



KPMG LLP  
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1801 K Street, NW  
Washington, DC 20006

## Independent Auditors' Report

Administrator and Acting Inspector General  
United States General Services Administration:

### Report on the Financial Statements

We have audited the consolidated and combined totals in the accompanying consolidating financial statements of the United States General Services Administration (GSA), which comprise the consolidating balance sheets as of September 30, 2014 and 2013, and the consolidating statements of net cost and changes in net position, and the combining statements of budgetary resources for the years then ended, and the related notes to the financial statements (hereinafter referred to as "consolidated financial statements"). We have also audited the individual balance sheets of the Federal Buildings Fund (FBF) and the Acquisition Services Fund (ASF) (hereinafter referred to as the "Funds") as of September 30, 2014 and 2013 and the related individual statements of net cost and changes in net position, and combining statements of budgetary resources (hereinafter referred to as the Funds' "individual financial statements") for the years then ended.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of GSA's consolidated financial statements and Funds' individual financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of GSA's consolidated financial statements and the Funds' individual financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on GSA's consolidated financial statements and the Funds' individual financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 14-02, require that we plan and perform the audit to obtain reasonable assurance about whether GSA's consolidated financial statements and the Funds' individual financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in GSA's consolidated financial statements and the Funds' individual financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of GSA's consolidated financial statements and the Funds' individual financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of GSA's consolidated financial statements and the Funds' individual financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of



significant accounting estimates made by management, as well as evaluating the overall presentation of GSA's consolidated financial statements and the Funds' individual financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions on the Financial Statements***

In our opinion, GSA's consolidated financial statements referred to above present fairly, in all material respects, the financial position of GSA as of September 30, 2014 and 2013, and the consolidated net costs, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles.

In our opinion, the Funds' individual financial statements referred to above present fairly, in all material respects, the financial position of each of the Funds as of September 30, 2014 and 2013, and the individual Funds' net costs, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles.

### ***Other Matters***

#### ***Required Supplementary Information***

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis and Required Supplementary Information sections be presented to supplement GSA's consolidated financial statements and the Funds' individual financial statements. Such information, although not a part of GSA's basic consolidated financial statements and the Funds' basic individual financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing GSA's basic consolidated financial statements and the Funds' basic individual financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, GSA's basic consolidated financial statements and the Funds' basic individual financial statements, and other knowledge we obtained during our audits of GSA's basic consolidated financial statements and the Funds' basic individual financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audits were conducted for the purpose of forming an opinion on GSA's basic consolidated financial statements and the Funds' basic individual financial statements as a whole. The information in the Other Information, Table of Contents, Letter from the Administrator, Letter from the Chief Financial Officer, and "How GSA Benefits the Public" sections of GSA's *2014 Agency Financial Report* is presented for purposes of additional analysis and is not a required part of GSA's basic consolidated financial statements and the Funds' basic individual financial statements. Such information has not been subjected to the auditing procedures applied in the audit of GSA's basic consolidated financial statements and the Funds' basic individual financial statements, and accordingly, we do not express an opinion or provide any assurance on it.



## **Other Reporting Required by *Government Auditing Standards***

### ***Internal Control Over Financial Reporting***

In planning and performing our audit of GSA's consolidated financial statements and the Funds' individual financial statements as of and for the year ended September 30, 2014, we considered GSA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on GSA's consolidated financial statements and the Funds' individual financial statements, but not for the purpose of expressing an opinion on the effectiveness of GSA's internal control. Accordingly, we do not express an opinion on the effectiveness of GSA's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in Exhibits I and II, we identified certain deficiencies in internal control that we consider to be a material weakness and significant deficiencies, respectively.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in Exhibit I to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Exhibit II to be significant deficiencies.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether GSA's consolidated financial statements and the Funds' individual financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 14-02. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of compliance disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 14-02.

We also performed tests of its compliance with certain provisions referred to in Section 803(a) of the Federal Financial Management Improvement Act of 1996 (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of FFMIA disclosed no instances in which GSA's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.



GSA management identified certain matters that may represent a violation of the Anti-Deficiency Act. These matters are currently under review by GSA management and GSA's Office of General Counsel. A final determination has not yet been made, and therefore, the outcome of these matters is not presently known.

***GSA's Responses to Findings***

GSA's responses to the findings identified in our audit are described in Exhibits I and II. GSA's responses were not subjected to the auditing procedures applied in the audits of GSA's basic consolidated financial statements and the Funds' basic individual financial statements and, accordingly, we express no opinion on the responses.

***Purpose of the Other Reporting Required by Government Auditing Standards***

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of GSA's or the Funds' internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

**KPMG LLP**

Washington, DC  
November 12, 2014

**Independent Auditors' Report**  
**Exhibit I – FY 2014 Material Weakness**

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**I. Financial Management and Reporting**

During fiscal year 2014, we noted certain deficiencies in financial management and reporting oversight at GSA in the areas of (a) classification of capital and operating leases, and (b) estimated liabilities to capture probable future cleanup costs for environmental contamination other than asbestos. As a result of our observations in the areas noted below, GSA recorded significant adjustments to its financial records as of and for the year ended September 30, 2014. Collectively, these matters are considered to be a material weakness in internal control.

**a. Classification of Capital and Operating Leases**

GSA maintains approximately 9,000 leases. As we reported in the fiscal year 2013 *Internal Control over Financial Reporting* section of our Independent Auditors' Report, GSA needs to continue to improve the effectiveness of its controls over the classification analysis of leases to ensure the proper accounting for, and disclosure of, leases in accordance with applicable accounting standards. We noted that GSA was unable to provide timely, sufficient and complete documentation to support the classification of capital and operating leases. Specifically, we noted instances where:

- Certain sections of the lease classification analysis were not completed to determine the proper classification of the lease;
- There was no evidence that the lease classification analysis was reperformed timely after a change in terms of the lease agreement;
- The discount rates used in the lease classification analysis did not agree to the rate that should have been used per guidance in Office of Management and Budget (OMB) Circular No. A-11, *Preparation, Submission, and Execution of the Budget – Appendix B*, and OMB Circular No. A-94 (Revised), *Guidelines and Discount Rates for Benefit-Cost Analysis of Federal Programs – Appendix C*;
- The lease classification analysis was not discounted back to the earlier of the lease commencement date or the first payment date in accordance with OMB Circular No. A-11, Section B;
- The lease classification analysis contained incorrect data related to one of the following: annual rent, operating costs, real estate taxes, insurance, maintenance and repair reserve, rent abatement, and rent commencement date;
- The lease classification analysis did not contain an appropriate signature of an authorized GSA official;
- The lease classification analysis included multiple leases for different buildings in the same analysis; and
- Under current GSA policy for leases with a term of five years or less, the 90 percent calculation is not required for rental rates that are consistent with prevailing market rates for comparable facilities in the area. As the applicable accounting standards do not differentiate the lease classification criteria based on the length of the lease term, sufficient documentation should be maintained to evidence that the 90 percent calculation was considered for each lease including those with lease terms of five years or less.

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**Exhibit I – FY 2014 Material Weakness**

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Although GSA has developed policies and procedures to determine whether a lease is either operating or capital, such policies and procedures are more focused on determining the appropriate lease classification from a budget formulation and justification perspective as required by OMB Circular No. A-11, rather than from a financial reporting perspective. In addition, we noted that regional personnel do not follow established policies and procedures on a consistent basis. The regional personnel have established practices as to how and when to complete lease classification analyses that are not always consistent with GSA established policies and procedures or applicable accounting standards. Further, there is a lack of sufficient monitoring, oversight, and training over the leasing function as the Office of the Chief Financial Officer (OCFO) relies on GSA's Public Buildings Service (PBS) to perform this function. Regional and operational personnel do not always share responsibilities, or are inadequately supervised on financial management matters, including adhering to established policies and procedures.

If not corrected, these conditions present a high risk that significant misstatements in the classification of leases and potential violations of laws and regulation will not be prevented or detected and corrected by GSA management in the normal course of performing their assigned functions. Upon our observations, GSA management performed additional analysis to obtain evidence that GSA's financial statements were not significantly misstated.

**b. Estimated Liabilities to Capture Probable Future Cleanup Costs for Environmental Contamination Other than Asbestos**

GSA manages over 1,300 owned properties with an average age of 49 years, including 370 buildings considered heritage assets. Certain properties contain environmental hazards that will ultimately need to be removed and/or require containment. Statement of Federal Financial Accounting Standards (SFFAS) No. 5, *Accounting for Liabilities of the Federal Government*; SFFAS No. 6, *Accounting for Property, Plant and Equipment*; and Technical Release No. 2, *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*, set forth the requirements and guidance for accounting and reporting environmental liabilities.

Late in fiscal year 2013 and during fiscal year 2014, GSA undertook a significant effort to implement an estimation methodology for liabilities related to asbestos cleanup cost and to update its policies and procedures for implementing the accounting and reporting of environmental liabilities. For example, PBS updated its *Accounting for Environmental Liability Guidelines* (Guidelines), the purpose of which is to help implement the OCFO's *Accounting Policies and Procedures for Environmental Related Cleanup Costs*. Such Guidelines contain guidance to assist GSA Regional Environmental Managers, and other relevant stakeholders, in identifying, estimating, and reporting environmental liabilities for GSA's financial statements. However, GSA needs to continue to improve its controls over environmental liabilities, as outlined below:

1. The PBS implementation guide document does not properly align with policies and procedures issued by the OCFO. Specifically, the Guidelines document includes certain sections that directly contradict OCFO policies and procedures. In addition, the Guidelines document includes certain sections that introduce ambiguity as to what type of contaminants are necessary to include in the estimate for future cleanup costs for contaminants other than asbestos.
2. The OCFO was not able to effectively identify technical accounting issues relating to the accounting estimate for probable future cleanup costs other than asbestos. Specifically, the OCFO did not correctly evaluate the PBS implementation guide on accounting for environmental liabilities. As a result, PBS implemented policies, procedures, and practices relating to the accounting for environmental liabilities that were in direct contradiction to certain OCFO policies and procedures.

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**Exhibit I – FY 2014 Material Weakness**

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3. The due care process outlined in the Guidelines document for identifying, estimating, and reporting environmental liabilities is not in compliance with OCFO policies and procedures and applicable accounting standards. Specifically, the due care process does not take into consideration the specific cleanup projects GSA has currently underway. GSA does not consistently apply knowledge of similar sites or conditions gained through performing actual cleanup for contaminants other than asbestos. Consequently, GSA did not consider certain types of contaminants in its calculation of the estimated future cleanup cost. This control deficiency contributed to significant errors in the financial statements that were discovered during our audit.

As a result of our observations, GSA introduced certain refinements to its methodology to capture the estimated future cleanup cost of contaminants other than asbestos and adjusted its records by approximately \$274 million to estimate for the liability to capture probable future cleanup costs for environmental contamination other than asbestos as of September 30, 2014.

GSA continues to face challenges in developing effective information and communication processes to help the OCFO, PBS Environmental Division, and the Regional Environmental Managers apply established policies and procedures related to environmental liabilities in a consistent manner throughout the agency. The conditions noted above do not allow GSA management, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the environmental liability balance on a timely basis. If not corrected, these deficiencies will continue to expose GSA to an increased risk of misstatement in its financial reports.

**Recommendations**

We recommend that GSA management implement the following to improve controls over financial reporting:

**a. Classification of Capital and Operating Leases**

1. PBS update policies and procedures to define lease modifications that would require re-evaluation for classification purposes;
2. Regional personnel be trained, properly supervised, and made accountable for adhering to accounting policies and procedures related to leases;
3. Management enforce its policies over timely and accurately analyzing all leases before the lease agreement is signed by GSA; and
4. The OCFO implement sufficient monitoring procedures to ensure the lease classification analysis is performed accurately, timely, and consistently and in accordance with the applicable accounting standards for leases entered into by GSA.

**b. Estimated Liabilities to Capture Probable Future Cleanup Costs for Environmental Contamination Other than Asbestos**

1. Continue to accumulate relevant, sufficient, and reliable data upon which to base the estimate;
2. Ensure the accounting estimate is prepared by qualified personnel with a full understanding of the requirements to develop an effective cost estimation methodology;
3. Ensure there is adequate review and approval of the estimate by appropriate levels of management, including review of sources of relevant factors, development of assumptions, and reasonableness of assumptions and resulting estimates;

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**Exhibit I – FY 2014 Material Weakness**

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4. Continue to monitor and refine the estimation methodology on a regular basis, as needed, by regularly completing and updating surveys for the specific purpose of capturing estimated costs related to environmental cleanup;
5. Perform surveys over a sample of buildings representative of the total population of GSA buildings by region;
6. Develop and implement effective information and communication processes to help ensure that technical accounting issues are identified, properly analyzed, and resolved in a timely manner; and
7. Ensure established policies and procedures are consistent and in accordance with applicable accounting standards.

**Management Response**

Management concurs with these recommendations and will continue to implement necessary corrective actions which are either in progress or planned.

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**Exhibit II – FY 2014 Significant Deficiencies**

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**II. Entity-level Controls**

The control environment sets the tone of an organization by influencing the control consciousness of its personnel. It is also the foundation for all components of internal control, providing discipline and structure. GSA needs to continue to address weaknesses in its entity-wide control environment. As we reported in the fiscal year 2013 *Internal Control over Financial Reporting* section of our Independent Auditors' Report, we continued to observe the following entity-wide control environment conditions that have a pervasive influence on the effectiveness of controls, as described below.

1. Inadequate development and implementation of effective information and communication processes to help ensure that technical accounting issues are identified, analyzed, and resolved timely. GSA should not rely on the external audit process to identify technical accounting issues and should respond to audit inquiries with accurate and sufficient information.
2. Although GSA has made progress in moving towards a more centralized financial control structure, including consolidating the budget, accounting, and financial reporting functions under the OCFO, we continue to note communication issues between the OCFO and operational personnel. For example, the OCFO continues to depend on the PBS Central Office for the implementation of certain policies and procedures such as accounting for environmental liabilities. However, the PBS Central Office does not report directly to the OCFO.
3. Regional and operational personnel do not always share responsibilities for, or are not adequately supervised on, financial management matters that affect the financial statements, including adhering to appropriate accounting policies and procedures and performing key internal control functions in support of financial reporting.
4. GSA has not finalized certain policies and procedures related to financial reporting and accounting operations. Without final, formalized, and approved policies and procedures issued, effectively communicated, implemented, and monitored, there is an increased risk that GSA will continue to experience control deficiencies in financial reporting.
5. Certain financial system functionality limitations are contributing to control deficiencies reported in the fiscal year 2014 *Internal Control over Financial Reporting* section of our Independent Auditors' Report: Findings III, *Budgetary Accounts and Transactions*; IV, *Accounting and Reporting of Property and Equipment*; V, *Accounting and Reporting of Leases and Occupancy Agreements*; and VI, *General Controls over Financial Management Systems*. These system functionality limitations are inhibiting progress on corrective actions for GSA and are preventing the agency from improving the efficiency and reliability of its financial reporting process. Some of the financial system limitations lead to extensive manually intensive and redundant procedures to process transactions, to verify accuracy of data, and to prepare the financial statements. Systemic conditions related to financial system functionality include:
  - Lack of integrated financial and acquisition systems for PBS. GSA is currently working on the development and implementation of a new financial management acquisition system;
  - Lack of system functionality to capture the estimated completion date for multiphased construction projects;
  - Funds controls in the financial management system that can be overridden without proper controls over transactions recorded when such edit checks were switched off;
  - Configuration of the financial management system regarding the proper accounting for recoveries of prior years' obligations;

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**Exhibit II – FY 2014 Significant Deficiencies**

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- Aging feeder systems that do not capture proper information for the correct recognition of expenses and related revenue for certain Federal Acquisition Service (FAS) lines of businesses; and
  - Numerous interfaces between feeder systems and the financial management system requiring manual journal entries to capture transactions properly that originally did not interface correctly.
6. GSA continues to experience repeat control deficiencies as many of the deficiencies noted have been reported previously. This highlights the need to strengthen monitoring controls. Monitoring is a key aspect of the organization's assessment of the effectiveness of internal control and provides valuable support for assertions on the effectiveness of the system of internal control.

**Recommendations**

We recommend that GSA management implement the following to improve the effectiveness of entity-level controls:

1. Review and revise as necessary its internal control program to plan, establish, monitor, and report and communicate a comprehensive, adequate, and appropriate internal assessment of the operating effectiveness of GSA internal controls;
2. Review and revise as necessary processes to ensure technical accounting issues are identified, analyzed, and resolved in a timely manner;
3. Provide training to financial and program personnel on internal controls;
4. Continue to strengthen the monitoring controls;
5. Prioritize or reprioritize financial systems and feeder systems enhancements to resolve functionality limitations and reduce manually intensive and redundant procedures;
6. Finalize and implement all of the draft agency-specific OCFO policies and procedures to effectively provide information and communication to GSA as a whole as a part of a functioning entity-wide control environment; and
7. Implement procedures to involve financial management effectively, and others as needed, when making accounting policy decisions to ensure that adopted accounting policies are technically correct, supported, are in accordance with OCFO's policies and procedures, and properly reflect the business transactions in the financial statements.

**Management Response**

Management concurs with these recommendations and will continue to implement necessary corrective actions which are either in progress or planned.

**III. Budgetary Accounts and Transactions**

Budgetary accounts are a category of the general ledger accounts where transactions related to receipts, obligations, and disbursements of budgetary authority—the authority provided by law to incur financial obligations that will result in outlays—are recorded.

OMB Circular No. A-123, *Management's Responsibility for Internal Control, Revised*, sets forth requirements to develop control processes necessary to ensure that reliable and timely information is obtained, maintained, reported, and used for decision making.

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**Exhibit II – FY 2014 Significant Deficiencies**

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GSA needs to continue improving the effectiveness of controls over its accounting and business processes to ensure that budgetary transactions are properly recorded, processed, and summarized. Specifically, we identified control deficiencies over the processing of undelivered orders, unfilled customer orders, and funds controls. Many of these conditions were reported in the fiscal year 2013 *Internal Control over Financial Reporting* section of our Independent Auditors' Report.

**a. Undelivered Orders**

Undelivered orders represent GSA's obligations that require the agency to make payments to the public or from one government account to another. Under requirements of OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget*, obligations incurred must conform to applicable provisions of law, and agencies must be able to support the amounts reported by appropriate documentary evidence as defined by 31 U.S.C. 1501.

During our test work over PBS obligations, we continue to note instances where the obligating documents did not support the obligations recorded or where the obligation was recorded without the proper obligation documents; instances where the obligating documents did not provide a period of performance; and instances where signed contracts were not entered into the financial management system timely.

**b. Unfilled Customer Orders**

Unfilled customer orders represent the amount of goods and services to be furnished by GSA to other federal agencies. Unfilled customer orders provide budgetary resources to enter into new obligations and to liquidate existing obligations. GSA needs to continue to improve the effectiveness of its controls over unfilled customer orders. During our test work over unfilled customer orders for PBS, we continued to note instances where the goods and services related to these orders had been received or completed and the remaining unfilled customer orders were not canceled timely; instances where GSA did not record the signed unfilled customer order in the financial management system timely; and, instances where GSA had not obligated funds and initiated work under certain reimbursable work authorizations (RWAs) timely.

In addition, in fiscal year 2014, GSA management identified instances of potential overstatement of unfilled customer orders due to GSA accepting reimbursable work authorizations for nonseverable services when the customer agency might not have had full funding equal to the scope of work to be performed.

**c. Funds Control**

As outlined in OMB Circular No. A-11, the purpose of an agency's fund control system is to restrict both obligations and expenditures (also known as outlays or disbursements) from each appropriation or fund account to the lower of the amount apportioned by OMB or the amount available for obligation or expenditure in the appropriation or fund account. GSA needs to improve the effectiveness of its funds controls as required by OMB Circular No. A-11. Specifically, we noted the following control deficiencies:

1. During our test work over Reimbursable Work Authorizations, Obligations, and Leases for PBS, we continue to note instances where the required requisition form was not signed by the budget analyst; instances where the budget analyst approved the certification of funds without using the required requisition forms; instances where the budget analyst approved the certification of funds with an incorrect reference to funding; and instances where GSA could not provide sufficient evidence to support the review of certain recorded lines of accounting.

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2. The financial management system provides funding and spending controls to ensure that budget authorities are not exceeded at each budget level. Such controls include a hard-edit feature, which denies the user the ability to process further obligating documents if the user attempts an entry that will exceed the respective authority available amount. However, we noted that GSA management can manually override these funding and spending automated controls while processing budgetary transactions. In fiscal year 2014, GSA took steps to address this condition; however, we continue to note the lack of formal manual or automated review to ensure that funding and spending automated controls are being turned off for a valid reason and whether they were subsequently turned back on after processing. In addition, the system continues to lack sufficient functionality to identify the transactions that were recorded while the controls were turned off.

The main contributing factors for the control deficiencies over budgetary accounts and transactions continue to be:

- The lack of integrated financial and acquisition systems and the ineffective monitoring and oversight over the apportionment process;
- The ineffective communication between the program office and the budget and financial management personnel within the regions; and
- The lack of sufficient monitoring and oversight of the contracting function—as evidenced by contracting and budgetary control activities not being performed in a consistent manner at the regional level.

As a result, GSA management continues to rely on costly compensating processes and unsustainable labor-intensive efforts to prepare reliable financial statements throughout the year and at fiscal year-end. If not corrected, these deficiencies will continue to expose GSA to an increased risk of misstatements in its financial reports and possible violations of laws and regulations. We performed additional analysis and determined that GSA's financial statements were not significantly misstated.

**Recommendations**

We recommend that GSA management continue to implement the following to improve controls over the accounting for undelivered orders:

**a. Undelivered Orders**

1. Continue efforts to implement a contracting system that will interface with the financial management system of record;
2. Until such interfaces are in place, continue monthly reconciliation efforts between the current contracting system and the financial management system and ensure sufficient resources are available to perform the reconciliations in a timely and routine manner;
3. Improve communications with the regional offices to investigate and resolve variances identified in a timely and consistent manner;
4. Perform procedures to ensure all obligations are captured and accurately recorded in the financial management system;
5. Institute policies and procedures, including management reviews, to ensure that a contract delivery date or period of performance is stated on all obligating documents before obligations are authorized, when appropriate;

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**Exhibit II – FY 2014 Significant Deficiencies**

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6. Ensure contracting officers and regional procurement officers review contracts thoroughly to ensure that contract options are correctly exercised and applicable Notice-to-Proceed documents are issued timely;
7. Continue assessing the root causes of ineffective internal controls at the process level as part of the top-to-bottom review process to help design an effective internal control environment that is suitable to GSA business processes;
8. Improve the efficiency of transaction-level, process-driven controls to avoid overreliance on high-level mitigating controls over budgetary accounts and transactions;
9. Improve communication with GSA's procurement operations and the regions to better facilitate response times by regions for award acceptance and receipt of goods and services; and
10. Provide additional training to reinforce existing policies and procedures, which require proper authorization and approvals of contracts prior to recording the obligations in the financial management system, and that all obligations be entered into financial management systems timely and prior to the receipt of any goods and/or services by GSA.

**b. Unfilled Customer Orders**

1. Enforce existing policies and procedures with regional personnel to ensure that all orders are entered in the appropriate feeder subsidiary ledger system accurately and timely.
2. Continue to perform periodic monitoring and reviews of outstanding unfilled customer orders and consider increasing the precision of the reviews performed to ensure that balances reported in the financial statements are valid and accurate;
3. Improve communications with the regions to stress the importance of having valid unfilled customer orders in the financial statements and the need to properly account for unfilled customer orders by closing all orders as they are completed;
4. Consider implementing automated system controls over unfilled customer orders spending to ensure reimbursable obligations and expenses incurred are not greater than funding authority provided by a valid unfilled customer order;
5. Develop sufficient monitoring controls to ensure that work is initiated timely after funds are accepted through RWAs;
6. Determine and implement corrective actions to resolve/correct incrementally funded RWAs;
7. Review and revise RWA policies and procedures to address conditions related to the potential overstatement of unfilled customer orders as necessary;
8. Develop and implement training to regional and national staff to clarify and strengthen understanding of RWA funding policies; and
9. Conduct an internal control review of RWA funding practices to determine if policies and procedures are followed and/or corrections implemented timely.

**c. Funds Control**

1. Ensure that funds-certifying offices receive proper training and guidance over the evaluation of the legal availability of funding against the proposed contract terms;

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**Exhibit II – FY 2014 Significant Deficiencies**

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2. Continue to monitor newly implemented and existing controls over contracting and procurement actions to ensure all contracts are prepared legally and accurately in accordance with federal procurement laws and GSA policies and procedures, and obligating documents are reviewed and approved by appropriate members of management;
3. Document all policies and procedures relating to the budgetary control environment and activities and provide employees with timely training and updated training materials;
4. Enforce existing policies and procedures related to funds availability certification to ensure that the certification is obtained before a contracting officer signs an obligating document;
5. Provide training to the contracting officers to reinforce existing policies and procedures, which require them to obtain the proper certifications of funds availability from the certifying official before signing any obligating document;
6. Consider updating the policy over certification of funds availability to establish consistency for certifying funds across the agency, and communicate and enforce the updated policy to the regions; and
7. Consider developing an audit logging capability in the financial management system to track the status of funding and spending automated controls to ensure that such controls are not overridden without the approval of the appropriate members of management.

**Management Response**

Management concurs with these recommendations and will continue to implement necessary corrective actions which are either in progress or planned.

**IV. Accounting and Reporting of Property and Equipment**

GSA reported \$27.8 billion in property and equipment, net of accumulated depreciation, as of September 30, 2014. GSA needs to continue to improve controls over general property and equipment to ensure that transactions are promptly recorded, properly classified, and accounted for in accordance with the requirements outlined in the applicable accounting standards and OMB Circular No. A-123. In fiscal year 2014, we continued to note the following control deficiencies over general property and equipment, many of which were reported in the fiscal year 2013 *Internal Control over Financial Reporting* section of our Independent Auditors' Report.

**a. Buildings**

As reported in the previous year, GSA continues to have challenges recording property disposals consistently when they occur. When a building is sold, conveyed, demolished, or classified as excess property, the regional offices do not always notify the OCFO to properly record the asset disposal and to reduce the building value in the financial management system accordingly. We continue to note instances where the property and equipment was not transferred to excess property or was not transferred timely. As a result, GSA continued to record depreciation expense inappropriately and asset disposals were not recorded or were not recorded timely. In addition, we continued to note instances where leased properties and leasehold improvements were incorrectly coded as owned buildings.

As a result of our testwork, we identified an overstatement of the buildings balance and related accumulated depreciation of approximately \$95 million and \$90 million, respectively, as of September 30, 2014.

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**Exhibit II – FY 2014 Significant Deficiencies**

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**b. Construction in Process**

GSA needs to continue improving the effectiveness of controls over the proper classification of projects that are deemed substantially complete. We continue to note instances where GSA did not record transfers of substantially completed projects consistently from construction in process (CIP) to the buildings balance timely. In addition, we continued to note instances where GSA transferred an incorrect amount to the building account. There is an increased risk that asset transfers may not be recorded in the general ledger accurately or timely due to the following:

- The inconsistent application of PBS's guidance as to the definition of when a project is substantially complete;
- The size and complexity of GSA's construction projects;
- The manually intensive process of determining and documenting substantial completion dates;
- The lack of a policy over documentation requirements for multiphased or multiasset transfers; and
- The lack of system functionality to capture the estimate completion date for multiphased construction projects.

We performed additional analysis and determined that GSA's financial statements were not significantly misstated.

**Recommendations**

We continue to recommend that GSA management implement the following to improve controls over the accounting for general property and equipment:

**a. Buildings**

1. Correct all instances of asset disposals not properly recorded;
2. Perform regular verifications of the building status listed in the Fixed Asset subsidiary ledger;
3. Develop policies and procedures requiring a new building location code to facilitate the verification of building status. Ensure newly developed and existing policies and procedures are consistent with SFFAS No. 6;
4. Develop policies and procedures to improve communications between the Central Office and the regional portfolio managers regarding asset disposals or conveyance to ensure all parties have an understanding of the documents and notifications needed for the OCFO to record the asset disposals timely;
5. Develop and deliver training on an ongoing basis to all portfolio managers and realty specialists regarding the reporting of real property disposal or conveyance to ensure that all appropriate requirements are fulfilled and consistently recorded in accordance with GSA policies and procedures;
6. Enforce GSA's existing policy on reporting asset disposal or conveyance; and
7. Continue to review and verify both leased and owned buildings to ensure existing issues are identified and remedied timely.

**b. Construction in Process**

1. Develop policies and procedures to provide guidance for the type of required documentation that should be maintained to support costs for individual phases or assets in CIP;

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2. Develop an automated process to capture costs by individual phases or assets of a multiphase or multiasset CIP project to reduce the need for manual tracking;
3. Provide training to contracting officers and project managers emphasizing the importance of timely communication of CIP transfers to the PBS Office of Finance;
4. Continue current initiatives to strengthen internal controls over proper classification of costs associated with projects and ensure proper data entry and timely transfer of costs between the construction in process and building accounts;
5. Continue reconciliation efforts to review the validity of substantial completion dates entered into the applicable feeder systems and the fixed assets subsidiary system to ensure that substantially completed CIP projects are transferred to the appropriate building account timely; and
6. Require regional offices to support the PBS Central Office's effort to correct the validity of substantial completion dates (e.g., making continuous improvements toward entering actual substantial completion dates into the system) in order to ensure controls operate effectively.

**Management Response**

Management concurs with these recommendations and will continue to implement necessary corrective actions which are either in progress or planned.

**V. Accounting and Reporting of Leases and Occupancy Agreements**

GSA processes approximately \$8 billion and \$10 billion, in lease expenses and revenues, respectively, from occupancy agreements. GSA needs to continue to improve controls over leases and occupancy agreements to ensure that transactions are recorded promptly and accurately, in accordance with requirements outlined in the applicable accounting standards and OMB Circular No. A-123. Many of these conditions were reported in the fiscal year 2013 *Internal Control Over Financial Reporting* section of our Independent Auditors' Report.

**a. Leases**

GSA needs to improve the effectiveness of its controls over the processing of leases to ensure that leases are accurately and timely recorded in the financial management system. Of the leases selected for test work, we continued to note instances where the certification of funds approval was not completed in the applicable feeder system before the contracting officer signed the obligating lease documents, instances where delays in processing the lease action forms caused delays in the recognition of lease expense, instances where the lease payment made to the vendor was incorrect, and instances where the Consumer Price Index adjustments were not recorded timely.

In addition, while improvements were noted in the lease disclosure preparation process, we continued to note instances where the future minimum lease payments did not match the terms of the lease, and an instance where a cancellable lease with certain terms was included in the footnote disclosure incorrectly.

**b. Occupancy Agreements**

In our test work over Occupancy Agreements, we continued to note instances where the Occupancy Agreements were not recorded timely in the financial management system, instances where the revenue associated with an Occupancy Agreement was misstated, and instances where the Occupancy Agreement was not terminated timely, all of which led to back billings and delays in recognizing revenue. In addition, in test work over the disclosure of future minimum operating lease revenue, we noted an instance where the disclosure of future projected receipts incorrectly included receipts for cancellable periods and instances where receipts for noncancellable periods were excluded incorrectly.

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The prompt processing of occupancy agreements, in many cases, is subject to the timely processing of the corresponding leases. Therefore, when GSA incurs delays in processing leases, there is an increased risk that revenues from occupancy agreements will not be properly recognized in accordance with applicable accounting standards. We performed additional analysis and determined that GSA's financial statements were not significantly misstated.

**Recommendations**

We recommend that GSA management implement the following to improve controls over the accounting for leases and Occupancy Agreements:

**a. Leases**

1. Enforce existing policies and procedures to ensure that all leases are timely and accurately processed; and
2. Regional personnel should be trained, properly supervised, and made accountable for adhering to accounting policies and procedures related to leases.

**b. Occupancy Agreements**

1. Enforce existing policies and procedures to ensure that all occupancy agreements are timely and accurately processed, and customer agencies are billed timely;
2. Regional personnel should be trained, properly supervised, and made accountable for adhering to established accounting policies and procedures related to occupancy agreements; and
3. Implement systematic controls to ensure compliance with established policies and procedures relating to the processing and disclosure of future operating lease revenue.

**Management Response**

Management concurs with these recommendations and will continue to implement necessary corrective actions which are either in progress or planned.

**VI. General Controls over Financial Management Systems**

GSA did not have adequate information technology controls to protect its financial management systems as required by OMB Circular No. A-130, *Management of Federal Information Resources*. Specifically, we identified control deficiencies over access and configuration management general controls, as follows.

**a. Access Controls**

Access controls are designed to limit or detect access to computer programs, data, equipment, and facilities to protect these resources from unauthorized modification, disclosure, loss, or impairment. Such controls include logical and physical security controls. GSA did not fully establish controls to prevent and detect unauthorized access for 6 systems of the 10 systems tested. Specifically, GSA did not consistently maintain evidence that users with normal business and elevated access were recertified on a regular basis. One system had granted incompatible roles to users and another system did not have a separation of duties matrix and the system was not configured to prevent incompatible roles. Finally, GSA did not fully establish monitoring controls over application, database, and operating system activity logs and violation reports of user actions.

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**b. Configuration Management**

Controls related to configuration management are designed to provide reasonable assurance that changes to information system resources are authorized and systems are configured and operated securely and as intended. Although GSA had designed controls to establish accountability and responsibility for configuration management including monitoring and tracking of changes, we identified certain segregation-of-duties deficiencies where the developer had access to production, and instances where configuration changes and patches were not documented with management approval. Finally, there was one system that did not have a formal configuration management plan. The lack of strong change controls may allow for unauthorized or inappropriate changes to be applied and go undetected by management, resulting in an increased risk that the information system will not operate as intended and that the data will not be reliable, valid, and complete.

GSA has made progress moving to a more centralized structure, including consolidating the IT function under the Office of the Chief Information Officer. Although GSA has made progress in the integration of staff, work processes, systems, and reporting structure, it still has challenges establishing a process to collect, assess, and share information relating to known deficiencies from one system with designated personnel throughout the organization to help eliminate similar deficiencies in other systems. This lack of effective communication and information regarding common deficiencies across the different feeder systems is the contributing factor preventing GSA from fully resolving these control deficiencies. These conditions could affect GSA's ability to prevent and detect unauthorized changes to financial information, control logical access to sensitive information, and protect its information resources.

**Recommendations**

We recommend that GSA management improve controls over its financial information systems to ensure adequate security and protection of the information systems as follows:

**a. Access Controls**

1. Implement a comprehensive access control security program to address the administration of access controls in order to increase the reliability of data and decrease the risk of destruction or inappropriate disclosure of data;
2. Develop agency-wide policies and procedures to manage all contractors;
3. Investigate and repair the cause of system errors that resulted in the breakdown of the recertification workflow; and
4. Develop and implement a process to review and document the review of application, database, and operating system audit logs related to financial system access and processing.

**b. Configuration Management**

1. Given the high volume of transactions processed through GSA's systems, high emphasis should be placed on removing incompatible duties across GSA's various applications, platforms, and environments to allow management to obtain reliance on the integrity of its production financial data;
2. Improve policies and procedures that restrict users from having full control over the development, compilation, and implementation of program changes; and
3. Investigate and repair the cause of system changes not being documented with management approval and also require all changes be documented in accordance with GSA policy.

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**Management Response**

Management concurs with these recommendations and will continue to implement necessary corrective actions which are either in progress or planned. For recommendations regarding financial systems changes, GSA will prioritize these changes through our existing Investment Review Board governance process.