



# Office of Inspector General

March 2009  
Report No. AUD-09-009

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**Oversight Management of the Contract  
with the ARAMARK Corporation**

**AUDIT REPORT**

*Office of Audits*



**oig**



Federal Deposit Insurance Corporation

## Oversight Management of the Contract with the ARAMARK Corporation

### Audit Results

#### Why We Did The Audit

In February 2007, the FDIC's Division of Administration (DOA) awarded a contract to the ARAMARK Corporation (ARAMARK) to manage and operate the Corporation's Student Residence Center (SRC) in Arlington, Virginia, and cafeterias in the Virginia Square facility and Headquarters building in Arlington and Washington, D.C., respectively. The contract, which has a ceiling price of approximately \$51 million and a term of 10 years (including option periods), is one of the FDIC's highest-dollar contracts.

The audit objective was to assess key oversight management controls pertaining to the FDIC's contract with ARAMARK.

#### Background

DOA is responsible for the administration and oversight management of the ARAMARK contract. DOA has published the *Acquisition Policy Manual* (APM), which defines policies and procedures for procuring goods and services and assigning roles and responsibilities in all phases of the procurement process. Among other things, the APM requires the appointment of an Oversight Manager to monitor and evaluate contractor performance.

The audit focused on assessing 11 key oversight management controls designed to ensure that ARAMARK complies with the terms and conditions of its contract with the FDIC. The 11 controls pertain to contractor personnel qualifications, contractor insurance coverage, FDIC-furnished equipment, internal contractor audits, invoice review and approval, accounting for contractor cash receipts, emergency preparedness, evaluating contractor performance, quality assurance, monitoring and inspection of contractor performance, and contract management planning.

The FDIC has established controls to help ensure proper oversight management of its contract with ARAMARK in all but 1 of the 11 oversight management areas that we assessed (contractor personnel qualifications). For example, the FDIC established policies and procedures for reviewing and approving invoices and monitoring and inspecting contractor services; a Contract Management Plan to guide the FDIC's oversight management of ARAMARK; and a Quality Assurance Plan to ensure quality and timely services from ARAMARK.

The above actions were positive. However, the FDIC's implementation of controls needed improvement in 9 of the 11 areas that we assessed. Of particular note, the FDIC had not obtained a physical inventory of FDIC-furnished equipment including small wares (e.g., glassware, tableware, and flatware) for the cafeterias covered under the contract. The FDIC had also not identified emergency response and continual-use requirements pertaining to the SRC and cafeterias operated by ARAMARK. In addition, although the FDIC reviews ARAMARK's invoices and supporting documentation for accuracy, reasonableness, and compliance with the terms of the contract, charges on the invoices were not traced (on a sample basis) to original documentation.

### Recommendations and Management Response

We recommended that the Director, DOA:

- Amend the ARAMARK contract to reflect the FDIC's practice for ensuring that contractor and subcontractor personnel meet minimum qualification requirements.
- Develop emergency response and continual-use requirements for the SRC and cafeterias and incorporate these requirements into the FDIC's Emergency Preparedness Program manual.
- Amend the Contract Management Plan to require that the Oversight Manager and/or Contracting Officer:
  - Obtain and maintain up-to-date Certificates of Insurance Coverage
  - Maintain and periodically inspect FDIC-provided equipment inventories
  - Assess ARAMARK's internal corporate audits
  - Conduct periodic verifications or audits of ARAMARK invoices
  - Ensure ARAMARK's emergency response and continual-use plans support the FDIC's Emergency Preparedness Program
  - Participate in sanitation audits

The FDIC took responsive actions to address the recommendations related to personnel qualifications and the Contract Management Plan prior to the issuance of our report, and the recommendations are closed. The FDIC was in the process of taking responsive action to address the recommendation related to the emergency response and continual use requirements for the SRC and cafeterias, and we will close this recommendation once agreed-to action is completed.

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**DATE:** March 31, 2009

**MEMORANDUM TO:** Arleas Upton Kea, Director  
Division of Administration

**FROM:** /Signed/  
Russell A. Rau  
Assistant Inspector General for Audits

**SUBJECT:** *Oversight Management of the Contract with the  
ARAMARK Corporation*  
(Report No. AUD-09-009)

This report presents the results of our audit of the FDIC's oversight management of the contract with ARAMARK Corporation (ARAMARK)<sup>1</sup> to manage and operate the Corporation's Student Residence Center (SRC) in Arlington, Virginia, and cafeterias in the FDIC's Headquarters building and Virginia Square facility in Washington D.C., and Arlington, respectively. The contract also provides for executive dining room operations, sales and marketing support, and conference planning. The FDIC's Division of Administration (DOA) is responsible for the administration and oversight of the ARAMARK contract.

The audit objective was to assess key oversight management controls pertaining to the FDIC's contract with ARAMARK. Appendix 1 of this report discusses our audit objective, scope, and methodology in detail.

## BACKGROUND

### The ARAMARK Contract

On October 10, 2006, the FDIC's Board of Directors approved contract expenditure authority totaling \$49,225,039 to manage and operate the SRC and the cafeterias at the Corporation's Headquarters building and the Virginia Square facility over a 10-year period. On February 14, 2007, DOA awarded a contract to ARAMARK valued at

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<sup>1</sup> ARAMARK changed its name from ARAMARK Services, Inc. to ARAMARK Corporation on March 30, 2007. ARAMARK is a privately held corporation that provides food services and facilities management to both businesses and government. Headquartered in Philadelphia, Pennsylvania, ARAMARK has approximately 250,000 employees serving clients in 19 countries.

\$50,849,142.97<sup>2</sup> to manage and operate the SRC and cafeterias. Table 1 below summarizes key aspects of the FDIC’s contract with ARAMARK.

**Table 1: ARAMARK Contract Information**

Contract Type	Firm Fixed Price with Reimbursable Elements
Term	4-year base, plus three 2-year options
Base Period of Performance	March 31, 2007 – March 30, 2011
Maximum that can be billed to the FDIC	\$50,849,143 over 10 years

Source: Office of Inspector General (OIG) analysis of the ARAMARK contract.

The SRC is an FDIC-owned 11-story hotel with 350 units. The hotel’s primary purpose is to provide lodging for out-of-town federal and state regulatory personnel who use the FDIC’s training and educational center at the Virginia Square facility. The SRC is open 24 hours a day, 7 days a week, 365 days a year. The cafeterias at the FDIC’s Headquarters building and the Virginia Square facility provide complete breakfast and lunch services and are open on weekdays. In addition, ARAMARK provides requested catering services for events sponsored by the FDIC and outside organizations.

### **Contract Administration and Oversight Management**

The FDIC’s *Acquisition Policy Manual* (APM) defines the policies and procedures for procuring goods and services and assigning key roles and responsibilities in all phases of the procurement process. Among other things, the APM requires that an FDIC employee serve as an Oversight Manager (OM) to monitor and evaluate contractor performance. The APM also provides that the FDIC’s Contracting Officers (CO) may appoint a Technical Monitor (TM) to assist the OM in monitoring and evaluating contractor performance. The CO is required to provide the OM and TM with a confirmation letter describing their contract oversight authorities, duties, and responsibilities. DOA has assigned an OM and a TM for the ARAMARK contract. In addition, section 6.404 of the APM requires that the CO and OM develop a Contract Management Plan (CMP) for the ARAMARK contract. A key objective of the CMP is to ensure that the CO, OM, and TM have a common understanding of both contractor and FDIC obligations under the contract.

Our audit focused on assessing 11 key oversight management controls designed to ensure that ARAMARK complies with the terms and conditions of its contract with the FDIC. We identified these 11 controls based on an analysis of the APM, the OM and TM confirmation letters, and the FDIC’s contract with ARAMARK. The 11 controls are Personnel Qualifications, Certificate of Insurance Coverage, FDIC-furnished Equipment, Internal Contractor Audits, Invoice Review and Approval, Cash Receipts, Emergency

<sup>2</sup> The FDIC’s Board of Directors has delegated to management the authority to exceed expenditures by 15 percent. The amount of \$50,849,143 is about 3.3 percent above the Board-approved amount of \$49,225,039.

Preparedness Program, Award Term Plan, Quality Assurance Plan, Monitoring and Inspection of Contractor Services, and Contract Management Plan.

## ARAMARK Contract Financial Information

The FDIC pays ARAMARK a fixed monthly management fee and reimburses the firm for certain expenses in exchange for operating the SRC and the two cafeterias. The monthly management fee covers all labor costs incurred by ARAMARK and ARAMARK's profit. Reimbursed expenses include such things as food and beverages; maintenance, replacement, and repair of equipment; and credit card transaction fees. ARAMARK submits separate monthly invoices and operating statements for the SRC and each of the cafeterias. Under the terms of the contract, ARAMARK may deduct its management fees and reimbursed expenses from the sales revenues it collects from food sales, hotel room rentals, and other services provided under the contract. Because ARAMARK's management fees and reimbursed expenses often exceed the sales revenues it collects, the FDIC pays ARAMARK a monthly subsidy. Table 2 below summarizes the total sales revenues, management fees, reimbursed expenses, and subsidy on the ARAMARK contract. More details on sales revenues, reimbursed expenses, management fees, and subsidy for the SRC and cafeterias are in Appendix 2.

**Table 2: ARAMARK Contract Sales Revenues, Management Fees, Reimbursed Expenses, and Subsidy (March 31, 2007 – October 2, 2008)**

	<b>Total (18 months)</b>	<b>Monthly Average</b>
Sales Revenues	\$8,035,977	\$446,443
Management Fees	(\$8,157,807)	(\$453,212)
Reimbursed Expenses	(\$3,106,609)	(\$172,589)
Subsidy	(\$3,228,439)	(\$179,358)

Source: OIG analysis of ARAMARK financial reports.

## RESULTS OF AUDIT

The FDIC has established controls to help ensure proper oversight management of its contract with ARAMARK in all but 1 of the 11 oversight management areas that we assessed (contractor personnel qualifications). For example, the FDIC has established policies and procedures for reviewing and approving invoices and monitoring and inspecting contractor services; a CMP to guide the FDIC's oversight management of ARAMARK; and a Quality Assurance Plan to ensure quality and timely services from ARAMARK.

The above actions were positive. However, the FDIC's implementation of controls needed improvement in 9 of the 11 areas that we assessed. Of particular note, the FDIC had not obtained a physical inventory of FDIC-furnished equipment, which includes equipment and small wares,<sup>3</sup> for the cafeterias covered under the contract. Additionally,

<sup>3</sup> Small wares include small kitchen and bar appliances, glassware, tableware, and flatware.

the FDIC had not identified emergency response and continual-use requirements pertaining to the SRC and cafeterias operated by ARAMARK. Further, the FDIC reviews ARAMARK's invoices and supporting documentation for accuracy, reasonableness, and compliance with the terms of the contract; however, charges on the invoices are not traced (on a sample basis) to original documentation.

## OVERSIGHT MANAGEMENT OF THE ARAMARK CONTRACT

For all but 1 of the 11 key oversight management areas assessed, the FDIC had established controls to help ensure proper oversight management of the ARAMARK contract. However, the implementation of these controls needed improvement. Weaknesses in the implementation of these controls were generally caused by a lack of attention to these control areas in the CMP. A brief description of our assessment for each of the 11 oversight management control areas follows.

### Personnel Qualifications

Section 4.4, *Personnel Qualifications*, of the ARAMARK contract states that personnel qualifications defined in the contract will be used in determining whether contractor and subcontractor personnel meet the minimum requirements of the contract. Section 4.4 also states that ARAMARK shall provide the CO and OM with quarterly letters certifying that all contractor and subcontractor personnel working under the contract satisfy the personnel qualifications defined in the contract. However, the ARAMARK contract did not define personnel qualification requirements, and ARAMARK did not provide the CO or OM with the required quarterly certifications.

We spoke with the CO regarding these discrepancies and were advised that personnel qualifications were not included in the ARAMARK contract because such information is not applicable to performance-based contracts,<sup>4</sup> such as the ARAMARK contract. The CO indicated that personnel qualifications are typically required for time-and-materials-type contracts containing Statements of Work that direct the contractor to perform work in a specific manner. The CO added that key personnel were approved to work on the ARAMARK contract following an assessment of their résumés contained in ARAMARK's original proposal. The CO indicated that the OM is responsible for ensuring that any new key personnel assigned to the contract are qualified, consistent with section 6.0 of the contract's Performance Work Statement (PWS).

We reviewed a key personnel change request, dated July 2008, to the ARAMARK contract. A memorandum in the contract file, co-signed by the CO and OM, indicated

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<sup>4</sup> According to a federal inter-agency publication entitled, *Seven Steps to Performance-Based Acquisition*, performance-based acquisitions require that some traditional approaches to buying services, such as specifying labor categories, educational requirements, or the number of hours of support required, be eliminated in favor of allowing contractors to propose the best people with the best skill sets to meet the government's need.

that personnel qualifications had been considered in recommending acceptance of the proposed personnel. While such actions are positive, the FDIC should amend the ARAMARK contract to reflect its approach for ensuring that contractor and subcontractor personnel satisfy the FDIC's minimum personnel qualification requirements. Such an amendment will minimize potential ambiguity in the FDIC's expectations of ARAMARK in this regard and protect the FDIC's interests in the event of a contractual dispute related to personnel qualifications.

## **Certificate of Insurance Coverage**

Section 10.1, *Liability Insurance*, of the ARAMARK contract requires that the firm carry certain types of liability insurance, including worker's compensation and employer's liability insurance, comprehensive bodily injury and property damage liability insurance, and automobile public liability and property damage insurance. Section 10.2,<sup>5</sup> *Certificates of Insurance*, requires ARAMARK to provide the FDIC with a Certificate of Insurance evidencing that the firm carries all of the insurance required by the contract within 10 calendar days of the contract's execution. We determined that ARAMARK's coverage is above the minimum amounts specified in the contract for worker's compensation, employer liability insurance, and automobile public liability and property damage insurance. The coverage is equal to the minimum amount specified by the contract for comprehensive bodily injury and property damage liability insurance.

Although the OM maintained a copy of the Certificate of Insurance provided by ARAMARK when the contract was executed, the terms of the policies had since expired. We spoke with the OM about this matter and learned that ARAMARK had renewed its insurance without a gap in coverage but had not provided the OM with an updated Certificate of Insurance. Following our discussion, the OM requested and obtained a current Certificate of Insurance from ARAMARK. Certificates of Insurance provide the FDIC important assurance that its business interests are protected. Absent adequate insurance coverage, the FDIC could be unnecessarily exposed to financial liability due to injuries and accidents. The FDIC should modify the CMP for the ARAMARK contract to require that the OM maintain a current Certificate of Insurance to ensure that the FDIC's business interests are adequately protected.

## **FDIC-furnished Equipment**

Section 6.5, *Contractor Responsibilities*, of the PWS in the ARAMARK contract, states that within 1 week of contract award, ARAMARK will provide the OM with an inventory list of all FDIC-furnished equipment, including small wares, at each foodservice location. Under the terms of the contract, ARAMARK is responsible for maintaining the approved copy of the inventory and updating the inventory as required. The *Letter of Oversight Manager*

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<sup>5</sup> According to section 10.2, ARAMARK is required to have its insurance carrier(s) certify to the FDIC that all required insurance is in force and that such certifications stipulate that the insurance will not be cancelled or substantially changed without 30 days' prior notice, by certified mail, to the FDIC's CO.

*Confirmation* assigns the OM responsibility for implementing the FDIC-furnished equipment provisions of the contract, including preparing an itemized list of such equipment, showing serial numbers, if any; providing the CO with the equipment list; and ensuring the contractor acknowledges, in writing, receipt for such equipment. However, the OM did not obtain the initial or current inventory lists of equipment for either of the two cafeterias covered under the contract. During the audit, we obtained the original inventory list of equipment at the Virginia Square cafeteria as well as current inventory lists of equipment for both the Headquarters building and Virginia Square cafeterias. We could not obtain the initial inventory list of equipment for the Headquarters building cafeteria because it did not exist.

Verifying inventories of FDIC-furnished equipment is a key control for ensuring a proper accounting of FDIC assets and for deterring instances of loss due to theft. The CMP should be amended to include a requirement to maintain the current inventory of FDIC-furnished equipment.

### **Internal Contractor Audits**

Section 8.0, *Record-Keeping Requirements*, of the PWS in the ARAMARK contract states that ARAMARK shall conduct, or engage a third party to conduct, internal audits of the FDIC operation at least annually, with copies of any findings forwarded to the CO. ARAMARK’s internal audits are based on the completion of standard corporate forms containing specific audit steps. The audits cover, among other things, sales revenues and expenses for both the SRC and cafeteria. Table 3, which follows, lists the internal audits that ARAMARK completed during the period March 31, 2007 through October 2, 2008.

**Table 3: ARAMARK’s Internal Audits**

<b>FDIC Facility Audited</b>	<b>Audit Completion Date</b>
Headquarters Cafeteria	September 11, 2007
Headquarters Cafeteria	December 27, 2007
SRC	September 19, 2008
Virginia Square Cafeteria	September 24, 2008

Source: OIG analysis of ARAMARK’s internal audits.

Although FDIC management relies on ARAMARK’s internal audits to ensure accurate reporting of sales revenues and expenses, neither the OM nor the CO reviewed the audit results or held discussions with the auditors to assess the sufficiency of the audit work performed. In addition, as shown in Table 3, internal audits were not performed within 1 year of contract start on March 31, 2007, as required by the contract. As a result, the FDIC’s reliance on ARAMARK’s internal audits for accurate reporting of revenues and expenses is limited. Without adequate assurance of accurate reporting of sales revenues and expenses, the FDIC could pay an excessive subsidy to ARAMARK. The CMP should be amended to include a requirement for the OM to review internal audit reports and discuss the results with the ARAMARK’s internal auditors. Such actions will provide for greater assurance that corrective actions are implemented for identified deficiencies in a timely manner.

## Invoice Review and Approval

Section 5.2.6, *FDIC Review*, of the ARAMARK contract states that the OM will review each invoice for reasonableness and accuracy prior to approving the invoice for payment. In addition, the *Letter of Oversight Manager Confirmation* authorizes the OM to approve invoices for payments. We selected a non-statistical sample<sup>6</sup> of two monthly invoices, totaling \$231,210.95, that were submitted under the ARAMARK contract during 2008 in order to assess the extent to which the OM had analyzed the invoices prior to payment. We confirmed that the OM had, in fact, reviewed the invoices and supporting documentation for accuracy, reasonableness, and compliance with the terms of the contract. Further, we independently verified the accuracy of revenues and expenses, including management fees on the invoices. However, most of the documentation supporting the monthly invoices consisted of secondary reports and schedules generated by ARAMARK instead of original documentation (e.g., purchase orders, delivery slips, invoices, and credit card receipts.) We contacted ARAMARK for additional documentation and explanations for a number of items, such as tax amounts, external catering charges, and software usage charges.

The OM did not trace charges on ARAMARK's monthly invoices (on a sample basis) to original documentation because of time constraints. Instead, the OM relied on ARAMARK's internal audits as a control for ensuring the accuracy of sales revenues and expenses on the invoices. However, as previously described, ARAMARK's internal audits provided limited assurance regarding the accuracy of ARAMARK's monthly invoices because the FDIC had not reviewed the sufficiency of ARAMARK's underlying audit work. Although our tests of the two invoices did not identify any improper charges, it would be prudent for the FDIC to independently verify, on at least a sample basis, the accuracy of charges to original documentation. Conducting such verifications, or requesting independent audits<sup>7</sup> of invoices by ARAMARK, would significantly increase the FDIC's assurance that invoices reflect accurate sales revenues and expenses. The CMP should be modified to include a requirement for periodic independent verifications of ARAMARK invoices.

## Cash Receipts

Section 6.9, *Revenue Management*, of the PWS in the ARAMARK contract requires ARAMARK to employ sound cash management practices to ensure that sales revenues are properly recorded and that all charges are supported by appropriate vouchers. Cost controls and sound cash management practices are significant performance indicators under the contract. We assessed selected controls for cash receipts at the SRC and the two cafeterias. With regard to the SRC, we assessed the *Reconciliation Reports* prepared

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<sup>6</sup> The results of a non-statistical sample cannot be projected to the intended population by standard statistical methods.

<sup>7</sup> Section 8.0(d)(1) of the PWS states that periodic accounting or management audits of the operation may be requested by the FDIC. Auditors (employees or agents of the FDIC) will be allowed full access to the contractor's on-site and off-site facilities and records pertaining to the ARAMARK contract.

by front desk personnel to close out and reconcile cash receipts at the end of each shift and *Daily Sales Recap* reports prepared by the night auditor for March 11, 2008 and September 19, 2008. With regard to the two cafeterias, we assessed the *Cashiers Reports*, prepared by the cashiers to record sales receipts at the end of each shift, and *Café Sales Spreadsheets*, prepared by the Head Cashier to record sales, customer counts, and ending cash register records, for March 17, 2008 (Headquarters cafeteria) and September 10, 2008 (Virginia Square cafeteria). We also assessed daily bank deposit slips for the SRC and the cafeterias. Based on our analysis of this information, we concluded that ARAMARK had implemented control measures that provide reasonable assurance that cash receipts are properly recorded and deposited.

## **Emergency Preparedness Program**

Section 1.6, *Emergency Preparedness*, of the ARAMARK contract requires that, upon notice by the FDIC of an emergency situation, the contractor shall take immediate and effective measures to ensure the continual availability or use of services and/or systems as long as the actual or threatened emergency situation exists. In addition, section 9.0, *Emergency Planning Procedures*, of the PWS for the contract states that the contractor will comply with the FDIC emergency action plan developed by DOA for the SRC and office buildings housing both cafeterias covered under the contract. The FDIC's *Emergency Preparedness Program (EPP) Manual*<sup>8</sup> defines how the FDIC will ensure the safety and security of all FDIC personnel and the efficient resumption of the FDIC's critical business processes during and after an emergency. However, the EPP Manual did not identify emergency response or continual-use requirements for the SRC and Headquarters building and Virginia Square cafeterias in the event of an emergency. DOA needs to identify emergency response and continual-use requirements in the EPP Manual for the preparedness requirements pertaining to the SRC and cafeterias operated by ARAMARK, and update the CMP accordingly. Such action will help to ensure that ARAMARK meets the FDIC's expectations in the event of an emergency.

## **Award Term Plan**

Attachment 8, *Award Term Plan*, of the ARAMARK contract, establishes a program for the FDIC to evaluate ARAMARK's performance under the contract. The FDIC uses the results of the program evaluation, among other things, to motivate the contractor to the highest possible level of service, consistent with cost. We found that the Award Term Plan defined clear performance evaluation criteria and required annual reviews by the FDIC. The first annual review was conducted in May 2008, and the results are documented in the contract oversight file. The results indicate that ARAMARK met the performance goals defined in the Award Term Plan and that the FDIC was satisfied with ARAMARK's performance.

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<sup>8</sup> The EPP Manual, dated August 2008, contains both the FDIC's Emergency Response and Business Continuity Plan.

## Quality Assurance Plan

ARAMARK's Quality Assurance Plan (QAP), which is an attachment to the contract, establishes quantitative performance standards for each of the performance objectives defined in the QAP. Such performance objectives pertain to guest satisfaction; cleanliness; reporting, accounting, and cost control; SRC occupancy rate; and the achievement of subcontracting goals defined in the contract. DOA assessed the extent to which ARAMARK met the performance standards defined in ARAMARK's QAP as part of the first-year Award Term Plan review. The FDIC found that the performance standards had been met for each of the performance objectives with the exception of cleanliness, for which performance standards could not be fully evaluated because the OM had not participated in an annual sanitation audit of the cafeterias conducted by ARAMARK, as required by the QAP, during the first contract year ending in March 31, 2008. The OM subsequently participated in sanitation audits for the Headquarters cafeteria in January 2009 and the Virginia Square cafeteria in October 2008. Timely OM participation in sanitation audits is important for ensuring that ARAMARK maintains the dining facilities in a clean, orderly, and sanitary condition. The CMP should be amended to require that the OM participate in all annual sanitation audits.

## Monitoring and Inspection of Contractor Services

The APM requires that a *Letter of Oversight Manager Confirmation* be issued by the CO to the OM. This letter authorizes the OM to monitor and inspect the contractor's progress and performance to assure compliance with the terms and conditions of the contract. Similarly, the *Letter of Technical Monitor Confirmation* describes duties and responsibilities that the OM can assign to the TM. These duties and responsibilities can include conducting visits to the contractor's work site to determine actual contractor performance and providing ongoing monitoring and evaluation of the contractor's technical and cost performance.

We spoke with the OM and TM and confirmed that monitoring and inspections occur on a regular basis. For example, the OM and TM indicated that they observe ARAMARK's operations at the SRC and Virginia Square cafeteria daily and at the Headquarters building cafeteria approximately once every 2 weeks. The TM also indicated that catering events are observed on the average of two or three times per week. As part of these observations, the TM checks on the room setup, food arrangements, and housekeeping. Both the OM and TM indicated that they spend considerable time responding to oral and e-mail requests from FDIC personnel and ARAMARK management. The OM and TM also indicated that they rely on the governments of the District of Columbia and Arlington County, Virginia, to conduct inspections of the SRC and cafeterias for compliance with health and safety standards and overall quality assurance. In addition, the OM periodically completes a standard ARAMARK form, *Food Safety and Sanitation Audit Form*, as prescribed by the QAP.

While these actions were positive, our report identifies opportunities to improve monitoring and inspection in the areas of contractor insurance coverage, FDIC-furnished equipment, internal contractor audits, invoice review and approval, and participation in sanitation audits. These improvements are addressed in previous sections of this report; therefore, we are not making a specific recommendation pertaining to monitoring and inspection.

## **Contract Management Plan**

The CO and OM developed the CMP, dated March 7, 2007, for the ARAMARK contract. The CMP includes various sections such as *Regular Contact between the Contracting Officer and the Oversight Manager*; *Contractor Progress Meetings*; *Technical Guidance to Contractor during Performance of the Contract*; and *Inspection Criteria*. The CO, OM, and TM fulfill the oversight functions specified in the CMP. However, as described in this report, the CMP does not specifically address oversight management controls in the areas of insurance certificates, inventory of FDIC-furnished equipment, internal audits, invoice review and approval, and quality assurance plans. Accordingly, the CMP should be amended to address these control areas to ensure that they are implemented.

## **Recommendations to Improve Oversight Management Practices**

We recommend that the Director, DOA:

- (1) Amend the ARAMARK contract to reflect the FDIC's practice for ensuring that contractor and subcontractor personnel meet minimum qualification requirements.
- (2) Develop emergency response and continued-use requirements for the SRC and Headquarters building and Virginia Square cafeterias and incorporate these requirements in the EPP Manual.
- (3) Amend the CMP to require that the OM and/or CO:
  - Obtain and maintain up-to-date Certificates of Insurance;
  - Maintain and periodically inspect inventories of equipment and small wares for the Headquarters and Virginia Square cafeterias;
  - Assess ARAMARK's internal audits for sufficient coverage of sales revenues and expenses and ensure they are performed on a timely basis;
  - Conduct periodic verifications or audits of ARAMARK invoices;
  - Ensure ARAMARK's emergency response and continued-use plans for the SRC and cafeterias support the FDIC's EPP requirements in accordance with the contract; and
  - Participate in sanitation audits as required by the QAP.

## CORPORATION COMMENTS AND OIG EVALUATION

On March 27, 2009, the Director, DOA, provided a written response to the draft of this report. Management's response is presented in its entirety in Appendix 3. Management concurred with our findings and recommendations.

In response to recommendation 1, DOA amended the ARAMARK contract by deleting section 4.4, *Personnel Qualifications*. This action removed any potential ambiguity going forward surrounding personnel minimum qualifications, which are generally not applicable in performance-based contracts such as the FDIC's ARAMARK contract. In response to recommendation 2, DOA plans to develop emergency response and continued-use requirements for the SRC and Headquarters building and Virginia Square cafeterias and incorporate these requirements into the DOA Business Continuity Plan portion of the EPP. In response to recommendation 3, DOA has modified the CMP to include each of the oversight management control improvements identified in our report.

A summary of management's response to each of the report's recommendations is in Appendix 4. DOA's actions to address recommendations 1 and 3 are considered responsive, resolved, and closed. Recommendation 2 is resolved but will remain open until we determine that the agreed-to corrective actions have been completed and are responsive.

## OBJECTIVE, SCOPE, AND METHODOLOGY

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### Objective

The audit objective was to assess key oversight management controls pertaining to the FDIC's contract with ARAMARK. We conducted this performance audit from November 2008 through January 2009 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

### Scope

The scope of the audit focused on 11 key contract oversight management controls that we identified based on an analysis of the APM, the OM and TM confirmation letters, and the ARAMARK contract. The scope included the SRC at Virginia Square and the FDIC's Headquarters building and Virginia Square cafeterias. Our work did not include procedures to assess sales and marketing support for the SRC, conference planning, or the vending machines. In addition, we did not perform procedures to assess contractor employee background checks because this area was addressed in a prior audit.<sup>9</sup>

The period of review covered 18 monthly invoice cycles from March 31, 2007 (contract inception) through October 2, 2008.

### Methodology

To achieve our objective, we:

- Reviewed the FDIC's contract No. CORHQ-07-C-0002<sup>10</sup> with ARAMARK executed February 14, 2007, including the contract's attachments and modifications.<sup>11</sup>
- Interviewed DOA representatives regarding their roles and responsibilities and the controls the FDIC has in place to help ensure effective contract oversight management of ARAMARK and its subcontractors. We also interviewed ARAMARK management officials to obtain their perspective on the FDIC's oversight management practices and controls.

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<sup>9</sup> The OIG issued *Contract Terms and Oversight Management Related to ARAMARK Services, Inc.*, Report No. 03-047 dated September 30, 2004.

<sup>10</sup> The initial contract number CORHQ987 was changed to CORHQ-07-C-0002 under Modification No. P00005, dated August 6, 2008.

<sup>11</sup> Attachments to the contract include the: PWS, Contractor's Proposal, FDIC General Provisions, U.S. Department of Labor Wage Determination, FDIC Contractor Travel Reimbursement Guidelines, Award Term Plan, Contractor Confidentiality Agreement, and Approved Subcontractors.

- Analyzed relevant reports and contract-specific documents such as ARAMARK monthly invoices, the *Year One Review* report for the Award Term Plan, the QAP, and ARAMARK internal audits for the SRC and Headquarters building and Virginia Square cafeterias.
- Reviewed the DOA, Management Support Section’s, *Study of the FDIC Virginia Square Student Resident Center Operations*, dated January 11, 2006. An objective of this study was to determine the adequacy of controls over cash receipts.<sup>12</sup>
- Reviewed the FDIC’s *APM*, including the *Letter of Oversight Manager Confirmation* and *Letter of Technical Monitor Confirmation*.
- Identified and assessed key controls designed to ensure effective contract oversight management of ARAMARK and its subcontractors.<sup>13</sup>
- Selected a non-statistical sample<sup>14</sup> of two monthly invoices to determine whether revenue and expenses, including management fees, were adequately supported and the subsidy calculations were correct. The two invoices selected for testing were:

Invoice No.	Period of Performance	Amount
KC00689549	February 22 – March 27, 2008	\$163,377.68
KC00696639	August 22 – October 2, 2008	\$67,833.27

- Reviewed and tested ARAMARK’s controls for revenue processing, including cash receipts.

**Internal Control**

We identified and assessed the following key internal controls related to the oversight management of the ARAMARK contract:

- Personnel Qualifications
- Certificate of Insurance Coverage
- FDIC-furnished Equipment
- Internal Contractor Audits
- Invoice Review and Approval

<sup>12</sup> We used Appendix A from the *Study of the FDIC Virginia Square Student Resident Center Operations* to document the SRC controls for revenue, including cash receipt processing.

<sup>13</sup> We used Government Accountability Office publications, *Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1, November 1999) and *Assessing Internal Controls in Performance Audits* (GAO OP-4.1.4, September 1990).

<sup>14</sup> The results of a non-statistical sample cannot be projected to the intended population by standard statistical methods.

- Cash Receipts
- Emergency Preparedness Program
- Award Term Plan
- Quality Assurance Plan
- Monitoring and Inspection of Contractor Services
- Contract Management Plan

### **Reliance on Computer-processed Data**

Our audit objective did not require that we separately assess the reliability of computer-processed data to support our findings, conclusions, and recommendations. Additionally, in performing this audit, we did not consider it necessary to evaluate the effectiveness of information system controls in order to obtain sufficient, appropriate evidence.

### **Performance Measurement**

We reviewed the FDIC *Strategic Plan 2005 through 2010* and the FDIC *Annual Performance Plan for 2008* and determined that they do not include objectives or goals related to the FDIC's contract with ARAMARK.

### **Compliance with Laws and Regulations and Fraud and Abuse**

Although the ARAMARK contract references a number of statutes and regulations, none were considered significant to the audit's objective. We assessed the risk of fraud and abuse related to the audit objective in the course of evaluating audit evidence.

### **Prior Coverage**

We considered the following reports previously issued by the OIG in planning and conducting our work:

- *Contract Terms and Oversight Management Related to ARAMARK Services, Inc.*, Report No. 03-047, dated September 30, 2004
- *ARAMARK Services, Inc. Billings to the FDIC Under Contract 00-00611-C-J3*, Report No. 03-046, dated September 30, 2003
- *Audit of FDIC's Food Services Contract with ARAMARK Services, Inc.*, Report No. 99-009, dated February 5, 1999.

## FINANCIAL INFORMATION FOR THE ARAMARK CONTRACT

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The table below shows the revenue, reimbursed expenses, management fees, and subsidy for the SRC, Headquarters cafeteria, and Virginia Square cafeteria based on monthly invoices and supporting operating statements obtained during the audit.

	<b>Total</b> (Mar. 31, 2007 – Oct. 2, 2008)	<b>Monthly</b> <b>Average</b>
<b>Student Residence Center</b>		
Revenues	\$5,199,442	\$288,858
Management Fees <sup>a</sup>	(\$4,493,067)	(\$249,615)
Reimbursed Expenses <sup>a</sup>	(\$427,854)	(\$23,770)
	<u>                    </u>	<u>                    </u>
SRC Subsidy <sup>b</sup>	\$278,521	\$15,473
<b>Headquarters Building Cafeteria</b>		
Revenues	\$640,253	\$35,570
Management Fees <sup>a</sup>	(\$1,336,590)	(\$74,255)
Reimbursed Expenses <sup>a</sup>	(\$712,599)	(\$39,589)
	<u>                    </u>	<u>                    </u>
Headquarters Building Cafeteria Subsidy <sup>b</sup>	(\$1,408,937)	(\$78,274)
<b>Virginia Square Cafeteria</b>		
Revenues	\$2,196,283	\$122,016
Management Fees <sup>a</sup>	(\$2,328,150)	(\$129,342)
Reimbursed Expenses <sup>a</sup>	(\$1,966,155)	(\$109,231)
	<u>                    </u>	<u>                    </u>
Virginia Square Cafeteria Subsidy <sup>b</sup>	(\$2,098,023)	(\$116,557)

<sup>a</sup> Under the terms of the contract, ARAMARK may deduct its management fees and reimbursed expenses from the sales revenues it collects from food sales, hotel room rentals, and other services provided under the contract.

<sup>b</sup> Because ARAMARK's management fees and reimbursed expenses often exceed the sales revenues it collects, the FDIC pays ARAMARK a monthly subsidy.

## CORPORATION COMMENTS



**Federal Deposit Insurance Corporation**  
3501 Fairfax Drive, Arlington, VA 22226 3500

March 27, 2009

**MEMORANDUM TO:** Russell A. Rau  
Assistant Inspector General for Audits

**FROM:** Arleas Upton Kea  
Director, Division of Administration

**SUBJECT:** Management Response to the OIG Draft Audit Report Entitled,  
*Oversight Management of the Contract with ARAMARK Corporation*  
(Report No. AUD-008-XXX)

This is in response to the subject Draft Office of Inspector General (OIG) Audit Report, issued February 24, 2009. In its report, the OIG made three recommendations to the Division of Administration.

We appreciate the Draft Report noting that the FDIC had established a number of key controls to ensure proper oversight management of its contract with ARAMARK. Nevertheless, we acknowledge that opportunities exist to improve certain oversight controls. This response outlines our planned corrective actions for each of the recommendations cited in the OIG's Report.

#### MANAGEMENT DECISION

##### **Finding: Personnel Qualifications.**

**Recommendation 1:** That the Director, Division of Administration (DOA) amend the ARAMARK contract to reflect the FDIC's practice for ensuring that contractor and subcontractor personnel meet minimum qualification requirements.

**Management Response 1:** DOA concurs with the recommendation.

**Corrective Action:** The ARAMARK award is a performance-based contract. As a performance-based contract, personnel minimum qualifications are generally not applicable. As such, ARAMARK's key personnel were evaluated with competing offers at award. Those proposed key personnel become part of the resulting contract. If substitutions must be made to key personnel, the oversight manager affirms to the contracting officer that the proposed individual successfully meets the requirements of the performance work statement and has similar skills as the previous key personnel. To remove any potential ambiguity going forward, the Contracting Officer and ARAMARK executed Modification No. P00009 deleting Article 4.4 "Personnel Qualifications" in its entirety from the contract. A copy of the modification is attached.

**Completion Date:** March 18, 2009

\* The attachment is not included in this appendix but can be provided under separate cover.

**Recommendation 2:** That the Director, Division of Administration develop emergency response and continued-use requirements for the SRC and Headquarters building and Virginia Square cafeterias and incorporate these requirements in the EPP Manual.

**Management Response 2:** DOA concurs with the recommendation.

**Corrective Action:** The Assistant Director, Space Management and Special Services Section will work with key personnel in the DOA, Corporate Services Branch to develop emergency response and continued-use requirements for the SRC and Headquarters building and Virginia Square cafeterias and incorporate these requirements in the DOA Business Continuity Plan (BCP) portion of the EPP, via an interim change document.

**Completion Date:** August 31, 2009

**Finding: Contract Management Plan.**

**Recommendation 3:** That the Director, Division of Administration amend the Contract Management Plan (CMP) to require that the Oversight Manager (OM) and/or Contracting Officer (CO):

- o Obtain and maintain up-to-date Certificates of Insurance;
- o Maintain and periodically inspect inventories of equipment and small wares for the Headquarters and Virginia Square cafeterias;
- o Assess ARAMARK's internal audits for sufficient coverage of sales revenues and expenses and ensure they are performed on a timely basis;
- o Conduct periodic verifications or audits of ARAMARK invoices;
- o Ensure ARAMARK's emergency response and continued-use plans for the SRC and cafeterias support the FDIC's EPP requirements in accordance with the contract; and
- o Participate in sanitation audits as required by the Quality Assurance Plan.

**Management Response 3:** DOA concurs with the recommendation.

**Corrective Action:** The CMP was modified to add the above additional requirements to the Action table and Contract Oversight portions of the plan. A copy of the signed plan is attached. \*

**Completion Date:** March 9, 2009

If you have any questions regarding this response, the point of contact for DOA is William Gately at (703) 562-2118.

Attachments

cc: Glen Bjorklund, DOA  
 Michael J. Rubino, DOA  
 Rex C. Anderson, DOA  
 Elizabeth A. Walker, DOA  
 James H. Angel, Jr., OERM  
 William J. Gately, Jr., DOA

\* The attachment is not included in this appendix but can be provided under separate cover.

## MANAGEMENT RESPONSE TO RECOMMENDATIONS

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This table presents the management response on the recommendations in our report and the status of the recommendations as of the date of report issuance.

Rec. No.	Corrective Action: Taken or Planned	Expected Completion Date	Monetary Benefits	Resolved: <sup>a</sup> Yes or No	Open or Closed <sup>b</sup>
1	DOA amended the ARAMARK contract by deleting Section 4.4, <i>Personnel Qualifications</i> .	03/18/2009	\$0	Yes	Closed
2	DOA plans to develop emergency response and continued-use requirements for the SRC and cafeterias and incorporate these requirements into the DOA Business Continuity Plan portion of the EPP.	08/31/2009	\$0	Yes	Open
3	DOA has modified the CMP to include each of the oversight management control improvements identified in the report.	03/09/2009	\$0	Yes	Closed

- <sup>a</sup> Resolved – (1) Management concurs with the recommendation, and the planned, ongoing, and completed corrective action is consistent with the recommendation.  
 (2) Management does not concur with the recommendation, but alternative action meets the intent of the recommendation.  
 (3) Management agrees to the OIG monetary benefits, or a different amount, or no (\$0) amount. Monetary benefits are considered resolved as long as management provides an amount.

<sup>b</sup> Once the OIG determines that the agreed-upon corrective actions have been completed and are responsive to the recommendations, the recommendations can be closed.

**ACRONYMS USED IN THE REPORT**

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APM	<i>Acquisition Policy Manual</i>
CMP	Contract Management Plan
CO	Contracting Officer
DOA	Division of Administration
EPP	Emergency Preparedness Program
OIG	Office of Inspector General
OM	Oversight Manager
PWS	Performance Work Statement
QAP	Quality Assurance Plan
SRC	Student Residence Center
TM	Technical Monitor