John W. Lainhart IV
Inspector General

Office of Inspector General
U.S. House of Representatives
Washington, DC 20515–9990

MEMORANDUM

TO: James M. Eagen III
Chief Administrative Officer

FROM: John W. Lainhart IV
Inspector General

DATE: July 20, 1998

SUBJECT: Audit Report - Stronger Management Controls Needed Over House Food Service Contractor Operations (Report No. 98-CAO-08)

This is our final report on Audit of Revenue Verification of the Food Service Contractor Operations at the U.S. House of Representatives. The objective of this audit was to provide reasonable assurance that the House received its share of the revenues and profits, in accordance with the terms of the food service contract agreements with Skenteris Family, Inc., and Marriott Management Services Corporation and Thompson Hospitality, L.P. In this report, we identified problems associated with the recording and reporting of food service revenues as well as the automated information systems used by the contractors. The report also discusses opportunities for improving the oversight and monitoring of the House's food service contractors. Lastly, an issue related to the food service contract arrangement is discussed in the Other Matter section of this report. Accordingly, we made specific recommendations for corrective action.

In response to our September 30, 1997 draft report, your office concurred with our findings and recommendations. The May 29, 1998 management response is incorporated in this final report and included in its entirety as an appendix. The corrective actions taken and planned by your office are appropriate and, when fully implemented, should adequately respond to the recommendations. Further, the milestone date provided for implementing corrective action, appears reasonable.

We appreciate the courtesy and cooperation extended to us by your staff. If you have any questions or require additional information regarding this report, please call me or Robert B. Frey III at (202) 226-1250.

Attachment

cc: Speaker of the House
Majority Leader of the House
Minority Leader of the House
Chairman, Committee on House Oversight
Ranking Minority Member, Committee on House Oversight
Members, Committee on House Oversight

STRONGER MANAGEMENT CONTROLS NEEDED OVER HOUSE FOOD SERVICE CONTRACTOR OPERATIONS

Report No. 98-CAO-08
July 20, 1998

RESULTS IN BRIEF

CONCLUSIONS

During the 103rd Congress, the U.S. House of Representatives (House) took action to outsource the food service operations (excluding vending machines) previously provided by House employees. In 1994, the House awarded food service contracts to Marriott Management Services Corporation and Thompson Hospitality, L.P. (Marriott/Thompson) and Skenteris Family, Inc. (Skenteris) to operate the House's 14 restaurants and carry-out facilities located in the Capitol and four House office buildings. Although the Office of Food Service (OFS), which administers and monitors the food service operations, implemented controls to monitor contractor performance as well as daily sales, the controls were limited.

For the most part, the outsourcing strategy benefited the House. The House achieved its primary objective of improving food quality and services for House Members, their staffs and the general public visiting the U.S. Capitol and the four House Office Buildings. Furthermore, by outsourcing the operations, the House not only shifted the burden and costs of the food service operations to the private sector, but also subsidized its remaining food service operational costs with periodic payments from the contractors to the House based on a percentage of gross sales.

Although the House clearly benefited by outsourcing its food service operations, stronger management controls are needed to adequately monitor all food service operations and the accurate recording and reporting of sales. We attempted to verify the food service revenues recorded and reported by the contractors and determine whether the revenues reported to the House could be relied upon. However, we were unable to verify whether the House received its fair share of the revenues, in accordance with the terms of the contract, from Skenteris Family, Inc. and Marriott/Thompson due to inadequate source documentation and records, and significantly deficient management controls.

The food service contractors did not establish proper controls to provide reasonable assurance that revenues reported to the House were accurate. Skenteris management did not implement good cash management practices or establish operational policies and procedures. Marriott/Thompson did not establish accounting or management controls over its catering operations. While Skenteris did not ensure proper segregation of duties, neither contractor maintained adequate supporting documentation or effectively monitored its employees. Without adequate controls, OFS could not be assured that the House received its full share of revenues due.

The House's information systems (i.e., OFS Catering System and point-of-sale (POS) systems) used by Skenteris and Marriott/Thompson for recording and tracking food service revenues lacked adequate physical security, logical security, and data input controls. Consequently, the House cannot be assured that the revenue-based payments received from Skenteris and Marriott/Thompson are based on accurate and complete sales data. In addition, there are no procedures requiring regular backups of system information. In the event of a prolonged outage or damage to the application and its contents, the House may not be adequately prepared to quickly recover from such disruptions.

In addition, an alternative food service contract arrangement is discussed in the Other Matter section of this report. A fixed-fee arrangement could eliminate the financial risk to the House, save the House monitoring costs, and eliminate the need to implement additional management controls. Similarly, this approach would lessen the burden on the contractors by eliminating periodic financial oversight reviews by OFS and the need to implement additional management controls.

RECOMMENDATIONS

We recommend that the Chief Administrative Officer: (1) amend the upcoming food service contract to require the contractors to implement the following actions: (a) establish appropriate management controls over their food service financial operations prior to awarding the contract, (b) separately track and report revenues generated from catered events, and (c) make available all books, records, and other supporting documentation for periodic unannounced reviews by OFS and other House or contractor personnel supporting OFS; (2) require OFS to take a more aggressive approach in monitoring food service operations to assure that the contractors are adhering to contract provisions; (3) develop OFS policies and procedures for monitoring the controls, performance, and security of the OFS Catering System; (4) as an interim measure, require House Information Resources to program stronger logical access controls in the OFS Catering System; (5) explore the alternatives for providing a more technologically up-to-date and cost-effective catering system for use by the House food service contractors; (6) explore the alternatives for providing a more technologically up-to-date and cost-effective POS system for use by the House food service contractors or require the food service contractors to provide their own POS system; (7) amend the upcoming food service contract to require the contractors to implement the following actions: (a) develop and formalize a security policy which is consistent with the risk of loss, (b) require all food service cashiers and management personnel to attend training courses on security awareness and system operations (POS and catering), and (c) for those utilizing their own cash registers (or POS systems), provide an automated cash register system with the functional requirements and controls discussed in this report; and (8) consider a fixed-fee arrangement for food service contracts in future negotiations.

MANAGEMENT RESPONSE

On May 29, 1998, the Chief Administrative Officer concurred with the findings and all eight recommendations (see Appendix). According to the response, the financial management control issues discussed in this report were incorporated as requirements in the new contract with Guest Services, Inc. (GSI) and a recent contract modification with Skenteris. Additionally, procedures have been developed with GSI to ensure that revenues generated from catered events are tracked separately and recorded on sales reports. Further, a *Contracting Officer's Representative (COR) Food Service Manual* specifies a plan to implement and schedule announced and unannounced reviews and audits to monitor food service contractor operations and contract compliance. The Manual also includes procedures to monitor the controls, performance, and security of the food service contractors' catering systems.

In addition, OFS incorporated requirements for stronger information system controls in the new contract with GSI and the contract modification with Skenteris. According to the response, OFS's catering system was replaced with GSI's own catering system, which possesses acceptable controls that meet the needs of the House. Skenteris elected to maintain a manual catering system. Further, GSI is using its own POS system, which also includes controls consistent with those we identified in the report. Regarding the House owned POS system used by Skenteris, OFS is exploring options to replace the system with a more technologically up-to-date system. OFS will make a recommendation to the Associate Administrator of Media and Support Services by July 31, 1998.

With respect to the alternative food service contract arrangement discussed in the Other Matter section of this report, the CAO plans to evaluate a fixed-fee arrangement for food service contracts in future negotiations, beginning with competing the Skenteris contract in early Fall 1998.

OFFICE OF INSPECTOR GENERAL COMMENTS

The CAO's completed and planned actions are responsive to the issues we identified. Based on the actions completed, we consider seven of the eight recommendations closed. The planned actions, when fully implemented, should satisfy the intent of the remaining recommendation. Further, the milestone date provided for implementing corrective action, appears reasonable.

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I. INTRODUCTION

Background

During the 103rd Congress, the U.S. House of Representatives (House) took action to outsource the food service operations previously provided by House employees. Under the March 9, 1994 Committee on House Administration Resolution, the Office of Non-Legislative and Financial Services was directed to contract with food service companies to provide food services for House Members, their staffs and the general public visiting the U.S. Capitol and four House Office Buildings.

In response to this resolution, the House entered into a contract with Marriott Management Services Corporation and Thompson Hospitality, L.P. (Marriott/Thompson) on July 5, 1994 to operate a total of 13 restaurant and carry-out facilities located in the Capitol and four House office buildings. The resolution excluded the Ford carry-out and cafeteria units since Skenteris Family, Inc. (Skenteris) was already operating those units under a short term agreement. The House entered into a long term contract with Skenteris on September 16, 1994. Under contract, both contractors were required to make periodic payments to the House based on a percentage of gross sales. These payments were to be made in lieu of rental payments for using the restaurant facilities provided by the House. The contracts required the contractors to establish management controls over the receipt, recording, and reporting of food service revenues and expenses.

Skenteris Family, Inc.

Skenteris manages the cafeteria and carry-out located in the Ford House Office Building. From the beginning of the contract (September 16, 1994) to May 30, 1997, they reported combined gross sales of $3 million and paid $152,821 to the House for its share of the revenues. Food sales are recorded using a National Cash Register point of sale (NCR POS) system which had previously been installed and used by the House. The POS system consists of cash registers typically used in cafeterias and restaurant operations. The system generates daily reports of sales and customer counts.

Marriott/Thompson

Marriott/Thompson manages the other 13 facilities consisting of cafeterias, carry-outs, sundry shops, dining room, and catering operations located in the Capitol, Rayburn, Longworth, and Cannon House Office Buildings. Marriott/Thompson reported total gross sales of $25 million for the facilities it operated from July 5, 1994 to May 23, 1997 and paid $299,256 to the House for its share of the revenues. Food sales were recorded at each unit using one of three different systems: NCR POS system, Posi-touch point-of-sale (POS) system (Posi-touch), or the House Catering System. The NCR POS systems and the Catering System were originally installed by the House when food service operations were managed internally. These systems are owned by the House and OFS has “read only” access to daily sales readings. The Posi-touch system is a cash register system installed by Marriott/Thompson and is used in the Members' Dining Room only.

The House's contract with Marriott/Thompson was amended on December 20, 1995 and October 31, 1996 to reflect re-negotiation of contractor payment terms. The first amendment allowed Marriott/Thompson to deduct certain employee wage-related expenses, which were understated in the original RFP, from its payments to the House. The second amendment allowed Marriott/Thompson to further exclude all waiter/waitress gratuities and service charges from gross sales revenues.

On November 25, 1996, Marriott/Thompson notified the House of its intention to terminate the contract. Marriott/Thompson cited continuing operating losses as its primary justification for contract termination. The contract was terminated on May 23, 1997. However, to ensure that House food services continued, Marriott/Thompson agreed to a contract modification extending services to August 15, 1997. On August 19, 1997, the House released a request for proposal for the food service operations covered by the terminated contract. During the new contract solicitation period, Marriott/Thompson agreed to a second contract modification to extend its contract to December 19, 1997.

Food Services

The Office of Food Services (OFS), formerly known as the House Restaurant System, falls under the purview of the Chief Administrative Office (CAO). OFS is responsible for administering and monitoring all food service operations, including Members' Dining Room, cafeterias, carry-out facilities, catering functions, sundry facilities, and vending machines, within the Capitol and House office buildings. A Contracting Officer's Representative (COR) from OFS was designated to assist the Contracting Officer in overseeing the contract and receive payments from the contractors. To monitor the contractor's payments to the House, the COR tracks the payments due through daily sales reports generated by the NCR POS system, the Posi-touch system, and the House Catering System.

Objective, Scope, And Methodology

The objective of this audit was to provide reasonable assurance that the House received its share of the revenues, in accordance with the terms of the contracts, from Marriott/Thompson and Skenteris. As part of this audit, we reviewed the profit-sharing calculations used by Marriott/Thompson in arriving at any excess profit-based payments to the House and found that no excess profits were earned during the contract life. We also addressed limited aspect of OFS's contract administration specific to the Marriott/Thompson and Skenteris contracts. Issues related to the overall contract administration of Marriott/Thompson and Skenteris contracts will be addressed in a separate OIG report.

The scope of the audit included revenues received from the House restaurants, carry-out facilities, Members' Dining Room, sundry operation, and catering operations located within the

Capitol Building and four House office buildings (i.e., Rayburn, Longworth, Cannon, and Ford House Office Buildings). The scope of the audit covered the period from the beginning of each contract through May 1997 and was as follows:

Marriott/Thompson	July 5, 1994 to May 23, 1997[1]
Skenteris Family, Inc.	September 16, 1994 to May 30, 1997

We conducted our audit in accordance with *Government Auditing Standards,* issued by the Comptroller General of the United States. The audit was performed between June 1997 through August 1997. In conducting this audit, we performed the following specific tasks:

- Interviewed key OFS, Marriott/Thompson, and Skenteris management and staff to understand the revenue collection and reporting process.
- Reviewed policies and procedures related to financial accounting and reporting systems used to collect, track, and report revenues.
- Obtained an understanding of the internal controls environment surrounding the recording and reporting of food service revenues by Marriott/Thompson and Skenteris.
- Traced sales to bank deposits, reconciliations, and other documentation.
- Tested a sample of daily sales to verify the accuracy, completeness, and existence of documentation in support of reported revenues.
- Evaluated general and application controls[2] over the automated information systems used to record revenues from restaurant food services and catering operations.

<u>Internal Controls</u>

We reviewed internal controls related to Skenteris' and Marriott/Thompson's collection and recording of food service revenues in accordance with the terms of their contracts. We also addressed management controls related to OFS's oversight of those contracts. The audit disclosed significant internal control weaknesses involving the collection and recording of revenues for the food service and catering operations. We also identified weaknesses involving OFS oversight of contract requirements and activities. These internal control weaknesses are described in the Findings and Recommendations section of this report.

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[1]The contract expiration date was accelerated as a result of Marriott/Thompson's November 25, 1996 notice to the House of their intent to terminate the contract on May 23, 1997.

[2]The general controls review focused on the processing environment and data security controls, while the application control review focused on input, processing, and output controls.

Prior Audit Coverage

The revenues from contracted House restaurant activities have not been previously audited.

II. FINDINGS AND RECOMMENDATIONS

Finding A: Management Controls Over The House Restaurant Operations Need Improvement

The food service contractors did not establish proper controls to provide reasonable assurance that revenues reported to the House were accurate. Skenteris management did not implement good cash management practices or establish operational policies and procedures. Marriott/Thompson did not establish accounting or management controls over its catering operations. Neither contractor ensured proper segregation of duties, maintained adequate supporting documentation, or effectively monitored its employees. Further, the information systems used by Skenteris and Marriott/Thompson to record and report sales revenues were not utilized effectively and lacked sufficient controls (discussed in Finding B). Without adequate controls, OFS could not be assured that the House received its full share of revenues due. These deficiencies were primarily due to contract provisions regarding management controls being too general. In addition, OFS did not adequately monitor contractors' management controls.

The contract agreements for Skenteris and Marriott/Thompson require the establishment of management controls over their operations and assigned the Director and the Assistant Contract Administrator of OFS responsibility for monitoring contractor performance. Under the terms of the contract with Skenteris, the contractor is responsible for recording all sales on the OFS POS system and financial statements. Similarly, Marriott/Thompson's contract requires them to:

> *"...maintain complete and accurate accounting records of the segment or segments of the food service operations in accordance with standard accounting practices and in a form meeting with the approval of the Contracting Officer to substantiate the charges hereunder."*

Standard industry practices also prescribe effective contract management practices to ensure proper contractor performance. Such practices provide for the establishment of contract management policies and procedures and the close monitoring of vendor performance. The lack of effective contract management policies and procedures can increase the House's financial risk (e.g., loss of revenue-based payments) and operational risk (e.g., information system vulnerabilities). The financial risk derives from the risk that the House will not receive the proper amount of revenues due, while the operational risk derives from the House's dependence on the contractors to provide adequate food services. While the outsourcing of internal operations can prove to be an effective management approach, strong contract management practices are essential.

We attempted to verify the food service revenues recorded and reported by the contractors and determine whether the revenues reported to the House could be relied upon. We attempted to test a sample of 352 days of sales from a possible 715 days of sales between the period of July 5, 1994 and May 30, 1997. Reported revenues were compared against supporting documentation for accuracy and reliability. However, we were not able to accomplish our test objectives due to inadequate source documentation and records. In particular, we identified significant internal control deficiencies during the course of our work. The following describes the specific internal control deficiencies identified for the two food service contractors and OFS. In addition, a proposed alternative contract arrangement is discussed in the Other Matter section of this report.

Skenteris Family, Inc.

Cash management practices

Skenteris management did not maintain adequate controls over cash. For instance, cash collected from its daily operations were not reconciled to cash deposits and cash was not regularly deposited to the bank. A test of Skenteris cash collections showed that daily cash receipts could not be verified by tracing collections to bank deposits or cash reconciliations. For 38 days of sales tested, only 12 deposit slips were available as evidence that the cash had been deposited to the bank; however, no bank reconciliations had been performed. While we attempted to perform a reconciliation of cash receipts to bank deposits, we were unable to complete our work because none of the bank deposits could be reconciled to daily sales revenues.

According to Skenteris management, bank deposits were not regularly made since cash on-hand was used at management's discretion to pay for deliveries of food and supplies, equipment repairs, etc. Cash deposits, therefore, reflect business transactions that were not related to the revenues reported to the House. Although Skenteris management stated that they maintained control over cash by requiring cashiers to perform daily cash counts, we found that the head cashier was authorized to make cash payments to vendors making deliveries. This practice made it very difficult, if not impossible, to trace cash deposits to the daily sales information.

Segregation of duties

Skenteris management did not implement controls to provide for adequate segregation of duties. Management did not properly separate authorization, recording, and custodial responsibilities between employees. For example, the same persons with authorization over operations were responsible for recording sales and making cash payments to vendors. These same persons were also responsible for collecting and depositing cash collections. According to Skenteris management, these conflicting duties were not segregated because of limited staff availability.

Financial accounting records and supporting documentation

House breakfast and luncheon meetings catered by Skenteris were not separately recorded or distinguishable from other food sales. Skenteris management did not maintain a scheduling log to track reservations or retain other documentation in support of sales revenues from catered events. Revenues from these activities were merely entered into the cash register as "food sales" and were not distinguishable as revenues generated from catering engagements. In addition, voided food sale transactions were not supported by voided sales receipts. Based on our test of daily sales revenues, we found that $513 out of $1,328 of voided sales were either unsupported or supported by notations on scratch pieces of paper without cashier signatures or management approval. According to Skenteris management, their informal operating policy requires cashiers to print and submit all voided sales receipts to the restaurant manager, who then deducts all voids from daily sales at the end of each day. This policy, however, was neither documented nor consistently followed. As a result, the potential for theft by employees and understatement of sales revenues by the contractor was significantly increased.

Monitoring employees

The problem involving the voided food sales transactions was but one indication of the need for stronger management oversight of employees. As another indicator of insufficient employee monitoring, we noted the frequent use of the "No Sale" and "Cancel" keys by Skenteris cashiers. The "No Sale" key is primarily used to open the cash drawer to make change and the "Cancel" key is used to correct keystroke errors. Based on a sample of 38 days of sales, we found the use of these keys averaged 35 times daily for each of the three cashiers, for a collective total of 105 times per day. The cashiers working for Marriott/Thompson, on the other hand, used the keys an average of only five times per day. Thus, the use of these keys by Skenteris cashiers was excessive. The frequency with which these keys are being used suggests either a high rate of cashier errors, an incessant need to make change, or improprieties by cashiers. In addition, a high rate of errors and need to make change indicate that cashiers may not have been properly trained in the use of cash registers. By more closely monitoring employees, management can minimize errors and reduce the risk of theft or loss.

Policies and procedures

A formal written operational policies and procedures manual did not exist. Although management stated that informal policies exist, such policies were not documented. Based upon the results of our review, informal policies and procedures were not always followed.

Because of the size of its operations, it may not be practical for Skenteris management to formally document its policies and procedures in a manual. However, in such an operating environment, it is important that Skenteris management ensure that its informal policies and procedures are clearly communicated to, and implemented by, its employees.

Marriott/Thompson

Financial accounting records and supporting documentation

During our test of sales revenues for 352 days, Marriott/Thompson could not provide documentation in support of many recorded revenues. Requested supporting documents were either missing or could not be located for review. For example, Marriott/Thompson could not provide us hard copies of as many of 56 catering contracts, covering the period between July

1994 and May 1995. Daily catering revenue records and deposit slips were also not available for review. As a result, we were unable to verify food service revenues, especially with regard to catering activities.

Not unlike Skenteris' problem, voided food sales transactions within Marriott/Thompson were also unsupported. Based on our test of daily sales revenues, we found that $1,758 out of $3,021 of voided sales did not have signed voided sales receipts to support daily reductions from sales revenues. According to a cafeteria manager, Marriott/Thompson's policy requires cashiers to sign all voided sales receipts and submit all voided sales receipts to the restaurant manager. The manager is then required to enter all voided sales into the POS system at the end of the day. Although this policy is documented in Marriott/Thompson's operational procedures manual, management did not ensure that this policy was followed by its employees.

<u>Monitoring employees</u>

The lack of documentation in support of catering activities and voided sales persisted because Marriott/Thompson did not adequately monitor its employees. This particular problem was similarly noted in reviewing support for employee meal allowances during our review of daily food service revenues. For instance, we noted employees did not always sign meal receipts for free meals in which they were entitled. Marriott/Thompson's policy authorizes its employees a daily meal allowance of $2.80 for breakfast and $5.05 for lunch. The policy also requires each employee receiving a free meal to sign the meal receipt in lieu of paying for the meal. These policies, however, were not always followed. Closer monitoring of employees would ensure that Marriott/Thompson's procedures for meal allowances are followed.

Food Services

Vulnerabilities created by Skenteris and Marriott/Thompson were exacerbated because OFS did not effectively monitor the food service contractors to ensure revenues were being properly recorded and reported. For example, we reviewed Marriott/Thompson's adjustments to sales revenues reported and found Marriott/Thompson's adjustment to be adequately supported in their records. However, differences were noted between Marriott/Thompson's and OFS's records. OFS records daily sales reported from either the food service automated information system used, or reports submitted, by Skenteris and Marriott/Thompson. At the end of the month, OFS receives a monthly profit and loss statement from each contractor. These reports provide the basis for reconciling the food sales revenues and determining the revenue-based payments due the House. Although OFS investigates discrepancies, many remained unresolved because supporting documentation was not always forthcoming from the contractors. As of May 23, 1997, OFS's records showed Marriott/Thompson's sales to be under reported by $341,900, which translates into $6,838 of unpaid revenues due to the House. However, the $341,900 represents a total of those months where OFS's sales figures were higher than those reported by Marriott/Thompson. In contrast, OFS's records showed Marriott/Thompson's sales to be over reported by $337,100, which meant that Marriott/Thompson overpaid the House by $6,742. According to OFS, the contractor is responsible for providing support to resolve any differences and, until Marriott/Thompson provides such support, OFS is requiring the contractor to pay the under reported revenue amounts. Therefore, OFS is still seeking $6,838 in revenue-based payments to the House while Marriott/Thompson disagrees with OFS's figures. This problem could have been avoided had OFS pursued the resolution of these differences more aggressively. Without adequate contract monitoring and enforcement of the contract provisions, the potential will continue for food service contractors to understate and, thereby, underpay the House its share of the revenue-based payments.

Conclusion

Under the current contract arrangement, the House must provide oversight and monitoring to ensure that the contractors establish proper management controls over revenue. Without establishing adequate internal controls, food service revenues collected, recorded, and reported by the contractors may be understated. Further, the contractors cannot prevent and detect waste, fraud, or mismanagement in their food service operations. In turn, the House has no assurance that it received its share of the revenues under the terms of the contracts with Marriott/Thompson and Skenteris.

Recommendations

We recommend that the Chief Administrative Officer:

1. Require the Office of Procurement and Purchasing, working in conjunction with OFS, to incorporate a requirement for contractors to implement the following actions in all future food service contracts.

   (a) Establish appropriate management controls over its food service financial operations prior to awarding the contract. These controls should include (at a minimum):

   - policies and procedures addressing food service operations, including proper collection, recording, and reporting of sales revenues;
   - cash management controls;
   - adequate books and records, including source documents, for inspection by OFS and other House or contractor personnel supporting OFS during the life of the contract and three years following contract closeout;
   - proper segregation of duties; and
   - adequate training and monitoring of employees.

   (b) Separately track revenues generated from catered events and record them on sales reports.

   (c) Make available all books, records, and other supporting documentation for periodic unannounced reviews by OFS and other House or contractor personnel supporting OFS.

2. Take a more aggressive approach in monitoring food service operations to assure that the contractors are adhering to contract provisions. At a minimum, the CAO should seek an appropriate House resource to perform periodic unannounced reviews/inspections, on a sample basis, of the following controls.

   (a) Books and records, including supporting source documents, of sales revenues reported.

   (b) Employees' practices surrounding the

   - proper use of the cash register "no sale" and "cancel" keys;
   - appropriateness of voided transactions as well as support for voids; and
   - proper support for employee meal receipts.

   (c) The separate tracking and accounting for sales revenues generated from catered events, which would include establishing and maintaining proper records of catering activities (e.g., event log book, contract agreements signed by customers hosting the event, and sequentially numbered receipts).

Management Response

On May 29, 1998, the CAO concurred with this finding and the associated recommendations (see Appendix). According to the response, the financial management control issues raised in Recommendation 1 were incorporated as requirements in the new contract with Guest Services, Inc. (GSI) and a recent contract modification with Skenteris. Additionally, procedures have been developed with GSI to ensure that revenues generated from catered events are tracked separately and recorded on sales reports. Further, a *Contracting Officer's Representative (COR) Food Service Manual* specifies a plan to implement and schedule announced and unannouced reviews and audits to monitor food service contractor operations and contract compliance.

Office of Inspector General Comments

The CAO's completed actions are responsive to the issues we identified and satisfy the intent of our recommendations. Thus, we consider both recommendations closed.

Finding B: <u>House Information Systems Controls For Recording And Reporting Food Service Revenues Are Significantly Deficient</u>

The House's information systems (i.e., OFS Catering System and POS systems) used by Marriott/Thompson and Skenteris for recording and tracking food service revenues lacked adequate physical security, logical security, and data input controls. Consequently, the House cannot be assured that the revenue-based payments received from Marriott/Thompson are based on accurate and complete sales data. In addition, there are no procedures requiring regular backups of system information. In the event of a prolonged outage or damage to the application and its contents, the House may not be adequately prepared to quickly recover from such disruptions.

The catering system deficiencies can be attributed to inadequate user requirements before designing and developing the system. The POS systems deficiencies can be attributed to insufficient training on the system use, features, and capabilities; lack of formal procedures addressing controls involving physical security, logical security, and data integrity and reliability; and lack of procedures addressing system software and information backup files. For both systems, the prevailing factor is that OFS's automated information systems are obsolete and no longer supported. Without replacing them with more technologically up-to-date systems, the House food service operations may encounter increasing system performance problems.

<u>Federal government and generally accepted information systems guidelines and practices recognize the need for controlling activities within major applications and general support systems</u>

Numerous information systems security and control policies and directives have been established by the Office of Management and Budget (OMB) and National Institute of Standards and Technology (NIST), as well as the Congress for the Executive Branch. For example, the recently revised OMB Circular No. A-130 (Revised), entitled *Management of Federal Information Resources*, emphasizes the importance of technical and operational controls as part of management controls to improve data integrity in sensitive systems and prevent and detect inappropriate or unauthorized activities. Such controls would include physical security monitoring and controls to prevent theft, abuse, and misuse of equipment and media. It further recognizes that the greatest harm has come from authorized individuals engaged in improper activities, whether intentional or accidental. Therefore, controls should include individual accountability, "least privilege," and separation of duties to assure a well-controlled and secure processing environment. Similarly, NIST's Special Publication 800-12, entitled *An Introduction To Computer Security: The NIST Handbook*, provides agencies guidance in securing computer-based resources. It explains important management, technical, and operational control concepts for varying environments. Examples of controls include proper identification and authentication controls, security administration, segregation of functions, and audit trails. Although the House is not required to comply with Executive Branch guidance, adherence to these proven practices would greatly benefit the House. Within the House, guidance addressing password administration has been issued by House Information Resources (HIR) Security. HIR's *In-Office Computer Security Policy* provides users guidance for devising passwords and administering passwords. Such guidance includes using upper and lower case characters, where systems are case-sensitive, and numeric and special characters. The policy further advised users against selecting passwords that are words in any dictionary and in any language.

Within the private sector, best practices include physical security controls and safeguards that are commensurate with the risk and magnitude of harm that could result from the loss, misuse, or unauthorized access to or modification of system information. Further, information systems security and control practices recognize the importance of proper administration and implementation of security settings to provide adequate segregation of duties. The assignment of more restrictive access privileges serve as precautionary measures to minimize the risk of accidental or unauthorized actions that could compromise the integrity of information and disrupt the operations. Typically, logical access controls restrict users to the information they can access, the programs they can execute, and what they can do with the information and programs they can use.

OFS Catering System and POS System control weaknesses

OFS Catering System

Marriott/Thompson uses the OFS Catering System, which is a Filemaker Pro database application originally developed by HIR, to record, track, and report sales from catered events held at the Capitol and House Office Buildings. All catering agreements and modifications are entered into the system by Marriott/Thompson. OFS, on the other hand, has read only access to the system and prints daily sales reports. The sales information provides OFS the basis for monitoring its share of the revenues from catering events.

Because of Marriott/Thompson's and OFS's reliance on the data contained in the catering system, our audit work focused on testing physical security, logical access, data integrity and reliability, and availability of the OFS Catering System. The test results showed significant control deficiencies associated with each of these areas. The following is a summary of the deficiencies noted in the four areas.

Physical security controls

Physical security controls were inadequate to properly safeguard the catering system console and server located in the catering sales office in the Rayburn House Office Building. The hardware was not stored in a secured location in the office nor was the office restricted to authorized personnel. All catering/restaurant personnel had access to the office for routine daily activities, such as use of the photocopier. Inadequate physical security controls over key information system hardware and components increase the risk of unauthorized access, disclosure, theft, modification, and destruction of information.

Logical access controls

The following deficiencies were noted in the catering system.

- Inactive network user profiles were not disabled or removed from the catering system.
- Microcomputers (PCs) did not have password-protected screen savers.
- Terminals did not time-out after a period of inactivity.
- Users were not required to periodically change network passwords.
- User network passwords were three to five characters in length.
- User passwords were not masked on the network and could be viewed by the system administrator.
- User password was the same as the userid and could easily be guessed.
- Users in sales and accounting were able to modify the menu item pricing tables.

Without effective security controls over information resources and user access to such resources, the House substantially increases the risk of unauthorized access and modifications to, and disclosure of, important House data. Consequently, the House cannot be assured that information resources were sufficiently protected from fraud, waste, unauthorized use, and mismanagement.

Data input controls

The OFS Catering System did not have input edit checks. For example, all critical fields did not need to be completed when establishing a new catering contract in the system. Also, the system accepted payments dated in the future. In addition, users had the ability to duplicate entries in the data base. For example, a user is able to enter two separate catering contracts with identical information but different contract numbers into the database or remove entries in the database. Without adequate input edit checks, the House has no assurance that the information in the OFS Catering System is accurate, complete, and reliable.

System backup procedures

Backups of critical application and data files were not performed on a routine basis. Instead, the application and file backups were performed by the system administrator on an adhoc basis. Further, due to storage capacity constraints on the Marriott/Thompson file server, archives of prior year data files were maintained on an accounting technician's hard drive, which was not backed up. Thus, there was no assurance that the files would be available in the event the drive was damaged. As a result, the House may not be adequately prepared to quickly recover from potential business interruptions resulting from power outages or other disruptions.

Skenteris POS

Skenteris uses the POS system, an automated cash register with reporting capabilities, in both its cafeteria and carry-out operations to record and report food sales. Since Skenteris and OFS management rely on the sales data recorded and reported by this system, our audit work focused on testing physical security, logical access, data integrity and reliability, and system availability. Not unlike the deficiencies identified in the OFS Catering System, control deficiencies associated with each of these areas were noted as follows.

Physical security controls

Physical security controls were inadequate to properly safeguard the POS system console, which is used to make changes to critical system parameters. The system console was in the management office located by the kitchen and is not separately secured. Skenteris management claimed that the office was locked when unattended by management and only the Skenteris' management and the Architect of the Capitol had keys to the lock. However, we observed the office door open when management was not in the office. Thus, an individual, including the public, could easily gain access to the system and disrupt the POS system operation. Inadequate physical security controls over key information system hardware and components increase the risk of unauthorized access, disclosure, theft, modification, and destruction of business information.

Logical access controls

The following deficiencies were noted in the POS system.

- Cashiers were not required to have unique (i.e., cannot be easily guessed) userids to access the POS system.
- Cashiers' userids were not masked when entered in the POS system.
- System did not prompt cashiers for passwords to access the POS system.
- Managers' passwords were four characters in length.
- Managers were not required to periodically change their passwords.
- System console password was four characters in length and numeric.
- System console password was not periodically changed and the password has not been changed since the inception of the contract.
- Cash registers were not deactivated when left unattended.

Data integrity and reliability

Although the POS system is an automated cash register with reporting capabilities, we found that Skenteris was not utilizing the automated capabilities and features available in the system in its food service operations. Aside from using the system to print sales reports and perform the end of day processing, the POS was being operated as a manual cash register. Thus, audit tests of data input and processing controls could not be applied. However, we noted that the system offers features and capabilities that could be utilized to facilitate POS operations and provide for better controls over the recording of sales. For example, a menu item pricing table can be programmed so that food item prices are automatically displayed. Because this capability was not utilized, the cashiers were required to enter every item purchased into the POS system as an "open food item," keying the price of the item from memory. This process increases the potential for errors, omissions, and inconsistent food pricing.

According to Skenteris management, they have not had sufficient training on the use of the POS system. At the start of the contract, NCR provided Skenteris employees a few hours of training on the POS system and were to return to complete training at a later date. Repeated requests for additional training were made by Skenteris at a later date to no avail. Skenteris learned that the vendor no longer provided training for the House's POS system since the system was outdated and obsolete. Further, NCR did not have anyone in the company that was knowledgeable of the POS system used at the House and how to program the system.

<u>System backup procedures</u>

Backups of the POS system and sales data were not performed in an acceptable manner. There were no backups of the POS system software. Typically, most operations maintain one or two copies of the system application as well as the system data. In addition, the daily sales information was backed up to a floppy disk that remains in the floppy drive. Thus, the same disk was used for daily backup purposes and the file is overwritten on a daily basis. In effect, Skenteris only maintained one backup file containing the previous day's sales information. One copy is normally stored on-site for quick recovery and the other off-site for emergencies or prolonged outages. Furthermore, continued use of the same disk for daily backup purposes increases the risk of disk errors and disk damage occurring. Without instituting appropriate backup requirements, Skenteris management may not be adequately prepared to quickly recover from potential business interruptions resulting from power outages or other disruptions.

Marriott/Thompson POS

Although Marriott/Thompson used the POS system effectively to record and report food sales at the House, several logical security deficiencies were identified as follows.

- Cashier userids did not require a password to access the POS system.
- Cashier userids were able to be easily guessed.
- Managers were not required to periodically change their passwords.
- System console password only required four numerical characters.
- Passwords were not masked, and could be easily viewed, when accessing the security administrator function on the POS system console.
- The "delete database" function was not restricted on the POS system console.
- Cash registers were not deactivated when left unattended.

- Cash registers did not lock up if an unauthorized person attempted to access the register by keying a userid and password.

Without implementing proper security controls over the POS systems, the potential exists for unauthorized users to access the POS system and initiate unauthorized financial transactions.

Factors contributing to information system deficiencies

With respect to OFS's catering system, the system was designed to store data and lacked controls to ensure data integrity and reliability of financial-related information. HIR did not perform a requirements analysis to provide a clear basis of user needs before designing and developing the system. Well-run development of information systems generally are managed using a formal System Development Life Cycle (SDLC) methodology. More importantly, even though the system was originally designed and developed by HIR, HIR stopped providing support for this system early in the 104th Congress—nearly three years ago. HIR will not devote resources to provide maintenance, troubleshooting, system modification, or system enhancement support. As a favor, HIR has assisted OFS when a system problem developed or technical support was needed.

The POS system deficiencies described above can be attributed to one or more of the following factors.

- Lack of formal procedures addressing controls involving physical security, logical security, and data integrity and reliability.
- Lack of security awareness and training of food service users.
- Lack of procedures addressing system software and information backup files.

While the above issues are factors associated with the House's POS system weaknesses, the prevailing factor is that OFS's POS system is obsolete and no longer supported. According to NCR, the system's technology is outdated. Although NCR has provided hardware support to the OFS, formal training for the House's POS system is not available to Skenteris and Marriott/Thompson. Furthermore, NCR is not contractually obligated to provide fixes for outdated cash register applications. In the event the POS systems encounter serious application problems, a fix may not be readily available. Without replacing the POS systems with more technologically up-to-date systems, the food service contractors using OFS's POS system may find the system becoming increasingly unreliable over time.

Recommendations

We recommend that the Chief Administrative Officer:

1. Develop OFS policies and procedures for monitoring the controls, performance, and security of the contractor's catering system.

2. Require HIR, as an interim measure, to program stronger logical access controls as discussed in the finding for the OFS Catering System.

3. Explore the alternatives for providing a more technologically up-to-date and cost-effective catering system for use by the House food service contractors. HIR should consider replacing the database system currently in use with a Commercial Off The Shelf (COTS) software package that possess adequate controls and effectively meets the House's needs.

4. Explore the alternatives for providing a more technologically up-to-date and cost-effective POS system for use by the House food service contractors or require the food service contractors to provide their own POS system. In either case, the system should include adequate controls, such as those described in this report, and effectively meet the House's needs.

5. Incorporate specific provisions in all future food service contracts to require the contractors to implement the following:

   (a) Develop and formalize a security policy which is consistent with the risk of loss. At the minimum, the contractor should include the following in the policy:

   - Define unique passwords requiring the use of alphanumeric and special characters.
   - Establish a six character minimum password length.
   - Require all userids to be linked with unique user passwords to gain access to the POS system.
   - Require all passwords to be masked.

   (b) Require all food service cashiers and management personnel to attend training courses on security awareness and system operations to ensure efficient and effective use of any new House POS and catering systems.

   (c) For those utilizing their own cash registers (or POS systems), provide an automated cash register system with the following minimum functional requirements and controls.

   - Programmed food item price menus to track various sales activities, such as regular restaurant sales versus catered event sales.
   - Physical security, including procedures to deactivate the register when unattended.
   - Logical access security, including requirements for unique userids and passwords, password change, and masking passwords.

- Logical access privileges, which provide for proper segregation of duties, such as restricting the use of the "no sale" key on the POS system and the "delete" database privileges on the POS system console.
- End of day processing and sales report capabilities.
- Maintenance and backup of critical system files, such as daily sales data; and
- Appropriate information systems controls over automated cash register systems (e.g., POS).

Management Response

On May 29, 1998, the CAO concurred with this finding and the associated recommendations (see Appendix). According to the response, OFS will monitor the contractor's catering systems and evaluate them for compliance semi-annually, and in accordance with the COR Food Service Manual. The Manual also includes procedures to monitor the controls, performance, and security of the food service contractors' catering systems.

In addition, OFS incorporated requirements for stronger information system controls in the new contract with GSI and the contract modification with Skenteris. According to the response, OFS's catering system was replaced with GSI's own catering system, which possesses acceptable controls that meet the needs of the House. Skenteris elected to maintain a manual catering system. Further, GSI is using its own POS system, which also includes controls consistent with those we identified in the report. Regarding the House owned POS system used by Skenteris, OFS is exploring options to replace the system with a more technologically up-to-date system. OFS will make a recommendation to the Associate Administrator of Media and Support Services by July 31, 1998.

Office of Inspector General Comments

The CAO's completed and planned actions are responsive to the issues we identified. Based on the actions completed, we consider Recommendations 1, 2, 3, and 5 closed. The planned actions, when fully implemented, should satisfy the intent of Recommendation 4. Furthermore, the milestone date for completing the remaining task appears reasonable.

III. OTHER MATTER

Proposed Alternative Contract Arrangement

According to the U.S. Government's Federal Acquisition Regulations (FAR), a fixed-price contract provides for a price that is not subject to any adjustment on the basis of the contractor's cost experience in performing the contract. This contract type gives the contractor full responsibility for the performance costs and resulting profit (or loss), and best utilizes the basic profit motive of business enterprise. It provides maximum incentive for the contractor to control costs and perform effectively, while imposing a minimum administrative burden upon the contracting parties. Fixed-price contracts should be used when there is minimal risk involved, or when risk can be predicted with an acceptable degree of certainty.

The FAR also points out that before selecting a contract type other than fixed-price, the contracting officer should consider the contractor's financial responsibility and the adequacy of the contractor's accounting system. The internal control deficiencies identified during our audit suggest that the contractors may have a less than adequate financial accounting systems, thereby, enabling fraud, waste, abuse, and mismanagement to go undetected.

Under the current percentage of revenues contract arrangement:

- Contract performance must be monitored to ensure revenues are properly reported;
- A separate set of books must be maintained by OFS in order to "reconcile" revenues reported by the contractors, yet differences are not always resolved;
- Heavy reliance is placed on the contractor's internal controls and accounting systems; and
- There is no incentive for contractors to contain costs or perform effectively since higher profits mean a higher percentage is paid to the House.

A fixed-fee contract for food service operations could potentially eliminate OFS's burdensome record-keeping requirements, reduce reliance on the contractors internal controls, and eliminate the contractor's incentive to understate revenues. In addition, it would lessen the burden on the contractors by eliminating periodic financial oversight reviews by OFS and the requirement to implement additional management controls.

In future negotiations of the food service contracts, the House should consider a fixed-fee arrangement. In calculating the fee to be paid by the food service contractors, the House should consider:

- the percentage of revenues received over the life of the contracts;

- the estimated value of the space being rented by the contractors to run their operations;
- the House's original basis for outsourcing this service (one of the advantages to outsourcing is reducing the burden (and costs) of providing the service in-house); and
- a fee that is beneficial to both parties.

A fixed-fee arrangement could save the House monitoring costs and eliminate the need to implement numerous recommendations to improve management controls.

Conclusion

Under the fixed fee arrangement discussed above, the financial risk to the House is eliminated. In addition, it would lessen the burden on the contractors by eliminating periodic financial oversight reviews by OFS and the requirement to implement additional management controls. Thus, in future negotiations, the fixed fee arrangement may be advantageous to both the House and the contractors.

Recommendation

We recommend that the Chief Administrative Officer consider a fixed-fee arrangement for food service contracts in future negotiations.

Management Response

On May 29, 1998, the CAO concurred with this issue and the associated recommendations (see Appendix). According to the response, the CAO plans to evaluate a fixed fee arrangement for food service contracts in future negotiations, beginning with competing the Skenteris contract in early Fall 1998.

Office of Inspector General Comments

The CAO's planned action is responsive to the issue we identified and satisfies the intent of our recommendation. Thus, we consider this recommendation closed.

James M. Eagen III
Chief Administrative Officer

Office of the
Chief Administrative Officer
U.S. House of Representatives
Washington, DC 20515–6860

MEMORANDUM

TO: John W. Lainhart IV
Inspector General

FROM: Jay Eagen
Chief Administrative Officer

SUBJECT: Draft Audit Report of Revenue Verification
Of the Food Service Contractor Operations

DATE: MAY 29 1998

Thank you for the opportunity to comment on the Draft Audit Report of Revenue Verification Of the Food Service Contractor Operations. We have carefully reviewed the draft report's recommendations and are in general support of them. Our specific comments for each recommendation are provided below.

Finding A: Management Controls Over the House Restaurant Operations Need Improvement

Recommendations

1. Require the Office of Procurement and Purchasing, working in conjunction with OFS, to incorporate a requirement for contractors to implement the following actions:

(a) Establish appropriate management controls over its food service financial operations prior to awarding the contract. These controls should include (at a minimum):

- **Policies and procedures addressing food service operations, including proper collection, recording, and reporting of sales revenues;**
- **Cash management controls;**
- **Adequate books and records, including source documents, for inspection by OFS and other House or contractor personnel supporting OFS during the life of the contract and three years following contract closeout;**
- **Proper segregation of duties; and**
- **Adequate training and monitoring of employees.**

CONCUR
The new contract with Guest Services, Inc. (GSI) addresses recommendation 1 in its entirety. Under the terms of the food service contract with GSI, the contractor must institute a system on management controls which is acceptable to the Contracting Officer (CO). The CO will consider the recommendations made by the Office of Inspector General (OIG) in this report when evaluating whether GSI's system is satisfactory.

Also, Modification 001 was executed with Skenteris Family, Inc. (Skenteris) on April 20, 1998 to implement appropriate financial management controls. A copy of the GSI contract and Skenteris contract Modification, which address each of these controls, has been provided to the OIG for review. Therefore, this recommendation should be closed.

(b) Separately track revenues generated from catered events and record them on sales reports.

CONCUR
Procedures have been developed with GSI to ensure that revenues generated from catered events are tracked separately and recorded on sales reports. These procedures have been provided to the OIG for review. Catered event sales are now processed through a POS system that provides an audit trail of each catered function. Actual charges can be tracked to specific catered event orders.

The requirement to record all sales on sales reports and distinguish catering sales from other food sales for Skenteris has been stipulated in Modification 001. This recommendation should be closed.

(c) Make available all books, records, and other supporting documentation for periodic unannounced reviews by OFS and other House or contractor personnel supporting OFS.

CONCUR
As stated in response to 1 (a), above, under the terms of the contract with GSI and the modification with Skenteris, the contractors' books are available for announced and unannounced audit reviews. Copies of the GSI contract and the Skenteris contract modification have been provided to the OIG for review. Therefore, this recommendation should be closed.

2. Take a more aggressive approach in monitoring food service operations to assure that the contractors are adhering to contract provisions. At a minimum, the CAO should seek an appropriate House resource to perform periodic unannounced reviews/inspections, on a sample basis, of the following controls.

(a) Books and records, including supporting source documents, of sales revenues reported.

CONCUR
In accordance with the contract, GSI's books and records, including supporting source documents of sales revenues reported, are subject to announced and unannounced reviews and audits. The COR Food Service Manual specifies a plan to implement and schedule these audits, which will be completed semi-annually. The first such audit will be completed by July 15, 1998. Therefore, this recommendation should be considered closed.

(b) Employees' practices surrounding the

- **Proper use of the cash register "no sale" and "cancel" keys;**
- **Appropriateness of voided transactions as well as support for voids; and**
- **Proper support for employee meal receipts.**

CONCUR
In accordance with the contract with GSI, operations on the above-named functions are also subject to announced and unannounced audit reviews. To verify GSI's procedures and ensure they are being followed pursuant to the terms of the contract, OFS will conduct audit reviews on a periodic, random basis, in accordance with the Quality Measures set forth in the COR Food Service Manual.

Modification 001 with Skenteris also addresses this recommendation. Management and oversight of specific day-to-day operations should be/are determined and monitored by the contractor. A copy of the contract with GSI and the Skenteris contract modification has been provided to the OIG for review. This recommendation should be considered closed.

(c) The separate tracking and accounting for sales revenues generated from catered events, which would include establishing and maintaining proper records of catering activities (e.g, event log book, contract agreements signed by customers hosting the event, and sequentially numbered receipts).

CONCUR
The contract requires GSI to use generally accepted accounting principles to report sales revenue generated from catered events. GSI has explicit procedures regarding record-keeping for catering sales. Copies of these procedures have been provided to the OIG for review. Recommendations made by the OIG in this audit will be considered in evaluating whether GSI's system is satisfactory.

Modification 001 with Skenteris addresses catering functions and the recommendations in this report. Effective April 20, 1998, OFS is monitoring procedures used by Skenteris for compliance with their contract. This recommendation should be closed.

Finding B: House Information Systems Controls for Recording and Reporting Food Service Revenues Are Significantly Deficient

Recommendations

1. **Develop OFS policies and procedures for monitoring the controls, performance, and security of the contractor's catering system.**

CONCUR
In accordance with the COR Food Service Manual, OFS will monitor the contractor's catering system and evaluate it for compliance semi-annually. In addition, the COR Manual includes procedures to monitor the controls, performance, and security of the contractor's catering system.

In accordance with Modification 001 with Skenteris, OFS has developed procedures to monitor the catering system used by Skenteris to ensure it has sufficient security, performance and controls to meet the needs of the House.

Copies of catering procedures for both GSI and Skenteris have been provided to the OIG for review. This recommendation should be closed.

2. **Require HIR, as an interim measure, to program stronger logical access controls as discussed in the finding for the OFS Catering System.**

CONCUR
Stronger controls are needed, but in view of the new contract, it is not necessary to use HIR's services as an interim measure. The new contractor, GSI, has its own systems for security, performance and controls, which meet the OIG recommendations. In accordance with procedures developed between OFS and GSI, OFS will ensure that GSI complies with the terms of the contract. A copy of the procedures has been provided to the OIG for review and in accordance with the COR Food Service Manual, OFS will complete the first audit by July 15, 1998.

3. **Explore the alternatives for providing a more technologically up-to-date and cost-effective catering system for use by the House food service contractors. HIR should consider replacing the database system currently in use with a Commercial Off The Shelf (COTS) software package that possess adequate controls and effectively meets the House's needs.**

CONCUR
In accordance with the new contract, GSI uses its own catering control system that is acceptable to the Contracting Officer's Representative (COR) and meets the needs of the House. In accordance with the procedures referenced above, OFS will ensure that GSI complies with the terms of its contract. A copy of these procedures has been provided to the OIG for review. In accordance with Modification 001, Skenteris is using a manual system to comply with this

recommendation. OFS will complete the first audit review on the contractors' catering system controls by July 15, 1998.

4. **Explore the alternatives for providing a more technologically up-to-date and cost-effective POS system for use by the House food service contractors or require the food service contractors to provide their own POS system. In either case, the system should include adequate controls, such as those described in this report, and effectively meets the House's needs.**

CONCUR
The new contract with GSI has been written in accordance with OIG recommendations to require the contractor(s) to formalize a security policy, attend training on the POS system and provide a system that meets certain minimum specifications, such as Year 2000 compliance.

The POS system used by Skenteris is owned by the House and needs to be replaced to be more technologically up-to-date. OFS is exploring options to replace the present POS system used by Skenteris and will make a recommendation to the Associate Administrator of Media and Support Services by July 31, 1998.

5. **Incorporate specific provisions in all future food service contracts to require the contractors to implement the following:**

(a) **Develop and formalize a security policy which is consistent with the risk of loss. At the minimum, the contractor should include the following in the policy:**

- **Define unique passwords requiring the use of alphanumeric and special characters.**
- **Establish a six character minimum password length.**
- **Require all user Ids to be linked with unique user passwords to gain access to the POS system.**
- **Require all passwords to be masked.**

(b) **Require all food service cashiers and management personnel to attend training courses on security awareness and system operations to ensure efficient and effective use of any new House POS and catering systems.**

(c) **For those utilizing their own cash registers (or POS systems), provide an automated cash register system with the following minimum functional requirements and controls.**

- **Programmed food item price menus to track various sales activities, such as regular restaurant sales versus catered event sales.**
- **Physical security, including procedures to deactivate the register when unattended.**
- **Logical access security, including requirements for unique user Ids and passwords,**

password change, and masking passwords.

- **Logical access privileges, which provide for proper segregation of duties, such as restricting the use of the "no sale" key on the POS system and the "delete" database privileges on the POS system console.**
- **End of day processing and sales report capabilities.**
- **Maintenance and backup of critical system files, such as daily sales data; and**
- **Appropriate information systems controls over automated cash register systems (e.g., POS).**

CONCUR

The new food service contract with GSI and Modification 001 with Skenteris address recommendations 5a, b, and c. Implementation Plans for both contracts will ensure that the contractors comply with the terms of their contracts. Copies of the Implementation Plans have been provided to the OIG for review.

Recommendations made by the Office of Inspector General in this report will be considered in evaluating whether GSI's system is satisfactory. The CAO is exploring options to purchase a new POS system for use in the food service facility in the Ford building, which will address the recommendations in this report. This recommendation should be closed.

III. Other Matter - Proposed Alternative Contract Arrangement

Recommendation: **We recommend that the Chief Administrative Officer consider a fixed fee arrangement for food service contracts in future negotiations.**

CONCUR

The CAO will evaluate a fixed fee arrangement for food service contracts in future negotiations, beginning in early Fall 1998, with the process to re-compete the Skenteris contract. This recommendation should be closed.