



DEFENSE CONTRACT AUDIT AGENCY
AUDIT REPORT NO. 2191-2008M17200001



December 19, 2008

PREPARED FOR: Contracting Officer ([REDACTED])
Defense Supply Center Philadelphia
Subsistence Directorate, Building 6
700 Robbins Avenue
Philadelphia, PA 19111-5092

PREPARED BY: DCAA European Branch Office
CMR 443, Box 1500
APO AE 09096-1500
Telephone No. [REDACTED]
FAX No. [REDACTED]
E-mail Address [REDACTED]

SUBJECT: Report on Audit of Equitable Adjustment Proposal for Change Related to
Outbound Transportation Effort

REFERENCES: Contract No. SPM300-05-D-3130
Relevant Dates: See Page 50

CONTRACTOR: Supreme Food Services AG
Ziegelbrueckstr 66
Ziegelbrueck, Switzerland 08866

REPORT RELEASE RESTRICTIONS: See Page 51

	<u>Page</u>
CONTENTS: Subject of Audit	1
Scope of Audit	1
Results of Audit	2
Contractor Organization and Systems	49
DCAA Personnel and Report Authorization	50
Audit Report Distribution and Restrictions	51
Chronology of Significant Events	52

SUBJECT OF AUDIT

As you requested on July 7, 2008, we performed an examination of the Supreme Foodservice AG (SF) [REDACTED], price adjustment proposal for costs related to the contract change for distribution of food and water to Forward Operating Bases (FOBs) in Afghanistan to determine if the proposed costs are acceptable as a basis for negotiation. SF submitted the revised proposal, dated July 7, 2008, under firm-fixed-price Contract No. SPM300-05-D-3130. This contract initially provided for distribution of food and water to four (4) Non-Forward Operating Bases (NFOBs). However, after contract award, but prior to the beginning of contract performance, the contract was modified to provide for distribution of food and water to 68 Forward Operating Bases (FOBs) in Afghanistan using air and road modes of transportation. The price adjustment proposal submitted by SF is for the purpose of establishing the rates for distribution of food and water to the FOBs.

The price adjustment proposal and related cost or pricing data are the responsibility of the contractor. Our responsibility is to express an opinion on the proposal based on our examination.

EXECUTIVE SUMMARY

The documentation submitted by SF to support its proposal is not adequate, and the proposal was not prepared in all respects in accordance with appropriate provisions of FAR Part 31 and the DFARS. Because the noncompliances and inadequacies are considered to have a significant impact on the proposal taken as a whole, we do not believe the proposal is an acceptable basis for negotiation. At your request, we have, nevertheless, evaluated the proposal to the extent possible in the circumstances. We noted the following significant issues during our examination.

SIGNIFICANT ISSUES

1. **Distribution fees:** We recommend that the proposed rates be credited for the cost portion of basic contract (non-forward operating bases - NFOBs) distribution fees recovered by SF for distribution of food and water to forward operating base (FOB) locations.
2. **Management consulting costs and central overhead:** We questioned proposed consulting costs for services provided by Professional Contract Administrators and proposed central overhead costs because these costs are not adequately supported.
3. **Depreciation:** We questioned a portion of the proposed depreciation costs based on differences between proposed and audit-adjusted acquisition costs, and estimated useful lives.

SCOPE OF AUDIT

We conducted our examination in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the examination to obtain

reasonable assurance that the price adjustment proposal is free of material misstatement. An examination includes:

- evaluating the contractor's internal controls, assessing control risk, and determining the extent of audit testing needed based on the control risk assessment;
- examining, on a test basis, evidence supporting the amounts and disclosures in the price adjustment proposal;
- assessing the accounting principles used and significant estimates made by the contractor;
- evaluating the overall price adjustment proposal presentation; and
- determining the need for technical specialist assistance.

We evaluated the proposal costs using the applicable requirements contained in the:

- Federal Acquisition Regulation (FAR) and
- Defense FAR Supplement (DFARS).

Contract No. SPM300-05-D-3130 is not covered by Cost Accounting Standards Board rules and regulations because it was awarded based on adequate price competition without the submission of cost or pricing data. Therefore, the contract is exempt from all CAS requirements under 48 CFR 9903.201-1(b)(15).

Our assessment of control risk reflects that we have not specifically tested the effectiveness of SF's systems and related internal controls. See the Contractor Organization and Systems on page 49 of this report. The scope of our examination reflects our assessment of control risk and includes those tests of compliance with applicable laws and regulations that we believe provide a reasonable basis for our opinion.

RESULTS OF AUDIT

In our opinion, the cost or pricing data submitted by SF to support its proposal are not adequate (see comments on (i) consultancy costs on page 7, Exhibit A, Note 3; and (ii) overheads in Schedule A-1 beginning on page 14, Schedule B-1 beginning on page 27, Schedule C-1 beginning on page 36, and Schedule D-1 beginning on 46). The proposal was not prepared in all respects in accordance with appropriate provisions of FAR Part 31 and the DFARS (see comments on (i) consultancy costs on page 7, Exhibit A, Note 3; (ii) distribution fee credit on page 10, Exhibit A, Note 4; and (iii) financing costs on page 23 (Schedule A-1, Note 5), page 31 (Schedule B-1, Note 4), and page 42 (Schedule C-1, Note 4)). Because the noncompliances and inadequacies are considered to have a significant impact on the proposal taken as a whole, we do not believe the proposal is an acceptable basis for negotiation, as discussed with [REDACTED], Contracting Officer, by [REDACTED] of our office on September 4, 2008 and as confirmed in our memorandum to you dated September 15, 2008. To make the supporting documentation adequate and compliant, SF must do the following:

- adjust the proposed rates for basic contract distribution fees (fees for non-forward operating bases – NFOBs) recovered for distributions to forward operating base (FOB) locations;
- identify overhead costs (segregated, allocated and central) allocable to the proposal using applicable FAR 31.2 criteria;
- provide support for the proposed consultancy costs that complies with FAR 31.202; and
- exclude financing costs.

At your request, we have, nevertheless, evaluated the proposal to the extent possible in the circumstances.

We discussed the results of our examination with the contractor during the course of the examination, and provided a summary of the factual basis for our findings to [REDACTED] on December 15, 2008. The contractor reserved comment pending negotiations.

The results of our examination are based on the contracting officer's determination that the contractor's submission is a proposal, rather than a claim submitted under the Contract Disputes Act of 1978 (41 U.S.C. 601-613). Should the basis for this determination or the contracting officer's decision be changed, we recommend that the auditor be notified so the impact of the change on the results of our examination can be considered.

The results of our examination are summarized on the table on the following page, as well as the accompanying exhibits, schedules, and explanatory notes.