



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 United States General Services Administration (GSA), which comprise the consolidated balance sheets as of September 30, 2015 and 2014, and the related consolidated statements of net cost, 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 individual balance sheets of the Federal Buildings Fund and the Acquisition Services Fund (hereinafter referred to as the "Funds") as of September 30, 2015 and 2014 and the related individual statements of net cost, changes in net position, and budgetary resources for the years then ended (hereinafter referred to as the Funds' "individual financial statements") and the related notes to the Funds' individual financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements and on the Funds' individual financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 15-02 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements and the Funds' individual financial statements are free from material misstatement.

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

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evaluating the overall presentation of the consolidated financial statements and the Funds' individual financial statements.

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

Opinions on the Financial Statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of GSA as of September 30, 2015 and 2014, 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 Funds' individual financial statements referred to above present fairly, in all material respects, the financial position of each of the individual Funds as of September 30, 2015 and 2014, 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

Management has elected to reference information on Web sites 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 financial statements or the Funds' individual financial statements or supplementary information required by the Federal Accounting Standards Advisory Board (FASAB). The information on these Web sites 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 financial statements and the Funds' individual financial statements. Such information, although not a part of the basic consolidated financial statements and the Funds' individual financial statements, is required by the FASAB who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements and the Funds' individual financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements and the Funds' individual financial statements, and other knowledge we obtained during our audits of the basic consolidated financial statements and the Funds' individual financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Supplementary and Other Information

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements and on the Funds' individual financial statements as a whole. The information in the Other Funds and Intra-GSA Eliminations columns in the consolidating and combining financial statements in Schedules 1 through 4 (hereinafter referred to as "consolidating information"), and the information in the Table of Contents, Letter from the Administrator, "How GSA Benefits the Public" section, Letter from the Chief Financial Officer, Office of Inspector General's Transmittal Memorandum of the Independent Auditors' Report, and Other Information section of GSA's 2015 *Agency Financial Report* is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements.

The consolidating information in Schedules 1 through 4 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 audit 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 in Schedules 1 through 4 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, Letter from the Administrator, "How GSA Benefits the Public" section, Letter from the Chief Financial Officer, Office of Inspector General's Transmittal Memorandum of the Independent Auditors' Report, and Other Information section of GSA's 2015 *Agency Financial Report* has not been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and Funds' individual financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements and the Funds' individual financial statements as of and for the year ended September 30, 2015, we considered GSA's and the individual Funds' 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 financial statements and the Funds' individual financial statements, but not for the purpose of expressing an opinion on the effectiveness of GSA's and the individual Funds' internal control. Accordingly, we do not express an opinion on the effectiveness of GSA's and the individual Funds' 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 were not identified. Given these limitations, during our audit 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 financial statements and the Funds' individual financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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 of our tests of compliance disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 15-02.

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 of FFMIA disclosed no instances in which GSA's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

GSA's Responses to Findings

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

Purpose of the Other Reporting Required by Government Auditing Standards

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

KPMG LLP

Washington, DC
November 10, 2015

Independent Auditors' Report
Exhibit I – FY 2015 Significant Deficiencies

I. Financial Management and Reporting¹

During fiscal year (FY) 2015, GSA initiated the implementation of corrective action plans to address internal control weaknesses and strengthen internal control. Although GSA made progress in certain financial management and reporting areas, deficiencies remain in certain areas of classification of capital and operating leases and accounting and reporting of occupancy agreements. Additional remediation is scheduled to continue in FY 2016.

a. Classification of Capital and Operating Leases

GSA maintains over 8,300 owned or leased federal facilities and processes approximately \$7 billion in lease payments annually. Control deficiencies over the classification analysis of leases to ensure the proper accounting for and disclosure of leases in accordance with applicable accounting standards, were noted as follows:

1. Regional personnel did not adhere, on a consistent basis, to existing policies, procedures, and guidance to ensure the lease classification analysis is updated and accurate when lease terms, at lease inception dates, change from those initially estimated.
2. Controls over the lease classification were not operating effectively to address financial reporting requirements for capital or operating lease determination in addition to the budget determination, as evidenced by:
 - The lease classification analysis contained inaccurate data related to one or more of the following based on the actual terms of the lease: annual rent, operating costs, real estate taxes, insurance, maintenance and repair reserve, rent abatement, and rent commencement date.
 - The discount rates used in the lease classification analysis were incorrect.
 - Minimum lease payments were not discounted to the correct point in time for purposes of the lease classification analysis.

While GSA has implemented a number of actions to address prior year audit findings related to lease classification, some of those actions have not been completed as of the end of FY 2015. Nonetheless, GSA policies and procedures to determine whether a lease is either capital or operating continue to have a primary focus on determining the appropriate lease classification from a budget formulation and justification perspective as required by the Office of Management and Budget (OMB) Circular No. A-11 (Revised), *Preparation, Submission, and Execution of the Budget*. In addition, we continue to note that regional personnel do not follow established policies and procedures on a consistent manner and have established practices as to how and when to complete the lease classification analysis that are not always consistent with the established policies and procedures. Further, GSA has not fully developed monitoring procedures to ensure that regional personnel are following the established policies and procedures over the lease classification, as intended.

If left un-remediated, these conditions present a risk that errors in the classification of leases will not be prevented, or detected and corrected, by GSA management in the normal course of performing their assigned functions.

¹ This finding applies to the Federal Buildings Fund and GSA as a whole.

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b. Accounting and Reporting of Occupancy Agreements

GSA processes approximately \$10 billion in revenues from occupancy agreements (OA). During FY 2015, GSA provided additional policy clarification and signature guides in an attempt to distinguish OAs that modify significant financial terms of the agreement (e.g., increases in square footage, increases in base rent rates, changes to length of occupancy or termination dates) from OAs that document standard adjustments (e.g., Consumer Price Index adjustment, tax adjustments, ancillary charges for parking/antenna rent). However, we noted that deficiencies remain in controls over the recording of fully executed OAs, as follows:

1. Regional personnel did not fully adhere to existing policies, procedures, and guidance to obtain fully executed OAs, when appropriate. Specifically, we noted GSA personnel did not adequately obtain fully executed OAs in the following instances:
 - When charge basis or square footage amount is modified resulting in increased base rental charges without an updated signed OA contract.
 - When the period of occupancy under a signed OA agreement, with no provision for continuing occupancy, has expired and no new OA agreement was signed.
2. The policies and procedures over OAs are not designed and implemented adequately to ensure that there is a clear distinction between the two uses of the OA document, and do not fully address the need for GSA to consistently document the agreement of tenant agencies to significant financial terms of tenant-GSA relationship.

The lack of a fully executed OA documenting changes to significant financial terms in the agreements, increases the risk of financial statement misstatements as potential billing disagreements may arise between GSA and tenant agencies.

Recommendations

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

a. Classification of Capital and Operating Leases

1. GSA management should establish separate processes to perform lease classification analyses for financial statement purposes at lease inception, as required by *Statements of Federal Financial Accounting Standards* (SFFAS) No. 6; *Accounting for Property, Plant, and Equipment* and other technical accounting standards applicable to leases, separate from the budget scoring analysis performed.
2. GSA should continue efforts indicated in their corrective action plans to implement sufficient monitoring procedures to ensure the lease classification analysis is performed accurately and in accordance with financial accounting standards.
3. OCFO should include lease classification controls within their scope of OMB Circular No. A-123 (Revised), *Management's Responsibility for Internal Control*, assessments.

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b. Accounting and Reporting of Occupancy Agreements

1. Establish monitoring procedures to ensure that controls over the authorization of OA revenues are properly designed, implemented and operating effectively.
2. Reevaluate use of the OA document for purposes of both formalizing significant terms and communicating recurring changes and consider distinguishing between these documents.
3. Reevaluate current signature policies and signature guide to determine if current signature requirements achieve the objective of documenting tenant agency agreement to significant financial terms, including occupancy beyond the term of the OA.
4. Update policies as needed to ensure that PBS obtains documented agreement from tenant agencies of significant financial terms (base rental rates, space occupied, term of occupancy) for any OAs in place that have a financial statement impact.

Management Response

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

II. Controls over Budgetary Accounts and Transactions²

Budgetary accounts are a category of the general ledger accounts where transactions related to receipts, obligations, and disbursements of budgetary authority—the authority provided by law to incur financial obligations that will result in outlays—are recorded. OMB Circular No. A-123 sets forth requirements to develop control processes necessary to ensure that reliable and timely information is obtained, maintained, reported, and used for decision making.

During FY 2015, GSA continued the implementation of corrective action plans to address internal control weaknesses and strengthen internal controls over budgetary accounting. However, weaknesses remain and additional remediation associated with obligations is scheduled to continue in FY 2016. Specifically, we noted the following control deficiencies:

1. Controls did not operate effectively to provide reasonable assurance that contract and financial information entered into GSA's contract management systems, or generated elsewhere manually, used to initiate and manage all contract actions, is accurately, timely, and completely captured in GSA's financial management system and properly reflected in the financial statements.
2. In order to address the risk of contract financial information not being captured properly or timely into the financial management system, GSA continues to rely on a number of manual-intensive reconciliation controls. Such controls are detective in nature and were not designed at the same level of precision as controls designed to ensure the accurate initial recording and review of all transactions entered in the contract management systems and in the financial management system.
3. GSA did not fully or consistently adhere to policies and procedures for obligating funds received through Reimbursable Work Authorizations (RWA) in a reasonable and timely manner or for maintaining required documents in the RWA files.

² This finding applies to the Federal Buildings Fund and GSA as a whole.

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

- Lack of integrated financial and contract management systems that can accommodate real-time recording of budgetary accounting transactions based on actual contracting activity. The volume of contract actions and frequent adjustments and modifications to contracts in the normal course of business results in a significant manual processing burden that is susceptible to error. Without an integrated financial system and communication between financial management personnel and contracting personnel, the financial system may not be updated as necessary based on actual contract status resulting in delayed or inaccurate financial information available for decision makers.
- Lack of sufficient oversight of the contracting function and overall operating discipline as evidenced by contracting and budgetary activities that impact financial reporting not being performed consistently at the regional level.

If not corrected, these deficiencies will continue to expose GSA to an increased risk of misstatements in its financial statements and possible violations of laws and regulations.

Recommendations

We recommend that GSA management continue to implement the following to improve controls over budgetary accounts and transactions:

1. Continue efforts indicated in corrective action plans to implement a contracting system that will interface with the financial management system of record.
2. Enforce policies and procedures with regional personnel to ensure that contracting and budgetary activities are consistently performed and accurately completed, contracting activities are recorded in the appropriate subsidiary ledger and the financial management system timely, and required documentation is completed and maintained.

Management Response

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

III. General Controls over Financial Management Systems³

In FY 2015, we continued to note weaknesses in information technology controls designed to protect GSA's financial management systems as required by OMB Circular No. A-130 (Revised), *Management of Federal Information Resources*. Specifically, we identified control deficiencies over access and configuration management general controls, as follows.

a. Access Controls

Effective access to programs and data controls are implemented to prevent unauthorized access and users from performing tasks not assigned to them and logging and monitoring the activity performed to detect any unscrupulous, unauthorized, or inappropriate activity that could lead to a compromise of the confidentiality, integrity, and availability of the data residing on the information system. Specifically,

³ This finding applies to the Acquisition Services Fund and GSA as a whole.

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throughout the period under audit, we identified the following weaknesses in controls over access to programs and data:

1. Initial authorization (in 3 of 10 systems tested), periodic recertification (in 4 of 10 systems tested), and the timely removal of inactive application, database, and operating system users and administrator accounts (in 1 of 10 systems tested) was inadequate, inconsistent, or in violation of the principles of segregation of duties.
2. Segregation of duties violations existed in the application, development, and production environments and controls were not designed, implemented or operating effectively to prevent or detect and correct such violations (in 4 of 10 systems tested).
3. Controls over logical access to key financial in-scope systems, including password configuration settings for the application, database, and operating system, were not designed, consistently implemented, or fully effective (in 2 of 10 systems tested).
4. Controls over the configuration, review, documentation of review, and access to the logs for the application, database, and operating systems were not designed, fully implemented, or were performed inconsistently (in 6 of 10 systems tested).
5. Monitoring and review controls over GSA contractor access are not properly designed, fully implemented, or performed consistently for all in-scope systems tested.

b. Configuration Management Controls

Effective configuration management controls prevent unauthorized fraudulent data or malicious code into the application and/or database without detection, which could lead to the compromise of the confidentiality, integrity, and availability of the data residing on the information system. Specifically, throughout the period under audit, we identified the following weaknesses in controls over configuration management:

1. Database patches were not reviewed, authorized, or tested prior to implementation into the production environment (in 2 of 10 systems tested).
2. Standard software changes were developed and migrated into the production environment by the same personnel (in 1 of 10 systems tested).
3. Emergency changes were not authorized by the Change Control Board prior to implementation into the production environment (in 1 of 10 systems tested).
4. Vulnerability scans were performed and results were discussed on a periodic basis; however, evidence of Information System Security Officer review was not documented or maintained for all in-scope systems tested.

GSA still has challenges establishing a process to collect, assess, and share information relating to known weaknesses from one system with designated personnel throughout the organization to help eliminate similar weaknesses in other systems. This lack of effective communication and information regarding common weaknesses across the different feeder systems is a contributing factor inhibiting GSA to fully resolve these control deficiencies. These conditions could affect GSA's ability to prevent and detect unauthorized changes to financial information, control logical access to sensitive information, and protect its information resources.

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Recommendations

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

a. General Controls (Access Controls and Configuration Management Controls)

1. Enforce documented system-specific and GSA-wide access to programs and data and configuration management policies and procedures to ensure access to programs and data controls are operating effectively.
2. Provide periodic training over system-specific and GSA-wide access to programs and data and configuration management policies and procedures.
3. Formally document the performance, review, and any remedial actions taken for the vulnerability scans results.

Management Response

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

IV. Entity-level Controls⁴

Entity-level controls encompass the overall control environment throughout the entity. This includes the governance and management functions and the attitudes, awareness, and actions of those charged with governance, and management concerning the entity's internal control and its importance in the entity. Entity-level controls are often categorized as environmental controls, risk assessment, information and communications, and monitoring, as defined by the *Committee of Sponsoring Organizations* of the Treadway Commission (2013 version) and the U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* (Green Book). These controls must be effective to create and sustain organizational structure that it is conducive to reliable financial reporting.

During FY 2015, GSA initiated the implementation of corrective action plans to address pervasive internal control weaknesses and strengthen internal controls. However, entity-level control deficiencies remain and additional remediation actions are scheduled to continue in FY 2016. These common themes are described below; however, they also contribute to several of the conditions presented in findings I through III above.

1. Policies and procedures related to financial reporting and accounting operations are not always finalized, formalized, and approved in a timely manner.
2. Regional and operational personnel do not always share responsibilities for and are not adequately supervised on financial management matters that affect the financial statements, including adhering to appropriate accounting policies and procedures and performing key internal control functions in support of financial reporting.
3. GSA did not perform and document a comprehensive analyses over certain financial reporting aspects related to the accounting functions transferred to a shared-service provider.

⁴ This finding applies to the Federal Buildings Fund, Acquisition Services Fund, and GSA as a whole.

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4. Certain financial system functionality limitations are still contributing to control deficiencies. These system functionality limitations are inhibiting progress on corrective actions for GSA and are preventing the agency from improving the efficiency and reliability of its financial reporting process. Some of the financial system limitations lead to extensive manually intensive and redundant procedures to process transactions, to verify accuracy of data, and to prepare the financial statements. Systemic conditions related to financial functionality include:
 - Lack of integrated financial and contract management systems for PBS. GSA is currently working on the development and implementation of a new contract management system.
 - Lack of system functionality to capture the estimated completion date for multi-phased construction projects.
 - Funds controls in the financial management system that can be overridden without proper controls over transactions recorded when such edit checks were switched off.
 - Configuration of the financial management system regarding the proper accounting for recoveries of prior years' obligations.
 - Aging feeder systems that do not capture proper information for the correct recognition of expenses and related revenue for certain Federal Acquisition Service lines of businesses.
 - Numerous interfaces between feeder systems and the financial management system requiring manual journal entries to capture transactions properly that originally did not interface correctly.
5. GSA has established a number of manual compensating controls that do not operate at a sufficient level of precision when compared to controls designed and implemented over initiation of transactions.

Recommendations

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

1. Continue to review and revise as necessary its internal control program to plan, establish, monitor, and report and communicate a comprehensive, adequate, and appropriate internal assessment of the operating effectiveness of GSA internal controls.
2. Continue to finalize and implement all of the draft agency-specific OCFO policies and procedures to effectively provide information and communication to GSA as a whole.
3. Provide training to financial and program personnel on internal controls.
4. Continue to strengthen monitoring controls. GSA and each one of its components should design monitoring controls around its annual risk assessment to ensure transactions with higher risk of error are adequately monitored. Components with effective detective controls should look for opportunities to implement more reliable controls earlier in the processes to prevent errors at the transaction source.
5. Perform and document a comprehensive analysis over all end-to-end processes affected by the transfer of accounting functions to the shared-service provider to further the understanding of roles and responsibilities of GSA and shared-service providers.

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6. Prioritize financial system and feeder system enhancements to resolve functionality limitations and reduce manually intensive and redundant procedures.
7. Implement procedures to involve the OCFO and others as needed when making accounting policy decisions to ensure that adopted accounting policies are technically correct, supported, are in accordance with OCFO's policies and procedures, and properly reflect the business transactions in the financial statements.

Management Response

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