

EXECUTIVE SUMMARY OF OIG INVESTIGATION OF ARAMARK AND
STROTHER ENTERPRISES

The City of Philadelphia (City) Office of Inspector General (OIG) investigated and established that ARAMARK Correctional Services, LLC (ACS) failed to comply with the City's M/W/DSBE requirements, as outlined in Mayoral Executive Order 02-05, by using a circular billing arrangement, which overstated Strother Enterprise' (Strother) participation in City Prison Food Services contracts.

Mayoral Executive Order 02-05 mandates that the Office of Economic Opportunity (OEO), or its predecessor the Minority Business Enterprise Council (MBEC), establish a participation range for M/W/DSBEs that prime contractors must meet when working for the City. Contractors must make a good faith effort to meet these participation ranges or upon making a good-faith showing to OEO can receive a reduction in the M/W/DSBE participation requirements in their contract.

Since 1991, ACS has held a contract to provide food services at PPS. These services constitute three (3) meals per day, seven (7) days per week, including cold pack meals, holiday meals, medical diets, juvenile snacks, psychiatric snacks, and medical snacks, for all inmates under the jurisdiction of the City. In addition, ACS contracted to provide meals for employees and official visitors in the employee cafeteria as authorized by PPS policy. As part of this contract, ACS was required to meet an M/W/DSBE participation range between 20 and 25 percent for minority owned business entities (MBE). Since 1995, Strother has served as an MBE for ACS to provide assistance in the management and preparation of breakfast, lunch, and dinner meals in the PPS House of Corrections (HOC). ACS has received credit from the City for Strother's participation on the contract as an MBE.

If ACS could not meet the M/W/DSBE participation range after showing the City a good faith effort, the City could grant a reduction in the participation range, but ACS did not attempt to demonstrate a good faith showing or apply for a participation reduction.

The investigation confirmed that Strother was a City-certified MBE and performed actual work in connection with the Prison Food Services contracts. The investigation further confirmed that the arrangement between ACS and Strother did not increase the amounts paid by the City under the Prison Food Services contracts.

However, the investigation also confirmed that ACS submitted documents to the City which were inaccurate in their statement that ACS paid, as required by Mayoral Executive Order 02-05, at least 20% of the total contract value to Strother. These documents included provider agreements, monthly MBE reports, and Solicitation for Participation and Commitment forms, all with incorrect information as to Strother's role. The documents represented that ACS contracted with Strother and paid Strother at least 20% of the total contract value for its services. Instead of paying at least 20% of the contract value to Strother, ACS, through the use of a circular billing arrangement, in effect paid Strother approximately 4% of the total contract value, an overstatement of over \$2 million.

ACS had Strother invoice it for both the food service management of the contract, as well as the food provided. However, ACS provided the food for the contract, and Strother received a net payment of only the food service management portion of the contract.

In documentation ACS submitted to the City, ACS reported the entire amount – both the food management and the food – as being subcontracted to Strother. As a result, ACS certified on its monthly MBE reports that it paid \$14.7 million to Strother, when its net payment to Strother was actually approximately \$2.3 million.

Additionally, from 2007 through 2009, the circular payments also inflated Strother's activities at PPS. Strother only provided food management services in the PPS House of Corrections, while Strother invoiced and ACS included all dinners served at all PPS facilities. This inaccurate statement resulted in an overstatement of approximately 25,000 meals per month provided by Strother.

ACS and Strother have worked cooperatively with the OIG on this matter and made good-faith efforts to comply with the City's policies relating to M/W/DSBE participation. ACS and Strother deny that they engaged in any wrongful conduct, but have entered into a no fault settlement agreement with the City. In sum, the settlement agreement provides that ACS will pay \$352,000.00 to the City and Strother will pay \$48,000.00. Both ACS and Strother will incorporate new internal policies and amend their invoicing procedures to ensure that they comply with the city's Anti-Discrimination Policies on future contracts with the City and/or City-related agencies.