PROJECT SUMMARY

Overview

Texas A&M University has struggled over the past several years to provide University Dining with an effective organizational structure, consistent leadership, and strategic direction necessary to successfully manage a financially-viable dining operation. Since fiscal year 2005, University Dining has reported to three different associate vice presidents, had three different executive directors, three organizational names, and has been moved from the Administration division to the Finance division and back to the Administration division.

Significant improvements are needed in the stability and strategic direction of University Dining to ensure that resources are used efficiently and effectively and that financial stability is achieved and maintained. University Dining has seen its fund equity and cash position decline significantly as it has experienced operating losses (including depreciation expense) in each of the past six years. In addition, significant improvements are needed in the administration and oversight of logical security and other general information technology (IT) controls, especially over University Dining’s critical point-of-sale system.

University Dining operates over 23 different food venues across the campus with an annual operating budget of approximately $28 million. For the purpose of this report, University Dining also includes University Catering and the University Club.

Summary of Significant Results

Strategic Direction and Financial Performance

Due to a lack of stability and strategic direction, University Dining’s financial position has decreased significantly since fiscal year 2005. Fund equity has declined 37% (over $7.5 million) with net operating losses in each of the last six years. University Dining’s cash position has also decreased over 70% ($10.3 million) during this time due to the operating losses and debt service payments.
made on outstanding bonds payable of $8.5 million. University Dining had about $4 million in cash at August 31, 2010. Unless its income before depreciation can be increased to cover current operating expenses, debt service payments, and loan payments, University Dining’s reserves will run out. Stability in leadership and a viable strategic plan are needed in order to ensure the future financial success of University Dining.

**Information Technology Administration**

Administration and oversight of logical security and other general information technology (IT) controls, especially over University Dining’s critical point-of-sale system, requires improvement. Testing of Oracle and SQL databases and servers supporting the point-of-sale system and other University Dining information resources indicated varying degrees of weak logical security practices related to passwords, patch management, account management, pre-login agreements, and service level agreements for hosted services. The failure to implement strong logical security practices and enforce and monitor prudent IT controls can lead to sensitive data and systems being compromised as well as possible disruption of its critical services.

**Summary of Management’s Response**

Management concurs with the recommendations of the audit report. A consultant is being engaged to assist with identifying a management structure that best facilitates the effective management and strategic planning of University Dining. Also, the consultant will be able to facilitate input to University Dining’s strategic plan, to include Residence Life and the Division of Finance, as well as addressing the condition of facilities and the need for a chief financial officer position.

In regards to information technology administration, all the recommendations are currently in the process of being implemented.

**Scope**

The review of University Dining focused on the areas of financial viability, facilities condition analysis, employee and customer service, payroll reconciliations, inventory management, employee safety and training, cash handling and account receivables. The review focused primarily on activities from September 1, 2009 through December 31, 2010. Fieldwork was conducted from December 2010 to April 2011.
The lack of consistent leadership and strategic direction has significantly contributed to University Dining’s declining financial position.

Texas A&M University has struggled to provide University Dining with the strategic direction and oversight necessary to effectively manage the risks associated with running a financially-viable dining operation. Since fiscal year 2005, University Dining has reported to three different associate vice presidents, had three different executive directors, three organizational names, and has been moved from the Administration division to the Finance division and back to the Administration division.

University Dining’s financial position has decreased significantly since fiscal year 2005 as fund equity has declined 37% (over $7.5 million) with net operating losses (including depreciation) in each of the last six years. University Dining’s cash position has also decreased over 70% ($10.3 million) during this time due to its operating losses and debt service payments made on bonds payable. University Dining had outstanding bonds payable of $8.5 million as of August 31, 2010.

In addition to bonds, University Dining borrowed $600,000 from the University to renovate the University Club in 2006 and received an additional $1.9 million for equipment in 2010. University Dining is making the interest and debt service payments related to the bonds; however, only one payment has been made on the 2006 loan and the first annual payment on the 2010 loan is due July 2011. Unless its income before depreciation can be increased to cover operating expenses, debt service payments, and loan payments, University Dining’s reserves will run out.

University Dining has also not been able to generate sufficient income to cover ongoing maintenance and repair of its facilities resulting in a significant backlog in plant adaption, deferred maintenance, and plant renewal. A third-party facilities condition analysis performed in July 2009 estimated the backlog at $21.3 million.

During this period, a number of different strategic and operational type plans have been developed for University Dining by both management and consultants. In 2007, the University hired
1. Strategic Direction and Financial Performance (cont.)

consultants to prepare a feasibility study and master plan for the Commons Dining Hall and Sbisa Dining Hall at a cost of approximately $200,000. In 2008, University Dining hired a consulting company to provide a five-year strategic plan and management consultancy at a cost of approximately $100,000. The strategic plan was never developed and provided by the consulting company. University Dining also developed several plans during this time period, including one in June 2006 and another in November 2008. More recently, University Dining created a plan that identified different options to help address its financial position; however, none of the options resulted in University Dining operating in a positive financial position over the next several years.

The University also recently commissioned an internal committee to review the scope and functionality of auxiliary operations, including dining services, at peer institutions across the United States. The committee found that 24 out of the 28 peer institutions contacted had dining services and student housing reporting through one vice president. University Dining at Texas A&M reports to the Vice President of Administration and student housing (Residence Life) reports to the Vice President of Student Affairs. Financial reporting for University Dining is performed by employees reporting up through the Vice President for Finance. Some strategic decisions made by these three different parties regarding dining services or student housing operations can have a significant impact on the other’s operations. Interviews with management of Student Affairs, Finance and University Dining indicated that the three divisions have not always collaborated sufficiently to ensure that strategic decisions made by the different parties will support the viability of University Dining’s financial plans and decisions.

The National Association of College and University Business Officer’s (NACUBO) College and University Business Administration guidelines states that auxiliary enterprises should reflect the quality of service that a college or university desires for its students, faculty, staff, and alumni. The guidelines state that the auxiliary enterprises’ director should develop objectives and strategies consistent with and in support of institutional goals. There should be objectives concerning sales, marketing, net income, efficiency, quality of product and service, employee relations, and social responsibility. Although development of program policies and management of auxiliary enterprises are the responsibilities of the director, he or she should seek advice and cooperation from other representatives of the institutional community, including students.

The guidelines also state that long-range financial planning is essential to meet continuing requirements of those who use auxiliary enterprises and other services and to accommodate
changes in the institution’s environment. The foundation of successful management is effective planning; this should precede all other administrative functions. The provision for and protection of reserves adequate to finance short- and long-term replacement and renovation needs are integral parts of effective planning.

Without consistent leadership and a collaborative, sustainable long-range plan for University Dining, the University’s risk for ineffective and inefficient dining services continues to increase.

Recommendation

Develop a strategic plan for University Dining through a collaborative process involving University Dining, Residence Life and the Division of Finance. The plan should establish short- and long-range goals and strategies to ensure the financial success of University Dining. In addition, the plan should address the condition of facilities to ensure that facilities are maintained in support of the University’s goals for University Dining.

The University should identify a management structure that best facilitates the effective management and strategic planning of University Dining. For instance, consideration should be given to having dining services and student housing report to the same vice president given that 85% of peer institutions contacted are structured in this manner. Also, consider establishing a full-time chief financial officer position for University Dining to effectively lead and manage the financial activities over this $28 million operation.

Management’s Response

The University administration recognizes its struggle to provide University Dining with the strategic direction and oversight necessary to effectively manage the risks associated with running a financially-viable dining operation. The new Vice President for Administration is in the process of hiring a consultant who will provide a review and analysis of all current dining operations at Texas A&M University. The review will include an analysis of University Dining’s existing model and plans and an assessment of alternate models for the 21st century university dining operation. The consultant will interface regularly with a newly appointed University Dining Review Team which is comprised of students, faculty, staff and affiliated groups’ representatives—including Residence Life and the Division of Finance—to ensure campus expectations are being addressed and that the final report is consistent with Texas A&M’s campus and customer culture, expectations, and values.
1. Strategic Direction and Financial Performance (cont.)

Upon selection of the consultant, a timeline will be developed for completion of the review, currently projected to be October 2011. The Vice President for Administration, taking into consideration the advice of the University Dining Review Team, will make a final recommendation to the president regarding recommendations of the consultant. At that time it will be determined if a chief financial officer position for University Dining will be established or if that function can best be handled through some other mechanism.

Target Implementation: February 29, 2012

2. Information Technology Administration

Observation

Administration and oversight of logical security and other general information technology (IT) controls, especially over University Dining’s critical point-of-sale system, requires improvement. Testing of Oracle and SQL databases and servers supporting the point-of-sale system and other University Dining information resources indicated varying degrees of weak logical security practices related to passwords, patch management, account management, pre-login agreements, and service level agreements for hosted services. Specific logical security issues noted include:

- Oracle and MS SQL database servers tested which support the critical point-of-sale system were determined to have weak password controls in place including default vendor password settings which often require little or no minimum password length, no enforced complexity, and insufficient password aging and history. In addition, non-compliant passwords were being used by trusted personnel.

- No patching had been performed for the current point-of-sale system’s Oracle database. Management and IT personnel were unaware of Oracle patching and product life cycles, such that they were not aware of the impending loss of support of their point-of-sale system’s database product, which is critical to University Dining. The point-of-sale system vendor responded that an upgrade of their application would be required to move to a supported Oracle database version, resulting in additional costs and a migration of the current system to the updated product. In addition, operating system patch updates on one domain used by University Dining had extensive gaps and two other Windows servers tested supporting the current point-of-sale system had smaller gaps.
• Situations involving weak account management practices were identified including unneeded access for 14 of 18 user accounts on one of the department’s two domains. These accounts were deleted immediately upon notification; however, no change control process was followed to ensure the deletion of the accounts would be captured and that management was aware of and could approve removal. In addition, a small number of active Oracle user accounts were also determined to be unneeded.

• Pre-login agreements were not being presented for the two domains used by University Dining.

Transportation Services is providing mail, domain, and backup services to University Dining. However, no service level agreement is in place stating specific roles, responsibilities, remedies, etc. for both parties in the shared services arrangement. University Dining IT personnel were unaware of the current backup schedules for the hosted University Dining data.

Pre-deployment hardening of servers and databases along with subsequent monitoring and enforcement of current IT standards is not sufficiently performed for University Dining information resources. In addition, several areas of IT risk noted during the audit were not included in the most recent IT risk assessment.

The failure to implement strong logical security practices and enforce and monitor prudent IT controls can lead to sensitive data and systems being compromised as well as possible disruption of critical services. For instance, the Oracle and MS SQL databases tested support the meal plan and point-of-sale systems which if not properly administered and maintained with a supported version could significantly impact University Dining operations.

**Recommendation**

Augment standard system hardening procedures to include use of compliant pre-login security/usage banners and enhance the current IT risk assessment to better ensure all areas of risks and noncompliance are identified and addressed.

Implement University Standard Administration Procedure (SAP) compliant password enforcement criterion across operating systems, databases, and applications. For privileged accounts, such as super-user and service accounts, implement passwords that sufficiently exceed the minimum requirements that unprivileged users are held to.
Develop and implement a patch management solution that encompasses operating systems and applications. Develop a plan and budget to upgrade the current point-of-sale application in order for this critical system to run on supported products that receive vendor support.

Remove user access in a timely manner when an employee no longer needs access, a consultant is no longer needed, etc. For those requiring access beyond the norms established by organizational policy, written and approved authorization should be required with defined expirations. Implement a process for periodically reviewing existing accounts for validity and ongoing need.

Develop a service level agreement for the IT responsibilities and expectations between University Dining and Transportation Services. The service level agreement should be approved by management, and periodically reviewed to ensure that obligations are being met.

Develop and implement security baseline standards for the platforms and applications used by Dining Services (e.g. Linux, Mac OS X, Windows servers, and Oracle) including the critical point-of-sale system. The baseline standard should include, but is not limited to, enforcing at least appropriate minimum security settings that reflect the University’s SAPs. Monitor on a periodic basis for compliance with these standards.

Management's Response

University Dining has taken or is in the process of completing the following actions to improve information technology controls:

- **Compliant pre-login agreements for all University Dining domains** were implemented on January 26, 2011. Procedures will be enhanced for completing the annual IT risk assessment and addressing identified risk areas according to our written response to the Information Security Awareness, Assessment, and Compliance System (ISAAC). Additionally, our standard operating procedures will be reviewed and updated as needed based on findings from the annual risk assessment.

- **Password controls on operating systems, databases and applications** will be modified to enforce passwords compliant with the University’s Standard Administrative Procedure 29.01.99.M1.14, Information Resources – Password/Authentication. Additionally, super-user and service accounts
2. Information Technology Administration (cont.)

will require passwords that sufficiently exceed the minimum requirements of other users.

- A patch management process will be developed and documented for all operating systems and applications. The most recent patching has been performed for the current point-of-sale system’s Oracle database. Also, the latest upgrade to the current point-of-sale system application has been purchased and is scheduled for installation well in advance of the expiration of vendor support. Additionally, University Dining utilizes Windows’ Servers Update Service 3.0 to manage patch updates for Windows’ servers and desktop applications.

- To help ensure user access is removed in a timely manner, IT personnel now directly receive e-mail notifications from University Dining’s human resources regarding employee terminations. To further strengthen account management, individuals requiring access beyond the norms will require written and approved authorization with defined expirations and a process will be established to periodically review existing accounts for validity and ongoing need.

- A service level agreement defining IT responsibilities and expectations between University Dining and Transportation Services will be put in place and reviewed annually to ensure that obligations are being met.

- Security baseline standards will be developed for the platforms and applications used by University Dining. Standards will include security settings outlined in the University’s SAPs as well as pre-deployment hardening procedures for servers and databases, and any other University Dining specific requirements. Standards will be monitored on a periodic basis for compliance.

The department’s written standard operating procedures will be updated to reflect these modifications in procedures. Processes will be in place and action items completed by August 31, 2011.

Target Implementation: August 31, 2011.
BASIS OF REVIEW

Objective

The objective of this audit was to review the financial and management controls over University Dining to determine if resources are used efficiently and effectively and in compliance with laws, policies, regulations, and rules.

Criteria

Our audit was based upon standards as set forth in the System Policy and Regulation Manual of the Texas A&M University System; the National Association of College and University Business Officer’s College and University Business Administration; and other sound administrative practices. This audit was conducted in conformance with the Institute of Internal Auditors’ “International Standards for the Professional Practice of Internal Auditing.”

Additionally, we conducted this performance audit 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

University Dining is an auxiliary enterprise of Texas A&M University. University Dining operates two dining centers, one of which serves the Corps of Cadets, four multiunit food courts, five stand-alone retail units, eight coffee and food kiosks, two convenience stores, a full-service catering and event planning operation and the University Club. More than 60% of University Dining’s food sales of $25 million are generated from students living on campus.
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