U.S. General Services Administration

# 2018 AGENCY FINANCIAL REPORT

SERVICE
ACCOUNTABILITY
INNOVATION

# ABOUT **THIS REPORT**

This Agency Financial Report (AFR) for fiscal year (FY) 2018 presents the General Services Administration (GSA) Financial Information relative to our vital mission and stewardship of the resources entrusted to the agency.

The AFR also highlights GSA's priorities, accomplishments and challenges.

In accordance with the Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements, GSA produces the following reports: (i) an AFR issued by November 15, 2018 and (ii) an Annual Performance Report (APR) submitted with the GSA Congressional Budget Justification to be issued by February 4, 2019. The AFR and the APR will be available online at:

*https://www.gsa.gov/reference/reports/budget-performance/annual-reports*

## How this Report is Organized

This AFR provides financial and performance information for the FY beginning October 1, 2017, and ending on September 30, 2018, with comparative prior year data, where appropriate. The AFR demonstrates GSA's commitment to our mission and accountability to Congress and the American people. This report presents GSA's mission, accomplishments, and challenges. The AFR begins with a message from our Administrator, Emily Murphy, followed by three main sections:

| Section 1: Management's Discussion and Analysis | Section 2: Financial Section | Section 3: Other Information |
|---|---|---|
| 1. Organization | 1. Letter from the Chief Financial Officer | 1. Inspector General's Assessment of Management Challenges & GSA's Responses |
| 2. Performance Summary | 2. Inspector General's Transmittal Memorandum of the Independent Auditors' Report | 2. Summary of Financial Statement Audit and Management Assurances (Unaudited) |
| 3. Financial Statements Summary and Analysis | 3. The Independent Auditors' Report | 3. Payment Integrity (Unaudited) |
| 4. GSA Management Assurances | 4. Consolidated Financial Statements | 4. Fraud Reduction Report |
| | 5. Notes to the Financial Statements | 5. Other GSA Statutorily Required Reports (Unaudited) |
| | 6. Consolidating Financial Statements | 6. Reduce the Footprint (Unaudited) |
| | 7. Required Supplemental Information (Unaudited) | 7. Civil Monetary Penalties Inflation Adjustment |
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This report can be found on the Internet at **gsa.gov/annualreports**

GSA

THIS BUILDING
MANAGED BY THE
U.S. GENERAL SERVICES
ADMINISTRATION

# LETTER FROM **THE ADMINISTRATOR**

The U.S. General Services Administration (GSA) has the honor of not only serving the American people, but also supporting Federal agencies as they carry out their critical missions. GSA's unique mission support role ties back to our founding by President Harry S. Truman in 1949. In establishing GSA, President Truman sought to create one agency to help the Government avoid "senseless duplication, excess cost, and confusion in handling supplies, and providing space."

In 2018, GSA's mission statement still reflects our unique position as a mission-enabler for other Federal agencies. GSA seeks to deliver value and savings in real estate, acquisition, technology, and other mission-support services across Government. We currently manage more than $55 billion in procurement spend across the Government and oversee a portfolio of 8,706 owned and leased properties on behalf of our tenant agencies.

To support this mission, GSA has four strategic goals:

- Save taxpayer money through better management of Federal real estate.
- Establish GSA as the premier provider of efficient and effective acquisition solutions across the Federal Government.
- Improve the way Federal agencies buy, build, and use technology.
- Design and deliver expanded shared services within GSA and across the Federal Government to improve performance and save taxpayer money.

As the Administrator, I have established four priorities that guide everything we do as an agency: ethical leadership, reducing duplication, increasing competition, and improving transparency.

These priorities have helped inspire confidence in our agency, and will help us improve product and service delivery in the future. This is especially important as GSA expands its mission support services through a number of cross-cutting programs, including the [1]President's Management Agenda (PMA) and the

Administration's Government reform plan. Through GSA's role in these initiatives, we are able to provide our expertise to create additional value for customer agencies across the Federal Government in new and exciting ways. These include expanding the shared solutions GSA offers; improving access to new, secure and innovative technology solutions; utilizing data to better understand and fulfill customer needs; and create substantial savings in lease cost avoidance for customer agencies while further reducing the Federal Government's physical footprint through improved utilization rates and disposing of excess real property.

In delivering on our agency mission, I am pleased to present GSA's financial results and the progress we have made this year toward creating value for the American taxpayer. The Agency Financial Report (AFR) outlines GSA's accomplishments, and the challenges we face, as well as management's accountability for our stewardship of the valuable taxpayer dollars entrusted to us. The AFR also fulfills the requirements of OMB Circular A-136, Financial Reporting Requirements.

As outlined in the Management Assurances section of this report, GSA assessed the effectiveness of

internal control over operations, systems, and reporting. GSA can provide reasonable assurance that internal controls were operating effectively in each of these areas throughout the year. Management relies on these internal controls to identify material weaknesses in financial and program performance areas and to identify corrective actions required to resolve them. As mandated by the Reports Consolidation Act of 2000, I have assessed the financial and performance data used in this report, and believe them to be complete and reliable. As in FY 2017, GSA does not have any material weaknesses in its internal controls.

All GSA employees have an important role in ensuring wise stewardship of tax dollars and an obligation to report waste, fraud and abuse. I am grateful for the support of GSA's workforce in developing this year's AFR and their work, each day, to ensure transparency and accountability in our agency's finances.

Emily W. Murphy
Administrator
November 8, 2018

# HOW GSA BENEFITS **THE PUBLIC**

While the world has changed in the nearly seven decades since GSA was founded, the need for an efficient and effective Federal Government remains critical. GSA was established on July 1, 1949, to consolidate many administrative functions across Government into one organization. The agency was charged with eliminating wasteful duplication, reducing costs, streamlining acquisition and distribution of supplies, generate more competition for American business and centralizing the management of Federal buildings. For more information on GSA please see [2]Celebrating 69 Years of Carrying Out GSA's Vision.

During the last 69 years, GSA's responsibilities have grown exponentially, often leading change and championing new, fresh and dynamic ideas. GSA's expertise, ideas and innovation are wide-ranging and touch nearly every aspect of the Federal Government's operation.

What has not changed is GSA's commitment to supporting Federal customers and partners by providing cost-effective, high-quality services. GSA provides the physical space, supplies, technical innovation and products and services essential to operating the Federal Government. As described in [3]GSA's 2018-2022 Strategic Plan, the agency mission of delivering value and savings in real estate, acquisition, technology and other mission-support services across Government is at the core of our work. Every day, GSA helps agencies buy smarter and create a more agile Government to help make a difference in communities across the country.

In short, GSA strives for the highest levels of efficiency and effectiveness so the Federal Government can better serve the American people.

## Well Managed, Cost Effective Real Estate

GSA's first strategic goal is to save taxpayer money through better management of Federal real estate. With more than 368 million rentable square feet (RSF) in over 8,700 active assets, GSA administers one of the largest and most diversified real estate portfolios in the world. The agency supports safe, productive workplaces by managing and preserving Government buildings, as well as leasing and managing commercial real estate. GSA manages assets throughout 50 states, five U.S. territories, and the District of Columbia to meet the varied missions of our many Federal agency partners.

In addition to providing workspace to customer agencies, GSA is responsible for promoting effective use of Federal real property assets and the adopting of innovative workplace solutions and technologies. Through lease and purchase transactions, GSA delivers the workspace necessary to meet the varied missions of its customer agencies.

In FY 2018, GSA disposed of 140 assets on behalf of the Federal Government generating more than $123.2 million in proceeds; these disposals resulted in a reduction of more than 4.92 million gross square feet and 2,735 acres of land from the Federal inventory. Many of these former Federal properties found

new uses fueling local economic development and community revitalization efforts.

In FY 2018, GSA made data from the Federal Government's 2017 [4]real property inventory available to the public for the first time through the Federal Real Property Profile Management System. The FRPP Management System lists an inventory of Federal properties under the custody and control of executive branch agencies. This database improves transparency in the Federal Government's real property footprint and assists agencies by making it easier to identify and dispose of underutilized property.

***GSA helped Customs and Border Patrol restore and install this plaque that was damaged in the World Trade Center terrorist attack. The installation is part of a 9/11 remembrance in the One World Trade Center Federal offices.***

GSA does work beyond acquisitions and rent. Sometimes customer service requires taking an extra step. In 2018, GSA helped the U. S. Customs and Border Patrol (CBP) recover a plaque dedicated to customs service members who served in the First World War, Second World War and the Korean War. The plaque, damaged during the 9/11 attacks, was recovered from a landfill, refurbished and is now installed inside the One World Trade Center after GSA worked with CBP to create space for 9/11 remembrance. [5]This video talks about GSA's role in preserving 9/11 artifacts.

## Easy, Efficient and Modern Acquisition

GSA's second strategic goal is to serve as the premier provider of efficient and effective acquisition solutions across the Federal Government. Our acquisition solutions offer private sector professional services, equipment, supplies, telecommunications, and information technology to Government organizations and the military. In 2018, GSA leadership focused on simplifying and streamlining access to the Federal marketplace for buyers and vendors, making operations more efficient, and modernizing systems and processes.

GSA utilizes the buying power of the Government which facilitates $55 billion a year in the procurement of goods and services in support of Government agencies. At the same time, GSA's acquisition tools and programs reduce wasteful contract duplications and allow customer agencies to focus more resources on fulfilling their missions to the American people. One example of GSA's efforts to streamline services across the Government is the signature City Pairs travel program. Led by the Federal Acquisition Service, City Pairs is the largest negotiated contract and managed airline program in the world. The contract delivers savings to all Federal agencies through pre-negotiated and firm-fixed-price rates, offering a 49 percent discount on comparable commercial fares. The discounted fares result in approximately $2 billion in savings annually to the American taxpayer over the cost of full price commercial fares.

Additionally, GSA's Office of Small Business Utilization manages programs designed to increase small business contracting opportunities with the Federal Government. GSA works diligently to ensure contracting opportunities are available to small disadvantaged businesses, businesses owned by women and service-disabled veterans and those operating in historically underutilized geographic areas (HUBZones). In 2018, GSA awarded or maintained contracts with this vendor community valued at $1.8 billion for goods and services.

## Access to and Use of Innovative Information Technology (IT)

GSA's third strategic goal is to improve the way Federal agencies buy, build and use technology. The modernization of the Federal Government's IT infrastructure and applications is an important priority of the Administration.

[6]Technology Transformation Services (TTS) is part of the Federal Acquisition Service (FAS). Its mission is to improve the public's experience with the Government by helping Federal and state agencies build, buy and share technology that allows them to better serve the public.

In partnership with the White House Office of American Innovation, GSA introduced IT Modernization Centers of Excellence (CoE) in FY 2018 to make it easier for the American people to interact with their Government. Working side-by-side with tech leaders at the U.S. Department of Agriculture (USDA) and U.S. Department of Housing and Urban Development, GSA is helping assess the state of both agencies IT resources and needs -- not just hardware, but people, time and project scope -- to determine the smartest way to identify and address these needs while also helping them deliver on their missions.

GSA also supports the operation and administration of the [7]Technology Modernization Fund (TMF). The TMF is an innovative funding vehicle that enables Federal agencies to invest in modernizing aging technologies through loans to deliver services to the American public more quickly, better secure sensitive systems and data, and use taxpayer dollars more efficiently.

FARMERS.GOV

One of the TMF's **first awards was $10 million** for the U.S. Department of Agriculture's Farmers.gov Citizen Experience Portal - providing America's farmers, ranchers, conservationists, and private foresters with seamless service across USDA agencies.

## Improved Operations through Shared Services

The fourth strategic goal is to implement expanded shared services across the Federal Government to improve performance and save taxpayer money.

Administrative services constitute the infrastructure necessary for an agency to execute its primary mission. In order to improve the way Government serves the American public, Government is transforming the way it does business internally. The bottom line: sharing systems and people that support administrative functions makes good business sense - it will allow agencies to direct more resources toward their core missions.

According to the [8]President's Management Agenda Cross-Agency Priority (CAP) Goal Action Plan for FY 2018 Q2, Federal agencies spend more than $28.6 billion every year on administrative services such as processing hiring transactions, managing finances, closing contracts, and processing payroll. In many cases agencies have addressed their needs by creating unique systems and processes resulting in duplication across Government. For example, there are currently more than 100 systems to track time and attendance.

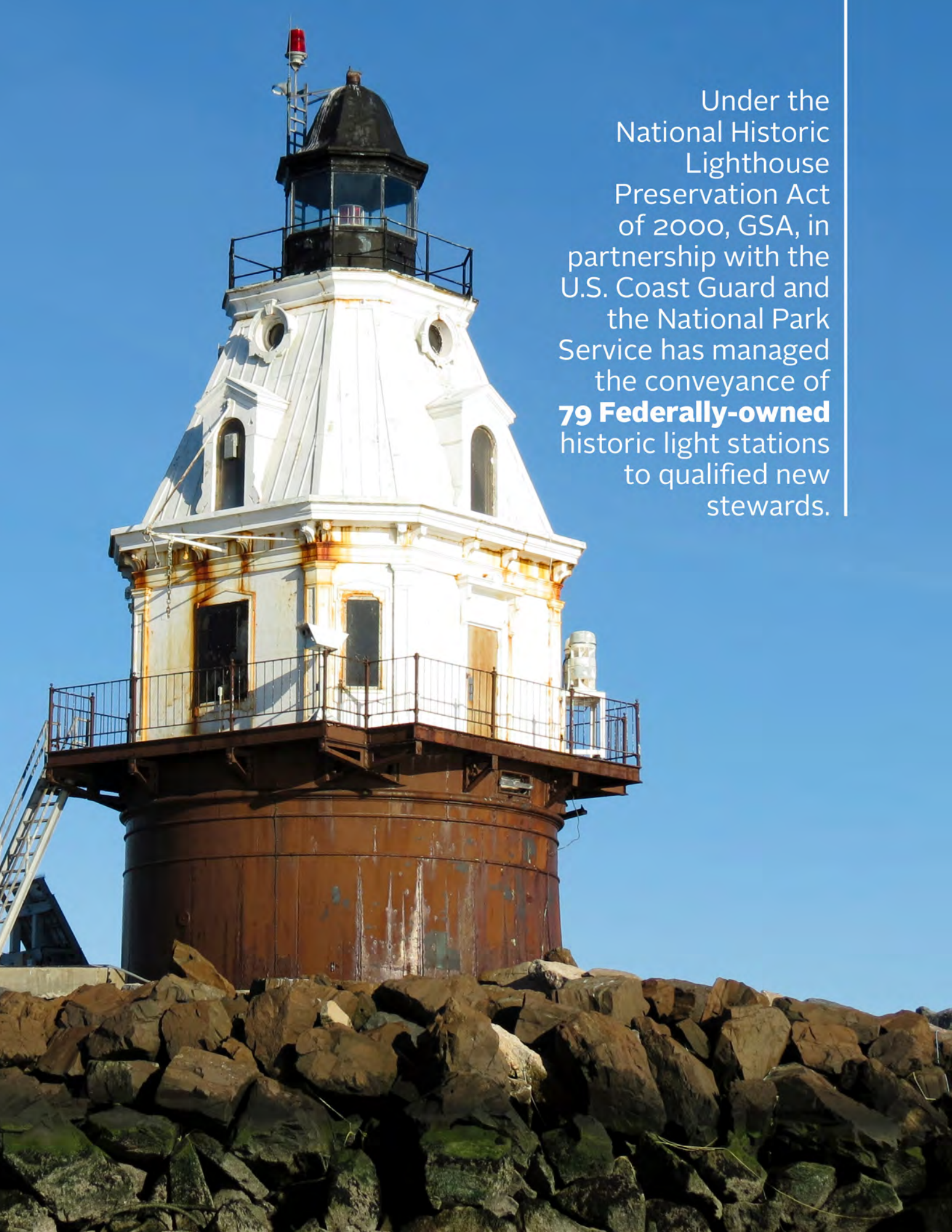
GSA is leading the effort to adopt quality shared services, where appropriate, across the Government through the PMA. To begin this work, GSA, in partnership with the Office of Management and Budget, consulted with agencies to gather information on questions like, "What processes are most common within your agency today?" and "Are there ways we can realize significant cost savings and increase efficiency by taking an enterprise approach to services?"

Through this process, GSA will create new standards defining which services make the most sense to share, as well as the technology needed to support the services, while ensuring that GSA meets agency needs in a standard, uniform way.

## Conclusion

Around the globe and at every level across the agency, the people of GSA understand and take immense pride in meeting our Federal customers' needs, as well as those of the American people. Wherever GSA is present, there is a passion for delivering actionable solutions that will have a lasting, positive effect on the agency customers we serve. We look forward to continuing to deliver value and savings in real estate, acquisition, technology and other mission-support services across the Federal Government.

# MANAGEMENT'S **DISCUSSION AND ANALYSIS** (UNAUDITED)



Under the National Historic Lighthouse Preservation Act of 2000, GSA, in partnership with the U.S. Coast Guard and the National Park Service has managed the conveyance of **79 Federally-owned** historic light stations to qualified new stewards.

# BRIEF OVERVIEW **OF THE AFR**

The purpose of the GSA FY 2018 AFR is to inform the President, Congress, and the American people how GSA used Federal resources in FY 2018 to reliably deliver cost-effective real estate, acquisition, and technology services to the Federal departments and agencies it serves. Providing these services at a good value to our Federal customers allows them to focus their resources on meeting their core missions to the American people. GSA chose to produce both an AFR and an APR for FY 2018. and will post this AFR on [9]GSA.gov under Annual Reports. To learn more about the FY 2018 AFR [10]watch this video featuring GSA's Chief Financial Officer Gerard Badorrek.

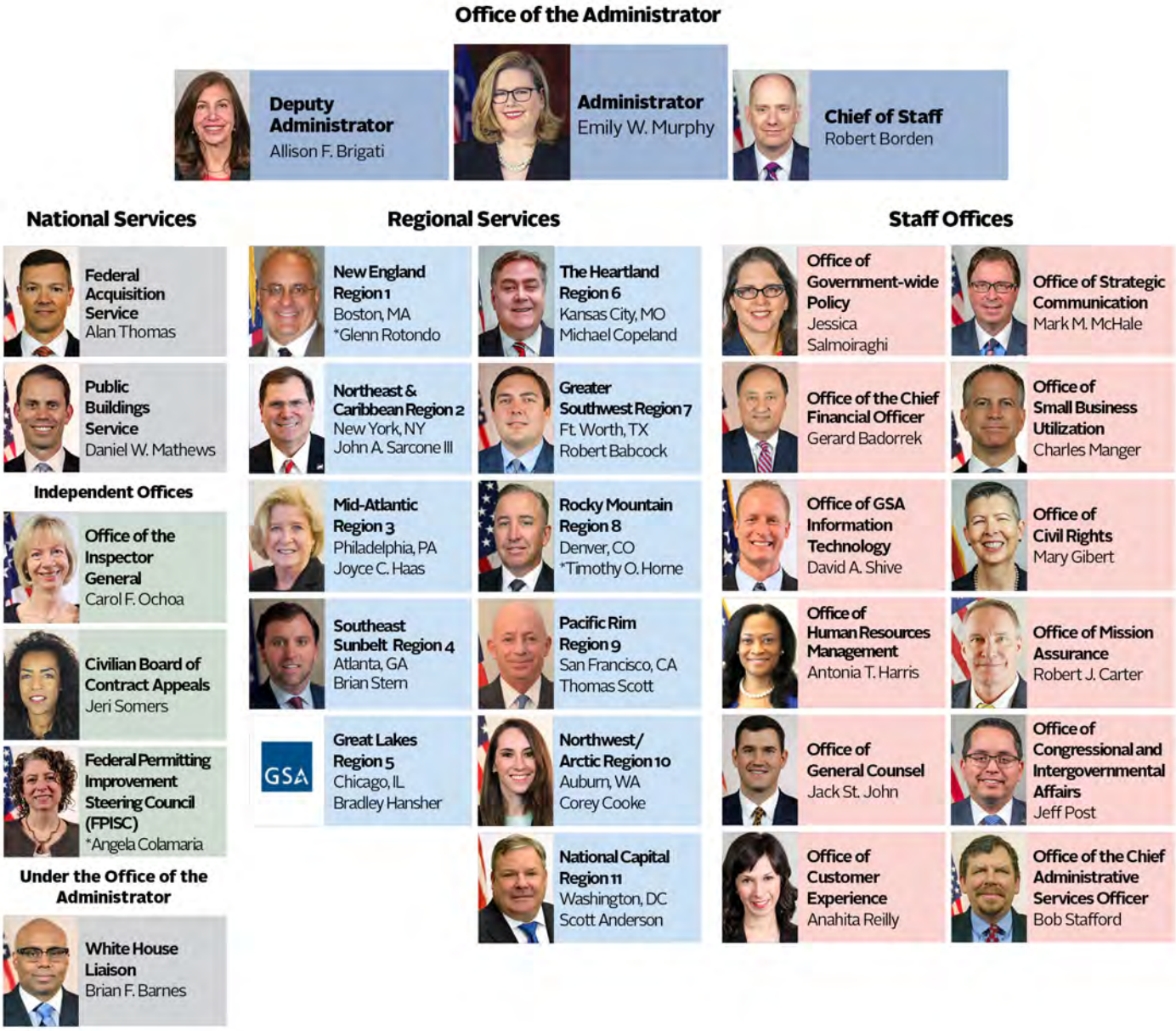
This AFR provides high-level financial and highlighted performance results with assessments of controls, a summary of challenges, and GSA stewardship information. The report satisfies the reporting requirements contained in the following laws, and regulations:

- CFO Act of 1990;
- Digital Accountability and Transparency Act of 2014;
- Federal Managers Financial Integrity Act (FMFIA) of 1982;
- Federal Financial Management Improvement Act (FFMIA) of 1996;
- Government Management Reform Act of 1994;
- Government Performance and Results Modernization Act of 2010 ;
- Improper Payments Information Act (IPIA) of 2002;
- Improper Payments Elimination and Recovery Act (IPERA) of 2010;
- Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012;
- OMB Circular A-11, Part 6;
- OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management (ERM) and Internal Control;
- OMB Circular No. A-136, Financial Reporting Requirements;
- OMB Memorandum M-12-12 Section 3 - Freeze the Footprint (FTF);
- OMB Memorandum M-17-08 Section 3, Amending OMB Memorandum M-12-12 Section 3 - Reduce the Footprint (RTF); and,
- Reports Consolidation Act of 2000.

The APR is a detailed report on GSA's progress toward achieving the goals and objectives described in the agency's Strategic Plan and Annual Performance Plan, including progress on the strategic objectives, performance goals, and agency priority goals. The report will be delivered to Congress with GSA's Congressional Budget Justification by February 4, 2019.

# ORGANIZATION

Composed of the Federal Acquisition Service ([11]FAS), the Public Buildings Service ([12]PBS), the Office of Government-wide Policy ([13]OGP), 11 staff offices, and three independent offices, GSA services and supports more than 60 Federal departments and agencies. Headquartered in Washington, D.C., GSA delivers goods and services to its Federal customers through 11 regional offices.




** Denotes Acting*

## Federal Acquisition Service

FAS and annually delivers over $55 billion in information technology products, services and solutions, telecommunications services, assisted acquisition services, travel and transportation management solutions, motor vehicles and fleet services, and charge card services. FAS manages more than 215,000 GSA-owned vehicles, oversees issuance of more than 3.5 million charge cards and provides personal property disposal services facilitating the reuse of $1 billion

in excess/surplus property annually. FAS leverages the buying power of the Federal Government by negotiating prices on many products and services required by agencies for daily operations. By arranging a network of service providers, FAS is able to meet the operating and mission requirements of a vast array of Federal agencies and state, local, and tribal Governments. Leveraging its technology transformation services and information technology portfolios, FAS is developing and deploying CoEs. The goal is to improve the public's experience with Government by obtaining and sharing technology applications, platforms, and processes to make their services more accessible, efficient, and effective.

## Public Buildings Service

PBS activities fall into two broad areas: workspace acquisition and property management. PBS acquires space on behalf of the Federal Government through new construction and leasing, while acting as a caretaker for Federal properties across the country. As the largest public real estate organization in the United States, PBS owns or leases 8,706 assets and maintains an inventory of approximately 368 million square feet of rentable workspace. Within this inventory, PBS maintains 504 buildings on the National Register of Historic Places, provides high-quality facility and workspace solutions to more than 55 Federal agencies; disposes of excess or unneeded Federal properties; and promotes the adoption of innovative workplace solutions and technologies. PBS is working with its Federal customers to design the workplace of the 21st century by seeking to reduce overall workspace needs and associated costs.

## Office of Government-wide Policy (OGP)

OGP uses policies, data and strategy to drive efficiency and management excellence across the Federal Government for key administrative areas including travel and transportation, acquisition, fleet management, information technology modernization, and real estate management. OGP helps influence agency behavior in these areas through the development of Governmentwide policy, performance standards, data analysis and benchmarking, and transparent reporting of Governmentwide data.

## Staff Offices

The GSA staff offices support the enterprise. They ensure GSA is prepared to meet the needs of customers, on a day-to-day basis and in crisis situations.

**Office of Administrative Services (OAS):** OAS delivers innovative solutions for GSA's administrative, workplace and information management needs to facilitate efficient use of Government resources and effective risk management.

**Office of the Chief Financial Officer (OCFO):** OCFO provides enterprise-wide budget, financial management, financial analysis, performance management, and strategic planning services to GSA business lines and staff offices.

**Office of GSA Information Technology (GSA IT):** GSA IT provides staff with ever-evolving technology to improve capabilities, productivity, mobility, agility, and cost savings. GSA IT solutions include laptops, mobile devices, collaborative cloud-based software, training and technical support.

**Office of Civil Rights (OCR):** [14]OCR administers five programs related to Federal civil rights laws and regulations: Equal Employment Opportunity, Affirmative Employment, Nondiscrimination in Federally Conducted Programs and Activities, Environmental Justice and Nondiscrimination in Federally Assisted Programs and Activities. OCR also administers the appeals process for administrative grievances filed by GSA employees.

**Office of Congressional and Intergovernmental Affairs (OCIA):** OCIA maintains agency liaison with Congress; prepares and coordinates the GSA annual legislative program; communicates the GSA legislative program to OMB, Congress, and other interested parties; and works closely with OMB in the coordination and clearance of all proposed legislation impacting GSA.

**Office of Customer Experience (OCE):** OCE works with internal clients to enhance relationships with customers, industry partners, and stakeholders. OCE improves the end-to-end experience of GSA customers by aligning operations to customer needs. OCE leads qualitative and quantitative research, develops customer-centric strategies, builds the capacity of teams to practice human-centered design, gather customer feedback, and conducts pilots with internal and external partners.

**Office of General Counsel (OGC)**: OGC provides legal advice and representation to GSA, serves as GSA's Designated Agency Ethics Official and is responsible for managing the agency's ethics program. OGC also manages GSA-wide claims under the Federal Tort Claims Act.

**Office of Human Resources Management (OHRM):** OHRM delivers comprehensive human resources services and solutions to GSA and its employees. OHRM's primary focus is to work with GSA services and staff offices to attract, motivate, develop, retain and reward employees to maintain and enhance a mission-ready workforce.

**Office of Mission Assurance (OMA):** OMA ensures resilience and continuity of the agency's critical business processes by integrating and coordinating activities across all domains of security (physical, personnel, and industrial), HSPD-12 credentialing, emergency management, and contingency and continuity planning. OMA provides an enterprise-wide approach to mission assurance planning while ensuring the safety, privacy, and security of GSA facilities, people, and assets nationwide.

**Office of Small Business Utilization (OSBU):** OSBU partners with GSA mission delivery and support offices to meet and exceed statutory prime and subcontracting small business and socio-economic small business goals. To achieve this, OSBU promotes access to GSA's nationwide procurement opportunities and provides training to the acquisition workforce and small and disadvantaged businesses.

**Office of Strategic Communication (OSC):** OSC works with internal clients to build effective communication strategies to meet their business goals. OSC services include internal communication, graphic design and production, media relations, web and social media, audiovisual production, writing and editing, speechwriting and executive communication, and risk communication/crisis management..

## Independent Offices

**Office of the Inspector General (OIG):** OIG is responsible for promoting economy and efficiency. OIG also detects and prevents fraud, waste and mismanagement in GSA programs and operations.

**Civilian Board of Contract Appeals (CBCA):** CBCA is an independent tribunal housed within GSA. Its primary responsibility is to adjudicate contract disputes between civilian Federal agencies and contractors under the Contract Disputes Act.

**Federal Permitting Improvement Steering Council (FPISC):** FPISC is responsible for leading ongoing Governmentwide efforts to modernize the Federal permitting and review process for major infrastructure projects. FPISC works with Federal agency partners to implement and oversee adherence to the statutory requirements set forth in the *Fixing America's Surface Transportation Act of 2015.*

## Full-Time Equivalent (FTE) Breakdown by Organization

At the close of FY 2018, GSA's employee workforce totaled 11,137 full-time equivalents (FTE). This total represents a decrease from FY 2017 of nearly 400 FTE, which is primarily driven by attrition within PBS.

FTE are defined as the total number of hours worked, divided by the number of compensable hours applicable to each fiscal year. Compensable hours include leave, but not holiday and overtime hours.

| | FY 2016 | FY 2017 | FY 2018 | FTE Change (FY16-18) | FTE Change (FY17-18) | 2018 % change from 2016 | 2018 % change from 2017 |
|---|---|---|---|---|---|---|---|
| Staff Offices | 2,676 | 2,662 | 2,470 | (206) | (192) | (7.70)% | (7.21)% |
| FAS* | 3,171 | 3,261 | 3,282 | 111 | 21 | 3.50% | 0.64% |
| PBS^ | 5,331 | 5,614 | 5,385 | 54 | (229) | 1.01% | (4.08)% |
| **Total** | **11,178** | **11,537** | **11,137** | **(41)** | **(400)** | **(0.37)%** | **(3.47)%** |

* *FAS includes FTE funded out of the Acquisition Services Fund, Federal Citizen Services Fund, Transportation Audits Warrant and a part of GSA's Operating Expenses Appropriation.*

^ *PBS includes FTE funded out of the Federal Buildings Fund and a part of GSA's Operating Expenses Appropriation for disposal activities.*

# PERFORMANCE **SUMMARY**

GSA has an ongoing focus on IT modernization, customer experience, data analytics, and change management to support major initiatives in FY 2019. With this focus, our agency will deliver better services and better solutions to customers across the Federal Government.

## Mission

Deliver value and savings in real estate, acquisition, technology, and other mission-support services across the Government.

## Strategic Goals

- Save taxpayer money through better management of Federal real estate.
- Establish GSA as the premier provider of efficient and effective acquisition solutions across the Federal Government
- Improve the way Federal agencies buy, build, and use technology.
- Design and deliver expanded shared services within GSA and across the Federal Government to improve performance and save taxpayer money.

## Administrator's Priorities

- Ethical leadership
- Reduce duplication
- Increase competition
- Improve transparency

## People Drive Outcomes

IT Modernization | Customer Experience | Data Analytics | Change Management

**Federal Marketplace Initiative**
- Improve buying experience
- Reform schedules
- Reduce burden

**Strategic Leasing Initiative**
- Long term leases
- Turn-key facilities & services
- Reduce the Federal footprint

**Shared Services Initiative**
- Quality mission support services
- Centers of Excellence
- Governmentwide reform

## Key Outcomes

- Savings
- Mission
- Productivity
- Security
- Speed
- Simplification
- Satisfaction

## Agency Performance Goals

This section provides an overview of GSA's performance against four strategic goals representing our major program areas. A complete analysis of GSA's successes and challenges related to FY 2018 performance targets will be included in the FY 2018 Annual Performance Report.

**1. Real Estate – Save taxpayer money through better management of Federal real estate.**

| Performance Indicator | FY 2016 Results | FY 2017 Results | FY 2018 Results | FY 2018 Target | Status |
|---|---|---|---|---|---|
| Leases negotiated at or below market rate* | 49.0% | 48.0% | 44.0% | 55.0% | Missed target |
| Leased revenue after administering the program | -1.16% | -0.59% | -0.40% | 0 to 2% | Missed target |
| Capital projects on schedule/budget | 98.0% | 99.0% | 90.0% | 90.0% | Met target |
| Cleaning and maintenance costs within market range | 80.3% | 73.2% | 73.6% | 78.0% | Missed target |

** Agency Priority Goal*

GSA met its performance target for keeping capital projects (large-scale construction and repair/alterations) on schedule and on budget. However, GSA underperformed in total lease revenue after costs, staying within market rates for leases, and cleaning/maintenance costs.

GSA underperformed in the share of leases negotiated at or below market rate. Forty-four percent of transactions in FY 2018 were negotiated at or below market, a decrease in performance compared to FY 2017. However, by focusing negotiation efforts on high-value leases, rather than simply the number of leases, GSA was able to avoid millions in costs for customer agencies during FY 2018. To further reduce overall real property costs to the Government and save taxpayer dollars in FY 2019, GSA will continue implementing its comprehensive Lease Cost Savings Plan to focus resources on replacing high-cost leases expiring over the next six years. The plan calls for negotiating more long-term leases to achieve more favorable lease rates.

GSA missed its target to cover its costs for its non-Government owned lease portfolio, with revenue covering 99.6 percent of our associated costs in FY 2018. Administrative costs associated with small dollar leases contribute to this deficit. To improve our operational efficiency for leasing, GSA will increase the use of the Automated Advanced Acquisition Program (AAAP) and GSA Leasing Support (GLS) Services for lease awards. AAAP provides the opportunity for private building owners and building owner representatives to offer building space to the Federal Government. GLS leverages private sector resources and expertise to supplement GSA's leasing workforce.

GSA met its target in keeping 90 percent of its capital projects on schedule and on budget despite facing challenging market conditions, including uncertainty over potential price increases and labor shortages in the construction market.

Although showing improvement from the previous year, GSA did not meet its FY 2018 goal to keep cleaning and maintenance costs within market range. GSA is currently working with a contractor to refine market comparisons to inform management practices and portfolio management.

**2. Acquisition – Establish GSA as the premier provider of efficient and effective acquisition solutions across the Federal Government.**

| Performance Indicator | FY 2016 Results | FY 2017 Results | FY 2018 Results | FY 2018 Target | Status |
|---|---|---|---|---|---|
| Acquisition program savings (billions of $) | $6.02B | $5.17B | $5.06B* | $5.22B | Expect to meet target* |
| Customer loyalty score (10-point scale) | 7.5 | 7.4 | 7.5 | 7.4 | Met target |
| Supplier satisfaction score (5-point scale) | 3.70 | 3.61 | 3.69 | 3.80** | Missed target |
| Percent of GSA contract dollars awarded to small business through prime contracting | 39.2% | 42.6% | 39.1%*** | 35.0% | Expect to meet target*** |

* *15 of 18 acquisition programs have reported full-year results. When the remaining three programs report full-year results, GSA expects to meet its FY 2018 target.*

** *FY 2018 target reflects methodology used in prior years, while the FY 2016, FY 2017 and FY 2018 results reflect scores based on the current methodology. Targets beginning in FY 2019 are set using the current baseline.*

*** *Pending validation by SBA. GSA expects to meet its FY 2018 target.*

GSA provides substantial savings to the Government through focused acquisition programs. For each of the past three years, these programs have generated more than $5 billion in annual savings, with increased savings projected for FY 2018 and beyond. Based on current data, GSA is confident that the $5.22 billion target will be attained in FY 2018.

Customer loyalty scores have remained stable and we anticipate improvement over the next two years. One area of focus is to increase customer satisfaction by improving the ease of access to the products and services we offer. This strategy will emphasize enhancing and streamlining technology interfaces and systems that are touchpoints for customer interactions, while ensuring secure sources of supply for the products and services we provide. GSA is also committed to expanding market intelligence capabilities by utilizing data as a means to better understand, anticipate, and deliver customer requirements.

Although suppliers are sharing that GSA is communicating more effectively, supplier satisfaction scores only increased marginally in FY 2018 (from 3.61 to 3.69). Suppliers see GSA vehicles as an avenue to new markets, but are frustrated when they cannot easily navigate the procurement process. To address this issue, GSA is assessing opportunities to consolidate schedules, reducing burdens on industry. Consolidating schedules can remove the need for industry to manage multiple contracts, lessening administrative burdens for vendors that provide services and for customer agencies purchasing across multiple schedules.

GSA continues to excel in meeting the prime small business targets set by the Small Business Administration (SBA). GSA received an A, A+, and an A on SBA's Small Business Scorecard for fiscal years 2015-2017, respectively. GSA is confident that it will meet or exceed its FY 2018 small business prime contracting goal of 35 percent (annual results are pending validation by SBA). GSA will continue to work with SBA to encourage increased vendor pools for small business and socio-economic small business categories.

**3. Technology – Improve the way Federal agencies buy, build, and use technology.**

| Performance Indicator | FY 2016 Results | FY 2017 Results | FY 2018 Results | FY 2018 Target | Status |
|---|---|---|---|---|---|
| Number of customer agency systems with FedRAMP authorizations (cumulative) | 72 | 88 | 121 | 110 | Met target |
| Volume of assisted technology acquisitions provided (billions of $) | $1.54B | $3.68B | $7.47B | $4.29B | Met target |
| Percent increase of governmentwide tiered data center closures (cumulative) | Baseline | 3.55% | 7.0% (as of Q3) | 6.0% | Met target |
| Percent of privileged users required to use a PIV card or AAL3 multifactor authentication method to access their agency's network | n/a | 81% | 96% | 83% | Met target |

GSA is on track to achieve the objectives associated with providing tools and services that agencies need to improve their IT portfolios. GSA met all of its FY 2018 performance targets for this goal.

GSA continues to build a robust marketplace of cloud solutions that meet Federal security requirements, increasing the number of cloud authorizations through the Federal Risk and Authorization Management Program (FedRAMP). All CFO Act agencies and over 140 total agencies are participating in the FedRAMP program, enabling them to safely replace legacy IT systems with innovative cloud services to meet critical mission needs. Cloud computing can provide the Government with greater IT capabilities and reliability at lower cost to taxpayers.

GSA is also driving efficient and innovative Government procurement of technology services, evidenced by growth in assisted technology acquisition business volume, which more than doubled from FY 2016 to FY 2017. During FY 2018, GSA exceeded its annual performance target for assisted technology acquisitions.

GSA achieved its key governmentwide milestones for data center optimization and data access management in FY 2018. By the third quarter of FY 2018, GSA achieved its target for data center closures. GSA has provided the public with simpler and more secure access to participating websites (e.g. USAJobs.gov) via a single login credential through the login.gov program. Currently 96 percent of privileged users across government are required to use Personal Identity Verification (PIV) card or Authenticator Assurance Level 3 (AAL3) multifactor authentication method to access their agency's network, well above the FY 2018 target.

**4. Shared Services – Design and deliver expanded shared services within GSA and across the Federal Government to improve performance and save taxpayer money.**

| Performance Indicator | FY 2016 Results | FY 2017 Results | FY 2018 Results | FY 2018 Target | Status |
|---|---|---|---|---|---|
| Number of agency-owned (non-GSA) vehicles studied by GSA* | n/a | n/a | 76,238 | 25,000 | Met target |
| Number of agencies using GSA's M3 tools to assess readiness for shared services | n/a | 4 | 31 | 20 | Met target |
| Effectiveness of administrative (CXO) functions, as measured by customer satisfaction on a scale of 1 to 7 | 4.96 | 5.07 | 5.16 | 5.15 | Met target |
| Percent of IT portfolio utilizing cloud technologies | 42.0% | 42.0% | 49.0% | 44.0% | Met target |

** Agency Priority Goal*

Common administrative service areas – such as acquisition, IT, human resources, and financial management – are performed across all Federal agencies. Yet agencies have spent billions of dollars to build their own administrative capabilities. Seeing this inefficiency as an opportunity for growth, the Administration has made it a priority to improve the Government's shared services ecosystem. With GSA's expertise in mission-support services and acquisition, it is well positioned to lead implementation of these Governmentwide efforts to save costs and time. In FY 2018, GSA met all of its performance targets as shown above.

As an initial step to strengthen the shared services infrastructure, GSA is working to establish a Service Management Office (SMO) to plan and deliver shared common solutions across the Government. The SMO will support the PMA by assessing opportunities to build and deploy common mission-support solutions in human resources, financial management, procurement, grants management, operations support, and IT. GSA's Shared Solutions and Performance Improvement (SSPI) office is actively working with agencies to assess their readiness for shared solutions.

One mission-support area targeted for expansion is motor vehicle fleet management. Currently, GSA's Fleet Program leases more than 215,000 vehicles to Federal agencies, which represents approximately half of the Federal fleet, excluding the Postal Service. Further consolidation of agency-owned vehicles into GSA's leasing program can reduce costs, increase quality, and trim management burdens for partner agencies. In FY 2018, GSA began conducting independent third-party studies to determine if it is more cost-effective for vehicles owned by other agencies to be consolidated into the GSA Fleet. GSA expects to complete 15 agency fleet studies by the end of FY 2020. The number of non-GSA government-owned vehicles under study in FY 2018 (over 76,000) exceeded our target for the year.

GSA is on track to achieve internal operating goals in each of the major administrative service areas: acquisition, IT, human resources, and financial management. Internal customer ratings of these functions have steadily risen from FY 2015 through FY 2018 to the top quartile among CFO Act agencies. GSA achieved these results by focusing on high-value initiatives such as workforce strategic planning, cloud technology adoption, increasing competition for contracting solicitations, and resource management optimization.

# FINANCIAL STATEMENTS **SUMMARY AND ANALYSIS**

Agency management is accountable for the integrity of the financial information presented in the financial statements. The financial statements and financial data presented in this report have been prepared from GSA accounting records in conformity with Generally Accepted Accounting Principles (GAAP) as prescribed by the Federal Accounting Standards Advisory Board (FASAB). The Consolidated Statements of Net Cost present, by major program and activity, the revenues and expenses incurred to provide goods and services to our customers and execute GSA's programs.

## Consolidated Financial Results

### GSA Assets

GSA assets primarily include: property and equipment such as Federal buildings, motor vehicles, and office equipment; Fund Balance with Treasury (FBwT); and amounts due to GSA from Federal agencies and non-Federal customers, mostly from sales transactions or uncollected rent (Accounts Receivable). In FY 2018, GSA reported total assets of $42.9 billion compared to FY 2017 total assets of $41.4 billion, representing a net increase of approximately $1.5 billion. Significant changes in assets include an increase in the overall FBwT of $938 million, mainly due to the Federal Buildings Fund (FBF), which saw an increase of $1 billion as funding generated for capital programs to cover building repairs and alterations (R&A) and new constructions costs exceed amounts spent on these programs.

### GSA Liabilities

GSA liabilities are primarily amounts owed to commercial vendors for goods and services received but not yet paid (Accounts Payable), amounts GSA owes to other Federal entities, and long-term estimates of future environmental remediation costs. In FY 2018, Total Liabilities were $8 billion; a net increase of $627 million compared to FY 2017 Total Liabilities of $7.4 billion. The increase is primarily attributable to the increased business in the Acquisition Services Fund (ASF), particularly in the Assisted Acquisition Services (AAS) and the General Supplies and Services (GS&S) business lines. The increase in Accounts Payable to the Public is due to the timing of individual orders as the magnitude of payables and receivables have increased as a result of the overall level of business increasing.

### GSA Revenue

GSA reported $23.8 billion in revenue during FY 2018 compared to $21.8 billion reported in FY 2017.

Changes in the FBF and ASF net operating results are discussed further below.

## Financial Results by Major Fund – Federal Buildings Fund

The FBF is the primary fund of PBS. PBS provides workplaces for Federal agencies and their employees. FBF is primarily supported by rent paid to GSA from other Federal agencies. Operating results are displayed on the Consolidating Statements of Net Cost, segregated into the two primary components of Building Operations – Government Owned, and Building Operations – Leased.

FY 2018 FBF gross revenue is over $11.6 billion, with over half of the revenue generated from five Federal customer agencies as shown in the "FBF Top Five Federal Customers" table.

| FBF Top 5 Federal Customers | Revenues ($ in Millions) | % of Total Revenues |
|---|---|---|
| U.S. Department of Justice | $1,912 | 16.4% |
| U.S. Department of Homeland Security | $1,846 | 15.8% |
| Federal Judiciary | $1,201 | 10.3% |
| U.S. Social Security Administration | $880 | 7.5% |
| U.S. Department of the Treasury | $712 | 6.1% |

### FBF Net Revenue from Operations

FBF Net Revenue from Operations represents the amounts remaining after the costs of operating GSA owned and leased buildings are subtracted from revenue. Net Revenue from Operations is used to invest in major repairs and alterations for Federal buildings and to provide funding for the cost of constructing new Federal buildings.

The primary source of revenue into the FBF is rent from our customer agencies and the primary sources of expense are the cost of leasing building space and the cost of operating the GSA portfolio of GSA-owned and -leased buildings. PBS also operates a Reimbursable Work Authorization (RWA) program, which provides customer agencies with alterations and improvements in GSA space, above what is specified in the base rental agreement.

The FBF reported net revenues in excess of expenses of $650 million in FY 2018 compared to net revenues in excess of expenses of $666 million in FY 2017, representing a decrease of $16 million. While this overall change was relatively small related to $11.6 billion in total revenues, there were sizable offsetting changes in operating results for the year. Significant fluctuations in the cost factors used to estimate both asbestos and non-asbestos environmental cleanup liabilities produced a $193 million change in future funded expenses for environmental liabilities. In FY 2017 these factors had gone down, driving cost reductions of $137 million last year, while increases in the factors in FY 2018 generated costs of $56 million in current year results. During FY 2018, FBF Leased Building Operations recorded a net loss of $44 million, compared to the prior year net loss of $108 million. At the same time the FBF recognized increased gains from the sale of real property of $63 million.

### FBF Obligations and Outlays

In the FBF, obligations are primarily the value of contracts awarded to commercial vendors for the construction of new Federal buildings; for repairs and alteration, cleaning, utilities and other maintenance of GSA-owned Federal buildings; and lease and related payments to commercial landlords for space leased by GSA for Federal agencies.

| FBF Obligations and Outlays (*$ in Millions*) | FY 2018 | FY 2017 | Change ($) | Change (%) |
|---|---|---|---|---|
| New Obligations and Upward Adjustments | $10,982 | $11,538 | $(556) | (4.8)% |
| Net Outlays from Operating Activity | $(875) | $(803) | $(72) | (9.0)% |

## Financial Results By Major Fund — Acquisition Services Fund

The ASF is a revolving fund that operates from the reimbursable revenue generated by its business portfolios rather than from an appropriation received from Congress. The operations of the ASF are organized into seven business portfolios: GS&S; Travel, Transportation and Logistics (TTL); Information Technology Category; AAS; Professional Services and Human Capital (PS&HC); Office of Systems Management; and TTS. By leveraging the buying power of the Federal Government, FAS consolidates requirements across multiple agencies and uses its acquisition expertise to acquire goods and services at fair and reasonable prices.

In FY 2018, the ASF realized over $12.4 billion in revenues with 80 percent of the revenue generated from five Federal customer agencies as shown in the "ASF Top Five Federal Customers" table.

| ASF Top Five Federal Customers | Revenues ($ in Millions) | % of Total Revenues |
|---|---|---|
| U.S. Department of Defense | $7,927 | 64.0% |
| U.S. Department of Homeland Security | $908 | 7.3% |
| U.S. Department of Justice | $381 | 3.1% |
| U.S. Department of Agriculture | $375 | 3.0% |
| U.S. Department of Health and Human Services | $294 | 2.4% |

### ASF Net Revenues from Operations

ASF Net Revenue from Operations represents the revenue remaining after deducting costs of goods and services sold and cost of operations. Net Revenues from Operations are invested in the GSA Fleet, IT systems, other programs to improve FAS service levels, and to comply with regulatory and statutory requirements. In FY 2018, the ASF reported positive net results of $87 million compared to net loss of $8 million in FY 2017. In the TTL business line, revenues and expenses, as well as net operating results, have increased due to strong performance within the Fleet Leasing program. In the GS&S business line, revenue increased due to larger than expected business volume, particularly due to the growth in Supply Chain Management and Retail Operations. Personal Property sales also increased as a result of the aircraft sales that were comparably low in FY 2017. AAS programs have continued to experience significant increased revenue due to higher business volume. The Federal Systems Integration and Management Center's (FedSIM) increase is responsible for nearly two-thirds of the AAS growth.

### ASF Obligations and Outlays

ASF obligations and outlays are primarily driven by contracts awarded to commercial vendors providing goods and services in support of the ASF portfolios. New Obligations and Upward Adjustments increased by $1.634 billion between FY 2017 and FY 2018 and Net Outlays from Operating Activity increased by $181 million, primarily due to higher business volume in the AAS and GS&S programs.

| ASF Obligations and Outlays ($ in millions) | FY 2018 | FY 2017 | Change ($) | Change (%) |
|---|---|---|---|---|
| New obligations and upward adjustments | $15,260 | $13,626 | $1,634 | 12.0% |
| Net Outlays from Operating Activity | $95 | $(86) | $181 | (210.4)% |

**Limitations of Financial Statements**

*The principal financial statements are prepared to report the financial position and results of operations, pursuant to the requirements of 31 U.S.C. 3515 (b). The statements are prepared from the books and records of GSA in accordance with Federal GAAP and the formats prescribed by OMB. Reports used to monitor and control budgetary resources are prepared from the same books and records. The financial statements should be read with the realization that they are for a component of the U.S. Government.*

# GSA MANAGEMENT ASSURANCES

## Statement of Assurance

GSA management is responsible for managing risks and maintaining effective internal control to meet the objectives of Sections 2 and 4 of the Federal Managers' Financial Integrity Act. GSA conducted its assessment of risk and internal control in accordance with OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control. Based on the results of the assessment, the Agency can provide reasonable assurance that internal controls over operations, reporting, and compliance were operating effectively as of September 30, 2018.

In FY 2017, GSA confronted the same challenge as other Federal agencies: many employees are retirement eligible and can leave the Federal workforce. Workforce planning, which includes staffing and succession plans will mitigate the impact of high retirement eligibility in mission-critical occupations.

During FY 2018, GSA addressed succession planning issues by implementing knowledge transfer and developmental programs aimed at mitigating the impact of high retirement eligibility. GSA established a policy offering potential retirees the option for a phased retirement. This would ensure there is an opportunity to transfer knowledge prior to experienced staff leaving the agency.

GSA continues its commitment implementing programs designed to identify the future leaders of the agency. GSA has improved the hiring and retention initiatives at the entry level. GSA also launched the Senior Executive Service Candidate Development Program which is a succession management tool to identify and prepare future senior leaders to fill vacant executive positions.

GSA initiated a Competitive Development Program designed to foster leadership development at different grade levels and provide participants the opportunity to build the skills, knowledge, and behaviors required to meet current and future business challenges at GSA.

As part of the annual assessment of the design and effectiveness of internal controls, GSA offices completed an internal control assessment tool to evaluate compliance with the 5 components and 17 principles of internal control. Each office was also required to prepare and sign statements of assurance for their areas of responsibility to improve accountability over GSA internal controls.

The potential Antideficiency Act (ADA) violation disclosed in the FY 2017 Statement of Assurance has been reviewed, and forwarded to OMB for final determination. The potential violation entailed GSA accepting customer orders in excess of the limitation in GSA's ASF apportionment. GSA implemented additional business forecasting controls and monitoring controls over apportioned budget authority.

Also in FY 2017, a potential ADA was identified related to the Federal Citizen Services Fund (FCSF), which resulted from utilizing the FCSF to support search capability for state and local Government websites. GSA corrected the situation by ending these services in February 2017.

Both potential ADA violations are pending OMB final review.

During 2018, the GSA Inspector General identified fraudulent activity around the System for Award Management (SAM), the platform used by vendors who wish to conduct business with the U.S. Government.

GSA established additional controls to reduce the risk of future fraud including: multi-factor authentication, restricting access to expired registration data, increasing verification requirements for changing banking information, and masking of sensitive data in the system.

The FY 2018 external audit cited two significant deficiencies: the first was related to controls over the financial reporting process, and the second was related to weaknesses in information technology controls designed to protect GSA's financial

management systems. GSA is developing and will execute corrective action plans to address these two significant deficiencies in FY 2019.

Finally, GSA has monitored and assessed its financial systems to ensure compliance with Federal financial management standards, as required by the FFMIA of 1996 and OMB Circular A-123 Appendix D. GSA assessed its degree of substantial compliance by utilizing the FFMIA Risk Model, and all financial management systems substantially comply with FFMIA as of September 2018. GSA is confident that all systems substantially comply with the Federal accounting standards promulgated by the Federal Accounting Standards Advisory Board, and with the U.S. Standard General Ledger (USSGL) at the transaction level as of September 30, 2018.

Emily W. Murphy
Administrator
November 8, 2018

# GSA MANAGEMENT AND **INTERNAL CONTROL PROGRAM**

## 1. Management's Responsibility for Enterprise Risk Management and Internal Controls

Internal control is at the core of GSA fulfilling its mission and achieving its goals while safeguarding Governmental resources. GSA management is responsible for implementing internal control activities across the agency.

GSA uses a top-down approach to implement effective and efficient internal controls. The agency's senior assessment team, the Management Control Oversight Council (MCOC), chaired by the Deputy Administrator, is responsible for establishing governance for GSA's senior managers to provide the leadership and oversight necessary for effective implementation of the agency's Internal Control Program. GSA evaluates internal control across the agency at various levels of the organization to ensure significant risks are identified and related internal controls are tested and evaluated.

The OCFO A-123 Internal Control Review team and the Office of Government-wide Policy (OGP) conducted parallel financial and acquisition reviews across the agency. The organization within OGP performing the work is the Procurement Management Review (PMR) Division, which is a component of the Office of Acquisition Policy reporting directly to the GSA Senior Procurement Executive. This office completed a total of 1,061 contract/real property lease reviews in FY 2018 covering 18 GSA Contracting organizations.

PMR reviews assessed the effectiveness of internal controls over procurement management. By analyzing activities from both an acquisition and financial perspective, GSA addressed control issues that involved financial and acquisition functions. Any identified control deficiencies are tracked and monitored for timely and accurate implementation of corrective actions. No material weakness was identified during this review process.

The OCFO deploys an extensive annual testing and assessment methodology that evaluates the effectiveness of internal controls over financial reporting and financial systems. In FY 2018, the OCFO conducted an agency-wide assessment of the five Components and 17 Principles of Internal Control as required by the U. S. Government Accountability Office (GAO) Standards for Internal Control in the Federal Government (Green Book). The OCFO improved the quality of the reporting and monitoring of improper payments by enhancing the sampling model used for estimating the improper payment rate for Rental of Space. The previous model sampled from one information source: the disbursement population from our Pegasys financial system. The new sampling model uses three sources of information: the disbursement population from our Pegasys financial system, overpayments identified from our Federal Shared Service Provider (FSSP), and overpayments identified from our Payment Recapture Audit. Using this multi-pronged approach generates a more accurate Rental of Space improper payment rate estimate. It also provides additional information for analyzing the root causes of improper payments. In FY 2018, the test results for Rental of Space indicate an improper payment rate of 0.29 percent and an improper payment amount of $16.70 million.

## 2. Federal Managers' Financial Integrity Act

The FMFIA of 1982 requires that agencies establish internal controls and financial systems to provide reasonable assurance that the integrity of Federal programs and operations is protected. Furthermore, it requires the head of the agency to provide an annual assurance statement on whether the agency has met this requirement and whether any material weaknesses exist.

In response to the FMFIA, the agency holds managers accountable for the performance, productivity, operations and integrity of their programs through the use of internal controls. Senior managers at the agency each year evaluate the adequacy of the internal controls and determine whether the controls conform

to the internal control standards established by OMB and GAO. The results of these evaluations and other information provided to senior management are used to determine whether there are any internal control matters to be reported as material weaknesses. The agency's senior assessment team, the MCOC, provides oversight of the internal control program and advises the Administrator on the Statement of Assurance.

Additionally, GSA monitors internal controls over purchase and travel cards. See the Fraud Reduction Report Section for comments on this activity.

## 3. OMB Circular No. A-123, Appendix A

Appendices A and D of OMB Circular No. A-123 provide requirements to agencies for conducting the management assessment of internal control over reporting and financial systems, respectively. In FY 2018, the OCFO continued to deploy an extensive annual assessment methodology that assesses risk across key business processes and identifies the related key internal controls over reporting and financial systems. The key controls were then evaluated for appropriate design and operational effectiveness, while financial system assessments were conducted to identify potential risk areas.

The Agency's evaluation for FY 2018 did not identify any material weaknesses in controls or material system non-conformances as of, or subsequent to, September 30, 2018.

## 4. Federal Financial Management Improvement Act

The FFMIA of 1996 was designed to improve Federal financial management and reporting by requiring that financial management systems comply substantially with three requirements:

- Federal financial management system requirements;
- Applicable Federal accounting standards; and,
- The U. S. Government Standard General Ledger at the transaction level.

Furthermore, the Act requires independent auditors to report on agency compliance with the three stated requirements as part of financial statement audit reports. The agency evaluated its financial management systems and has determined they substantially comply with Federal financial management systems requirements, applicable Federal accounting standards and the U. S. Government Standard General Ledger at the transaction level.

## 5. Information and Financial Management Systems Framework

The CFO Act assigns responsibilities for planning, developing, maintaining, and integrating financial management systems within Federal agencies. GSA currently maintains e-Payroll applications, portions of its legacy core accounting system, and general support systems, which operate on a variety of hosting platforms to support various feeder applications.

In FY 2018, GSA continued its progress in financial systems modernization. GSA completed a project to move the Visual Invoice Tracking and Payment (VITAP) application, an accounts payable subsystem, to a new platform. The new .Net platform improved GSA's security posture and retired a significant portion of legacy FoxPro code. Additional benefits included 508 Compliance, implementing Single Sign-On, and enhancing the overall user experience and usability of this mission-critical application.

GSA's legacy time and attendance and leave management systems, ETAMS and ALOHA, were replaced in FY 2018 by the GSA's new HR Links system. HR Links system is a PeopleSoft solution operated and configured by IBM and QTS Realty Trust, Inc. (QTS). QTS operates the two FedRAMP-certified data centers where the application is hosted. HRLinks improves GSA's security posture by providing multi-factor authentication to one integrated system, and additional benefits include single-sign-on, self-service features, easy access to leave balances, 508 compliance, and mobile access.

GSA also undertook activities to improve processes, increase automation, and further consolidate applications. These strategies support GSA's financial management system goals of reducing operating and maintenance costs, while enhancing compliance and IT security controls. Projects included in part: piloting Robotics Process Automation to streamline processes and significantly increase automation; implementing

database and technology transformations and continuing efforts to consolidate General Support Systems application functionality into a single system and/or migrating it to GSA's core financial system, Pegasys.

## 6. Federal Information Security Modernization Act

The Federal Information Security Management Act (FISMA) requires Federal agencies to implement a set of processes and system controls designed to ensure the confidentiality, integrity, and availability of system-related information. The controls in each Federal agency must follow established Federal Information Processing Standards, National Institute of Standards and Technology (NIST) standards, and other legislative requirements pertaining to Federal information systems, such as the Privacy Act of 1974.

To facilitate FISMA compliance, GSA maintains a formal program for information security management focused on FISMA requirements, protecting GSA IT resources. This program is focused on processes necessary to mitigate new threats and anticipate risks posed by new technologies.

Designated GSA information system security managers and information system security officers implement information security requirements in accordance with FISMA requirements and GSA policies.

GSA continues to address weaknesses identified in its Plan of Action and Milestones. GSA annually provides security and privacy awareness training to more than 15,000 employees and contractors. GSA continues to implement and develop a continuous diagnostics and mitigation program in accordance with NIST, U.S. Department of Homeland Security, and OMB direction.

## 7. Digital Accountability and Transparency Act (DATA Act)

The Digital Accountability and Transparency Act (DATA Act) was enacted in 2014, amending the Federal Financial Accountability and Transparency Act of 2006 (FFATA). FFATA requires reporting of obligations and award-related information for all Federal financial assistance and procurement awards. The DATA Act expands upon FFATA by adding U.S. Department of the Treasury (Treasury) account-level reporting; this includes reporting all Treasury Account Symbols that fund each award and contract transaction, budget authority, program activity, outlays, and budget object classes, among other data elements. The DATA Act also requires the Federal Government to collectively standardize the data elements reportable under the Act. GSA submitted its quarterly DATA Act submissions as required. This information is [15]publicly accessible and searchable by the American public to see how their tax dollars are being spent. The [16]Spending Explorer makes it easy to conduct high level analysis of Federal spending.

## 8. Antideficiency Act (ADA)

The Antideficiency Act, Pub.L. 97–258, 96 Stat. 923, is legislation enacted by the Congress to prevent the incurring of obligations or the making of expenditures in excess of amounts available in appropriations or funds. The law was initially enacted in 1884, with major amendments occurring in 1950 and 1982. It is now codified at 31 U.S.C. § 1341.

GSA is working with OMB on final decisions for two potential FY 2017 violations of the ADA. In one instance, the ASF apportionment did not account for growth potential of a specific reimbursable agreement and the ASF flow-through apportionment limitation was exceeded. In response to this potential violation, GSA initiated a Corrective Action Plan (CAP) with four actions, which have been completed. Additional information on this potential ADA is included in the OIG's Management Challenges and the Statement of Assurance.

The second potential ADA violation identified in FY 2017 was related to the FCSF. The FCSF was utilized to support search capability for state and local Government websites. GSA corrected the situation by discontinuing these services in February 2017.

# FORWARD-LOOKING **INFORMATION**

## Risk Management

GSA annually identifies and assesses risks to the agency's strategic goals and objectives that have a significant likelihood of occurrence over a multi-year horizon. The assessment encompasses risks both to the implementation of strategic initiatives and ongoing operations. Risks are identified and prioritized through a cross-functional process by engaging a team representing GSA's mission delivery units and core mission-support offices. Prioritized risks are then presented to GSA leadership for review and concurrence.

As an output of this year's risk management process, GSA prioritized a set of enterprise risks. Some of the risks identified include:

1. **Cybersecurity** - Cybersecurity operations and investments must be optimized to reduce the risk of insider and external threats to sensitive Government data. The Fraud Reduction Report in the latter section of this report provides specific mitigation plans for the cybersecurity risk.

2. **Workforce Succession Planning** - Significant levels of retirement eligibility at GSA requires an increased focus on talent pipeline management to reduce the impact of organizational skill and knowledge gaps resulting from foreseen separations. The Statement of Assurance identifies actions taken by GSA to mitigate this risk in FY 2018.

3. **Legacy Database Technologies** - Continued reliance on legacy database technologies increases costs and impacts operational performance. GSA is therefore identifying and pursuing Software-as-a-Service opportunities in a software deployment and reducing agency dependence on legacy systems.

4. **Shared Services Adoption** - GSA's ability to drive adoption of Governmentwide systems across the agency, challenging the traditional model of shared service solutions is affected by the risk that resources and priorities at customer agencies may not consistently align with shared services objectives.

Each of these risks has the potential to impact GSA's ability to meet our mission. Organizational awareness and proactive leadership are essential to ensure the risks are managed and mitigated. GSA has developed project plans and mitigation strategies for enterprise risks while monitoring qualitative and quantitative data to gauge the pervasiveness of the risks. Planned organizational investments will also contribute to minimizing the impact of the risk and its likelihood of occurring. Effective management of these risks is an opportunity for GSA to strengthen its internal operations and external defenses to maximize value to customer agencies and the American Public.

# FINANCIAL **SECTION**

Through the SmartPay program **GSA administers** more than **3.5 million charge cards**, generating performance-based refunds for agencies/organizations. In fiscal year (FY) 2017 agencies/organizations received **over $298 million in refunds.**

# LETTER FROM **THE CHIEF FINANCIAL OFFICER**

## Introduction

On behalf of the GSA, I am pleased to provide the FY 2018 Agency Financial Report (AFR). The AFR represents the culmination of our financial management community's efforts to accurately track and disclose GSA's financial status, and to ensure that the agency continues to act as a good steward of public funds. I would like to sincerely thank all of GSA's financial management personnel for their dedication, diligence, and excellent work in compiling this report, as well as staff from other offices who partnered with OCFO to assure accountability and transparency in the execution of their fiduciary duties.

GSA's mission expanded and will continue to grow as a result of Government-wide Agency Reform Initiatives. FY 2018 has been a year of reform, improvement, and change. Staff throughout the agency focused on addressing management and service challenges, and identifying new and innovative ways to best serve our customers throughout Government.

## Audit and Compliance

During FY 2018, GSA enhanced its remediation program for audit and non-compliance issues by increasing executive ownership. For each financial audit finding, GSA OCFO developed a CAP, which was assigned to a senior accountable official responsible for full implementation. OCFO has an established and optimized procedure for monitoring CAP execution and reporting CAP results to the MCOC. As CAP steps are completed with supporting documentation provided, the work is reviewed to ensure the root cause was addressed.

In FY 2017, GSA's independent auditors did not identify any material weaknesses; however, they identified three significant deficiencies and seven non-significant deficiencies. For the deficiencies that were identified, GSA worked proactively and diligently to mitigate the issues. All seven non-significant findings were closed, and two of the three significant findings were closed in FY 2018.

The first significant deficiency was related to controls over access to financial management systems. GSA implemented an automated program to manage patching, user validation and administrative account access compliance. These tools are implemented in multiple phases and when complete will support all account management. GSA also completed an inventory of third party service providers and developed a standard operating procedure for evaluating service provider internal controls. In addition, GSA made notable progress in standardizing the execution, review, and reporting of vulnerability scans, increasing controls around system access, and backups. GSA had new findings in this area in FY 2018, and will implement corrective action plans to address the root causes in FY 2019.

The second significant deficiency, monitoring controls over financial management, is a roll-up of non-significant deficiencies concerning consistent enforcement of monitoring controls over financial reporting processes. GSA is addressing these concerns by executing a CAP for each of the non-significant

findings. Highlights of corrective actions taken to date include increased review and verifications of asbestos reports for accuracy, updated internal policies over RWA acquisition/construction to align with Federal accounting standards, increased oversight and accountability for tracking construction in process projects to ensure timely recording of substantial completion, and updated standard operating procedures for accounting adjustments for non-level rent to clearly define roles and responsibilities and reconciliation requirements.

The third significant deficiency related to budgetary controls over apportionments GSA did not effectively monitor apportionment to allow for support time to request reapportionment from OMB when customer obligations exceeded what was anticipated and apportioned. While the OMB does not intend to restrict the amount of customer orders GSA can fill, the apportionment process effectively places limitations on resources available to spend on reimbursable activities. In response to this FY 2017 finding, GSA improved monitoring controls over apportionment levels, SF-133 execution, and revenue/business volume forecasts to ensure alignment between budgetary and proprietary forecasts. During FY 2018, the OCFO improved monitoring over the apportionment process and worked with the business lines to improve communications on anticipating business volumes and forecasts. Furthermore, GSA is exploring expanded automated, preventative controls to ensure compliance with apportionment limitations as part of GSA's corrective action.

## Key Financial Accomplishments in FY 2018

GSA OCFO continues to work closely with OMB, Treasury and FASAB to improve Federal financial reporting. Our collaborative goal is to achieve a "clean" audit opinion for the [17]U.S. Government's Consolidated Financial Report. A current impediment to a "clean" opinion is intragovernmental balances between Federal agencies. As GSA's mission is to support other Federal agencies through acquisition support and occupancy services, one of OCFO's key financial management activities is to resolve discrepancies in those balances. GSA OCFO staff has been working closely with our Federal partners to identify and resolve intragovernmental billing differences. With Treasury, we have been advancing a Government-wide solution to address intragovernmental differences. Early implementation of Treasury's G-Invoicing system should improve the controls by having a central repository of general terms and conditions for agreements with our Federal partners. OCFO is engaging the various program managers of the business feeder systems to help develop our implementation strategy.

GSA made significant improvements to the Rental of Space high risk program. In FY 2018, GSA improved the Rental of Space payment processes and worked with OMB to establish a realistic target, bringing the program into compliance. Test results show that this program's improper payment rate is 0.29 percent with a monetary loss to the Government below 1.0 percent of program outlays.

## Ambitious Goals for CFO-Wide Transformation

OCFO Leadership set ambitious goals for the organization in FY 2018 to drive improvements and gain efficiencies. Meeting these goals enabled OCFO to deliver the high-quality, efficient services that our partners rely on to deliver acquisition, technology, and real estate solutions to the entire Federal Government.

OCFO was recently recognized by OMB for its business transformation efforts and contributions to the President's Management Agenda - Cross-Agency Priority Goal 6. OCFO pursued the high-value services mandated by Cross-Agency Priority Goal 6 during FY 2018, specifically through the following initiatives:

- [18]Eliminate, Optimize, and Automate Initiative - OCFO launched a broad scale initiative to eliminate, optimize, and automate our GSA-wide financial management workload. We sought to eliminate manual tasks by adding value through optimization and reduction in the level of effort needed to complete tasks, and automation of work processes with a focus on robotics process automation.

  Our leadership team established an ambitious goal of identifying 40,000 hours of annualized

work across GSA to be saved and reallocated to more value-added reporting, analytics, and control work. OCFO staff contributed nearly 200 ideas as candidates for hours that could be re-allocated to higher value or new requirements across all functional areas. From these staff submissions, OCFO identified nearly 100,000 hours of workload across GSA for evaluation and further exploration.

- Robotics (software "bots") - One of the enablers of the eliminate, optimize and automate initiative is process robotics. In FY 2018 OCFO created a robust internal capability to implement process robotics solutions for opportunities identified both within financial functions and across GSA. OCFO set an ambitious goal to fully implement at least ten bots during the calendar year, a target which OCFO will fully achieve. The use of bots has allowed OCFO to significantly reduce the amount of time spent manually completing dashboards, financial transactions, queries, and reconciliations. This time has been reallocated to providing high-value services for our partners.

  In FY 2018, OCFO deployed process robotics applications eliminating 7,280 labor hours annually and have planned automations for FY 2019 that will eliminate an additional 184,000 per year for OCFO and PBS. Success of GSA's automation initiatives is expected to allow a shifting of resources. These resources could be applied to tasks such as mitigating interagency discrepancies, researching root causes of chargebacks and implementing FASAB changes that impact our financial statements.

- HR Links/Payroll including additional controls - GSA implemented a new Human Resources system that consolidated the functionality from four legacy systems. The new system provides employee performance, human resources, time, and leave management in one solution. HR Links includes improved front end time and attendance controls that assist employees and supervisors in submitting accurate timesheets. In addition, the integration of leave requests and time and attendance reporting into a single system has streamlined the process of requesting and reporting leave, while reducing the chance of human error.

## Conclusion

GSA made significant progress in FY 2018 in developing a culture of financial transparency, accountability, and control within our agency and across Government. GSA continues to receive a clean opinion on its financial reports and is working with Treasury and OMB to address areas keeping the Federal Government from obtaining a clean opinion.

As we move into FY 2019, GSA OCFO will expand the use of Robotics Process Automation, support the Treasury's G-Invoicing initiative and refine our service offerings for GSA and Federal partners. This is an exciting time for GSA OCFO, and I look forward to another year of progress. I appreciate all the support I receive from staff as we work to improve our operations and ensure GSA remains a good steward of public funds.

Gerard E. Badorrek
Chief Financial Officer
November 8, 2018

Office of Audits
Office of Inspector General
U.S. General Services Administration

# Independent Auditors' Report
# U.S. General Services Administration's
# Financial Statements - Fiscal Years 2018 and 2017
# November 8, 2018

**U.S. GENERAL SERVICES ADMINISTRATION**
Office of Inspector General

NOV 8 2018

TO: EMILY W. MURPHY
ADMINISTRATOR (A)

GERARD BADORREK
CHIEF FINANCIAL OFFICER (B)

FROM: CAROL F. OCHOA
INSPECTOR GENERAL (J)

SUBJECT: Independent Auditors' Report
U.S. General Services Administration's
Financial Statements – Fiscal Years 2018 and 2017
November 8, 2018

The Chief Financial Officers Act of 1990 (Public Law 101-576), as amended, requires the U.S. General Services Administration's (GSA's) Inspector General, or an independent external auditor, as determined by the Inspector General, to audit GSA's consolidated financial statements. Under a contract awarded by GSA and monitored by my office, KPMG LLP (KPMG), an independent public accounting firm, audited GSA's consolidated, Acquisition Services Fund (ASF), and the Federal Buildings Fund (FBF) financial statements as of September 30, 2018, and 2017. The contract required KPMG to perform the audit in accordance with U.S. generally accepted government auditing standards; the Office of Management and Budget's Bulletin No. 19-01, *Audit Requirements for Federal Financial Statements*; and the *U.S. Government Accountability Office Financial Audit Manual*, which is maintained by the U.S. Government Accountability Office and the Council of the Inspectors General on Integrity and Efficiency.

In its audit of GSA's Fiscal Years 2018 and 2017 financial statements, KPMG reported:

- The consolidated, ASF, and FBF financial statements present fairly, in all material respects, the financial position of GSA, the ASF, and the FBF as of September 30, 2018, and 2017, and its net costs, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles;
- No material weaknesses in internal control over financial reporting; and
- No reportable noncompliance with provisions of laws tested.

KPMG also described two significant deficiencies in internal control, specifically related to controls over access to financial management systems, which has been identified in prior years, and controls over financial reporting.

Details regarding KPMG's conclusions are included in the "Opinions on the Financial Statements," "Internal Control Over Financial Reporting," and "Compliance and Other Matters" sections, as well as in Exhibit I of this report. Within 14 days of this report, KPMG will issue a separate Management Letter to GSA regarding other, less significant matters that came to its attention during the audit.

KPMG is responsible for the attached independent auditors' report and the opinions and conclusions expressed therein. My office is responsible for technical and administrative oversight regarding KPMG's performance under the terms of the contract.

To fulfill our oversight responsibilities under the Inspector General Act of 1978, as amended, to assure that KPMG complied with U.S. generally accepted government auditing standards, we performed a moderate level of review, which included:

- Evaluating the qualifications and independence of the firm and the auditors;
- Reviewing KPMG's audit approach and planning documents;
- Monitoring the progress of the audit at key milestones;
- Performing periodic reviews of KPMG's workpapers;
- Attending key meetings with GSA management and KPMG auditors to discuss audit progress, findings, and recommendations; and
- Performing other procedures that we deemed necessary.

In connection with the contract, we reviewed KPMG's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit of the financial statements in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on GSA's financial statements or conclusions about the effectiveness of internal control over financial reporting, or conclusions on whether GSA's financial management systems substantially complied with the requirements of the Federal Financial Management Improvement Act, or on compliance with laws and other matters. KPMG is responsible for the attached independent auditor's report dated November 8, 2018, and the conclusions expressed therein. However, our review disclosed no instances where KPMG did not comply, in all material respects, with U.S. generally accepted government auditing standards.

We provided a draft of KPMG's report to GSA's Chief Financial Officer, who concurred with its findings and agreed to implement the recommendations. The Chief Financial Officer's comments are included in KPMG's report. The Fiscal Year 2019 independent auditors will follow up on any outstanding recommendations and evaluate the adequacy of corrective actions.

I appreciate the courtesies and cooperation your office has extended to KPMG and my staff during the audit. If you have any questions, you may contact me at (202) 501-0450. If your staff needs any additional information, they may also contact R. Nicholas Goco, Assistant Inspector General for Auditing, at (202) 501-2322.

Attachment

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

## Independent Auditors' Report

Administrator and Inspector General
United States General Services Administration:

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the U.S. General Services Administration (GSA), which comprise the consolidated balance sheets as of September 30, 2018 and 2017, and the related consolidated statements of net cost and changes in net position, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements (hereinafter referred to as "consolidated financial statements").

We have also audited the accompanying financial statements of the Acquisition Services Fund (ASF), which comprise the balance sheets as of September 30, 2018 and 2017, and the related statements of net cost, changes in net position, and budgetary resources for the years then ended (presented in Schedules 1 – 4), and the related notes to the ASF financial statements.

Further, we have also audited the accompanying financial statements of the Federal Buildings Fund (FBF), which comprise the balance sheets as of September 30, 2018 and 2017, and the related statements of net cost, changes in net position, and budgetary resources for the years then ended (presented in Schedules 1 – 4), and the related notes to the FBF financial statements.

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

Management is responsible for the preparation and fair presentation of these consolidated, ASF and FBF 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 consolidated, ASF and FBF financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express opinions on these consolidated, ASF and FBF financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 19-01, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-01 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated, ASF and FBF financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated, ASF and FBF financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated, ASF and FBF 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 the consolidated, ASF and FBF 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

KPMG

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 the consolidated, ASF and FBF 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of U.S. General Services Administration as of September 30, 2018 and 2017, and its 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 ASF financial statements referred to above present fairly, in all material respects, the financial position of the Acquisition Services Fund as of September 30, 2018 and 2017, and its 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 FBF financial statements referred to above present fairly, in all material respects, the financial position of the Federal Buildings Fund as of September 30, 2018 and 2017, and its 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***

*Interactive Data*

Management has elected to reference to information on websites or other forms of interactive data outside the *Agency Financial Report* to provide additional information for the users of its financial statements. Such information is not a required part of the basic consolidated, ASF and FBF financial statements or supplementary information required by the Federal Accounting Standards Advisory Board. The information on these websites or the other interactive data has not been subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

*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 the basic consolidated, ASF and FBF financial statements. Such information, although not a part of the basic consolidated, ASF and FBF financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic consolidated, ASF and FBF 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, the basic consolidated, ASF and FBF financial statements, and other knowledge we obtained during our audits of the basic consolidated, ASF and FBF 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.

*Supplementary and Other Information*

Our audits were conducted for the purpose of forming opinions on the basic consolidated financial statements as a whole, ASF financial statements as a whole, and FBF financial statements as a whole. The information in the Other Funds and Intra-GSA Eliminations sections in the consolidating and combining financial statements in Schedules 1 through 4 (hereinafter referred to as "consolidating information"), and the information in the Table

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of Contents, About this Report, Letter from the Administrator, How GSA Benefits the Public, Letter from the Chief Financial Officer, Inspector General's Transmittal Memorandum of the Independent Auditors' Report, and Other Information sections of GSA's 2018 *Agency Financial Report* are presented for purposes of additional analysis and are not a required part of the basic consolidated, ASF and FBF financial statements.

The consolidating information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic consolidated financial statements or to the basic consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the basic consolidated financial statements as a whole.

The information in the Table of Contents, About this Report, Letter from the Administrator, How GSA Benefits the Public, Letter from the Chief Financial Officer, Inspector General's Transmittal Memorandum of the Independent Auditors' Report, and Other Information of GSA's 2018 *Agency Financial Report* has not been subjected to the auditing procedures applied in the audits of the basic consolidated, ASF and FBF 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 audits of the consolidated, ASF and FBF financial statements as of and for the year ended September 30, 2018, we considered GSA's, ASF's and FBF'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 opinions on the consolidated, ASF and FBF financial statements, but not for the purpose of expressing an opinion on the effectiveness of GSA's, ASF's and FBF's internal control. Accordingly, we do not express an opinion on the effectiveness of GSA's, ASF's and FBF'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*.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audits we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in Exhibit I that we consider to be significant deficiencies.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether GSA's consolidated, ASF and FBF 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. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results

KPMG

of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 19-01.

We also performed tests of GSA's 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 audits, and accordingly, we do not express such an opinion. The results of our tests 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.

*Other Matters*

GSA management identified two matters that may represent violations of the Anti-Deficiency Act. These matters are currently under review by OMB. 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 significant deficiency identified in our audits are described and presented as a separate letter attached to this report. GSA's responses were not subjected to the auditing procedures applied in the audits of the consolidated, ASF and FBF 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 results of that testing, and not to provide an opinion on the effectiveness of GSA's, ASF's and FBF's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
November 8, 2018

**Independent Auditors' Report**
**Exhibit I – FY 2018 Significant Deficiencies**

## I. Controls Over Access to Financial Management Systems[1]

In FY 2018, we continued to note weaknesses in information technology (IT) controls designed to protect GSA's financial management systems as required by OMB Circular No. A-130 (Revised), *Management of Federal Information Resources*. Although GSA made progress in certain areas relating to general controls over financial management systems, deficiencies remain in controls over access to programs and data, as follows:

*Conditions*

Effective controls over access to programs and data are implemented to prevent unauthorized users from performing tasks not assigned to them and to log and monitor unscrupulous, unauthorized, or inappropriate activity that could lead to a compromise of the confidentiality, integrity, and availability of the data residing in the information system. Throughout the period under audit, we identified the following weaknesses in controls over access to programs and data:

1. Controls were not designed properly, consistently implemented, or fully effective over user and administrator accounts included in certain applications and operating systems. Specifically, we continued to note control deficiencies over:
    a. Approval for new access for operating system administrators (in 2 of 7 systems tested) and application users (in 1 of 7 systems tested);
    b. Periodic recertification of access for operating system administrators (in 4 of 7 systems tested), application users (in 3 of 7 systems tested), and application change migrators (in 2 of 7 systems tested); and
    c. Timely removal of access for separated operating system administrators (in 1 of 7 systems tested) and application users (in 3 of 7 systems tested).
2. Controls were not designed properly, consistently implemented, or fully effective over logical access to key financial in-scope systems. Specifically, we noted control deficiencies over password history and password complexity for applications and databases (in 1 of 7 systems tested).

*Criteria*

1. Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government* – Principles 10 and 11 – *Design Control Activities and Design Activities for the Information System*, respectively.
2. National Institute of Standards and Technology (NIST) SP 800-53, Revision 4, *Security and Privacy Controls for Federal Information Systems and Organizations*, security control requirements AC-2 *Account Management*, CM-5 *Access Restrictions for Change*, IA-4 *Identifier Management*, IA-5 *Authentication Management*, and PS-4 *Personnel Termination*.
3. GSA Order CIO P 2100.1K CHGE 1, GSA *Information Technology Security Policy*.
4. IT Security Procedural Guide: *Identification and Authentication* (IA), CIO-IT Security-01-01, revision 5.
5. IT Security Procedural Guide: *Termination and Transfer*, CIO-IT Security-03-23, Revision 2.

[1] This finding applies to the ASF, FBF and GSA as a whole.

*Cause and Effect*

GSA did not enforce documented system-specific and GSA-wide policies and procedures and NIST requirements consistently for financial management systems and associated general support systems managed by GSA or hosted by third parties. In addition, certain GSA system-specific or GSA-wide policies and procedures did not require the documentation and maintenance of supporting control documentation or evidence of review. Further, GSA's corrective actions for certain prior-year conditions were not applied consistently to all GSA applications and did not address root causes of the control exceptions identified.

Without implementing effective access controls to programs and data, the risk increases that unauthorized users could perform tasks not assigned to them and activity performed would not be prevented, logged, and monitored. This can increase the risk that unscrupulous or unauthorized activity could be performed and not detected, which could lead to a compromise in data confidentiality, integrity, and availability.

*Recommendations*

We continue to recommend that GSA implement the following:

1. Enforce GSA-wide and system-specific policies and procedures to approve user accounts, roles, and job functions for employees and contractors prior to assigning them in the financial management systems and associated general support systems, and maintain documented evidence of these approvals.
2. Enforce GSA-wide and system-specific policies and procedures to review and recertify all accounts, roles, and job functions for employees and contractors in the financial management systems and associated general support systems, including the accounts with privileges to migrate application changes into the production environment, and maintain documented evidence of this review and recertification.
3. Enforce GSA's termination and transfer procedures to remove system access of terminated or transferred employees and contractors in a timely manner.
4. Configure the settings for password history and password complexity in accordance with NIST requirements and GSA-wide and system-specific policies and procedures.
5. Assess the corrective actions to remediate current and open prior-year conditions and determine, based on root cause analyses, whether to:
   a) Apply corrective actions to all GSA applications, when conditions could affect more than one application, and
   b) Validate that the root causes of the control deficiencies are addressed in the corrective actions.

## II. Controls Over Financial Reporting[1]

Internal control is a dynamic process that has to be adapted continually to the risks and changes an entity faces. Therefore, monitoring of the internal control system is essential in helping internal control remain aligned with changing objectives, environment, laws, resources, and risks. Internal control monitoring assesses the quality of performance over time and promptly resolves the findings of audits and other reviews. Specifically, we noted the following related to GSA's monitoring controls.

*Conditions*

1. GSA did not consistently and effectively perform review controls over the preparation of its financial statements. As a result, GSA relied on multiple audit reviews to ensure its financial statements were prepared in accordance with all applicable OMB requirements.
2. GSA did not consistently monitor user controls, as documented in third party service providers' reports, to ensure they were properly designed and operating effectively. Specifically, we noted an instance where GSA used an incorrect posting logic to record gains and losses related to vehicle disposals. We recommended, and GSA recorded, an audit adjustment for approximately $49.3 million to correct the gains and loss balances as of September 30, 2018.

*Criteria*

GAO *Standards for Internal Control in the Federal Government*. Principle 10 – *Design Control Activities*, Principle 12 – *Implement Control Activities*, and Principle 16 – *Perform Monitoring Activities*.

*Cause and Effect*

GSA did not have or did not consistently enforce monitoring controls over the financial reporting process. Without the proper monitoring controls in place and operating effectively, GSA continues to run the risk that required disclosures and misstatements are neither prevented nor detected and corrected in the financial records and financial statements in a timely manner.

*Recommendations*

We recommend that GSA management continue to strengthen its monitoring controls, as follows:

1. GSA should perform a comprehensive evaluation of the current financial statement review process. At a minimum, the financial statement review should be done at a sufficient level of precision; performed by an appropriate level of the Office of Chief Financial Officer (OCFO) personnel; and documented to maintain evidence that the review was performed timely and that the financial statements are complete, accurate, and in accordance with applicable required standards.
2. GSA and its components should design monitoring controls to consistently and effectively monitor financial related activities and processes, including the recording of gains and losses from vehicle disposals.
3. GSA should continue to refine and strengthen its policies, procedures, and processes to properly assess user controls associated to third-party service providers that host or operate GSA financial systems.

[1] This finding applies to the ASF, FBF and GSA as a whole.

GSA

U.S. General Services Administration

**DATE:** November 8, 2018

**TO:** Carol Ochoa
GSA Inspector General

**FROM:** Gerard Badorrek
GSA Chief Financial Officer

**SUBJECT:** Response to FY 2018 Independent Auditors' Report

The General Services Administration (GSA) has reviewed the independent auditors' report prepared by KPMG LLP that includes the auditors' opinions on the GSA consolidated, the Acquisition Services Fund (ASF), and the Federal Buildings Fund (FBF) financial statements; the auditors' report on internal control over financial reporting; and the auditors' report on compliance and other matters.

GSA received an unmodified opinion on GSA's consolidated, ASF and FBF financial statements, and there were no material weaknesses identified. GSA is developing and will execute corrective action plans to address the two significant deficiencies -- one related to controls over the financial reporting process and the other related to weaknesses in information technology controls designed to protect GSA's financial management systems.

GSA agrees with KPMG's recommendations, and will focus on the necessary corrective actions to address the root causes of these two significant deficiencies.

GSA appreciates the professionalism, due diligence and recommendations provided by the Office of Inspector General as well as KPMG.

1800 F Street, NW
Washington, DC 20405
www.gsa.gov

# CONSOLIDATED **FINANCIAL STATEMENTS**

U.S. General Services Administration
## Consolidated Balance Sheets

As of September 30, 2018 and 2017
*(Dollars in Millions)*

| | 2018 | 2017 |
|---|---|---|
| **ASSETS** | | |
| Intragovernmental Assets: | | |
| Fund Balance with Treasury (Notes 1-D, 2) | **$12,328** | $11,390 |
| Accounts Receivable - Federal, Net (Note 4) | **2,972** | 2,415 |
| Capital Lease Payments Receivable (Note 8) | **55** | 71 |
| Prepaid Expenses and Advances - Federal | **139** | 141 |
| Total Intragovernmental Assets | **15,494** | 14,017 |
| Accounts Receivable - Non-Federal, Net (Note 4) | **144** | 157 |
| Inventories (Note 1-E) | **3** | 7 |
| Other Assets (Note 5) | **200** | 203 |
| Property and Equipment: (Notes 1-F, 6) | | |
| Buildings | **47,518** | 46,273 |
| Leasehold Improvements | **306** | 334 |
| Motor Vehicles | **6,022** | 5,751 |
| Equipment and Other Property | **722** | 717 |
| Less: Accumulated Depreciation and Amortization | **(30,830)** | (29,180) |
| Subtotal | **23,738** | 23,895 |
| Land | **1,695** | 1,695 |
| Construction in Process and Software in Development | **1,668** | 1,447 |
| **Total Property and Equipment, Net** | **27,101** | 27,037 |
| **TOTAL ASSETS** | **$42,942** | $41,421 |
| | | |
| **LIABILITIES AND NET POSITION** | | |
| Intragovernmental Liabilities: | | |
| Accounts Payable and Accrued Expenses - Federal | **$30** | $44 |
| Judgment Fund Liability (Note 11) | **495** | 490 |
| Deferred Revenues and Advances - Federal (Note 11) | **755** | 664 |
| Amounts Owed to the General Fund (Note 11) | **30** | 34 |
| Other Intragovernmental Liabilities (notes 9,11) | **72** | 88 |
| Total Intragovernmental Liabilities | **1,382** | 1,320 |
| Accounts Payable and Accrued Expenses - Non-Federal | **3,155** | 2,761 |
| Environmental and Disposal Liabilities (Notes 6,11) | **2,007** | 1,922 |
| Capital Lease and Installment Purchase Liability (Note 11) | **685** | 571 |
| Unamortized Rent Abatement Liability (Note 11) | **476** | 485 |
| Workers' Compensation Actuarial Liability (Notes 7,11) | **112** | 113 |
| Annual Leave Liability (Notes 1-G, 11) | **110** | 109 |
| Deposit Fund Liability (Note 11) | **16** | 28 |
| Other Liabilities (Notes 9,11) | **83** | 90 |
| **Total Liabilities** | **8,026** | **7,399** |
| Net Position: (Note 14) | | |
| Cumulative Results of Operations | **34,487** | 33,797 |
| Unexpended Appropriations | **429** | 225 |
| **Total Net Position** | **34,916** | 34,022 |
| **TOTAL LIABILITIES AND NET POSITION** | **$42,942** | $41,421 |

The accompanying notes are an integral part of these statements.

U.S. General Services Administration

## Consolidated Statements of Net Cost

For the Fiscal Years Ended September 30, 2018 and 2017

*(Dollars in Millions)*

| | | 2018 | 2017 |
|---|---|---|---|
| **Manage Building Operations** | Earned Revenues | **$11,610** | $11,677 |
| | Less: Operating Expenses | **10,941** | 10,997 |
| | Net Revenues from Operations | **669** | 680 |
| **Provide Acquisition Services** | Earned Revenues | **12,194** | 10,062 |
| | Less: Operating Expenses | **12,092** | 10,059 |
| | Net Revenues from Operations | **102** | 3 |
| **Working Capital and General Programs** | Earned Revenues | **39** | 43 |
| | Less: Operating Expenses | **396** | 366 |
| | Net Revenues (Cost) from Operations | **(357)** | (323) |
| **GSA Consolidated Net Results** | Earned Revenues | **23,843** | 21,782 |
| | Less: Operating Expenses | **23,429** | 21,422 |
| | Net Revenues from Operations | **$414** | $360 |

The accompanying notes are an integral part of these statements.

U.S. General Services Administration

## Consolidated Statements of Changes in Net Position

For the Fiscal Years Ended September 30, 2018 and 2017

*(Dollars in Millions)*

| | 2018 | 2017 |
|---|---|---|
| **BEGINNING BALANCE OF NET POSITION:** | | |
| Cumulative Results of Operations | **$ 33,797** | $ 33,226 |
| Unexpended Appropriations | **225** | 247 |
| **Net Position Beginning Balance** | **34,022** | 33,473 |
| **RESULTS OF OPERATIONS:** | | |
| Net Revenues From Operations | **414** | 360 |
| Appropriations Used (Note 1-C) | **256** | 274 |
| Non-Exchange Revenue (Notes 1-C, 1-D) | **97** | 80 |
| Imputed Financing Provided By Others | **105** | 79 |
| Transfers of Financing Sources (To) From the U.S. Treasury | **(75)** | (121) |
| Transfers of Net Assets and Liabilities (To) From Other Federal Agencies | **(102)** | (94) |
| Other | **(5)** | (7) |
| **Net Results of Operations** | **690** | 571 |
| **CHANGES IN UNEXPENDED APPROPRIATIONS:** | | |
| Appropriations Received | **461** | 253 |
| Appropriations Used | **(256)** | (274) |
| Appropriations Adjustments and Transfers (To) From Other Agencies or Funds | **(1)** | (1) |
| **Net Change in Unexpended Appropriations** | **204** | (22) |
| **ENDING BALANCE OF NET POSITION:** | | |
| Cumulative Results of Operations | **34,487** | 33,797 |
| Unexpended Appropriations | **429** | 225 |
| **Net Position Ending Balance** | **$34,916** | $34,022 |

The accompanying notes are an integral part of these statements.

U.S. General Services Administration

## Combined Statements of Budgetary Resources

For the Fiscal Years Ended September 30, 2018 and 2017
(Dollars in Millions)

| | 2018 | 2017 |
|---|---|---|
| **BUDGETARY RESOURCES** | | |
| Unobligated Balance from Prior Year Budget Authority, Net | **$6,150** | $8,164 |
| Appropriations | **477** | 275 |
| Spending Authority from Offsetting Collections | **26,953** | 23,314 |
| Total Budgetary Resources | **33,580** | 31,753 |
| **MEMORANDUM ENTRIES** | | |
| Net Adjustments to Unobligated Balance Brought Forward, October 1 | **568** | 433 |
| **STATUS OF BUDGETARY RESOURCES** | | |
| New Obligations and Upward Adjustments: | **27,223** | 26,171 |
| Unobligated Balance, End of Period | | |
| Apportioned, Unexpired Accounts | **5,182** | 4,487 |
| Unapportioned, Unexpired Accounts | **1,126** | 1,050 |
| Unexpired Unobligated Balance, End of Period | **6,308** | 5,537 |
| Expired Unobligated Balance, End of Period | **49** | 45 |
| Unobligated Balance, End of Period, Total | **6,357** | 5,582 |
| Total Status of Budgetary Resources | **33,580** | 31,753 |
| **OUTLAYS, NET** | | |
| Net Outlays from Operating Activity | **(501)** | (579) |
| Distributed Offsetting Receipts | **(89)** | (84) |
| Total Net Outlays | **$ (590)** | $ (663) |

The accompanying notes are an integral part of these statements.

# NOTES TO THE **FINANCIAL STATEMENTS**

**(For the Fiscal Years Ended September 30, 2018 and 2017)**.

The General Services Administration (GSA) was created by the U.S. Federal Property and Administrative Services Act of 1949, as amended. Congress enacted this legislation to provide for the Federal Government an economic and efficient system for the procurement, and operation of buildings, procurement, and distribution of general supplies, acquisition and management of a motor vehicle fleet, management of automated data processing resources, and management of telecommunications programs.

The Administrator of GSA, appointed by the President of the United States with the advice and consent of the U.S. Senate, oversees the operations of GSA. GSA carries out its responsibilities through the operation of several appropriated and revolving funds.

## 1. Significant Accounting Policies

### A. Reporting Entity

GSA presents comparative Consolidated and Consolidating Balance Sheets, Consolidated and Consolidating Statements of Net Cost, Consolidated and Consolidating Statements of Changes in Net Position, and Combined and Combining Statements of Budgetary Resources. The consolidating and combining formats display GSA's two largest components: the FBF and the ASF. All other entities have been combined under Other Funds. In accordance with newly established SFFAS 47 Reporting Entity requirement to report disclosure entities and related parties, GSA conducted a thorough review of all our non-Federal relationships across all business lines. GSA concluded we have no relationships requiring disclosure as a reporting entity, disclosure entity, or related party entity.

The FBF is the primary fund used to record activities of PBS. The ASF is the primary fund used to record activities of the FAS.

GSA's accompanying financial statements include the accounts of all funds that have been established and maintained to account for resources under the control of GSA management. The entities included in the Other Funds category are described below, together with a discussion of the different fund types.

**Revolving Funds** are accounts established by law to finance a continuing cycle of operations with receipts derived from such operations usually available in their entirety for use by the fund without further action by Congress. Both the FBF and the ASF are large revolving funds. The revolving funds in the Other Funds category consist of the following:

• Federal Citizen Services Fund (FCSF)

• Working Capital Fund (WCF)

**General Funds** are accounts used to record financial transactions arising under congressional appropriations or other authorizations to spend general revenues. GSA manages 23 General Funds. Six of these General Funds are funded by one year appropriations; nine by no-year appropriations; two by multi-year appropriation; one cannot incur new obligations; and five are budget clearing accounts that temporarily hold collections until a more appropriate fund can be determined. The General Funds included in the Other Funds category are as follows:

- Allowances and Office Staff for Former Presidents
- Asset Proceeds and Space Management Fund
- Budget Clearing Account – Broker Rebates

- Budget Clearing Account – Proceeds of Sales, Personal Property
- Budget Clearing Account – Real Property
- Budget Clearing Account – Suspense
- Budget Clearing Account – Undistributed Intragovernmental Payments
- Data Driven Innovation – Executive Office of the President (EOP) Child
- Civilian Board of Contract Appeals
- Environmental Review Improvement Fund
- Excess and Surplus Real and Related Personal Property Holding Account
- Expenses, Electronic Government Fund
- Expenses, Governmentwide Policy
- Expenses, Presidential Transition
- Pre-Election Presidential Transition
- Governmentwide Policy – Multi-Year
- Information Technology Oversight and Reform - EOP Child
- Expenses, OIG
- OIG – No-Year
- OIG – Recovery Act
- Operating Expenses, GSA
- Real Property Relocation
- Technology Modernization Fund (TMF)

**Special and Trust Funds** are accounts established for receipts dedicated by law for a specific purpose, but are not generated by a cycle of operations for which there is continuing authority to reuse such receipts. In accordance with FASAB SFFAS No. 43, Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds, these Special and Trust Funds are classified as funds from dedicated collections. GSA uses Special Fund receipts to pay certain costs associated with the disposal of surplus real property, for funding of the Transportation Audits program, and to fund the Acquisition Workforce Training program. GSA has one Trust Fund with authority to accept unconditional gifts of property in aid of any project or function within its jurisdiction. GSA's Special and Trust Funds consist of the following:

- Expenses, Disposal of Real and Related Personal Property
- Expenses, Transportation Audits
- Expenses, Acquisition Workforce Training Fund
- Other Receipts, Surplus Real and Related Personal Property

- Receipts of Rent, Leases and Lease Payments for Government-Owned Real Property
- Receipts, Transportation Audits
- Receipts, Acquisition Workforce Training Fund
- Transfers of Surplus Real and Related Personal Property
- Unconditional Gifts of Real, Personal or Other Property

**Miscellaneous Receipt and Deposit Funds** are considered non-entity accounts since GSA management does not exercise control over how the monies in these accounts can be used. Miscellaneous Receipt Fund accounts hold receipts and accounts receivable resulting from miscellaneous activities of GSA where, by law, such monies may not be deposited into funds under GSA management control. The U.S. Department of the Treasury automatically transfers all cash balances in these receipt accounts to the General Fund of the U.S. Treasury at the end of each fiscal year. Deposit Fund accounts hold monies outside the budget. Accordingly, their transactions do not affect budget surplus or deficit.

These accounts include:

- Deposits received for which GSA is acting as an agent or custodian
- Unidentified remittances
- Monies withheld from payments for goods and services received, and
- Monies whose distribution awaits a legal determination or investigation.

The receipt and deposit funds in the Other Funds category consist of the following:

- Advances Without Orders from Non-Federal Sources
- GSA Child Care Deposits
- Fines, Penalties, and Forfeitures, Not Otherwise Classified
- Forfeitures of Unclaimed Money and Property
- General Fund Proprietary Interest, Not Otherwise Classified
- General Fund Proprietary Receipts, Not Otherwise Classified, All Other
- Other Earnings from Business Operations and Intragovernmental Revolving Funds
- Proceeds from Sale of Surplus Property
- Small Escrow Amounts
- Special and Trust Fund Proprietary Receipts Returned to the General Fund of the U.S. Treasury
- Withheld State and Local Taxes

GSA is able to delegate a portion of its funds for certain program and financial operations to other Federal agencies to execute on GSA's behalf. Unique sub-accounts, also known as allocation accounts (child), of GSA funds (parent) are created in the U.S. Treasury to provide for the reporting of obligations and outlays incurred by such other agencies.

Generally, all child allocation account financial activity is reportable in combination with the results of the parent fund, from which the underlying legislative authority, appropriations and budget apportionments are derived. For FY 2018 and FY 2017, GSA's FBF has an allocation account in this regard with the U.S. Department of Commerce. However, during FY 2018, all remaining balances of the Commerce allocation account were returned to the FBF and the allocation activity has been discontinued.

In addition, other agencies may delegate certain programs and financial operations to GSA to execute on their behalf. The GSA Data Driven Innovation Fund was established in FY 2015 as a child account to the EOP Data Driven Innovation Fund. The amount transferred to this child account supports an initiative to increase tax filings by potentially eligible Earned Income Tax Credit claimants. In accordance with OMB Circular No. A-136, Financial Reporting Requirements, agencies that receive allocation transfers from the EOP are to include such balances in their financial statements.

### B. Basis of Accounting and Presentation

The principal financial statements are prepared from the books and records of GSA, in accordance with Generally Accepted Accounting Principles (GAAP) as promulgated by the Federal Accounting Standards Advisory Board (FASAB), and OMB Circular No. A-136, in all material respects. FASAB SFFAS No. 34, The Hierarchy of Generally Accepted Accounting Principles, including the Application of Standards Issued by the Federal Accounting Standards Board, established the hierarchy of GAAP for Federal financial statements. The Consolidated Statements of Net Cost present the operating results of the FBF, ASF and Other Fund functions, as well as GSA Consolidated operating results as a whole. The Consolidated Balance Sheets present the financial position of GSA using a format segregating intragovernmental balances. The Consolidated Statements of Changes in Net Position display the changes in Cumulative Results of Operations and Unexpended Appropriations. The Combined Statements of Budgetary Resources (CSBR) present the sources, status and uses of GSA budgetary resources.

Transactions are recorded on both an accrual and budgetary basis. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when incurred without regard to receipt or payment of cash. Budgetary accounting principles, on the other hand, are designed to facilitate compliance with legal requirements and controls over the use of Federal funds.

GSA reconciles all intragovernmental fiduciary transaction activity and works with agency partners to reduce significant or material differences reported by other agencies in conformance with U.S. Treasury intragovernmental reporting guidelines and requirements of OMB Circular No. A-136.

On the Consolidated Statements of Net Cost, Consolidated Balance Sheets and Consolidated Statements of Changes in Net Position, all significant intra-agency balances and transactions have been eliminated in consolidation. On the Consolidated Statements of Net Cost, adjustments to eliminate GSAs intra-fund revenues and expenses are applied to reduce such balances of the activity providing services (seller) to the other GSA components. No such eliminations have been made on the CSBR.

On the Consolidating Statements of Net Cost, intra-GSA eliminations of revenue and expenses are displayed separately, and results of individual funds reflect the full amounts of such balances that flowed through those funds. Certain amounts of expenses eliminated on the Consolidating Statements of Net Cost are imputed costs for which the matching resource is not revenue on this statement, but imputed resources provided by others, displayed on the Consolidating Statements of Changes in Net Position. Accordingly, on the Consolidating Statements of Net Cost, the revenue and expense eliminations do not match. The Consolidating Statements of Changes in Net Position display the offsetting balances between these categories.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial

statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates. Operating expenses and related accounts payable accruals and estimates are recorded in the period goods or services are received.

Certain prior year balances have been reclassified to conform to the current year presentation.

### C. Revenue Recognition and Appropriations Used

Substantially all revenues reported by GSA funds on the Consolidated Statements of Net Cost are generated from intragovernmental sales of goods and services, with only three percent of revenues earned from non-Federal customers for the years ended September 30, 2018, and 2017. Expenses are primarily incurred with non-Federal entities supplying the underlying goods and services being provided to GSA and its Federal customers. Each revolving fund has established rate-setting processes governed by the laws authorizing its activities. In most cases, the rates charged are intended to cover the full cost that GSA funds will pay for such goods and services and to provide capital maintenance. In accordance with the governing laws, rates are generally not designed to recover imputed costs not borne by GSA, but covered by other funds or entities of the U.S. Government, such as for post-employment and other inter-entity costs. As the amount of services provided to non-Federal customers is generally insignificant, maintaining separate rate structures for these customers to recover imputed costs is not warranted.

Generally, Revolving Fund and reimbursable General Fund revenue is recognized when goods have been delivered or services rendered.

In the FBF, rent revenues are earned based on occupancy agreements (OA) with customers, as space and services are provided. Generally, agencies housed in Government-owned buildings are billed based upon commercial rates for comparable space. Agencies housed in buildings leased by GSA are generally billed at rates to recover the cost of that space. In some instances, special rates are arranged in accordance with congressional guidance or other authorized purposes. Most agencies using funding from Trust Funds have rent rates set to recover full cost. For revenue under non-recurring reimbursable building R&A projects, GSA charges customers actual cost, and as a result, revenues are generally earned to match costs incurred.

In the ASF, GS&S revenues are recognized when goods are provided to customers. In the TTL portfolio, vehicle acquisition revenues are recognized when goods are provided. Vehicle leasing revenues are recognized based on rental arrangements over the period vehicles are dispatched. AAS revenues are recognized when goods or services are provided, and fee revenues in the GSA Schedules programs are earned based on estimated and actual usage of GSA contracting vehicles by other agencies. The Schedules programs generated $179 million in fees, constituting one percent of ASF revenues in FY 2018, and $255 million in fees, two percent of ASF revenues, in FY 2017. Information Technology revenues are earned when goods or services are provided or as reimbursable project costs are incurred. Telecommunications service revenues are generally recognized based on customer usage or on fixed line rates.

The WCF charges fees based on a fee schedule established through an annual rate setting process performed collaboratively with our customers. The rate-setting process is generally designed to provide revenues sufficient to match the spending that will be incurred for the goods, services, and resources provided to customers. The rate-setting process also provides information to customers to assist in their resource management.

Non-Exchange Revenues are recognized on an accrual basis on the Consolidated Statements of Changes in Net Position for sales of surplus real property, reimbursements due from the audit of payments to transportation carriers, and other miscellaneous items resulting from GSA operations where ultimate collections must be deposited in miscellaneous receipt accounts of the U.S. Treasury.

Appropriations for General Fund activities are recorded as a financing source on the Consolidated Statements of Changes in Net Position when expended. Unexpended appropriations are reported as an element of Net Position on the Consolidated Balance Sheets..

### D. Fund Balance with Treasury (See Note 2)

This total represents all unexpended balances for GSA accounts with the U.S Treasury. Substantially all balances of FBwT are available to GSA management to execute the authorities provided by its funds. In the following instances, authorities limit use of collections to dedicated purposes.

GSA acts as a disposal agent for surplus Federal real and personal property. In some cases, public law entitles the owning agency to the sales proceeds, net of disposal expenses incurred by GSA. Proceeds from the disposal of equipment are generally retained by GSA to replace equipment. Under GSA legislative authorities, the gross proceeds from some sales are deposited in GSA Special Fund receipt accounts and recorded as Non-Exchange Revenues in the Consolidated Statements of Changes in Net Position. A portion of these proceeds is subsequently transferred to a Special Fund to finance expenses incurred in disposing of surplus real property. The remainder is periodically accumulated and transferred, by law, to the Land and Water Conservation Fund administered by the U.S. Department of the Interior (DOI).

### E. Inventories (See Note 18)

Inventories held for sale to other Federal agencies consist primarily of ASF inventories valued at historical cost, generally determined on a moving average basis. The recorded values are adjusted for the results of physical inventories taken periodically in accordance with a cyclical counting plan. In the ASF, an inconsequential amount of the balances in inventories held for sale are excess inventories. Excess inventories are defined as those exceeding the economic retention limit (i.e., the number of units of stock that may be held in inventory without incurring excessive carrying costs). Excess inventories are generally transferred to another Federal agency, sold, or donated to state or local governments.

### F. Property and Equipment (See Note 6)

Generally, property and equipment purchases of $10,000 or more, having a useful life of two or more years, are capitalized and valued at cost. Property and equipment transferred to GSA from other Federal agencies on the date GSA was established is stated at the transfer value, which approximates historical cost. Subsequent thereto, equipment transferred to GSA is stated at net book value and surplus real and related personal property transferred to GSA is stated at the lower of net book value or appraised value.

Expenditures for major additions, replacements and alterations to real property of $50,000 or more are capitalized. Normal repair and maintenance costs are expensed as incurred. The cost of R&A and leasehold improvements performed by GSA, but financed by other agencies, is not capitalized in GSA financial statements as such amounts are transferred to the other agencies upon completion of the project. The majority of all land, buildings and leasehold improvements are leased to other Federal agencies under short-term cancellable agreements.

Depreciation and amortization of property and equipment are calculated on a straight-line basis over their initial or remaining useful lives. Leasehold Improvements are amortized over the lesser of their useful lives, generally five years, or the unexpired lease term. It is GSA policy to reclassify capitalized costs of construction in process into the Buildings accounts upon project completion. Buildings acquired through purchase, construction, or under captial lease agreements are depreciated over 30 years. Major and minor building renovation projects carry estimated useful lives of 20 years and 10 years, respectively.

Most of the assets comprising Other Equipment are used internally by GSA and are depreciated over periods generally ranging from three to 10 years.

GSA maintains a fleet of Motor Vehicles for rental to other Federal agencies to meet their operational needs, with monthly billings rendered to recover program costs. The various vehicle types are depreciated over a general range of four to 12 years.

In accordance with FASAB SFFAS No. 10, Accounting for Internal Use Software, capitalization of software development costs incurred for systems having a useful life of two years or more is required. With implementation of this standard, GSA adopted minimum dollar thresholds per system that would be required before capitalization would be warranted. For the FBF, this minimum threshold is $1 million. For all other funds, it is $250,000. Once completed, software applications are depreciated over an estimated useful life determined on a case-by-case basis, ranging from three to ten years. Capitalized software is reported as an element of Other Equipment on the Consolidated Balance Sheets.

### G. Annual, Sick and Other Types of Leave

Annual leave liability is accrued as it is earned and the accrual is reduced as leave is taken. Each year the balance in the accrued annual leave account is adjusted to reflect current pay rates.

Sick leave and other types of non-vested leave are expensed as taken.

## 2. Fund Balance with Treasury (FBwT)

### A. Reconciliation to U.S. Treasury

There were no material differences between amounts reported by GSA and those reported to the U.S. Treasury as of September 30, 2018, and 2017

### B. Relationship to the Budget

In accordance with SFFAS No. 1, Accounting for Selected Assets and Liabilities, the following information is provided to further identify amounts in FBwT as of September 30, 2018, and 2017, against which obligations have been made, and for unobligated balances, to identify amounts available for future expenditures and those only available to liquidate prior obligations. In the FBF, amounts of FBwT shown below as Unobligated Balance – Unavailable include a combination of the amounts reported on the CSBR as Resources Temporarily Unavailable and Unobligated Balance Not Available. Also, in two instances, the portion of FBwT presented below as unobligated balances will not equal related amounts reported on the CSBR. In the FBF, the CSBR unobligated balances include resources associated with borrowing authority for which actual funds have not yet been realized. In the Other Funds group, the schedule below includes amounts displayed as unavailable unobligated balances for the FBwT held in Special Receipt, Clearing, and Deposit Funds, which are not reportable for purposes of the CSBR. The following schedule presents elements of the FBwT (dollars in millions):

| | Obligated | Unobligated Balance | | Non-Budgetary FBwT | Total |
|---|---|---|---|---|---|
| | [1]Balance, Net | [2]Available | Unavailable | | |
| **FY 2018** | | | | | |
| **FBF** | **$47** | **$4,411** | **$6,240** | **$-** | **$10,698** |
| **ASF** | **(89)** | **573** | **362** | **-** | **846** |
| **Other Funds** | **301** | **171** | **155** | **157** | **784** |
| **Total** | **$259** | **$5,155** | **$6,757** | **$157** | **$12,328** |
| FY 2017 | | | | | |
| FBF | $305 | $4,750 | $4,642 | $- | $9,697 |
| ASF | 351 | (344) | 934 | - | 941 |
| Other Funds | 340 | 76 | 146 | 190 | 752 |
| Total | $996 | $4,482 | $5,722 | $190 | $11,390 |

*1. Negative amounts in Obligated Net Balance are the result of Uncollected Customer Payments exceeding Unpaid Obligations.*

*2. The FY17 ASF Unobligated Balance Available is negative because the apportionment for Category B Flow-through activity was exceeded in FY17.*

### C. Availability of Funds

Included in GSA's FBwT are dedicated collections from Special Receipt Funds that may be transferred to either the U.S. Treasury, or the Land and Water Conservation Fund (see Note 1-D). These amounts, related to the Transportation Audits program, Acquisition Workforce Training program and surplus real property disposals, are subject to transfer upon GSA's determination of the internal working capital needs of these programs. The FBwT in these funds totaled $107 million and $110 million at September 30, 2018, and 2017, respectively, of which $20 million and $26 million, respectively, were recorded as liabilities in the Consolidated Balance Sheets. In FY 2018 and FY 2017, $2 million and $1 million, respectively, of unused funds from expired appropriations were returned to the U.S. Treasury as of September 30. Such balances are excluded from the amount reported as FBwT in accordance with U.S. Treasury guidelines. A portion of FBwT also includes amounts where authority to incur new obligations has expired, but the funds are available to liquidate residual obligations that originated when the funds were available. Such expired balances totaled $48 million and $45 million at September 30, 2018, and 2017, respectively. The FBF has balances that are temporarily not available in accordance with annual appropriation acts that limit the amount of reimbursable resources that are available for spending each year. Such amounts totaled $5,582 million and $4,658 million at September 30, 2018, and 2017, respectively and will not be available for expenditure except as authorized in future appropriation acts.

Under ASF legislative authorities, GSA is permitted to retain earnings to ensure the fund has sufficient resources to support operations in association with a cost and capital planning process as approved by the Administrator of GSA. The ASF returned $68 million of funds to the U.S. Treasury in FY 2017. All ASF Cumulative Results of Operations at the end of FY 2018 are being retained in accordance with the cost and capital plan to meet program needs. Cumulative Results of Operations in the ASF have been used for activities such as to cover discontinued operations and investments in Governmentwide software applications to include the System for Award Management (SAM) and the Common Acquisition Platform.

## 3. Non-Entity Assets

As of September 30, 2018, and 2017, certain amounts reported on the Consolidated Balance Sheets are elements of Budget Clearing, Deposit, and Miscellaneous Receipt Funds, which are not available to management for use in ongoing operations and are classified as Non-entity assets (see Note 1-A). The only substantial balances of non-entity assets were Fund Balance with Treasury, which totaled $50 million and $80 million, as of September 30, 2018, and 2017, respectively.

## 4. Accounts and Notes Receivable, Net

Substantially all accounts receivable are from other Federal agencies, with only 4.6 and 6.1 percent due from non-Federal customers as of September 30, 2018, and 2017, respectively. Unbilled accounts receivable result from the delivery of goods or performance of services for which bills have not yet been rendered. Additionally, TMF transfers to other Federal Agencies are recorded as accounts receivable, as legislation requires transferred funds to be repaid to the TMF. Allowances for doubtful accounts are recorded using aging methodologies based on analysis of historical collections and write-offs. In addition to accounts receivable balances displayed below, GSA has an inconsequential balance of notes receivable, net of allowances for doubtful accounts. In accordance with FASAB SFFAS No. 1, GSA does not recognize interest receivable or allowance related to notes deemed uncollectible. As of September 30, 2018, and 2017, accumulated unrecognized interest on all notes deemed uncollectible totaled $212 million and $186 million, respectively. A summary of Accounts Receivable as of September 30, 2018, and 2017, is as follows (dollars in millions):

| | FBF | | ASF | | OTHER FUNDS | | LESS: INTRA-GSA ELIMINATIONS | | GSA CONSOLIDATED TOTALS | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 |
| Accounts Receivable - Billed | **$190** | $115 | **$161** | $97 | **$20** | $15 | **$-** | $- | **$371** | $227 |
| Accounts Receivable - Unbilled | **313** | 428 | **2,469** | 1,991 | **13** | 2 | **38** | 48 | **2,757** | 2,373 |
| Allowance for Doubtful Accounts | **(6)** | (16) | **(3)** | (11) | **(3)** | (1) | **-** | - | **(12)** | (28) |
| Total Accounts Receivable, Net | **$497** | $527 | **$2,627** | $2,077 | **$30** | $16 | **$38** | $48 | **$3,116** | $2,572 |

## 5. Other Assets

As of September 30, 2018, and 2017, Other Assets were comprised of the following balances (dollars in millions):

| | FBF | | ASF | | GSA CONSOLIDATED TOTALS | |
|---|---|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 |
| Surplus Property Held for Sale | **$36** | $45 | **$22** | $27 | **$58** | $72 |
| Unamortized Deferred Charges and Prepayments (non-Federal) | **111** | 95 | **-** | - | **111** | 95 |
| Intangible Assets | **-** | - | **19** | 22 | **19** | 22 |
| Miscellaneous | **12** | 14 | **-** | - | **12** | 14 |
| Total Other Assets | **$159** | $154 | **$41** | $49 | **$200** | $203 |

## 6. Property and Equipment, Net

### A. Summary of Balances

Balances in GSA Property and Equipment accounts subject to depreciation as of September 30, 2018, and 2017, are summarized below (dollars in millions):

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | **Cost** | **Accumulated Depreciation** | **Net Book Value** | Cost | Accumulated Depreciation | Net Book Value |
| Buildings: | | | | | | |
| FBF | **$47,518** | **$27,791** | **$19,727** | $46,273 | $26,238 | $20,035 |
| Leasehold Improvements: | | | | | | |
| FBF | **269** | **242** | **27** | 300 | 259 | 41 |
| ASF | **33** | **27** | **6** | 31 | 25 | 6 |
| Other Funds | **4** | **2** | **2** | 3 | 1 | 2 |
| Total Leasehold Improvements | **306** | **271** | **35** | 334 | 285 | 49 |
| Motor Vehicles: | | | | | | |
| ASF | **6,022** | **2,119** | **3,903** | 5,751 | 2,031 | 3,720 |
| Other Equipment: | | | | | | |
| FBF | **167** | **149** | **18** | 176 | 149 | 27 |
| ASF | **387** | **352** | **35** | 378 | 339 | 39 |
| Other Funds | **168** | **148** | **20** | 163 | 138 | 25 |
| Total Other Equipment | **722** | **649** | **73** | 717 | 626 | 91 |
| Total, Depreciable Property & Equipment | **$54,568** | **$30,830** | **$23,738** | $53,075 | $29,180 | $23,895 |

### B. Environmental and Disposal Liabilities

Environmental and Disposal Liabilities represent cleanup costs associated with removing, containing, and disposing of (1) hazardous waste from property; (2) material and property that consists of hazardous waste at permanent or temporary closure, or shutdown of associated plant, property and equipment (PP&E) (i.e. asset retirement and equipment disposal); or (3) asbestos. Cleanup costs may include characterization, decontamination, decommissioning, restoration, monitoring, closure, post closure, future surveys, studies and assessments on the environmental site. Cleanup costs also may include compensation and benefits of human resources devoting a significant amount of time directly to the remediation effort.

In accordance with guidance issued by FASAB, SFFAS No. 5, Accounting for Liabilities of the Federal Government and SFFAS No. 6, Accounting for Property, Plant, and Equipment, Federal Financial Accounting and Auditing Technical Release No. 2, Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government, GSA is required to recognize a liability for environmental related cleanup costs resulting from past transactions or events and when a future outflow or other sacrifice of resources is probable and reasonably estimable. GSA's FBF assesses the likelihood of required cleanup for PP&E, including land acquired for or in connection with other PP&E, used in providing goods or services. If the likelihood of required cleanup is probable and the cost can be reasonably estimated, a liability is recorded in the financial statements, if the likelihood is probable but not reasonably estimated or reasonably possible, the costs of cleanup are disclosed in the notes to the financial statements; and if the likelihood is remote, no liability or estimate is recorded or disclosed.

Environmental related cleanup costs include liabilities covered by current budgetary resources and liabilities not covered by current budgetary resources known as future funded expenses.

Cleanup of such hazards is governed by various Federal and state laws. The laws most applicable to GSA are the Comprehensive Environmental Response Compensation and Liability Act of 1980, the Asbestos Hazard Emergency Response Act, and the Resource Conservation and Recovery Act. Various state, local laws and regulations are also applicable.

GSA's FBF recognized $1.871 billion and $1.823 billion for Environmental and Disposal Liabilities as of September 30, 2018, and 2017, respectively, for properties currently in GSA's inventory. Included in this balance are the current estimates for potential future cleanup costs associated with: release of hazardous substances (into the environment) at properties where GSA is legally responsible for cleanup; asbestos liabilities (e.g., abatement); and non-asbestos liabilities (e.g., lead abatement) associated with PP&E at asset retirement or disposal (dollars in millions).

| | **2018** | 2017 |
|---|---|---|
| Environmental Liabilities (external releases to the environment) | **$148** | $156 |
| Asbestos Liabilities | **1,458** | 1,438 |
| PP&E: Non-asbestos Liabilities | **265** | 229 |
| Total Environmental and Disposal Liabilities (amortized) | **$1,871** | $1,823 |

### C. Environmental Liabilities: External Releases to the Environment

PBS reported a total estimated environmental liability (releases to the environment) of $148 million for FY 2018. This is a decrease from $156 million reported in FY 2017. The decrease is attributable to remediation efforts along with cost re-estimations for environmental services (e.g., remediation activities) and adjustments to the scope of services for projects managed by PBS. PBS' environmental remediation projects range from the cleanup of hazardous substances (chemical solvents, toxic metals, polychlorinated biphenyls) and petroleum released into the soil and groundwater to complex, long-term remediation of former Department of Defense sites (munitions manufacturing and stockpile centers). GSA's PBS does not have any sites identified as probable but not reasonably estimable regarding cleanup costs. As of September 30, 2018 and 2017, GSA's FBF had $21.3 million and $172 million, respectively, for 'reasonably possible' cleanup costs. This decrease is attributable to the transfer to a non-Federal entity, of the Bannister Federal Complex in Kansas City, MO.

### D. Asbestos Liabilities

In accordance with FASAB Technical Bulletin 2006-1, Recognition and Measurement of Asbestos-Related Cleanup Costs, the focus is to recognize an unfunded liability and related expenses for asbestos related cleanup costs where it is both probable and reasonably estimable for Federal entities that own tangible property, plant and equipment containing asbestos.

GSA's methodology for developing estimated future asbestos liability involved selection of asbestos abatement survey reports performed by third party contractors, independent from GSA, to develop an average cost factor. The average cost factor from these asbestos survey reports is applied to GSA's total square feet of applicable inventory in order to determine the total estimated asbestos liability.

In accordance with Technical Bulletin 2006-1, GSA recognizes cleanup costs, over the estimated life of the underlying assets. The building useful life of 30 years is used for purposes of recognizing and amortizing the long term estimated asbestos cleanup costs. During FY 2018, changes to GSA's total estimated liability consisted of cost re-estimates, inflation and amortization of remaining future year costs.

The amortized asbestos related liabilities reported for FY 2018 are $1.5 billion which is an increase from FY 2017 of $1.4 billion. The increase is due to changes in asbestos liability cost factor based upon updated asbestos abatement survey reports provided by third party contractors and changes in building inventory. The unamortized asbestos liabilities for FY 2018 compared to FY 2017 are $10.3 million and $13.6 million, respectively.

### E. Property Plant & Equipment: Non-Asbestos Liabilities

GSA reports cleanup costs associated with PP&E that consist of removal of hazardous waste at asset retirement or related to equipment disposal in the financial statements under PP&E - non-asbestos liabilities. GSA's methodology for estimating non-asbestos related liabilities captures the cost of remediating certain hazards, such as, but not limited to, lead based paint and polychlorinated biphenyls.

GSA's methodology uses actual cost data from major renovation projects and cost estimates from independent third party environmental surveys, to develop average cost factors for PP&E non-asbestos remediation. These average cost factors are applied to GSA's total square feet of applicable inventory in order to determine the total estimated non-asbestos liability. For FY 2018, the amortized PP&E non-asbestos related liabilities are $265 million compared to FY 2017 of $229 million. The increase is due to changes in non-asbestos liability cost factors based upon updated project and building surveys' cost estimate data. The unamortized PP&E non-asbestos liabilities for FY 2018 compared to FY 2017 are $43.6 million and $39.4 million, respectively.

### F. Heritage Assets

The average age of GSA buildings is 49 years old; therefore, many buildings have historical, cultural and/or architectural significance. While GSA uses these buildings to meet the office space and other needs of the Federal Government, maintaining and preserving these historical elements is a significant priority. In accordance with FASAB SFFAS No. 29, Heritage Assets and Stewardship Land, these buildings meet the definition of Multi-use Heritage Assets, and are reportable within Property and Equipment on the Consolidated Balance Sheets. Deferred maintenance and repairs related to GSA's heritage assets are separately disclosed in the required supplementary information.

GSA defines its Historic Buildings as those buildings that are either listed on the National Register of Historic Places, have formally been determined eligible, or appear to meet eligibility criteria to be listed. In FY2018 GSA has 504 buildings on the National Register, up from 416 at the end of FY 2017, of which 76 are designated as National Historic Landmarks. An additional 93 buildings are potentially eligible for listing on the National Register, but have not gone through the formal listing process. Under the National Historic Preservation Act, GSA is required to give these buildings special consideration, including first preference for Federal use and rehabilitation in accordance with standards established by the DOI.

GSA also has a collection of artworks with historical significance, maintained for display in Federal buildings to increase the cultural and aesthetic quality of the buildings for visitors and workers.

## 7. Workers' Compensation Benefits

The Federal Employees' Compensation Act (FECA) provides wage replacement and medical cost protection to covered Federal civilian employees injured on the job, incurred a work-related occupational disease, or beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. The FECA program is administered by the U.S. Department of Labor (DOL), which initially pays valid claims and subsequently seeks reimbursement from the Federal agencies employing the claimants. DOL provides the actuarial liability for claims outstanding at the end of each fiscal year. This liability includes the estimated future costs of death benefits, workers' wage replacement, and medical and miscellaneous costs for approved compensation cases.

| | FY 2018 | | FY 2017 | |
|---|---|---|---|---|
| | **Year 1** | **Year 2 and thereafter** | Year 1 | Year 2 and thereafter |
| Wage Benefits | **2.72%** | **2.72%** | 2.68% | 2.68% |
| Medical Benefits | **2.38%** | **2.38%** | 2.22% | 2.22% |

The present value of these estimates at the end of FY 2018 and FY 2017 were calculated by DOL using the following discount rates:

At September 30, 2018, and 2017, GSA's actuarial liability totaled $112 million and $113 million, respectively. As reported in Note 9, the Workers Compensation accrued liability at September 30, 2018, and 2017, totaled $24 million and $26 million, respectively.

## 8. Leasing Arrangements

As of September 30, 2018, GSA was committed to various non-cancelable operating leases covering office space and warehouse storage facilities maintained by the FBF. Many of these leases contain escalation clauses tied to inflation, tax increases, and renewal options. The following are schedules of future minimum rental payments required under leases that have initial or remaining noncancelable terms in excess of one year, and under capital leases together with the present value of the future minimum lease payments. For the present value of future minimum lease payments under capital leases, $5 million is already covered by budget authority while $71 million will have funding made available in the year the payment is due (dollars in millions):

| OPERATING LEASES | | CAPITAL LEASES | |
|---|---|---|---|
| **FISCAL YEAR** | **FBF** | **FISCAL YEAR** | **FBF** |
| 2019 | $3,815 | 2019 | $29 |
| 2020 | 3,319 | 2020 | 28 |
| 2021 | 2,764 | 2021 | 22 |
| 2022 | 2,191 | 2022 | 4 |
| 2023 | 1,778 | 2023 | - |
| 2024 and thereafter | 7,714 | 2024 and thereafter | - |
| Total future minimum lease payments | **$21,581** | Total future minimum lease payments | **$83** |
| | | Less: Amounts representing- | |
| | | Interest | 7 |
| | | Executory Costs | - |
| | | Total obligations under capital leases | **$76** |

Substantially all leased and owned space maintained by the FBF is sublet to other Federal agencies at rent charges to recover GSA's cost of that space, or commercial equivalent charges. The majority of agreements covering these arrangements allow customer agencies to terminate the agreement with four months' notice, any time after the first 16 months of the agreement term. In some instances, agreements with customers may include non-cancellation clauses or restricted clauses that limit the ability to cancel prior to the agreement's expiration date. Customer agencies may also enter into a supplemental occupancy agreement with the ASF's Total Workplace program. This program assists customers with right-sizing their operations to improve space utilization, reduce the real estate footprint, and increase workplace efficiency while minimizing initial capital investments for items such as furniture and information technology equipment. Base terms generally have a duration of 30 months for furniture and 18 months for IT equipment with a renewal option. Agreements may be canceled with four months' notice; however, the customer is still liable for the remaining term payments on the leased equipment. GSA believes that these agreements will also continue without interruption. The following is a schedule displaying the future minimum rental revenues due to GSA for all non-cancellable and restricted clause agreements with terms in excess of one year (dollars in millions):

| OPERATING LEASE REVENUES | | | |
|---|---|---|---|
| FISCAL YEAR | FBF | ASF | TOTAL |
| 2019 | $1,634 | $7 | **$1,641** |
| 2020 | 1,364 | 4 | **1,368** |
| 2021 | 1,242 | 2 | **1,244** |
| 2022 | 1,028 | 1 | **1,029** |
| 2023 | 915 | - | **915** |
| 2024 and thereafter | 5,842 | - | **5,842** |
| Total future minimum lease receipts | **$12,025** | **$14** | **$12,039** |

For four of GSA's buildings, the rental agreements with the customer include transfer of building ownership at the end of the rental term. Total Workplace currently has eight agreements classified as direct financing capital leases where the furniture and IT equipment will transfer to the lessee at the end of the lease term. The remaining minimum rental payments due from these agreements are as follows (dollars in millions):

| DIRECT FINANCING LEASE REVENUES | | | |
|---|---|---|---|
| FISCAL YEAR | FBF | ASF | TOTAL |
| 2019 | $8 | $10 | **$18** |
| 2020 | 8 | 1 | **9** |
| 2021 | 4 | 1 | **5** |
| 2022 | 4 | - | **4** |
| 2023 | 4 | - | **4** |
| 2024 and thereafter | 17 | - | **17** |
| Total future minimum lease rentals | **$45** | **$12** | **$57** |

Rental income under subleasing agreements and related reimbursable arrangements for tenant improvements and above standard service requirements approximated $6.4 billion and $6.6 billion for the years ended September 30, 2018, and 2017, respectively. The vast majority of the $6.4 billion in FY 2018 rental income comes from Federal sources while only $32 million is from outleases to non federal entities. Rent expense under all operating leases,

including short-term non-cancellable leases, was approximately $5.8 billion for both years ended September 30, 2018, and 2017. Of the $5.8 billion in FY 2018 rent expense, only $24 million was paid to other Federal agency lessees with the remaining expense being paid to non federal entities.. The Consolidated Balance Sheets as of September 30, 2018, and 2017, include capital lease assets of $383 million and $383 million for buildings, respectively and accumulated amortization on such structures of $330 million and $328 million, respectively. For substantially all of its leased property, GSA expects that in the normal course of business such leases will be either renewed or replaced in accordance with the needs of its customer agencies.

## 9. Other Liabilities

As of September 30, 2018 and 2017, the amounts reported on the Consolidated Balance Sheets as Other Intragovernmental Liabilities and Other Liabilities, are substantially long-term in nature, with the exception of Federal Benefit Withholdings, Salaries and Benefits Payable, and Deposits in Clearing Funds, which are current liabilities. Other Intragovernmental Liabilities and Other Liabilities consisted of the following (dollars in millions)

| | FBF | | ASF | | OTHER FUNDS | | GSA CONSOLIDATED TOTALS | |
|---|---|---|---|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 |
| **OTHER INTRAGOVERNMENTAL LIABILITIES** | | | | | | | | |
| Workers' Compensation Due to DOL | **$16** | $17 | **$5** | $6 | **$3** | $3 | **$24** | $26 |
| Federal Benefit Withholdings | **6** | 6 | **4** | 3 | **4** | 3 | **14** | 12 |
| Deposits in Clearing Funds | **-** | - | **-** | - | **34** | 50 | **34** | 50 |
| **Total Other Intragovernmental Liabilities** | **22** | 23 | **9** | 9 | **41** | 56 | **72** | 88 |
| | | | | | | | | |
| **OTHER LIABILITIES** | | | | | | | | |
| Salaries and Benefits Payable | **21** | 23 | **14** | 14 | **12** | 14 | **47** | 51 |
| Deferred Revenues/Advances from the Public | **14** | 17 | **-** | 1 | **-** | - | **14** | 18 |
| Lease Termination Liability (Note 18) | **-** | - | **8** | 8 | **-** | - | **8** | 8 |
| Contingencies | **1** | 1 | **-** | - | **-** | - | **1** | 1 |
| Pensions for Former Presidents | **-** | - | **-** | - | **13** | 12 | **13** | 12 |
| **Total Other Liabilities** | **$36** | $41 | **$22** | $23 | **$25** | $26 | **$83** | $90 |

## 10. Commitments and Contingencies

### A. Commitments and Undelivered Orders

In addition to future lease commitments discussed in Note 8, GSA is committed under obligations for goods and services that have been ordered but not yet received (undelivered orders) at fiscal year-end. Aggregate undelivered orders for all GSA activities at September 30, 2018, and 2017, are as follows (dollars in millions):

| | 2018 | | | | | 2017 |
|---|---|---|---|---|---|---|
| | Federal | Non-Federal | Paid | Unpaid | Total | |
| FBF | $190 | $3,220 | $135 | $3,275 | **$3,410** | $3,264 |
| ASF | 259 | 6,975 | 26 | 7,208 | **7,234** | 6,089 |
| Other Funds | 119 | 134 | 1 | 252 | **253** | 280 |
| **Total Undelivered Orders** | **$568** | **$10,329** | **$162** | **$10,735** | **$10,897** | **$9,633** |

### B. Contingencies

GSA is a party in various administrative proceedings, legal actions, environmental suits and claims brought by or against the agency. In the opinion of GSA management and legal counsel, the ultimate resolution of these proceedings, actions and claims will not materially affect the financial position or results of operations of GSA, FBF, or ASF, and the Other Funds. Based on the nature of each claim, resources available to liquidate these liabilities may be from GSA funds or, in some instances, are covered by the U.S. Treasury Judgment Fund, as discussed below.

In many cases, legal matters that directly involve GSA relate to contractual arrangements GSA entered into either for property or services it has obtained or procured on behalf of other Federal agencies. The costs of administering, litigating and resolving these actions are generally borne by GSA unless it can recover the cost from another Federal agency. Certain legal matters in which GSA may be a named party are administered and, in some instances, litigated by other Federal agencies. Amounts to be paid under any decision, settlement or award pertaining thereto are sometimes funded by those agencies.

No amounts have been accrued in the financial records for claims where the amount of probable loss cannot be estimated or the likelihood of an unfavorable outcome is less than probable. These matters arise in the course of carrying out GSA programs and operations, including contracting actions, operating carbon-fueled vehicles, owning and leasing buildings and facilities for other Federal agencies and related claims. Matters for which the likelihood of an unfavorable outcome is less than probable but more than remote involve a wide variety of allegations and claims.

### C. Probable Contingencies covered by GSA

As of September 30, 2018, and 2017, the FBF recorded liabilities in total of $1 million each year for pending and threatened legal matters for which, in the opinion of GSA management and legal counsel, a loss against the FBF is probable, and the amount of the loss can be estimated.

### D. Reasonably Possible Contingencies covered by GSA

GSA has contingencies where it is reasonably possible, but not probable, that GSA funds will incur some cost. Accordingly, no balances have been recorded in the financial statements for these contingencies. The ranges of reasonably possible losses for claims to be paid by GSA are as follows (dollars in millions):

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **Low** | **High** | Low | High |
| FBF | **$13** | **$188** | $4 | $169 |
| ASF | **1** | **2** | - | 4 |
| Other Funds | **-** | **28** | - | 28 |
| **Total Reasonably Possible Range of Loss for Claims to be Paid by GSA** | **$14** | **$218** | $4 | $201 |

### E. Probable Contingencies not covered by GSA

In many cases, tort and environmental claims are administered and resolved by the U.S. Department of Justice, and any amounts necessary for resolution are obtained from a special Judgment Fund maintained by the U.S. Treasury. In accordance with the FASAB's Interpretation No. 2, Accounting for Treasury Judgment Fund Transactions, costs incurred by the Federal Government are to be reported by the agency responsible for incurring the liability, or to which liability has been assigned, regardless of the ultimate source of funding. In accordance with this interpretation, as of September 30, 2018, and 2017, GSA's Other Funds recorded $136 million and $99 million, respectively, of Environmental and Disposal Liabilities for contingencies that will require funding exclusively through the Judgment Fund. Substantially all of those amounts result from several environmental cases outstanding at the end of FYs 2018 and 2017, where GSA has been named as a potentially responsible party. Environmental costs are estimated in accordance with the FASAB Accounting and Auditing Policy Committee's Federal Financial Accounting and Auditing Technical Release No. 2, Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government.

The recognition of claims to be funded through the Judgment Fund on GSA Consolidated Statements of Net Cost and Consolidated Balance Sheets is, in effect, recognition of these liabilities against the Federal Government as a whole, and should not be interpreted as claims against the assets or resources of any GSA fund, nor will any future resources of GSA be required to liquidate any resulting losses. Further, for most environmental claims, GSA has no managerial responsibility other than as custodian and successor on claims made against former Federal entities, particularly former World War II defense related activities.

### F. Reasonably Possible Contingencies not covered by GSA

The ranges for contingencies subject to ultimate funding from the Judgment Fund where the risk of loss is reasonably possible, but not probable, are as follows (dollars in millions):

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **Low** | **High** | Low | High |
| FBF | **$69** | **$102** | $69 | $100 |
| ASF | **-** | **-** | - | 90 |
| Other Funds | **125** | **247** | 125 | 168 |
| **Total Reasonably Possible Range of Loss for Claims to be Paid by the U.S. Treasury Judgment Fund** | **$194** | **$349** | $194 | $358 |

### G. Judgment Fund Payments

In 1956, Congress enacted the Judgment Fund as a permanent, indefinite appropriation for the payment of claims that did not have another source of funding. This resulted in prompter payments that reduced the interest that

accrued against the Government between the claim judgment and the claim payment. Amounts paid from the Judgment Fund on behalf of GSA were as follows (dollars in millions):

| | 2018 | 2017 |
|---|---|---|
| FBF | $ 5 | $12 |
| ASF | - | - |
| Other Funds | 8 | 10 |
| Total Judgment Fund Payments | $13 | $22 |

Of these amounts, most significant balances are related to the Contract Disputes Act and Environmental and Disposal claims. GSA is not required to reimburse the Judgment Fund except for Judgment Fund payments related to claims arising under the Contract Dispute Act and the Notification and Federal Employee Antidiscrimination and Retaliation Act.

## 11. Liabilities Not Covered By Budgetary Resources

As of September 30, 2018 and 2017, budgetary resources were not yet available to fund certain liabilities reported on the Consolidated Balance Sheets. For such liabilities, most are long-term in nature where funding is generally made available in the year payments are due or anticipated. The portion of liabilities reported on the Consolidated Balance Sheets that are not covered by budgetary resources consists of the following (dollars in millions):

| | FBF | | ASF | | Other Funds | | Less: Intra-GSA Eliminations | | GSA Consolidated Totals | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Judgment Fund Liability | $495 | $490 | $- | $- | $- | $- | $- | $- | $495 | $490 |
| Deferred Revenues and Advances - Federal | 696 | 612 | 9 | 11 | - | - | - | - | 705 | 623 |
| Other Intragovernmental Liabilities | 16 | 17 | 5 | 6 | 3 | 3 | - | - | 24 | 26 |
| Total Intragovernmental Liabilities Not Covered by Budgetary Resources | 1,207 | 1,119 | 14 | 17 | 3 | 3 | - | - | 1,224 | 1,139 |
| Environmental and Disposal | 1,871 | 1,823 | - | - | 136 | 99 | - | - | 2,007 | 1,922 |
| Capital Lease and Installment Purchase Liability | 679 | 562 | - | - | - | - | - | - | 679 | 562 |
| Workers' Compensation Actuarial Liabilities | 74 | 75 | 24 | 24 | 14 | 14 | - | - | 112 | 113 |
| Annual Leave Liability | 48 | 48 | 33 | 31 | 29 | 30 | - | - | 110 | 109 |
| Other Liabilities | 1 | 1 | 8 | 9 | 13 | 12 | - | - | 22 | 22 |
| Total Non-Intragovernmental Liabilities Not Covered by Budgetary Resources | 2,673 | 2,509 | 65 | 64 | 192 | 155 | - | - | 2,930 | 2,728 |
| Total Liabilities Not Covered By Budgetary Resources | 3,880 | 3,628 | 79 | 81 | 195 | 158 | - | - | 4,154 | 3,867 |
| Total Liabilities Covered By Budgetary Resources | 1,019 | 1,120 | 2,210 | 1,735 | 111 | 111 | 38 | 48 | 3,302 | 2,918 |
| Total Liabilities Not Requiring Budgetary Resources | 490 | 502 | - | - | 80 | 112 | - | - | 570 | 614 |
| Total Liabilities | $5,389 | $5,250 | $2,289 | $1,816 | $386 | $381 | $38 | $48 | $8,026 | $7,399 |

Certain balances, while also unfunded by definition (as no budgetary resources have been applied), will be liquidated from resources outside of the traditional budgeting process and require no further congressional action to do so. Such balances include: 1) amounts reported in the Consolidated Balance Sheets under the captions Unamortized Rent Abatement Liability and Deposit Fund Liability; 2) the portion of amounts included in Other Intragovernmental Liabilities shown as Deposits Held in Suspense and Earnings Payable to Treasury in Note 9; and 3) substantially all amounts included in Other Liabilities shown as Deferred Revenues/Advances From the Public in Note 9.

## 12. Reconciliation to the President's Budget

In accordance with FASAB SFFAS No. 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, if there are differences between amounts reported in these financial statements versus those reported in the most recent Budget of the United States Government (President's Budget), they must be disclosed. With the President's Budget generally released in February each year, the most current comparable data is the FY 2019 President's Budget, which contains FY 2017 financial statement results. The FY 2020 President's Budget, containing FY 2018 actual results is expected to be released in February 2019 on OMB's website. The portion of the President's Budget relating specifically to GSA can be found in the appendix of that document. Balances submitted to the U.S. Treasury constitute the basis for reporting of actual results in the President's Budget. The basis of the President's Budget and the CSBR is data reported to the U.S. Treasury on the Reports on Budget Execution and Budgetary Resources (SF 133s). Reconciling differences are caused by the presentation style of the President's Budget, which excludes Budgetary Resources, New Obligations and Upward Adjustments and Unobligated Balances in expired annual funds, as well as offsetting collections, which are required for reporting on the CSBR. Small rounding differences may also exist between the CSBR and the President's Budget due to an alternative rounding methodology used by GSA.

The following two schedules highlight the most significant comparable amounts reported in the FY 2017 CSBR and FY 2019 President's Budget (dollars in millions). The first schedule shows the total differences where the CSBR contains balances greater or (less) than amounts reported in the President's Budget by fund. Following this is a second schedule displaying the components of each difference at the combined level.

GSA's Presidential Budget submission includes available and unavailable budgetary resources. In the CSBR and FBF SBR, the total budgetary resources of $31.7 billion and $16.3 billion as of September 30, 2017, respectively, represent budgetary resources net of FBF's unavailable budgetary resources of $4.7 billion. For GSA's reconciliation between the CSBR and the President's Budget, we added back FBF's unavailable resources to the Budgetary Resources amounts reported under the FBF CSBR column in the first chart and the CSBR row in the second chart.

| | FBF | | ASF | | OTHER FUNDS | | GSA CONSOLIDATED TOTALS | | |
|---|---|---|---|---|---|---|---|---|---|
| | CSBR | Pres. Budget | CSBR | Pres. Budget | CSBR | Pres. Budget | CSBR | Pres. Budget | Difference |
| Budgetary Resources | $20,957 | $ 20,949 | $ 14,241 | $ 14,241 | $ 1,228 | $ 1,191 | $ 36,426 | $ 36,381 | $ 45 |
| New Obligations and Upward Adjustments | 11,538 | 11,538 | 13,626 | 13,626 | 1,007 | 1,007 | 26,171 | 26,171 | - |
| Net Outlays from Operating Activities | (803) | (803) | (86) | (86) | 310 | 312 | (579) | (577) | (2) |
| Distributed Offsetting Receipts | - | - | - | - | (84) | - | (84) | - | (84) |

| | Budgetary Resources | New Obligations and Upward Adjustments | Net Outlays | Distributed Offsetting Receipts |
|---|---|---|---|---|
| Combined Statement of Budgetary Resources | $ 36,426 | $ 26,171 | $ (579) | (84) |
| Expired Funds, Not Reflected in the Budget | (47) | - | - | - |
| Offsetting Receipts Not Reflected in the Budget | - | - | - | 84 |
| Other | 2 | - | 2 | - |
| Budget of the U.S. Government | $ 36,381 | $ 26,171 | $ (577) | $- |

## 13. Combined Statements of Budgetary Resources

The CSBR presents GSA budgetary results in accordance with reporting requirements prescribed in OMB Circular A-11, Preparation, Submission, and Execution of the Budget. In consolidated reporting by OMB and the U.S. Treasury, for the U.S. government as a whole, substantially all of GSA's program operations and operating results are categorized as general government functions.

The FY 2017 financial statements and notes were reclassified to conform to the FY 2018 financial statement presentation of OMB Circular No. A-136 and include, among other things, changes in the presentation of the consolidated CSBR, which were streamlined to reflect the requirements of FASAB standards.

The reclassifications had no effect on combined total budgetary resources and consolidating net cost of operations by program agency as previously reported.

The FY 2017 CSBR in the required supplementary information were reclassified to conform to the FY 2018 presentation requirements for the combining CSBR and in the required supplemental information. The reclassifications had no effect on the combining total budgetary resources previously reported.

The basis of the CSBR is data reported to the U.S. Treasury on the SF 133. There were no significant differences between the balances used to prepare the CSBR and the SF 133s in FY 2018 or FY 2017.

As a result of the new OMB A-136 SBR format changes, the SBR includes a new section called Memorandum Entries that ties the Prior Year total Unobligated Balance, End of Period to the current year Unobligated Balance from Prior Year Budget Authority, Net. The table below illustrates the lines from prior year that were aggregated into the current year Unobligated Balance from Prior Year Budget Authority, Net.

| | FEDERAL BUILDINGS FUND | | ACQUISITION SERVICES FUND | | OTHER FUNDS | | GSA COMBINED TOTALS | |
|---|---|---|---|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 |
| Prior Year Total Unobligated Balance, End of Period | **$4,746** | $5,903 | **$615** | $1,595 | **$221** | $233 | **$ 5,582** | $7,731 |
| **MEMORANDUM ENTRIES** | | | | | | | | |
| Unobligated Balance transferred to other accounts | **(1)** | - | **-** | - | **(1)** | - | **(2)** | - |
| Unobligated Balance transferred from other accounts | **1** | - | **-** | - | **-** | - | **1** | - |
| Adjustment of Unobligated Balance Brought Forward, October 1 | **15** | - | **-** | - | **-** | - | **15** | - |
| Recoveries of Prior Year Unpaid Obligations | **129** | 167 | **390** | 302 | **31** | 29 | **550** | 498 |
| Other Changes in Unobligated Balance | **6** | 2 | **2** | (61) | **(4)** | (6) | **4** | (65) |
| **Total Memorandum Entries** | **150** | 169 | **392** | 241 | **26** | 23 | **568** | 433 |
| Unobligated Balance from Prior Year Budget Authority, Net | **$4,896** | $6,072 | **$1,007** | $1,836 | **$247** | $256 | **$6,150** | $8,164 |

## 14. Consolidated Statements of Changes in Net Position

### A. Cumulative Results of Operations

Cumulative results of operations for Revolving Funds include the net cost of operations since their inception, reduced by funds returned to the U.S. Treasury, congressional rescissions, and transfers to other Federal agencies, in addition

to balances representing invested capital. Invested capital includes amounts provided to fund certain GSA assets, principally land, buildings, construction in process, and equipment, as well as appropriated capital provided as the corpus of a fund (generally to meet operating working capital needs).

The FBF, ASF, WCF and FCSF have legislative authority to retain portions of their cumulative results for specific purposes. The FBF retains cumulative results to finance future operations and construction, subject to appropriation by Congress. In the ASF, such cumulative results are retained to cover the cost of replacing the motor vehicle fleet and supply inventory as well as to provide financing for major systems acquisitions and improvements, contract conversion costs, major contingencies, and to maintain sufficient working capital. The WCF retains cumulative results to finance future systems improvements and certain operations. The FCSF retains cumulative results to finance future operations, subject to appropriation by Congress.

Cumulative Results of Operations on the Consolidated Balance Sheets include balances of funds from dedicated collections as defined in FASAB SFFAS No. 43, which totaled $138 million and $133 million as of September 30, 2018, and 2017, respectively. As further discussed in Notes 1 and 2, balances of funds from dedicated collections are those reported in GSA's Special Funds and Trust Funds, within the Other Funds display on the Consolidated Balance Sheets.

### B. Unexpended Appropriations

Unexpended Appropriations generally consist of unobligated balances and undelivered orders, which is the net of unfilled customer orders in funds that receive appropriations. In addition, beginning in 2018, based on guidance from Treasury, appropriated amounts received and subsequently transferred to other agencies under the authorities of the TMF are recorded as accounts receivable. There is no impact on balances of Unexpended Appropriations, while such amounts are recognized as budgetary transfers on the CSBR, which reduces the TMF Unobligated Balance. Undelivered orders are orders placed by GSA with vendors for goods and services that have not been received. Unfilled customer orders are reimbursable orders placed with GSA by other agencies or other GSA funds where GSA has yet to provide the good or service requested. As of September 30, 2018, and 2017, balances reported as unexpended appropriations were as follows (dollars in millions):

| | FBF | OTHER FUNDS | TOTAL GSA |
|---|---|---|---|
| **2018** | | | |
| **Unobligated Balances:** | | | |
| **Available** | **$128** | **$105** | **$233** |
| **Unavailable** | **7** | **114** | **121** |
| **Undelivered Orders** | **14** | **50** | **64** |
| **TMF Receivables From Budgetary Transfers** | **-** | **11** | **11** |
| **Total Unexpended Appropriations** | **$149** | **$280** | **$429** |

| | | | |
|---|---|---|---|
| 2017 | | | |
| Unobligated Balances: | | | |
| Available | $15 | $34 | $49 |
| Unavailable | 8 | 85 | 93 |
| Undelivered Orders | 21 | 62 | 83 |
| Total Unexpended Appropriations | $44 | $181 | $225 |

## 15. Employee Benefit Plans

### A. Background

Although GSA funds a portion of pension benefits for its employees under the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS), and makes the necessary payroll withholdings, GSA is not required to disclose the assets of the systems or the actuarial data related to accumulated plan benefits or the unfunded pension liability relative to its employees. Reporting the amounts of health care benefits for current and retired employees is the direct responsibility of the Office of Personnel Management (OPM).

In accordance with FASAB SFFAS No. 5, GSA recognizes the normal cost of pension programs and the normal cost of other post-employment health and life insurance benefits, as defined in that standard, on the Consolidated Statements of Net Cost. While contributions submitted by GSA to OPM do cover a significant portion of the normal cost of retirement benefits, the contribution rates defined in law do not cover the full normal cost of those retirement benefits. To achieve the recognition of the full normal cost required by SFFAS No. 5, GSA records the combination of funded cost for agency contributions, and imputed cost for the portion of normal costs not covered by contributions. Amounts recognized as normal cost related to contributions, as well as imputed costs are further provided below.

### B. Civil Service Retirement System

At the end of FY 2018, 4.7 percent (down from 5.5 percent in FY 2017) of GSA employees were covered by the CSRS, a defined benefit plan. Total GSA (employer) contributions (7.5 percent of base pay for law enforcement employees, and 7.0 percent for all others) to CSRS for all employees were as follows (dollars in millions):

| | **2018** | 2017 |
|---|---|---|
| FBF | **$2** | $2 |
| ASF | **1** | 1 |
| Other Funds | **1** | 2 |
| Total Employer Contributions | **$4** | $5 |

### C. Federal Employees Retirement System

On January 1, 1987, the FERS, a mixed system of defined benefit and defined contribution plans, went into effect pursuant to Public Law 99-335. Employees hired after December 31, 1983, were automatically covered by FERS and Social Security while employees hired before January 1, 1984, elected to either join FERS and Social Security or remain in CSRS. As of September 30, 2018, 95.2 percent (up from 93.9 percent in FY 2017) of GSA employees were covered under FERS. One of the primary differences between the systems is that FERS offers automatic and matching contributions into the Federal Government's Thrift Savings Plan (TSP) for each employee. All employees could invest up to $18,500 and $18,000 in their TSP account in calendar years 2018 and 2017, respectively. In addition, for FERS employees, GSA automatically contributes one percent of base pay and matches employee contributions up to an additional four percent of base pay. For calendar years 2018 and 2017, total contributions made on behalf of an employee could not exceed $55,000 and $54,000, respectively. For FYs 2018 and 2017, the GSA (employer) contributions to FERS (30.1 percent of base pay for law enforcement employees and 13.7 percent for all others) were as follows (dollars in millions):

| | **2018** | 2017 |
|---|---|---|
| FBF | **$68** | $68 |
| ASF | **43** | 42 |
| Other Funds | **41** | 40 |
| Total Employer Contributions | **$152** | $150 |

Additional GSA contributions to the TSP were as follows (dollars in millions):

| | 2018 | 2017 |
|---|---|---|
| FBF | **$23** | $22 |
| ASF | **14** | 14 |
| Other Funds | **13** | 13 |
| Total Employer Contributions | **$50** | $49 |

### D. Social Security System

GSA also makes matching contributions for programs of the Social Security Administration (SSA) under the Federal Insurance Contributions Act. For employees covered by FERS, GSA contributed 6.2 percent of gross pay (up to $128,400 and $127,200 in calendar years 2018 and 2017, respectively) to SSA's Old-Age, Survivors, and Disability Insurance Program in calendar year 2018. Additionally, GSA makes matching contributions for all employees of 1.45 percent of gross pay to the Medicare Hospital Insurance program in calendar year 2018. In FY 2018 and 2017, 0.1 percent and 0.6 percent, respectively, of GSA employees are covered exclusively by these programs. Payments to these programs were as follows (dollars in millions):

| | 2018 | 2017 |
|---|---|---|
| FBF | **$38** | $38 |
| ASF | **23** | 23 |
| Other Funds | **22** | 21 |
| Total Employer Contributions | **$83** | $82 |

### E. Schedule of Unfunded Benefit Costs

Amounts recorded in FYs 2018 and 2017, in accordance with FASAB SFFAS No. 5, for imputed post-employment benefits were as follows (dollars in millions):

| | PENSION BENEFITS | HEALTH/LIFE INSURANCE | TOTAL |
|---|---|---|---|
| **2018** | | | |
| **FBF** | **$13** | **$32** | **$45** |
| **ASF** | **9** | **18** | **27** |
| **Other Funds** | **8** | **17** | **25** |
| **Total Unfunded Benefit Costs** | **$30** | **$67** | **$97** |
| 2017 | | | |
| FBF | $7 | $25 | $32 |
| ASF | 4 | 14 | 18 |
| Other Funds | 4 | 13 | 17 |
| Total Unfunded Benefit Costs | $15 | $52 | $67 |

## 16. Reconciliation of Net Costs of Operations to Budget

The recognition of earning reimbursable budgetary resources and spending budgetary resources on the CSBR generally has a direct or causal relationship to revenues and expenses recognized on the Consolidated Statements of Net Cost. The reconciliation schedules below bridge the gap between these sources and uses of budgetary resources with the operating results reported on the Consolidated Statements of Net Cost for the fiscal years ended September 30, 2018 and 2017, (dollars in millions):

| | FEDERAL BUILDINGS FUND | | ACQUISITION SERVICES FUND | | OTHER FUNDS | | LESS: INTRA-GSA ELIMINATIONS | | GSA CONSOLIDATED TOTALS | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 |
| **RESOURCES USED TO FINANCE ACTIVITIES** | | | | | | | | | | |
| New Obligations And Upward Adjustments | **$10,982** | $11,538 | **$15,260** | $13,626 | **$981** | $1,007 | **$-** | $- | **$27,223** | $26,171 |
| Less: Spending Authority From Offsetting Collections and Adjustments | **(12,115)** | (11,867) | **(15,581)** | (12,714) | **(741)** | (725) | **-** | - | **(28,437)** | (25,306) |
| Financing Imputed for Cost Subsidies | **65** | 45 | **42** | 31 | **35** | 29 | **36** | 26 | **106** | 79 |
| Other | **124** | 107 | **1** | (28) | **83** | 88 | **-** | - | **208** | 167 |
| Total Resources Used to Finance Activities | **(944)** | (177) | **(278)** | 915 | **358** | 399 | **36** | 26 | **(900)** | 1,111 |
| **RESOURCES USED THAT ARE NOT PART OF THE NET COST OF OPERATIONS** | | | | | | | | | | |
| (Increase)/Decrease in Goods and Services Ordered But Not Yet Received | **(145)** | (158) | **(1,145)** | (1,885) | **27** | $20 | **-** | - | **(1,263)** | (2,023) |
| Increase/(Decrease) in Unfilled Customer Orders | **(330)** | (381) | **1,473** | 963 | **14** | (4) | **-** | - | **1,817** | 578 |
| Costs Capitalized on the Balance Sheet | **(1,367)** | (1,726) | **(943)** | (763) | **(5)** | (11) | **-** | - | **(2,315)** | (2,500) |
| Financing Sources Funding Prior Year Costs | **(307)** | (175) | **12** | 11 | **(2)** | (14) | **-** | - | **(297)** | (178) |
| Other | **93** | 429 | **(3)** | (2) | **(89)** | (87) | **-** | - | **(1)** | 340 |
| Total Resources Used That Are Not Part of the Net Cost of Operations | **(1,396)** | (2,011) | **(606)** | (1,676) | **(55)** | (96) | **-** | - | **(2,057)** | (3,783) |
| **COSTS FINANCED BY RESOURCES RECEIVED IN PRIOR PERIODS** | | | | | | | | | | |
| Depreciation and Amortization | **1,644** | 1,619 | **572** | 555 | **11** | 10 | **-** | - | **2,227** | 2,184 |
| Net Book Value of Property Sold | **-** | - | **225** | 214 | **-** | - | **-** | - | **225** | 214 |
| Other | **5** | 25 | **-** | - | **-** | - | **-** | - | **5** | 25 |
| Total Costs Financed by Resources Received in Prior Periods | **1,649** | 1,644 | **797** | 769 | **11** | 10 | **-** | - | **2,457** | 2,423 |
| **COSTS REQUIRING RESOURCES IN FUTURE PERIODS** | | | | | | | | | | |
| Unfunded Capitalized Costs | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - |
| Unfunded Current Expenses | **44** | (122) | **-** | - | **45** | 11 | **-** | - | **89** | (111) |
| Total Costs Requiring Resources in Future Periods | **44** | (122) | **-** | - | **45** | 11 | **-** | - | **89** | (111) |
| **Net (Revenues From) Cost of Operations** | **$(650)** | $(666) | **$(87)** | $8 | **$359** | $324 | **$36** | $26 | **$(414)** | $(360) |

## 17. Net Cost by Responsibility Segment

OMB Circular A-136, Financial Reporting Requirements, requires that the presentation of the Consolidated Statements of Net Cost align with the goals and outcomes identified in the agency's strategic plan. The strategic goals presented in GSA's Consolidated Statements of Net Cost are derived from the missions of the agency's two largest service organizations: PBS, which manages the FBF, and FAS, which manages the ASF. PBS manages building operations by overseeing the design, construction, leasing, and maintenance of Government-owned and leased facilities. Responsibility segments include the Government-Owned and the Leased Building segments. FAS is organized into five main business portfolios: GS&S, TTL, IT, AAS, and PS&HC. FAS provides acquisition services by leveraging the buying power of the Federal Government to obtain best values. In May 2016, GSA established TTS which included the consulting group known as 18F, PIF (Presidential Innovation Fellows), Office of Citizen Services and Innovative Technologies (OCSIT), and Electronic Capital Planning Investment Control. The TTS programs were consolidated into FAS in June 2017.

The GSA agency-wide strategic plan goals of providing cost savings to customers, increasing operational efficiency, and delivering excellent customer service are embedded in the missions of its service organizations. Revenues and expenses not associated with PBS or FAS are reported as Working Capital and General Programs. Eliminations of intra-agency activity are recorded against the organization providing the goods or services, displayed in the "ELIM" column. The following tables present the FY 2018 and FY 2017 net operating results by strategic goal for each responsibility segment.

# For the Year Ended September 30, 2018 (Dollars in Millions)

## FY 2018 Net Cost by Responsibility Segment Schedule

| For the Year Ended September 30, 2018 (Dollars in Millions) | FBF - Owned | FBF - Leased | ASF - GS&S | ASF - TTL | ASF - IT | ASF - AAS | ASF - PS&HC | ASF - OTHER | ASF - TTS | WCF | GENERAL FUNDS | GSA COMBINED | ELIM | GSA CONSOLIDATED |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Manage Building Operations** | | | | | | | | | | | | | | |
| Earned Revenues | $5,261 | $6,420 | $- | $- | $- | $- | $- | $- | $- | $- | $- | $11,681 | $71 | $11,610 |
| Less: Operating Expenses | 4,611 | 6,420 | - | - | - | - | - | - | - | - | - | 11,031 | 90 | 10,941 |
| Net Revenues from (Cost of) Operations | 650 | - | - | - | - | - | - | - | - | - | - | 650 | (19) | 669 |
| **Provide Acquisition Services** | | | | | | | | | | | | | | |
| Earned Revenues | - | - | 1,300 | 2,060 | 1,786 | 7,043 | 87 | 76 | 37 | - | - | 12,389 | 195 | 12,194 |
| Less: Operating Expenses | - | - | 1,292 | 1,885 | 1,815 | 7,021 | 87 | 143 | 59 | - | - | 12,302 | 210 | 12,092 |
| Net Revenues from (Cost of) Continuing Operations | - | - | 8 | 175 | (29) | 22 | - | (67) | (22) | - | - | 87 | (15) | 102 |
| **Working Capital and General Programs** | | | | | | | | | | | | | | |
| Earned Revenues | - | - | - | - | - | - | - | - | - | 657 | 37 | 694 | 655 | 39 |
| Less: Operating Expenses | - | - | - | - | - | - | - | - | - | 704 | 349 | 1053 | 657 | 396 |
| Net Revenues from (Cost of) Operations | - | - | - | - | - | - | - | - | - | (47) | (312) | (359) | (2) | (357) |
| **GSA Consolidated Net Results** | | | | | | | | | | | | | | |
| Earned Revenues | 5,261 | 6,420 | 1,300 | 2,060 | 1,786 | 7,043 | 87 | 76 | 37 | 657 | 37 | 24,764 | 921 | 23,843 |
| Less: Operating Expenses | 4,611 | 6,420 | 1,292 | 1,885 | 1,815 | 7,021 | 87 | 143 | 59 | 704 | 349 | 24,386 | 957 | 23,429 |
| **Net Revenues from (Cost of) GSA Operations** | $650 | $- | $8 | $175 | $(29) | $22 | $- | $(67) | $(22) | $(47) | $(312) | $378 | $(36) | $414 |

The accompanying notes are an integral part of these statements.

# For the Year Ended September 30, 2017 (Dollars in Millions)

## FY 2017 Net Cost by Responsibility Segment Schedule

| For the Year Ended September 30, 2017 (Dollars in Millions) | FBF - Owned | FBF - Leased | ASF - GS&S | ASF - TTL | ASF - IT | ASF - AAS | ASF - PS&HC | ASF - OTHER | ASF - TTS | WCF | GENERAL FUNDS | GSA COMBINED | ELIM | GSA CONSOLIDATED |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Manage Building Operations** | | | | | | | | | | | | | | |
| Earned Revenues | $5,150 | $6,598 | $- | $- | $- | $- | $- | $- | $- | $- | $- | $11,748 | $71 | $11,677 |
| Less: Operating Expenses | 4,376 | 6,706 | - | - | - | - | - | - | - | - | - | 11,082 | 85 | 10,997 |
| Net Revenues from (Cost of) Operations | 774 | (108) | - | - | - | - | - | - | - | - | - | 666 | (14) | 680 |
| **Provide Acquisition Services** | | | | | | | | | | | | | | |
| Earned Revenues | - | - | 995 | 1,849 | 1,831 | 5,382 | 90 | 74 | 29 | - | - | 10,250 | 188 | 10,062 |
| Less: Operating Expenses | - | - | 1,050 | 1,692 | 1,853 | 5,379 | 93 | 136 | 55 | - | - | 10,258 | 199 | 10,059 |
| Net Revenues from (Cost of) Continuing Operations | - | - | (55) | 157 | (22) | 3 | (3) | (62) | (26) | - | - | (8) | (11) | 3 |
| **Working Capital and General Programs** | | | | | | | | | | | | | | |
| Earned Revenues | - | - | - | - | - | - | - | - | - | 658 | 42 | 700 | 657 | 43 |
| Less: Operating Expenses | - | - | - | - | - | - | - | - | - | 701 | 323 | 1,024 | 658 | 366 |
| Net Revenues from (Cost of) Operations | - | - | - | - | - | - | - | - | - | (43) | (281) | (324) | (1) | (323) |
| **GSA Consolidated Net Results** | | | | | | | | | | | | | | |
| Earned Revenues | 5,150 | 6,598 | 995 | 1,849 | 1,831 | 5,382 | 90 | 74 | 29 | 658 | 42 | 22,698 | 916 | 21,782 |
| Less: Operating Expenses | 4,376 | 6,706 | 1,050 | 1,692 | 1,853 | 5,379 | 93 | 136 | 55 | 701 | 323 | 22,364 | 942 | 21,422 |
| **Net Revenues from (Cost of) GSA Operations** | $774 | $ (108) | $(55) | $157 | $(22) | $3 | $ (3) | (62) | $(26) | $(43) | $(281) | $334 | $(26) | $360 |

The accompanying notes are an integral part of these statements.

# CONSOLIDATING **FINANCIAL STATEMENTS**

U.S. General Services Administration

**SCHEDULE 1**

## Consolidating Balance Sheets

As of September 30, 2018 and 2017

*(Dollars in Millions)*

| | FEDERAL BUILDINGS FUND | | ACQUISITION SERVICES FUND | | OTHER FUNDS | | LESS: INTRA-GSA ELIMINATIONS | | GSA CONSOLIDATED TOTALS | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 |
| **ASSETS** | | | | | | | | | | |
| Intragovernmental Assets: | | | | | | | | | | |
| Fund Balance with Treasury (Notes 1-D, 2) | **$10,698** | $9,697 | **$846** | $941 | **$784** | $752 | **$-** | **$-** | **$12,328** | $11,390 |
| Accounts Receivable - Federal, Net (Note 4) | **483** | 511 | **2,513** | 1,950 | **14** | 2 | **38** | 48 | **2,972** | 2,415 |
| Capital Lease Payments Receivable (Note 8) | **43** | 51 | **12** | 20 | **-** | - | **-** | - | **55** | 71 |
| Prepaid Expenses and Advances - Federal | **136** | 138 | **2** | 2 | **1** | 1 | **-** | - | **139** | 141 |
| Total Intragovernmental Assets | **11,360** | 10,397 | **3,373** | 2,913 | **799** | 755 | **38** | 48 | **15,494** | 14,017 |
| Accounts Receivable - Non-Federal, Net (Note 4) | **14** | 16 | **114** | 127 | **16** | 14 | **-** | - | **144** | 157 |
| Inventories (Note 1-E) | **-** | - | **3** | 7 | **-** | - | **-** | - | **3** | 7 |
| Other Assets (Note 5) | **159** | 154 | **41** | 49 | **-** | - | **-** | - | **200** | 203 |
| Property and Equipment: (Notes 1-F, 6) | | | | | | | | | | |
| Buildings | **47,518** | 46,273 | **-** | - | **-** | - | **-** | - | **47,518** | 46,273 |
| Leasehold Improvements | **269** | 300 | **33** | 31 | **4** | 3 | **-** | - | **306** | 334 |
| Motor Vehicles | **-** | - | **6,022** | 5,751 | **-** | - | **-** | - | **6,022** | 5,751 |
| Equipment and Other Property | **167** | 176 | **387** | 378 | **168** | 163 | **-** | - | **722** | 717 |
| Less: Accumulated Depreciation and Amortization | **(28,182)** | (26,646) | **(2,498)** | (2,395) | **(150)** | (139) | **-** | - | **(30,830)** | (29,180) |
| Subtotal | **19,772** | 20,103 | **3,944** | 3,765 | **22** | 27 | **-** | - | **23,738** | 23,895 |
| Land | **1,695** | 1,695 | **-** | - | **-** | - | **-** | - | **1,695** | 1,695 |
| Construction in Process and Software in Development | **1,667** | 1,444 | **1** | 2 | **-** | 1 | **-** | - | **1,668** | 1,447 |
| Total Property and Equipment, Net | **23,134** | 23,242 | **3,945** | 3,767 | **22** | 28 | **-** | - | **27,101** | 27,037 |
| **TOTAL ASSETS** | **$34,667** | $33,809 | **$7,476** | $6,863 | **$837** | $797 | **$38** | $48 | **$42,942** | $41,421 |
| **LIABILITIES AND NET POSITION** | | | | | | | | | | |
| Intragovernmental Liabilities: | | | | | | | | | | |
| Accounts Payable and Accrued Expenses - Federal | **$16** | $7 | **$14** | $36 | **$38** | $49 | **$38** | $48 | **$30** | $44 |
| Judgment Fund Liability (Note 11) | **495** | 490 | **-** | - | **-** | - | **-** | - | **495** | 490 |
| Deferred Revenues and Advances - Federal (Note 11) | **696** | 612 | **9** | 14 | **50** | 38 | **-** | - | **755** | 664 |
| Amounts Owed to the General Fund (Note 11) | **-** | - | **-** | - | **30** | 34 | **-** | - | **30** | 34 |
| Other Intragovernmental Liabilities (Notes 9, 11) | **22** | 23 | **9** | 9 | **41** | 56 | **-** | - | **72** | 88 |
| Total Intragovernmental Liabilities | **1,229** | 1,132 | **32** | 59 | **159** | 177 | **38** | 48 | **1,382** | 1,320 |
| Accounts Payable and Accrued Expenses - Non-Federal | **970** | 1,075 | **2,178** | 1,679 | **7** | 7 | **-** | - | **3,155** | 2,761 |
| Environmental and Disposal Liabilities (Notes 6, 10-E, 11) | **1,871** | 1,823 | **-** | - | **136** | 99 | **-** | - | **2,007** | 1,922 |
| Capital Lease and Installment Purchase Liability (Note 11) | **685** | 571 | **-** | - | **-** | - | **-** | - | **685** | 571 |
| Unamortized Rent Abatement Liability (Note 11) | **476** | 485 | **-** | - | **-** | - | **-** | - | **476** | 485 |
| Workers' Compensation Actuarial Liability (Notes 7, 11) | **74** | 75 | **24** | 24 | **14** | 14 | **-** | - | **112** | 113 |
| Annual Leave Liability (Notes 1-G, 11) | **48** | 48 | **33** | 31 | **29** | 30 | **-** | - | **110** | 109 |
| Deposit Fund Liability (Note 11) | **-** | - | **-** | - | **16** | 28 | **-** | - | **16** | 28 |
| Other Liabilities (Notes 9, 11) | **36** | 41 | **22** | 23 | **25** | 26 | **-** | - | **83** | 90 |
| **Total Liabilities** | $5,389 | 5,250 | 2,289 | 1,816 | **386** | 381 | 38 | 48 | **8,026** | 7,399 |
| Net Position: (Note 14) | | | | | | | | | | |
| Cumulative Results of Operations | **29,129** | 28,515 | **5,187** | 5,047 | **171** | 235 | **-** | - | **34,487** | 33,797 |
| Unexpended Appropriations | **149** | 44 | **-** | - | **280** | 181 | **-** | **-** | **429** | 225 |
| **Total Net Position** | **29,278** | 28,559 | **5,187** | 5,047 | **451** | 416 | **-** | - | **34,916** | 34,022 |
| **TOTAL LIABILITIES AND NET POSITION** | **$34,667** | $33,809 | **$7,476** | $6,863 | **$837** | $797 | **$38** | $48 | **$42,942** | $41,421 |

The accompanying notes are an integral part of these statements. • See Accompanying Independent Auditors' Report.

U.S. General Services Administration

## Consolidating Statements of Net Cost

**SCHEDULE 2**

For the Fiscal Years Ended September 30, 2018 and 2017

*(Dollars in Millions)*

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | **REVENUES** | **EXPENSES** | **NET REVENUES FROM (COST OF) OPERATIONS** | REVENUES | EXPENSES | NET REVENUES FROM (COST OF) OPERATIONS |
| **FEDERAL BUILDINGS FUND:** | | | | | | |
| Building Operations - Government Owned | **$5,261** | **$4,611** | **$650** | $5,150 | $4,376 | $774 |
| Building Operations - Leased | **6,420** | **6,420** | **-** | 6,598 | 6,706 | (108) |
| Subtotal | **11,681** | **11,031** | **650** | 11,748 | 11,082 | 666 |
| **ACQUISITION SERVICES FUND:** | | | | | | |
| General Supplies and Services | **1,300** | **1,292** | **8** | 995 | 1,050 | (55) |
| Travel, Transportation, and Logistics | **2,060** | **1,885** | **175** | 1,849 | 1,692 | 157 |
| Information Technology | **1,786** | **1,815** | **(29)** | 1,831 | 1,853 | (22) |
| Assisted Acquisition Services | **7,043** | **7,021** | **22** | 5,382 | 5,379 | 3 |
| Professional Services and Human Capital | **87** | **87** | **-** | 90 | 93 | (3) |
| Other Programs | **113** | **202** | **(89)** | 103 | 191 | (88) |
| Subtotal | **12,389** | **12,302** | **87** | 10,250 | 10,258 | (8) |
| **OTHER FUNDS:** | | | | | | |
| Working Capital Fund | **657** | **704** | **(47)** | 663 | 705 | (42) |
| Other General Funds | **37** | **349** | **(312)** | 37 | 319 | (282) |
| Subtotal | **694** | **1,053** | **(359)** | 700 | 1,024 | (324) |
| **INTRA-GSA ELIMINATIONS:** | | | | | | |
| Less: Intra-GSA Eliminations | **921** | **957** | **(36)** | 916 | 942 | (26) |
| **GSA Consolidated Totals** | **$23,843** | **$ 23,429** | **$414** | $21,782 | $21,422 | $360 |

The accompanying notes are an integral part of these statements. • See Accompanying Independent Auditors' Report.

U.S. General Services Administration

SCHEDULE 3

## Consolidating Statements of Changes in Net Position

For the Fiscal Years Ended September 30, 2018 and 2017

*(Dollars in Millions)*

| | FEDERAL BUILDINGS FUND | | ACQUISITION SERVICES FUND | | OTHER FUNDS | | LESS: INTRA-GSA ELIMINATIONS | | GSA CONSOLIDATED TOTALS | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 |
| **BEGINNING BALANCE OF NET POSITION:** | | | | | | | | | | |
| Cumulative Results of Operations | **$28,515** | $27,885 | **$5,047** | $5,081 | **$235** | $260 | **$-** | $- | **$33,797** | $33,226 |
| Unexpended Appropriations | **44** | 69 | **-** | - | **181** | 178 | **-** | - | **225** | 247 |
| **Net Position Beginning Balance** | **28,559** | 27,954 | **5,047** | 5,081 | **416** | 438 | **-** | - | **34,022** | 33,473 |
| **RESULTS OF OPERATIONS:** | | | | | | | | | | |
| Net Revenues From (Cost of) Operations | **650** | 666 | **87** | (8) | **(359)** | (324) | **(36)** | (26) | **414** | 360 |
| Appropriations Used (Note 1-C) | **21** | 25 | **-** | - | **235** | 249 | **-** | - | **256** | 274 |
| Non-Exchange Revenue (Notes 1-C, 1-D) | **(9)** | (1) | **-** | - | **106** | 81 | **-** | - | **97** | 80 |
| Imputed Financing Provided By Others | **65** | 45 | **42** | 31 | **34** | 29 | **36** | 26 | **105** | 79 |
| Transfers of Financing Sources (To) From the U.S. Treasury | **-** | - | **-** | (68) | **(75)** | (53) | **-** | - | **(75)** | (121) |
| Transfers of Net Assets and Liabilities(To) From Other Federal Agencies | **(113)** | (105) | **11** | 11 | **-** | - | **-** | - | **(102)** | (94) |
| Other | **-** | - | **-** | - | **(5)** | (7) | **-** | - | **(5)** | (7) |
| **Net Results of Operations** | **614** | 630 | **140** | (34) | **(64)** | (25) | **-** | - | **690** | 571 |
| **CHANGES IN UNEXPENDED APPROPRIATIONS:** | | | | | | | | | | |
| Appropriations Received | **127** | - | **-** | - | **334** | 253 | **-** | - | **461** | 253 |
| Appropriations Used | **(21)** | (25) | **-** | - | **(235)** | (249) | **-** | - | **(256)** | (274) |
| Appropriations Adjustments and Transfers (To) From Other Agencies or Funds | **(1)** | - | **-** | - | **-** | (1) | **-** | - | **(1)** | (1) |
| **Net Change in Unexpended Appropriations** | **105** | (25) | **-** | - | **99** | 3 | **-** | - | **204** | (22) |
| **ENDING BALANCE OF NET POSITION:** | | | | | | | | | | |
| Cumulative Results of Operations | **29,129** | 28,515 | **5,187** | 5,047 | **171** | 235 | **-** | - | **34,487** | 33,797 |
| Unexpended Appropriations | **149** | 44 | **-** | - | **280** | 181 | **-** | - | **429** | 225 |
| **Net Position Ending Balance** | **$29,278** | $28,559 | **$5,187** | $5,047 | **$451** | $416 | **$-** | $- | **$34,916** | $34,022 |

The accompanying notes are an integral part of these statements. • See Accompanying Independent Auditors' Report.

U.S. General Services Administration

**SCHEDULE 4**

## Combining Statements of Budgetary Resources

For the Fiscal Years Ended September 30, 2018 and 2017

*(Dollars in Millions)*

| | FEDERAL BUILDINGS FUND | | ACQUISITION SERVICES FUND | | OTHER FUNDS | | GSA COMBINED TOTALS | |
|---|---|---|---|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 |
| **BUDGETARY RESOURCES** | | | | | | | | |
| Unobligated Balance from Prior Year Budget Authority, Net | **$ 4,896** | $6,072 | **$1,007** | $1,836 | **$247** | $256 | **$6,150** | $8,164 |
| Appropriations | **127** | - | **-** | - | **350** | 275 | **477** | 275 |
| Spending Authority from Offsetting Collections | **11,055** | 10,212 | **15,189** | 12,405 | **709** | 697 | **26,953** | 23,314 |
| Total Budgetary Resources | **16,078** | 16,284 | **16,196** | 14,241 | **1,306** | 1,228 | **33,580** | 31,753 |
| **MEMORANDUM ENTRIES** | | | | | | | | |
| Net Adjustments to Unobligated Balance Brought Forward, October 1 | **150** | 169 | **392** | 241 | **26** | 23 | **568** | 433 |
| **STATUS OF BUDGETARY RESOURCES** | | | | | | | | |
| New Obligations and Upward Adjustments | **10,982** | 11,538 | **15,260** | 13,626 | **981** | 1,007 | **27,223** | 26,171 |
| Unobligated Balance, End of Period Apportioned, Unexpired Accounts | **4,438** | 4,730 | **573** | (319) | **171** | 76 | **5,182** | 4,487 |
| Unapportioned, Unexpired Accounts | **650** | 8 | **363** | 934 | **113** | 108 | **1,126** | 1,050 |
| Unexpired Unobligated Balance, End of Period | **5,088** | 4,738 | **936** | 615 | **284** | 184 | **6,308** | 5,537 |
| Expired Unobligated Balance, End of Period | **8** | 8 | **-** | - | **41** | 37 | **49** | 45 |
| Unobligated Balance, End of Period, Total | **5,096** | 4,746 | **936** | 615 | **325** | 221 | **6,357** | 5,582 |
| Total Status of Budgetary Resources | **16,078** | 16,284 | **16,196** | 14,241 | **1,306** | 1,228 | **33,580** | 31,753 |
| **OUTLAYS, NET** | | | | | | | | |
| Net Outlays from Operating Activity | **(875)** | (803) | **95** | (86) | **279** | 310 | **(501)** | (579) |
| Distributed Offsetting Receipts | **-** | - | **-** | - | **(89)** | (84) | **(89)** | (84) |
| Total Net Outlays | **$(875)** | $(803) | **$95** | $(86) | **$190** | $226 | **$(590)** | $(663) |

The accompanying notes are an integral part of these statements. • See Accompanying Independent Auditors' Report.

# REQUIRED **SUPPLEMENTARY INFORMATION** (UNAUDITED)

### Deferred Maintenance and Repairs

GSA reports Deferred Maintenance and Repairs consistent with the definition in SFFAS 42:

Deferred maintenance and repairs (DM&R) are maintenance and repairs that were not performed when scheduled or delayed for a future period. Maintenance and repairs are activities directed toward keeping fixed assets in an acceptable condition. Activities include preventive maintenance; replacement of parts, systems, or components; and other activities needed to preserve or maintain the asset. Maintenance and repairs, as distinguished from capital improvements, exclude activities directed towards expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, its current use.

In accordance with SFFAS 42, GSA has disclosable DM&R related to its inventory of Buildings in the FBF. GSA utilizes the Building Assessment Tool (BAT) to determine the amount of all repairs and alterations needed to correct major components or systems deficiencies in owned buildings (and certain leased buildings where GSA has responsibility for repairs and alterations). GSA requires a Building Assessment for every Government-owned, leased, or delegated asset that meets all the following criteria according to the Real Estate Across the United States (REXUS) system:

- GSA has R&A responsibility
- The asset maintains an "active" or "excess" status
- The asset has a real property type of "building" or "structure"

No assets meeting the criteria identified above are excluded from this requirement. The surveys are conducted biennially to inspect and electronically document building conditions, with approximately half of the building inventory being surveyed each year. The BAT is a 37 question survey that provides a regular and consistent assessment of the physical condition of each building's basic structure and systems provides an overall assessment of GSA's building inventory. The process of identifying building deficiencies and developing a multi-year plan of repairs and alterations projects begins with the BAT. All repair and alteration projects, not just those associated with DM&R, are prioritized using established weights of the pre-defined criteria and placed in order of importance.

Data collected in the BAT is gathered to support GSA's overall building assessment, workload planning, and budgeting needs, and is not designed to specifically capture data that would be defined as DM&R. However, subsets of the workload planning directly results from conditions classified as DM&R. GSA has determined from analysis of data in the BAT, that when applying certain data criteria, results can be used to provide a reasonable estimate to meet the FASAB DM&R reporting objectives. At the end of FYs 2018, 2017 and 2016, based on the analysis of the BAT results, GSA estimates the total cost of DM&R to be approximately $1.455 billion, $1.385 billion and $1.214 billion, respectively, for activities categorized as work needing to be performed immediately to restore or maintain acceptable condition of the building inventory.

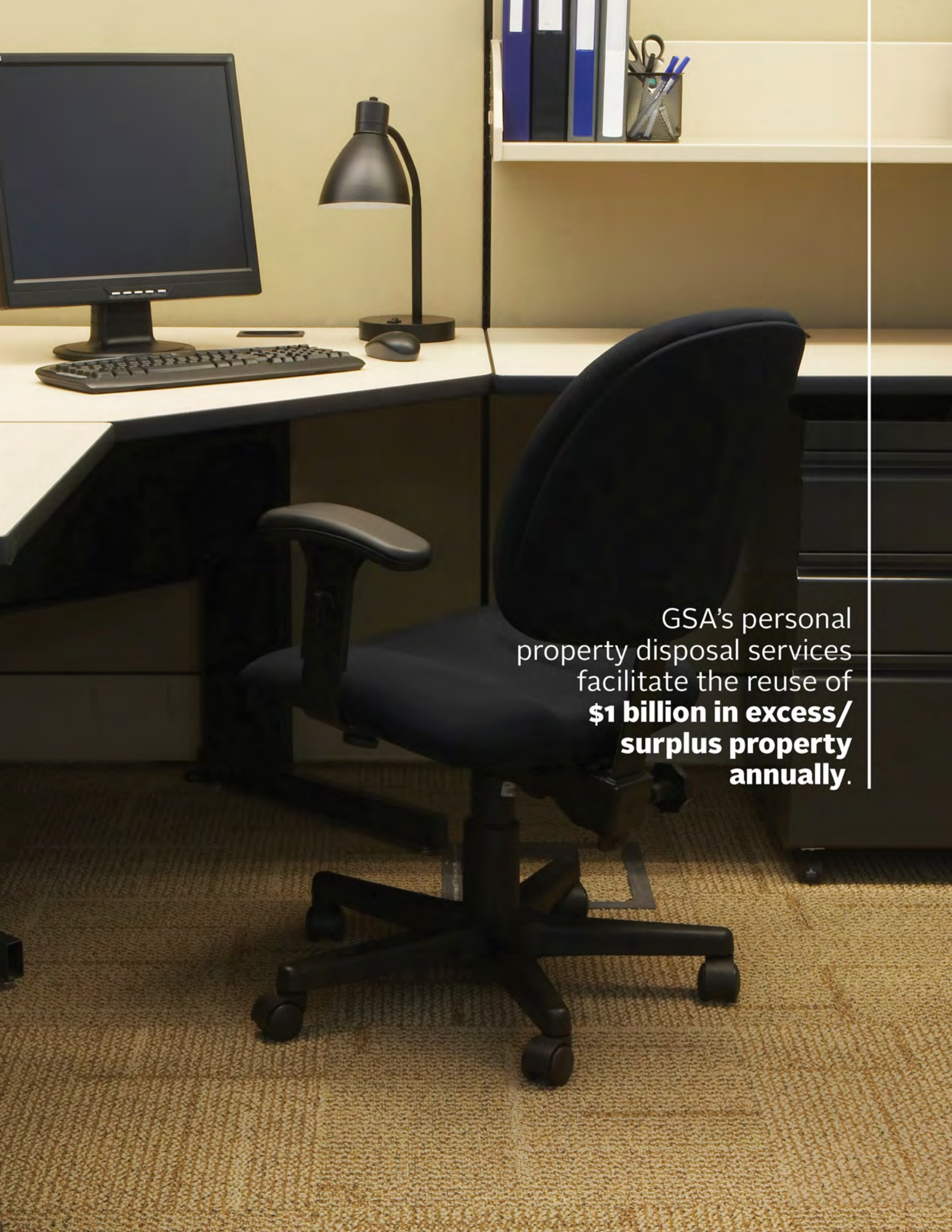
GSA measures the condition of its inventory of buildings by using an industry accepted metric called the Facility Condition Index (FCI). The FCI is the ratio between total Repair and Alteration Needs and the Functional Replacement Value of an asset (i.e. repair needs divided by the asset's replacement value). Based on the end of FY 2018 BAT data, approximately 74.0 percent of GSA's inventory, according to square footage, is considered in "Good Condition," with an FCI of 10 percent or less.

## Supplemental Schedule of Budgetary Resources

In its principal financial statements, GSA displays balances for the two major funds (FBF and ASF) while combining all remaining funds into an "Other Funds" group. Within the Other Funds group, The Working Capital Fund (WCF) and Technology Modernization Fund (TMF) make up approximately 68 percent of the total budgetary resources. As these Funds are a very significant component of the total Other Funds budgetary results, below is a schedule showing the activities of WCF, TMF and Other Funds for the years ended September 30, 2018, and 2017 (dollars in millions).

| | OTHER FUNDS EXCLUDING WCF AND TMF | | WORKING CAPITAL FUND | | TECHNOLOGY MODERNIZATION FUND | | OTHER FUNDS TOTAL | |
|---|---|---|---|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 | **2018** | **2017** | **2018** | 2017 |
| **BUDGETARY RESOURCES** | | | | | | | | |
| Unobligated Balance from Prior Year Budget Authority, Net | **$118** | $125 | **$129** | $131 | **$-** | **$-** | **$247** | $256 |
| Appropriations | **261** | 275 | **-** | - | **89** | **-** | **350** | 275 |
| Spending Authority from Offsetting Collections | **50** | 35 | **659** | 662 | **-** | **-** | **709** | 697 |
| Total Budgetary Resources | **429** | 435 | **788** | 793 | **89** | **-** | **1,306** | 1,228 |
| **MEMORANDUM ENTRIES** | | | | | | | | |
| Net Adjustments to Unobligated Balance Brought Forward | **(3)** | (1) | **29** | 24 | **-** | **-** | **26** | 23 |
| **STATUS OF BUDGETARY RESOURCES** | | | | | | | | |
| New Obligations and Upward Adjustments | **287** | 314 | **693** | 693 | **1** | **-** | **981** | 1,007 |
| Unobligated Balance, End of Period | | | | | | | **-** | - |
| Apportioned, Unexpired Accounts | **63** | 62 | **20** | 14 | **88** | **-** | **171** | 76 |
| Unapportioned, Unexpired Accounts | **38** | 22 | **75** | 86 | **-** | **-** | **113** | 108 |
| Unexpired Unobligated Balance, End of Period | **101** | 84 | **95** | 100 | **88** | **-** | **284** | 184 |
| Expired Unobligated Balance, End of Period | **41** | 37 | **-** | - | **-** | **-** | **41** | 37 |
| Unobligated Balance, End of Period, Total | **142** | 121 | **95** | 100 | **88** | **-** | **325** | 221 |
| Total Status of Budgetary Resources | 429 | 435 | 788 | 793 | 89 | - | 1,306 | 1,228 |
| **OUTLAYS, NET** | | | | | | | | |
| Net Outlays from Operating Activity | **243** | 264 | **36** | 46 | **-** | **-** | **279** | 310 |
| Distributed Offsetting Receipts | **(89)** | (84) | **-** | - | **-** | **-** | **(89)** | (84) |
| Total Net Outlays | **$154** | $180 | **$36** | $46 | **$-** | **$-** | **$190** | $226 |

# OTHER **INFORMATION** (UNAUDITED)



GSA's personal property disposal services facilitate the reuse of **$1 billion in excess/ surplus property annually**.

# INSPECTOR GENERAL'S ASSESSMENT OF GSA's **MANAGEMENT & PERFORMANCE CHALLENGES FOR FY 2019**

**U.S. GENERAL SERVICES ADMINISTRATION**
Office of Inspector General

October 16, 2018

TO: EMILY W. MURPHY
ADMINISTRATOR (A)

FROM: CAROL F. OCHOA
INSPECTOR GENERAL (J)

SUBJECT: Assessment of GSA's Management and Performance Challenges for Fiscal Year 2019

As required by the Reports Consolidation Act of 2000, Public Law 106-531, we have prepared for inclusion in the Fiscal Year 2018 Agency Financial Report, the attached statement summarizing what we consider to be the most significant management and performance challenges facing GSA in Fiscal Year 2019.

This year we have identified significant challenges in the following areas:

1. Establishing and Maintaining an Effective Internal Control Environment Across GSA.
2. Enhancing Government Procurement.
3. Maximizing the Performance of GSA's Real Property Inventory.
4. Prioritizing Agency Cybersecurity.
5. Managing Human Capital Efficiently to Accomplish GSA's Mission.
6. Safeguarding Federal Facilities and Providing a Secure Work Environment.
7. Managing Revolving Funds Effectively.
8. Implementing GSA's Role Under the Comprehensive Plan for Reorganizing the Executive Branch.

Please review at your earliest convenience. If you have any questions or wish to discuss our assessment further, please call me at (202) 501-0450. If your staff needs any additional information, they may also contact R. Nicholas Goco, Assistant Inspector General for Auditing, at (202) 501-2322.

Attachment

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Federal Recycling Program Printed on Recycled Paper

## GSA'S MANAGEMENT AND PERFORMANCE CHALLENGES FOR FISCAL YEAR 2019 OFFICE OF INSPECTOR GENERAL

### Challenge 1: Establishing and Maintaining an Effective Internal Control Environment Across GSA

GSA faces a significant challenge in establishing a comprehensive and effective system of internal control. Although GSA is required to establish and maintain internal controls through the Federal Managers' Financial Integrity Act of 1982, Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, and the Government Accountability Office's (GAO's) *Standards for Internal Control in the Federal Government*, our audit reports have repeatedly pointed out that GSA lacks effective internal controls, or has internal controls in place but does not follow them. Without an effective internal control environment, GSA risks noncompliance with laws and regulations, improper reporting of information, inefficiencies, and misuse or poor use of government resources.

During the 1-year period ended June 30, 2018, we issued 18 audit reports and memoranda publicly. Of those 18, 13 noted deficiencies in internal control. The nature and extent of these deficiencies indicates that management attention is needed to develop a more effective internal control environment across GSA. For example:

- We audited the Federal Acquisition Service's (FAS's) controls over compliance with emissions standards in the Office of Fleet Management operations in the Pacific Rim Region. We found that GSA did not have controls in place to ensure compliance with applicable laws and regulations.[1] FAS's Fleet in the Pacific Rim Region did not correctly evaluate the effect of the California Truck and Bus Regulation emissions standards on its fleet and did not take the necessary steps to comply with the regulation. As a result, GSA was fined $485,000 by the Environmental Protection Agency.

- In our audit of an Energy Savings Performance Contract (ESPC) awarded in the Public Buildings Service's (PBS's) National Capital Region, we found that PBS violated the Competition in Contracting Act of 1984 and the competition requirements set forth in the Federal Acquisition Regulation by making a cardinal change to the contract that substantially increased the contract's scope of work for operations and maintenance. This action eliminated price competition and denied opportunities for other contractors. Our recommendations included instituting management controls to ensure that

[1] *FAS's Office of Fleet Management in the Pacific Rim Region Did Not Comply with California State Emissions Regulations, Resulting in a $485,000 Fine* (Report Number A170040/Q/5/P18002, April 19, 2018).

procurements comply with the Competition in Contracting Act of 1984 and the Federal Acquisition Regulation.[2]

- We examined GSA's Computers for Learning (CFL) Program to determine whether GSA has adequate controls in place to prevent ineligible organizations from accessing its CFL website and receiving information technology (IT) equipment intended for eligible schools and educational nonprofit organizations. We found that in administering the CFL website, GSA does not have adequate controls to prevent ineligible organizations from registering and receiving donations of IT equipment. GSA does not perform any eligibility verifications before or after an organization registers on the website as an educational nonprofit. As a result, the CFL Program is susceptible to fraud and misuse. During the year ended June 30, 2016, ineligible organizations registered as educational nonprofits received approximately $2.5 million in federally-owned computer equipment intended to educate children. This represented over 22 percent of the total IT equipment donated to recipients registered as educational nonprofit organizations.[3]

- We audited the Office of the Chief Financial Officer's compliance with the Improper Payments Acts and found that, although GSA complied with five of the six requirements of the Acts, it did not meet its improper payment reduction target for the Rental of Space Program. Additionally, GSA did not accurately test its Purchase Card Program payments, resulting in several errors in reported estimates and figures in its Fiscal Year (FY) 2017 Agency Financial Report tables. Among other things, we recommended that GSA's Chief Financial Officer improve controls over the payment process for Rental of Space and strengthen controls of improper payment testing under the Purchase Card Program.[4]

Further, in their report on GSA's financial statements for FY 2017, the Agency's independent public accountant identified three significant deficiencies associated with GSA internal controls over financial management. Specifically, the independent public accountant reported that GSA did not:

- Monitor Acquisition Services Fund apportionments effectively. As a result, the Acquisition Service Fund budgetary resources for reimbursable activity exceeded the fund's apportioned budget authority by approximately $705 million.

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[2] *PBS National Capital Region's $1.2 Billion Energy Savings Performance Contract for White Oak was Not Awarded or Modified in Accordance with Regulations and Policy* (Report Number A150009/P/5/R17006, August 24, 2017).

[3] *GSA Lacks Controls to Effectively Administer the Computers for Learning Website* (Report Number A160118/Q/3/P17003, July 13, 2017).

[4] *GSA Did Not Comply with the Improper Payments Acts in Fiscal Year 2017* (Report Number A170104/B/3/F18004, May 11, 2018).

- Enforce documented system-specific, GSA-wide, and National Institute of Standards and Technology policies and procedures consistently. Consequently, certain access to programs and data controls were not designed and implemented properly or operating effectively in FY 2017.

- Have or consistently enforce monitoring controls over its financial reporting processes, increasing the risk that misstatements will not be prevented or detected in financial records and statements.

Internal control serves as the first line of defense in safeguarding assets and helping managers achieve desired results through effective stewardship of public resources. In light of the pervasive internal control weaknesses identified in reports issued by our office and GSA's independent public accountant, GSA management's challenge is to implement a more effective system of internal controls to ensure the Agency consistently complies with laws and regulations, produces accurate and reliable reports, and operates effectively.

## Challenge 2: Enhancing Government Procurement

One of GSA's strategic goals for FY 2019 is to establish itself as the premier provider of efficient and effective acquisition solutions across the federal government. As an integral part of GSA, FAS has significant responsibility in meeting this goal. According to FAS, it leverages the buying power of the federal government to obtain necessary products and services at the best value possible. However, as FAS introduces initiatives to provide more efficient and effective acquisition solutions, it faces challenges in meeting its customers' needs.

In order to meet this and other strategic goals, FAS is continuing several previous initiatives, as well as beginning several others. The initiatives include:

- Supporting the Acquisition Gateway, while driving more business to its contract offerings;
- Transforming the Multiple Award Schedules Program;
- Implementing e-commerce portals;
- Transitioning customers to the new Enterprise Infrastructure Solutions contracts; and
- Consolidating 10 procurement-related systems into a single system.

While these initiatives are intended to help FAS meet its strategic goals, they also significantly change FAS's processes and programs, affecting both its employees and its customers.

### Supporting the Acquisition Gateway

In FY 2014, the OMB introduced category management, which is a government-wide initiative intended to eliminate redundancies, increase efficiency, and deliver more value and savings from the government's acquisition programs. To facilitate category management, FAS

developed and is overseeing the Acquisition Gateway, an electronic portal for the government contracting community to connect and share acquisition related information. The gateway provides acquisition information such as sample statements of work, related acquisition articles, and transactional prices paid data. Although FAS has invested over $25 million and up to 15 full-time employees between FY 2016 and FY 2017 to establish and continue support of the Acquisition Gateway, government agencies are not required to use it. As a result, FAS is challenged with measuring the success of the gateway and its ability to save government funds.

GSA's *FY 2017 Performance Measures* evaluated the success of the Acquisition Gateway's ability to deliver contracting solutions by emphasizing the number of registered users to the website. However, this is not a good measure because it does not account for what active users contributed to or used from the website, nor whether the website has an overall effect on government procurement. As FAS continues to spend significant funds to support and maintain the Acquisition Gateway, it is challenged to measure the gateway's effectiveness to generate government savings. Also, contrary to the gateway's current intent to provide unbiased acquisition solutions and best practice comparisons, FAS is considering using the gateway to drive business to its own contract offerings. FAS faces challenges to balance the Acquisition Gateway's intended goal to provide unbiased solutions and best practices with its goal to increase revenue from government customers through the use of its contracting vehicles.

### Transforming the Multiple Award Schedules Program

Since 2009, FAS has implemented several initiatives to transform its Multiple Award Schedules Program (Schedules Program). These initiatives include "distinct transformation projects" aimed at consolidating schedules, reducing price variability, and easing the buying experiences of user agencies through rule changes. These initiatives will significantly affect the Schedules Program and FAS is challenged to ensure the initiatives are effectively implemented. During this transformation, we continue to highlight the need for strengthened management over the entire Schedules Program.

**Consolidated Schedules.** In an effort to reduce redundancy and duplication of products, services, and solutions across the Schedules Programs, FAS is working toward consolidating the 24 current schedules down to 1 single schedule and possibly eliminating Special Item Numbers.[5] FAS expects this consolidation to reduce the administrative and contractual burden of maintaining duplicate contracts and allow schedule contractors to provide total solutions without maintaining multiple schedules. FAS has noted several challenges in transforming a program this large. The challenges include a lack of buy-in from all stakeholders, a lack of dedicated resources, excessive costs related to existing systems and the need for new systems, a lack of insight into its own business trends, and legislative restrictions that would require updates and changes.

[5] Special Item Numbers are a group of generically similar (but not identical) products or services that are intended to serve the same general purpose or function. The products and services within each schedule are categorized and identified by a specific Special Item Number.

**Transactional Data Reporting** FAS has implemented the Transactional Data Reporting rule, which was formalized in the Federal Register in June 2016, and is currently a pilot program. Under this pilot, contractors can voluntarily opt to electronically report the prices GSA customers pay for contract products and services. GSA contracting officials and schedule customers can presumably use the transactional data to conduct pricing comparisons, with the goal of reducing price variability. However, using this data for this purpose will be difficult because many of the products and services offered under the Schedules Program are unique and cannot be compared. The transactional data GSA receives also may not provide useful pricing information for contracting officers because of how the data is reported. For example, if a contractor's transactional data submission includes bundled product and pricing information, it will not be useful for price analysis of GSA contract products that are priced as individual components. Furthermore, under the pilot, contracting officers compare a contractor's offered price to a limited subset of prices paid by federal customers on GSA schedule sales, which ignores any comparable commercial activity.

In July 2018, we issued a report on our audit of the evaluation plan and metrics FAS is using to evaluate the TDR pilot. We determined the evaluation plan and metrics will not allow FAS to objectively measure or evaluate whether the TDR pilot is improving the value of the Schedules Program. Specifically, we found that the TDR pilot objectives were not well-defined, some metrics lacked performance targets, and a majority of the metrics relied on data that is not available for use in or evaluation of the pilot.[6] Without the ability to objectively evaluate the pilot, FAS is challenged with making decisions regarding the future of Transactional Data Reporting.

Additionally, the pilot has experienced major changes since it began. First, contractors were initially required to participate if their schedule was selected; however, they may now opt to not participate in the pilot without consequences. Second, the transactional data has not been made available to all category managers and acquisition personnel for their use in awarding and administering schedule contracts. GSA is working to determine what specific data to release to specific parties, which includes GSA acquisition personnel, government-wide category managers, schedule contract holders, and other interested stakeholders.

**Contract Awarded Labor Category Tool and the Replacement for the Formatted Product Tool**
The Contract Awarded Labor Category Tool is designed to assist contracting officers in evaluating pricing for services. This tool assists contracting officers in conducting market research using a database of government contract prices for approximately 56,000 labor categories on over 5,000 contracts under the Professional Services and IT schedules. This tool allows contracting officers to search contract prices by labor category and filter by education level, experience, and worksite. However, because contractors often use unique pricing on task orders, the tool does not provide the actual government prices paid by labor category or the discounts granted to customer agencies. Furthermore, the tool does not consider factors such

[6] *Audit of Transactional Data Reporting Pilot Evaluation Plan and Metrics* (Report Number A140143/Q/T/P18004, July 25, 2018).

as geographic location or basic labor category qualification requirements, including specialized experience or skills and mandated professional licensing or certifications, which are essential to ensuring that a valid comparison is conducted.

The Formatted Product Tool (FPT) was designed to reduce price variability on products offered under the Schedules Program, while driving better competition, improving contracting officer efficiency, and reducing vendor burden. However, because several deficiencies led to FPT being cumbersome and extremely time-consuming for contractors with large catalogs, FAS decided to cease its FPT investment. Instead, FAS decided to develop a new solution aimed to achieve many of FPT's objectives. FAS faces a significant challenge to transition from FPT's failure to a new solution that reduces contracting officer burden in processing contracts, simplifies contractor experience in managing schedule offerings, and enhances market research capabilities for government buyers.

*GSA Advantage!* GSA *Advantage!* is FAS's online purchase portal that allows price comparisons, but suffers from functionality issues. While a recent Naval Postgraduate School study found that GSA *Advantage!* sometimes offers more favorable pricing than Amazon Business, the study did not take into account terms and conditions, minimum buying requirements, and that *GSA Advantage!* pricing was also higher than Amazon Business in many cases.[7] In addition, the study found GSA *Advantage!* users generally had a negative experience when using the website. Specifically, the study found that when it asked users to rate their level of customer satisfaction with GSA *Advantage!*, the users' ratings varied widely between very dissatisfied and somewhat satisfied. FAS has acknowledged that GSA *Advantage!* could benefit from improvements in its search functionality and the quality of product images and descriptions and is looking to improve both buyers' and sellers' experiences with the portal. This is an important challenge as GSA *Advantage!* looks to potentially compete with the future e-commerce portals on particular commodities frequently purchased by federal entities.

As FAS continues to implement these initiatives, it must develop means to ensure they maintain a crucial link to the commercial market. GSA must avoid circumstances in which government customers are paying significantly more for the same products and services purchased commercially.

With these initiatives occurring simultaneously, FAS is challenged to ensure that acquisition personnel have a sufficient understanding of each initiative and are able to implement and use the initiatives as intended.

**Implementing Procurement Through Commercial E-Commerce Portals**

The National Defense Authorization Act for FY 2018, Section 846, *Procurement Through Commercial E-Commerce Portals*, was signed into law on December 12, 2017. GSA, in coordination with the Office of Management and Budget, is required to establish a

[7] *Amazon Business and GSA Advantage!: A Comparative Analysis* (December 2017).

government-wide program to procure commercial products through commercial e-commerce portals. The program's intent is to enhance competition, expedite procurement, enable market research, and ensure reasonable pricing. GSA intends to implement this program by September 2020 using a phased approach.

The implementation of a government-wide e-commerce portal is a complex endeavor and GSA needs to address multiple issues, including the following:

- Since the law was enacted, GSA and other stakeholders have acknowledged the overarching, significant challenge of ensuring that purchases through the e-commerce portal comply with federal regulation and policy. For example, federal regulations and policy related to competition, data and physical security, and small business usage were established to protect the government and support various public policy initiatives. However, incorporating these requirements for the e-commerce platform could reduce competition when selecting portal providers and negatively affect pricing.

- GSA is also challenged to plan and implement this program without knowing the business volume that will flow through the e-commerce portals. The portals will be an additional contract option for customer agencies but not a mandatory source. As an additional contract vehicle, there is potential duplication of, or competition with, existing procurement programs and contract vehicles (both within and outside of GSA). The unknown business volume can affect the decisions GSA makes in establishing the program as well as the decisions that portal providers and contractors make when seeking to do business through this program.

- In the implementation plan provided to Congress in March 2018, GSA and the Office of Management and Budget recommended four legislative changes that they determined necessary to implement a program to purchase through e-commerce portals. One of these changes is to increase the micro-purchase threshold – from $5,000 for Department of Defense and $10,000 for civilian federal agencies – to $25,000 for purchases made through GSA-approved e-commerce portals.[8] Purchases under this threshold are usually performed non-competitively. GSA has stated that this increase will allow a faster rollout of the program while allowing contracting officers to focus on more strategic, mission-critical work.

  However, stakeholders voiced concerns on the rationale of this increase and how it would affect other contracting vehicles. In August 2018, the National Defense Authorization Act for FY 2019 was signed into law and reflected legislative changes noted in the e-commerce implementation plan; however, most notably, it did not reflect the increase to a $25,000 micro-purchase threshold. Instead, it solely raised the threshold for Department of Defense purchases to $10,000 to mirror the existing threshold for civilian federal agencies. This decision may affect GSA's implementation

[8] A micro-purchase is an acquisition of supplies or services using simplified acquisition procedures.

plan as well as the volume or frequency of customer agencies choosing to use e-commerce portals.

As GSA continues to take steps to comply with the requirements and fulfill its responsibilities under this law, it must consider these issues while also remaining vigilant to unintended consequences of implementation.

**Leading the Transition to Enterprise Infrastructure Solutions Contract**

FAS is leading the government-wide transition from the expiring Networx telecommunications and IT infrastructure contracts to the new Enterprise Infrastructure Solutions (EIS) contract. EIS is a 15-year, $50 billion contract that provides customer agencies with common telecommunication services and IT infrastructure such as voice, cloud services, call and data centers, satellites, and wireless services. To reduce overlap and duplication, EIS will consolidate offerings currently provided by national and regional contracts and leverage the government's buying volume to reduce prices. Additionally, customer agencies are using the transition to EIS as an opportunity to enhance cybersecurity and modernize federal IT.[9]

Since the transition began in April 2016, FAS has encountered significant challenges in its efforts to transition customer agencies to EIS. From delays in awarding the EIS contract to issues with administering a task order meant to provide direct support to customer agencies, these challenges could significantly affect FAS's ability to transition more than 200 customer agencies by the March 2020 targeted deadline.

For example, FAS encouraged customer agencies to begin transition planning early with the release of the EIS Request for Proposals; however, FAS awarded the EIS contract in July 2017, 10 months later than planned. FAS structured the EIS transition into three phases: (1) acquisition planning, (2) acquisition decision, and (3) transition execution. The transition is currently in the acquisition planning phase that concludes when a customer agency issues solicitation(s), which are requests to EIS awardees to submit offers or quotes for EIS services.

However, FAS made a significant programmatic decision in early October 2017 to end the EIS Full Service Model, directly affecting the acquisition planning phase and its scheduled completion, which was also in October 2017. Under the Full Service Model, FAS orders services, troubleshoots service disruptions, and resolves issues with contractors on behalf of customer agencies. Because of this decision, customer agencies had to revise their EIS solicitations to incorporate services previously provided under the Full Service Model, resulting in additional transition delays.

Administration of the EIS assistance contract has also been an issue. FAS offers customer agencies direct EIS transition assistance through two task orders. One such task order is for Transition Ordering Assistance that provides customer agencies with telecommunications and

[9] *Report to the President on Federal IT Modernization* (American Technology Council, December 13, 2017).

acquisition expertise to assist with transition activities. Although initially awarded in September 2016, a bid protest hindered the start of work until March 2017, further delaying transition progress. We reported two significant concerns with FAS's administration of this task order.[10] If not corrected, the task order's usefulness in meeting the EIS transition deadline may be limited.

Ultimately, customer agencies have made little progress issuing solicitations by October 2017 as outlined in the transition timeline. As of August 31, 2018, customer agencies had only issued 16 of the estimated 190 solicitations. FAS must ensure the EIS transition meets milestone dates to capitalize on potential cost savings resulting from reduced acquisition costs and volume buying; as well as ensure uninterrupted service.

**Delivering the System for Award Management**

FAS is responsible for the System for Award Management (SAM), a Presidential e-government initiative to consolidate 10 procurement-related legacy systems. These systems, collectively known as the Integrated Award Environment (IAE), are used by those who award, administer, and receive federal funds. Transactions under the IAE include contract awards, intergovernmental payments, grants, and other federal assistance. Started in 2008, the SAM initiative has historically overrun timeframes and costs. Given IAE's nearly 4 million federal users, diligent project and fiscal management is necessary to ensure SAM's completion and system quality.

FAS has confronted a number of significant challenges since SAM's inception. In addition to the IAE consolidation under a complex governance structure, FAS faced funding constraints, contractor performance issues, and high project staff turnover. Because of these challenges, SAM – which FAS once expected to complete by 2014 – is not estimated for completion until 2021.

In addition, SAM has experienced a recent series of fraudulent activity targeting system registrants and entities. These significant security incidents have exposed SAM's vulnerability related to the identity verification of individuals and their authorization to conduct business on behalf of a company. The technological and personnel resources required to secure the system and remediate the harm caused by these security incidents could lead to additional delays and likely increase SAM's operational and development costs.

The 7-year delay has led to significant costs, as FAS must keep legacy systems functioning until SAM is complete. FAS projected a total cost of $813 million for SAM development and legacy system operation and maintenance from FY 2010 through FY 2019. FAS will likely exceed this estimate if SAM is completed in 2021 or later.

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[10] *FAS Is Providing Support Services to Agencies Transitioning to Enterprise Infrastructure Solutions without Executed Interagency Agreements* (Audit Memorandum Number A170103-3, January 12, 2018); and *FAS Did Not Ensure That Contract Employees Had Background Investigations Before Providing Support to Agencies Transitioning to Enterprise Infrastructure Solutions* (Audit Memorandum Number A170103-4, June 29, 2018).

While FAS continues to consider the impact of these challenges on the SAM consolidation project milestones, risks remain that could potentially delay the project's completion beyond 2021. For example, FAS recently had to shift resources from the SAM consolidation project to address legacy system security weaknesses. Additionally, FAS may still need to incorporate system changes to comply with regulation updates, new policies, or requests from governance bodies. Specifically, FAS may need to make significant changes to the system if a new identifier for registered companies is adopted. This potential change is driven by: (1) a Federal Acquisition Regulation final rule that eliminated the use of Dun and Bradstreet's proprietary Data Universal Numbering System as the unique identifier for registered companies, and (2) the 2018 expiration of Dun and Bradstreet's GSA contract. If a new contractor registration identifier is implemented, significant system changes may be necessary as SAM's information is built entirely using proprietary information supplied by Dun and Bradstreet.

Beyond delays and increasing costs, SAM also faces other challenges. For example, third parties are using public information generated by SAM to contact system registrants to request money to complete or renew their registration, even though registration in SAM has always been free of charge. In some instances, third party registration services are offered for a fee, and in other instances, third parties fraudulently claim to represent GSA and request fees from the registrant. This has the potential to erode public trust in SAM and the government's ability to protect the interests of contractors doing business through SAM.

The success of the SAM initiative is critical to enable agencies to share acquisition data and make informed procurement decisions, make it easier for contractors to do business with the government, and generate savings for the taxpayer. While GSA has taken steps to improve and stabilize the project, it must apply sound management practices to identify and address risks to project completion and to ensure the project is delivered in a cost effective and timely manner. Additionally, GSA must ensure the appropriate technical controls and safeguards are implemented to secure the system and protect the users and data from malicious threats.

## Challenge 3: Maximizing the Performance of GSA's Real Property Inventory

PBS must maximize the performance of its real property inventory in order to provide its tenant agencies with space that meets their needs at a reasonable cost to American taxpayers. To achieve this goal, PBS should plan the best approach to reducing and consolidating space, disposing and exchanging federal property, reducing leasing costs, effectively administer its leased portfolio, meet the operations and maintenance needs of aging buildings, and ensure effective management of energy and utility contracts.

Reducing and Consolidating Space. In fulfilling its responsibilities under the Office of Management and Budget's *Freeze the Footprint* and *Reduce the Footprint* mandates, GSA has sought to improve space utilization in its federal building portfolio. In testimony before the House Committee on Oversight and Government Reform's Subcommittee on Government Operations in February 2018, GSA Administrator Emily Murphy stated that GSA is committed to reducing space and decreasing rental cost. Further, she stated that GSA is working with

agencies to identify under-utilized or vacant facilities that GSA can consolidate or eliminate altogether.

According to a March 2018 GAO report, most of the 24 agencies with chief financial officers reported that they planned to consolidate their office and warehouse space and allocate fewer square feet per employee as key ways to achieve their space reduction targets.[11] The agencies most often identified the cost of space reduction projects as a challenge to achieving their targets. Agencies cited costs for space renovations to accommodate more staff and required environmental clean-up before disposing of a property as challenges to completing projects.

Since FY 2014, Congress has provided GSA with the authority to use funds for space consolidation projects. Most recently in FY 2018, Congress authorized the use of $20 million from the Federal Buildings Fund to reconfigure and renovate space within GSA-owned and leased buildings. Congress also called for preference to be given to consolidation projects that achieve a utilization rate of 130 usable square feet or less per person for office space.

As PBS continues to facilitate agency consolidation projects, it must ensure that the selected projects are cost effective and provide an adequate payback. PBS should ensure that it selects space reduction and consolidation projects that are not only focused on meeting utilization rate goals, but that also support the customer agencies' missions and are cost effective.[12] In this effort, PBS needs to create plans to backfill any vacant space created by consolidations. Proper planning is critical to prevent losses to the Federal Buildings Fund resulting from vacated space that could have been backfilled with new tenants.

Another area that GSA needs to focus on is working with agencies to identify under-utilized or vacant facilities that GSA can consolidate or eliminate altogether. In August 2018, we issued a report noting that PBS is not tracking and reporting all unused leased space under its authority as required. We found that although PBS is reporting a relatively low leased space vacancy rate, we identified 785,400 square feet of unused leased space representing $21 million in annual rental payments that PBS is not reporting as required. Specifically, PBS does not identify or report unused leased space under non-cancelable occupancy agreements where the tenant continues to pay rent. As a result, PBS is not backfilling the space or taking other steps to minimize the impact to the taxpayer.[13]

**Disposing Federal Property.** The goal of the Federal Assets Sale and Transfer Act of 2016 (FASTA) is to reduce federal real estate expenditures and the size of the federal real estate

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[11] GAO report, *Agencies Focus on Space Utilization As They Reduce Office and Warehouse Space* (Report Number GAO-18-304, March 8, 2018).

[12] Utilization rate is a space planning and facility programming term used by designers, architects, facility managers and government agencies to define a building's occupiable square foot per person.

[13] *GSA's Public Buildings Service Does Not Track and Report All Unused Leased Space as Required* (Report Number A160133/P/6/R18002, August 10, 2018).

portfolio. It created the Public Buildings Reform Board to identify opportunities to reduce the federal real property inventory and make recommendations to sell vacant or underutilized properties. FASTA also required GSA to establish a publically accessible database of federal property for the entire federal government. In December 2017, GSA met this requirement when it rolled out the Federal Real Property Profile Management System.

As it continues its efforts under FASTA, GSA must continue to plan for and navigate through a complex process when disposing of its own properties and the properties of other federal agencies. Historically, property disposal is a lengthy process. After an agency reports a property as excess, PBS must first determine if another federal agency can use the property. Next, PBS has to make the property available for public benefit uses, such as homeless shelters, educational facilities, or fire or police training centers. If the property is not fit for those uses, PBS can negotiate a sale with state and local governments, as well as nonprofit organizations and institutions. Finally, if the property remains available, PBS can conduct a competitive sale of the property to the public.

The amount of time that a disposal takes is problematic because costs are incurred during the disposal process. While a property is vacant or underutilized, as well as throughout the entire disposal process, the federal government is responsible for ongoing maintenance, operations, and security costs. In addition, the property remains in the government inventory and unavailable for local development. For example, a large tract of land in Lakewood, Colorado, has been in the disposal process for several years. This is prime real estate in the Denver-metro area that could be developed to generate jobs, business, and property taxes for the local area.

In September 2016 testimony to the Subcommittee on Transportation and Public Assets of the U.S. House Committee on Oversight and Government Reform, the then PBS Deputy Commissioner stated that GSA planned to divest at least 10 million square feet of underperforming assets over the next 4 years.[14] To reduce the length of the disposal process and costs associated with underperforming assets, GSA must successfully plan for and efficiently progress through the required steps.

**Reducing Leasing Costs.** In June 2016 testimony to the U.S. Senate Committee on Homeland Security and Governmental Affairs and the U.S. House Committee on Transportation and Infrastructure, Subcommittee on Economic Development, Public Buildings, and Emergency Management, the former PBS Commissioner noted that, in addition to the focus on freezing the footprint, GSA must also focus on the cost of the footprint, in particular as it pertains to leasing. To control lease costs, GSA must reduce the reliance on holdovers and extensions.

A holdover is created when the tenant continues to occupy the premises beyond the expiration date of the lease term. The government has no contractual right to continue occupancy but the tenant remains in place without a written agreement. An extension is a sole-source, negotiated

[14] In FY 2016, GSA partnered with agencies to dispose of 134 properties for $28.84 million, resulting in a 2.3 million square foot reduction in the federal footprint.

agreement between the lessor and the government allowing the tenant agency to continue to occupy its current location when the tenant is unable to vacate the property when the lease expires.

Short-term holdovers and extensions may provide flexibility, but it comes at a cost. According to PBS officials, on average, lease extensions cost an additional 20 percent. Long-term leases provide incentives for owners to provide lower rental rates and concessions such as periods of free rent. PBS officials stated that their strategy is to emphasize leases of over 10 years, because longer leases typically result in lower annual costs. If PBS can better manage the pipeline of expiring leases to avoid holdovers and extensions, PBS could benefit by conducting fully competitive procurements for long-term leases.

PBS has a considerable number of leases set to expire in the near future. PBS determined that 55 percent of its leases would be expiring from FY 2018 to FY 2023. Of the current lease portfolio of 8,091 leases, 600 are in holdover (0.7 percent) and 1,268 are in extension status (16 percent). The short-term nature of holdovers and extensions causes uncertainty for tenants and lessors, and workload management issues for PBS. Negotiating extensions and resolving holdovers requires PBS to perform additional work before finalizing the long-term lease for that tenant. Also, when these short-term extensions expire, they add to the number of leases set to expire in a given year.

PBS's strategy to reduce its dependency on lease holdovers and extensions centers on working with customer agencies to emphasize the importance of earlier planning for upcoming lease expirations. In July 2015, PBS issued its *Leasing Alert – Continuing Need Letters and Escalation Protocol* to establish a policy that PBS contact tenants to obtain requirements for future needs at least 36 months before a lease expiration date. As leases expire, upfront planning is important to allow for competitive procurements to achieve better rates for the tenant and taxpayer.

**Administration of Leases.** PBS faces significant challenges in maintaining and administering leases for federally occupied space. As the landlord for the civilian federal government, PBS acquires space on behalf of the federal government and acts as a caretaker for federal properties across the country. As of January 2017, 185.7 million of PBS's 370 million square feet of property was leased space, accounting for $5.8 billion in annual rent. Approximately half of federal employees are located in leased properties across the country.

In its capacity as the federal government's landlord, PBS has a responsibility to effectively administer its lease portfolio to protect tenants and taxpayer resources and comply with applicable laws and regulations. However, we have previously reported deficiencies in PBS's management of leased space, which indicate the need for improvements across a broad spectrum of the leasing program. For example:

- In September 2015, we reported on the lease administration practices in PBS's Michigan Service Center, noting that PBS did not always provide clean, safe, secure, maintained,

and comfortable work space. Specifically, we found safety, fire protection, and security deficiencies that should have been detected by the lease property managers in their inspections. As a result, some building occupants were in space that did not meet the fire and life safety requirements of the lease and were potentially exposed to unsafe work environments. For example, for one leased location, a section of the fire escape had bent, broken, or missing stairs. In another location, we found multiple fire and safety hazards including fire extinguishers that were out of compliance or inaccessible.[15]

- In January 2017, we issued a report identifying environmental, health and safety, and maintenance issues at the Kress Building in Tampa, Florida. We found that PBS had not enforced the terms of the full service lease at the Kress Building and that tenants may have been exposed to health risks. Specifically, PBS did not hold the lessor accountable for maintenance and repair issues in a timely fashion and failed to timely notify tenants about the presence of black mold.[16]

- In June 2018, we reported that PBS did not effectively fulfill its leasing responsibilities for leased space in Tulsa, Oklahoma. Specifically, although PBS officials were aware before executing the lease that the building's roof leaked, they did not incorporate terms and conditions into the lease to ensure that the lessor resolved the problem prior to occupancy. As a result, despite recurring water leaks and mold problems in the building, PBS lacked the ability to compel the lessor to replace the roof and was ultimately forced to terminate the lease at a cost of $974,000 to taxpayers.

  In addition, PBS did not follow its policies and procedures to ensure that the leased space met federal requirements for building accessibility prior to occupancy. Consequently, the leased space did not comply with federal accessibility requirements and people with disabilities were unable to easily access the leased space.[17]

PBS is the federal government's landlord, responsible for ensuring the federal workforce and visitors have safe and healthy work environments. PBS has a responsibility to effectively administer its lease portfolio to protect tenants and taxpayer resources and comply with applicable laws and regulations. However, as our audits found, PBS faces significant challenges in maintaining and administering leases for federally occupied space.

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[15] *Oversight and Safety Issues at the PBS Michigan Service Center* (Report Number A140024/P/5/R15009, September 30, 2015).

[16] *PBS Failed to Enforce Kress Building Lease Provisions and May Have Exposed Tenants to Health Risks* (Report Number A160019/P/4/R17003, January 27, 2017).

[17] *PBS's Leasing for the Eton Square Office Centre Was Not Effective or Compliant With Policies* (Report Number A170091/P/7/R18001, June 11, 2018).

**Meeting the Operations and Maintenance Needs of Federal Buildings.** In recent years, PBS focused on minimizing maintenance costs while still maintaining or improving building performance. However, minimizing the level of operations and maintenance services may have the unintended consequence of impairing conditions within the building.

Beginning in FY 2015, PBS focused on minimizing operations and maintenance costs by targeting and consolidating operations and maintenance contracts for which costs exceeded industry benchmarks. In its *FY 2018 Congressional Justification*, GSA made targeted reductions to PBS's building services costs and continued efforts to reduce operating costs associated with its building inventory.

While minimizing costs may benefit PBS financially in the short term, PBS must also consider any possible negative effect of these changes over the long term. For example, in some instances PBS is scaling back on running heating, ventilation, and air conditioning systems at night and on weekends to reduce maintenance and energy costs. However, this could increase the humidity in the air, causing enough moisture for mold growth. Thus, PBS's efforts to minimize maintenance and operations costs may have unintended consequences of causing more costly problems in the future.

The risk that reduced levels of building operations and maintenance could lead to increased costs is especially problematic since the identified repair needs of PBS's building portfolio are already high and growing. In its FY 2017 Agency Financial Report, GSA reported that approximately 23 percent of its inventory's square footage was not in good condition; a nearly 4 percent increase from the previous year. In a recent FY 2019 budget hearing, the GSA Administrator identified a backlog of over $1.4 billion in building repairs needed to meet property standards of the 21st century; a nearly $200 million increase from the previous year.

GSA must ensure that reductions to its current operations and maintenance costs do not affect its ability to provide safe, reliable, and functional building performance for its tenants and the public.

**Ensuring Effective Management of Energy Savings Performance Contracts and Utility Energy Service Contracts.** Between September 2013 and May 2018, PBS awarded over $1.5 billion in ESPCs and utility energy service contracts (UESCs). However, ESPCs and UESCs are high risk areas for PBS, with high-dollar contract values and long-term financial commitments. Without effective management, PBS may not realize projected savings from these contracts.

Under an ESPC, the government contracts with an energy service company to install energy-saving upgrades to buildings and pays the energy service company from the energy savings projected from the upgrades. An ESPC can last for up to 25 years. A UESC is a contract between a federal agency and serving utility company for energy management services, including energy and water efficiency improvements. The utility company pays most or all of the upfront costs, and the government repays the utility company through utility savings, appropriated funds, or a combination of the two. UESCs can also last up to 25 years.

In recent audits of ESPCs, we identified a number of challenges.[18] We found that PBS:

- Risked paying for unrealized energy savings on 10 of the 14 ESPC task orders we audited and did not achieve energy savings on another task order;
- Did not comply with requirements for establishing fair and reasonable pricing;
- Awarded one ESPC task order for a building that may be sold, transferred, or otherwise disposed;
- Awarded an ESPC without an approved Measurement and Verification Plan for achieving energy savings;
- Awarded a task order that resulted in a cardinal change that violated federal competition requirements; and
- Did not comply with Agency policy on the inclusion of the Limitation of Government Obligation Clause.

In February 2017, PBS Facilities Management Service Program officials expressed their continued concern that actual ESPC savings may fall short of the expected savings calculated at the beginning of the contract. Also, they said it is a challenge to determine when it is appropriate to include operations and maintenance costs in the contracts.

Likewise, UESCs also present a number of risks for PBS. The primary risks involved with UESCs include:

- Limited competition among utility companies;
- A high number of sole-source contracts; and
- A lack of mandated savings guarantees.

Due to the lack of competition and use of sole-source contracts, PBS is vulnerable to paying a high cost for these projects. In addition, because UESCs are not mandated to guarantee savings upon project completion, upfront costs to execute UESC projects may not be offset by the estimates of the long-term savings.

PBS officials should effectively administer these unique contract vehicles to ensure that energy and cost savings are realized.

## Challenge 4: Prioritizing Agency Cybersecurity

Cyber attacks are increasing in frequency and in their capacity to cause damage. They have the potential to cripple infrastructure; disrupt organizational operations; and jeopardize data and

[18] *PBS Energy Savings Performance Contract Awards May Not Meet Savings Goals* (Report Number A150009/P/5/R16003, September 27, 2016); and *PBS National Capital Region's $1.2 Billion Energy Savings Performance Contract for White Oak was Not Awarded or Modified in Accordance with Regulations and Policy* (Report Number A150009/P/5/R17006, August 24, 2017).

sensitive information. As cybersecurity threats proliferate and become more sophisticated, GSA management must improve its overall IT security program to ensure that the Agency protects its IT systems as well as the sensitive information within.

The Office of GSA IT (GSA IT) is responsible for providing stable and secure technical solutions and services to meet the business needs of its customers. In addition, these solutions and services must comply with laws, regulations, and guidance governing information technology security (IT security). Meeting these responsibilities is a significant challenge in an environment of competing priorities and increasingly sophisticated cyber attacks. The ineffective selection and implementation of IT security controls can result in business disruptions, damage to Agency resources, and the disclosure of sensitive information. In FY 2019, GSA IT remains challenged with strengthening its IT security controls in high-risk areas as identified in recent audits conducted by GAO, GSA's independent auditor, and our office. As demonstrated below, GSA's systems and data are vulnerable. In this environment of constant threats, GSA IT needs to ensure that GSA's IT systems and sensitive information are adequately protected to prevent the disruption of government operations and the unauthorized disclosure of information.

**Protection of GSA's Building Control Systems against Cyber Attacks.** In January 2018, GAO reported that GSA faces cybersecurity challenges with its buildings control systems, which are vulnerable to cyber attacks that could compromise security or cause harm. In an effort to mitigate the effects of potential external cyber attacks, the Agency is moving building automation systems in GSA-controlled buildings away from public networks to GSA's secured network. Currently, approximately 400 federally-owned buildings are on GSA's secured network. Of those buildings, 81 are equipped with GSAlink, an analytical software application that alerts staff to potential building system problems, such as equipment operating outside of normal hours.[19]

While GSA needs to continue taking steps to mitigate external threats, action is also needed to address the internal threats in the operation and management of these systems. For example, security incidents involving building systems were reported in FY 2018 involving access, protection, and privacy control violations by employees or contractors sharing administrative passwords and bypassing IT security controls in GSA's building control systems. Accordingly, GSA must ensure that its employees and contractors are adhering to the Agency's security policies, procedures, and guidance in the operation and management of its building control systems. Continued efforts in this area are necessary as security weaknesses within GSA's building control systems may be used to compromise security, hamper GSA's ability to carry out its mission, or cause physical harm to GSA's facilities or their occupants.

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[19] GAO report, *Federal Buildings: GSA Should Establish Goals and Performance Measures to Manage the Smart Buildings Program*, GAO-18-200 (Washington, D.C., January 30, 2018).

**Controlling Access to Sensitive Information in GSA Systems** In FY 2019, GSA will continue to face challenges with maintaining the integrity, availability, and confidentiality of sensitive information within its systems. This sensitive information includes, among other things:

- Procurement sensitive information, such as information related to bidding and prices paid, that must be kept confidential to protect the integrity of the acquisition process;
- Personally identifiable information, such as resumes and personal contact information, that must be kept confidential to prevent harm to individuals;
- Vendor financial information, such as bank account information, that must be protected to ensure payments are not fraudulently redirected;
- Sensitive but unclassified information, such as architectural drawings, that must be protected to ensure the safety of government employees and the public; and
- Mobile device data, such as information transferred on GSA networks using government furnished equipment or mobile bring-your-own-devices, can become a security risk by providing a gateway for malicious software to enter networks.

We have reported on threats to personally identifiable information maintained by GSA.[20] These threats originate from cybersecurity vulnerabilities, intentional or unintentional mishandling of GSA's data, and ineffective Agency responses to reported information breaches. Furthermore, we have identified instances in which GSA has not implemented comprehensive corrective actions to address our recent audit recommendations in these areas.[21]

The FY 2017 annual Federal Information Security Modernization Act of 2014 review of GSA's IT security program and GSA's FY 2017 financial statement audit identified vulnerabilities in risk, configuration, and access management that could be exploited to gain access to sensitive information. Specifically, GSA's FY 2017 financial statement audit noted continued weaknesses in IT security controls designed to protect GSA's financial management systems and stated deficiencies remain in controls over access to programs and data. During FY 2017 and 2018, we also issued two reports identifying deficiencies in certain technical controls for two GSA systems containing procurement sensitive information.[22] As a result of these deficiencies, we reported that the systems face an increased risk of cyber attacks that could lead to loss of sensitive information and system outages.

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[20] *Sensitive but Unclassified Building Information Unprotected in GSA's Cloud Computing Environment* (Report Number A140157/P/R/W14001, August 19, 2014); *Personally Identifiable Information Unprotected in GSA's Cloud Computing Environment* (Report Number A140157/O/F/R/F15002, January 29, 2015); and *Audit of GSA's Response to the Personally Identifiable Information Breach of September 18, 2015* (Report Number A160028/O/T/F16003, September 28, 2016).

[21] *Implementation Review of Action Plan: Personally Identifiable Information Unprotected in GSA's Cloud Computing Environment Report Number A140157/O/R/F15002, January 29, 2015* (Assignment Number A160045, January 26, 2017).

[22] Due to the sensitivity of the subject matter, distribution of the specific technical control testing reports referred to are on a need-to-know basis.

As cybersecurity threats grow more intricate and sophisticated by the day, cyber attacks are increasing in frequency and have the ability to cripple an infrastructure; disrupt organizational operations; and jeopardize data and sensitive information. GSA management must improve its overall IT security program to ensure that the Agency fulfills its responsibility to protect the sensitive information in systems operated by the Agency or on its behalf.

## Challenge 5: Managing Human Capital Efficiently to Accomplish GSA's Mission

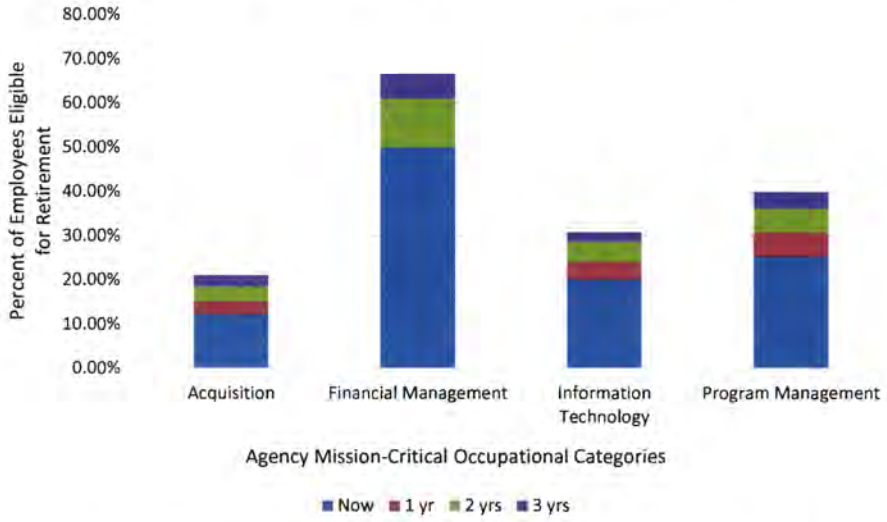
GSA must focus on hiring and retaining staff with the necessary skills to perform critical functions, especially given the number of GSA employees in mission-critical roles who will be retirement-eligible in the near future. GSA identified seven mission-critical occupational categories – Acquisition, Financial Management, IT, Program Management, Property Management, Realty, and Human Resources – that make up 43 percent of GSA's workforce. GSA faces the loss of experience and expertise through retirements as 15 percent of employees in these mission-critical occupational categories are eligible to retire now.[23] Further, 25 percent of the mission-critical workforce for FAS, GSA IT, OCFO, and PBS will be eligible to retire over the next 3 years. The importance of a skilled workforce is highlighted by GSA's responsibility to provide value to customer agencies, comply with increased regulatory requirements, and mitigate the risk of IT security threats.

Federal Acquisition Service. In 2016, we reported that FAS did not have a comprehensive human capital plan for its contract specialist workforce.[24] This placed a critical segment of the acquisition workforce at risk for inadequate staffing to fulfill its mission. Absent such a plan, FAS may hire employees without assessing its needs and hiring costs, considering turnover rates, and planning for upcoming retirements. In response to our report, FAS finalized its Human Capital Strategic Plan in February 2017 and plans to work closely with the Office of Government-wide Policy and the Office of Human Resource Management on the overall GSA acquisition workforce plan. FAS reiterated that it would continue to monitor its organization comprehensively to ensure sustained efficiency and effectiveness from these changes as well as any future organizational changes. As shown in *Figure 1*, between 21 and 67 percent of the staff in FAS's mission-critical occupations is eligible for retirement in the next 3 years. FAS must prepare to adapt to this loss of expertise.

[23] All data percentages contained within this management challenge are based on data from May 2018 compiled by the GSA Office of Human Resources Management, unless otherwise noted.

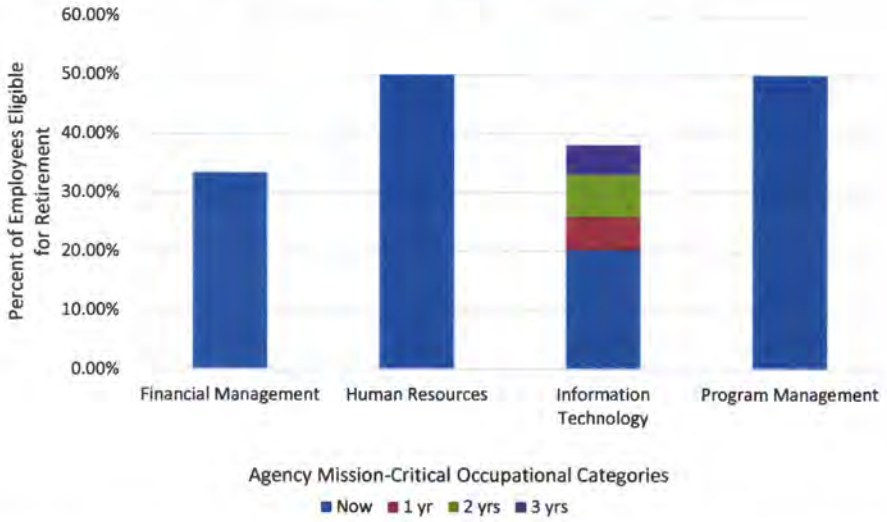
[24] *The Federal Acquisition Service Needs a Comprehensive Human Capital Plan for its Contract Specialist Workforce* (Report Number A150033/Q/9/P16002, July 22, 2016).

**Figure 1 – FAS 3-Year Retirement Eligibility by Mission-Critical Occupational Category**




GSA IT. The mission of GSA IT is to inspire and drive technology transformation by delivering innovative, collaborative, and cost-effective IT solutions and services. To do this, GSA IT must have a highly skilled cybersecurity staff to, among other responsibilities, respond to and recover from unintentional or intentional cyber attacks, including those related to personally identifiable information. As illustrated by *Figure 2*, GSA IT faces the immediate retirement of 20 to 50 percent of its staff in its four mission-critical occupations.

**Figure 2 – GSA IT 3-Year Retirement Eligibility by Mission-Critical Occupational Category**




Given the competitive employment market in the Washington, D.C., area, GSA IT has been expanding its hiring of IT security specialists in other locations, such as the cities of Kansas City, Denver, and Dallas. GSA must prioritize the availability of qualified cybersecurity staff to operate, maintain, and protect its systems and data.

**Office of the Chief Financial Officer.** The OCFO is subject to several laws that result in significant workload, such as the Digital Accountability and Transparency Act of 2014 (DATA Act) and the Improper Payments Elimination and Recovery Improvement Act of 2012. Our work on GSA's compliance with DATA Act requirements noted that GSA's financial and award data submitted for publication was not complete, timely, or accurate, and lacked quality.[25] Implementation of the DATA Act brings challenges with competing priorities and the availability of dedicated GSA resources to ensure continued progress.[26] For example, employees working on the DATA Act also have to perform their primary roles in GSA and GSA received no additional funding for its required work under the DATA Act.

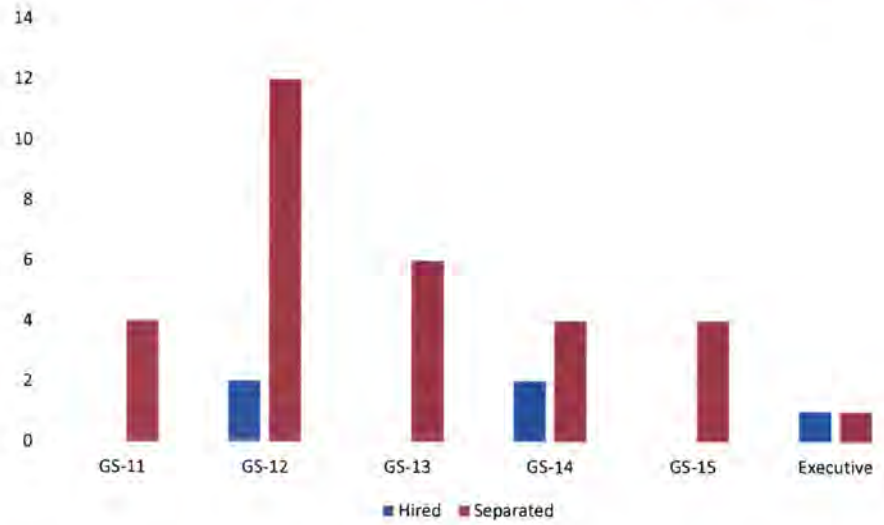
The OCFO, like other offices, also has to manage the loss of veteran expertise. *Figure 3* illustrates this concern by comparing the number of new hires to separations (grade 11 to

[25] *Audit of the Completeness, Timeliness, Quality, and Accuracy of GSA's 2017 DATA Act Submission* (Report Number A150150/B/R/F18001, November 8, 2017).

[26] *The Office of Inspector General's Readiness Review of GSA's Implementation of the Digital Accountability and Transparency Act* (Audit Memorandum Number A150150-2, November 30, 2016).

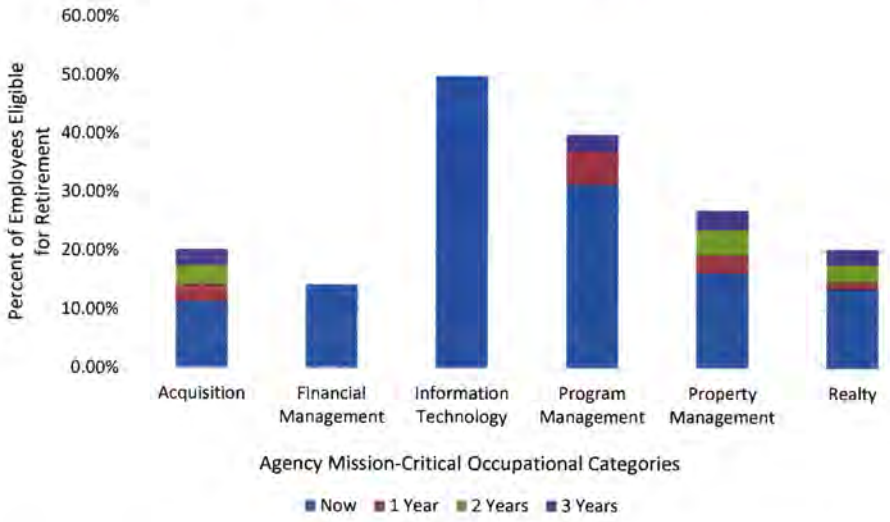
executive level) within the OCFO during the last 12 months. With its resources decreasing, the Chief Financial Officer is focused on becoming more efficient at executing the OCFO's mission. While improved efficiency is a positive goal, the loss of its human resources may lead to the compromise of important management controls and functions.

**Figure 3 – OCFO Hires and Separations in Prior 12 Months**




Public Buildings Service: As *Figure 4* illustrates, GSA's PBS will face upcoming retirements of mission-critical staff within the next 3 years. PBS officials both in Central Office and in regional offices expressed to us concerns about having the staff needed to perform the work. For example, 31 percent of PBS's Program Management staff is currently eligible to retire; within 3 years, that increases to 40 percent. Further, PBS's Program Management hiring is not keeping pace with separations. In the last year, PBS's Program Management hires represented a 5.1 percent increase but separations accounted for a 7.7 percent decrease. The potential retirement of more than 40 percent of its own internal Program Management staff within 3 years would create experience and technical voids in PBS's workforce and could affect construction, acquisition, leasing, and renovations, challenging PBS to develop alternative solutions for managing its portfolio of over 8,600 buildings and leases, as well as its $2 billion Capital Investment Program.

**Figure 4 – PBS 3-Year Retirement Eligibility by Mission-Critical Occupational Category**




With a significant portion of its mission-critical workforce eligible to retire over the next 3 years, GSA officials must strive to maintain technical expertise as they work to meet regulatory requirements and customer demands.

## Challenge 6: Safeguarding Federal Facilities and Providing a Secure Work Environment

GSA plays a significant role in providing a safe, healthy, and secure environment for employees and visitors at over 8,600 owned and leased federal facilities nationwide. Under Presidential Policy Directive 21 on *Critical Infrastructure Security and Resilience*, government facilities were designated as a critical infrastructure sector and GSA and the Department of Homeland Security were named as responsible agencies. In accordance with the directive, the Department of Homeland Security's Federal Protective Service is the primary agency responsible for providing law enforcement, physical security, and emergency response services to GSA tenant agencies, buildings, and facilities. Meanwhile, GSA is responsible for assisting with the development of contracts for compliant implementation of Physical Access Control systems and coordination with the Federal Protective Service to ensure building occupant security.

Our reports have repeatedly pointed out that GSA's security clearance process for contractors needs improvement. These reports recommended corrective actions to ensure all contractor employees accessing GSA facilities have the proper security clearances prior to obtaining site access. We have also recommended that background check information be shared with, and

retained by, contract and project management staff.[27] During an audit of PBS procurements, we found limited evidence of coordination among the GSA Chief Security Office and PBS officials to ensure only suitable individuals could access federal buildings.[28] In another audit, we found that contractor employees who had not received security clearances were allowed to work on a construction project at a federal building.[29]

In addition to reporting on problematic contract administration, we issued two evaluation reports in March 2016 that found GSA-managed facilities are at an increased risk of unauthorized access. Unauthorized access to federal facilities increases the risk of a security event such as an active shooter, terrorist attack, theft of government property, or exposure of sensitive information. Specifically, we identified significant deficiencies in GSA's process for managing GSA issued Homeland Security Presidential Directive 12 Personal Identity Verification cards to contractors and for ensuring the completion of contractor employee background investigations. We also found deficiencies in GSA's tracking and maintenance of contractor employee background investigation data stored within GSA's Credential and Identity Management System.[30] In addition, we found widespread use of unsecured, unregulated facility-specific building badges at GSA-managed facilities. GSA does not have adequate controls over these badges and cannot determine the extent of their associated security risks because it does not centrally monitor the management of the badges.[31] Finally, we determined that a GSA building manager instructed GSA contractors to illegally create building access cards for her dependent daughter in order to provide the daughter access to a federal building.

Although GSA has taken some corrective actions to resolve the above deficiencies, our recent reports show that more work remains. For example, in an August 2017 implementation review, we found that PBS has not taken all corrective actions to prevent contractor employees from working on construction projects in federal buildings without the appropriate security

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[27] *Implementation Review of Action Plan Contract Administration for Group 10 Recovery Act Limited Scope and Small Construction Projects Report Number A090184/P/R/R12008* (Assignment Number A130130, March 28, 2014), and *PBS NCR Potomac Service Center Violated Federal Regulations When Awarding and Administering Contracts* (Report Number A130112/P/R/R15004, March 27, 2015).

[28] *PBS NCR Potomac Service Center Violated Federal Regulations When Awarding and Administering Contracts* (Report Number A130112/P/R/R15004, March 27, 2015).

[29] *PBS is not Enforcing Contract Security Clearance Requirements on a Project at the Keating Federal Building* (Report Number A150120/P/2/R16002, March 17, 2016).

[30] *GSA Facilities at Risk: Security Vulnerabilities Found in GSA's Management of Contractor HSPD-12 PIV Cards* (Report Number JE16-002, March 30, 2016).

[31] *GSA Facilities at Risk: Security Vulnerabilities Found in GSA's Use of Facility Specific Building Badges* (Report Number JE16-003, March 30, 2016).

clearances.[32] Similarly, in June 2018, we reported that FAS did not ensure that contract employees received favorable background investigation determinations before providing them with access to sensitive government information, systems, and facilities.[33] Taken together, our findings point to the need for GSA management to increase its emphasis on overall security.

GSA management maintains that it is working to improve its building security operations. In response to the evaluation reports, GSA has agreed to address vulnerabilities associated with building-specific facility access cards and Homeland Security Presidential Directive 12 Personal Identity Verification cards; GSA management has indicated that it has resolved its Credential and Identity Management System deficiencies and that facility access cards have been supplanted by Physical Access Controls.

In addition to the actions noted above, GSA has recently placed greater emphasis on the performance and implementation of facility security assessments. The facility security assessments are performed by the Federal Protective Service to evaluate a building's security risk and recommend countermeasures to mitigate the risk. GSA, in coordination with building tenants, determines which counter measures to implement. However, in a recently completed audit on this subject, we found that GSA did not have the facility security assessment reports for most of the buildings sampled. Accordingly, GSA needs to track facility assessment reports and to ensure staff understand their responsibilities regarding the use of the reports and the implementation of countermeasures.[34]

## Challenge 7: Managing Revolving Funds Effectively

Effective financial management is extremely important for GSA given that most of GSA's operations are funded through revolving funds established by law to finance continuing operations. As a result, GSA must properly manage these funds to ensure it can continue its operations and serve its federal agency customers. The reliance on the revolving funds present unique challenges to the Agency as exemplified by the Acquisition Services Fund (ASF).

**Acquisition Services Fund.** GSA needs to ensure that the ASF revolving fund revenues cover expenditures and that the necessary budgetary controls are in place.

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[32] *Implementation Review of Corrective Action Plan PBS is not Enforcing Contract Security Clearance Requirements on a Project at the Keating Federal Building Report Number A150120/P/2/R16002* (Assignment Number A170083, August 23, 2017).

[33] *FAS Did Not Ensure That Contract Employees Had Background Investigations Before Providing Support to Agencies Transitioning to Enterprise Infrastructure Solutions*, (Interim Memorandum Number A170103-4, June 29, 2018).

[34] *GSA Should Monitor and Track Facility Security Assessments* (Report Number A160101/O/7/F18002, December 4, 2017).

The ASF's authorizing legislation requires the GSA Administrator to establish rates to be charged to agencies receiving services that: (1) recover costs, and (2) provide for the cost and capital requirements of the ASF. The ASF is a revolving fund that operates from the reimbursable revenue generated by seven FAS business portfolios that include:

- Office of General Supplies and Services Categories;
- Office of Travel, Transportation, and Logistics Categories;
- Office of Information Technology Category;
- Office of Assisted Acquisition Services;
- Office of Professional Services and Human Capital Categories;
- Office of Systems Management; and
- Technology Transformation Services.

However, in FY 2017, GSA reported an $8 million net loss for the ASF despite having realized revenues over $10.3 billion; whereas, in FY 2016 GSA reported an $8 million net income. The $8 million net loss was attributed to five of the seven business portfolios. In its *FY 2017 Annual Performance Report/FY 2019 Annual Performance Plan*, GSA discussed the FY 2017 results along with plans for FY 2019 and the proposed budget. As part of this discussion, GSA stated that the 18F program within the Technology Transformation Service had difficulty balancing revenues and expenditures under its operating model, creating difficulties in achieving cost recovery of operations. In an effort towards cost recovery, GSA merged all Technology Transformation Service components under FAS in the third quarter of FY 2017. GSA further stated that the Technology Transformation Services under FAS will continue to review and optimize cost structures and business opportunities, including:

- Conducting staffing level reviews to assess and optimize billable and non-billable workload;
- Reviewing and optimizing billing rates to customer agencies;
- Assessing travel and training budget allocations to optimize resource levels and execution rates; and
- Developing deeper client relationships and partnering on larger and more impactful modernization projects and initiatives.

Although FAS projects that revenues will increase and that its internal operations will become more efficient, it should remain vigilant to ensure it fulfills the ASF's legislative mandate to recover its costs and provide for the cost and capital requirements of the ASF.

In addition to cost recovery, budgetary control issues were also an issue for the ASF. The FY 2017 financial statements audit disclosed that the controls over the monitoring of ASF budgetary activity did not operate effectively. The ASF activity exceeded the apportioned budget authority for "flow through" or reimbursable obligations in the ASF by $705 million. The ineffective controls did not prevent the Budget Control Division and the FAS Budget Division from instances where actual budgetary activity exceeded apportioned amounts. As a result,

GSA management notified OMB of a potential Anti-Deficiency Act violation. If not corrected, this control deficiency will continue to expose GSA to an increased risk of misstatements in its financial statements and possible violations of laws and regulations.

## Challenge 8: Implementing GSA's Role Under the Comprehensive Plan for Reorganizing the Executive Branch

In June 2018, the administration released a plan to reorganize the federal government, "Delivering Government Solutions in the 21st Century; Reform Plan and Reorganization Recommendations." In accordance with the plan, several core functions currently performed by the U.S. Office of Personnel Management (OPM) will transfer to GSA. These functions include retirement services, federal employee health care and insurance programs, and human resources solutions. The plan also calls for GSA to be renamed the "Government Services Agency." The full integration is expected to be completed by 2020. GSA faces major challenges with this merger.

The initial integration efforts will focus on the consolidation of the OPM's HR Solutions (HRS) into GSA. HRS is a fee-for-service entity within OPM that provides products and services to assist agencies with their human resource needs, including USAJOBS.gov, USA Staffing and USA Hiring, and other projects. GSA and OPM have created a task force to lead and support the integration and have established a March 30, 2019, timeline to complete the transition and rebadging of over 460 HRS employees to GSA. GSA also issued a Request for Information seeking assistance in developing an overall procurement strategy for the integration. In its request objective, GSA noted that it must identify and plan "for changes to GSA's organization, processes, and systems, beyond those required for the initial transition." Specifically, the Request for Information includes:

- Supporting and planning the execution of the initial transition of the HRS organization and personnel into GSA;
- Optimizing services and costs;
- Improving alignment with GSA offices and functions to reduce duplication; and
- Identifying further opportunities to transform the delivery of services.

Centralizing human resources operational functions in a single entity could attain considerable operational efficiencies. However, GSA and OPM leadership will face challenges in transitioning the government's human resources services with minimal disruption and without compromising the services provided. GSA must ensure all staff are properly and effectively trained in applicable systems, laws, and regulations that support the services integration. Similarly, OPM staff must become accustomed and knowledgeable in GSA systems, policies, and processes. Additionally, GSA management will face the operational challenge of determining where the additional people will reside and to whom they will report.

GSA's efforts will be further complicated by provisions in spending bills that restrict agencies from spending any money on reorganization plans without congressional approval. During a July 2018 hearing before the Senate Homeland Security and Governmental Affairs Committee's Subcommittee on Regulatory Affairs and Federal Management, GSA and OPM senior officials told lawmakers they are making progress with the planning phase to move HRS and do not believe they need congressional approval. However, members of Congress have stated that more detailed information and analysis are needed to allow for effective congressional oversight of the reorganization.

# GSA RESPONSES TO THE OFFICE OF **INSPECTOR GENERAL'S MANAGEMENT CHALLENGES FOR FY 2019** (UNAUDITED)

## CHALLENGE #1: Establishing and Maintaining an Effective Internal Control Environment Across GSA

### AGENCY ACTION PLAN

GSA agrees that internal controls serve as the first line of defense in safeguarding assets. However, GSA strongly disagrees that the agency has pervasive internal control weaknesses. GSA's success in the financial audit has resulted in substantial reductions in findings from our independent public accountant (IPA) and no material weaknesses for the past 4 years. We value the insights provided by the OIG in their program audits and reports, and we take timely steps to implement corrective actions.

The GSA Administrator has made addressing audit recommendations an organizational priority, using individual performance plans to hold GSA senior management accountable for strengthening internal controls and improving audit results. In addition, GSA has active participation of senior leadership and the OIG in our internal control oversight team, the Management Control and Oversight Council (MCOC). No significant internal control challenges have been communicated to the MCOC by the OIG in these meetings or in the monthly meetings between the Inspector General, GSA Administrator, and Deputy Administrator. We remain committed and focused on developing a more effective internal control framework across GSA.

Over the last several years, GSA has worked to develop corrective action plans and has successfully implemented those plans to achieve a significant reduction in findings. GSA's notifications, findings, and recommendations (NFRs) received from its IPA were reduced to three significant deficiencies by FY 2017. In addition, GSA has not reported a material weakness since 2014, as noted in the table below:

**GSA IPA NFRs**
**FY 2014 - FY 2017**

| Fiscal Year | Audit Opinion | Material Weaknesses | Significant Deficiencies | Non-Significant Deficiencies | Total |
|---|---|---|---|---|---|
| 2014 | Unmodified | 2 | 37 | 12 | 51 |
| 2015 | Unmodified | 0 | 9 | 3 | 12* |
| 2016 | Unmodified | 0 | 4 | 12 | 16 |
| 2017 | Unmodified | 0 | 3 | 7 | 10 |

** Beginning in FY 2015, the IPA consolidated similar findings, thereby reducing the total number of NFRs.*

Out of the three significant deficiencies identified in the FY 2017 audit and highlighted by the OIG, two out of three significant deficiencies were closed by the IPA in FY 2018, based on their testing and assessment. GSA does not consider them an FY 2019 challenge. In FY 2017, GSA exceeded its apportionment for reimbursable activity and has completed a corrective action plan that led to the closing of this finding in FY 2018. In this instance, customer agencies had sufficient funds to authorize purchases by GSA, but the total amounts exceeded the business forecast that underpinned GSA's reimbursable apportionment. GSA is working with OMB to improve the business forecasting process and review the apportionment requirements for reimbursable authority. The FY 2017 audit by our IPA also identified select controls around systems access and backups as a significant deficiency and that will continue to be addressed by GSA in FY 2019.

Regarding internal controls for GSA programs and operations, GSA leadership established new audit oversight processes in FY 2018 that hold GSA leadership and management accountable for timely development and implementation of corrective actions. GSA initiated new tracking and data analysis tools to enhance existing processes, leading to improved audit results. These tools form the foundation for data analytics that will enable insight into agency-wide performance.

GSA has demonstrated a strong track record in FY 2018 of responding to OIG audits. Eleven of the 18 audits and memoranda noted by the OIG are closed or require no further work. Of the remaining seven, GSA expects to close five by February 2019 and two are waiting on a response from the OIG.

Corrective actions were previously implemented for the following items identified by the OIG:

- Regarding the FAS controls over compliance with emission standards in the Pacific Rim region, GSA informed the OIG in April 2018 that steps have been taken to prevent future instances of non-compliance and that all vehicles cited for non-compliance were replaced or otherwise found to be compliant as of July 2017.

- Under our CAP for the ESPC White Oak Audit Findings, currently being reviewed by the OIG, we have completed reviews of the modifications identified in the audit report for re-compete possibilities. In addition, we have instituted an internal review process of any new significant modifications through a Within Scope Determination review/concur process that includes: Office of Acquisition Leadership, Office of General Counsel, National ESPC Program Office, and the Head of Contracting Activity before action is taken. In addition, some training on the areas identified in our CAP have been provided, including Department of Energy, Federal Energy Management Program ESPC Training, and the Competition in Contracting Act. Other areas (like Other Than Full and Open competition contracts, Acquisition Plans, and Price Negotiation Memorandum) are under development for training of personnel prior to the end of calendar year 2018. We have also implemented the National ESPC Policy developed by the GSA Central Office to ensure adherence to all applicable Department of Energy policies.

- Regarding GSA's Computers for Learning (CFL) Program, the FAS Commissioner concurred with the findings on June 30, 2017, and informed the OIG that FAS is leading an interagency effort to improve the CFL program and ensure OIG's recommendations are fully implemented. GSA has completed all steps in the corrective action plan.

- While GSA met five of the six requirements of the Improper Payments Act, we did not meet the .025 percent improper payment target established for the Rental of Space Program in FY 2017. We expect to be fully compliant with the FY 2018 target and do not view this as an FY 2019 challenge. In FY 2018, GSA's proper payment rate for GSA's Rental of Space program was 99.71 percent. Also, OMB has approved our request for relief from improper payment reporting for the Purchase Card Program, as a result of being compliant with the Act for this program for the past 3 years. Therefore, we do not consider purchase card testing or reporting an FY 2019 challenge. A copy of OMB's approval was forwarded to GSA OIG on October 2, 2018.

In conclusion, GSA is committed to strengthening all financial, operational, and programmatic internal controls, and we take all audit findings seriously. GSA aggressively manages its corrective action plans and holds its executives

accountable for execution of the plans. We are committed to working with the Inspector General to increase mutual communication about our performance on all audits and identify any control weaknesses that warrant GSA-wide attention.

## CHALLENGE #2: Enhancing Government Procurement

### Supporting the Acquisition Gateway

### AGENCY ACTION PLAN - Acquisition Gateway

Launched in 2014, the Acquisition Gateway platform evolved from an initial focus on category management to addressing the shortcomings of agency contract writing and management systems. This fills a critical need of the acquisition workforce where FAS is uniquely positioned to create value within the scope of its mission while simultaneously deferring the investment in the platform. This is accomplished through the influenced value gained from access to its solutions and from investment by federal agencies in content and tools.

GSA agreed with the FY 2017 Management Challenge concerns regarding measuring Gateway success based on usage-based metrics such as the total number of users, and additional emphasis was placed on measuring return users as recommended. For example, from September 2017 to September 2018, the Gateway experienced a 27.6 percent increase in 90-day user return rate. At the same time, FAS enhanced its capabilities to track user journeys through the platform and experimented with goals-based measurements of success using advanced analytics to measure desired outcomes of the partner agencies and organizations contributing content and tools to the platform. One initial candidate has been the FAS Policy Library built on the platform in partnership with FAS's Office of Policy and Compliance. Since launch, 129 users have visited the library and 49 of those have viewed two or more policy documents. Once baseline data is collected, targets could be selected for these measures or other related data as determined by the content owner.

Also, FAS carefully considered investment levels relative to potential returns as part of its duty to efficiently steward revolving funds accounts. The Gateway program is currently managed by 7 FTE and the yearly budget has been reduced by over two-thirds since FY 2017. In FY 2018, the Gateway generated in excess of $1 million in cost avoidance/savings from the reusable components inherent to the platform and influenced an estimated $1 billion of government acquisition spend. The inherent and influenced value of the platform will be measures of success in FY 2019.

In combination with FAS Customer Relationship Management tools, it is possible to develop analyses demonstrating clear correlations between Gateway usage and agency spend on governmentwide vehicles, including those designated Best in Class (BIC) by the OMB. Additionally, other agencies, including the Department of Defense's Service Reform Team, have entrusted FAS with additional funding to build modern and efficient tools for their workforce on the Gateway platform to avoid costs associated with running duplicative IT platforms and establishing user bases.

Providing users unbiased information and best practices while facilitating access to FAS's governmentwide solutions represent complementary, not competing priorities. Several agencies, including the Departments of Justice and Treasury, have chosen the platform to host their policy and compliance content due to low resource investment and ease of reaching their workforce. The Gateway also serves as the home of the Office of Federal Procurement Policy's Acquisition Innovation Hub. Concurrently, governmentwide and BIC solutions from all potential government sources are easily available, including FAS. By design, clear indicators separate educational content from editorial and promotional materials. This is similar to how many information sources, including periodicals and other mass media, contain broad arrays of content to meet the needs of the information consumer while simultaneously supporting revenue generation.

## Transforming the Multiple Award Schedules Program

### Consolidated Schedules

### AGENCY ACTION PLAN - Consolidated Schedules

GSA kicked off the MAS Reform initiative in FY 2018, completing a detailed discovery phase to better understand the Schedules vehicle, including business trends. This included research related to previous attempts to consolidate portions of the Schedules program (including the Professional Services Schedule consolidation and associated management findings from OIG), conversations about the strengths of the Schedules program, what can be improved upon, and the associated risks. GSA has leveraged existing resources by utilizing a cross functional and integrated project team that includes subject matter experts from the acquisition workforce, systems architecture, finance, policy, customer and stakeholder engagement, and many other disciplines. This has allowed the acquisition workforce to participate and use industry days to have conversations and gain buy-in. GSA has been working closely with multiple members of the systems teams to identify various ways to utilize the current systems with minimal costs to promote consolidation.

At this time, GSA does not foresee any legislative changes necessary to consolidate Schedules. GSA is considering the impact that regulatory and internal acquisition policy changes would have on a Schedules consolidation effort.

With several strategic initiatives occurring simultaneously, FAS understands the need for cross-portfolio integration, communication, and transparency so the workforce has an understanding of each initiative and their implementation objectives. To coordinate these efforts, FAS has dedicated a team to serve as an overarching integrator of the federal marketplace strategy. The integration is designed to ensure the workforce, customers, and industry are kept aware of and have opportunities to participate in meeting the goals of this multi-year effort.

### Transactional Data Reporting

### AGENCY ACTION PLAN - Transactional Data Report

FAS and OGP reviewed the findings issued in the Transactional Data Report Pilot Evaluation Plan and Metrics Report (Report Number A140143/Q/T/P18004). On June 22, 2018, FAS and OGP provided detailed comments to the GSA Office of Inspector General (OIG), Office of Audits regarding the content of the report and recommendations included in the Report. On September 18, 2018, FAS and OGP submitted a CAP to OIG. On October 18, 2018, OIG confirmed that the CAP was responsive to the recommendations. FAS and OGP are committed to continue working with and considering input from all stakeholders in implementing the Transactional Data Reporting pilot.

### Contract Awarded Labor Category Tool and the Replacement for the Formatted Product Tool

### AGENCY ACTION PLAN - Contract Awarded Labor Category Tool and the Replacement for the Formatted Product Tool

GSA takes seriously its commitment to serve as a responsible steward of taxpayer dollars and to provide contracting officials with the policies, tools, data, and materials to award and manage contract vehicles that allow the Federal Government to achieve mission success. To achieve this, GSA appreciates that the tools must be reliable and user-friendly, as well as support regulatory guidance and, as appropriate, address the needs of vendors, GSA contracting officials, and federal buyers.

The Contract Awarded Labor Category (CALC) tool was built to augment search capabilities on GSA Advantage! and GSA e-Library to quickly and easily visualize labor category priced Schedules data. The tool provides basic pricing intelligence functions, certification and license information (where required and available), security clearance information, and keyword search capabilities. The tool is primarily used by customer agencies to conduct market

research about companies who provide services under GSA Schedules contracts, the labor categories and rates are included in those contracts, and as one of the data points in developing estimates for task orders that will be competed under GSA Schedules. In contrast, GSA Schedules contracting officers use the tool as one part of their price analyses when awarding new Schedules contracts with labor category services and exercising options to extend the term of the contract modifications. In FY 2019, the tool will be evaluated as part of a larger effort to rationalize pricing tools being utilized across the organization. Future enhancements to CALC will be evaluated after this work is completed.

The Formatted Product Tool (FPT) was developed to be an enhancement to the existing eOffer/eMod tool used by the vendors to submit Schedules contract offers and modifications to the GSA contracting officials. The intent of the FPT enhancements was to provide an electronic tool that could help vendors and GSA contracting officials alike in important pricing and supply chain activities such as consistently identifying and displaying like or identical products, analyzing current pricing on existing Schedules as well as providing some commercial pricing context. As GSA recognized the need to provide better access to this type of data, a data analytics capability, 4P, was simultaneously developed. The 4P capability uses manual pulls of data from existing capabilities, runs analytical analyses, and provides the intelligence to the GSA contracting officials. However, 4P is not integrated into the legacy eOffer/eMod system. FPT was rolled out per the implementation plan to a small set of vendors in the Mid-Atlantic region's acquisition center. The subset was selected to test the capabilities with a discreet group of trained contracting officials and vendors. After approximately three quarters, GSA determined that FPT was not ready to be rolled out to the broader Schedules population. The business and data rules developed for FPT and for 4P, as well as the experience in design capabilities, will be incorporated into the upcoming initiatives for an FAS enterprise contracting writing system and catalog management tools.

### GSA Advantage!

## AGENCY ACTION PLAN - GSA Advantage!

GSA is continuously refining GSA Advantage! to improve functionality and content to meet the Federal community's procurement needs, offer commercial vendors access to the Federal market, and continue to be a secure technology platform for all stakeholders. GSA has taken positive actions to solicit input from customer and vendor stakeholders to guide improvement efforts for GSA Advantage!.

For the first time, GSA's annual Customer Loyalty Survey included a stand-alone survey for GSA Advantage!. We solicited customer input on many aspects of the site's user experience and received over 4,700 responses. GSA is now developing action plans to address the main customer pain points identified in the feedback. GSA invited representatives from several large customer agencies (Veterans Affairs, Army, Navy, Marine Corps, and Homeland Security) to a newly established GSA Advantage Customer Advisory Group. The advisory group convenes quarterly to offer a forum for customers to discuss experiences with GSA Advantage! and for GSA to provide updates on key system changes. We are using feedback gained from the forum to inform and prioritize our improvement plan for GSA Advantage!.

In FY 2019, GSA plans to launch a transactional survey to ask customers for input on user experience as they complete their shopping sessions. The data collected will be used to inform and help prioritize investment decisions regarding the enhancement of GSA Advantage!.

We have completed or are in the process of developing several enhancements to GSA Advantage! to improve customer experience. We are also aware that minimum buying requirements are inconvenient for customers using GSA Advantage!. Many of the vendors displaying products on GSA Advantage! have these minimum requirements as a commercial term and condition of their Schedule contract, which carries forward for display on GSA Advantage!. To reduce the level of dissatisfaction, we are developing a solution to organize search results and product details to help customers quickly identify desired products that are not subject to minimums on GSA Advantage!. In addition, GSA is developing contracting approaches to reduce the incidence of minimum buying requirements on the underlying Schedules and GSA Global Supply contracts.

GSA upgraded a self-help website application, Ask GSA, to allow Advantage and other customers to research and track order status, report a problem, or request information from GSA online, 24 hours a day. To further improve order status availability and accuracy, GSA's contracting officers have developed contract conditions to encourage more vendors to utilize Electronic Data Interchange to provide better order status and visibility for customers.

GSA has deployed other features to keep pace with current technology and e-commerce practices. We developed an "automatic parked cart" feature, allowing customers to add products to a virtual shopping cart prior to completing a purchase, ensuring they can save products to purchase across multiple shopping sessions.

Based on customer feedback, GSA Advantage! now includes suggestive purchasing (e.g., "Customers who bought A also bought B.") that recommends related products to customers based on prior sales and search data. This functionality allows customers to quickly find related products based on the search terms entered.

We are also working to ensure GSA Advantage! is a secure platform for its customers. GSA is adding multi-factor authentication for GSA Advantage! external e-commerce applications, GSA Advantage!, and eBuy. We are committed to managing supply chain risks that could impact national security and have removed from GSA Advantage! syndicated content referencing products prohibited by legislation and regulation.

GSA is increasing its collaboration with GSA Advantage! customers and has implemented changes in the Advantage e-commerce platform to reflect the feedback we have received. This trend will continue in FY 2019.

### Implementing Procurement Through Commercial E-commerce Portals

## AGENCY ACTION PLAN - Implementing Procurement Through Commercial E-commerce Portals

The FY2018 National Defense Authorization Act (NDAA) outlines implementation of commercial platforms over multiple years across 3+ phases:

- Phase 1: (90 days) Implementation plan;
- Phase 2: (90 days + 1 year) Market Research and Consultation;
- Phase 3: (90 days + 2 years) Implementation Guidance; and,
- Phase 4: (TBD) Additional implementation phases.

GSA and the OMB announced completion of Phase I in March 2018, which included an initial implementation plan with policy recommendations. As part of Phase I, GSA recommended legislative changes the agency views as optimal to begin the implementation of purchasing through e-commerce portals. The FY 2019 NDAA was signed on August 13, 2018, and contained the competition provision that grants GSA the ability to develop ordering procedures deemed compliant with the Competition in Contracting Act. However, our recommendation to increase the micro-purchase threshold to $25,000 for purchases through the GSA-approved commercial e-commerce portals was not part of the final legislation. In accordance with the legislation, Phase II required market research to inform a path forward.

Phase II (FY 2018/FY 2019) allocates a significant amount of time for market research and consultation with stakeholders across industry and government to learn more about their procurement needs and the role of e-commerce portals. As part of Phase II, a second report is due to Congress in March 2019. Since the submission of the Phase I report, the team has focused on market research with industry, customer agencies, understanding commercial practices, determining policy impacts, and assessing the impact to existing programs. These findings will be part of the Phase II report.

GSA seeks to maintain the balance between existing government buying regulations and commercial buying practices. Over the last year, stakeholder engagement has been a focal point in order to gain an understanding of standard business-to-business e-commerce practices. It has also been an opportunity to collaborate with our agency partners to understand what rules are truly needed and important to the buying process. Our recommendations to date represent a balanced approach to meeting Congress's direction to follow all commercial terms and conditions while also adhering to existing procurement rules and regulations.

On the basis of research to date, exploring a proof of concept in late 2019 will allow GSA to test the balanced approach in a controlled and structured environment, to include assessing the impacts to pricing and competition. The proof of concept will address in a smaller segment of the federal market limited risk and allow us to test acquisition reform concepts on a smaller scale before any long-term decisions are made. This proof of concept allows GSA to be innovative in its approach and to use the results to bring the federal marketplace more in alignment with a commercial model, including customary terms and conditions. It becomes a means of testing and proving the opportunity for simplification in acquisition.

GSA recognizes the risk of potential programmatic duplication, but also sees potential significant new benefits associated with reducing administrative cost and increasing speed. This program has the potential to, for the first time, introduce competition into the world of micro-purchases. Competition is at the heart of the Section 846 effort, and GSA is committed to creating a dynamic, highly competitive environment through partnerships with multiple commercial e-commerce providers. Additionally, Section 838 of the FY 2019 NDAA further emphasizes the need for competition at the order level, which GSA will address in its ordering procedures. Through the proof of concept, GSA will begin to demonstrate, on a small scale, the benefits of this competitive environment in the form of faster buys, reduced program costs, and the shifting of activities from the acquisition workforce to the program offices. The proof of concept also creates the potential for agencies to gain direct access to their spend data. While harvesting the power of spend data may take time, it will ultimately provide new insights on compliance with micro-purchase requirements and may even be useful in crafting smarter buying strategies.

With several strategic initiatives occurring simultaneously, FAS understands the need for cross-portfolio integration, communication, and transparency so that the workforce has an understanding of each initiative and implementation objective. To coordinate these efforts, FAS has dedicated a team to serve as the overarching integrator of the federal marketplace strategy. The integration is designed to ensure the workforce, customers, and industry are kept aware of and participate in the goals and progress of the end-state improvements of this multi-year effort.

### Leading the Transition to Enterprise Infrastructure Solutions Contract

## AGENCY ACTION PLAN - Leading the Transition to Enterprise Infrastructure Solutions Contract

GSA continues to partner with agencies and industry to achieve IT modernization and fiscally responsible acquisition of IT infrastructure by leveraging the GSA-awarded EIS contract. GSA has established an action plan to achieve the modernization objectives, address enterprise level transition, incorporate contemporary service delivery models, and deliver overall compliance (security, IT acquisition policy, etc.). To be successful, GSA recognizes that agencies and industry must also serve as strong partners in leading the transition toward IT modernization goals within an aggressive timeframe.

Additionally, the GSA action plan recognizes the challenges identified by the GSA OIG, including agency acquisition planning delays, full service exit, and transition execution. The central objectives of this action plan are to: (1) increase the collaboration within and across agencies and industry; (2) more aggressively leverage the transition to EIS to drive network infrastructure modernization as directed in the President's Report on Federal IT Modernization issued in December 2017; (3) manage in a unique operating environment post EIS-award (e.g., need for dual operations during transition); and, (4) ensure the products and services delivered through EIS address the emerging and growing security challenges of today's operating environment. A primary challenge in achieving

these objectives is the time and effort required to complete transition prior to the 2020 expiration of many of the legacy contracts.

Agency transition delays reflect the governmentwide and market-wide nature of these challenges as opposed to isolated agency performance or GSA program management challenges. As cloud computing, software-defined networking, and mobile technology continue to blur the lines between traditional IT infrastructure and networking infrastructure, increased collaboration from all stakeholders is required to define modernization objectives, identify and share transition best practices, and meet the expectations of taxpayers.

The departure from the full service telecommunications delivery model reflects the need for modernization and greater compliance with statutes like FITARA and acquisition guidance. The telecom industry is considering eliminating legacy infrastructure components as early as December 2023. At the same time, Federal budget cycles limit agencies from moving away from this legacy infrastructure quickly. A five-year plan should be adequate for agencies to modernize their infrastructure in line with industry plans and move away from GSA-provided services to centralized management of the infrastructure under the Agency CIO.

GSA's Action Plan to Lead EIS Transition addresses the challenges above and has the following components:

1. **Agency Collaboration at Strategic and Tactical Levels:** This includes continued transition support activities to help agencies inventory their infrastructure, develop solicitations, and share best practices regarding solicitation, evaluation, award, implementation, and ongoing management. Over the last 10+ months, GSA has deployed several contractor and internal resources with agencies via its Transition Ordering Assistance (TOA) contract to support EIS transition and also reviews the agency solicitation deliverables for scope and modernization measures. These TOA experts identified best practices in emerging technology such as Software Defined Networking, Zero Trust Networking, and unified communications to transform agency operations. GSA's Transition Coordination Center (TCC) is also an enabler for agencies by providing the raw materials of inventory, structured process/tools (e.g., EIS Fair Opportunity Ordering Guide), and project plan templates/metrics to provide further assistance in their solicitation development. The TCC has also delivered multiple workshops and webinars regarding inventory collection, unified communication, and enterprise solicitation risk management.

   A critical agency milestone that remains is to release all solicitations by March 31, 2019. GSA will continue to administer an EIS advisory body called the Infrastructure Advisory Group, which consists of large agency representatives and is co-chaired by a cabinet level CIO. GSA hosts these forums for the purpose of addressing agency concerns and accelerating the identification of successes.

2. **Industry Collaboration:** EIS success requires collaboration and transparency between all industry, agency, and GSA stakeholders. Since the EIS awards, GSA has promoted these attributes via its Interact site, industry events, and collaborative outreach. GSA's action plan will build on the openness and transparency with continued Quarterly Program Management Reviews with individual contractors and bi-annual PMRs with all contractors to ensure that tactical direction and strategic guidance (e.g., OMB/Federal CIO) are understood on a level playing field.

   The first major milestone with industry was the completion of all Business Support Systems testing and the bi-annual PMR. An additional example of partnership and GSA's commitment to industry collaboration is the attainment of their FISMA Authority to Operate (ATO) at the moderate level. This milestone is required for any EIS contractor to receive a task order award and begin delivery of services. GSA has formed an ATO Tiger Team whose sole purpose is to assist each contractor in obtaining their ATO in the most expeditious manner possible.

3. **Small Agency Support:** As chartered in the President's Report on IT Modernization, GSA looks to address small agencies lack of acquisition resources and technical expertise to bring best practices and scale in the

acquisition of networking services historically purchased through GSA contracts. GSA will offer Assisted Acquisition Services support with two options to small agencies. One option will offer GSA to award the task order on behalf of the agency and then transfer the awarded task order back to the small agency for administration through close-out. The second option is for GSA to award and administer the task order on behalf of a small agency as a cradle-to-grave assisted acquisition for those agencies unable to administer the task orders themselves. A performance-based acquisition approach will be utilized to maximize industry expertise and to obtain the best technical solution. Industry will be involved early and throughout the process via an Industry day and Pre-Solicitation conference. It is anticipated that GSA will also release a draft RFP in order to partner with and collect feedback from industry.

4. **Governmentwide Tools and Forums to Address Governmentwide Problems:** Governmentwide Tools and Forums to Address Governmentwide Problems: GSA Conexus and the EIS Pricer that will come online in FY 2019 will enable automated ordering, provisioning, market pricing, and other management functions needed to oversee purchase, implementation, and management of modern government networks. Although not yet launched, these tools build on the success of the Networx program and already enabled EIS to be designated BIC due to its use of proven transactional data collection and analysis tools and processes.

   Building on its successful FY 2019 EIS Industry Partner Day and October 4 EIS Contractor PMR, GSA will host events in FY 2019 to further stimulate the market and ensure that sufficient collaboration exists to drive modernization while increasing value to taxpayers. GSA will listen to agency EIS transition managers to develop the agenda and content for these forums, the first of which is anticipated in Q2 FY 2019.

### Delivering the System for Award Management

## AGENCY ACTION PLAN - Delivering the System for Award Management

The Integrated Award Environment (IAE) Program Management Office (PMO) in GSA continues to focus on product delivery in the System for Award Management (SAM) modernization effort. The first release of beta.sam.gov was delivered in FY 2017, providing users with the ability to search and view public IAE data from one user interface. In FY 2018, GSA transitioned the Catalog for Federal Domestic Assistance to beta.sam.gov and decommissioned the legacy system, consolidated the Contractor Performance Assessment Reporting System (CPARS) and Past Performance Information Retrieval System (PPIRS), and completed technical pre-modernization for the Federal Procurement Data System (FPDS). In FY 2019, GSA will decommission PPIRS, transition Federal Business Opportunities to beta.sam.gov and decommission the legacy system, complete technical pre-modernization for the legacy SAM, migrate both FPDS and SAM to a cloud environment, and complete the FPDS and SAM integration development work into beta.sam.gov to present the legacy systems as candidates for retirement. This sets the stage to launch the new SAM.gov in Q1 FY 2020 and decommission both legacy FPDS and SAM. Our product delivery is monitored continuously by senior GSA management and the IAE governing bodies (OMB, ACE, PCE, FACE, and the IAE CCB). In addition, the GSA OIG team continues to formally monitor the modernization effort (to include cost, schedule, performance, as well as any current technical issues) on a bi-monthly basis.

Dedicated to increasing protection of users and data in FY 2019, GSA will build on the preventative measures and enhanced controls implemented in SAM.gov during FY 2018. GSA continues to actively support the investigative arm of GSA OIG, take action against bad actors, and update SAM.gov functionality to reduce future fraudulent activity. The partnership with GSA's Login.gov team and the GSA OIG investigators is strong. GSA has seen shifts in behavior based on enhanced controls already emplaced and is collaborating on further deterrents. Ongoing SAM.gov work includes modifications to the approach for sharing public data such as reducing the frequency of SAM public data extract publication (from daily to once a month) and removing from public availability any incomplete SAM entity registration data. These two modifications complement additional Application Program Interface (API) controls deployed in FY 2018. GSA believes the additional investment in this area is justified and is planning now for the work so as not to impact or delay the overall modernization schedule.

In FY 2019, GSA plans to competitively award an entity validation services contract that will reduce burden on users, increase operational flexibility, and foster predictable transitions. The government intends to transition to a government-owned and - managed unique entity identifier supported by these entity validation services. GSA received proposals on October 12, 2018, in response to the Request for Proposal (RFP). Award is expected to take place in December 2018. GSA is prepared to complete the SAM.gov system development necessary to transition to the new unique entity identifier and supporting entity validation services in FY 2020. This procurement is part of an overall approach to improve SAM entity registration by consolidating all functions within the boundaries of SAM.gov.

## CHALLENGE #3: Maximizing the Performance of GSA's Real Property Inventory

### Reducing and Consolidating Space

### AGENCY ACTION PLAN - Reducing and Consolidating Space

GSA is leading efforts to improve asset utilization, reduce agency space requirements, effectively manage real property, and reduce our reliance on leased space to save money for the American taxpayer. GSA is helping agencies develop and implement aggressive space reductions while meeting their mission needs.

Since FY 2014, GSA has helped agencies reduce their space by over eight million square feet. In FY 2018 alone, GSA reduced its leased and Federally owned inventory by just over three million square feet.

GSA reduces space, vacancy, and costs through consolidations, co-locations, and disposition opportunities. In developing asset and investment strategies, GSA balances customer need, market dynamics, asset financial performance, asset condition, and value to the taxpayer. Specifically, PBS uses portfolio planning tools and processes, such as the integrated portfolio planning process, national customer strategy and success plans, asset segmentation, and asset repositioning tools. GSA also actively pursues savings on large dollar leases by reducing space, negotiating below market and setting longer firm term leases. Additionally, GSA has implemented a new requirements gathering process to allow sufficient time to develop cost-efficient housing plans, decrease vacant space, and limit extensions and holdovers. GSA will continue its efforts to review agency Reduce the Footprint plans for long-term real estate planning.

GSA tracks financial performance, cumulative reinvestment needs, fair market value, and the functional replacement value of its assets to develop strategies for every asset in the portfolio. While GSA strives to apply this comprehensive portfolio strategy to help make important decisions about reinvestment and consolidation opportunities, GSA is limited to appropriated funding, which is not enough to carry out all necessary Federal real property reinvestment needs. While GSA takes pride in the comprehensive analysis performed to help guide its portfolio strategy, limitations such as these also factor into the final portfolio decisions. Greater access to move and replication funding to support customer agency moves will help GSA deliver more consolidation projects, resulting in greater savings to the taxpayer.

The $20 million in consolidation funding PBS received in FY 2018 supported four consolidation projects. When complete, GSA's customers will save $6 million in annual rental payments, reduce their footprint by approximately 95,000 usable square feet, and save the taxpayer approximately $4 million in private sector lease payments. In FY 2016 and FY 2017, GSA funded projects to reduce customer annual rental payments by $28 million and annual lease costs avoidance of $360 million with consolidation funding. GSA works with customers to optimize space, repurpose or dispose of under-utilized buildings, backfill vacant space, and develop investment strategies based on rigorous evaluation criteria.

Regarding vacant space reporting, GSA's vacancy rate of three percent is significantly lower than the industry average. GSA is planning to amend its internal process to allow agencies to self-report underutilized space in

non-cancellable Occupancy Agreements; however, this change will not materially impact PBS's vacancy rate. Once reported as under-utilized and no longer needed, GSA will begin the process of marketing viable space to other agencies. This will involve a non-cancellable occupancy agreement policy change, revised standard operating procedures, training to impacted employees, and communication to customers announcing the change in FY 2019.

GSA works with its customers to better understand their housing needs, while developing asset investment strategies that improve the condition of the Federal portfolio and maximizes utilization to save money for the taxpayer.

### Disposing Federal Property

## AGENCY ACTION PLAN - Disposing Federal Property

Since FY 2016, GSA has met its disposal target by reducing the overall government footprint by 10.1 million square feet. In FY 2017 alone, GSA disposed of 123 assets governmentwide generating over $115 million in gross proceeds and resulting in a reduction of almost three million square feet. GSA made important strides during FY 2018 in rightsizing the Federal footprint and in developing strong partnerships to pave the way for greater success in the years to come. In FY 2018, GSA disposed of 140 assets governmentwide and generated over $123 million in proceeds. These disposals resulted in a reduction of 4,918,160 square feet and 2,735 acres from the Federal footprint.

With respect to the Lakewood land disposal, this property's disposal action is on hold as it is subject to litigation brought by a nonprofit organization that provides services to the homeless. The organization is questioning the review of its application by the U.S. Department of Health and Human Services to acquire this property under a no-cost conveyance. With regard to the Federal Assets Sale and Transfer Act of 2016, GSA is awaiting the finalization of the board required under the statute.

### Reducing Leasing Costs

## AGENCY ACTION PLAN - Reducing Leasing Costs

GSA has taken steps to reduce its overall lease costs, the amount of leased space occupied, and the number of leases in holdover or short-term extension status. Despite taking on new leasing requirements, as agencies with independent statutory authority turn to GSA to fulfill their leasing requirements (e.g., Veterans Administration and Security and Exchange Commission) and requirements that had been previously met through delegation of authority are returned, GSA's Rental of Space budget has stabilized over the past four years.

| Fiscal Year | Rentable Square Feet Leased[1] (in millions) | Rental of Space Budget [2](in thousands) |
|---|---|---|
| FY 2013 | 194.9 | $5,210,198 |
| FY 2014 | 193.4 | $5,387,109 |
| FY 2015 | 190.8 | $5,666,348 |
| FY 2016 | 187.9 | $5,579,055 |
| FY 2017 | 190.4 | $5,628,363 |
| FY 2018 | 187.6 | $5,590,141 |
| FY 2019 (Requested) | TBD | $5,430,345 |

*1 PBS State of the Portfolio 2015-2019 and PBS External Lease Inventory*

*2 GSA Congressional Justifications 2015-2019*

To continue to focus on lowering lease costs, in FY 2018 GSA implemented its Lease Cost Avoidance Plan. This plan reduces GSA lease costs by lowering agency space requirements through innovative workplace strategies, negotiating lower lease rates, executing better lease terms, maximizing the backfill of vacant Federal space, leveraging online leasing tools (such as the Automated Advanced Acquisition Platform [AAAP]), and using the GSA Leasing Support Service Contract (GLS) more effectively.

The key to achieving this plan is replacing expiring leases, specifically the largest expiring leases in the GSA portfolio, in a timely fashion at reduced square footages and below market rates. Replacing leases timely begins with gathering client agency requirements earlier. To that end, GSA issued a policy directing the gathering of client agency requirements 12 months sooner (24 months sooner in the case of prospectus level projects). Agency requirements gathering begins 36 months before expiration or 60 months prior to expiration for a prospectus level project. Timely gathering of requirements for expiring leases is a PBS measure that is tracked monthly at the senior leadership level.

Timely replacing leases results in fewer holdovers and extensions. GSA ended FY 2018 with fewer leases in holdover than at the end of FY 2017. At the end of FY 2018, 58 leases (0.7 percent of the inventory) were in holdover status, as compared to 74 (0.9 percent) at the end of FY 2017. GSA tracks and monitors its holdovers monthly.

GSA strives to negotiate leases at below market rates. In FY 2018, the aggregate dollars of GSA-negotiated lease transactions were five percent below market costs for comparable leases, a cost avoidance of $120.7 million over the term of the lease.

As GSA replaces these expiring leases, it is focused on executing leases with better lease terms. Longer lease terms, where appropriate, reduce lease costs by decreasing the risk of the lease to the financing community, which results in better rates for the Government. Both the full and firm term of GSA leases have continued to increase in the past fiscal years. In FY 2015, 20 percent of leases executed in that fiscal year had a firm term of 10 years or greater; in FY 2018, 35 percent of leases had a firm term of 10 years or greater.

Finally in FY 2018, GSA increased the use of its workforce multiplier tools: AAAP and GLS. Maximizing the use of these tools enables GSA to replace more leases in a given fiscal year, reducing holdovers, extensions, and lease costs. In FY 2018, GSA increased the number of leases awarded using the AAAP by 140 percent. In FY 2018, 308 leases were awarded in AAAP. Additionally, in FY 2018, GSA increased the number of lease acquisition projects utilizing our broker partners by 61 percent. In FY 2018, 378 projects utilized the GLS contract. GSA will continue to maximize the use of these tools in FY 2019 through its performance metrics.

### Administration of Leases

## AGENCY ACTION PLAN - Administration of Leases

GSA has taken steps to improve the lease management program, strengthen communication between stakeholders, and enhance its internal electronic enterprise tools to increase efficiency.

In FY 2017, GSA established the National Lease Occupancy Oversight Review Team and developed a regional self-assessment process for Contracting Officer Representative (COR) Lease Administration in accordance with the PBS Lease Management Desk Guide (LMDG) and other applicable PBS policy and guidance. In FY 2018, each GSA region performed the program self-assessment. GSA assigned each Region to review 25 lease COR files for a total of 275 lease files. The criteria used to select the lease pool included a variety of CORs, a wide geographic area, a broad range of lease effective or expiration dates, and leases with assorted rentable square footage. The self-assessment contained 37 questions regarding proper documentation, including, but not limited to, lease inspections, disseminating inspection results, inspection follow-up, the cure process, and other required

documentation in accordance with current PBS guidance.

Each Region compiled a narrative findings report and corrective action plan, which GSA combined into a national findings report and corrective action plan. GSA communicated the findings and plan to leadership, management, and personnel responsible for oversight of the lease management program. The national corrective action plan includes, but is not limited to:

- Strengthening communication between business lines and partnering, whereby each Region submitted a joint communication plan in August 2018;
- Soliciting management support in reinforcing the use of the LMDG, the Lease Management Tool (LMT), the GSA Real Estate Exchange application, and other applicable e-tools;
- Delivering a "Leasing Lite Learning" session to communicate the findings and corrective action plan, and promote improved communication using regional communication plans from the leasing and lease management community;
- Updating the Lease Acquisition Training to promote the involvement of the Lease Administration Manager or COR in the acquisition process;
- Updating the 2014 Lease Management Program Training;
- Completing LMT enhancements to implement a revised Lease Inspection Form 500 and the form's offline capability; and
- Requesting e-tool workflow and automation enhancements, which include:
    - Requesting to automate COR letters;
    - Requesting to automate the net lease service contract procedures to include Occupancy Agreement updates; and
    - Automating Overtime Utility procedures and checklist.

PBS Lease Administration has been incorporated into the agency-wide FY 2019 Procurement Management Review under the Office of Government-wide Policy oversight.

### Meeting the Operations and Maintenance Needs of Federal Buildings

## AGENCY ACTION PLAN - Meeting the Operations and Maintenance Needs of Federal Buildings

GSA's approach to delivering safe, reliable, and functional work environments is focused on the optimization of the GSA operation and maintenance program to mitigate the inherent risk associated with sustained cost reduction efforts.

GSA has taken steps to enhance program oversight and compliance through GSA's agency-wide maintenance management system (ensuring maintenance accomplishment and service delivery) and transactional customer feedback. The current satisfaction is rated a 4.3 out of 5. To ensure consistent delivery of services across its portfolio, GSA revised the Management Analysis Review System (MARS) to be completed and implemented in FY 2019. In seeking to increase transparency of operation and maintenance expenditures at a granular level, tableau monthly reports are posted on Data to Decisions (D2D). To ensure costs associated with above standard services are recovered, GSA has reviewed over 4,000 FY 2019 overtime utility estimates for accuracy, resulting

in an additional $1.2 million to be collected. GSA continues to strengthen controls to ensure accurate coding of transactions. There are ongoing efforts to institutionalize approaches and tactics that have proven successful through networking and sharing of best practices, including monthly meetings with Facilities Management and Service Centers communities to share information and best practices.

Seeking to leverage acquisition strategies from a portfolio-wide perspective, GSA is promoting the use of FAS 03FAC schedules. Finally, GSA is making efforts to strengthen vendor alliances through a partnering initiative and working closely with AbilityOne and SourceAmerica. GSA agrees with the IG's statement: "The risk that reduced levels of building operations and maintenance could lead to increased costs is especially problematic since the identified repair needs of PBS's building portfolio are already high and growing." One of the Office of Facilities Management's strategic initiatives for FY 2019 is to begin implementation of a five-year plan to gain efficiencies by optimally utilizing acquisition tools and strategies, including aggregation of requirements, while not impacting services. Deferring required annual preventive maintenance is not an acceptable cost reduction strategy.

### Ensuring Effective Management of Energy Savings Performance Contracts and Utility Energy Service Contracts

## AGENCY ACTION PLAN - Ensuring Effective Management of Energy Savings Performance Contracts and Utility Energy Service Contracts

GSA appreciates process improvement recommendations ensuring effective management of energy savings performance contracts (ESPC) and utility energy service contracts (UESC). Various efforts have been implemented to address these challenges.

With regard to ESPC oversight, GSA has implemented a new Portfolio Review Process to monitor the extent to which ESPC projects are achieving expected savings at both the portfolio and individual levels.

With regard to ESPC Standardization and Process Improvements, GSA has instituted a policy of procuring all new large/complex ESPCs through use of the U.S. Department of Energy (DOE) ESPC Indefinite Delivery/ Indefinite Quantity (IDIQ) contracts. The procurement of large/complex ESPCs is now only being performed by the central office ESPC Program Management Office (PMO). Centralized procurement provides GSA the means to standardize contract terms and incorporate ESPC best practices and lessons learned. In rare cases, a region may desire to use a contracting vehicle other than the DOE IDIQ. In these circumstances, the region must provide the centralized ESPC PMO a written justification explaining why it is in the Government's best interest to use a different contract vehicle. If the justification is approved, the acquisition plan for the contract must include a review and approval by the Head of the Contracting Activity. All stand-alone ESPC contracts must include an approved Measurement and Verification (M&V) as part of the contract award.

In addressing ESPC compliance, GSA provided ESPC training to GSA Regions in February 2018. A guidance document entitled, "Operational Guidance and Instructions Outlining Roles, Responsibilities, Administration and Reporting Requirements for Energy Savings Performance Contract (ESPCs)" was provided to regional personnel in January 2018. This guidance addresses building "Hold Status."

With regard to addressing pricing risk, in accordance with DOE contract procedures, ESCO selection is based upon a qualifications competition. To help ensure reasonable pricing at the time of task order award, the selection criteria has been adjusted by GSA to include price components for key cost drivers. To address performance risk the ESPC Portfolio Review Plan process provides program level visibility of government actions and market conditions that pose a risk to achieving the guaranteed energy savings on individual ESPC contracts. In addition, newly procured ESPC contracts include use of DOE Measurement & Verification Guidelines v4.0, which requires ESCOs to document and explain adjustments made to the energy baseline during the performance period and designate responsibility (ESCO or Government action) for any energy savings shortfalls. The documentation is provided

annually in the M&V report.

Finally, GSA will electronically identify equipment associated with ESPC contracts within our National CMMS system. This will streamline the process of monitoring ESPC related requirements and ensure that ESPC equipment is not modified, de-commissioned, or removed prior to ESPC contract completion. The enhanced monitoring capability and protection of equipment against unauthorized actions will assist in ensuring Government-caused energy savings shortfalls are minimized.

In order to promote competition and address contracting risk, the PBS National Capital Region instituted new procedures to: (1) formalize contracting officers' documentation of any determination that large change orders are within the scope of the original contract or order; and (2) re-emphasize the need for a justification for an exception to full and open competition or fair opportunity in instances where the change is outside of the scope of the initial contract or order.

PBS continues to adhere to the Limitation of Government Obligation policy, per Procurement Instructional Bulletin 16-01, Rev. 2.0 (Sept. 28, 2016).

UESCs; include Mandated Savings Guarantees, Limited Competition, and Sole Source Contracts.

UESCs procured after October 2012 require the following elements: (1) energy savings performance assurances or guarantees of the savings to be generated by improvements, which must cover the full cost of the Federal investment for the improvements; (2) measurement and verification of savings through commissioning and retro-commissioning; and (3) competition or an alternatives analysis as part of the selection process prior to entering into a UESC. GSA guidance, entitled "Procuring Energy Management Services with the GSA Area-wide Contract," states that language must be included in the negotiated Authorizations (i.e., Performance Assurance Plans) that secure guarantees of the energy and/or cost savings. If more than one franchised utility company is available in the service area or if the area-wide contract is determined to be non-advantageous, the facility is required by the Federal Acquisition Regulation (FAR) to acquire service via competitive acquisition procedures (i.e., separate contract), allowing all utilities the opportunity to bid for service. If the area-wide contract is determined to provide the best value to the Government in response to the need for energy management services, the process must be documented through the justification and approval process as outlined in the FAR.

## CHALLENGE #4: Prioritizing Agency Cybersecurity

### Protection of GSA's Building Control Systems against Cyber Attacks

### AGENCY ACTION PLAN -Protection of GSA's Building Control Systems against Cyber Attacks

GSA IT, in partnership with PBS, will continue to enhance the overall security of building systems. These initiatives include: maintaining a full and complete inventory of building management systems; taking a proactive approach to identify and modernize at-risk building systems; targeting high-risk buildings and at-risk technologies investing in the hygiene of the network infrastructure; implementing personnel and technology process improvements; conducting vendor outreach and management; and training the workforce.

GSA IT and the PBS Office of Facilities Management (OFM) currently utilize a Risk Management Framework (RMF) scorecard to identify and prioritize at-risk building systems. In FY 2018, GSA assessed 30 buildings and applied the framework to focus on 17 prioritized buildings. In FY 2019, GSA will apply the RMF scorecard to 40 additional buildings to identify key focus areas for the year; which will include the following activities:

- Categorize systems and data by that system based on practical impact of the system;
- Select and tailor baseline security controls for the system based on potential security impacts;
- Implement security controls;
- Document how the controls are deployed within the system and operating environment;
- Periodically assess the implemented security controls to determine how well the controls are implemented and operating;
- Authorize use of the systems based upon a risk-management determination of the actual risk presented by the system; and
- Regularly monitor and assess selected security controls in the system including:
    - assessing security control effectiveness;
    - documenting changes to the system or operating environment;
    - conducting security impact analyses of any associated changes; and,
    - reporting the security posture of the system to appropriate stakeholders.

GSA will also develop a funding and procurement strategy to address operational risks across the building systems portfolio. This will include identifying and replacing End of Life technology, completing an audit of circuit and network connections to ensure appropriate security controls are in place, and mitigating other potential vulnerabilities through active and continuous diagnostics and monitoring.

Vendor and employee outreach efforts will continue in FY 2019 to ensure products adhere to Federal IT and cybersecurity requirements and that employees understand and respond effectively to building related security vulnerabilities. GSA IT and PBS OFM will hold regular meetings with industry to ensure products meet Federal and GSA security policies and processes. GSA IT will also provide workforce training on cyber hygiene to address issues of sharing passwords and following IT security policies.

In addition to engaging the workforce, GSA IT will continue to partner with PBS to ensure that building system stakeholders are aware of security requirements and the importance of securing GSA facilities against risks and incidents. GSA will provide guidance and language to include in leasing agreements to outline cybersecurity requirements that are in line with existing cybersecurity and IT policy.

### Controlling Access to Sensitive Information in GSA Systems

## AGENCY ACTION PLAN - Controlling Access to Sensitive Information in GSA Systems

GSA IT will continue to modernize and strengthen its cybersecurity defenses to proactively address known and evolving threats. GSA IT will provide a wide array of cybersecurity services across GSA to protect the agency's sensitive information, while monitoring and responding to threats and breaches to the network. In FY 2019, GSA IT will continue to control access to sensitive information in GSA systems by:

- Working with the system owners to ensure that privileged accounts for applications, databases, and at the operating system level, by FISMA system, have been recertified for proper roles and access.
- Continuing to participate in the DHS Continuous Diagnostics and Mitigation program. As part of the program, GSA will implement solutions and capabilities supporting the privilege management across the enterprise for

all accounts that provide elevated privileges by the end of FY 2020.

- Ensuring that the enterprise infrastructure support contract has Service Level Agreements that meet critical cybersecurity requirements and metrics of the Agency and the Federal Government.
- Continuing to provide ongoing monthly training to the cybersecurity stakeholders responsible for the implementation of key cybersecurity controls within GSA information systems. These topics shall be reviewed continuously based on the emerging threats to GSA information systems.
- Ensuring that Contracting Officers, Contracting Officer Representatives, and program managers verify that the appropriate cybersecurity language is included in all GSA IT contracts, as outlined in GSA policy and procedures.
- Conducting security self-assessments focused around the findings and recommendations from the FY 2018 FISMA and financial audits.
- Reviewing all mobile device management policies and practices for validity against the current threat environment.
- Performing an analysis and developing a plan to implement data at rest encryption for all GSA information systems, including contractor-owned and -operated, that store, process, and transmit Personal Identifiable Information (PII) and financial information.

In addition, GSA will implement new technologies, policy updates, and process improvements to continue decreasing the risk of unintentional mishandling of GSA's data and ensure prompt and effective responses to reported breaches. This will be achieved through the following activities in FY 2019:

- Continuing to provide targeted, role-based training to system owners, program managers, and others responsible for the implementation of key privacy controls within GSA information systems. The training offerings shall be reviewed continuously based on privacy risks identified in GSA information systems.
- Holding a tabletop breach response exercise with the goals of practicing notifying internal stakeholders, escalating an incident as a "major incident," testing the agency breach response procedure, and helping ensure that members of the Full Response Team are familiar with the plan and understand their specific roles.
- Providing the Senior Agency Official for Privacy with a report detailing the status of each breach reported during the previous fiscal year.
- Submitting to the OIG a revised corrective action plan for assignment 180001 to address the elements of the original corrective action plan that the OIG found were not fully implemented.

## CHALLENGE #5: Managing Human Capital Efficiently to Accomplish GSA's Mission

### AGENCY ACTION PLAN - Managing Human Capital Efficiently to Accomplish GSA's Mission

Agency Action: Continue to conduct enterprise-wide Workforce Planning in support of GSA's Long-Term Workforce Plan and Human Capital Operating Plan.

GSA is actively mitigating the risks and challenges associated with GSA's high-retirement eligibility by efficiently

managing human capital to accomplish GSA's mission. GSA workforce planning efforts during FY 2018 have targeted these human capital risks, particularly for mission-critical occupations (Acquisition, Financial Management, Information Technology, Program Management, Property Management, Realty, and Human Resources).

In FY 2018, GSA launched workforce planning enterprise-wide to identify and address gaps between the workforce of today and the human capital needs of tomorrow. Partnering with agency Service and Staff Offices (SSO), GSA's Office Of Human Resources Management (OHRM) conducted workforce assessments to define each organization's desired future state and human capital requirements. These involved workforce analyses, skills gap identification, and the development of actionable workforce plans that outline strategies to close the skills gaps.

GSA Workforce Planning assessments further confirmed the need to address risks associated with turnover rates and high retirement eligibility, through succession management and knowledge transfer. SSO workforce action plans were completed in Q3 FY 2018. Implementation of workforce action plan strategies has begun and will continue throughout FY 2019. Key workforce planning focus areas for the agency include: retention; organizational design/functional alignment; recruitment/staffing; talent development; succession planning; and performance management. GSA will continue to pursue an annual workforce planning cycle to ensure human capital strategies are updated to reflect the evolving human capital needs of the agency.

To maintain expertise in mission-critical occupations, GSA also plans to establish an enterprise-wide competency management program to build critical competencies needed throughout the agency and to support agency succession planning.

## CHALLENGE #6: Safeguarding Federal Facilities and Providing a Secure Work Environment

### AGENCY ACTION PLAN – Safeguarding Federal Facilities and Providing a Secure Work Environment

The Office of Mission Assurance (OMA) continues to collaborate with the Federal Acquisition Service (FAS), the Public Buildings Service (PBS) and other internal partners to ensure that contractors are properly cleared prior to gaining access to GSA facilities and systems. OMA also conducts ongoing training sessions with GSA Requesting/Contracting Officials in an effort to increase compliance and streamline the contractor clearance process.

GSA has been working on improving the Facility Security Assessment (FSA) process overall, with a focus on training for GSA employees. In addition to the GSA FSA order with responsibilities for both OMA and PBS, GSA has recently released a FSA plan with actions for future years. To date, hundreds of PBS property managers have attended in-person training offered by the Interagency Security Committee (ISC). GSA and the ISC are also looking into providing GSA with online training modules administered through GSA's Online University that can be offered to a larger group of people while also tracking completion status.

GSA has created a standardized process that governs the distribution and use of Personal Identity Verification (PIV) cards for contractors. This process requires the completion of a background investigation for contractors and outlines a phased-approach that bans the distribution and use of generic facility access cards in GSA-controlled facilities. Further, over the past fiscal years, GSA has worked diligently to improve the tracking and the maintenance of data in GSA's Credential and Identity Management System (GCIMS). GCIMS was updated to capture collection and destruction of GSA Access Cards. A GCIMS user guide was also created for system role holders. The thousands of records were validated after the GSA Office of Inspector General Report was released, and GSA now updates the data on a monthly basis to ensure the most current data is being used.

OMA continues to partner with the Federal Protective Service (FPS) and receives quarterly updates regarding completed FSAs in GSA facilities. The current FSA data that GSA received from FPS (more than 1,400 records) contained more data points than in the past, including the Facility Security Committee chairperson's contact information, the date of the completed assessment, the assessment presentation date, and the date of the next in-cycle assessment. GSA is surveying property managers to ensure receipt. The FSA collection process will continue to improve in FY 2019 as the GSA/DHS Memorandum of Agreement has just been signed. GSA will receive a digital copy of all FSAs. Creating a gateway for GSA to view and receive the digital FSA from the FPS repository will allow GSA to review, store, and distribute the FSAs as necessary. OMA will continue to have an open dialogue with FPS on the overall FSA process at each step.

## CHALLENGE #7: Managing Revolving Funds Effectively

### Acquisition Services Fund

### AGENCY ACTION PLAN - Managing Revolving Funds Effectively

GSA works to ensure that its revolving funds, including the Acquisition Services Fund (ASF), have revenues to cover expenditures and that the necessary budgetary controls are in place. For the ASF, GSA looks at Net Operating Results and Net Financial Impact (NFI), which determine the ASF's net gain/loss before and after making strategic investments using the fund's accumulated retained earnings. Since its inception in FY 2007, the ASF has generated retained earnings as the result of positive net income in prior years. Over the last few years, GSA has made investments that have drawn down accumulated retained earnings in the short term but should generate a positive financial return in the long run.

The $8 million loss in FY 2017 is the ASF's financial position after accounting for strategic investments GSA made to enhance its operating posture. This amount is effectively break-even relative to $10.3 billion in revenue. Because the ASF has fixed costs and fluctuating levels of customer orders, there may be very small net losses on an annual basis. But GSA closely manages the fund so that losses in a given year do not detrimentally affect the overall health of the fund. Additionally, the FAS Commissioner has been working with each of the ASF business lines to ensure full cost recovery of the fund and GSA expects the ASF to break even at the NFI level in FY 2020. FAS is constantly exploring innovative ways to increase business volume, adjust rates, or reduce costs.

The Technology Transformation Services (TTS) under FAS will continue to review and optimize cost structures and business opportunities, including staffing level reviews to assess and optimize billable and non-billable workload. In FY 2019, several focus areas are planned around the ongoing efforts to increase staff utilization rates. These efforts include conducting weekly projections and increasing the management of individuals' utilization performance; continuing to aggressively manage the pipeline of actual and potential work orders to ensure that expenses are managed and the workforce is utilized efficiently; and continuing to expand use of the ASF authorities to secure multi-year interagency agreements with other agencies to maximize staff utilization. A culture of cost recovery and personal accountability will continue to be emphasized and reinforced. Additionally, individual performance plans will be updated to promote focus and accountability on increasing utilization rates driving toward cost recoverability.

Optimization of TTS's cost structure will also include a thorough review of billing rates to customer agencies by conducting market research and pricing analysis to ensure competitive pricing while increasing profitability. TTS will also continue to explore new billing models under ASF authority.

On the cost savings side, TTS will assess travel and training budget allocations to optimize resource levels and execution rates. The organization will continue to explore cost saving measures for travel and further reduce the training budget. TTS will continue to decrease overall impact to weekly utilization rates by limiting simultaneous conference attendance and training.

Finally, in FY 2019, TTS will focus on developing deeper client relationships and partnering on larger and more impactful modernization projects and initiatives. TTS will define and organize our brand internally around a clear set of complementary service and product offerings. The organization will grow the project pipeline by marketing products and services to attract new customers and highlight industry best practices. By adding new services for existing customer agencies, attracting new customers, and executing plans to expand Centers of Excellence, cost recovery goals in alignment with FAS break-even objectives can be achieved.

Regarding budgetary control issues, GSA exceeded its FY 2017 ASF apportionment limitation with respect to flow-through activity. This activity is related to customer orders where GSA has entered into a reimbursable agreement with agencies to procure goods and services for the customer agency. Orders with GSA are funded out of customer agencies' appropriations to ensure that government funds are available. Agency flow-through obligations are inherently difficult to predict because they fluctuate significantly over time. GSA processed more than $2.3 billion in flow-through obligations in September 2017, which represented a 30 percent increase over what was recorded in September 2016. This was higher than the anticipated customer orders that had been built into the ASF's apportionment. Even though the ASF obligations were based on valid, funded customer orders, the ASF flow-through apportionment limitation was exceeded.

In response to this, GSA initiated a Corrective Action Plan (CAP) with four actions:

1. Establish monthly monitoring controls over apportionment levels, including updates on monthly levels in briefings with OCFO and FAS leadership, and create an automated SF-133 report to assist in this process;
2. Develop monthly forecasts for end-of-year apportionment based on historical data and business volume projections;
3. Establish a process for reapportionment, which ultimately leads to a monthly determination by the FAS Budget Director as to whether an adjustment to the apportionment is necessary and should be communicated to the GSA Budget Director; and,
4. Explore the feasibility of developing and implementing automated preventive system controls in FAS's ordering systems to alert users of activity.

All four corrective actions have been completed. GSA's auditor has accepted and validated this CAP, and GSA is also working with OMB to consider measures that would allow for flexibility in its apportionment to accommodate the uncertainty surrounding flow-through obligations.

## CHALLENGE #8: Implementing GSA's Role Under the Comprehensive Plan for Reorganizing the Executive Branch

### AGENCY ACTION PLAN - Implementing GSA's Role Under the Comprehensive Plan for Reorganizing the Executive Branch

GSA agrees that the integration of the U.S. Office of Personnel Management's (OPM) functions into GSA offers an opportunity for considerable operational efficiencies while acknowledging that the transition will be challenging. GSA and OPM are committed to conducting the merger in a way that minimizes service disruption for OPM and GSA customers and employees. We have initially been focused on ensuring a successful transfer of OPM's Human Resources Solutions (HRS) to GSA, while concurrently, The Executive Office of the President initiates analysis of the potential move of retirement and healthcare benefits. GSA and OPM are developing the value proposition and qualitative business case for the merger and will continue to analyze the most effective way to integrate OPM functions into GSA while taking into account the Federal employees who rely on the services. GSA and OPM have developed an initial list of risks and mitigation strategies that we will monitor and implement throughout the transition.

On June 21, 2018, the same day the President's Reform and Reorganization Plan (Plan) was released, GSA kicked off its Task Force to plan and execute the merger. The GSA Task Force is led by Mary Davie, a senior executive in GSA who has prior experience with large reorganizations focused on fee-for-service federal organizations. The GSA Task Force, which meets weekly as a group, has representation from the Public Buildings Service, the Federal Acquisition Service, and all GSA staff offices. Working with their OPM counterparts and HRS leadership, the Task Force members have developed the transition and implementation plan to move HRS and its supporting functions and technology to GSA. Each functional area (human resources, CFO, CIO, facilities, personnel security, procurement, legal, and administrative support services) has created project plans identifying all required activities and milestones to effect the transition in their respective functional area. The OPM and GSA Task Force leads provide oversight and coordination between the organizations and track project plan activities. In addition, GSA has acquired contract assistance to support strategic planning and ensure successful execution in alignment with recognized best practices and approaches. The June 2018 GAO Framework 18-427 "Key Questions to Assess Agency Reform Efforts" is being used as a guide in this merger.

GSA recognizes the importance of communication, engagement, and change management for all stakeholders. GSA and OPM have created a robust communications plan that includes employees, customers, industry partners, and external stakeholders to ensure they receive accurate and timely information ahead of key dates in the transition and implementation plan to move OPM functions and technology to GSA. Examples of internal communications include: weekly briefings to the GSA leadership team; monthly updates provided to all GSA executives; and numerous agency-wide communications through town halls, emails, blog posts, a video communication and shared email inbox. In addition to the July 2018 Homeland Security and Government Affairs (HSGAC) hearing, GSA, OPM, and OMB briefed the relevant authorizing Committees and the House Committee on Oversight and Government Reform) in July, shortly after the release of the Plan. Subsequently, all three entities jointly briefed the authorizing Committee staff and the House and Senate Appropriations staff in September, with a commitment to provide regular briefings on the merger's progress.

GSA recognizes the importance of determining the appropriate organizational structure for OPM functions within GSA and understands the criticality of successful and timely onboarding of staff. To achieve this, GSA and OPM are undertaking a best business fit analysis to guide placement of OPM products/services/solutions within GSA and to determine other organizational realignments that may increase efficiency and align offerings. The analysis will include impacts to workforce and customers, and is planned to be completed in early Q2 of FY 2019. As a service provider to Federal, state, and local entities worldwide, GSA understands the importance of ensuring a smooth transition of staff in order to minimize or eliminate disruption to customers and the industry partners who do business through us. GSA also has experience with transition of employees, technology, and functions to other agencies and will use that experience and lessons learned to help guide the GSA/OPM merger.

GSA is committed to working with Congress and staff, as well as GAO and OIG, in providing information on the transition and supporting their oversight roles.

# SUMMARY OF **FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES** (UNAUDITED)

**Table 1 Summary of Financial Statement Audit**

| | |
|---|---|
| Audit Opinion | Unmodified |
| Restatement | No |

| Material Weaknesses | Beginning Balance | New | Resolved | Consolidated | Ending Balance |
|---|---|---|---|---|---|
| | | | | | |
| Total Material Weaknesses | 0 | 0 | 0 | 0 | 0 |

**Table 2 Summary of Management Assurance**

| Effectiveness of Internal Control over Financial Reporting (FMFIA § 2) | |
|---|---|
| Statement of Assurance | Unmodified |

| Material Weaknesses | Beginning Balance | New | Resolved | Consolidated | Reassessed | Ending Balance |
|---|---|---|---|---|---|---|
| | | | | | | |
| *Total Material Weaknesses* | 0 | 0 | 0 | 0 | 0 | 0 |

| Effectiveness of Internal Control over Operations (FMFIA § 2) | |
|---|---|
| Statement of Assurance | Unmodified |

| Material Weaknesses | Beginning Balance | New | Resolved | Consolidated | Reassessed | Ending Balance |
|---|---|---|---|---|---|---|
| | | | | | | |
| *Total Material Weaknesses* | 0 | 0 | 0 | 0 | 0 | 0 |

| Compliance with Federal Financial Management System Requirements (FMFIA § 4) | |
|---|---|
| Statement of Assurance | Federal Systems comply to financial management system requirements |

| Non-Compliance | Beginning Balance | New | Resolved | Consolidated | Reassessed | Ending Balance |
|---|---|---|---|---|---|---|
| | 0 | 0 | 0 | 0 | 0 | 0 |
| | | | | | | |
| | | | | | | |
| *Total Non-compliances* | 0 | 0 | 0 | 0 | 0 | 0 |

| Compliance with Section 803(a) of the Federal Financial Management Improvement Act (FFMIA) | | |
|---|---|---|
| | Agency | Auditor |
| 1. Federal Financial Management System Requirements | No lack of compliance noted | No lack of compliance noted |
| 2. Applicable Federal Accounting Standards | No lack of compliance noted | No lack of compliance noted |
| 3. USSGL at Transaction Level | No lack of compliance noted | No lack of compliance noted |

# PAYMENT **INTEGRITY** (UNAUDITED)

## Background

Per OMB Circular A-136, agencies must report information on payment integrity, disclosing proper and improper payments. IPERIA, Pub. L. 112-248, amends IPIA, Pub. L. 107-300, and the Improper Payments Elimination and Recovery Act of 2010 (IPERA, Pub. L. 111-204); it provides guidance on monitoring and reporting improper payments.

IPERIA requires agencies to annually report information on improper payments to the President and Congress and continue reviewing programs annually to identify those susceptible to significant improper payments. OMB defines significant improper payments as gross annual improper payments in a program exceeding both the threshold of 1.5 percent of program outlays and $10 million of improper program payments, or $100 million in improper program payments regardless of percentage.

For FY 2018, GSA is required to report on the Rental of Space program. The [19]https://paymentaccuracy.gov/ link contains more detailed information on improper payments and information reported in previous FYs.

## Purchase Cards Program Reporting Relief

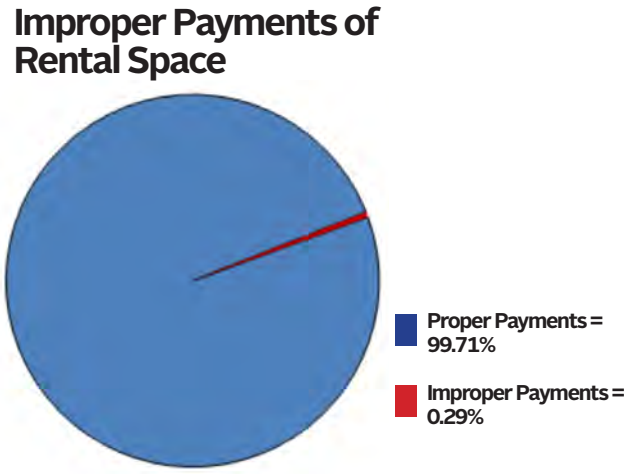
OMB guidance allows agencies to request approval for exemption from improper payment reporting when those programs no longer meet the criteria to qualify as high risk. For the previous three fiscal years, GSA reported the following improper payments for the Purchase Card Program totaling: FY 2015 $1.98 million, FY 2016 $1.57 million and FY 2017 $1.28 million. These amounts are significantly below the OMB reporting base floor of $10 million.

GSA requested relief from improper payment reporting for the Purchase Card Program for FY 2018. OMB reviewed and approved this request. In accordance with OMB Circular A-123, Appendix C, GSA is required to complete a risk assessment on this program within the next three years. The risk assessment for Purchase Cards will be conducted in FY 2020. An additional risk assessment is scheduled in FY 2020 for Employee Payments and Travel.

## Rental of Space Results

Based on the sample results, GSA's improper payment rate for Rental of Space was 0.29 percent, which is below the FY 2018 target rate of 1.80 percent. It is important to point out that GSA's proper payment rate for Rental of Space is 99.71 percent.

The chart at right presents Rental of Space payments and the percentage of associated proper and improper payments.



## Ongoing Actions

GSA has demonstrated a commitment to reducing improper payments. In FY 2018, GSA's PBS Office of Leasing developed written guidance, training, and oversight of consistent standard procedures for the administration of leases. This Office became the primary liaison to coordinate recommendations resulting from the payment recapture audit.

GSA's OCFO established a continuous monitoring corrective action group. The group includes representatives from the OCFO, the PBS Office of Leasing, and GSA's FSSP. This multi-office working group meets monthly to discuss improper payment error types, options for reducing improper payments, and ways to standardize business processes.

GSA provides the following improper payment reporting details in accordance with IPERIA, OMB Circular A-123, Appendix C, Requirements for Effective Estimation and Remediation of Improper Payments, and OMB Circular A-136, Financial Reporting Requirements.

## Statistical Sampling

For FY 2018, GSA measured, estimated, and reported improper payment percentages and dollars for the Rental of Space program. A stratified sampling design was used to test payments based on FY 2017 disbursements. A statistician designed the statistical sample plans and the extrapolation of sample errors across the payment populations.

The sampling plan provided an overall estimate of the percentage of improper payment dollars within +/-2.5 percent precision at the 95 percent confidence level, as specified by OMB M-18-20 guidance. Using a stratified random sampling approach, payments were grouped into mutually exclusive strata, or groups based on total dollars. These stratified samples provide greater precision than a simple random sample of the same size.

The following procedure describes the sample selection process:

1. Grouped payments into mutually exclusive strata based on the sample design;
2. Using a random number generator, assigned each payment a random number;
3. Sorted the population by stratum and random number within stratum; and,
4. Selected the number of payments within each stratum (by ordered random numbers) following the sample size design. For some strata, all payments were selected.

To estimate improper payment dollars for the population from the sample data, the stratum specific ratio of improper to total payment dollars was calculated.

## Accountability, Agency Information Systems and Other Infrastructure, and Barriers

These sections are not applicable as the Rental of Space program does not exceed the improper payment statutory thresholds.

## Additional Comments

GSA has made significant improvements in reporting for Rental of Space, a program designated as "high risk" for improper payments. In FY 2018, GSA improved the payment processes for this activity and worked with OMB to establish realistic targets, bringing the Rental of Space program into compliance. Test results show that this program has an improper payment rate below the Agency's FY 2018 target and has monetary losses to the Government below one percent of annual program payments.

## Improper Payment Tables

Table 1 details the FY 2018 improper payment (IP) amounts and rates for the Rental of Space program as well as the projected outlays and targeted improper payment amount and rate for FY 2019.

### Table 1 Improper Payment Reduction Outlook ($ in millions)

12 month Sampling Timeframe for FY 2018 data

| Program Name | FY2017 Outlays ($M) | FY 2017 IP Amount ($M)[1] | FY 2017 IP Rate[1] | FY 2018 Outlays ($M) | FY 2018 IP Amount ($M)[3] | FY 2018 IP Rate | FY 2018 Over-payment $ | FY 2018 Under-payment $ | FY 2019 Est. Outlays[4] | FY 2019 Est. IP %[5] | FY 2019 Est. IP $ | Start Date for data | End date for data |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Rental of Space[2] | $ 5,486.41 | $ 107.80 | 1.96% | $ 5,683.11 | $ 16.70 | 0.29% | $ 16.56 | $ 0.14 | $ 5,615.97 | 1.40% | $ 78.62 | 10/1/16 | 9/30/2017 |
| Purchase Cards[6] | $ 28.56 | $ 1.28 | 4.47% | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA |

[1] *The amount GSA reported in FY17 included leases with expired SAM registrations. GSA has been advised by the Office of General Counsel that issues with SAM registrations should not be considered improper payments. Reclassifying these leases from improper to proper would result in an improper payment rate of 0.72% and Improper payment amount of $39.4 million.*

[2] *To determine improper payments for Rental of Space: (1) For Pegasys financial testing, GSA compared Lease Digest Actions (GSA Form R620) to actual payments in Pegasys to identify discrepancies. (2) For GSA Outside Payment Recapture testing, GSA reviewed lease documents including amendments, Lease Digest Actions with particular attention to document execution dates, agreement effective dates, and payment dates. (3) For Payment Recapture testing, using lease contracts, supplemental lease agreements, lease agreements, R620s and other lease documents, a detailed monthly rental schedule was developed from lease commencement to the most recent rent payment. This schedule was then compared to actual payments, by month, to identify any discrepancies.*

[3] *IP estimate for the Rental of Space program was based on 3 different categories:(1) Projected IP amount from Pegasys financial sample plus (2) Projected IP amount in error from Outside Payment recapture sample plus (3) 100% of amount in error from Payment Recapture audit report.*

[4] *The Rental of Space FY 2019 estimated outlays are based on payments made in FY 2018.*

[5] *GSA reduced its target to 1.40% for FY 2019. This represents a significant reduction from the prior year's target rate of 1.80%. GSA will be reviewing more tenant improvement (TI) reconciliations during FY 2019. There is uncertainty around the effect these TI transactions will have on next year's IP rate as a small number of errors can lead to large IP percentage increases.*

[6] *GSA requested relief from IP reporting for the Purchase Card Program for FY 2018. OMB reviewed and approved our request.*

### Table 2 CY Estimate Statistical Information

| Program or Activity | CY Confidence Level | CY Margin of Error |
|---|---|---|
| Rental of Space | 95% | 0.12% |

**Table 3 Improper Payment Root Cause Category Matrix ($ in millions)**

| Reason for Improper Payment | | Rental of Space | |
|---|---|---|---|
| | | Overpayments | Underpayments |
| Program Design or Structural Issue | | | |
| Inability to Authenticate Eligibility: Inability to Access Data | | | |
| Inability to Authenticate Eligibility: Data Needed Does Not Exist | | | |
| Failure to Verify: | Death Data | | |
| | Financial Data | | |
| | Excluded Party Data | | |
| | Prisoner Data | | |
| | Other Eligibility Data (explain) | | |
| Administrative or Process Error Made by: | Federal Agency | $14.46 | $0.14 |
| | State or Local Agency | | |
| | Other Party (e.g., participating lender, health care provider, or any other organization administering Federal dollars) | | |
| Medical Necessity | | | |
| Insufficient Documentation to Determine | | | |
| Other Reason[1] | | $2.10 | |
| | **TOTAL** | **$16.56** | **$0.14** |

[1] *Other Reason constitutes improper payments that occurred based on Real Estate Tax Credits - Tax Bills\Refunds not Submitted and Tax Bills Reassessed.*

## Corrective Actions Undertaken by GSA Programs

GSA's Rental of Space program does not exceed the statutory thresholds. Therefore, GSA is not required to describe corrective action plans.

## Monetary Loss to the Government

Table 4 estimates the total improper payments monetary loss to the Government for the Rental of Space program. In order to estimate improper payment dollars by actual monetary loss to the Government, GSA omits underpayments and overpayments not involving claims.

**Table 4 Improper Payment Classification ($ in millions)**

| Program or Activity[1] | Actual Monetary loss to the Government identified in Sample | Estimated Total Monetary loss to the Government |
|---|---|---|
| Rental of Space Pegasys Financial testing | $0.004 | $0.598 |
| Rental of Space Outside Payment Recapture testing | $8.165 | $11.158 |
| Rental of Space Payment Recapture testing | $4.802 | $4.802 |
| **Rental of Space Total** | **$12.971** | **$16.558** |

[1] *The actual and estimated monetary loss to the Government is based on three categories:*

*(1) Pegasys financial improper overpayment testing errors;*

*(2) Outside Payment recapture improper overpayment testing errors;*

*(3) Payment Recapture audit report. (Since 100% of the Payment Recapture Audit identified amount constitutes improper overpayments; the actual monetary loss to the Government identified in the Payment Recapture audit report is the same as the estimated total monetary loss to the Government).*

## Loss Root Cause Category Matrix for programs reporting greater than $100 million in Monetary Loss

GSA has no programs reporting greater than $100 million in monetary loss. Table 5, Report of the Loss Root Cause Category Matrix for programs reporting greater than $100 million in Monetary Loss, does not apply.

## Recapture of Improper Payments

In FY 2018, GSA complied with reporting recapture of improper payments in compliance with IPERIA. This included annual reporting on the payment recapture audit program and completing a detailed cost effective analysis for performing payment recapture audits on programs expending more than $1 million and determining that a payment recapture audit program for all programs other than Rental of Space is not cost effective. GSA notified OMB and OIG that GSA programs were analyzed for payment recapture cost effectiveness and provided them a copy of the analysis.

## Payment Recapture Cost-effective Analysis for Programs over $1 million

GSA Payment Recapture Audit Program Scope:

GSA has 39 programs subject to potential Payment Recapture audit and does full payment recapture audit on one program, Rental of Space. Of the remaining 38 programs:

- Seventeen have no history of improper payments. Since there are no improper payments, a payment recapture audit would not apply to these programs.
- Nine are below the $1 million requirement and were not considered for payment recapture auditing.
- One has lapsed funding, and was not considered for payment recapture auditing. There will be no more expenditures for this program.

This leaves GSA with 11 programs on which to perform a detailed cost-effectiveness analysis. The following chart shows the Outlays/Overpayment Information for Rental of Space and the 11 Remaining Programs:

**Outlays/Over Payment Information for Rental of Space and 11 Other Programs**

| Program Name | Outlays In Dollars | Average Three Year Overpayments as % of Outlays | Average Three Year Overpayments | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|---|
| Rental of space | $5,680,898,408 | 0.5136 | $ 29,175,278 | $ 21,424,022 | $ 37,182,350 | $ 28,919,461 |
| Integrated Technology Services (ITS) - Flow-Thru | $1,454,266,154 | 0.2822 | $ 4,104,603 | $ - | $ 1,367,044 | $ 10,946,765 |
| Building operations | $2,466,075,079 | 0.0992 | $ 2,447,040 | $ 2,122,228 | $ 2,205,194 | $ 3,013,696 |
| Assisted Acquisition Services (AAS) - Flow-Thru | $5,181,845,806 | 0.0139 | $ 721,147 | $ 576,632 | $ 1,586,133 | $ 676 |
| Operating Expenses (Reimbursable) | $5,206,412 | 6.5140 | $ 339,146 | $ - | $ 1,015,998 | $ 1,440 |
| Repairs and alterations | $674,710,147 | 0.0501 | $ 338,105 | $ 496,341 | $ 38,991 | $ 478,983 |
| Acquisition Services Fund - Operating | $1,092,049,850 | 0.0188 | $ 205,771 | $ 231,854 | $ 385,077 | $ 382 |
| Construction and acquisition of facilities | $578,308,482 | 0.0247 | $ 142,898 | $ 1,038 | $ 81,570 | $ 346,085 |
| Special services and improvements | $1,779,209,030 | 0.0025 | $ 43,873 | $ 31,473 | $ 35,503 | $ 64,643 |
| Government-wide Policy (Reimbursable) | $ 27,105,919 | 0.0920 | $ 24,941 | $ 74,824 | $ - | $ - |
| Federal Citizen Services Fund (Reimbursable) | $ 3,023,980 | 0.0141 | $ 425 | $ - | $ 1,275 | $ - |
| Operating Expenses (Direct) | $ 53,419,671 | 0.0000 | $ 5 | $ - | $ - | $ 15 |

## Agency Program Prioritization

GSA reviewed these programs, giving priority to those with a higher potential for overpayments and recoveries. GSA utilized known sources of improper payment information, giving priority to recent payments and to payments made in programs identified as susceptible to significant improper payments. GSA's audit recovery program focuses on its largest program, Rental of Space. For the $24.97 million in FY 2017 overpayments; 85.7 percent ($21.42 million) related to the Rental of Space with only 14.3 percent ($3.55 million) related to other programs.

## GSA Self-Reported Overpayments Information Explained

GSA self-reported overpayments generally involve those overpayments identified by GSA regions as improper and forwarded to our FSSP for processing. GSA tracked the trends of these self-reported overpayments for the past three years and included this as a factor in its risk assessment analysis.

Based on this factor, the Payment Recapture Audit focused on the Rental of Space program. Over the past three years this audit identified $19.1 million in overpayments. In FY 2017 GSA recovered $11.5 million. GSA recoveries are accounted for in the year of receipt.

## Likelihood That Identified Overpayments Will Be Recaptured

GSA anticipates that identified overpayments will be recaptured. The nature of GSA operations involve recapturing overpayments from commercial vendors. These commercial vendors have the resources to remit overpayments with the applicable laws and regulations allowing recovery from such vendors. The evidence of overpayment is generally clear and convincing with little or no resistance from vendors concerning payment recovery.

## Likelihood that Expected Recoveries Exceed Costs

According to the GSA's Payment Recapture contract, the Auditor is able to perform Payment Recapture Audits on any program they believe to be cost-effective (other than the two OIG programs). The following chart shows the minimum upfront costs GSA would spend if the Payment Recapture Audit was conducted on a new program.

| Program Name | GSA Self-Reported Average Three Year Overpayments | Assigned Staff | Conferences | Training | Reporting | Audit Fees | Total | Cost Effective? |
|---|---|---|---|---|---|---|---|---|
| Integrated Technology Services (ITS) - Flow-Thru | $ 4,104,603 | $233, 849 | $19,125 | $3,000 | $27,287 | $738,829 | $1,022,090 | No* |
| Building operations | $ 2,447,040 | $233, 849 | $19,125 | $3,000 | $27,287 | $440,467 | $723,728 | No** |
| Assisted Acquisition Services (AAS) - Flow-Thru | $ 721,147 | $233, 849 | $19,125 | $3,000 | $27,287 | $129,806 | $413,067 | No** |
| Operating Expenses (Reimbursable) | $ 338,105 | $233, 849 | $19,125 | $3,000 | $27,287 | $61,046 | $344,307 | No |
| Repairs and alterations | $ 339,146 | $233, 849 | $19,125 | $3,000 | $27,287 | $60,859 | $344,120 | No |
| Acquisition Services Fund - Operating | $ 205,771 | $233, 849 | $19,125 | $3,000 | $27,287 | $37,039 | $320,300 | No |
| Construction and acquisition of facilities | $ 142,898 | $233, 850 | $19,125 | $3,000 | $27,287 | $25,722 | $308,983 | No |
| Special services and improvements | $ 43,873 | $233, 851 | $19,125 | $3,000 | $27,287 | $7,897 | $291,158 | No |
| Government-wide Policy (Reimbursable) | $ 24,941 | $233, 850 | $19,125 | $3,000 | $27,287 | $4,489 | $287,750 | No |
| Federal Citizen Services Fund (Reimbursable) | $ 425 | $233, 851 | $19,125 | $3,000 | $27,287 | $77 | $283,338 | No |
| Operating Expenses (Direct) | $ 5 | $233, 852 | $19,125 | $3,000 | $27,287 | $1 | $283,262 | No |

* *Based on GSA self-reporting no overpayments in FY 2017.*

** *Duplicate/erroneous payment data review that is completed on this program on an annual basis shows limited overpayment results.*

## Cost Effectiveness Summary

Based on the results, it is not cost-effective to do Full Payment Recapture Audits on any additional programs.

GSA notes that our results do not formally capture the additional resources the USDA FSSP would be spending on these new programs. GSA believes that these increased resources could impact the USDA FSSP's ability to perform higher priority activities.

## Payment Recapture Audit Efforts for Rental of Space Program

GSA's objective in reviewing Rental of Space is to detect and recover overpayments and errors while identifying opportunities for process improvement. GSA's actions and methods used to recoup overpayments involve analyzing lease contracts, lease agreements, lease digest actions, and the development of a detailed monthly rental schedule from lease commencement to the most recent payment. This schedule is then compared to actual payments by month, to determine if discrepancies exist. If discrepancies are discovered, they are quantified and identified as to nature and origin. A review of real estate tax adjustments is also conducted for each lease reviewed. Tax adjustments are reviewed for accuracy, with analysis of the Lessor's submission of tax bills, the GSA's calculation of adjustments and the actual payment of the adjustment.

The conditions giving rise to improper payments involve rent overpayments, rent credits, and real estate tax credits. These overpayments can be caused by calculation errors, administrative errors, system errors, failure to take the proper rent credits, failure to charge rent on time or at all, and failure to terminate the lease timely. Overpayments related to real estate tax credits result from failure by the lessor to comply with the lease contract and submit tax bills or refunds, the complexity in determining the base year tax amount, and improperly determining which line items of the tax bill GSA is required to pay.

GSA is addressing these conditions through recent Lease Payment Audit refresher training and is sending letters to all landlords re-affirming their obligation to submit a tax bill each year. GSA is implementing a standard process across the nation that requires analysts to review the current year tax bill for each lease. The treatment of real estate taxes will be facilitated by the PBS National Leasing Office and through IT enhancements.

GSA establishes claims in accordance with the Debt Collection Improvement Act of 1996 (DCIA). GSA's payment recapture audit identifies claims related to the Rental of Space program. Table 6 identifies the Rental of Space program with overpayments obtained through payment recapture audits and "Other" programs with overpayments recaptured outside of GSA's payment recapture audit program.

**Table 6 Overpayment Payment Recaptures with and without Recapture Audit Programs ($ in millions)**

| | | Overpayments Recaptured through Payment Recapture Audits | | | | Overpayments Recaptured outside of Payment Recapture Audits[3] | | |
|---|---|---|---|---|---|---|---|---|
| Funds recaptured from a High-Priority Program? (Y/N) | Program or Activity | Amount Identified in FY 2018[1] | Amount Recovered in FY 2018[2] | Recapture Rate in FY 2018[3] | FY 2019 Recapture Rate Target[3] | Amount Identified in FY 2018 | Amount Recovered in FY 2018 | Recapture Rate in FY 2018 |
| N | Rental of Space | $ 7.97 | $ 11.01 | 138% | 79% | $ 23.09 | $ 21.95 | 95% |
| N | Other[4] | | | | | $ 3.73 | $ 3.80 | 102% |
| | **TOTAL** | **$ 7.97** | **$ 11.01** | **138%** | | **$ 26.82** | **$ 25.75** | **96%** |

[1] *Our vendor, in addition to performing Payment Recapture Audit on Rental of Space, performed duplicate/erroneous payment data reviews across GSA programs as a whole. The amount identified from these reviews is $24,095. For simplicity GSA combined this amount with the overall Rental of Space identified amount.*

[2] *Includes both recaptures of overpayments during FY 2018 and overpayments that were reported prior to FY 2018.*

[3] *The collections amount and recapture rate relates more to the effects from the amount identified changing from year to year than to successful recapture efforts. A claim typically takes between 4 and 6 months to fully process after it is submitted. There was a smaller collections percentage (74%) in FY 2017 than in FY 2018 (138%) primarily because the over payment amount reported in 2017 ($15.55M) was higher than that in FY 2018 ($7.97M). GSA expects the Payment Recapture Auditor to identify a higher over payments amount in FY 2019 than in FY 2018, which would drive down the recapture rate. Thus, GSA is setting a realistic target rate of 79% for FY 2019.*

[4] *Other includes several programs activities. Over 97% of the $3.73M amount of the listed programs under Other relates to the following four program activities: building operations, acquisition services fund - operating, repairs and alterations, and construction and acquisition of facilities.*

The Payment Recapture Audit for the Rental of Space program is funded through a revolving fund. Therefore, funds recaptured are credited back to their original purpose. Disposition of recaptured funds from the FY 2018 payment recapture audit is identified in Table 7.

**Table 7 Disposition of Funds Recaptured Through Payment Recapture Audit Programs ($ in millions)**

| Program or Activity | Amount Recaptured | Agency Expenses to Administer the Program | Payment Recapture Audit Fees[1] | Financial Management Improvement Activities | Original Purpose | Office of Inspector General | Returned to Treasury | Other (please explain in footnote) |
|---|---|---|---|---|---|---|---|---|
| Rental of Space | $ 11.01 | NA | $ 1.85 | NA | $ 9.16 | NA | NA | NA |
| **TOTAL** | **$ 11.01** | **NA** | **$ 1.85** | **NA** | **$ 9.16** | **NA** | **NA** | **NA** |

[1] *Fees based on invoices submitted by Payment Recapture Audit firm in FY 2018.*

The aging of an overpayment begins at the time the overpayment is detected, which is the date that the Payment Recapture Audit GSA Contracting Officer Representative executes final approval of the claim form. Thus, GSA is reporting aging of outstanding overpayments based on the final approval date on claim forms, rather than the date that the accounts receivable record related to a claim is established in the accounting system.. Unsatisfied debt is referred to the Treasury Offset Program for further collection efforts. Uncollectable accounts are written off based on the Accounts Receivable Policy Handbook, CFO P 4253.1, Chapter 4, Servicing Non-Federal Accounts Receivable. See Table 8, Aging of Outstanding Overpayments Identified in the Payment Recapture Audit Programs.

The Outstanding overpayments identified in the payment recapture audits in FY 2018 are reflected in Table 8.

**Table 8 Aging of Outstanding Overpayments Identified in the Payment Recapture Audit Programs[1]**
**($ in millions)**

| Program or Activity | Amount Outstanding (0 – 6 months) | Amount Outstanding (6 months to 1 year) | Amount Outstanding (over 1 year) | Amount determined to not be collectable[2] |
|---|---|---|---|---|
| Rental of Space[3] | $ 1.59 | $1.63 | $3.39 | $3.17 |
| **TOTAL** | **$1.59** | **$1.63** | **$3.39** | **$3.17** |

[1] *The aging of an overpayment begins at the time the overpayment is detected, which is the date that the Payment Recapture Audit GSA Contracting Officer Representative executes final approval on the claim form. Thus, GSA is reporting aging of outstanding overpayments based on the final approval date on claim forms, rather than the date that the accounts receivable record related to a claim is established in the accounting system.*

*If GSA reported aging of outstanding overpayments based on the date a receivable claim is established in the accounting system, the aging amounts would be as follows:*

*Amount Outstanding (O-6 months): $1.14*
*Amount Outstanding (6 months to 1 year): $1.58*
*Amount Outstanding (over 1 year): $3.37*
*Amount Determined not to be Collectable: $3.17*

[2] *Uncollectable accounts are written off based on the Accounts Receivable Policy Handbook, CFO P 4253.1B, as amended, Chapter 4, Servicing Non-Federal Accounts Receivable. GSA writes off claims with a remaining principal balance under $1OO at 12O days old; claims above $1OO are written off after they have been referred to Treasury for collection for 6O days. Amount determined to not be collectable is cumulative, based on OMB Town Hall guidance, and includes all current and prior amounts determined to not be collectable dating back to October 2O1O.*

[3] *As follows are the percent such amounts represent of the total overpayments from recapture audits of the agency (i.e., overpayments that have been identified but not recaptured):*

*Amount Outstanding (O-6 months): 16.24%*
*Amount Outstanding (6 months to 1 year): 16.71%*
*Amount Outstanding (over 1 year): 34.7O%*
*Amount Determined not to be Collectable: 32.35%*

*Note: The percentages are based on full numbers and not the rounded outstanding dollar amounts listed hereon.*

## Confirmed Fraud (FY 2018)

Table 9 reports the amount of fraud confirmed within the FY 2018. GSA consulted with the GSA OIG to collect the data listed in Table 9. The amounts reflected in the table below represent the result of GSA OIG investigations of fraud against GSA and against other Federal agencies.

**Table 9 Confirmed Fraud[1] ($ in millions)**
**Annual Figures Covering October 1, 2017 through September 30, 2018**

| Program or Activity | Confirmed Fraud |
|---|---|
| Criminal Results | $16.144 |
| Civil Results | $74.054 |
| Non-Judicial Recoveries | $7.054 |
| **TOTAL** | **$97.252** |

[1] *Information provided by GSA OIG Office of Investigations.*

## FY 2018 Risk Assessment to Identify Programs Susceptible to Significant Improper Payments

IPERIA requires all agencies conduct a thorough review of their programs and activities that may be susceptible to improper payments annually. In addition, IPERIA requires a re-baseline and review assessment be conducted at least once every three years for all programs not currently identified as high-risk. GSA completed the required risk assessments for 36 programs in FY 2018. See Table 10, Programs Susceptible to Significant Improper Payments During FY 2018 Risk Assessment.

The evaluation for susceptibility of programs making significant improper payments was determined by qualitative and quantitative factors. The qualitative factors included:

- Whether the program or activity reviewed is new to the Agency;
- The complexity of the program or activity reviewed, particularly with respect to determining correct payment amounts;
- The volume of payments made annually;
- Whether payments or payment eligibility decisions are made outside of the agency, for example, by a state or local Government, or a regional Federal office;
- Recent major changes in program funding, authorities, practices, or procedures;
- The level, experience, and quality of training for personnel responsible for making program eligibility determinations or certifying that payments are accurate;
- Inherent risks of improper payments due to the nature of agency programs or operations;
- Significant deficiencies in the audit reports of the Agency including, but not limited to, the Agency IG or the GAO audit report findings, or other relevant management findings that might hinder accurate payment certification; and
- Results from prior improper payment work.

A weighted quantitative average of risk conditions based on input from these qualitative factors was calculated. This figure was then weighted with the size of the payment population to calculate an overall risk score. The risk assessment identified no additional programs or activities susceptible to significant improper payments.

In FY 2018, GSA established a new inventory of 39 programs using what was reported to OMB based on the Digital Accountability and Transparency Act (DATA Act). Within these 39 programs, one is Rental of Space, which is already currently assessed as high risk and reported in Table 1, and two are OIG program funds that we do not review based on the OIG Act. Thus, 36 programs were assessed.

GSA completed the assessments prior to the issuance of the OMB M-18-20 guidance and thus reviewed the programs against the nine risk factors noted in OMB M-15-02 guidance. The assessments addressed two additional factors that are not required to be addressed in the M-18-20 guidance: (1) Inherent risks of improper payments due to the nature of agency programs or operations and (2) results from prior improper payment work. By addressing these two additional factors, GSA executed robust risk assessments. In executing the risk assessments, GSA met the OMB M-18-20 guidance.

GSA made one key change in the risk assessment conducted from the prior year. In FY 2018, GSA leveraged the FY 2017 Service and Organization Controls Report (SOC 1) to assess the portion of the process at the USDA FSSP that is covered by this report. The report did not identify any concerns relating to improper payments.

Table 10 includes the programs on which GSA conducted a risk assessment during FY 2018. None of the programs were found to be susceptible to significant improper payments.

**Table 10 All Programs Assessed for Risk of Improper Payments During FY 2018 Risk Assessment Cycle**

| Program Name | Was the Program or Activity Susceptible to Significant Improper Payments During FY 2018 Risk Assessment |
|---|---|
| Electronic Government (E-GOV) Fund (Direct) | No |
| Installment acquisition payments | No |
| Construction of lease purchase facilities | No |
| ITOR Oversight/ Cybersecurity and Program Management | No |
| Data Driven Innovation | No |
| Lapsed Balances | No |
| Federal Buildings and Courthouses | No |
| Electronic Government | No |
| Real Property Utilization and Disposal | No |
| 18F Flow-Thru | No |
| Federal Citizen Services Fund (Reimbursable) | No |
| Digital Services | No |
| Allowances and pensions | No |
| Operating Expenses (Reimbursable) | No |
| Pre-Election Transition | No |
| Acquisition Workforce Training | No |
| Presidential Transition | No |
| Audit contracts and contract administration | No |
| High-Performance Green Buildings - Major R&A | No |
| Government-wide Policy (Reimbursable) | No |
| International Trade Center* | No* |
| Technology Transformation Service | No |
| Operating Expenses (Direct) | No |
| Government-wide policy | No |
| Integrated Award Environment | No |
| Construction and acquisition of facilities | No |
| Repairs and alterations | No |
| Working Capital Fund (Reimbursable) | No |
| General Supplies and Services (GSS) - Flow-Thru | No |
| Acquisition Services Fund - Operating | No |
| Integrated Technology Services (ITS) - Flow-Thru | No |
| Special services and improvements | No |
| Building operations | No |
| Travel/ Motor Vehicles and Card Services (TMVCS) - Flow-Thru | No |
| Assisted Acquisition Services (AAS) - Flow Thru | No |
| Working Capital Fund (Direct) | No |

*This program was assessed through the Building Operations risk assessment.

## Do Not Pay Initiative

When enrolling in Do Not Pay (DNP), GSA elected to match against the Death Master File (DMF) and the General Services Administration's Excluded Parties List System (EPLS) database. The GSA vendor table is transmitted to DNP on the 10th of every month. GSA compares the vendor file to the EPLS and the DMF. Vendors that have exclusions are annotated and deactivated in the GSA vendor master database file. No corrections to the SAM/EPLS Private database have been identified by GSA in our review process.

Additionally, GSA utilizes online single-search DNP functionality to check for any matches prior to establishing a new vendor record in the GSA vendor table. GSA also receives results for our payments processed on a daily basis from DNP. These results reflect matches to the SAM Exclusion Records and to Deceased Individuals as a result of post-payment matching of GSA payments schedules to these databases. The payment matches and exclusion information are reviewed in the DNP Portal. The SAM Data Universal Numbering System (DUNS) registrations interface directly into GSA's accounting vendor database ensuring vendors with debarments do not receive improper payments.

Once they are reviewed, the payments are adjudicated as proper or improper. In general, GSA's items to adjudicate monthly in DNP are very low, ranging from none to one per month. GSA's reduction in improper payments is mostly attributable to GSA's PBS National Office of Leasing and OCFO developing written guidance and oversight of standard procedures for the administration of leases rather than the DNP initiative.

# FRAUD **REDUCTION REPORT**

Agency progress on implementing the Fraud Reduction and Data Analytics Act of 2015 (Pub. L. 114-186, 31 USC 3321):

The Fraud Reduction and Data Analytics Act of 2015 requires annual reporting on the Agency's progress in implementing financial and administrative controls to identify and assess fraud risks.The Act also requires the agency to implement control activities designed to prevent, detect, and respond to fraud, including improper payments. Guidance, implementing instructions, and the internal control framework are provided in:

- OMB Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control, July 2016; and
- GAO-14-704G, The Standards for Internal Control in the Federal Government, September 2014 (the Green Book)

GSA uses Federal solutions to strengthen controls that reduce the risk of fraud against the Federal Government. For example, the DNP solution is a Governmentwide initiative mandated by the Improper Payments Elimination and Recovery Improvement Act of 2012 to screen payment recipients before a contract award or payment is made in order to eliminate payment errors. GSA has incorporated this mandate into our business processes. The DNP database is also used in the acquisition process. Prior to contract award the DNP is reviewed as part of the evaluation process, as well as GSA's SAM and the Internal Revenue Service's Taxpayer Identification Number (TIN) Match Program.

GSA works closely with the OIG to implement recommendations identified during audits and investigations. The OIG analyzes potentially fraudulent or otherwise criminal activities. They conduct nationwide criminal, civil and administrative investigations of illegal or improper activities involving GSA programs, operations, and personnel. GSA reviews OIG reports and the Semi- Annual Report to Congress to help identify areas where controls could be improved.

In FY 2018, the OIG identified fraudulent activity in the SAM database. GSA implemented multiple preventive measures to fix these controls including:

1. Multi-factor authentication to log into SAM.gov. This requires a SAM user to be validated at login by having a unique code sent to a electronic device that is entered as part of the login process.
2. Restricted access to the expired registration data migrated into SAM from the Central Contractor Registration system. This prevents individuals or businesses from impersonating a legitimate business that is currently inactive.
3. When a vendor changes bank information, the parent entity is notified to reduce the risk. Parent approvals are also required if a child entity tries to register in SAM.
4. Masking sensitive data so it is not displayed publicly in the SAM database. Examples include displaying the last four characters of the Marketing Partner Identification Number TIN, ABA Routing Number, and Bank Account Number for users with approved roles.

Additionally, the OCFO sponsored training on Managing Risk Through Effective ERM. Over sixty members of the OCFO staff successfully completed the training.

GSA revamped methods to evaluate compliance with the five components and 17 principles of Internal Controls, including Principle 8, the fraud risk principle. The new tool was completed by 16 Heads of Services and Staff Offices. Fraud Risk was discussed by the GSA Senior Assessment Team, and the MCOC, to ensure it was appropriately addressed in the Administrator's Annual Statement of Assurance.

In FY 2018, the MCOC meetings included discussions on the status of corrective actions for outstanding audit findings from the annual external financial statement audit, the annual internal control plan for financial management and financial systems. At the conclusion of the fiscal year the MCOC members completed a survey to identify internal control and fraud issues not previously reported. No areas of concern were identified.

GSA addressed fraud at the program level through annual internal program reviews, which included an assessment of risk. GSA has a total of 393 internal control reviews, which it evaluates over a 5 year cycle. In FY 2018, GSA performed all 88 of the planned internal control reviews.

## GSA Continues to Make Progress in Implementing Leading Practices for Managing Fraud Risk

To monitor delinquencies associated with the travel card, GSA established a Centrally Billed Account with the contracted Electronic Travel System (ETS) vendor for travel transportation expenses. The ETS vendor performs an automated reconciliation of travel transportation billings and provides GSA with a list of reconciled charges. There are no delinquencies on this account since it is paid on a bi-weekly basis. For individually billed accounts, a monthly delinquency report is now provided to the cardholder's supervisor and OHRM with a listing of aged delinquent accounts. Approving Officials (AO) conduct counsel and/or discipline employees, as necessary, in consultation with OHRM. GSA initiates salary offset for collecting undisputed delinquent travel charge card debt. To further reduce the potential for delinquent accounts, GSA has incorporated the split disbursement feature into ETS for payment directly to the charge card contractor. There are no delinquencies for the purchase card program since payment to the charge card contractor is made on a daily basis.

To mitigate the risk associated with employees who separate from GSA and fail to properly return their travel cards, GSA uses a daily Employee Separation List and verifies the names on the list in Citibank's Citidirect Card Management System (CCMS). These accounts are immediately cancelled with Citibank. As an additional control, a monthly separation list from OHRM is used to verify closing separated employee accounts in CCMS that may have been missing from the daily list. GSA also reconciles the list of active charge card participants from Citibank to Human Resources files on a periodic basis (minimum of once per year).

## Additional Travel/Purchase Card Controls

GSA program offices receive a semi-annual report of inactive purchase cardholders (accounts with no activity in the preceding 12 months) for review. The program offices initiate closure for accounts that are no longer needed.

GSA utilizes retail blocks on questionable/high risk Merchant Category Codes (MCC) for purchases and travel. GSA reviews and updates the use of these codes periodically.

Travel card applicants complete their travel card application online in lieu of completing a paper application. The online application increases sustainability by reducing the number of paper applications processed and increases security of an applicant's personally identifiable information.

GSA requires all charge card participants, regardless of level or responsibilities, to complete training prior to appointment or issuance of a charge card (purchase or travel).

GSA requires all approving officials, charge card holders, Agency/Organization Program Coordinators, and Charge Card Coordinators to complete charge card refresher training every two years for travel cards, and every three years for purchase cards.

Charge card program improvements in FY 2018 include:

- Monthly questionable charges and delinquency reports are sent to OHRM to ensure approving officials and/or supervisors carry out consistent application of disciplinary action, when necessary.
- Cardholder's purchase card account is suspended if a cardholder is expected to be away from the office for more than 20 business days.
- Charge Card Coordinators sample purchase card transactions monthly to ensure purchase cardholders upload supporting documentation in GSA's financial system.

## GSA Utilizes the Following Reports to Detect Possible Charge Card Misuse

**Pegasys Daily Charges Report** - This report is used by cardholders to review daily transactions. Credit card vendors import transaction data into Pegasys generating email notifications to cardholders on availability of daily transaction report. The report is then downloaded for review and verification by cardholders.

**Pegasys Monthly Charge Card Transaction Report** - This report is used by approving officials to review their cardholder's monthly transactions. The Pegasys charge card module automatically sends an email to the AOs including a consolidated report of all their cardholders' monthly charge card transactions. AOs can elect to receive daily emails of new charge activity as it occurs, and they can access a variety of reports on their cardholders' accounts at any time from the Pegasys reports module. All AOs are required to review and certify their monthly reports within ten days of receipt and take action on all unauthorized and questionable charges. In addition, the OAS monitors AOs' monthly reviews to ensure completion.

**Questionable Charges Report** - This report utilizes the MasterCard Expert Monitoring System to assess questionable transactions. On a monthly basis, OAS uses data mining techniques to identify questionable charges using attributes such as:

- Merchant description;
- MCC;
- Merchant names; and
- Weekend and holiday transactions.

The data is reviewed and compiled into the Questionable Charges Report and sent to the AOs for review and comments.

Agency progress was also made in identifying risks and vulnerabilities to fraud with respect to payroll, beneficiary payments, large contracts, and purchase and travel cards. A new time and attendance system was implemented in the third quarter of FY 2018, which integrated leave requests with the time card, and reduced the risk associated with paying employees improperly. Controls were also strengthened to reduce the risk of paying employees after separation.

The GSA OIG has direct access to all purchase and travel card data and performs limited data mining on purchase card transactions. In addition, the program office contacts the OIG if inappropriate use of the card is discovered. The GSA OCFO, A-123 Review Team conducts a quarterly review of internal controls in accordance with the IPERA of 2010.

**Impending Suspensions Report** – OAS notifies regional coordinators to follow up with AOs who have not reviewed and certified their Pegasys monthly transactions. Upon notification, the AOs have ten days to review and certify the Pegasys reports to prevent the suspension of their cardholders' accounts.

**Transaction File** - This monthly nationwide file of all purchase card transactions is provided to the GSA OIG and the Federal shared service provider for financial services for review and audit sampling.

**Potential Split Transactions** – This report notifies the Heads of Services and Staff Offices and Regional Commissioners of potential split transactions by cardholders. Management officials review the transactions and report to OAS on whether inappropriate use is discovered or whether charges comply with policy. Management officials are advised to counsel the employee and/or take disciplinary action in consultation with their servicing human resources office, if inappropriate use of the purchase card is discovered. Management officials must also conduct a procurement review to determine if any corrective action is needed.

**Travel Card**

The Questionable Charges Report described above is also utilized for travel cards. In addition, OAS uses data mining attributes such as:

- ATM transactions > $250 in 1 Week;
- Merchant description;
- MCC;
- Merchant names;
- Returned checks; and
- Travel card transactions that are not supported by an approved travel authorization in ETS.

In FY 2018, OAS has implemented the following actions to strengthen the charge card program:

1. Monthly questionable charges reports and delinquency reports are sent to the OHRM to ensure approving officials and/or supervisors carry out consistent application of disciplinary action, when necessary.
2. Cardholder's purchase card account is suspended if a cardholder is expected to be away from the office for more than 20 business days.
3. Charge Card Coordinators perform a monthly sampling of purchase card transactions to ensure purchase cardholders upload supporting documentation in GSA's financial system.

## Additional Control to Curb Fraud

The "Lost and Stolen Card Report" is run annually to identify cardholders who report their purchase card lost or stolen during the period. The report is used to monitor potential fraud and abuse of the purchase card. OAS may revoke a cardholder's purchase card and refer the cardholder to the OIG, as warranted.

Agency progress made on establishing strategies and procedures to curb fraud included integrity awareness, OIG investigations, and the OIG hotline.

## Integrity Awareness

The GSA OIG presents Integrity Awareness Briefings nationwide to educate GSA employees on their responsibilities for the prevention of fraud and abuse. This period, OIG presented 27 briefings attended by 628 GSA employees,

other Government employees, and Government contractors. These briefings explain the statutory mission of the OIG and the methods available for reporting suspected examples of wrongdoing. In addition, through case studies, the briefings make GSA employees aware of actual examples of fraud in GSA and other Federal agencies and help prevent their reoccurence. GSA employees are the first line of defense against fraud, abuse, and mismanagement. They are a valuable source of successful investigative information.

The GSA OIG plays a significant role in the GSA's prevention and detection of fraud. The following activities were reported in the OIG Semiannual Report to Congress:

October 1, 2017 – March 31, 2018:

## Significant Investigations

The Office of Investigations conducts independent and objective investigations relating to GSA programs, operations, and personnel. The office consists of special agents with full statutory law enforcement authority to make arrests, execute search warrants, serve subpoenas, and carry concealed weapons. Special agents conduct investigations that may be criminal, civil, or administrative in nature and often involve complex fraud schemes. Investigations can also involve theft, false statements, extortion, embezzlement, bribery, anti-trust violations, credit card fraud, diversion of excess Government property, and digital crimes. During the reporting period of October 1, 2017 - March 31, 2018, the office opened 54 investigative cases, closed 83 investigative cases, referred 97 subjects for criminal prosecution, and helped obtain 35 convictions. Civil, criminal, and other monetary recoveries resulting from OIG's investigations reported totaled over $97 million.

## Other Significant Work

### Suspension and Debarment Initiative

GSA has a responsibility to ascertain whether the people or companies with whom it does business are eligible to participate in Federally assisted programs and are not considered "excluded parties." Excluded parties are declared ineligible to receive contracts by a Federal agency. The Federal Acquisition Regulation authorizes an agency to suspend or debar individuals or companies for the commission of any offense indicating a lack of business integrity or business honesty that directly affects the present responsibility of a Government contractor or subcontractor.

During this reporting period, the OIG made 54 referrals for consideration of suspension or debarment to the GSA Office of Acquisition Policy. GSA issued 120 actions based on current and previous OIG referrals.

### Hotline

The OIG hotline provides an avenue for employees and other concerned citizens to report suspected wrongdoing. Hotline posters located in GSA-controlled buildings encourage employees to submit complaints using the hotline (which is also available online). OIG's first Semi-Annual Report to Congress for FY2018 documents receiving 751 hotline contracts -- 59 were referred to GSA program officials for review and appropriate action; 18 were referred to other Federal agencies; 17 were referred to the OIG Office of Audits; four were referred to the Inspections; and 59 were referred to investigative field.

# OTHER GSA **STATUTORILY REQUIRED REPORTS** (UNAUDITED)

## Debt Management

GSA reported $157.9 million of outstanding debt from non-Federal sources, subject to the DCIA of 1996. Of that amount, $34.3 million, or 22 percent of the outstanding debt was delinquent at the end of FY 2018. Non-Federal receivables consist of debts owed on third-party claims, travel advances, proceeds from the sale of real property, and other miscellaneous receivables.

To comply with the DCIA of 1996, GSA transmits delinquent claims each month to the U.S. Treasury, Bureau of the Fiscal Service for cross-servicing collection. During FY 2018, the OCFO referred over $8.7 million of delinquent non-Federal claims to the U.S. Treasury for cross-servicing collection activities. Collections on non-Federal claims during this period exceeded $815.6 million.

The OCFO has continued to implement and initiate actions to improve our debt collection efforts and reduce the amount of debt written off as uncollectible by GSA.

GSA actively pursues delinquent non-Federal claims using installment agreements, salary offset, administrative wage garnishment, and any other statutory requirement or authority that is applicable. GSA continues to place a high priority on resolving delinquent accounts receivable and claims.

## Cash and Payments Management

The Prompt Payment Act, along with the DCIA, requires the timely payment of commercial obligations for supplies and services using electronic funds transfer. In FY 2018, GSA paid interest of $488 thousand on disbursements subject to the Prompt Payment Act of $20.8 billion, or $ 23.48 in interest per million disbursed. The statistics for the current and preceding two fiscal years are:

| | FY 2016 | FY 2017 | FY 2018 |
|---|---|---|---|
| Total Number of Invoices Paid | 1,843,201 | 1,920,286 | 2,123,989 |
| Total Dollars Disbursed | $17.6B | $18.9B | $21.2B |
| Total Dollars of Interest Penalties | $418,587 | $704,052 | $488,255 |
| Interest Paid per Million Disbursed | $23.79 | $37.30 | $23.48 |
| Percentage of Invoices Paid-On-Time | 99.6% | 99.7% | 99.7% |
| Percentage of Invoices Paid Late | 0.4% | 0.3% | 0.3% |
| Percentage of Invoices Paid Electronically | 99.8% | 99.5% | 97.31% |

# REDUCE **THE FOOTPRINT** (UNAUDITED)

At the end of FY 2017, GSA had reduced its own internal real estate portfolio by almost 27 percent (1.3 million usable square footage (USF)) compared to the FY 2015 RTF baseline. The largest USF reduction during FY 2017 resulted from reducing space at three regional office buildings in the New England Region, the National Capital Region and the Southeast Sunbelt Region. In FY 2018, GSA reduced its leased and Federally owned inventory by just over three million square feet.

GSA made additional reductions during FY 2018 at GSA's Regional Office Building in the Great Lakes Region.

GSA is continuously seeking to maximize the use of owned Federal space, eliminating costly lease arrangements, and disposing of underutilized assets. GSA is improving the utilization of space through various workplace strategies including: rightsizing individual, collaborative, and support spaces; desk-sharing; a continued emphasis on enabling and supporting mobile work; and shifting from traditional office space to more flexible, equitable, open-plan workplace environments.

### Reduce the Footprint Baseline Comparison

| | FY 2015 Baseline | 2017 | Change (FY 2015 Baseline - 2017) |
|---|---|---|---|
| Usable Square Footage (USF) | 5,183,256 | 3,796,226 | (1,387,030) |

### Reporting of O&M Costs – Owned and Direct Lease Buildings

| | FY2015 Reported Cost | FY2017 | Change (FY2015 Baseline-2017) |
|---|---|---|---|
| Operation and Maintenance Costs ($ in millions)* | $40 | $34.3 | ($5.7) |

* *Reflects operating rent that PBS billed to the GSA OAs subject to RTF in FY 2015 and FY 2017. These figures are different from the O&M costs reported in FRPP as GSA's FRPP O&M costs are reported at the asset level and includes vacant Federal space as well as space occupied by other agency OAs. Additionally, FRPP definition of O&M costs includes only actual expenses, recurring maintenance and repair costs, utilities, cleaning and roads/grounds expenses; whereas PBS billed operating rent may include other operating cost components.*

# CIVIL MONETARY PENALTIES **INFLATION ADJUSTMENT** (UNAUDITED)

The Federal Civil Penalties Inflation Adjustment Act of 1990 (the Inflation Adjustment Act), as amended, requires agencies to make regular and consistent inflationary adjustments of civil monetary penalties (CMP) to maintain their deterrent effect. The following are those penalties and applicable authorities identified for inflationary adjustment in accordance with Act.

| Statutory Authority | Penalty (Name or Description) | Year Enacted | Latest year of adjustment (via statute or regulation | Current Penalty Level ($ Amount or Range) | Sub-Agency/ Bureau/ Unit | Location for Penalty Update Details |
|---|---|---|---|---|---|---|
| 40 U.S.C. | Program Fraud Civil Remedies Act (PFCRA) | 1986 | 11-Jan-18 | $11,001 for each false, fictitious, or fraudulent statement | N/A | 41 CFR Part 105-70, effective February 12, 2018 (rule published January 11, 2018) |

# ACRONYMS **AND ABBREVIATIONS** (UNAUDITED)

| | |
|---|---|
| **AAL3** | Authenticated Assurance Level 3 |
| **AAAP** | Automated Advanced Acquisition Program |
| **AAS** | Assisted Acquisition Services |
| **ADA** | Antideficiency Act |
| **AFR** | Agency Financial Report |
| **AO** | Approving Official |
| **APR** | Annual Performance Plan and Report |
| **ASF** | Acquisition Services Fund |
| **BAT** | Building Assessment Tool |
| **CAP** | Corrective Action Plan |
| **CBCA** | Civilian Board of Contract Appeals |
| **CCMS** | Citidirect Card Management System |
| **CFO** | Chief Financial Officer |
| **CoE** | IT Modernization Centers of Excellence |
| **CSBR** | Combined Statements of Budgetary Resources |
| **CSRS** | Civil Service Retirement System |
| **CY** | Current Year |
| **DATA Act** | Digital Accountability and Transparency Act of 2014 |
| **DCIA** | Debt Collection Improvement Act of 1996 |
| **DMF** | Death Master File |
| **DM&R** | Deferred Maintenance and Repairs |
| **DNP** | Do Not Pay |
| **DOI** | U.S. Department of the Interior |
| **DOL** | U.S. Department of Labor |
| **DUNS** | Data Universal Numbering System |
| **EOP** | Executive Office of the President |
| **EPLS** | Excluded Parties List System |
| **ERM** | Enterprise Risk Management |
| **ETS** | Electronic Travel System |
| **FAS** | Federal Acquisition Service |
| **FASAB** | Federal Accounting Standards Advisory Board |
| **FBF** | Federal Buildings Fund |
| **FBwT** | Fund Balance with Treasury |
| **FCI** | Facility Condition Index |
| **FCSF** | Federal Citizen Services Fund |
| **FECA** | Federal Employees Compensation Act |
| **FedSIM** | Federal Systems Integration and Management Center |
| **FERS** | Federal Employees Retirement System |
| **FFMIA** | Federal Financial Management Improvement Act of 1996 |
| **FISMA** | Federal Information Security Management Act |
| **FMFIA** | Federal Managers' Financial Integrity Act of 1982 |
| **FPISC** | Federal Permitting Improvement Steering Council |
| **FRPP** | Federal Real Property Profile |
| **FSSP** | Federal Shared Service Provider |
| **FTE** | Full-time Equivalent |
| **FTF** | Freeze the Footprint |
| **FY** | Fiscal Year |
| **GAAP** | Generally Accepted Accounting Principles |
| **GAO U.S.** | Government Accountability Office |
| **GLS** | GSA Leasing Support Services |
| **GS&S** | General Supplies and Services |
| **GSA** | U.S. General Services Administration |
| **GSA IT** | Office of GSA Information Technology |
| **IP** | Improper Payment |
| **IPERA** | Improper Payments Elimination and Recovery Act of 2010 |
| **IPERIA** | Improper Payments Elimination and Recovery Improvement Act of 2012 |

| | |
|---|---|
| **IPIA** | Improper Payments Information Act of 2002 |
| **IT** | Information Technology |
| **MCC** | Merchant Category Code |
| **MCOC** | Management Control and Oversight Council |
| **NIST** | National Institute of Standards and Technology |
| **OA** | Occupancy Agreement |
| **OAS** | Office of Administrative Services |
| **O&M** | Operation and Maintenance |
| **OCE** | Office of Customer Experience |
| **OCFO** | Office of the Chief Financial Officer |
| **OCIA** | Office of Congressional and Intergovernmental Affairs |
| **OCIO** | Office of the Chief Information Officer |
| **OCR** | Office of Civil Rights |
| **OCSIT/18F** | Office of Citizen Services and Innovative Technologies/18F |
| **OGC** | Office of General Counsel |
| **OGP** | Office of Government-wide Policy |
| **OHRM** | Office of Human Resources Management |
| **OIG** | Office of the Inspector General |
| **OMA** | Office of Mission Assurance |
| **OMB** | Office of Management and Budget |
| **OPM** | Office of Personnel Management |
| **OSBU** | Office of Small Business Utilization |
| **OSC** | Office of Strategic Communication |
| **PBS** | Public Buildings Service |
| **PFCRA** | Program Fraud Civil Remedies Act |
| **PIF** | Presidential Innovation Fellows |
| **PIV** | Personal Identity Verification |
| **PMA** | President's Management Agenda |
| **PMR** | Procurement Management Review |
| **PP&E** | Plant, Property and Equipment |
| **PS&HC** | Professional Services and Human Capital |
| **R&A** | Repairs and Alterations |
| **REXUS** | Real Estate Across the United States |
| **RSF** | Rentable Square Feet |
| **RSI** | Required Supplemental Information |
| **RTF** | Reduce the Footprint |
| **RWA** | Reimbursable Work Authorization |
| **SAM** | System for Award Management |
| **SBA** | Small Business Administration |
| **SF 133s** | Reports on Budget Execution and Budgetary Resources |
| **SFFAS** | Statements of Federal Financial Accounting Standards |
| **SMO** | Services Management Office |
| **SOC 1** | Service and Organization Controls Report |
| **SSA** | Social Security Administration |
| **SSPI** | Shared Solutions and Performance Improvement |
| **TIN** | Internal Revenue Service's Taxpayer Identification Number |
| **TMF** | Technology Modernization Fund |
| **TSP** | Thrift Savings Plan |
| **TTL** | Travel, Transportation and Logistics |
| **TTS** | Technology Transformation Services |
| **USDA** | U. S. Department of Agriculture |
| **USF** | Usable Square Footage |
| **WCF** | Working Capital Fund |

# ENDNOTES

1 President's Management Agenda URL address is: **https://www.whitehouse.gov/wp-content/uploads/2018/03/The-President%E2%80%99s-Management-Agenda.pdf**

2 Celebrating 69 Years of Carrying out GSA's Vision, URL address is: **https://www.youtube.com/watch?v=VlEk8pgHweA**

3 GSA's 2018-2022 Strategic Plan URL address is: **https://www.gsa.gov/reference/reports/budget-performance/gsa-fy-20182022-strategic-plan**

4 Real Property Inventory URL address is: **https://www.gsa.gov/policy-regulations/policy/real-property-policy/asset-management/federal-real-property-profile-frpp/federal-real-property-profile-public-data-set?bypassAkamaiCache=1511550008**

5 CBP Plaque in One World Trade Center: **https://www.youtube.com/watch?v=RpA_8davW-0**

6 Technology Transformation Services URL address is: **https://www.gsa.gov/about-us/organization/Federal-acquisition-service/technology-transformation-services**

7 Technology Modernization Fund URL address is: **https://tmf.cio.gov/**

8 President's Management Agenda CAP goals URL address is: **https://www.performance.gov/CAP/action_plans/FY2018_Q2_Sharing_Quality_Services.pdf**

9 GSA.AFR URL address is: **https://www.gsa.gov/reference/reports/budget-performance/annual-reports**

10 CFO video URL address: **https://youtu.be/UA6cZlXznlk**

11 Federal Acquisition Service URL address is: **https://www.gsa.gov/about-us/organization/Federal-acquisition-service**

12 Public Buildings Service URL address is: **https://www.gsa.gov/about-us/organization/public-buildings-service**

13 Office of Government-wide Policy URL address is: **https://www.gsa.gov/about-us/organization/office-of-governmentwide-policy-overview**

14 Office of Civil RIghts URL address is: **https://www.gsa.gov/about-us/organization/office-of-civil-rights-overview**

15 Public spending URL address is: **https://www.usaspending.gov/#/**

16 **https://www.usaspending.gov/#/explorer**

17 **https://www.fiscal.treasury.gov/fsreports/rpt/finrep/finrep17/fr_index_new.htm**

18 **https://www.gsa.gov/cdnstatic/CAPGoal6GSACFOCaseStudyFINAL_rev.pdfr**

19 **https://paymentaccuracy.gov**

# ACKNOWLEDGMENTS

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Gerard E. Badorrek

Kind regards - Gerard Badorrek, GSA CFO

# PHOTOS

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**photo: GSA**

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**photo: GSA**

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**Ronald V. Dellums Federal Building and U.S. Courthouse. Oakland, CA**
**photo: V Smoothe**

Page 8:
**Recovered plaque dedicated to Customs Service members**
**photo: GSA**

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**Airplane/Airport**
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**Southwest Ledge Lighthouse,New Haven, CT**
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**Eagle, U.S. General Services Administration, Central Office, Washington DC**
**photo: GSA**

# GENERAL SERVICES ADMINISTRATION **WEBSITES**

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**www.gsa.gov/technology**

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**www.gsa.gov/real-estate/historic-preservation**

Agency Performance Report
**www.gsa.gov/reference/reports/budget-performance/annual-reports**

Agency Financial Report
**www.gsa.gov/reference/reports/budget-performance/annual-reports.**

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