U.S. General Services Administration
Office of Inspector General

October 13, 2015

MEMORANDUM FOR: Denise Turner Roth
Administrator (A)

FROM: Carol F. Ochoa
Inspector General (J)

SUBJECT: Assessment of GSA's Major Management Challenges for Fiscal Year 2016

As required by the Reports Consolidation Act of 2000, Public Law 106-531, the Office of Inspector General prepared the attached statement summarizing what we consider to be the most significant management and performance challenges facing GSA. The statement also includes a brief assessment of the Agency's progress in addressing those challenges.

Please review and provide comments to append to our assessment 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 Theodore R. Stehney, Assistant Inspector General for Auditing, at (202) 501-0374.

Attachment

1800 F Street, NW, Washington, DC 20405

THE OFFICE OF INSPECTOR GENERAL'S ASSESSMENT OF GSA'S MAJOR MANAGEMENT CHALLENGES

OCTOBER 2015

In accordance with the Reports Consolidation Act of 2000, the Office of Inspector General (OIG) annually identifies what it considers the most significant management challenges facing the U.S. General Services Administration (GSA). This effort highlights the most demanding issues based on management's assessment of likelihood, impact to stakeholders, and anecdotal evidence. Some challenges represent an inherent risk to the Agency's mission or programs and are not necessarily a reflection of deficiency in performance. As such, GSA management may not be able to eliminate some challenges but should continue to take steps to mitigate these challenges.

ACQUISITION PROGRAMS

GSA has a fundamental mission to create efficiency for the federal government in the acquisition of goods and services. GSA attempts to accomplish this by consolidating the buying power of the federal government to obtain quality products and services at the best available price.

ISSUE: *GSA continues to face challenges within the GSA Schedules Program.*

GSA's Schedules Program[1] remains one of its largest procurement programs with approximately 17,250 contracts and $32.7 billion in sales in fiscal year (FY) 2014. GSA's Federal Acquisition Service (FAS) manages the program, which aims to provide federal agencies and other authorized users with the best value through a simplified procurement process for purchasing over 11 million commercial products and services. Several challenges face the GSA Schedules Program. These include: pricing; contractor compliance; contract workload management; hiring, development, and retention of the contracting officer workforce; and the proposed changes to the General Services Administration Acquisition Regulation (GSAR). In addition, some customer agencies have expressed a concern that the pricing under the Schedules Program is not fair and reasonable.

Pricing

GSA's Schedules Program is a commercial item program that operates under the premise that contractors routinely sell commercial products and services in competitive

[1] Also referred to as Multiple Award Schedules and Federal Supply Schedules.

markets and market forces establish fair and reasonable prices. Under this premise, the contracting officer's price analysis, which is a key step in determining fair and reasonable pricing, involves evaluating a contractor's offered prices or discounts and comparing them to prices or discounts the contractor offers to its commercial customers. However, a growing number of agencies no longer believe prices under the Schedules Program are fair and reasonable. In fact, the Department of Defense and the National Aeronautics and Space Administration have issued deviations to the Federal Acquisition Regulation requiring their contracting officers to make an independent determination of price reasonableness on orders against GSA schedules.

GSA is currently transforming its Schedules Program and transitioning its pricing strategy to include a comparison of offered prices to actual government sales. We are concerned that the overreliance on actual prices paid by the government will significantly weaken the connection of schedule prices with the commercial marketplace.

The Federal Acquisition Regulation emphasizes the need for contracting officers to perform price analysis to establish fair and reasonable pricing. To improve schedule pricing, GSA has implemented several initiatives and developed additional pricing tools. In May 2015, GSA launched the Competitive Pricing Initiative. This initiative is an analysis of a contractor's contract (or proposed) pricing compared to prices offered by other contractors who offer the identical item in the government marketplace. The intent of this initiative is to address price variabilities, flatten out pricing differences for identical items, and ultimately improve schedule pricing.

GSA also launched a new tool, the Contract Awarded Labor Category tool, that allows contracting officers to conduct market research and price analysis for professional labor categories across a database of contract awarded prices for 48,000 labor categories from over 5,000 GSA contracts. The tool allows the user to search prices by labor category and to filter by education level, experience, worksite, and schedule. It does not provide the actual government prices paid by labor category or the discounts offered or granted to customer agencies. Furthermore, the tool does not consider other factors (such as geographic locations or basic requirements such as mandated professional licensing or certification) that are essential to ensure that a valid comparison is conducted.

In March 2015, GSA proposed a change to the GSAR in order to obtain transactional or prices paid data from schedule contractors. However, the proposed change removes all mandatory price reductions currently afforded under the Price Reductions clause. We agree that a pilot to assess the effectiveness and quantifiable savings resulting from the use of transactional data would be beneficial. However, we are concerned that the proposed alterations to the Price Reductions clause will eliminate current price protections that cannot be replaced by the collection and use of transactional data alone, thereby exposing taxpayer dollars to unnecessary risk. We are also concerned that, with the various pricing initiatives underway and GSA's fair and reasonable determination shifting from an analysis of how the contractor's proposed price compares to the rest of its commercial customers, it may be challenging for GSA to: (1) ensure the acquisition workforce is prepared and able to implement and use the initiatives as intended, and (2) get its customers to rely on its pricing as fair and reasonable.

Contractor Compliance

We continue to be concerned that schedule contractors are not complying with all of the schedule terms and conditions based on the prevalence of the issues identified in our preaward and postaward audits of schedule contracts. Contractors are responsible for: (1) submitting current, accurate, and complete information; (2) reporting price reductions; (3) billing in accordance with contract terms and conditions; (4) identifying and reporting schedule contract sales for Industrial Funding Fee payment purposes; and (5) providing labor that meets contract-stipulated minimum education and experience qualifications.

During FY 2014, our preaward audits identified over 75 percent of audited contractors did not disclose current, accurate, and/or complete commercial sales practices information. In addition, over 40 percent of audited contractors did not have adequate systems to accumulate and report schedule sales and 25 percent of audited services contractors did not supply labor that met the minimum educational and/or experience qualifications required by the contract.

In FY 2014, we identified compliance issues requiring refunds to the government on over 50 percent of our schedule contract audits. These compliance issues resulted in over $24 million in recommended recoveries.

While not specifically identified during an audit, instances of non-compliance with contract terms recently resulted in contractors agreeing to pay the government over $134 million to settle alleged overbillings.

Contract Workload Management

Contracting officers evaluate and process new offers, modifications, and options to extend existing contracts, as well as perform general contract oversight. In FY 2014, FAS's contracting officers awarded and administered approximately 17,250 schedule contracts. In FYs 2013 and 2014, on average, each contracting officer administered 86 contracts.

In FY 2014, about 32 percent of schedule contracts had no sales. Although FAS has identified and eliminated a small percentage of contracts with no sales, a significant number remain. The challenge for FAS is ensuring that a contracting officer's workload does not affect the timeliness and quality of contract actions. Administering schedule contracts with little or no sales negatively affects a contracting officer's time to thoroughly evaluate substantive contract actions such as award proposals and modifications. Eliminating the unnecessary administration of contracts with no sales will enable contracting officers to more effectively manage their workload.

Hiring, Development, and Retention of the Contracting Officer Workforce

Contracting officers are responsible for negotiating and managing schedule contracts that generate over $32 billion in annual sales. These acquisitions have steadily shifted from products and services to full acquisition solutions. This shift is occurring as requirements are also becoming more technically and financially complex. As the types of acquisitions continue to evolve, FAS is challenged to develop a well-trained acquisition workforce with the skill sets necessary to provide innovative solutions for customer agencies at the best value.

In FY 2014, GSA's Senior Procurement Executive stated that over the last 5 years, GSA has experienced a 39 percent attrition rate in its acquisition workforce (many of them contract specialists/contracting officers) and currently has an 18 percent vacancy rate. In addition, 21 percent of the acquisition workforce will be eligible to retire in the next 2 years.

In FY 2015, we reported to the FAS Commissioner that contracting officers were not receiving specialized training necessary to perform their jobs. The limited availability of schedule-related training puts the government at an increased risk that schedule contracts may be improperly awarded and/or administered.

The contracting occupation is a "mission critical component of GSA," as stated in GSA's 1102 Workforce Analysis Study. Accordingly, it is essential that GSA ensures that its acquisition workforce has the talent, skill, and experience needed. Furthermore, as contracting officers participate in GSA's Telework Program, it is essential that FAS continues to ensure that contracting officers are productive and their development and training needs are met.

Taking steps to ensure the Agency has sufficient qualified and well-trained contracting officers and acquisition professionals is critical for GSA to fulfill its mission to provide innovative solutions that will support the requirements of customer agencies. FAS should focus on instituting the best methods to hire, develop, and retain qualified contracting officers and acquisition professionals to support the future success of the Schedules Program.

Proposed Changes to the GSAR

While initially started in January 2009, GSA's efforts to amend GSAR Part 538, Federal Supply Schedule Contracting, continue to evolve into a larger governmentwide initiative to transform its Schedules Program through the common acquisition platform, category management, and transactional or prices paid data.

FAS's common acquisition platform, an online tool, is intended to provide a new view of the "fragmented" federal acquisition environment that will drive the government to buy and act as one acquisition community. Specifically, the common acquisition platform is intended to provide government buyers with comprehensive information about existing contract vehicles from multiple agencies, current market trends and expertise, transactional data, and best practices that will assist them in navigating the acquisition marketplace.

The common acquisition platform is under development to support the government's category management initiative. This initiative is a strategic approach to manage commonly purchased goods and services as a single enterprise through common categories of spending (instead of individual products or brands) such as information technology (IT) hardware and software. When fully implemented, FAS claims category management will provide government buyers a more holistic view of the acquisition marketplace, which will lead to data-driven decisions, better purchasing options, and taxpayer savings.

These initiatives have "distinct transformation projects" aimed at reducing price variability and minimizing cycle times for contract modifications and new orders. Specifically, GSA has formally proposed through the GSAR Part 538 rewrite process, the following business cases.

- **Transactional Data Reporting Rule** – GSA proposed this rule to require contractors to electronically report transactional data from orders and prices paid by government customers, across all of its governmentwide acquisition vehicles, which includes the Schedules Program. GSA also proposes the elimination of the basis of award tracking requirement for price reduction purposes.

- **Order-Level Materials Rule** – GSA proposed this rule to implement existing Federal Acquisition Regulation authority to allow agencies to add materials to their schedule orders without entering into a separate contract.

Additionally, as GSA has embarked on a number of initiatives since the start of the GSAR Part 538 rewrite in 2009, the effort is still ongoing. We continue to highlight the need for strengthened controls over the entire Schedules Program during this lengthy transformation.

AGENCY ACTIONS:

GSA acknowledged that providing the acquisition workforce better tools and access to more data is crucial to both the success of the Schedules Program and its ability to deliver a competitive contract solution to GSA customers and industry partners. To accomplish these goals, GSA implemented several initiatives to improve pricing and be more transparent to its customers. These initiatives range from price comparison tools to reducing price disparities for identical items, while also providing more transparency and information to federal buyers.

In addition, GSA indicated that it is using a new contractor assessment report to evaluate schedule contractors. The report is designed to provide timely and tailored feedback to contractors and contracting officers on issues pertinent to contract compliance.

According to GSA, to alleviate contract workload issues, it is looking at additional ways to streamline the acquisition process, automate functions, and cancel contracts with no sales.

GSA management acknowledged that developing the acquisition workforce is essential to the efficiency, effectiveness, and stewardship of Agency objectives. The Senior Procurement Executive recommended rethinking acquisition training, in part, to increase critical thinking skills. According to GSA, the Federal Acquisition Institute, which is one of GSA's main sources for acquisition workforce training, has been adding content to its training courses that focuses on how people actually buy, including more courses on task order contracting. In addition, GSA created the Acquisition Portal as a one-stop-shop for acquisition workforce resources in an effort to strengthen their acquisition skills. Further, FAS's Office of Acquisition Management has developed and finalized the Awarding and Administering Multiple Award Schedules course. GSA indicated that this new course will be available for the acquisition workforce by the end of FY 2015.

GSA management also recognized that the entire GSAR Part 538 rewrite effort has been a lengthy one. However, GSA does not have a revised timeframe for completing the full GSAR Part 538 rewrite beyond the cases currently and partially in progress.

Issue: *GSA faces challenges as it moves toward transactional data reporting.*

On March 4, 2015, GSA issued a proposed rule in the Federal Register on transactional data reporting.[2] Transactional data reporting is a catalyst to move GSA towards category management – a major Agency initiative that is intended to allow GSA and its customer agencies to manage purchases and pricing as an entire category, as opposed to individually. GSA expects that this will bring about an increase in the efficiency and effectiveness surrounding key categories of federal procurement (*e.g.*, IT, professional services, and security and protection), while reducing associated costs and redundancies. Although transactional data reporting is a key component of category management, GSA faces significant challenges in implementing the requirements as outlined in the proposed rule.

The proposed rule includes a transactional data reporting clause that would require GSA contract holders to report prices paid by government customers for products and services delivered during the performance of their respective contracts. This clause would be included immediately in GSA's governmentwide non-Federal Supply Schedules contracts. For Federal Supply Schedules, the clause will be introduced in phases beginning with a pilot program for select products and commoditized services. GSA will evaluate the pilot program based upon prices and quality metrics it will establish, and commercial benchmarks it will identify, prior to launching the program.

The Federal Register Notice stresses that contractors would still be subject to commercial sales practices disclosure requirements, including the requirement to disclose commercial sales practices when requesting a contract modification for additional items. GSA will also maintain the right throughout the life of the Federal Supply Schedule contracts to request updates to the commercial sales practices.[3] In addition, the proposed rule includes significant changes to the existing Price Reductions clause.[4] Specifically, the proposed rule would remove the basis of award tracking

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[2] GSAR Case 2013-G504.
[3] The commercial sales format is used to negotiate pricing on Federal Supply Schedule contracts.
[4] GSAR Part 552.238-75, Price Reductions (May 2004).

requirement of the Price Reductions clause, as well as all mandatory price protections currently afforded under the clause.[5]

We support GSA's collection and use of Federal Supply Schedule transactional data as an additional tool to secure best value for customer agencies and thus, the taxpayer. A pilot program to assess the effectiveness and quantifiable savings resulting from the transactional data would be beneficial. However, we are concerned that the proposed alterations to the Price Reductions clause would eliminate current price protections that cannot be replaced by the collection and use of transactional data alone.

The proposed rule and the related information presented in the Federal Register Notice raises significant concerns. Specifically:

1. The proposed alternate Price Reductions clause eliminates all price protections from the clause without justification. Further, the government experiences an immediate loss of contractual price protections without an equivalent gain.

2. Under the proposed rule, contracting officers may over-rely on transactional data at the expense of commercial price analysis. Without an effective link to the commercial marketplace, customer agencies may not receive the best price.

3. The proposed rule is based upon an assumption that contractors will be able to provide complete and accurate transactional data. In addition, it does not include an estimate of the time and resources required for systems architecture and costs associated with transactional data analyses. Moreover, the proposed rule does not contain an enforcement provision to ensure contractors comply with the data reporting requirements.

4. The expansion of transactional data reporting to services – which make up two-thirds of Federal Supply Schedule sales – will be challenging due to the difficulty of standardizing labor categories. Additionally, the Notice lacks specifics regarding how GSA will evaluate the pilot program.

AGENCY ACTIONS:

On April 17, 2015, GSA held a public meeting to conduct a dialogue with contractors, industry groups, and other interested parties. During this meeting, we presented the

[5] Prior to a contract award, GSA and a contractor agree upon a basis of award customer/category of customers and the government's price or discount relationship to the identified customer. If there is a change in the contractor's commercial pricing or discount arrangement with the basis of award customer, GSA would receive a comparable price reduction as well.

concerns listed above. In addition, other commenters raised concerns regarding, among other things, how GSA will safeguard the transactional data once it is submitted, how frequently GSA will request commercial sales practices disclosures, and the accuracy of contractors' time and administrative costs required to comply with the proposed rule. Interested parties were given until May 11, 2015, to submit written comments to the proposed rule. GSA is currently considering the comments and feedback received and how to proceed with this process.

ISSUE: ***FAS is challenged to develop its acquisition personnel to award, administer, and manage the One Acquisition Solution for Integrated Services contracts.***

In 2014, after a 2-year acquisition development process, GSA awarded its 10-year, multi-billion dollar One Acquisition Solution for Integrated Services (OASIS) and OASIS Small Business contracts. The contracts are multiple award, indefinite delivery, indefinite quantity contracts that provide a wide range of professional services including consulting, financial and accounting, IT, and engineering. GSA designed the OASIS contracts to reduce duplicative contracting efforts across the government and acquisition times for federal agencies looking to purchase complex professional services. Further, the OASIS contracts allow the award of cost reimbursement and other contract types not available under the Schedules Program.

The contracts have generated considerable customer interest and Department of Defense customers have committed to award $1 billion annually under the OASIS contracts. GSA has indicated that the OASIS contracts require a higher level of expertise and skill sets than those necessary under the Schedules Program. As discussed previously in this document, GSA is challenged with developing a well-trained acquisition workforce to award and administer its Schedules Program.

AGENCY ACTIONS:

According to FAS management, FAS is in the process of developing a dedicated team of acquisition personnel to support the OASIS contracts.

ISSUE: ***GSA continues to face challenges to meet the government's evolving needs for telecommunication and integrated technology infrastructure solutions.***

FAS managed the conversion from the FTS2001 and crossover contracts to the Networx Universal and Enterprise contracts (Networx), one of the largest telecommunications services transitions ever undertaken by the federal government.

The transition was to be completed in 39 months, but instead took 72 months due to delays. In December 2013, the Government Accountability Office (GAO) issued a report on the factors that contributed to the delays and to what extent GSA documented and applied lessons learned as it prepared for the next telecommunications contract transition. GAO recommended that, in preparing for the next transition and in coordination with the Office of Personnel Management, GSA should examine potential governmentwide contracting and technical expertise shortfalls; provide agencies guidance on project planning; and fully archive, share, and prioritize lessons learned.

FAS is currently transitioning from Networx to the Network Services 2020 (NS2020) telecommunications portfolio. According to FAS, the NS2020 portfolio will include multiple pre-competed contracts designed to provide customer agencies with a range of products and services. These products and services include, but are not limited to, telecommunications, cloud services, call centers, and related hardware.

The transition to NS2020 is structured as a four-phase process. In the planning phase, FAS reported that it established a transition working group, recommended a standard process, and provided customer education. In the direct transition preparation phase, FAS plans to issue the Request for Proposal, evaluate offers, and negotiate with contractors. FAS's target for awarding the NS2020 contract is 2017, with a 3-year transition phase from Networx to run through 2020. Concurrently with all other phases, agencies will complete the active inventory management phase to continuously manage and validate their service inventories.

This transition is a monumental undertaking for FAS. With the past challenges of transitioning from the FTS2001 and crossover contracts to Networx, the transition to NS2020 is garnering much attention. While FAS strives to meet the government's evolving telecommunications needs, it must ensure the NS2020 transition is timely, without interrupting service.

Agency Actions:

FAS held meetings with the Office of Management and Budget (OMB) and Congress to discuss transition initiatives. FAS also stated that it has conducted regular meetings with the NS2020 working group to identify end user needs. In addition, FAS issued two white papers in April 2014 regarding the NS2020 transition. The first outlined the overall NS2020 strategy while the second outlined the NS2020 transition strategy. That same month, FAS released a Request for Information for the NS2020 Enterprise Infrastructure Solutions with a draft Request for Proposal following in February 2015. FAS anticipated issuing the final Request for Proposal in September 2015.

The Enterprise Infrastructure Solutions program is the foundation for the NS2020 strategy and is a vehicle to address all aspects of federal agency IT infrastructure requirements. It is intended to meet the needs of agencies that are currently using Networx contracts and the GSA Regional Local Service Agreement contracts. FAS is currently targeting FY 2017 for the Enterprise Infrastructure Solutions to be available, with a 15-year period of performance. FAS has also reportedly started discussions on contract extensions for the Networx contracts. Originally set to expire in March and May 2017, FAS plans to extend them into 2020 to ease the NS2020 transition. The intent of this extension is to ensure that agencies have access to uninterrupted services.

GSA's Real Property Operations

GSA's Public Buildings Service (PBS) is the landlord for the federal civilian government, providing federal agencies with the real property, including offices, courthouses, and labs, needed to accomplish their missions. To meet these needs, PBS must manage its real property portfolio of leased and owned properties; operate and maintain these properties; acquire space through construction, purchase, and leasing as customers' needs arise; and dispose of properties that are no longer needed. PBS faces several challenges in fulfilling its mission to meet its customers' needs effectively, efficiently, and economically.

Issue: ***GSA needs to develop a portfolio strategy to meet OMB's "Reduce the Footprint" initiative.***

In 2013, OMB implemented the "Freeze the Footprint" strategy and subsequently introduced the "Reduce the Footprint" initiative in 2015. Under "Freeze the Footprint," federal agencies were required to develop plans on how to *refrain from expanding* their space; under "Reduce the Footprint," agencies are required to plan on ways to *actually reduce* their space. GSA plays a major role in both initiatives by monitoring implementation by other federal agencies.

GSA's last major portfolio strategy, known as portfolio restructuring, was developed in the early 2000s. That strategy was a systematic approach to restructure GSA's inventory of owned assets so that it consisted primarily of strong income-producing properties generating sufficient funds to meet their own capital reinvestment needs. The initiative advocated leasing, if possible, to meet space needs when owned properties were not financially self-sufficient.

The initiative was driven by the financial condition of the Federal Buildings Fund, GSA's quasi-revolving fund for its buildings operations. At that time, the Federal Buildings Fund was having difficulties generating funds to meet the capital needs of GSA's building portfolio. Given this environment, portfolio restructuring sought to reduce the GSA building inventory by disposing of assets that were not financially viable and finding alternative solutions.

Under portfolio restructuring, GSA developed assessment tools such as tiering to evaluate each asset's financial performance as well as the asset's condition. It also developed the core asset analysis to determine each asset's holding period to assist in determining the allocation of repair and alteration funds.

Currently, GSA's portfolio strategy is based on portfolio restructuring and continues to use the same assessment tools. GSA's strategy seeks to analyze customer agency needs, GSA assets, and market dynamics to develop strategies for each asset in the portfolio. However, during a recent audit, we found that, although GSA was developing asset strategies based on tiering and core asset analysis, it was not developing action steps to implement the strategies.

GSA needs to develop a new portfolio strategy that will work in conjunction with the "Reduce the Footprint" initiative. The strategy needs to address the initiative's emphasis on co-location of agency components, consolidation into government owned space, and disposal of unneeded space. It should also address the impact of the initiative on GSA's real property operations including asset management, property disposal, facility management, project management, and customer relations.

AGENCY ACTIONS:

According to GSA, it has taken action to help fund consolidation projects and better use existing assets. For instance, using $70 million provided in FY 2014 for consolidation activities, GSA is executing 17 projects that will save federal agencies $16 million in rent payments annually, reduce the federal footprint by 492,000 square feet, and reduce the government's leasing costs by $38 million.

Additionally, GSA stated it has taken opportunities to reduce space when high-value leases expire, providing long-term savings to taxpayers. In the Agency's FY 2014 prospectus-level lease program, GSA and partner federal agencies have reduced overall space needs by approximately 13 percent, from a current requirement of 4.3 million square feet to a proposed 3.7 million square feet.

<u>Issue</u>: *GSA faces significant challenges from the risks related to large-scale exchanges of real property.*

With tight construction budgets in recent years, GSA has been exploring the use of property exchanges to meet its need for new building construction and to make major renovations to its existing real property inventory. Although property exchanges allow GSA to use the exchange proceeds to implement capital projects without affecting the budget, exchanges for major projects are high risk.

GSA's authority to exchange property is based on the Federal Property and Administrative Services Act and Section 412 of the Consolidated Appropriations Act, 2005. GSA is seeking to increase its use of these authorities on multiple properties that are being considered for disposal. These properties include the Auburn Federal Complex in Washington State, undeveloped land in Denver, and the State Street Buildings in Chicago. Property exchanges provide multiple benefits to GSA. The foremost benefit is the ability to apply the value of a federal property to finance construction needs, rather than waiting for the funds to be made available through the appropriations process.

GSA has only conducted small-scale property exchanges in the past, including two exchanges for newly constructed parking garages under the Federal Property and Administrative Services Act authorities. Even though these exchanges were small, they both took several years to complete despite the advance selection of the private sector developer.

GSA is now pursuing several large-scale property exchanges, including those for the Federal Bureau of Investigation's Headquarters Consolidation and the Federal Triangle South project. We view these exchanges as high-risk projects because both qualify as major construction projects and are subject to the risks associated with being completed on time, on budget, and within scope. The complexities of exchange transactions create major challenges for the Agency. The risk on these projects is also significantly increased because GSA has not performed such exchanges in the past. As a result, the Agency is facing multiple risks on these exchanges including:

- Exchanges may not be the most cost-effective option for the government due to their complexities, extended timeframes, and associated risks. The federal government could potentially obtain a better deal for a new asset or construction services and potentially larger proceeds for the disposed federal property if it were to use traditional acquisition and disposal methods.

- GSA lacks transparency on using funding to supplement exchange transactions. Since exchanges are not authorized through the budget process, there is no line item funding for the projects. However, GSA policy allows funds to be used to supplement exchanges but does not identify the source or the need for reporting when the estimated supplemental funds will exceed the prospectus level. Given this, GSA may inconsistently or inappropriately use funds when awarding construction modifications or support contracts.

- If GSA encounters a funding gap where the value of the property being exchanged is less than the cost of the construction, the Agency may not have the resources to meet its obligations, which could violate the Antideficiency Act.

Agency Actions:

GSA is continuing to pursue large-scale property exchanges. GSA management has acknowledged the challenges related to the exchanges and is monitoring the projects.

Issue: ***Challenges persist to safeguard federal infrastructure and provide a secure work environment for federal employees and contractors.***

GSA plays a significant role in providing a safe, healthy, and secure environment for employees and visitors at over 8,000 owned and leased federal facilities nationwide. Presidential Policy Directive 21 on *Critical Infrastructure Security and Resilience* reaffirmed this role. Particularly, it designated GSA and the Department of Homeland Security as the federal agencies responsible for the security of federal facilities. GAO has provided broad audit coverage in this area.

Recent incidents of workplace violence, unauthorized access, and terrorism demonstrate the risks to federal facilities. Therefore, GSA's mission of housing federal agencies requires close coordination with security personnel. The Department of Homeland Security's Federal Protective Service (FPS) is the primary agency responsible for providing law enforcement, physical security, and emergency response services to GSA tenant agencies, buildings, and facilities. However, GSA is responsible for continuity of operations, suitability activities, and coordination with FPS to ensure building occupant security.

A recent GAO report[6] highlighted numerous concerns: (1) building characteristics and locations limiting security options, (2) the difficulty inherent in balancing security with

[6] *Actions Needed to Better Manage Security Screening at Federal Buildings and Courthouses* (GAO-15-445, March 31, 2015).

public access, (3) FPS protective security officers not being fully trained to conduct security screening, and (4) the challenges of handling the differing security needs of multiple tenant agencies within GSA-owned buildings. Past GAO reports identified shortcomings in FPS operations and human capital, leading to concerns about the protection of federal buildings, their tenants, and information. Specifically, a recurring challenge for GSA is FPS's persistent lack of a risk management framework to combine threats and vulnerabilities with resource requirements.

Our audit reports have also repeatedly noted the need for improvements in GSA's security clearance process. A recent audit of PBS procurements note there is limited evidence of coordination among the GSA Chief Security Office and PBS officials to ensure only suitable individuals can access federal buildings. We have repeatedly recommended corrective action to ensure all contractor employees accessing GSA facilities have the proper security clearances prior to site access and that background check information is shared with and retained by contract and project management staff.[7]

AGENCY ACTIONS:

GSA maintains that it is working to improve its operations related to building security. GSA has been examining the role it plays on facility security committees as well as reviewing the services being provided by FPS. The Agency is also in the early stages of developing a video content analysis initiative to enhance external building security through object detection and recognition and monitoring of street activity.

FINANCIAL OPERATIONS

ISSUE: ***GSA's transition of its Financial Management Line of Business is a complex undertaking.***

GSA's transition of its Financial Management Line of Business (FMLoB) to the U.S. Department of Agriculture (USDA) has been a major undertaking. It involves the transfer of approximately 300 employees, along with the accounting functions performed by GSA's Greater Southwest and Heartland Finance Centers, and numerous

[7] OIG reports *Recovery Act Report-Contract Administration for Group 10 Review of PBS's Limited Scope and Small Construction Projects Funded by the American Recovery and Reinvestment Act of 2009* (Report Number A090184/P/R/R12008, June 13, 2012); *Implementation Review of Corrective 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).

financial systems, including GSA's core accounting system, Pegasys. Due to the scope and complexity of this transition, GSA faces significant risks to its day-to-day financial operations. These risks include, but are not limited to, an unexpected cost increase or a decline in the level of service provided by USDA. GSA must also consider the impact of the transition on its remaining financial management workforce and ensure plans are in place to maintain effective continuity of operations and support GSA's mission.

On September 15, 2014, GSA first announced plans to use an approved Federal Shared Service Provider, USDA, in an effort to achieve cost savings and improve performance. Shortly thereafter, our office initiated a monitoring effort to track the progress of the FMLoB transition. On February 27, 2015, we issued a memorandum to the Acting Administrator and Chief Financial Officer which highlighted challenges facing GSA during this transition.[8] The memorandum identified the need for: (1) effective planning throughout the transition; (2) documentation of key decisions; and (3) timely finalization of the Memorandum of Understanding and supporting agreements, including agreements regarding the performance of GSA's annual financial statements audit.

On March 22, 2015, GSA transferred 293 of its employees and their financial functions to USDA. In response to concerns raised by GSA's independent public accounting firm, the agencies agreed that GSA would retain ownership of the transferred financial systems through the end of the audit cycle. The systems transfer will now be completed in two phases; Phase 1 will be completed by October 1, 2015, and Phase 2 will be completed on or before September 30, 2016.

GSA will continue to face significant challenges as the FMLoB transition continues. GSA anticipates that the transition will result in improvements to technical and operational performance of financial management services and a reduction in costs. Accordingly, GSA plans to closely monitor the cost savings and performance improvements resulting from the transition. To that end, GSA will be dependent upon USDA to provide transparent, accurate, and reliable data to serve as the basis for analysis and decision making.

Additionally, as part of its shared services offering, USDA pledged a good faith effort to market GSA's existing financial management software to other customer agencies in order to operate it on a more cost-effective basis. However, per the Memorandum of Understanding between GSA and USDA, if USDA is unable to successfully obtain new customers for this software, GSA has agreed to pay for the implementation costs to transition to another financial management system. Such a transition would come at

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[8] OIG memorandum *Challenges Facing GSA's Financial Management Line of Business Transition to the U.S. Department of Agriculture* (Audit Memorandum Number A150049-2, February 27, 2015).

significant cost to GSA. Further, the transition would have a substantial impact on the Agency's day-to-day business processes and financial operations, as well as its ability to access historical financial data.

AGENCY ACTIONS:

On May 6, 2015, GSA finalized its *Concept of Operations for Management of GSA's FMLoB Service Provider* guidance.[9] GSA continues to hold monthly governance board meetings with USDA. Both agencies are working together to develop GSA's FY 2016 budget and the FMLoB cost saving baseline metrics, which will be included in the new FY 2016 service level agreement between GSA and USDA.[10]

ISSUE: ***GSA continues to face challenges with the effectiveness of its internal control over financial reporting.***

Financial reporting internal control deficiencies have been an ongoing, systemic problem for GSA dating back to FY 2009. Over the past 6 years, GSA's internal control deficiencies have escalated from the independent public accountant (IPA) reporting only significant deficiencies in FY 2009 to reporting both a material weakness and significant deficiencies in FY 2014.

Since FY 2009, the IPA has identified control deficiencies over GSA's financial reporting that highlight the need for improved financial management and reporting oversight. In its FY 2014 report, the IPA again cited deficiencies in financial management and reporting: (1) classification of capital and operating leases, and (2) estimated liabilities to capture probable future cleanup costs for environmental contamination other than asbestos. As a result, GSA recorded significant adjustments to its financial records for the year ended September 30, 2014. Collectively, the IPA considered these matters to be a material weakness in internal control.[11]

In addition, the IPA identified certain deficiencies in internal controls[12] that it considered to be significant deficiencies,[13] including: Entity-level Controls, Budgetary Accounts

[9] This document serves as detailed guidance for the concept of operations and operating model across people, processes, and technologies pertaining to the transfer of GSA's FMLoB services to USDA's Office of the Chief Financial Officer.
[10] The service level agreement documents the terms and conditions governing the services that will be delivered by the USDA, as well as the responsibilities of both GSA and USDA.
[11] A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected in a timely basis.
[12] 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.

and Transactions, Accounting and Reporting of Property and Equipment, Accounting and Reporting of Leases and Occupancy Agreements, and General Controls over Financial Management Systems.

Material Weakness

GSA continues to face challenges with effective communication and implementation of policies and procedures across its various lines of business. Specifically, communication between the Office of the Chief Financial Officer (OCFO), PBS, and regional personnel needs improvement. Regional practices are not always consistent with GSA's established policies and procedures or applicable accounting standards, and in some instances, contradict the OCFO's policies and procedures. The IPA concluded that if this is not corrected, these conditions present a high risk that significant misstatements in the classification of leases and potential violations of laws and regulations will not be prevented, or detected and corrected, by GSA management; nor will it allow GSA to prevent, detect, and correct misstatements of the environmental liability balance on a timely basis, exposing GSA to an increased risk of misstatements in its financial reports.

Significant Deficiencies

As discussed in the IPA's reports for the past 3 years, GSA needs to continue to address weaknesses in its entity-wide[14] control environment. In the FY 2014 report, the IPA identified five entity-wide control environment conditions that have pervasive influence on the effectiveness of controls. Four of the five conditions were reported in the prior year.

Over the past 3 years, the IPA reported that GSA needs to continue improving the effectiveness of controls over its accounting and business processes to ensure that budgetary transactions are properly recorded, processed, and summarized. Additionally, GSA continues to face challenges to ensure that general property and equipment transactions and leases and occupancy agreements are promptly recorded, and properly classified and accounted for.

In the area of general controls over financial management systems, the IPA reported that GSA did not have adequate IT controls to protect its financial management systems. Specifically, the IPA identified control deficiencies over access and

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[13] 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.

[14] Entity-level controls are controls that have a pervasive effect on an entity's internal control system and may pertain to multiple components. Entity-level controls may include controls related to the entity's risk assessment process, **control environment**, service organizations, management override, and monitoring.

configuration management general controls. Access controls are security features that regulate who can access systems, resources, and information. Configuration management refers to a discipline for tracking and controlling changes in software systems.

Although the IPA's overall audit opinion deemed that GSA's financial statements present fairly, in all material respects, the financial position of GSA, the OCFO continues to struggle to resolve the internal control deficiencies. While these deficiencies did not affect the overall audit opinion, they could signal underlying financial management issues. GSA should analyze each deficiency to ensure that subsequent strategies and plans address the cause of the problem and not just the symptoms.

Agency Actions:

GSA's senior management has reported that it is focused on correcting the internal control deficiencies identified by the IPA. In the *FY 2016 Congressional Justification*, GSA reported that in FY 2014, it implemented a number of actions to improve its internal controls over financial management and reporting, accounting, and business processes. The Agency stated that it also reinvigorated the Management Controls Oversight Council to improve efforts in managing and monitoring the entity-level control environment.

Issue: ***GSA faces challenges retaining consistent leadership in the Office of the Chief Financial Officer.***

GSA continues to experience significant turnover in key senior leadership positions in the OCFO. Over the past 6 years, GSA has had five Chief Financial Officers and acting directors over some of its financial services and divisions. Since management is responsible for the internal control environment, high turnover rates in critical leadership positions can negatively affect an operation and its employees.

Without consistent leadership, it is easy to veer from the true mission and vision of the organization and from the ability to function effectively and sustain focus on key initiatives. Leaders provide direction and ensure appropriate oversight and monitoring which is an essential element of an effective internal control system.

Agency Actions:

In December 2014, GSA named a new Chief Financial Officer and subsequently restructured the OCFO's six divisions by consolidating regional support offices for the two major lines of business (PBS and FAS) to a centralized structure. The new structure consists of five divisions: the Office of Budget, the Office of Strategic Planning and Performance Management, the Office of Business and Financial Analytics, the Office of Financial Management, and the Office of Regional Financial Services. Subsequent to this restructuring, a key member of the OCFO senior leadership team resigned. GSA needs to assess the cause of its inability to retain consistent leadership and develop and implement a strategic plan to address this problem.

Information Technology

Issue: *Improvements are needed to protect sensitive information in GSA's cloud computing environment.*

Protecting sensitive information is critical to an agency's mission, operations, and reputation. Without the proper controls to ensure that sensitive information is not available to individuals who do not have a valid need to know the information, sensitive information belonging to employees, contractors, and customers is at risk.

GSA was the first federal government agency to adopt a cloud computing environment to host its Agency-wide email system and collaboration services. However, GSA did not implement controls to ensure that all sensitive data was secure. Several of our previous audits reported on weaknesses in GSA's efforts to protect sensitive information prior to the transition to a cloud computing environment. Despite prior recommendations to improve controls and prevent the disclosure of sensitive information in GSA's legacy environment, we identified similar issues that arose with the implementation of the Agency's cloud computing environment. GSA must continue to take action to ensure all instances of sensitive information are identified and properly secured within its cloud computing environment.

Agency Actions:

GSA has taken action to identify and remediate the instances of unprotected sensitive information that we identified within its cloud computing environment. It has also been updating its IT security and privacy policies to reflect the ongoing changes in its cloud computing environment. GSA now also requires its employees and contractors to complete training on information security in a collaborative environment, in addition to the annual IT security awareness training.

ISSUE: *Improved planning and development is needed to properly offer GSA's IT shared services to other agencies.*

GSA management faces challenges as it pushes for a wider use of shared services in the IT arena. In May 2012, the Executive Office of the President issued its *Federal Information Technology Shared Services Strategy*[15] to improve IT return on investment, productivity, and communications with stakeholders. To further assist agencies towards identifying and operating IT shared services, the U.S. Chief Information Officer Council issued guidance on defining, establishing, and implementing interagency shared services.[16] With fiscal constraints, increasing mission requirements, rising customer expectations, and the evolution of technology, agencies are expected to identify ways to eliminate wasteful spending and take advantage of the latest technologies.

In an effort to deliver solutions faster for less money and with fewer resources, GSA has pursued an IT shared services approach to offer agencies cloud email services and collaboration tools. This shared services approach is intended to further position GSA as the agency that other agencies turn to for support of their cloud email services and collaboration tools. Additionally, this approach is an opportunity for GSA to learn more about its limits and capabilities for implementing emerging cloud solutions within its own cloud computing environment. However, GSA has experienced challenges in properly defining this approach and executing agreements with other agencies for the cloud services and tools. Specifically, these challenges involve the selection of the appropriate shared services operating model, agreement type, and funding mechanism. Enhanced management and oversight is needed to ensure that GSA's IT shared services offerings and delivery are properly planned, developed, and aligned with federal goals, initiatives, and standards.

AGENCY ACTIONS:

In February 2015, GSA management began working closely with OMB and the Office of Federal Financial Management in an effort to define shared services more distinctly and to determine how these services will be managed across the Federal government in the future. Specifically, GSA is engaging with other government agencies and non-profit

[15] The *Federal Information Technology Shared Services Strategy* is part of OMB's *25-Point Implementation Plan to Reform Federal Information Technology Management*, dated December 9, 2010.
[16] *Federal Shared Services Implementation Guide*, dated April 16, 2013.

organizations to study shared services and leverage expertise to identify an optimal model for shared services throughout the federal government.

ISSUE: ***An increase in GSA IT executive turnover could negatively impact strategic planning and management of the Agency's IT infrastructure.***

GSA IT has recently experienced high executive turnover, creating a challenge for the organization to sustain its strategic plan. Since 2014, GSA IT has been led by three Chief Information Officers (CIOs). In September 2011, GAO reported that significant change initiatives could take 5 to 7 years for a CIO to implement. GAO also noted that, between 1996 and 2011, the median tenure of CIOs across several federal government agencies was approximately 2 years.

In February 2013, the Office of the CIO began consolidating the Agency's IT services from a decentralized structure to a centralized business model with an enterprise-wide focus that delivers shared services. As part of this effort, employees were reassigned to areas within the organization to better meet the IT services and support needs of the Agency. Although the consolidation was completed in August 2014, executive leadership is still needed to ensure the consolidation achieves the improved service and cost savings that are anticipated. However, with high executive turnover, the organization's ability to properly develop, implement, and manage the Agency's IT initiatives, including the consolidation, may be impaired.

AGENCY ACTIONS:

According to GSA, it has taken steps to reduce the impact of high turnover within the Office of GSA IT, including succession planning and aligning the organization to continue to succeed despite executive turnover. More specifically, these steps include further realigning its IT functions to meet the needs and demands of the Agency and its customers, as well as promoting employees internally in an effort to maintain a full IT staff.

GSA's Greening Initiative – Sustainable Environmental Stewardship

ISSUE: ***GSA faces challenges achieving sustainability and environmental goals.***

GSA plays a major role in federal construction, building operations, procurement, and governmentwide policy. GSA was assigned additional responsibilities to lead change towards sustainability in these areas with the enactment of the Energy Independence and Security Act of 2007, the American Recovery and Reinvestment Act of 2009, and the recent Executive Order 13693 – Planning for Federal Sustainability in the Next Decade. Under these initiatives, GSA is required to increase energy efficiency, reduce greenhouse gas emissions, conserve water, reduce waste, determine optimal fleet inventory, and leverage federal purchasing power to promote environmentally responsible products.

While GSA maintains a strong record in these areas of environmental stewardship, we have identified two challenges related to sustainability initiatives: (1) collecting quality data, and (2) diminishing sustainability returns on projects within the GSA portfolio.

Collecting Data to Support Goals and Evaluate Results

Executive Order 13693 outlines a number of new sustainability goals including: collecting fleet operational data at the vehicle asset level for optimal efficiency management, ensuring a portion of GSA buildings over a square footage threshold meet net-zero standards,[17] and procuring targets for bio-based[18] and energy efficient products. In order for GSA's programs to meet sustainability targets, relevant and quality data needs to be accessible across business lines. GSA has acknowledged concerns about the quality of data in several systems including the Federal Fleet Management System, the Federal Real Property Profile, and the Federal Procurement Data System – Next Generation. Additionally, a recent audit found inaccuracies and outdated information in a key GSA sustainability system.[19] While data validation remains important, equally vital is making sure that information collected is usable. It is necessary to understand how data could be valuable and shared across GSA in order to make decisions based on facts.

Diminishing Returns on Portfolio Investments

GSA is experiencing diminishing returns on investments as it continues to improve energy efficiency throughout its building portfolio. Most of the projects with the greatest value are complete, such as replacing or improving cooling systems. In the future, energy efficiency investments are likely to be higher cost and have longer payback periods. GSA must verify that projects with longer payback periods are cost effective while striving to meet future reduction targets.

[17] A building is energy net-zero when the energy needs are balanced with the energy produced from renewable, zero-emissions sources.
[18] Bio-based is defined by Title 7 U.S. Code 8101(4) (A) as a commercial product (other than food or feed) that is composed of biological or renewable domestic agricultural materials (including plant, animal, and marine materials) or forestry materials.
[19] OIG report *Incomplete, Outdated, and Unverified Recovery Act Sustainability Data May Affect PBS Reporting and Decision-Making* (Report Number A130128/P/R/R15005, March 31, 2015). The report findings related to GSA's gBUILD system.

Agency Actions:

In its *FY 2016 Congressional Justification*, GSA described its goal of reducing the federal government's environmental footprint. It details its adoption of environmentally friendly practices in its operations, including increasing employee telework and hoteling; purchasing green IT; promoting cost savings through sustainable use of space, travel, fleet, and resources; and greening the federal supply chain. Specifically, GSA has identified the following steps that it has taken over the last year to improve on its greening initiatives:

- Selecting nine technologies for evaluation from the 2014 Green Proving Ground request for information and reporting its findings for six previously implemented technologies;
- Awarding three power purchase agreements, including the largest wind energy purchase from a single-source in federal contracting history;
- Assisting GSA and its customers to achieve mandated green procurement and sustainability targets through the Green Procurement Compilation system, which identifies green purchasing requirements while determining available procurement options; and
- Participating in the Carbon Disclosure Project's climate change program as a supply chain member and asking its 120 largest suppliers to disclose their annual greenhouse gas emissions in an effort to strengthen American climate change readiness.

IMPLEMENTING GSA'S MOBILE WORKFORCE STRATEGY

ISSUE: *GSA's implementation of its mobile workforce strategy faces multiple challenges.*

As the federal government's landlord, GSA is playing a leadership role in OMB's "Reduce the Footprint" initiative and is working to serve as a model for the rest of the federal government by reducing its footprint and implementing a mobile workforce strategy. In reducing its footprint, GSA has established an aggressive internal goal of 136 usable square feet per person, which is even lower than OMB's stated goal of 150 usable square feet per person.

To accomplish the goal, GSA is implementing a mobile workforce strategy that includes a combination of hoteling, telework, and virtual employees. The mobile workforce strategy is expected to result in multiple benefits, such as reduced real property costs, reduced carbon footprint, and improved work-life balance for employees.

However, the costs of implementing this strategy should not be overlooked. While the costs of implementation should be low when performed in conjunction with a planned relocation or renovation, the strategy can still result in additional costs. For example, the decision to implement the strategy in the Mid-Atlantic Region came late in the relocation process, leading to additional costs for redesigning space, extending the lease for the current location, and delaying the occupation of the new space.

As GSA expands its mobile workforce strategy beyond renovations and relocations, it needs to minimize implementation costs and address other costs associated with managing GSA space, such as backfilling vacant space. Prior to implementing a mobile space project, GSA should perform a cost-benefit analysis to assess and determine the cost effectiveness of the project.

Further, many challenges lie ahead, not the least of which is the shift away from the traditional work space. In implementing its mobile workforce strategy, GSA is shifting away from the traditional work space in favor of telework and other mobile strategies, such as the use of virtual employees. However, our recent audit of GSA's telework program revealed that GSA was not following its policies and procedures for telework and virtual employees. GSA did not know the number of virtual employees it had and some virtual employee arrangements had not been fully approved. The travel costs for some virtual employees significantly exceeded cost estimates and some virtual employees were being paid the wrong amount because their official duty stations were incorrect. Finally, many teleworkers had not taken the training that GSA requires as a prerequisite to teleworking.

GSA's mobile workforce strategy must contend with other challenges as well. Increasing telework can stifle collaboration as physical interaction with colleagues is limited and can impair the effectiveness of managers who must supervise employees in a virtual environment. In addition, employees' ability to telework efficiently and effectively may be affected by the lack of digital documentation of many of GSA's contract and lease files and the need to ensure the security of documentation that is taken offsite by teleworking employees.

Finally, IT support and capabilities are critical to the success of GSA's mobile workforce strategy. GSA's strategy incorporates multiple devices such as laptops, smartphones, and other mobile devices. To enable multiple device types, GSA must ensure that its systems are capable of interacting with and supporting all anticipated platforms. In addition, with the dependence on IT systems for working offsite, the Agency will need to emphasize system continuity and security more than ever before.

Agency Actions:

Even before it began reducing its real property footprint, GSA had been implementing its mobile workforce strategy by emphasizing telework and mobile space. The Agency is continuing to digitize records and has explored other means to replace its hardcopy documents and files. It is also implementing a wide range of collaborative and mobile tools and is trying to provide the support and security necessary for these tools.