U.S. GENERAL SERVICES ADMINISTRATION
Office of Inspector General

October 14, 2016

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ADMINISTRATOR (A)

FROM: CAROL F. OCHOA
INSPECTOR GENERAL (J)

SUBJECT: Assessment of GSA's Major Management Challenges for Fiscal Year 2017

As required by the Reports Consolidation Act of 2000, Public Law 106-531, we have prepared the attached statement summarizing what we consider to be the most significant management and performance challenges facing GSA in fiscal year 2017.

Please review at your earliest convenience. Should you wish to respond, please provide your comments by November 14, 2016, and will we append them to our assessment. If you have any questions or wish to discuss our assessment further, please call me at (202) 501-0450. If your staff needs any additional information, they may also contact R. Nicholas Goco, Assistant Inspector General for Auditing, at (202) 501-2322.

Attachment

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

OCTOBER 2016

In accordance with the Reports Consolidation Act of 2000, the Office of Inspector General annually identifies what it considers the most significant management challenges facing the U.S. General Services Administration (GSA). This year we have identified significant challenges in the following areas:

1. Addressing Persistent Challenges within the GSA Schedules Program.
2. Implementing Transactional Data Reporting.
3. Meeting the Government's Evolving Needs for Telecommunication and Integrated Technology Infrastructure Solutions.
4. Managing Complex New Construction Program.
5. Managing Risks related to Large-Scale Exchanges of Real Property.
6. Safeguarding Federal Infrastructure and Providing a Secure Work Environment.
7. Establishing and Operating the Technology Transformation Service.
8. Transitioning GSA's Financial Management Line of Business to the U.S. Department of Agriculture.
9. Improving Internal Controls over Financial Management and Reporting.
10. Protecting Sensitive Information.
11. Minimizing the Risk of Cyberattacks to Federal Building Management and Control Systems.
12. Implementing Enterprise Risk Management.
13. Achieving Sustainability and Environmental Goals.
14. Implementing GSA's Mobile Workforce Strategy.

We discuss these issues in detail below.

ACQUISITION PROGRAMS

GSA's Federal Acquisition Service (FAS) operates at the core of GSA's mission to create efficiency for the federal government's acquisition of goods and services. FAS attempts to accomplish this by consolidating the buying power of the federal government to obtain quality products and services at the best available price. FAS faces several challenges in fulfilling its mission to meet its customers' needs effectively, efficiently, and economically.

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

GSA's Schedules Program remains one of its largest procurement programs with approximately 16,000 contracts and $33 billion in sales in fiscal year (FY) 2015.[1] 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. In response to customer feedback, changing market conditions, and contract duplication governmentwide, FAS is initiating changes to the Schedules Program with a goal of providing better pricing and transparency. Several challenges face the Schedules Program, including pricing determinations; contractor compliance; and the hiring, retention, and development of the acquisition workforce.

Implementation of New Pricing Initiatives Presents Contract Evaluation and Administration Challenges for Acquisition Personnel

GSA's Schedules Program operates under the premise that contractors routinely sell commercial products and services in competitive markets and that market forces establish fair and reasonable prices. GSA has recently planned and launched numerous initiatives and tools that affect price analysis, both at the time of contract award and throughout the life of a contract. With these pricing initiatives occurring simultaneously, FAS is challenged to ensure that acquisition personnel have a sufficient understanding of how each initiative works and are able to use them to meet intended goals.

Principal among these initiatives is the Transactional Data Reporting rule. The rule, which was formalized in the Federal Register in June 2016, is currently being implemented as a pilot program, FAS is undergoing a seismic shift to its price analysis approach. Historically, the contracting officer's price analysis, which is a key step in determining fair and reasonable pricing, has evaluated a contractor's offered prices or discounts compared to prices or discounts the contractor offers to its commercial customers. Under this pilot, contracting officers will evaluate a contractor's offered prices compared to a limited subset of prices paid on actual GSA sales. FAS's revised price analysis approach will eliminate both the Price Reductions Clause and the commercial sales practices disclosure requirement – the two key price protections for schedule contracts – in exchange for obtaining contractors' transactional data.[2]

[1] GSA's Schedule Program is also referred to as Multiple Award Schedules and Federal Supply Schedules.
[2] Transactional data refers to information regarding the products and/or services government agencies purchase from contractors. This data includes details such as part numbers, quantities, and prices paid.

In May 2015, FAS launched another pricing initiative, the Competitive Pricing Initiative, for products sold under the Schedules Program. This initiative is an analysis of a contractor's current contract (or proposed) pricing compared to prices offered by other contractors for an identical product in the government marketplace. The intent is to address price variabilities and ultimately improve schedule pricing. This initiative is built around the Formatted Product Tool, which is a systems upgrade that identifies outlier pricing. Contractors whose prices fall outside the acceptable range for an identical product are notified of how their pricing relates to the comparative prices. Contracting officers then work with these contractors to determine what action to take. The contractor can decrease the price, justify the price difference, or remove that product from their schedule contract. However, there is no contractual obligation that requires contractors to lower their prices or remove the product from their schedule contract.

FAS also launched the Contract Awarded Labor Category Tool in 2015. This is a tool to assist contracting officers in evaluating pricing for services. It is intended to allow contracting officers to conduct market research from a database of government contract prices for approximately 55,000 labor categories from over 5,000 contracts under the Professional Services Schedule. This tool allows contracting officers to search contract prices by labor category and filter by education level, experience, and worksite.

These new pricing initiatives will have a significant effect on the Schedules Program and FAS will be challenged to ensure that they are effectively implemented. As it works to address this challenge, FAS must ensure that all acquisition personnel fully understand how these changes affect the government contracting process so that they can fulfill their responsibility to achieve and maintain fair and reasonable pricing for customer agencies and drive savings for the taxpayer.

Contractor Compliance

We continue to identify deficiencies in schedule contractors' compliance with contract terms and conditions during our preaward audits. During FY 2015, we identified instances of non-compliance with contract terms and conditions in over 41 percent of audited schedule contracts, resulting in over $23 million in recommended recoveries. Two significant recurring deficiencies relate to Industrial Funding Fee reporting and unqualified labor.

Contractors are responsible for identifying and reporting schedule contract sales on a quarterly basis by Special Item Number for Industrial Funding Fee payment purposes. From FY 2015 through the first half of FY 2016, we found that 23 percent of audited contractors did not have adequate procedures in place to accumulate and report schedule contract sales. This is of particular concern in light of the new reporting requirements for schedules contracts under GSA's Transactional Data Reporting rule. Under the rule, contractors will be required to provide significantly more sales data on a more frequent basis. In addition to calculating the Industrial Funding Fee, GSA will use this sales data to drive pricing decisions; therefore, GSA faces greater risk if the sales data is inaccurate or incomplete.

We are also concerned about the recurring problem of contractors providing unqualified labor on schedule contracts, resulting in overcharges to GSA's customer agencies. In particular, during FY 2015, we found 32 percent of audited services contractors provided labor that did not meet the contract's minimum qualification requirements. Contractors are responsible for billing in accordance with contract terms. Likewise, contractors are responsible for providing labor that meets contract-stipulated minimum education and experience qualifications to ensure the quality and timeliness of services performed on government projects. GSA faces the challenge of ensuring that contractors comply with contract terms so that customer agencies receive the level of services they are paying for.

Challenges Facing the Acquisition Workforce

Contracting officers are responsible for evaluating and processing new offers, modifications, and options to extend existing contracts, as well as performing general contract administration. GSA is adjusting its organizational structure to better support the adoption of category management across the federal government. Category management is a major federal initiative intended to enable federal government agencies to manage purchases more like a single enterprise, as opposed to individually. FAS plans to commit to the principles and vision of category management by reorganizing its acquisition workforce. Thus, not only will the acquisition workforce need to adjust the way they award and administer contracts, they will also need to adjust to new lines of reporting within FAS. While GSA works to navigate its acquisition workforce through these organizational changes, it continues to face challenges related to workload management and hiring, retaining, and developing qualified acquisition personnel.

Workload Management

Contracting officers are responsible for managing the workload of approximately 16,000 schedule contracts that generate over $33 billion in annual sales. In FY 2015, each contracting officer administered, on average, 85 contracts.

In a FY 2007 report, we raised the issue of low and no sale schedule contracts and recommended that FAS adopt a structured approach to reducing the number of unused schedule contracts.[3] Although FAS has made progress in cancelling low and no sales schedule contracts, a significant number remain. In FY 2015, approximately 30 percent of schedule contracts had no sales. In FY 2016, FAS spent about $25 million administering information technology (IT) schedule reseller contracts with low or no sales. Administering schedule contracts with low or no sales negatively affects a contracting officer's time to evaluate substantive contract actions, such as award proposals and modifications, and hinders a contracting officer's ability to effectively manage their workload.[4] Over time, these contracts have steadily shifted from products and services to full acquisition solutions, which are inherently more complicated acquisitions involving more technically and financially complex customer requirements.

Hiring, Retaining, and Developing Qualified Acquisition Personnel

FAS requires a robust and well-qualified acquisition workforce in order to award and administer increasingly complex acquisitions and successfully implement FAS's new major initiatives. However, over the past few years, we have identified some impediments to the successful hiring, retention, and development of the FAS acquisition workforce.

In FY 2015, we reported that contracting officers were not receiving specialized training in schedule acquisitions necessary to perform their jobs.[5] The limited availability of schedule-related training puts the government at an increased risk that schedule contracts may be improperly awarded and/or administered. Accordingly, we recommended that FAS provide a specialized training program for its schedule contracting officers; however, as of June 2016, FAS had not fully developed this training. FAS officials stated the development, finalization, and implementation of the new training will take place based on the implementation of new pricing policies, procedures, and tools (*e.g.,* the Formatted Product Tool and the Transactional Data Reporting rule).

Furthermore, in FY 2016, we reported that, although GSA has human capital plans for its acquisition workforce, FAS does not have a comprehensive human capital plan to address hiring, retention, and succession planning for its acquisition workforce.[6] With

[3] *Review of Multiple Award Schedule Program Contract Workload Management* (A060190/Q/6/P07004, July 31, 2007).
[4] *IT Resellers Contracts Present Significant Challenges for GSA's Schedules Program* (A120026/Q/6/P16003, July 22, 2016).
[5] *FAS Needs to Strengthen its Training and Warranting Programs for Contracting Officers* (A140008/Q/9/P15002, June 25, 2015).
[6] *FAS Needs a Comprehensive Human Capital Plan for Its Contract Specialist Workforce* (A150033/Q/9/P16002, July 22, 2016).

30 percent of its acquisition workforce eligible to retire within the next 5 years, FAS should develop and implement a comprehensive human capital plan to recruit, hire, and retain the contracting staff necessary to fulfill its mission. Without such a plan, FAS may be hiring contracting staff without assessing hiring needs and costs, considering turnover rates, and preparing for upcoming retirements.

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

GSA faces significant challenges in implementing the Transactional Data Reporting rule. In FY 2016, GSA published the final rule to institute transactional data reporting.[7] Under the rule, GSA contract holders will be required to report to GSA prices paid by government customers for products and services delivered during the performance of their respective contracts. GSA views transactional data reporting as a catalyst to move GSA towards category management. 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.

The reporting requirement is available for immediate incorporation into GSA's governmentwide non-Multiple Award Schedule contracts. For Multiple Award Schedule (schedule) contracts, the requirement will be introduced in phases beginning with a pilot program for select products and services. In exchange for transactional data, GSA will forfeit its two contractual price protections – the requirement for a contractor to disclose its commercial sales practices and the mandatory price protections afforded by the Price Reductions Clause.[8]

GSA is effectively severing the link between its Schedules Program and the commercial market by eliminating these price protections and relying instead on transactional data, contract-level pricing data, and publically available commercial pricing information as the primary means of price analysis. These data sources have inherent limitations that may prevent the Schedules Program from meeting its objective of providing competitive, market-based pricing for customer agencies. Specifically, the transactional data and contract-level pricing data draw exclusively from government pricing information, while publicly available commercial pricing information may not provide the level of insight into contractors' commercial sales practices as previously required. Furthermore, although GSA may seek discounts, a contractor will not be required to reduce its GSA contract

[7] GSA Acquisition Regulation (GSAR) Case 2013-G504.
[8] FAS uses the Commercial Sales Practices disclosure to negotiate pricing on Federal Supply Schedule contracts. The Price Reductions Clause can be found at GSAR 552.238-75, *Price Reductions* (May 2004).

price when its commercial price decreases as previously required by the Price Reductions Clause.

To accomplish the shift to transactional data reporting, GSA must change its procedures for awarding and administering schedule contracts from those focusing on commercial comparability to procedures emphasizing data analytics. GSA must also ensure contracting personnel are appropriately trained on the new policies and methodologies so that they can effectively use transactional data for price reasonableness determinations.

Contracting officers will face challenges related to the usefulness of the data. For instance, GSA management officials have acknowledged the existence of a time delay until sufficient transactional data is available for making price comparisons. In addition, industry groups have expressed concern that the data will not accurately reflect differences in terms and conditions, which may adversely affect the ability of contracting officers to perform price determinations. GSA must also address whether and how the data will be used to evaluate pricing for the variety of task order types and pricing methodologies allowed under the Schedules Program. For example, GSA acknowledged that fixed price orders may not result in sufficiently detailed transactional data and has stated that "fixed price data will have limited value compared to data reported for other contract types."[9]

The implementation of transactional data reporting also represents a significant change in operations that GSA must properly plan for in order to mitigate new risks, especially with the supporting IT infrastructure. In initiating transactional data reporting, GSA will rely on IT systems to receive, store, and analyze the transactional data submitted by contractors. As GSA implements the pilot program, it must protect the confidentiality, integrity, and availability of the transactional data reported. For example, supporting IT systems will receive and house participating contractors' proprietary sales data. Accordingly, GSA must establish and maintain IT security controls to safeguard this sensitive data from unauthorized use or disclosure. In addition, GSA must develop procedures to verify the accuracy of the submitted data to ensure it is reliable for use in both price determination and category management.

The final rule states that the pilot program will be evaluated against performance metrics from at least 1 year of operation before it is expanded or transactional data reporting is made a permanent part of the Schedules Program. The final rule lists the

[9] GSA's response to The Coalition for Government Procurement, dated September 19, 2016. Issued by Jeff Koses, Senior Procurement Executive, Office of Acquisition Policy, and Tom Sharpe, FAS Commissioner, to Roger Waldron, President of The Coalition for Government Procurement.

metrics as changes in price, sales volume, small business participation, and the creation of smarter buying strategies. GSA must ensure the metrics evaluated measure the intended outcomes of this initiative. Furthermore, it is important that GSA's evaluation is thorough and transparent to ensure GSA makes the most effective decision in expanding, adjusting, or abandoning the transactional data reporting pilot.

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

GSA's goal is to transition customer agencies to the next telecommunications contract over 3 years. Based on GSA's experience in transitioning agencies to new telecommunications contracts, reaching this goal will be challenging.

The transition to GSA's current telecommunications contracts, Networx Universal and Networx Enterprise (Networx), exceeded estimated timeframes by 33 months, incurred additional transition program costs of $66.4 million, and caused the loss of approximately $329 million in cost savings by continued use of the predecessor contracts. The delayed transition to Networx resulted from a complex acquisition process, project planning deficiencies, and a decline of technical expertise within customer agencies.

GSA must plan and monitor implementation efforts carefully to avoid similar issues with the next transition to the $50 billion, 15-year Enterprise Infrastructure Solutions (EIS) contract. EIS is intended to enable customers to procure common telecommunications services and IT infrastructure such as voice, videoconferencing, cloud services, call and data centers, satellites, and wireless services. EIS will also consolidate the current Local Service Agreements by integrating the national and regional aspects of current offerings to reduce overlap.

Given the complexity and scope of the EIS contract, GSA solicited feedback from industry and the public on the draft request for proposal, which was released in February 2015. GSA had planned to issue the final request for proposal in July 2015; however, it received approximately 1,600 formal comments that were used to refine the document and delayed the issuance of the final request for proposal to October 2015. As a result, GSA changed its targeted award date from September 2016 to early 2017. GSA plans to transition customer agencies to EIS over 3 years, by 2020, instead of the 6 years it took to transition to Networx. GSA's shortened timeframe is ambitious despite the steps taken to improve the transition to EIS and better support customer agencies.

GSA has structured the transition to EIS into three phases: acquisition planning, acquisition decision, and transition execution. While in the acquisition planning phase, GSA established a transition working group, recommended a standard transition process, and provided customer education. GSA is also evaluating the offers received in response to the EIS request for proposal. GSA has completed the initial inventory of services to be transferred for customer agencies to verify for accuracy. This inventory identifies services that customer agencies must transition from expiring contracts and provides a consistent measure to monitor transition progress. GSA is using contractor support to assist customer agencies during transition planning and plans to hire consultants to assist in preparing statements of work and fair opportunity decisions during the acquisition decision phase. GSA also plans to extend the Networx contracts, originally set to expire in 2017, into 2020 to ease the EIS transition and ensure agencies have access to uninterrupted services.

Transitioning to EIS is a big task: the federal government is the largest customer for telecommunications services and over 200 federal entities use Networx. GSA is challenged with the responsibility of assisting these customer agencies to transition to EIS with uninterrupted service. Given the challenges with the prior transition, it is important that GSA ensures the transition meets milestone dates to capitalize on potential cost savings resulting from reduced acquisition costs and volume buying.

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's new construction program is a complex undertaking.*

The 2016 Consolidated Appropriations Act provided PBS with an additional $947,760,000 for nine new construction projects for the Federal Judiciary. PBS will face challenges in implementing this construction program, especially with developing project requirements and managing complex project delivery methods.

Developing Project Requirements

Currently, PBS intends to use the additional funds to build five new courthouses and renovate and add annexes to three existing courthouses. PBS also intends to use some of the funds for a feasibility study for an additional new courthouse. The majority of the projects have been on the Federal Judiciary Courthouse Project Priorities list for more than 15 years. The Judicial Conference of the United States designates the courthouse construction projects on the list annually based on the Judiciary's most urgent space needs. Given the extended period of time the selected projects have been on this list, PBS will need to assess each project to identify any changes to the project scope and ensure the Judiciary's needs are met.

In addition, the new courthouse projects must be completed in accordance with the current U.S. Courts Design Guide and PBS's *Facilities Standards for the Public Buildings Service*, which require courtroom sharing and high performance building systems, respectively. In some cases, these projects may stretch PBS's technical and project management personnel because project requirements may have to be completely redeveloped to meet the new requirements.

Managing Complex Project Delivery Methods

PBS intends to use Construction-Manager-as-Constructor, Design-Build, and Design-Build-Bridging project delivery methods for the new construction projects. Unlike other delivery methods, these methods allow the general contractor to participate during the project's design phase, with the goal of ensuring a more accurate construction budget and schedule. Although these methodologies have benefits, they can also be problematic.

In the Construction-Manager-as-Constructor delivery method, the contracts are awarded for preconstruction services, such as cost estimation and design review, with an option for construction at a competitively established Guaranteed Maximum Price. However, on many American Recovery and Reinvestment Act (Recovery Act) projects using this methodology, such as the modernizations of the Dr. A.H. McCoy, Robert Smith Vance, and George C. Young courthouses in the Southeast Sunbelt Region, PBS violated the Competition in Contracting Act because it did not compete the Guaranteed Maximum Price.[10] Instead, PBS either established the Guaranteed Maximum Price or did not evaluate it during the contract procurement. In addition, the scopes of work for

[10] *Southeast Sunbelt Region Construction Manager as Constructor Contracts: Audit of PBS's Major Construction and Modernization Projects Funded by the American Recovery and Reinvestment Act of 209* (Report Number A090172/P/R/R12009, September 28, 2012).

many modernization projects were not sufficiently detailed prior to the award of the construction contract. As a result, PBS and its contractors had ongoing discussions about what was included in the original contract price and whether modifications were needed as project details became more specific.

For both Design-Build and Design-Build-Bridging methods, a single contract is awarded to a contractor for the project's design and construction. Under Design-Build, the contractor generally has responsibility for the majority of the design. Under Design-Build-Bridging, PBS provides the contractor with limited design drawings that the contractor is responsible for finalizing. The final designs in both cases are based on GSA's program of requirements consisting of performance criteria and prescriptive requirements. However, if the performance and prescriptive requirements are not explicitly defined at the onset of the project, PBS is likely to incur costly contract modifications. Such was the case with the Design-Build contract to modernize the New Custom House in Denver, Colorado. PBS awarded the base contract for a firm-fixed price of $18 million and issued 85 contract modifications that increased the total contract value to over $40 million. Further, without proper controls, a contractor may seek reimbursement for changes to a project that should actually be the contractor's responsibility as the project designer.

When using these complex delivery methods in the new construction program, GSA must ensure that it complies with federal regulations and policy and that it defines project requirements explicitly before contract award.

ISSUE: *GSA faces significant challenges from the risks related to large-scale exchanges of real property.*

GSA has faced constraints in funding for construction projects in recent years. Consequently, the Agency has actively explored the use of real property exchanges to meet its need for constructing new buildings and making major renovations to its existing real property inventory. The Federal Property and Administrative Services Act and Section 412 of the Consolidated Appropriations Act of 2005 authorize GSA to exchange property for new construction, existing property, and construction services on properties in GSA's inventory. Although these exchanges allow GSA to use the value of the exchanged property to complete capital construction projects, large-scale exchanges present significant risks to the Agency.

Real property exchanges have the potential to provide multiple benefits to GSA, including transferring underutilized properties out of GSA's inventory. Principal among these benefits is the ability to apply the value of the federal property being exchanged to finance construction needs, rather than waiting for the funds to be made available through the appropriations process.

However, the complexities of exchange transactions create major challenges for the Agency. For example, exchange projects are structured so that a developer performs construction services before receiving the government's property as consideration, which may occur years later. Given this, the valuation of the project has to take into account not only the costs of construction and the current value of the property being exchanged, but also the additional costs related to the extended timeframe, including long-term financing, future uncertainties, and other risks that could affect the project. Additionally, since most exchanges do not receive line item funding, GSA may face funding shortages if the final value of the construction being performed, including change orders, exceeds the value of the government's property. Further, the risks on the projects are increased because GSA has not yet completed a large-scale exchange. GSA therefore lacks experience in addressing issues that may arise, such as the valuation of developer risk. As a result, GSA continues to face multiple risks including:

- Exchanges may not be the most cost-effective option for the government due to their complexities and extended timeframes. GSA faces difficulty in valuing properties that will not be exchanged until some point in the future. The federal government could potentially obtain a better deal for a new asset or construction services and potentially larger proceeds for a disposed federal property if it were to use traditional acquisition and disposal methods.

- GSA lacks transparency in using funds to supplement exchange transactions in instances of shortfalls. Since exchanges are not authorized through the budget process, typically no line item funding exists for such projects. While GSA policy allows funds to be used to supplement exchanges, the policy does not identify permissible sources of funding. Nor does it require congressional approval when the estimated supplemental funds will exceed the prospectus threshold, currently set at $2.85 million. Given this, GSA may use funding sources inconsistently or inappropriately when awarding construction modifications or support contracts.

- Exchanges may not be the most effective use of GSA resources. The exchange process requires GSA to invest considerable resources, including both employee time and funding, in planning and negotiating proposed exchanges. However, in instances where the exchange is not completed, these resources are expended without benefiting GSA, its tenants, or the taxpayer.

These risks are exemplified in GSA's current exchange projects. For example, the complexity of these exchanges and their long lead times requires GSA to expend funding and staff resources to move the projects forward. As of FY 2016, GSA spent over $9 million on contracts for eight exchange projects to obtain support services such as environmental site assessments, appraisals, and legal consultation. In addition to these contract costs, GSA incurs costs for staff, both employees and regional support contractors, who plan, manage, and run the exchange projects. GSA funds both the support contracts and staff resources through its Building Operations account.

Congress authorized GSA to spend $2.27 billion in Buildings Operations funds in FY 2016. The Building Operations account is intended to cover the day-to-day operational expenses for GSA's federally owned and leased facilities, including utilities, security, and building repairs and alterations that are less than $25,000. When GSA uses these limited funds for exchange activities, fewer funds are available for building repairs and alterations. Additionally, GSA officials advised us that since Building Operations funds are authorized through the annual budget process, no prospectus is required for the expenditure of such funds on exchange projects even when the prospectus threshold is exceeded. Although GSA sends quarterly reports to Congress summarizing its current exchanges, the reports do not include specifics on project costs or the funds spent in support of the exchanges. As a result, Congress may not realize the full cost of these exchange projects for funding and decision-making purposes.

GSA has spent approximately $1.4 million on exchange projects that were cancelled or not pursued. These properties included the Auburn Federal Complex in Auburn, Washington; undeveloped land in Lakewood, Colorado; the State Street buildings in Chicago, Illinois; and the Federal Triangle South buildings in Washington, D.C. GSA cancelled the State Street and Federal Triangle South exchanges because the developers' proposals were withdrawn or deemed unacceptable because they did not meet the solicitation requirements. Based on lessons learned from the canceled projects, GSA decided not to pursue the Auburn and Lakewood exchanges.

Despite these setbacks, GSA is still pursuing large-scale property exchanges, including the Federal Bureau of Investigation's Headquarters consolidation and the John A. Volpe National Transportation Systems Center. We view these exchanges as high-risk projects. In addition to the typical construction project challenges of completing construction on time and within budget and scope, these major projects are subject to the additional challenges of completing an exchange. For example, GSA has significantly revised the financial structure of the Federal Bureau of Investigation's Headquarters consolidation project since the Phase I Request for Proposals was issued in December 2014. In particular, the value of the current headquarters (*i.e.*, the J.

Edgar Hoover building) is no longer the sole funding source for the new headquarters project; GSA and the Federal Bureau of Investigation received $390 million in FY 2016 and have requested over $1.4 billion in appropriated funds for FY 2017. These funding sources will allow GSA to make progress payments as the exchange partner performs construction on the new headquarters, reducing the exchange partner's risk. Conversely, the Volpe exchange project's current structure does not allow for progress payments. Instead, the exchange partner will receive the government's property only after construction of the new facility is complete. The Volpe project's anticipated timeline spans several years and construction is estimated for over 300,000 square feet of space, increasing the project's risk.

While pursuing these exchanges, GSA maintains that it is working to address the risks associated with exchange projects. It has created a Program Management Office to provide guidance to exchange project teams, including guidance for Section 412 authority exchanges. According to GSA, it is also reviewing lessons learned from projects that were unsuccessful. As a result, GSA is performing a more rigorous initial analysis of potential property exchanges and is making adjustments in how it establishes the value of its exchange properties. It is also developing exchange transaction arrangements intended to mitigate contractor risk.

ISSUE: *Safeguarding federal infrastructure and providing 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 9,000 owned and leased federal facilities nationwide. Under Presidential Policy Directive 21 on *Critical Infrastructure Security and Resilience,* government facilities were designated as a critical infrastructure sector and GSA and Department of Homeland Security were named as responsible agencies. In accordance with the directive, the Department of Homeland Security's Federal Protective Service is the primary agency responsible for providing law enforcement, physical security, and emergency response services to GSA tenant agencies, buildings, and facilities. Meanwhile, GSA is responsible for continuity of operations, providing governmentwide contracts for critical infrastructure systems, and coordination with the Federal Protective Service to ensure building occupant security.

Our reports have repeatedly pointed out that GSA's security clearance process for contractors needs improvement. One of our recent audits disclosed that contractor employees who had not received security clearances were allowed to work on a construction project at a federal building.[11] Another audit we conducted of PBS procurements found limited evidence of coordination among the GSA Chief Security Office and PBS officials to ensure only suitable individuals could access federal buildings.[12] We have repeatedly recommended corrective actions be taken to ensure all contractor employees accessing GSA facilities have the proper security clearances prior to having site access. We have also recommended that background check information be shared with, and retained by, contract and project management staff.[13]

Additionally, we recently issued two evaluation reports that concluded that GSA-managed facilities are at an increased risk of unauthorized access. Unauthorized access to federal facilities increases the risk of a security event such as an active shooter, terrorist attack, theft of government property, or exposure of sensitive information. Specifically, we identified significant deficiencies in GSA's process for managing GSA issued Homeland Security Presidential Directive 12 Personal Identity Verification (HSPD-12 PIV) cards to contractors and for ensuring the completion of contractor employee background investigations. We also found deficiencies in GSA's tracking and maintenance of contractor employee background investigation data stored within GSA's Credential and Identity Management System.[14] In addition, we found widespread use of unsecured, unregulated facility-specific building badges at GSA-managed facilities. GSA does not have adequate controls over these badges and cannot determine the extent of their associated security risks because it does not centrally monitor the management of the badges.[15] In response to these reports, GSA has agreed to address vulnerabilities associated with building-specific facility access cards and PIV cards.

GSA management maintains that it is working to improve its building security operations. In particular, the Agency has been emphasizing the performance and implementation of Facility Security Assessments. We currently have an ongoing audit that is examining security risk assessments of GSA's buildings.

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[11] *PBS is not Enforcing Contract Security Clearance Requirements on a Project at the Keating Federal Building* (Report Number A150120/P/2/R16002, March 17, 2016).
[12] *PBS NCR Potomac Service Center Violated Federal Regulationhen Awarding and Administering Contracts* (Report Number A130112/P/R/R15004, March 27, 2015).
[13] *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).
[14] *GSA Facilities at Risk: Security Vulnerabilities Found in GSA's Management of Contractor HSPD-12 PIV Cards* (Report Number JE16-002, March 30, 2016).
[15] *GSA Facilities at Risk: Security Vulnerabilities Found in GSA's Use of Facility Specific Building Badges* (Report Number JE16-003, March 30, 2016).

TECHNOLOGY TRANSFORMATION

ISSUE: ***GSA faces major challenges in establishing and operating the new Technology Transformation Service.***

In May 2016, GSA established the Technology Transformation Service (TTS) which consolidated three existing GSA programs and initiatives:

- The Office of Citizen Services and Innovative Technologies, which assists agencies in the delivery of information and services to the public and also identifies, tests, and deploys innovative technologies for the government;

- 18F, which provides digital development and consulting services for government customers; and

- The Presidential Innovation Fellows program, which pairs private-sector technology specialists with top-level civil servants to bring innovation to the federal government.

In announcing the formation of the TTS, the GSA Administrator stated that it would provide a foundation for the government's digital transformation and will help agencies "build, buy, and share technology…to become more accessible, efficient, and effective." A GSA website states that "enabling this team to operate at the Service level provides the support, authorities, and assurances beyond what either team is receiving today, effectively supercharging their abilities to deliver on their mission of government wide transformation."

GSA faces numerous challenges in operating this new Service. For example, TTS was established without a dedicated fund for the operations of one of its major components, 18F. 18F uses the Acquisition Services Fund (ASF) under a Memorandum of Agreement with FAS that expires in June 2018. Under this agreement, 18F receives funding from the ASF to support its operations. However, the use of ASF funding is problematic. The FAS Commissioner, who by law is responsible for carrying out the functions related to the uses for which the ASF is authorized, has limited oversight into the use of the funds by 18F. This in turn may dilute accountability for the use of the ASF and impede effective decision making related to the Fund. In addition, the Memorandum of Agreement requires that 18F plan to achieve full cost recovery of both direct and indirect costs in order to use the ASF funds. However, 18F is currently struggling to recover the full costs of its operations.

Additionally, 18F has experienced a series of information security incidents including a breach that potentially exposed sensitive information. These incidents indicate that GSA's Chief Information Officer must exercise greater oversight of 18F operations to ensure compliance with the Federal Information Technology Acquisition Reform Act (FITARA).[16]

Finally, TTS faces significant challenges in human capital management. TTS uses term appointments – generally no more than 2 years – when hiring employees for 18F. This model assumes a high staff turnover. In addition, TTS has recently experienced the loss of key leadership. For instance, within two months of its creation, the TTS Commissioner and the Director of the Presidential Innovation Fellows program left GSA. More recently, the TTS Deputy Commissioner and Executive Director for 18F announced that he would step down. The staffing model and leadership turnover within TTS may pose a challenge to GSA's ability to effectively build the Service and create institutional knowledge.

GSA leadership must address these issues in order to ensure that TTS is able to achieve its mission.

FINANCIAL OPERATIONS

ISSUE: *GSA continues to face challenges in the transition of its Financial Management Line of Business to the U.S. Department of Agriculture.*

GSA's transition of its Financial Management Line of Business to the U.S. Department of Agriculture (Agriculture) remains a major undertaking for the Agency. On September 15, 2014, GSA first announced its plans to transfer its financial operations to Agriculture to achieve cost savings and improve performance. The initiative was prompted by Office of Management and Budget (OMB) Memorandum M-13-08, *Improving Financial Systems Through Shared Services*.

GSA began the migration of financial staff and systems to Agriculture in FY 2015. On March 22, 2015, GSA transferred 287 of its employees and its financial functions to Agriculture. The transfer of systems was split into two phases. Phase 1, which was completed on October 1, 2015, involved the transfer of numerous financial systems, including GSA's core accounting system, Pegasys. Phase 2 entails the transfer of several additional GSA IT systems to Agriculture.

[16] 40 U.S.C. 11319(b)(1)(A)(ii) (2014)

However, GSA faces significant challenges with the Phase 2 transition. Initially, Phase 2 was planned to be completed on or before September 30, 2016, but the transfer has been delayed. According to GSA's Office of the Chief Financial Officer, the majority of the applications will be transferred to Agriculture in FY 2017. However, Phase 2 will not be complete until the first quarter of FY 2018 because GSA must upgrade the security of some support applications prior to completing the transfer to Agriculture.

Additionally, as part of its shared services offerings, Agriculture pledged a good faith effort to market GSA's existing financial management software – Momentum – to other customer agencies in order to operate it on a more cost-effective basis. Currently, GSA is the only Agriculture customer agency that uses Momentum. The Memorandum of Understanding with Agriculture provides that if Agriculture is unable to successfully obtain new customers for this software, GSA will pay the costs to transition to another financial management system. The costs for such a transition are expected to be significant. In the meantime, GSA continues to assist Agriculture with marketing the Momentum platform to other agencies.

GSA must ensure that it has an effective metric for tracking incremental costs associated with the transition. As some savings are dependent on the successful marketing and seamless transition of Momentum and supporting applications, GSA must understand the financial impact of Agriculture's efforts to market Momentum as well as the cost to upgrade the security of the support applications that do not meet Agriculture's standards. Finally, GSA should begin to lay out contingency plans in the event it is required to move to a new application for its financial management system. Such plans should include careful consideration of the costs associated with the system migration along with the potential impact of the migration on GSA's day-to-day financial operations and ability to produce accurate and reliable financial reports.

GSA has continued to work on different aspects of the transition and its implementation. For example, on March 30, 2016, GSA finalized its Service Level Agreement with Agriculture. The agreement documents the terms and conditions governing the ongoing services that will be delivered and the relationship between GSA and Agriculture. GSA and Agriculture also completed an additional interagency agreement that defines the detailed operating budget for Financial Management Line of Business services provided by Agriculture during the period of performance October 1, 2015, through September 30, 2016. GSA has also fully funded its interagency agreement with Agriculture for FY 2016 and plans to transfer the financial and administrative services of its child-care subsidy program in September 2016.[17] GSA must continue to work with Agriculture to ensure that the financial services meet the Agency's needs in the future.

ISSUE: *GSA's internal controls over financial management and reporting continue to need improvement.*

During GSA's FY 2015 Financial Statements Audit, the independent public accountant (IPA) identified significant deficiencies in internal control surrounding the Agency's: (1) financial management and reporting of leases and occupancy agreements (*i.e.,* agreements between GSA and other federal agencies for rental of space); (2) budgetary accounts and transactions; (3) financial management systems; and (4) Agency-wide or entity-level controls.

Controls over Leases and Occupancy Agreements

GSA continues to face significant deficiencies in the controls surrounding capital and operating leases, and recording of occupancy agreements. According to the IPA, if left uncorrected, these conditions present a risk that errors in GSA's accounting and reporting for its leases and occupancy agreements will not be prevented, or detected and corrected, by GSA management. This could result in a misstatement to GSA's financial statements.

Lease Classification

As of October 1, 2015, GSA maintains 7,171 leased federal assets and processes approximately $6 billion in lease payments annually. Under current accounting standards, lessees are required to conduct an analysis to determine whether a lease should be classified as a capital or operating lease. For capital leases, lessees are required to treat the lease as though they own the property and report it on their balance sheet accordingly. For operating leases, lessees must record the lease payments as an operating expense. Accordingly, they are not required to report these expenses on their balance sheet.

The IPA found deficiencies surrounding GSA's classification analysis for its leases. Specifically, the IPA reported that regional personnel do not consistently adhere to existing policies and procedures to ensure the lease classification analysis is current and accurate. The IPA also found that the controls over the lease classification process were not effective to address financial reporting requirements.

[17] The subsidy programs being transferred include those for GSA and its client agencies, including the U.S. Coast Guard, National Park Service, and U.S. Customs and Border Protection.

Occupancy Agreements

Occupancy agreements are agreements between GSA and a tenant agency for rental of GSA-owned or leased space. These agreements set forth the financial terms and conditions by which the tenant agency occupies the GSA-controlled space. GSA bills customers approximately $10 billion annually from these agreements

In FY 2015, the IPA identified continued deficiencies in GSA's controls over accounting and reporting of occupancy agreements. Specifically, the IPA noted that GSA personnel did not obtain fully executed occupancy agreements or updated agreements when key terms such as rental rates and square footage were modified or the period of occupancy expired. In addition, the IPA found that GSA has not designed and implemented policies and procedures governing the use and documentation of occupancy agreements by regional personnel.

Without fully executed occupancy agreements documenting significant changes to the financial terms and conditions of the agreements, GSA may be unable to accurately report its rental agreements with tenant agencies. This, in turn, may lead to billing disagreements with tenant agencies and affect the reliability of GSA's financial reports.

Controls over Budgetary Accounts and Transactions

Budgetary accounts are a category of accounts used to record transactions related to receipts, obligations, and disbursements of budgetary authority (the authority provided by law to incur financial obligations that will result in outlays). The IPA reported the following deficiencies surrounding these accounts and transactions: (1) GSA's internal controls do not provide reasonable assurance that contract and financial information is effectively captured in its financial management system and properly reflected in the financial statements; (2) GSA relies on manual controls, such as resource-intensive reconciliations, to mitigate the risk of not capturing financial information for its contracts properly and timely into the financial system; and (3) GSA did not fully or consistently adhere to policies and procedures for obligating funds received through Reimbursable Work Authorizations – interagency agreements between GSA's PBS and other government entities for real property services.

The main factors contributing to the weaknesses in internal controls over budgetary accounts and transactions continues to be the lack of an electronic interface between GSA's financial and contract management systems and the lack of sufficient oversight of the contracting function. Without such an interface, GSA faces an increased risk of being unable to record its contracting actions in a timely manner in its financial management system. To mitigate this risk, GSA relies on significant manual processes to record its contracting actions. However, due to the lack of oversight of the contracting function, these manual processes are susceptible to error, which can result in the provision of delayed or inaccurate financial information to decision makers.

In November 2015, GSA implemented the first phase of the PBS Electronic Acquisition System Integration to address this control deficiency, among other things. The integration was intended to seamlessly integrate PBS's business systems with GSA's financial system of record, called Pegasys. Interfacing GSA's business systems with Pegasys would substantially reduce the amount of manual data entry and thus facilitate the provision of more timely and accurate contract data to decision makers. However, GSA management has expressed concerns with this system's adoption as it continues to work on balancing the Electronic Acquisition System Integration deployment with the enhancements needed to address functionality gaps and users' growing needs.

General Controls over Financial Management Systems

In FY 2015, the IPA noted continued weaknesses in IT controls designed to protect GSA's financial management systems. Specifically, the IPA identified control deficiencies over access and configuration management controls.

Access Controls

Access controls are security features that regulate who can access systems, resources, and information. They are aimed at ensuring the confidentiality, integrity, and availability of the data residing in an information system. Access controls prevent unauthorized access, inhibit users from performing tasks not assigned to them, and log and monitor activity performed to detect any unauthorized or inappropriate activity.

The IPA identified weaknesses in GSA's controls over access to programs and data. These control weaknesses included: (1) inadequate or inconsistent initial authorization, recertification, and timely removal of inactive user accounts; (2) lack of segregation of duties; (3) ineffective controls over logical access (including password configuration settings); (4) partially implemented controls over the configuration, review, and access to the logs for the application, database, and operating systems; and (5) inconsistent implementation of controls over GSA contractor access. Without effective access controls, GSA faces a risk that the confidentiality, integrity, and availability of the data housed in its financial management systems may be compromised.

Configuration Management Controls

Configuration management controls are intended to prevent unauthorized fraudulent data or malicious code from entering into the application and/or database without detection. Such an incident could compromise the confidentiality, integrity, and availability of the data residing on the information system.

The IPA identified weaknesses in GSA's controls over configuration management. These control weaknesses included: (1) database patches that were not reviewed, authorized, or tested prior to implementation into the production environment; (2) software changes that were developed and migrated into the production environment by the same personnel; (3) emergency changes that were not authorized prior to implementation into the production environment; and (4) lack of documentation regarding the Information System Security Officer's review of vulnerability scans.

As previously reported in the FY 2014 and FY 2015 IPA reports, one factor contributing to these control weaknesses is the continued challenge GSA faces to apply information relating to known weaknesses in one system to remediate similar weaknesses in other systems. Without effective configuration management controls, GSA may be unable to prevent and detect unauthorized changes to financial information and access to sensitive information.

Entity-Level Controls

Entity-level controls have a pervasive effect on an organization's internal control system and may pertain to multiple components. These may include controls related to the entity's risk assessment process, control environment, service organizations, management override, and monitoring. In its FY 2015 report, the IPA acknowledged that, while GSA initiated the implementation of corrective action plans to address pervasive internal control weaknesses, entity-level control deficiencies remain.

The IPA identified five common conditions that contribute to the entity-level control deficiencies: (1) policies and procedures related to financial reporting and accounting operations are not always finalized in a timely manner; (2) regional and operational personnel do not consistently share responsibilities for and are not adequately supervised on financial management matters including adhering to appropriate accounting policies and procedures; (3) certain financial system functionality limitations led to manually intensive and redundant procedures to process transactions, verify accuracy of data, and prepare the financial statements; (4) GSA did not perform and document comprehensive analyses over certain financial reporting aspects for the accounting functions transferred to Agriculture, its shared-service provider; and (5) GSA has established a number of manual compensating controls that do not operate at a sufficient level of precision.

As discussed in the IPA's reports for the past 4 years, GSA must continue to address weaknesses in its controls across all levels of the Agency. Entity-level controls must be effective to create and sustain an organizational structure that will ensure reliable financial reporting.

The IPA acknowledged progress made by GSA to correct internal control weaknesses during FY 2015. GSA has continued these remediation efforts during FY 2016. For instance, in its *FY 2017 Congressional Justification*, GSA reported that it has implemented an improved internal control framework to address challenges with the effectiveness of financial reporting controls. GSA also stated it was increasing senior leadership focus on internal controls across the organization and reorganizing the Office of Chief Financial Officer's regional financial services to promote greater operational efficiency and standardization. Additionally, GSA stated it was analyzing the findings of the Financial Statements Audit to identify the root causes of the internal control breakdowns that led to these findings.

INFORMATION TECHNOLOGY

ISSUE: *Continued improvements are needed to protect sensitive information.*

Protecting sensitive information is critical to an agency's mission, operations, and reputation. Without continuous monitoring of controls, sensitive information belonging to the agency, its employees, contractors, and customers remains at risk.

Several of our previous audits and evaluations reported on weaknesses in GSA's efforts to protect sensitive information in physical and electronic forms. For example, in FY 2015 we performed an audit of GSA's cloud computing environment after discovering personally identifiable information available to individuals without a valid need to know.[18] A later evaluation found deficiencies in GSA's ability to track and maintain contractor employee background investigation data.[19] Further, this evaluation uncovered deficiencies in GSA's processes for issuing, managing, and terminating HSPD-12 PIV cards. These deficiencies were in addition to an earlier inspection report that found physical control weaknesses in securing sensitive information and government-furnished personal property that is highly susceptible to theft.[20]

[18] *Personally Identifiable Information Unprotected in GSA's Cloud Computing Environment* (Report Number A140157/O/R/F15002, January 29, 2015).
[19] *GSA Facilities at Risk: Security Vulnerabilities Found in GSA's Management of Contractor HSPD-12 PIV Cards* (Report Number JE16-002, March 30, 2016).
[20] *Security Vulnerabilities – Protecting Information and Property in the GSA Central Office Open Space* (Report Number JE15-001, October 16, 2014).

Other recent audit reports identified challenges with the Agency's breach response teams and their obligations under GSA Order CIO 9297.2B, *GSA Information Breach Notification Policy.* Specifically, GSA was unable to notify affected individuals within 30 days, as required by this policy, due to a series of breakdowns in its processes and procedures. As a result, some affected individuals still may not know that their personally identifiable information was breached. Without timely and effective notice of a breach, individuals cannot take appropriate steps to protect themselves against the possibility of identity theft, harassment, or embarrassment.

The Agency has taken action to identify and remediate instances of unprotected sensitive information. Further, GSA has implemented technical controls to reduce the risk that this information will be shared improperly. However, managing the persistent threats of intentional or unintentional sensitive information leaks remains a challenge. While GSA has updated its IT security, privacy, and insider threat policies, it must continue to assess the internal and external threat environment to prevent, detect, and effectively respond to incidents involving sensitive information. Additionally, GSA must improve its ability to notify individuals affected by breach incidents involving personally identifiable information. This will help the Agency respond to breaches in the future more efficiently and effectively.

ISSUE: *GSA is challenged with minimizing the risk of cyberattacks to federal building management and control systems.*

Building management and control systems are designed to monitor and control a building's operations through automation. These systems can include access devices, elevators, HVAC systems, and utilities. With the modernization of GSA federal facilities comes more reliance on building management and control systems and an increase in cybersecurity risk to these systems. Malicious software, such as ransomware, has an increased likelihood of being introduced into the IT environment by an attacker as these systems are more publicly accessible through the Internet and are no longer isolated from the outside world. Using ransomware, attackers can lock down systems and data until a ransom is paid for its release. For example, an attacker who has gained access to a building management and control system can:

- Block, delay, or inaccurately report system information;
- Execute unauthorized changes to equipment;
- Modify software or configuration settings; and/or
- Interfere with the normal operations of safety systems.

Such an attack could result in the loss of valuable data, harm to an organization's operations and finances, or physical harm to building occupants. For example, if an attacker gained access to a building management and control system network using malicious software, the attacker could possibly control the building fire suppression system causing it not to operate when needed or as intended.

Recently, a security incident involving ransomware was reported at a GSA-managed federal building. The incident forced building management to operate the control systems manually until personnel could regain control. Operating in manual mode is resource intensive, time-consuming, and contrary to the purpose and goals of implementing automated systems to monitor and control a building's operations.

GSA must make cybersecurity a top priority in its building management and control system modernization efforts to ensure system standards, guidelines, and industry best practices are followed to the maximum extent possible.

IMPLEMENTING GSA'S ENTERPRISE RISK MANAGEMENT FRAMEWORK

ISSUE: *Implementation of Enterprise Risk Management is a Significant Undertaking*

GSA will be challenged to successfully implement Enterprise Risk Management (ERM) within the Agency. ERM is a process that is applied across an agency to identify and manage risk to provide reasonable assurance that:

- Strategic goals and objectives align with the agency's mission;
- Operations are efficient and effective;
- Reporting is reliable; and
- The agency is compliant with federal laws and regulations.

Under the updated OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, GSA, along with other federal agencies, is now required to implement an ERM framework in FY 2017.

OMB established four deliverables for agency implementation of ERM. First, each agency must establish its ERM implementation approach as soon as practicable but prior to the second deliverable. This approach may include considerations of risk appetite (amount of risk an organization is willing to accept) and risk tolerance (acceptable level of variance in performance), as well as an implementation timeline. Second, each agency must submit to OMB its initial risk profile by June 2, 2017. The risk profile must identify both opportunities and threats. Potential risk types that could be considered include compliance risk, cyber information security risk, financial risk, operational risk, and reputational risk. This initial risk profile will be considered when developing the *President's Fiscal Year 2019 Budget*. Third, each agency must provide assurance in its annual financial report that it integrated ERM into its evaluation of internal controls. This integration is required by September 15, 2017. Finally, each agency must update its risk profile annually by June 3.

Although GSA may be able to meet the deliverable schedule, GSA will be challenged to implement ERM in a manner that ensures operations are efficient and effective, reporting is accurate, and that the Agency complies with federal laws and regulations. Historically, GSA has had difficulty ensuring that its internal controls are working to meet these objectives. Many of the issues identified in our reports and management challenges are the result of ineffective controls.

For example, we have often reported GSA's failure to comply with Federal Acquisition Regulation and procurement laws within both PBS and FAS. With respect to PBS, we found procurement errors in several projects funded through the Recovery Act, including multiple failures to meet competition requirements.[21] We have also identified this as a persistent issue in PBS's regional offices; most recently in the Department of Homeland Security Headquarters project where PBS improperly expanded an operations and maintenance contract from a single building to the entire campus.[22]

With respect to FAS, we have repeatedly identified instances in which contract files did not include all required documentation.[23] The existence of these issues impairs contracting staff's ability to effectively administer FAS's complex multi-year contracts and creates the potential for fraud, waste, and abuse. We have also highlighted FAS's non-compliance with Federal Acquisition Regulation in various reports detailing weaknesses in price analysis and negotiation practices for FAS's Multiple Award Schedule contracts.[24]

[21] See, *e.g.*, *Recovery Act Report – Austin Courthouse Project Review of PBS's Major Construction and Modernization Projects Funded by the American Recovery and Reinvestment Act of 2009* (Report Number A090172/P/R/R10001, March 12, 2010); *Recovery Act Report – 50 UN Plaza Renovation Project Construction Contract Review of PBS's Major Construction and Modernization Projects Funded by the American Recovery and Reinvestment Act of 2009* (Report Number A090172/P/R/R10005, May 27, 2010); and *Recovery Act Report – Thurgood Marshall U.S. Courthouse Project Audit of PBS's Major Construction and Modernization Projects Funded by the American Recovery and Reinvestment Act of 2009* (Report Number A090172/P/R/R11012, August 19, 2011).

[22] *Limited Scope Audit – Operations and Maintenance Services Contract at St. Elizabeths* (Report Number A150048/P/R/R16001, March 2, 2016).

[23] See, *e.g.*, *FAS has not Effectively Digitized Federal Supply Schedules Contract Files* (Report Number A150029/Q/T/P16001, March 28, 2016).

[24] See, *e.g.*, *Audit of Price Evaluations and Negotiations for Schedule 70 Contracts* (Report Number A150022/Q/T/P16005, September 28, 2016); and *Audit of FAS's Greater Southwest Acquisition Center – Schedule 84 Pricing and Negotiation* (Report Number A120124/Q/A/P14001, October 31, 2013)

In addition, we have reported on ineffective controls throughout other GSA components. For example, although GSA's Chief Information Officer has security responsibility for all GSA systems and applications, his office did not have oversight of 18F's applications and systems. This led to a data breach in which 18F's use of unauthorized computer applications exposed sensitive content, such as personally identifiable information and contractor proprietary information, to individuals who lacked the need to know such information.[25] In addition, over the past 2 years we found that GSA controls for documenting and reviewing purchase card transactions are not being performed consistently.[26]

Finally, in their audit report on GSA's FY 2015 financial statements, the IPA detailed significant deficiencies in GSA's controls that prevented the Agency from preparing reliable financial reports.[27] The pervasive weaknesses in GSA's internal control environment have contributed to other significant deficiencies reported by the IPA. For instance, the IPA reported that GSA's controls were not effective at ensuring that all contract actions were accurately, timely, and completely captured in GSA's financial management system and properly reflected in the financial statements. This issue was first reported in FY 2004 and GSA has not yet been able to completely resolve the problem.

The internal control breakdowns described above illustrate the challenges that GSA faces in implementing ERM across the Agency. While the implementation of a risk assessment framework will allow GSA to meet a key component of internal control and comply with OMB Circular No. A-123, the Agency will need to improve upon its efforts to implement effective internal controls throughout the organization.

GSA's Greening Initiative – Sustainable Environmental Stewardship

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 Recovery Act, and 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

[25] *Management Alert Report: GSA Data Breach* (Report Number JE16-004, May 12, 2016).
[26] *GSA Office of Inspector General's Fiscal Year 2015 Risk Assessment of GSA's Charge Card Program* (Memorandum Number A160054-1, September 26, 2016); and *GSA Office of Inspector General's Fiscal Year 2014 Risk Assessment of GSA's Charge Card Program* (Memorandum Number A150037-3, September 30, 2015).
[27] *U.S. General Services Administration, Agency Financial Report, Fiscal Year 2015 (*November 10, 2015).

water, reduce waste, determine optimal fleet inventory, and leverage federal purchasing power to promote environmentally responsible products.

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

While GSA has demonstrated a commitment to sustainability, we have identified three challenges related to sustainability initiatives: (1) computing costs for Energy Savings Performance Contracts, (2) collecting quality data, and (3) diminishing sustainability returns on projects within the GSA inventory.

Energy Savings Performance Contracts Cost Computations

One of GSA's strategic goals is to provide savings to federal departments and agencies. As part of that goal, GSA plans to reduce energy usage and its associated cost. Executive Order 13423, *Strengthening Federal Environmental, Energy, and Transportation Management*, set a target of reducing energy usage per square foot by 30 percent from a 2003 baseline. The Agency stated that it met its 30 percent reduction target in FY 2015. One of the ways that GSA has achieved and intends to continue achieving energy savings is by using Energy Savings Performance Contracts.

Under an Energy Savings Performance Contract, GSA enters into a long-term contract with an energy company that arranges private financing and installs energy efficient improvements. GSA then makes payments to the energy company based on the realized energy savings, until the project has been paid off. The annual payments for the Energy Savings Performance Contract cannot exceed the value of the annual energy savings created by the installed energy-efficient improvements.

From September 2013 to April 2014, GSA awarded 14 Energy Savings Performance Contracts with an overall value of approximately $201 million. Although Energy Savings Performance Contracts are designed to shift performance risks associated with energy-efficient improvements from GSA to the energy company, risks remain. In a FY 2016 audit, we determined that PBS may not be able to achieve energy savings goals because it did not take the proper steps in awarding task orders.[28] Specifically, we found that PBS risks paying for unrealized energy savings because it did not comply with requirements for witnessing baseline measurements and establishing fair and reasonable pricing. Essentially, since GSA’s payments to an energy company are based on achieving energy savings, if the initial baseline energy costs or ongoing energy savings are not computed accurately, GSA could pay for energy savings that have not actually been realized.

[28] *PBS Energy Savings Performance Contract Awards May Not Meet Savings Goals* (Report Number A150009/P/5/R16003, September 27, 2016).

Collecting Data to Support Goals and Evaluate Results

GSA has expressed a commitment to be a government leader in meeting the Council on Environmental Quality's *Guiding Principles for Sustainable Buildings*, which define minimum sustainability standards for all federal buildings. As previously mentioned, GSA states it has reduced energy usage in its building inventory by over 30 percent from 2003 to 2015. However, GSA must ensure that data used to arrive at this conclusion is reliable. In a FY 2015 audit, we found that sustainability information stored in GSA systems is not always accurate or complete.[29] Poor data quality may render GSA unable to substantiate its claims relative to sustainability goals. Further, without accurate and reliable sustainability data, GSA cannot ensure that sustainability goals and the directives of Executive Order 13693, *Planning for Federal Sustainability in the Next Decade*, are being met. In response to the audit recommendations, GSA is implementing corrective actions to validate system data and strengthen policies to require timely system data updates. We are monitoring GSA's progress as part of an ongoing audit of GSA's sustainability results.

Diminishing Returns on Sustainability Investments

GSA is experiencing diminishing returns on investments as it continues to improve energy efficiency throughout its building inventory. Many of the quick return energy efficiency improvements throughout the building inventory have been made, such as changes to lighting fixtures, installation of occupancy-based controls, heating, ventilation, and air conditioning upgrades, and programmable thermostats. In the future, energy efficient investments such as upgrades to boilers and chillers for heating and cooling; window, door and rooftop replacements; and modified ductwork, are likely to cost more and have longer payback periods. Capturing the deeper energy efficiency savings often requires more in-depth studies to identify, characterize, and quantify the net benefits. GSA must verify that projects with longer payback periods are cost effective while striving to meet future reduction targets.

IMPLEMENTING GSA'S MOBILE WORKFORCE STRATEGY

ISSUE: *GSA continues to face challenges with its mobile workforce strategy.*

In support of OMB's *Reduce the Footprint* policy, GSA has a stated goal to serve as a model for the federal government by reducing its own footprint and implementing a

[29] *Incomplete, Outdated, and Unverified Recovery Act Sustainability Data May Affect PBS Reporting and Decision-Making* (Report Number A130128/P/R/R15005, March 31, 2015).

mobile workforce strategy. GSA policy established a goal of 136 usable square feet per person for all new projects. To accomplish this goal, GSA is implementing a mobile workforce strategy that includes a combination of desk sharing, teleworking, and virtual employees. The mobile workforce strategy is expected to achieve benefits such as reduced real property costs and carbon footprint, and improved work-life balance for GSA employees.

However, the costs of implementing this strategy should not be underestimated. Typically, GSA should realize cost savings if the strategy is used during a planned renovation or relocation. However, GSA may incur increased costs if the strategy is not implemented early enough in the planning stages. For example, in the Mid-Atlantic Region, the relocation of the Regional Office Building was delayed because GSA implemented the mobile workforce strategy late in the design process. As a result, GSA paid more money to redesign the new space and extend the lease at the existing space. In addition, as GSA expands the mobile workforce strategy beyond renovations and relocations, it needs to be mindful of other costs such as those associated with backfilling vacant space. GSA should perform a financial analysis before funds are spent to assess whether such costs outweigh any expected benefits.

The mobile workforce strategy is also changing the way offices function, with GSA employees transitioning from teleworking for a portion of the workweek to working in virtual offices. A virtual office is a workplace in which employees work cooperatively from different locations using a computer network, instead of a single building where workers are housed. A FY 2015 audit revealed that GSA did not know the number of virtual employees it had and some virtual employees were being paid too much because their official duty stations were designated incorrectly in GSA's information systems.[30] Increasing telework and working in virtual offices can stifle collaboration, as physical interaction with colleagues is limited. In addition, it can impair the effectiveness of managers who are also transitioning to supervising employees in the virtual environment.

Further, employees' ability to telework efficiently and effectively may be adversely affected by limited reliability and availability of digital documentation for many of GSA's contracts and the need to ensure the security of documentation that is taken offsite by teleworking and virtual employees. GSA is continuing to digitize records and has explored other means to replace its hardcopy documents and files. However, we found that FAS's electronic contract files are missing key contract documentation and are not

[30] *GSA's Program for Managing Virtual Employees and Teleworkers Needs Improvement* (Report Number A130019/C/6/F15001, January 16, 2015).

organized in a consistent and logical manner.[31] These problems have impaired FAS's ability to effectively and efficiently administer its schedule contracts and comply with federal acquisition regulation documentation requirements.

Finally, GSA's IT support and capabilities are critical to any successful transition to a virtual workplace. Even though the Agency has been implementing a wide range of collaborative and mobile tools, its systems must be capable of interacting with, and being compatible with, all computing platforms, systems continuity, and ever-changing security requirements.

[31] *FAS has not Effectively Digitized Federal Supply Schedules Contract Files* (Report Number A150029/Q/T/P16001, March 28, 2016).