on a cost-plus pricing model. This contract requires prevailing wage rates for labor plus a labor overhead markup of 42% and a vendor surcharge of 20%; materials, subcontractors, and equipment at cost plus 20% surcharge, and JCI equipment at a 25.94% discount from catalog pricing with no markup.

The new contract also requires the use of a COFA (cost of force account) form for vendor quotes. The COFA form is attached as an addendum and referenced in the body of the contract. This is illustrated in Section II A of the contract. The actual markups awarded under the terms of the contract do not appear anywhere in the body of the contract. The pricing terms are instead documented on the COFA form attached as Exhibit 3 of the contract.

Other sections of the contract include clauses that were not updated and no longer apply.

Section XXII: Miscellaneous paragraph CC. Labor includes the phrasing "Materials not specifically identified within the Contract are to be billed at 25.94% off list price." This phrasing no longer makes sense as the cost-plus model charges a

markup on cost of materials and a discount for JCI materials. Under the cost-plus model there are no materials which would meet this condition.

Paragraph CCC addresses price adjustment requests. The new contract is not a service contract and does not include service charges or fixed pricing that would require adjustment. This section of the new contract does not apply

The new contract section II A, Compensation, replaced the fee schedule in exhibit 3 with the COFA form, but the remainder of the section continues to refer to “fee schedule” instead of defining the payment terms of the contract. Contract compensation terms such as the labor markup of 42%, the vendor surcharge of 20%, and its applicability are not explicitly stated in the body of the contract. Additionally, for cost-plus contracts, the pricing terms are typically stated in the terms of the contract. In Contract 606639-20, contract for Video Management Systems Countywide, for example, the project quotes section includes details providing for payment of specific categories of charges. This contract also uses the COFA form for quotes, but still enumerates the charges allowable under the contract in the contract body.

Outdated and conflicting contract terms make it difficult to verify vendor compliance.

Recommendation

- 5.1 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, such as 605639-20.

Management Response

Real Property Management Response:

- 5.1 RPM will work with CC Purchasing and Contracts to ensure future versions of this contract are updated and do not contain outdated requirements.

Anticipated Corrective Action Date: Changes will apply to upcoming new contracts.

Purchasing and Contracts Division Response:

- 5.1 Purchasing agrees and will be addressed.

Anticipated Corrective Action Date: The changes noted in this finding will be implemented by the Purchasing Division on contracts moving forward from April of 2025.

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.¹

The invoice for this purchase order included a flat \$4,980 charge for labor with no reference to the hourly rate used or total hours charged. Based on other JCI labor documents, we determined that 24 labor hours were spent for work detailed in this invoice. That amounts to a \$207.50/hour rate for labor. This labor rate is the highest rate paid for all nine non-contract purchase orders tested. Based on other non-contract purchase orders tested in this sample, the labor rate for JCI Technician labor was \$118/hour. Clark County paid \$89.50/hour more on this invoice, for a total amount of \$2,148 charged.

Since the purchase order was created in the period between the two contracts, the pricing was not required to follow the previous or proposed contract terms. However, we believe the contract work should have been referred to RPM to facilitate pricing consistency, purchase order preparation and invoice transparency.

Recommendation

- 6.1 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.

Management Response

Real Property Management Response:

- 6.1 RPM will recommend a commodity stop which will require other departments to coordinate with RPM ensuring consistency in pricing and contract management.

Anticipated Corrective Action Date: By end of Q4 FY25.

RPM Personnel Should Review IT Licensing Purchase Orders for Contract Compliance

¹ Purchase Order 4500351757, dated 7/14/2022, is for \$10,000 for "Miscellaneous Access Control Services and Equip." was created by District Attorney Family Services IT (DAFS IT) during the interim of expiration of Access Control CBE 604162-16 and renewal ratification of Access Control CBE 606007-21.



During our testing, we identified two purchase orders for Clark County surveillance camera software annual renewal. These purchase orders are governed by the terms of contract 605639-20 Video Management System (VMS) Countywide.

One purchase order dated March 28, 2022 for \$61,142.00 (PO 4500345734) and the other purchase order dated January 17, 2023 for \$76,228.38 (PO 4500361482) are annual licensing fee updates for Clark County surveillance camera software. The licensing includes a per camera license fee and licensing for the four camera servers included in the County's network.

We found a labor overcharge of \$5,030 and a material overcharge of \$1,038.74 for the purchase order dated March 28, 2022 (PO 4500345734). For the purchase order dated January 17, 2023 (PO 4500361482), we found a labor overcharge of \$2,410.26 and a materials overcharge of \$4,414.34. The variances were based on documentation obtained from the vendor. 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 that the IT Finance Liaison is unable to confirm that the work under the purchase order complies with the contract terms. Further, the license renewal was not sent to IT License Administration for tracking.

Surveillance Camera licensing renewals are sent by RPM to IT Finance for payment. These renewal requests should also be reviewed by RPM to verify contract compliance. Without this review, the County could be subject to potential overpayment of licensing fees. In this case, the County overpaid \$12,893. RPM is not included in the review and payment approval for surveillance camera licensing fees.

If RPM oversight of the surveillance camera licensing purchase requests does not occur, the request may not be in line with contract requirements, thereby causing potential overpayment by the County.

Recommendation

- 7.1 Implement a process where RPM project oversight representatives review future software licensing purchase orders to ensure that the charges are justified and in accordance with contract terms prior to forwarding the invoice to the Information Technology department.
- 7.2 Forward information on the license renewals to IT Licensing Administration for cataloguing in the County annual renewals listings.

7.3 Pursue a recovery of \$12,893.

Management Response

Real Property Management Response:

- 7.1 RPM will implement a process where a representative, familiar with the contract, will review future software and licensing purchase orders to ensure justification of costs and contract compliance.
- 7.2 RPM will forward information on the license renewals to IT Licensing Administration per report recommendation.
- 7.3 Recovery of funds could be applied as a future credit on incoming project work. Out of RPM purview.

Anticipated Corrective Action Date: Items 7.1-7.2 completed already. Item 7.3 if possible, by the end of June 2025.

Contract Labor Markup Rate Varies Significantly Among Contracts



During our testing, we found that the amount added to labor for fringe benefits varies significantly.

Contract CBE 605386-19 is a service contract for Metasys Full-Coverage Maintenance, Repair, Addition, and Modification Services Countywide. It was approved by the Board on September 30, 2019, as a no-bid contract on the grounds that the system is sole source and maintenance, repair, and installation is more efficiently handled by a certain person/company. This contract includes cost-plus provisions for projects outside of the service umbrella. The terms of the cost-plus service are prevailing wage labor rates plus 30% as a labor markup.

Contract 605639-20 is for Video Management Service Countywide. It was approved by the Board on September 15, 2020, following a bidding process. This contract includes cost-plus provisions for projects. The terms of the cost-plus service are prevailing wage labor rates plus 33% as a labor markup.

Contract CBE 606007-21 is for Purchase, Repairs and Maintenance of Countywide Access Control Systems. It was approved by the Board on November 1, 2022, as a no-bid contract on the grounds that the vendor is the sole distributor and authorized installer of the system in use in Clark County. This contract is cost-plus, and the terms are prevailing wage labor rates plus 42% as a labor markup.

The contract terms are summarized in the table below:

Contract	Labor Markup
605386-19	30%
605639-20	33%
606007-21	42%

Under the terms of the cost-plus contracts, the purpose of the labor markup is to cover the vendor's overhead costs related to labor. This would include items such as vacation, sick time, and other benefits. The labor costs for all three contracts are further marked up by an additional overhead percentage meant to cover overhead costs and profit. This additional amount was as follows: 15% for 605386-19, 9.8% for 605639-20, and 20% for 606007-21.

In a cost-plus contract, all costs should be supported and verifiable. This includes the specific labor markup when an additional overall markup is added.

Previously, labor markup discussions and determinations were not documented during contract negotiations. The County could be paying for benefits not provided to employees.

Recommendation

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

Management Response

Real Property Management Response:

- 8.1 RPM will coordinate with CC Purchasing and Contracts to increase parity and consistency where possible on future contracts.

Anticipated Corrective Action Date: Changes will apply to upcoming new contracts.

Purchasing and Contracts Division Response:

- 8.1 Purchasing will work with Budget, the Comptroller and the utilizing department to ensure the burden rate is accurate and consistent for future contracts.

Anticipated Corrective Action Date: The changes noted in this finding will be implemented by the Purchasing Division on contracts moving forward from April of 2025.

Rebuttal to Johnson Controls Response

On April 22, 2025, the Audit Department received a response from Johnson Controls to the audit findings. In that response (included as Appendix C), they generally refuted the audit findings related to overcharges. However, they failed to provide any details to support their allegations. Our department worked diligently to obtain sufficient documentation to complete our audit and support our findings. Johnson Controls was given numerous opportunities to provide us with any and all documentation that would address our concerns.

On February 11, 2025, the Audit Director, Audit Manager, and Auditor all met with Johnson Controls to discuss the draft report and the findings. In attendance at the meeting from Johnson Controls was the Branch Installation Manager, the HVAC Complex Account Executive, the Security and Fire Systems Team Leader, and the Customer Operations Associate. Johnson Controls asked for details for the findings related to overcharges, which we provided to them on February 13, 2025. Johnson Controls did not provide us with any additional information related to those findings. Therefore, we have no reason to believe any of our findings are erroneous.

Appendix A: Audit Scope, Methodology, and GAGAS Compliance

Scope

The audit covered the purchase orders issued from January 1, 2022, through April 30, 2023. The last day of field work was November 26, 2024.

Methodology

To accomplish our objectives, we conducted a preliminary survey that included reviewing applicable policies, procedures and statutes. We interviewed staff and performed facility observations. We selected all Johnson Controls purchase orders created in SAP during the period and identified associated contracts. We identified and obtained the relevant contracts and reviewed them to determine relevant criteria for testing and identify risks.

Based on the risks identified during our preliminary survey, and discussions with staff, we developed an audit program. We performed the following audit procedures:

- Selected all Johnson Controls purchase orders issued between January 1, 2022, through April 30, 2023, omitting purchase orders issued to Las Vegas Metropolitan Police Department, and Harry Reid International Airport. Contracts identified from this review of the purchase orders are the following:
 - Bid No. 605639-20 Video Management Services Countywide
 - CBE 605386-19 Metasys Full-Coverage Maintenance, Repair, Addition, and Modification Services.
 - CBE 606007-21 Access Control Systems Countywide.
- Examined all purchase orders and identified corresponding invoices maintained in the County Finance shared drive submitted by the vendor for payment. We reconciled each purchase order to the quote and amount invoiced. We traced invoiced amounts for labor, materials, and equipment to supporting documentation provided by the vendor and RPM.
 - Purchase Orders tested by contract include:
 - 11 purchase orders issued under BID No. 605639-20 Video Management Services Countywide.
 - 3 purchase orders issued under CBE No. 605386-19 Metasys Full-Coverage Maintenance, Repair, Addition and Modification Services.
 - 2 purchase orders issued under CBE No. 606007-21 Access Controls Systems Countywide.
 - 9 purchase orders that were not issued under contract.

- Used professional judgment and selected one purchase order from each of the three contracts for detailed labor testing. We obtained time sheet reports and employee earnings statements and calculated the hours and rates chargeable under contract terms and reconciled to the labor hours invoiced.
- Reviewed insurance documentation for all three contracts to determine whether Johnson Controls maintains the required insurance coverage in accordance with the agreements
- Obtained a listing of all employees assigned to Clark County for services under each of the contracts from the vendor. For all 21 names obtained, we verified that each employee had received a background check performed by the County and held an active current badge record in the Clark County badging system.
- Obtained and examined documentation required under general contract compliance requirements for each contract including vendor work orders and work order procedures, progress meeting minutes, preventive maintenance plans, vendor certifications, project manager assignment, applicable licenses, performance bonds, and related subcontractor identification and disclosure of ownership forms.
- Performed a physical inspection of the Clark County Central Plant and confirmed local maintenance of inventory and spare parts as required by contract.
- Examined the Clark County Purchasing Prevailing Wage review in progress at the time of this audit.

While some samples selected were not statistically relevant, we believe they are sufficient to provide findings for the population as a whole.

Our review included an assessment of internal controls in the audited areas. Any significant findings related to internal control are included in the detailed results.

Standards Statement

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). 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. Our department is independent per the GAGAS requirements for internal auditors.

Appendix B: Summary of Testing Variances

Purchase Order #	Purchase Order Total	Net Over (Under) Charge
4500343759	\$13,285	\$1,360
4500345734	\$61,142	\$6,069
4500351511	\$5,000	\$0
4500355884	\$5,143	\$875
4500356506	\$2,376	\$35
4500358019	\$8,924	\$10
4500358020	\$11,035	\$1,355
4500359690	\$46,410	\$899
4500361482	\$76,228	\$6,825
4800010899	\$120,613	\$11,899
1800011100	\$24,996	\$761
4500352986	\$360,862	\$6,064
4500353465	\$29,262	(\$389)
4500359700	\$165,973	(\$767)
4500362335	\$137,517	\$15,619
4500344112	\$3,054	\$317
4500344668	\$14,422	\$1,888
4500346690	\$472	\$0
4500346717	\$8,386	(\$1,416)
1400346718	\$1,416	\$944
1500349011	\$30,458	(\$2,021)
4500349264	\$3,572	\$0
4500351757	\$8,039	\$0
4500359963	\$40,231	\$0
Total	\$1,178,816	\$50,327

Appendix C: Johnson Controls Response

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Tel 866.208.7497 www.johnsoncontrols.com



4/22/2025
Clark County Audit Committee
500 S Grand Central Pkwy.
Las Vegas, NV 89155

Dear Audit Committee Members,

I am writing to inform the Audit Committee that Johnson Controls will not be attending the public Audit Committee meeting scheduled for April 23rd, 2025. Johnson Controls has reviewed the draft Audit Report and disagrees with the findings that Johnson Controls overcharged the County or is otherwise noncompliant with contract terms.

Regarding the \$30,945, the Audit Committee alleges Johnson Controls was paid in excess of the contract increase allowance relating to the Metasys Building Control Full Coverage Maintenance and Repair Contract (CBA) established between Johnson Controls and Clark County RPM, this contract was renegotiated in good faith and transparency and was awarded to Johnson Controls in December 2024. As such, we are unable to accommodate requests for any reductions or credits in the CBA pricing.

Regarding the \$50,327 in charges for which the Audit Committee was purportedly unable to find sufficient documentation, Johnson Controls would need more specific information to be able to respond to each individual charge in the Audit Report. That said, Johnson Controls rejects any suggestion that it overcharged the County for work it performed and notes that all of its invoices were already reviewed and approved by the County. We would be happy to continue discussing these specifics with RPM in a commercial setting at a later date.

We look forward to collaborating with Clark County on this matter and appreciate your understanding.

Sincerely,

A handwritten signature in blue ink, appearing to read "Jereme Roesing", written over a light blue horizontal line.

Jereme Roesing
HVAC Branch Service Manager
Johnson Controls – Las Vegas



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