U.S. GENERAL SERVICES ADMINISTRATION
Office of Inspector General

NOV 1 0 2011

MEMORANDUM FOR MARTHA N. JOHNSON
ADMINISTRATOR (A)

ALISON L. DOONE
CHIEF FINANCIAL OFFICER (B)

FROM: BRIAN D. MILLER
INSPECTOR GENERAL (J)

SUBJECT: Audit of the General Services Administration's Fiscal Year 2011 Financial Statements

The Office of Inspector General (OIG) administered a contract with KPMG LLP (KPMG) to audit the financial statements of the General Services Administration (GSA) for the fiscal year ended September 30, 2011. The purpose of this audit was to express opinions on GSA's consolidated financial statements and the balance sheets for the Federal Buildings Fund and the Acquisition Services Fund. The audit also evaluated internal controls over financial reporting and tested GSA's compliance with certain laws and regulations. The OIG does not express opinions on GSA's financial statements and related internal controls. In addition, we do not opine as to whether GSA's financial management systems substantially comply with Federal Financial Management Improvement Act of 1996 (FFMIA), nor do we reach conclusions on compliance with laws and regulations. Attached is a copy of KPMG's report.

KPMG's contract required that the audit be completed in accordance with the following criteria: U.S. generally accepted government auditing standards; Office of Management and Budget audit guidance; and the requirements set forth in the Government Accountability Office / Council of the Inspectors General on Integrity and Efficiency *Financial Audit Manual*. KPMG is responsible for the attached auditor's report dated November 9, 2011, and the conclusions expressed therein.

In its audit, KPMG found:

- The financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles.
- There were no material weaknesses in internal controls over financial reporting.
- No instances in which the entity's financial management systems did not substantially comply with the requirements of FFMIA.

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However, KPMG identified the following significant matters:

- Weaknesses in the effectiveness of controls over GSA's budgetary accounts and transactions.
- Weaknesses relating to GSA's controls over the accounting for and reporting of general property and equipment.
- Weaknesses in the effectiveness of controls over GSA's accounting for and reporting of environmental liabilities.
- Weaknesses in controls over the revenue and expense recognition polices in the Acquisition Services Fund.
- Weaknesses in general controls over financial management systems.

The Office of Inspector General appreciates the courtesies and cooperation extended to KPMG and to our audit staff during the audit. If you or your staff has any questions, please contact Theodore R. Stehney, Assistant Inspector General for Auditing at (202) 501-0374.

Attachments

KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

Independent Auditors' Report

Inspector General,
United States General Services Administration:

We have audited the consolidated totals in the accompanying consolidating balance sheets of the United States General Services Administration (GSA) as of September 30, 2011 and 2010, and the related consolidated totals on the accompanying consolidating statements of net cost and changes in net position, and the combined totals in the combining statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended. 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, 2011 and 2010 and the related individual statements of net cost and changes in net position, and combined statements of budgetary resources (hereinafter referred to as the Funds' "individual financial statements") for the years then ended.

The objective of our audits was to express opinions on the fair presentation of the GSA's consolidated financial statements and the Funds' individual financial statements. In connection with our fiscal year 2011 audit, we also considered GSA's internal control over financial reporting and tested GSA's compliance with certain provisions of applicable laws, regulations, and contracts that could have a direct and material effect on the GSA's consolidated financial statements and the Funds' individual financial statements.

Summary

As stated in our opinions on the GSA's consolidated financial statements and the Funds' individual financial statements, we concluded that the GSA's consolidated financial statements and the Funds' individual financial statements as of and for the years ended September 30, 2011 and 2010, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

Our consideration of internal control over financial reporting resulted in identifying certain deficiencies that we consider to be significant deficiencies, as defined in the Internal Control Over Financial Reporting section of this report, as follows:

A. Controls over budgetary accounts and transactions should be strengthened

B. Controls over accounting and reporting of general property and equipment should be strengthened

C. Controls over accounting and reporting of environmental liabilities should be strengthened

D. Controls over revenue and expense recognition policies in the Federal Acquisition Services Fund should be strengthened

E. General controls over financial management systems should be strengthened

We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined in the Internal Control over Financial Reporting section of this report.

The results of our tests of compliance with certain provisions of laws, regulations, and contracts disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements,* as amended.

The Office of Inspector General identified certain matters that may represent a violation of the Anti-Deficiency Act. These matters have been referred to GSA management and are currently under review by 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.

The following sections discuss our opinions on the GSA's consolidated financial statements and the Funds' individual financial statements; our consideration of GSA's internal control over financial reporting; our tests of GSA's compliance with certain provisions of applicable laws, regulations, and contracts; and management's and our responsibilities.

Opinions on the Financial Statements

We have audited the consolidated totals in the accompanying consolidating balance sheets of the United States General Services Administration as of September 30, 2011 and 2010, and the related consolidated totals on the accompanying consolidating statements of net cost and changes in net position, and the combined totals in the combining statements of budgetary resources for the years then ended. We have also audited the individual balance sheets of the Funds as of September 30, 2011 and 2010 and the related individual statements of net cost and changes in net position, and combined statements of budgetary resources for the years then ended.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of GSA and the financial position of each of the Funds as of September 30, 2011 and 2010 and the consolidated and individual Funds' net costs, changes in net position, and budgetary resources for the years then ended, in conformity with U.S. generally accepted accounting principles.

The information in the Management's Discussion and Analysis section and the Required Supplementary Information in the Financial section of GSA's *2011 Agency Financial Report* is not a required part of the GSA's consolidated and Funds' individual financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the GSA's consolidated financial statements and the Funds' individual financial statements taken as a whole. The September 30, 2011 consolidating information in the Required Supplementary Information section of the of GSA's *2011 Agency Financial Report* is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, net costs, changes in net position, and budgetary resources of GSA's components individually. The September 30, 2011 consolidating information has been subjected to the auditing procedures applied in the audit of the GSA's consolidated financial statements and the FBF's individual financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the GSA's consolidated financial statements and the FBF's individual financial statements taken as a whole. The information in the Other Accompanying Information section of GSA's *2011 Agency Financial Report* is presented for purposes of additional analysis and is not required as part of the GSA's consolidated and the Funds' individual financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

Internal Control Over Financial Reporting

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 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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. In our fiscal year 2011 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting described in Exhibit I that we consider to be significant deficiencies in internal control over financial reporting. 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.

Exhibit II presents the status of the prior year significant deficiencies.

We noted certain additional matters that we have reported to management of GSA in a separate letter dated November 9, 2011.

Compliance and Other Matters

The results of our tests of compliance described in the Responsibilities section of this report, exclusive of those referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA), disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

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.

The Office of Inspector General identified certain matters that may represent a violation of the Anti-Deficiency Act. These matters have been referred to GSA management and are currently under review by 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.

Responsibilities

Management's Responsibilities. Management is responsible for the GSA's consolidated financial statements and the Funds' individual financial statements; establishing and maintaining effective internal control; and complying with laws, regulations, and contracts applicable to GSA.

Auditors' Responsibilities. Our responsibility is to express opinions on the fiscal year 2011 and 2010 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 OMB Bulletin No. 07-04.

Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the GSA's consolidated financial statements and the Funds' individual financial statements are free of material misstatement.

An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of GSA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the GSA's consolidated financial statements and the Funds' individual financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall GSA's consolidated financial statement and the Funds' individual financial statement presentation.

We believe that our audits provide a reasonable basis for our opinions.

In planning and performing our fiscal year 2011 audit, we considered GSA's internal control over financial reporting by obtaining an understanding of GSA's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of GSA's internal control over financial reporting. We did not test all controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

As part of obtaining reasonable assurance about whether the fiscal year 2011 consolidated financial statements of the GSA and the Funds' individual financial statements are free of material misstatement, we performed tests of the GSA's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of the GSA's consolidated financial statement amounts and the Funds' individual financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04 including the provisions referred to in Section 803(a) of FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts applicable to the GSA. However, providing an opinion on compliance with laws, regulations, and contracts was not an objective of our audit and, accordingly, we do not express such an opinion.

GSA's responses to the findings identified in our audit are presented in Exhibit I. We did not audit GSA's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of GSA's management, GSA's Office of Inspector General, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 9, 2011

Independent Auditors' Report
Exhibit I – FY 2011 Significant Deficiencies

A. Controls over budgetary accounts and transactions should be strengthened

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*, sets forth requirements to develop control processes necessary to ensure that reliable and timely information is obtained, maintained, reported, and used for decision making. Additionally, OMB Circular No. A-127, *Federal Financial Systems*, provides a framework for Federal agencies to develop financial management systems that should generate reliable, timely, and consistent information necessary for meeting management's responsibilities, including the preparation of financial statements. In addition, GSA policies require each of GSA's Services – Public Buildings Service (PBS) and Federal Acquisition Service (FAS) – to address the need to strengthen internal controls over budgetary reporting and to mitigate known weaknesses in the budgetary transaction level controls.

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 continued to note the following internal control deficiencies in GSA's financial management systems and financial reporting processes related to the recording of undelivered orders and recoveries of prior years' obligations, many of which were reported in the fiscal year 2010 *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 OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget,* requirements, 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.

Of the 248 PBS obligations selected for test work, we noted 61 instances where contracts and modifications to contracts (including de-obligations) were not timely recorded in the financial management system; 8 instances where the obligating documents were signed after the period of performance or delivery dates; 6 instances where the undelivered order balances were invalid or recorded for the incorrect amount, causing the outstanding undelivered order balance to be inaccurate; 3 instances where the obligations were recorded in the financial management system before they were signed; and 3 instances where obligations were recorded prior to the determination of the scope of work or the pricing of the contract modification. Further, GSA did not include the delivery date or period of performance for 25 of the 248 contracts tested; increasing the risk that management will not be able to determine the validity of the related undelivered orders.

In addition, GSA's management did not effectively review its obligations during the year, resulting in an overstatement of $18.3 million in ASF undelivered orders related to a minimum revenue guarantee contract. As a result of our observations, GSA adjusted its undelivered orders balance, when appropriate.

Independent Auditors' Report
Exhibit I – FY 2011 Significant Deficiencies

As reported in the previous year, the lack of integrated financial and acquisition systems, combined with the ineffective communication between the program office and the Budget/Financial Management Office within the regions, continues to be the contributing factor for obligations not being accurately and timely recorded in the financial management system. This weakness in the internal control system exposes PBS to increased risk of misstatements of its financial reports and possible violations of laws and regulations. As a result, PBS Central Office management continued to rely on costly compensating processes and labor-intensive efforts to prepare reliable financial statements throughout the year and at fiscal year-end.

b. Recoveries of Prior years' Obligations

Recovery of prior years' obligations represents cancellations or downward adjustments of obligations incurred in prior fiscal years. As reported in the previous year, changes to certain fields in the financial management system related to prior year obligation information – such as vendor codes – cause a recording of a recovery of prior years' obligations regardless whether the obligation was actually cancelled or adjusted downward. This condition requires extensive manual reviews and adjustments to detect and correct errors, rather than preventing them. In addition, GSA did not effectively review its recoveries from prior years' obligations during the year. Of the 26 recoveries of prior year obligations tested, we noted 3 instances where the recoveries were invalid or not recorded in a timely manner. GSA performed additional analysis to ensure the recovery of prior years' obligations balance was not significantly misstated.

Recommendations

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

a. Undelivered Orders

1. Continue efforts to evaluate the need to implement system interfaces between the contracting system and the financial management system of record;
2. Until such interfaces are in place, continue monthly reconciliation efforts between the contracting system and the financial management system and ensure sufficient resources are available to perform the reconciliations in a timely and routine manner;
3. Continue to communicate with the regional offices to investigate and resolve variances identified in a timely and consistent manner and to ensure that all obligations are recorded in the financial system timely and accurately;
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;
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 overall control deficiency assessment to help design an effective internal control environment that is suitable to GSA business processes;
8. Continue to improve the efficiency of transaction-level, process-driven controls to avoid overreliance on high-level mitigating controls over budgetary accounts and transactions;

Independent Auditors' Report
Exhibit I – FY 2011 Significant Deficiencies

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;
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 that all obligations be entered into financial management systems timely and prior to the receipt of any goods and/or services by GSA; and
11. Monitor obligations related to minimum revenue guarantee contracts on a quarterly basis to ensure the obligations are accurately stated.

b. Recoveries of Prior Years' Obligations

1. GSA needs to train users to prevent user errors, which account for the majority of the errors, and
2. Continue to rely on its periodic reviews of the recovery of prior year obligation balances to ensure that balances reported in the financial statements are valid and accurate.

Management Response

Management concurs with these recommendations and will initiate appropriate corrective actions.

B. Controls over accounting and reporting of general property and equipment should be strengthened

GSA reports $25.7 billion in property and equipment, net of accumulated depreciation, as of September 30, 2011. 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 Federal financial accounting standards and OMB Circular No. A-123. During our fiscal year 2011 audits, we continued to note the following control weaknesses over general property and equipment, many of which were reported in the fiscal year 2010 *Internal Control over Financial Reporting* section of our Independent Auditors' Report:

a. Buildings

GSA did not consistently record property disposals when they occurred. When a building is sold, conveyed, or demolished, the regional offices do not always notify the Office of the Chief Financial Officer (OCFO) to properly record the asset disposal and to reduce the building value in the financial management system, accordingly. GSA did not record asset disposals for 9 of the 97 buildings tested. Upon our request, management analyzed the buildings subsidiary ledger resulting in an identification of an overstatement of the buildings balance and related accumulated depreciation of approximately $49.1 million and $41.8 million as of September 30, 2011, respectively. We performed additional analysis to ensure the buildings balance was not significantly misstated.

b. Land

In fiscal year 2011, GSA revised its accounting policies to ensure that the value of land was properly recorded, summarized, and disclosed in the financial statements, in accordance with applicable Federal financial accounting standards. However, the revised accounting policies were not fully implemented during fiscal year 2011, therefore, GSA continued to capitalize certain environmental cleanup cost estimates that should have been expensed in accordance with applicable Federal accounting standards, as outlined in Statement of Federal Financial Accounting Standard (SFFAS) No.6, *Accounting for Property, Plant, and Equipment, Section 4 – Cleanup Costs,* issued by the

Independent Auditors' Report
Exhibit I – FY 2011 Significant Deficiencies

Federal Accounting Standards Advisory Board. GSA adjusted its land balance at year-end as part of its financial reporting closing process.

c. Construction in Process (CIP)

GSA needs to continue improving the effectiveness of controls over the proper classification of projects that are deemed substantially complete. GSA did not consistently record transfers of substantially completed projects from CIP to the buildings balance in a timely manner for 7 of 32 CIP transfers tested. Due to 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, and the manually intensive process of determining and documenting substantial completion dates, there is an increased risk that asset transfers may not be recorded to the general ledger in a timely manner, which could also lead to misstatements in depreciation expense.

In fiscal year 2011, GSA revised its accounting policies to ensure that cleanup costs related to the abatement, remediation, and/or disposal of hazardous waste associated with renovation projects were properly recorded, summarized, and disclosed in the financial statements, in accordance with applicable Federal financial accounting standards. However, the revised accounting policies were not fully implemented during fiscal year 2011, therefore, GSA continued to capitalize certain environmental cleanup cost estimates that should have been expensed in accordance with applicable Federal accounting standards, as outlined in SSFAS No. 6 – Section 4. GSA adjusted its CIP balance at year-end as part of its financial reporting closing process.

Recommendations

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

a. Buildings

1. Perform regular verifications of the building status listed in the Fixed Asset subsidiary ledger;
2. Develop policies and procedures requiring a new building location code to facilitate the verification of building status;
3. 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 in a timely manner;
4. 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 of the appropriate requirements are fulfilled and consistently recorded in accordance with GSA policies and procedures; and
5. Enforce GSA's existing policy on reporting asset disposal or conveyance.

b. Land

1. Fully implement the new accounting policy on accounting treatment for environmental related cost during fiscal year 2012; and
2. Evaluate the posting logic over the accounting entries related to environmental liabilities affecting property to ensure that the land balance is not increased due to the accumulation of such costs in accordance with applicable Federal financial accounting standards.

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c. Construction in Process

1. Fully implement the new accounting policy on accounting treatment for environmental related cost during fiscal year 2012;
2. Properly track and account for cleanup costs of hazardous waste incurred during renovation projects in accordance with applicable Federal financial accounting standards;
3. 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;
4. GSA should continue its 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 in a timely manner; and
5. GSA's effort to correct the validity of substantial completion dates needs to be supported by regional efforts (e.g., making continuous improvements toward entering actual substantial completion dates into the system) in order to ensure effective controls.

Management Response

Management concurs with these recommendations and will initiate appropriate corrective actions.

C. Controls over accounting and reporting of environmental liabilities should be strengthened

GSA manages over 1,500 owned properties with an average age of 47 years, including 302 buildings considered heritage assets. Certain properties contain environmental hazards that will ultimately need to be removed and/or require containment mechanisms to prevent health risks to the public. 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.

In fiscal year 2011, GSA revised it accounting policies to ensure that the environmental related liabilities were properly recorded, summarized, and disclosed in the financial statements, in accordance with applicable Federal financial accounting standards. However, the revised accounting policies were not fully implemented during fiscal year 2011, therefore, GSA did not provide enough guidance to the Regional Offices to clearly determine, document, and communicate environmental liabilities.

As a result, GSA was unable to provide consistent documentation supporting its due care process for evaluating the likely presence of environmental contamination. Of the 72 sites selected for test work, we noted 5 instances where the environmental assessment forms were prepared incorrectly and 5 instances where the due care process was not performed in a timely manner. Further, we noted that certain costs connected with the environmental cleanup process are not always recorded as environmental liabilities. We performed additional analysis to ensure the environmental liability balance was not significantly misstated.

Recommendations

We continue to recommend that GSA management perform a comprehensive analysis of the root causes of ineffective controls over the accounting and reporting of environmental liabilities as part of the overall control deficiency assessment to help design an effective internal control environment over environmental liabilities that is suitable for GSA business processes. Specifically:

Independent Auditors' Report
Exhibit I – FY 2011 Significant Deficiencies

1. GSA should revise its environmental liabilities guidance provided to regional offices. Such guidance should be in accordance with the overall GSA accounting policies for environmental related liabilities. Further, GSA environmental liability guidance should include a consistent approach for performing and documenting the due care process, including how often a property pre-screening should be performed, what constitutes adequate documentation to support the due care process, and what are examples of costs that should be included in environmental liabilities;
2. Develop policies and procedures to improve communications between the Central Office and the regional environmental managers and engineers regarding environmental issues to ensure all parties have an understanding of the reporting requirements and the status of each environmental remediation site and any actions taken to remediate the site;
3. Develop and deliver training on an ongoing basis to all regional environmental managers and engineers regarding the financial reporting requirements of environmental liabilities; and
4. After the revised policies have been implemented, enforce the new procedures to ensure that all new properties that contain or may contain hazardous contaminants are identified; future costs of required containment and removal actions are estimated and reported when such actions become probable; and develop and retain adequate supporting documentation for the due care procedures performed.

Management Response

Management concurs with these recommendations and will initiate appropriate corrective actions.

D. Controls over revenue and expense recognition policies in the Federal Acquisition Services Fund should be strengthened

The Federal Acquisition Service (FAS) is the lead organization for procurement of products and services, other than real property, for the Federal government. As of September 30, 2011, FAS reports $9.5 and $9.3 billion in revenues and expenses, respectively.

GSA needs to improve controls over the accounting policies and procedures over the recognition of revenues and expenses for portions of two of the lines of business administered by FAS, as required by SFFAS No. 7, *Accounting for Revenues and Other Financing Sources*, and SFFAS No. 1, *Accounting for Selected Assets and Liabilities,* respectively.

During fiscal year 2011, the GSA drafted policies and procedures to address the prior year conditions. However these policies and procedures were not implemented before September 30, 2011, therefore, based on the results of our test work we continued to observe instances where GSA did not recognize revenues when goods or vehicles were provided to the customer agency and recognized expenses before goods or vehicles were received from the supplier. This deficiency affected the individual financial statements of the ASF. If not corrected, as the volume and complexity of transactions processed by FAS continue to increase in the future, there is an increased risk that the individual financial statements of the ASF could be significantly misstated. GSA prepared an analysis at year-end to assess the effect of not recognizing revenues and expenses in accordance with Federal financial accounting standards and determined that the revenue and expense balances in the FAS line of business affected were not significantly misstated.

Recommendations

We continue to recommend that GSA management implement the following recommendations to improve controls over the revenue and expense recognition policies in the Federal Acquisition Fund. Specifically,

1. Perform a comprehensive analysis of the current accounting policies used to recognize revenues and expenses incurred in the FAS lines of business affected to ensure that those transactions are recorded in accordance with applicable Federal financial accounting standards;

Independent Auditors' Report
Exhibit I – FY 2011 Significant Deficiencies

2. Develop monitoring controls to ensure that revenue and expense balances, in the FAS lines of business affected, accurately reflect the proper matching of revenues and expenses under current Federal financial accounting standards; and
3. As part of the modernization of GSA's financial systems, assess the need to adjust or implement automated application controls to ensure that the corresponding FAS feeder systems have the capability to capture all necessary data to report financial transactions in accordance with Federal financial accounting standards.

Management Response

Management concurs with these recommendations and will initiate appropriate corrective actions.

E. General controls over financial management systems should be strengthened

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*. These conditions could affect GSA's ability to prevent and detect unauthorized changes to financial information, control electronic access to sensitive information, and protect its information resources. During fiscal year 2011, we noted corrective actions to some prior year control deficiencies. However, GSA continued to have similar control deficiencies related to security and general controls over its financial information systems, as discussed below:

a. Access controls

Access controls protect computer resources from unauthorized modifications, disclosures, and loss. However, of the 12 systems tested, GSA did not fully establish controls to prevent and detect unauthorized access for eight systems; and did not consistently ensure accounts for separated users are removed in a timely manner and inactive accounts were disabled for eight systems. In addition, GSA did not implement configuration settings to its most restrictive settings to protect systems and data for ten systems. Furthermore, GSA does not have a process in place to develop and maintain a comprehensive inventory of systems. Finally, GSA did not fully establish monitoring controls over application and system activity logs and violation reports of user actions for nine systems.

b. Segregation of responsibilities

Lack of controls to prevent the assignment of access to incompatible functions within and between systems exposes GSA to the risk that certain users may be assigned the ability to perform multiple critical system transactions. GSA did not periodically review segregation of responsibilities to ensure conflicting access rights are not granted for seven systems. Furthermore, GSA did not consistently ensure users' access was restricted from performing incompatible functions for one system.

c. Change management

System change management protects computer resources from unauthorized modifications, disclosures, or loss. GSA did not develop and implement a process for ensuring restriction of access to implement undetected software changes for two systems. In addition, GSA did not consistently ensure that change documentation of authorization for changes, testing of changes, and approval for change implementation was documented for two of the 12 systems selected for test work.

Independent Auditors' Report
Exhibit I – FY 2011 Significant Deficiencies

Recommendations

We continue to 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. Improve policies and procedures to approve and terminate user access to validate that only authorized users have access to information systems;
2. Develop and implement a process to review and document the review of audit logs related to financial system access and processing; and
3. Improve upon existing procedures to define events to be monitored over application, database and system activity logs and violation reports of user actions.

b. Segregation of Duties

1. Improve policies and procedures to recertify users at each level of a system (e.g. application, database) to validate they are consistently adhered to across information systems to ensure that users' access is commensurate with job responsibilities and retention of evidence of this review and any actions taken as a result.

c. Change management

1. Ensure that policies to authorize and test software changes are consistently adhered to across the information systems;
2. Improve policies and procedures that restrict users from having full control over the development, compilation, and implementation of program changes; and
3. Maintain a comprehensive inventory of systems.

Management Response

Management concurs with these recommendations and will initiate appropriate corrective actions.

Independent Auditors' Report
Exhibit II – Status of Prior Year Findings

Status of GSA's Prior Year Findings		
Report	**Significant Deficiency**	**Status**
Fiscal Year 2010	A. **Controls over budgetary accounts and transactions**	This condition has been partially resolved in fiscal year 2011. See finding A.
Fiscal Year 2010	B. **Controls over accounting and reporting of general property and equipment**	This condition has been partially resolved in fiscal year 2011. See finding B.
Fiscal Year 2010	C. **Controls over accounting and reporting of environmental liabilities**	This condition continues to exist in fiscal year 2011. See finding C.
Fiscal Year 2010	D. **Controls over the revenue and expense recognition policies in the Federal Acquisition Services Fund**	This condition continues to exist in fiscal year 2011. See finding D.
Fiscal Year 2010	E. **General and application controls over financial management systems**	This condition continues to exist in fiscal year 2011. See finding E.