U.S. General Services Administration

SAVINGS

EFFICIENCY

SERVICE

2017 Agency Financial Report

GSA Historical Highlights

Established on June 30, 1949 under the Truman Administration, GSA's original mission was to dispose of war surplus goods, manage and store government records, handle emergency preparedness, and stockpile strategic supplies for wartime. GSA also regulated the sale of various office supplies to federal agencies...

1950s

GSA took on the major task of renovating the White House.

1954

GSA starts the first federal government motor pool.

1960

GSA created the Federal Telecommunications System, a governmentwide inter-city telephone system.

1962

GSA constructed many of the office buildings that now line Independence Avenue in Washington D.C. as recommended by the Ad Hoc Committee on Federal Office Space.

1972

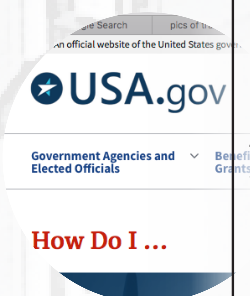
The Federal Buildings Fund became operational when GSA issued its first rent bill to federal agencies.

1984

GSA introduced the federal government to the charge card, used by over two million government employees today.

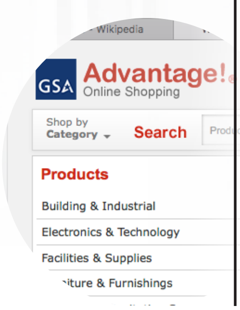
1987
The first GSA child care center opens. The program has grown to 112 centers for more than 8,000 children nationwide.

1995
GSA formed the Courthouse Management Group to manage the largest courthouse construction projects.



2000
Created FirstGov.gov, the U.S. government's official web portal (Renamed USA.gov in 2007).

2006
Established the Office of Emergency Response and Recovery (now the Office of Mission Assurance) to better assist the country during national disasters.



2007
The Federal Acquisition Service is created with the merger of the Federal Technology Service and the Federal Supply Service.

2010
GSA became the first federal agency to move email to a cloud-based system, which reduced inefficiencies and lowered costs by 50 percent.

2011
GSA piloted a program of electric vehicles.

2013
GSA disposed of 213 properties in support of Freeze the Footprint (now Reduce the Footprint).

2016
GSA launched the Acquisition Gateway as a way of helping federal government buyers from all agencies act as one acquisition community.

2017
GSA named the 2nd Best Place to Work in the Federal Government by the Partnership for Public Services.

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This report can be found on the Internet at **gsa.gov/annualreports**


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Letter from the Acting Administrator

U.S. General Services Administration (GSA) is uniquely positioned to help the federal government better serve the American people. As the original provider of shared services for federal agencies, GSA manages more than $54 billion in procurement spend across multiple categories, and oversees a portfolio of 8,700 owned and leased properties on behalf of our clients. GSA promotes cross-government savings and efficiencies through smarter acquisition, innovative management of federal real estate, transformative use of technology, and best-in-class business practices across government. The better our agency performs, the more time, energy and resources other federal agencies can dedicate to their critical missions to safeguard national security, protect public health, and strengthen communities.

Our important programs will focus on four key operational areas:

1. **Delivering Real Estate and Workforce Solutions.** We will deliver cost savings and value for taxpayers through smart asset management while also providing innovative workplace solutions that help agencies fulfill their important missions.

2. **Leading Acquisition Solutions for Government.** We will design and implement acquisition and procurement strategies that help agencies access innovative and effective commercial solutions, make it easier to do business with government, and use our buying power to drive cost savings.

3. **Transforming how Government Builds, Buys and Uses Technology.** We will lead the charge to modernize government's approach to technology services. We will guide agencies through innovative and efficient technology deployment to meet their missions.

4. **Designing and Delivering World-Class Shared Services.** We will transform administrative services in government by leading the consolidation of common mission-support processes and services across the government. Implementing this best practice will make these services better, faster and more affordable and allow government agencies to dedicate more resources to their mission.

GSA's commitment to a culture of high-performance and customer focus - reinforced by our agency values of Service, Accountability and Innovation - is the key to helping agencies deliver on their mission. When we do our job well, the American people win.

GSA has made significant progress in developing a culture of financial transparency, accountability, and control. Led by the Office of the Chief Financial Officer, and infused throughout all our business lines and service organizations, GSA has implemented a robust program of financial controls, monitoring, and reporting to ensure our agency acts as a good steward of public funds.

I am proud to present this Agency Financial Report (AFR) to convey GSA's financial and performance results. This report provides an overview of our programs, accomplishments, challenges, and management's accountability for the resources entrusted to us by the American Public and our partner agencies. This report has been prepared in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements.

As outlined in the Management Assurances section of this report, GSA conducted its assessment of the effectiveness of internal control over operations, systems, and financial reporting. GSA can provide reasonable assurance that internal controls were operating effectively in each of these areas throughout the year. Management relies on these internal controls to identify material deficiencies in financial and program performance areas and to identify corrective actions required to resolve them. As mandated by the Reports Consolidation Act of 2000, I have assessed the financial and performance data used in this report, and believe them to be complete and reliable. As in Fiscal Year (FY) 2016, GSA does not have any material weaknesses in internal controls.

All GSA employees have an important role in ensuring our agency optimizes the use of funds, and to combat waste, fraud, and abuse. I want to thank all GSA employees for their involvement and support in developing this AFR, as well as, their year-round efforts to ensure financial transparency, accountability, and control at GSA.

Timothy O. Horne

Timothy Horne
Acting Administrator
U.S. General Services Administration

How GSA Benefits the Public

Nearly seven decades ago, President Truman created GSA, which consolidated administrative functions across government into one organization in order to avoid duplication, reduce cost, streamline the acquisition and distribution of supplies, and centralize the management of federal buildings.

Over the subsequent seven decades, the nation's population has more than doubled, the price of real estate in major cities has skyrocketed, and super-computers have gone from filling three-story rooms to fitting in our pockets. The world has become vastly more interconnected. Federal agencies are striving to match the pace of change, evolving to meet new domestic and global challenges while better serving the American people.

What has not changed is GSA's unwavering commitment to support federal customers and stakeholders by providing cost-effective, high-quality services. GSA's mission is to deliver the best value in real estate, acquisitions, and technology to government and the American people.

GSA provides the space, technical innovation, and goods and services essential to operate the federal government. We provide workplaces by constructing, managing, and preserving government buildings, and by leasing and managing commercial real estate. Our acquisition solutions offer private sector professional services, equipment, supplies, telecommunications, and information technology to government organizations and the military. Our technology leadership helps agencies build, buy and share technology in ways that support their missions to better serve the public. Our implementation of governmentwide policies promotes management best practices and efficient government operations.

Our success relies on bringing together a talented and diverse workforce - including data scientists, real estate experts, architects, acquisition professionals, technologists, policy analysts - and building a cohesive, customer-focused team. GSA helps other federal agencies more successfully accomplish their missions in service to the American people.

Acquisition

GSA provides federal agencies over 28 million different products and services, and annually delivers over $54 billion in information technology products, services and solutions, telecommunications services, assisted acquisition services, travel and transportation management solutions, motor vehicles and fleet services, and charge card services. GSA oversees more than 200,000 vehicles, manages over 3.3 million charge cards, and provides personal property disposal services facilitating the reuse of $1 billion in excess/surplus property annually.

The Acquisition Gateway provides online tools to agencies for best in class solutions.

The federal government is the single largest buyer in the world, with annual spending on goods and services close to $450 billion a year. Leveraging this enormous buying power, GSA helps agencies buy better and smarter by giving them tools to buy like a business and save taxpayer money while maintaining or improving small business participation. A significant example of this responsibility was this year's announced awards for the new Enterprise Infrastructure Solution (EIS) contract. EIS is a governmentwide contract offering federal agencies mission-critical telecommunications, infrastructure, and information technology services. EIS was designed to provide secure government telecommunications infrastructure services in compliance with the Office of Management and Budget (OMB) security policies. EIS is the fourth generation of GSA contracts that delivers telecommunications services to the federal government.

Another way that we accomplish leveraged acquisition is through category management, a common commercial buying method that fundamentally shifts the government's approach from managing purchases and prices individually across thousands of procurement units to managing entire categories of spending collaboratively across government. In support of category management, GSA created the Acquisition Gateway, providing online tools to agencies to help them find best-in-class solutions, thus creating an average savings of five to twenty percent. This year, the Gateway registered 15,000 users several months ahead of the Fiscal Year (FY) 2017 target. Government use of category management solutions, with enhanced access through the Acquisition Gateway, is expected to save five billion dollars this year.

Technology

We are in an era of massive technological innovation across government, and GSA is a recognized leader in this arena. We were the first federal agency to move to the cloud; founded and deployed 18F—the federal government's first tech "startup" venture— to enable agencies to rapidly deploy easy-to-use, cost-efficient and reusable digital tools, services, and expertise. GSA provides services, personnel and software solutions to federal agencies in an effort to help the agencies better serve the public.

GSA is leading the federal government in technological innovation.

In order to continue leading federal technology innovation, we are focused on excellence across four overarching areas:

- Improving our core technology offerings
- Helping fellow government agencies overcome barriers to innovation
- Helping the federal government become a smarter buyer
- Remaining vigilant in the area of cybersecurity, given its centrality to the success of everything else we do technologically

An innovative, digital government uses new technologies to make a real difference in people's lives. It allows us to address complex challenges using all available tools (policy, technology, talent, private sector partners). Technology innovations also allow citizens to engage with government in new, improved, and more efficient ways.

Real Estate

With more than 370 million rentable square feet (RSF) in 8,600 active assets, GSA administers one of the largest and most diversified real estate portfolios in the world. GSA manages assets throughout 50 states, five U.S. territories, and the District of Columbia. Within this inventory, there are more than 500 owned and leased historic properties. GSA provides high-quality facility and workspace solutions to every executive branch department and agency, the federal court system and many congressional offices; disposes of excess, unutilized or unneeded federal properties; and promotes the adoption of innovative workplace solutions and technologies. Through lease and purchase transactions, we deliver the workspace necessary to meet the varied missions of federal agencies.

Tuscaloosa Federal Building and Courthouse

GSA is reducing our under-utilized assets. Last year, Congress passed the Federal Assets Sale and Transfer Act (FASTA) to encourage landholding agencies to reduce the number of under-utilized properties from their inventory. We view this law as a valuable tool that provides incentives to agencies to be more efficient and effective in their management of real property, improves the federal real property disposal process, and streamlines the process for identifying and disposing of properties.

From FY 2013 through FY 2017, GSA disposed of 985 properties across the federal government, generating $351 million in gross sales proceeds. Earlier this year, GSA disposed of the Cotton Annex building in Washington, D.C., a $30 million sale resulting in a cost avoidance to the federal government.

Improved Internal Operations: Service Consolidation

At a time when GSA is adapting to new challenges in a difficult fiscal environment, we must make the most out of the resources at our disposal. That is why we place a premium on operational efficiency and rationality throughout the agency.

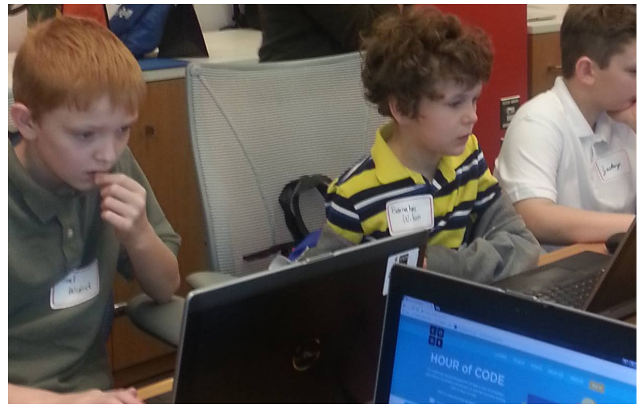
GSA has continued to focus on making internal operations more efficient. We undertook a thorough internal review to remove duplication and maximize enterprise services during the CXO Consolidation. Internal information technology, finance, human resources, administrative and communications functions were consolidated into single business units serving the rest of the agency. By bringing these services together, we expect to provide more consistent services to GSA as a whole, making us stronger and better able to carry out our mission.

GSA is focused on operational efficiency and continued improvement in enterprise services.

To cite the most salient of our many improvements on the administrative services front, we consolidated internal procurement, closed award stores, consolidated conference planning and travel approvals, consolidated the number and management of printers, mandated agency-wide use of the highly efficient Federal Strategic Sourcing Initiative for Office Supplies, reduced purchase card holders across the agency, implemented single stores for office supplies, and consolidated GSA forms.

Conclusion

Whether in the Public Buildings Service, Federal Acquisition Service (FAS) including our technology innovation hubs, or in internal operations, the women and men of GSA understand and take immense pride in meeting the totality of our federal customers' needs, and those of the American people. Wherever GSA is present, there's a passion for delivering actionable solutions and an intense pride in having a lasting, positive impact on the communities for which and in which we work.



GSA 2017, Annual Take your Child to Work Day

Management's Discussion and Analysis
(Unaudited)

About this Report

The purpose of the GSA FY 2017 AFR is to inform the President, Congress, and the American people about how GSA has used Federal resources entrusted to the Agency in 2017 to reliably deliver cost-effective real estate, acquisition and technology services to the Federal Departments and Agencies it serves. Providing these services at a good value to our federal customers allows them to focus more of their resources on meeting their core missions to the American people. GSA has chosen to produce both an AFR and an Annual Performance Plan (APR) for FY 2017. GSA will include its FY 2017 APR with its Congressional Budget Justification and will post this AFR on the Agency's Web page.

This AFR provides high-level financial and highlighted performance results with assessments of controls, a summary of challenges, and GSA stewardship information. The AFR enables the President, Congress, and the public to assess GSA accomplishments and understand its financial position. The report satisfies the reporting requirements contained in the following laws, regulations, and Executive Orders:

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

The APR is a detailed report on GSA's progress toward achieving the goals and objectives described in the Agency's Strategic Plan and Annual Performance Plan, including progress on the strategic objectives, performance goals, and Agency Priority Goals. The report will be delivered to Congress with the annual budget submission.

Organization

GSA delivers goods and services to its federal customers through 11 regional offices and the headquarters office in Washington, D.C. GSA's primary sub-organizations are comprised of the Federal Acquisition Service (FAS), the Public Buildings Service (PBS), 12 staff offices that support the agency, and two independent offices: the Office of Inspector General (OIG) and the Civilian Board of Contract Appeals (CBCA).

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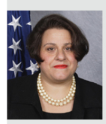
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*** Denotes Acting**

Federal Acquisition Service

The Federal Acquisition Service (FAS) provides federal agencies over 28 million different products and services, and annually provides acquisition support for over $50 billion in information technology solutions and telecommunications services, assisted acquisition services, travel and transportation management solutions, motor vehicles and fleet services, and charge cards. FAS manages over 200 thousand vehicles, more than 3.3 million charge cards, and disposes or donates approximately $1 billion in excess or surplus property annually. FAS leverages the buying power of the federal government by negotiating fair and reasonable prices on many products and services required by federal agencies for daily operations. By arranging a network of service providers, FAS is able to meet the operating and mission requirements of a vast array of federal agencies and state, local, and tribal governments.

Public Buildings Service

Public Building Service (PBS) activities fall into two broad areas: workspace acquisition and property management. PBS acquires space on behalf of the federal government through new construction and leasing, and acts as a caretaker for federal properties across the country. As the largest public real estate organization in the United States, PBS owns or leases 8,600 assets and maintains an inventory of more than 370 million square feet of rentable workspace. These services are also coordinated to obtain the best available pricing.

Staff Offices

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

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

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

- **Office of Civil Rights (OCR):** OCR administers five programs related to federal civil rights laws and regulations: Equal Employment Opportunity, Affirmative Employment, Non-discrimination in Federally Conducted Programs and Activities, Environmental Justices and Nondiscrimination in Federally Assisted Programs and Activities. OCR also administers the appeals process for administrative grievances filed by GSA Employees.

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

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

- **Office of Information Technology (GSA IT):** GSA IT provides staff with ever-evolving technology to improve capabilities, productivity, mobility, agility, and cost savings. GSA IT solutions include laptops, mobile devices, collaborative cloud-based software, training and technical support.
- **Office of Human Resources Management (OHRM):** OHRM delivers comprehensive human resources services and solutions to GSA and its employees. OHRM's primary focus is to work with GSA services and staff offices to attract, motivate, develop, retain, and reward employees to maintain and enhance a mission-ready workforce.
- **Office of Mission Assurance (OMA):** OMA ensures resilience and continuity of the agency's critical business processes by integrating and coordinating emergency planning activities across all domains of security: physical, personnel, and industrial.
- **Office of Government-wide Policy (OGP):** OGP uses policies, information, and ideas to drive efficiency and management excellence across the Federal Government for key administrative areas to include: travel and transportation, acquisition, fleet management, information technology, and real estate management. OGP helps drive agency behavior in these administrative areas through policy development, performance standards, data analysis and benchmarking, and regular reporting to Federal agencies and key stakeholders.
- **Office of Customer Experience (OCE):** OCE works with internal clients to enhance relationships with customers, suppliers and stakeholders.
- **Office of General Counsel (OGC):** OGC provides legal advice and representation to GSA, serves as GSA's Designated Agency Ethics Official and is responsible for managing the Agency's ethics program. OGC also manages GSA-wide claims under the Federal Tort Claims Act.
- **Office of Small Business Utilization (OSBU):** OSBU promotes increased access to GSA's nationwide procurement opportunities for small and disadvantaged businesses.

Independent Offices

- **Civilian Board of Contract Appeals (CBCA):** The CBCA is an independent tribunal housed within GSA. Its primary responsibility is to adjudicate contract disputes between civilian Federal agencies and contractors under the Contract Disputes Act.
- **Office of the Inspector General (OIG):** OIG is responsible for promoting economy, efficiency, and effectiveness and detecting and preventing fraud, waste, and mismanagement in GSA programs and operations.

FTE Breakdown by Organization

In FY 2017, GSA's employee workforce totaled 11,537 full-time equivalents (FTE). This total represents slight increases from FY 2016 and FY 2015, respectively. In FY 2017, GSA reorganized its operations to transfer intact the activities of the Technology Transformation Service, a new service established in FY 2016, into the Federal Acquisition Service portfolio.

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

	FY 2015	FY 2016	FY 2017	FTE Change (FY 15-17)	FTE Change (FY 16-17)	2017 % change from 2015	2017 % change from 2016
Staff Offices	2,874	2,676	2,662	(212)	(14)	(7.3)%	(0.5)%
FAS[1]	2,991	3,171	3,261	270	90	9.0%	2.8%
PBS	5,266	5,331	5,614	348	283	6.6%	5.3%
Total	11,131	11,178	11,537	406	359	3.6%	3.2%

[1] *In FY 2015, FTE associated with the Federal Citizen Services Fund are included in the Staff Offices line. In FY 2016 and FY 2017, these FTE are included in the Federal Acquisition Service line to align to GSA's current organizational structure.*

Performance Summary

Mission and Goals

The GSA Mission is to deliver the best value in real estate, acquisition and technology services to government and the American people.

The scope of the work we do at GSA is vast and varied, but the mission is simple and to the point. We serve the government and the American people. Through implementing our mission, we aspire to achieve three strategic goals:

1. **Savings – Provide savings to federal departments and agencies.** We will use our purchasing power and expertise to deliver cost-effective real estate, acquisition and technology solutions to federal departments and agencies.
2. **Efficiency – Improve the efficiency of operations and service delivery.** We will streamline our operations to offer high quality real estate, acquisition, and technology services that are valuable to federal departments and agencies.
3. **Service – Deliver excellent customer service.** We will deliver excellent customer service to federal agencies and departments by making it easier to reliably meet their real estate, acquisition, and technology needs.

GSA Priorities

Using the purchasing power of the federal government, we will reduce costs to our customer agencies, enabling them to focus a greater portion of their financial resources on their core missions. We are going to improve upon this by finding more ways to solve our customer's problems in the coming year. We will look for new ways to help these agencies make their purchases smarter and more efficient. At the same time, we will look for new and innovative ways to maximize the value of our real estate assets.

Every day the work that we do helps our customer agencies focus on their missions. Partnership on all levels is critical to the success of GSA. Strong partnerships with agencies and vendors alike lead to good business decisions that create value and savings for our customers and the American taxpayer. It is our commitment to ensure that doing business with GSA is an easy and reliable experience. We are continuously improving our processes and systems to make them as simple and streamlined as possible.

Small businesses are the engines that power the American economy. Contracting with these entrepreneurs is a win-win for both the federal government and the small business community. The government receives great service at great value, while small businesses have a chance to grow their businesses and create jobs. GSA offers opportunities to small businesses across the country through our contract vehicles and through the contracts we award for other agencies.

LEADING WITH INNOVATION

GSA is a leader of innovation in public service. Among many firsts, we were the first government agency to move to cloud computing, setting an example for others to follow. In the coming years, we will continue to develop innovative, cost saving solutions that will be shared across the government.

MAKING A MORE SUSTAINABLE GOVERNMENT

Going green saves green. Environmentally friendly practices are good for the environment and for business. GSA is committed to both. As we work toward implementing sustainable practices and making our buildings and our fleet more environmentally friendly, we will continue to work with vendors to make sustainable products and services readily available and affordable.

BUILDING A STRONGER GSA.

We must make sure our own employees at GSA are getting the same high quality support that we give our partner agencies. Offering the very best training and resources to our employees will be the cornerstone of this effort. By doing so, the agency will better serve its employees, while continuing to ensure that our customers are receiving great service. We will guarantee that when we do something, we will do it once and do it well.

Agency Performance Goals

This section provides an overview of GSA's performance against strategic goals. A complete analysis of GSA's successes and challenges related to FY 2017 performance targets will be included in the Annual Performance Report.

1. **Savings – Provide savings to federal departments and agencies.** GSA uses our purchasing power and expertise to deliver cost-effective real estate, acquisition and technology solutions to federal departments and agencies. In FY 2017, GSA is on track to meet its key performance indicator targets except for the proportion of vehicles purchased that are classified as Alternative Fuel Vehicles.

   In FY 2017, GSA successfully lowered its vacant space in the Public Buildings Service (PBS) real property inventory to 2.9 percent. GSA achieved this result by working closely with customer agencies to optimize space utilization and reduce real estate costs. Through the end of the third quarter, the Federal Acquisition Service (FAS) remains on track to achieve over five billion dollars in savings for customers through its acquisition programs. FAS also expects to meet its sustainable supply chain goal as measured by percent green business volume.

   GSA did not meet its performance goal for proportion of passenger and light duty vehicles purchased that are classified as Alternative Fuel Vehicles (AFV). Contributing factors included an increase in vehicles purchased for law enforcement operations (these vehicles are exempted from AFV mandates) and a lower supply of available vehicles that run on compressed natural gas (CNG) or high-level ethanol-gasoline blends (E85). Even with these mitigating trends, GSA achieved 77 percent for AFVs purchased.

Performance Indicator	2015	2016	2017 (Plan)	2017	Status
Acquisition program savings ($B)	$5.17	$6.02	$5.24	$3.39*	Expect to meet target
Percent green business volume	8.8%	9.5%	10.0%	11.2%*	Expect to meet target
Percent of vacant space in inventory	3.4%	3.0%	3.2%	2.9%	Met target
Alternative fuel vehicles purchased	82.8%	82.6%	80.0%	77%	Missed target

* *Through the third quarter of FY 2017*

2. **Efficiency – Improve the efficiency of operations and service delivery.** In FY 2017, GSA experienced mixed success in meeting its efficiency performance goals for real estate operations and mission support functions.

The Public Buildings Service (PBS) continued delivering capital projects (construction/repairs & alterations) on schedule. Nineteen projects worth a total of $231 million reached substantial completion in FY 2017. Of those, 18 did so on schedule and on budget. More than fifty-nine projects ($2.3 billion) remain ongoing nationally, with the National Capital Region (12 projects, $588 million) and Pacific Rim (10 projects, $474 million) regions representing the largest share of that group. Ninety-nine percent of all capital projects in FY 2017 are on schedule.

PBS does not expect to meet its goal for keeping 80 percent of cleaning and maintenance costs within market range. The results to date for FY 2017 (through third quarter) have been influenced primarily by a 10 percent reduction in the industry benchmark costs as reported by the Building Owners and Managers Association International (BOMA).

Internal measures of efficiency show mixed success. GSA is on track to meet its long-standing goal for reducing time-to-hire to less than 80 days. Through the third quarter of FY 2017, GSA was taking an average of 75 days to onboard new employees, an important factor in recruiting and hiring the best candidates for the GSA workforce. Better performance tracking, based on service level agreements (SLAs), has led to greater efficiency on the part of our HR operations and hiring managers.

GSA continues to meet its indirect cost metrics at a level that is over $400 million less than the baseline year of FY 2010. Lower indirect costs were primarily achieved through realignment of key mission-support functions (financial, information technology, and human resource management) in prior years.

GSA Information Technology costs remain 4% lower than the FY 2014 baseline; however, GSA did not meet its FY 2017 performance target for a 16.2% reduction in IT costs. Over the past three years, cost reductions were realized as duplicative technologies and contracts were brought together. However, new investments into information technology were needed to support the long-term IT needs of the agency, partially offsetting the benefits of IT consolidation.

Performance Indicator	2015	2016	2017 (Plan)	2017	Status
Capital projects on schedule	98%	98%	90%	99%	Met target
Cleaning and maintenance costs within market range	81%	80%	80%	73%*	Expect to miss target
Reduction in total GSA indirect costs from the FY 2010 baseline ($M)	407	404	342	$404	Met target
GSA information technology cost reduction from FY 2014 baseline	8.6%	4.3%	16.2%	4.0%	Missed target
Time to hire (days)	87	83	80	75*	Expect to meet target

* *Through the third quarter of FY 2017,*

3. **Service – Deliver excellent customer service.** GSA strives to deliver excellent customer service to federal agencies and departments by making it easier for them to meet their real estate, acquisition, and technology needs. GSA is employing innovative analyses and practices such as customer experience mapping and usability testing for GSA systems to identify opportunities for improvement.

   In FY 2017, GSA achieved mixed results for key performance indicators. Successful performance was achieved for customer loyalty with acquisition services, small business volume through the Multiple Award Schedule (MAS), and the number of new digital governmentwide shared services delivered by GSA. However, GSA experienced a decline in tenant satisfaction with government-owned and leased space.

   GSA customer loyalty remains stable in FY 2017, showing results that are consistent with results from the past two years with only minor fluctuations. The Federal Acquisition Service (FAS) will continue to work with federal clients to analyze their procurement needs and target areas for better acquisition solutions that are easier to use. FAS continues to achieve high business volume for small business through its Multiple Award Schedule.

GSA continues to improve information and service delivery across government through the delivery of new digital governmentwide shared services. In FY 2017, new services built by GSA included:

- **Code.gov:** which makes source codes (collections of computer instructions, written using a human-readable programming language) available for sharing and reuse to help avoid duplicative purchases and promote innovation inside and outside government.
- **Login.gov:** A secure single login to government websites that will soon be deployed on a limited basis and then be available to agencies throughout government.
- **Bug Bounty:** A security initiative to pay people for identifying bugs and security holes in civilian agencies' software that follows the footsteps of Hack the Pentagon and Hack the Army bug bounty programs run by the U.S. Department of Defense.
- **Search.gov:** This improves the public's search experience on government web-sites.

Performance Indicator	2015	2016	2017 (Plan)	2017	Status
Tenant satisfaction with government-owned and leased space	63%	65%	67%	61%	Missed target
Customer loyalty for acquisition services (ten point scale)	7.1	7.5	7.3	7.4	Met target
Percent of Multiple Award Schedule (MAS) business volume coming from small businesses	38.3%	37.4%	33.0%	39.7%	Expect to meet target
New digital governmentwide shared services (number delivered)	8	7	5	8	Met target

Financial Statements Summary and Analysis

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

Consolidated Financial Results

GSA Assets

GSA assets primarily include: Property and Equipment such as federal buildings, motor vehicles, and office equipment; Fund Balance with Treasury (FBwT); and debts owed to GSA from federal agencies and non-federal customers, mostly from sales transactions or uncollected rent (Accounts Receivable). In FY 2017, GSA reported Total Assets of $41.4 billion compared to FY 2016 Total Assets of $40.3 billion, representing a net increase of approximately $1.1 billion. Significant changes in assets include an increase in the overall FBwT of $789 million, mainly due to the Federal Buildings Fund (FBF), which saw an increase of $803 million as funding generated for capital programs to cover building repairs and alterations, and new constructions costs exceed amounts spent on these programs. The FBF FBwT has grown over a number of years, when spending authority approved in annual appropriation acts for the capital programs is less than resources generated by net revenues.

GSA Liabilities

GSA liabilities are primarily amounts owed to commercial vendors for goods and services received but not yet paid (Accounts Payable), amounts GSA owes to other federal entities, and long-term estimates of future environmental remediation costs. In FY 2017, Total Liabilities were $7.4 billion; a net increase of $533 million compared to FY 2016 Total Liabilities of $6.9 billion. The increase is primarily attributable to a large increase in deferred revenues in the FBF related to payments GSA received from the U.S. Department of State (DOS) to fund acquisitions of real property, for which it has been determined the DOS will receive reduced rent.

GSA Revenue

The Consolidated Statements of Net Cost present, by major program and activity, the revenues and expenses incurred to provide goods and services to our customers. GSA reported $21.8 billion in revenue during FY 2017 compared to $20.5 billion reported in FY 2016. Higher revenues are most noticeable in the Acquisition Services Fund (ASF) due to higher business volume with the U.S. Department of Defense in the Assisted Acquisition Services (AAS) business line. FBF revenues have increased primarily as a result of a higher level of work performed on reimbursable work authorization projects and a modest increase in rent revenues. GSA's net operating results have increased slightly from the prior year. Changes in FBF and ASF net operating results are discussed further below.

Financial Results by Major Fund – Federal Buildings Fund

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

FY 2017 FBF gross revenue is over $11.7 billion, with over half of the revenue generated from five federal customer agencies as shown in the "FBF Top Five Federal Customers" table.

FBF Top 5 Federal Customers	Revenues ($ in Millions)	% of Total Revenues
U.S. Department of Justice	$1,960	16.7%
U.S. Department of Homeland Security	$1,880	16.0%
Federal Judiciary	$1,186	10.1%
U.S. Social Security Administration	$881	7.5%
U.S. Department of the Treasury	$730	6.2%

FBF Net Revenue from Operations

FBF Net Revenue from Operations represents the amounts remaining after the costs of operating GSA owned and leased buildings are subtracted from revenue. Net Revenue from Operations is used to invest in major repairs and alterations (R&A) to federal buildings and to partially offset costs of constructing new federal buildings.

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

The FBF reported net revenues in excess of expenses of $666 million in FY 2017 compared to net revenues in excess of expenses of $605 million in FY 2016, representing an increase of $61 million. One of the more significant items impacting this increase was a $30 million one-time gain on the sale of the Cotton Annex building in Washington, D.C. Historically, revenues and expenses associated with the building portfolio have steadily increased over time as a result of increases in rentable square feet, cost escalations, and higher taxes. However, efforts to 'reduce the footprint' (RTF) of federal real property has resulted in a significant reduction in the amount of square footage required by agencies, slowing the growth of rent revenues in the FBF.

FBF Obligations, Outlays and Collections

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

FBF Obligations Incurred has increased primarily as a result of projects funded by RWA's, for acquisition and development of federal real property and modernization and alteration projects. There were also increased obligations for higher construction costs on large projects funded directly by GSA, like the San Ysidro port of entry in San Diego, CA and the U.S. border station in Alexandria Bay, NY. The real estate acquisitions through reimbursable work authorizations and higher construction costs also generated increases in Gross Outlays for FY 2017. In addition, the increased RWA activity for the year was the primary contributor to the increases in Offsetting Collections compared to FY 2016 results.

FBF Obligations and Outlays (*$ in Millions*)	FY 2017	FY 2016	Change ($)	Change (%)
Obligations Incurred	$11,538	$10,700	$838	7.8%
Gross Outlays	$11,231	$10,282	$949	9.2%
Offsetting Collections	$12,034	$11,370	$664	5.8%

Financial Results By Major Fund — Acquisition Services Fund

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

In FY 2017, the ASF realized over $10.3 billion in revenues with over 77 percent of the revenue generated from five federal customer agencies as shown in the "ASF Top Five Federal Customers" table.

ASF Top Five Federal Customers	Revenues ($ in Millions)	% of Total Revenues
U.S. Department of Defense	$6,249	61.0%
U.S. Department of Homeland Security	$756	7.4%
U.S. Department of Agriculture	$339	3.3%
U.S. Department of Justice	$321	3.1%
U.S. Department of Health and Human Service	$287	2.8%

ASF Net Revenues from Operations

ASF Net Revenue from Operations represents the amounts remaining after the costs of goods and services sold and cost of operations. Net Revenues from Operations are invested in the GSA Fleet, IT systems, other programs to improve FAS service levels, and to comply with regulatory and statutory requirements. In FY 2017 the ASF reported a net loss of $8 million compared to positive net income of $8 million in FY 2016. In the TTL business line, revenues and expenses have declined due to a lower volume of motor vehicle sales in the Fleet Purchasing program. Net operating results have declined due to higher petroleum costs, an increase in depreciation expense on GSA owned vehicles, and a decline in the net gains realized on the sale of surplus motor vehicles. The FY 2016 net operating results also include a one-time expense reduction of $20 million in the GS&S business line associated with the reduction in a lease termination liability. In addition, expenses have increased in the ITC business line due to costs incurred in support of the transition to the EIS telecommunications contracts. EIS will replace Networx, Washington Interagency Telecommunications System (WITS) 3, and local telecommunications contracts. Transition costs are funded through reserves and will be recovered over the life of the EIS contracts. Net income for ITC has improved from last year due to lower operating expenses in the Public Key Infrastructure (PKI) program. AAS programs have experienced higher business volume with U.S. Department of Defense customers and this is reflected in the increases for both revenues and expenses. In the category of Other Programs, expenses have decreased significantly from FY 2016 and this is due to activities of the Common Acquisition Platform program. Last year the program incurred large expenses associated with software license acquisitions, application design and implementation, and the transition to a cloud-based infrastructure.

ASF Obligations, Outlays, and Collections

ASF obligations and outlays are primarily driven by contracts awarded to commercial vendors providing goods and services in support of the ASF portfolios. Obligations Incurred increased by $2,018 million between FY 2016 and FY 2017 while Gross Outlays increased by $575 million, due primarily to higher business volume with Defense customers in the AAS programs as well as the recognition of $750 million in obligations (undelivered orders) associated with the minimum revenue guarantees on the EIS contract awards. Net Outlays have decreased from the prior year due to a lower amount of capitalized purchases of replacement motor vehicles.

ASF Obligations and Outlays ($ in millions)	FY 2017	FY 2016	Change ($)	Change (%)
Obligations Incurred	$13,651	$11,633	$2,018	17.3%
Gross Outlays	$11,193	$10,618	$575	5.4%
Offsetting Collections	$11,279	$10,408	$871	8.4%

Limitations of Financial Statements

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

GSA Management Assurances

Statement of Assurance

The U.S. General Services Administration (GSA) management is responsible for managing risks and establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA), the Federal Financial Management Improvement Act (FFMIA), and related statutory and federal policy guidance.

In accordance with OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control, GSA conducted its assessment of the effectiveness of internal controls over financial reporting, which includes the safeguarding of assets and compliance with applicable laws and regulations. Based on the results of the assessment, GSA can provide reasonable assurance that internal controls over operations, reporting, and compliance were operating effectively as of September 30, 2017.

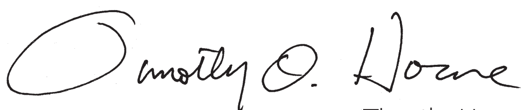
Although FY 2017 was a strong year with marked improvement in GSA's management controls environment, we have identified and are mitigating several concerns.

During GSA's annual internal controls self-assessment process, our management team identified succession planning as an area of concern. GSA faces the same challenge as other federal agencies; many employees are retirement eligible and can leave the federal workforce. Workforce planning, which includes staffing and succession plans will mitigate the impact of high retirement eligibility in mission-critical occupations. This will be accomplished through hiring, training, and development. In addition, maximizing employee engagement and employee performance will ensure the GSA workforce is prepared and able to meet the Agency's mission and agency performance goals.

Another area GSA is closely monitoring is the internal controls and financial management practices and procedures of legacy 18F and the Technology Transformation Service (TTS) (now a FAS Portfolio). As a result of an internal review and the recommendations in the Office of Inspector General Evaluation of 18F, JE17-001 (Oct. 24, 2016), GSA implemented stronger management controls over 18F. The internal review and OIG report identified opportunities for improvements in internal controls; including instances where work was started before signed agreements were in hand, resulting in Economy Act violations. GSA will continue to monitor compliance with these controls during FY 2018.

A further challenge related to the Federal Citizens Services Fund (FCSF) was identified and mitigated in FY 2017. GSA notified the Office of Management and Budget (OMB) of a potential Antideficiency Act (ADA) violation, which resulted from utilizing the FCSF to support search capability for state and local government websites. GSA corrected the situation by ending these services in February 2017. Another potential ADA violation is being reviewed related to the Acquisition Services Fund (ASF) apportionment for flow-through activity. GSA is implementing processes that more accurately forecast orders from our Federal partners and monitor order activity against apportioned budget authority.

Finally, GSA has monitored and assessed its financial systems to ensure compliance with Federal financial management standards, as required by the FFMIA of 1996 and OMB Circular A-123 Appendix D. GSA assessed its degree of substantial compliance by utilizing the FFMIA Risk Model, and all financial management systems substantially comply with FFMIA as of September 2017. GSA is confident that all systems substantially comply with the Federal accounting standards promulgated by the Federal Accounting Standards Advisory Board, and with the U.S. Standard General Ledger (USSGL) at the transaction level.



Timothy Horne
Acting Administrator
U.S. General Services Administration

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

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

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

In FY 2017, GSA continued to strengthen management practices and internal controls to assure the integrity of its programs, operations, business and financial management systems. GSA completed an initial risk profile, reviewed it with GSA leadership, considered it as part of the FY 2018 to 2022 strategic plan, and included it with the guidance for developing the FY 2019 budget.

The OCFO A-123 Internal Control Review team and the Office of Government-wide Policy (OGP) conducted parallel financial and acquisition reviews across the agency. The organization within OGP performing the work was the Procurement Management Review (PMR) Division, which is a component of the Procurement Management Division that reports directly to the GSA Senior Procurement Executive in the Office of Acquisition Policy. PMR reviews assessed the effectiveness of internal controls over procurement management. By analyzing activities from both an acquisition and financial perspective, GSA addressed control issues that involved financial and acquisition functions. Any identified control deficiencies are tracked through a database application and monitored for timely and accurate implementation of corrective actions.

The OCFO deploys an extensive annual testing and assessment methodology that evaluates the effectiveness of internal controls over financial reporting and financial systems. In FY 2017, OCFO redesigned the assessment process to support the statement of assurance conducting an agency wide assessment of the 5 Components and 17 Principles of Internal Control as required by GAO's Standards for Internal Control in the Federal Government (Green Book). The OCFO also worked on improving the quality of the reporting and monitoring of improper payments by recruiting a new Compliance Branch Chief in the Internal Controls Division, and providing improper payment training to all members of the branch.

2. Federal Managers' Financial Integrity Act

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

In response to the FMFIA, the Agency holds managers accountable for the performance, productivity, operations and integrity of their programs through the use of internal controls. Senior managers at the Agency each year evaluate the adequacy of the internal controls surrounding their activities and determine whether the controls conform to the internal control standards established by OMB and the U.S. Government Accountability Office (GAO). The results of these evaluations and other information provided to senior management are used to determine whether there are any internal control matters to be reported as material weaknesses. The Agency's senior assessment team, the MCOC, provides oversight of the internal control program and advises the Administrator on the Statement of Assurance.

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

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

Appendix A of OMB Circular No. A-123 provides requirements to agencies for conducting the management assessment of internal control over financial reporting. The Agency's evaluation for FY 2017 did not identify any material weaknesses in financial controls as of, or subsequent to June 30, 2017.

4. Federal Financial Management Improvement Act

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

(1) Federal financial management system requirements;

(2) Applicable federal accounting standards; and

(3) The United States Government Standard General Ledger at the transaction level.

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

5. Information and Financial Management Systems Framework

The Chief Financial Officers Act assigns responsibilities for planning, developing, maintaining, and integrating financial management systems within federal agencies.

GSA currently maintains E-Payroll applications; portions of its legacy core accounting system, and general support systems, which operate on a variety of hosting platforms to support various feeder applications.

In FY 2017, GSA continued its progress in financial systems modernization and improvement in support of this financial management systems framework. To achieve its strategic goals GSA will continue efforts to streamline, consolidate, and modernize financially oriented general support systems.

These strategies support GSA financial management system goals of reducing financial system operating and maintenance costs, and enhancing compliance and IT security controls.

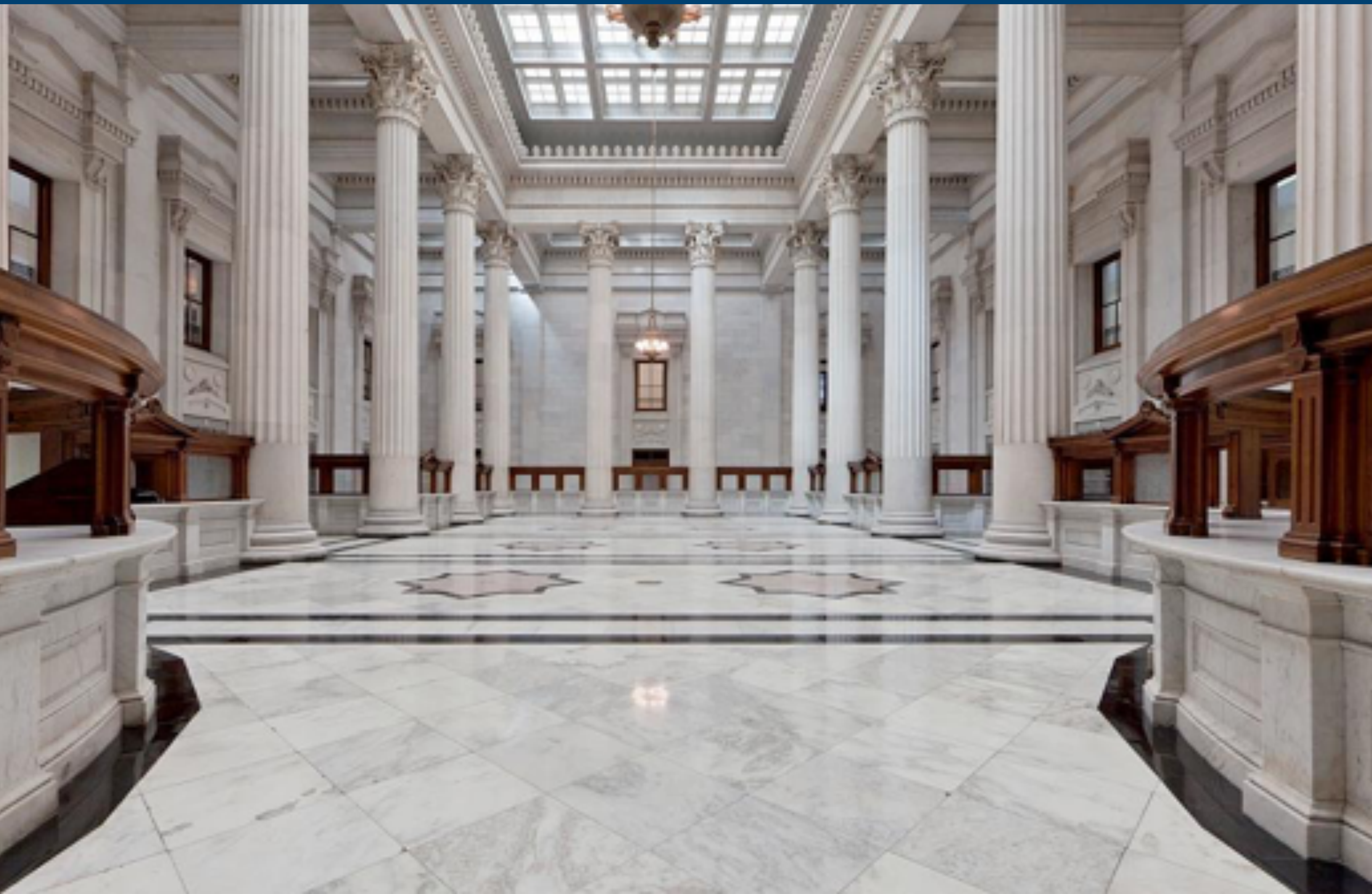
6. Federal Information Security Modernization Act

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

To facilitate FISMA compliance, GSA maintains a formal program for information security management focused on FISMA requirements, protecting GSA IT resources, and supporting the GSA mission. This program consists of policies, procedures, and processes to mitigate new threats and anticipate risks posed by new technologies. Designated GSA information system security managers and information system security officers implement information security requirements in accordance with FISMA requirements and GSA policies.

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

Financial Section



Letter from the Chief Financial Officer

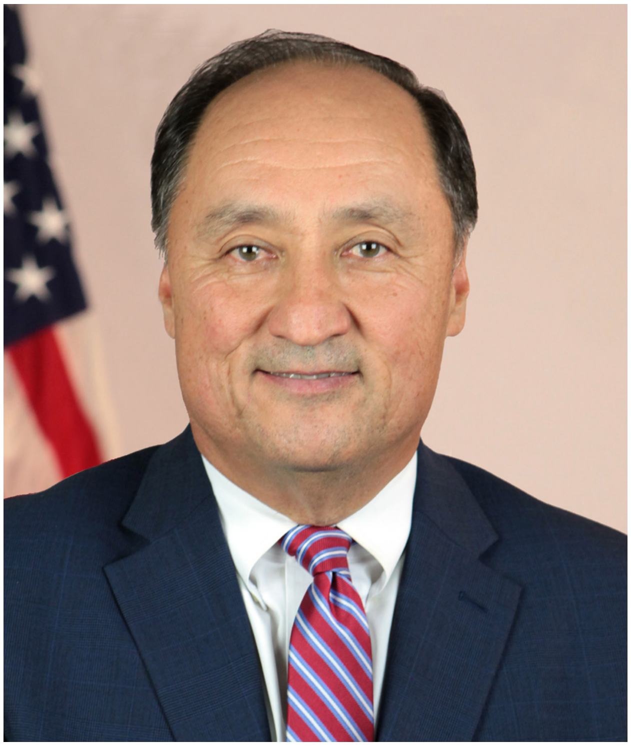
Introduction

I am pleased to provide the fiscal year 2017 Agency Financial Report on behalf of the U.S. General Services Administration. The AFR is a culmination of our financial management community's year-round efforts to accurately track and disclose GSA's financial status, and to ensure that the agency continues to act as a good steward of public funds. I sincerely thank all GSA employees for their excellent work and dedication throughout this fiscal year, and for their contributions to GSA's culture of financial transparency, accountability, and control.

As noted in the Administrator's letter at the beginning of this report, GSA's mission is to deliver the best value in real estate, acquisition, and technology services to government and the American people. This mission is unique within the federal government, both for GSA's customer-facing role as the original shared service provider, and for the volume of interagency financial transactions that flow through the agency.

Office of the Chief Financial Officer

An active and empowered Office of the Chief Financial Officer (OCFO) is a critical component of how GSA achieves its mission, and how it provides customer agencies and all Americans with assurance the agency is responsibly managing financial resources. The OCFO provides GSA Service and Staff Offices with financial management services that include: budget formulation and execution, financial reporting and operations, internal controls, data management and analytics, and performance



management. The OCFO is also responsible for the development and submission of the annual GSA budget, the GSA FY 2018-2022 Strategic Plan, the FY 2018 Annual Performance Plan, and this Agency Financial Report.

In FY 2017, the OCFO continued to serve as a partner and financial advisor to GSA's Service and Staff Offices. The OCFO monitored internal controls, supported the annual financial statement audit, managed our financial management shared services provider and led the implementation of the Digital Accountability and Transparency Act of 2014 (DATA Act) and the Enterprise Risk Management framework.

Resolving Financial Management Challenges

GSA's FY 2017 unmodified audit opinion conveys the diligence with which OCFO, and GSA, work to provide assurance of financial integrity.

The auditors did identify four significant deficiencies in FY 2016 that have served as focus areas for operational improvements in FY 2017. These deficiencies had 12 associated findings. Four of the findings were related to general controls over financial management systems tools, one was related to budgetary accounts and transactions controls, two were related to the classification of capital and operating leases, and five were related to entity level controls, including worksheet adjustments, prior year findings, budgetary accounts and transactions, and the need for a formal process for assessing third party service providers that host or operate GSA financial systems.

To address the four financial management systems findings and the entity level control finding, GSA and our Federal Shared Service Provider (FSSP) (U.S. Department of Agriculture FMLoB) collaborated to strengthen, document, and test the shared responsibilities between the two agencies. GSA initiated controls to test the reconciliations performed by our FSSP. In addition, we performed an extensive review of our worksheet adjustment process to determine the root cause. We improved processes to ensure more transactions were inputted via the system of record; thereby reducing worksheet adjustments. In addition, we jointly issued two new standard operating procedures (SOPs) with our SSP to clarify roles related to processing, billing and collection of services for the Federal Acquisition Service, and the Public Building Service.

We also worked closely with USDA to strengthen financial systems controls to reduce variances between critical feeder systems and our official accounting system. We focused on standardizing reports, and timely communication of rejections with our stakeholders to improve timeliness and accuracy. I realize that we need to strengthen our controls over budgetary accounts and transactions and sufficiently monitor all accounts, regardless of system constraints or any other limitations.

To address the two findings related to the classification of capital and operating leases, OCFO implemented a lease classification review to reduce the dependency on customer budgetary scoring results to make the classification determination. The Public Building Service also strengthened the scoring process, provided training to stakeholders, and analyzed a sample of leases to ensure new controls were effective. OCFO also reviewed 100 percent of all historical straight line rent schedules to ensure accurate lease data and disclosures.

GSA continues to work to reduce improper payments and conducts detailed testing on purchase card and rental of space payments. GSA has consistently achieved purchase card improper payment targets, but has missed our aggressive targets for rental of space payments in both FY 2016 and FY 2017. Our target for rental of space payments in FY 2016 was 99.881 percent and 99.975 percent in FY 2017, both well above the governmentwide performance of 95.33 percent for high priority programs. GSA OCFO is implementing improvements to our rental of space payment program to ensure better results in FY 2018 and to set the payment target to a more pragmatic, yet still challenging goal of 98.2 percent.

Key Financial Management Accomplishments In FY 2017

In addition to our focus on identified significant deficiencies and associated findings, OCFO continued to implement our aggressive and proactive transformation initiatives in FY 2017 to further improvements in GSA's financial control environment. Our key accomplishments included:

- **44 Financial Process Standardization and Improvement Initiatives Completed.** As part of OCFO's reorganization efforts in FY 2016, Communities of Practice (COPs) were established for key functional areas to lead process standardization and improvement. Project teams successfully implemented 44 initiatives ranging from national standardization of funds certification activities for the Public Building Service, to the standardization of Reimbursable Work Authorization (RWA) intake, review, and acceptance. The OCFO has also standardized Pegasys data entry which increased efficiency and reduced errors in GSA's financial system of record. Many thanks to our partners across GSA who have helped our COP initiative be so successful in its inaugural year.

- **12 Percentage Point Increase in OCFO Employee Satisfaction, and an 8 Percentage Point Increase in Overarching Engagement Scores in FY 2017.** At the beginning of OCFO's transformation in FY 2015, the leadership group set a high standard for employee satisfaction, engagement, and commitment to OCFO's core values of integrity, collaboration, and excellence. Building off FY 2016's record engagement scores for OCFO, we continued to see significant increases in FY 2017. OCFO scored 79 percent for staff satisfaction (compared to the governmentwide average of 61 percent), and a 78 percent for staff engagement (up 12.4 percentage points from FY 2015). These scores indicate our workforce has embraced the challenges of transformation, and is focused on providing results for our customers.
- **100 percent of Annual SLAs Achieved During a Significant Staffing Reduction.** Since beginning its transformation in FY 2015, OCFO has reduced staff from an 840 FTE budget to 540 FTE through a combination of outsourcing, organizational streamlining, and improved / standardized financial management processes. While achieving these reductions, OCFO has continued to improve operational performance. Our Service Level Agreement (SLA) metrics have continued to surpass expectations, which is a testimony to the hard working staff and innovative and agile OCFO team.

Conclusion

Over the last three years GSA has made significant progress in developing a culture of financial transparency, accountability, and control. As a trusted partner with GSA's service and staff offices, the leadership provided by the OCFO continues to strengthen GSA's financial controls, performance and decision making. This is an exciting time for GSA OCFO, and I look forward to another year of progress. I appreciate all the support I receive from staff as we work to improve our operations and ensure GSA remains a good steward of public funds.

Gerard E. Badorrek

Gerard E. Badorrek
Chief Financial Officer
November 08, 2017

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

NOV 09 2017

MEMORANDUM FOR: Timothy O. Horne
Acting Administrator (A)

Gerard Badorrek
Chief Financial Officer (B)

FROM: Carol F. Ochoa
Inspector General (J)

SUBJECT: Independent Auditors' Report on GSA's Financial Statements for Fiscal Year 2017

The Chief Financial Officers Act of 1990 (P.L. 101-576), as amended, requires the GSA Inspector General or an independent external auditor, as determined by the Inspector General, to audit GSA's financial statements. Under a contract monitored by my office, KPMG LLP (KPMG), an independent public accounting firm, performed an audit of GSA's fiscal year 2017 financial statements. KPMG performed the audit 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. 17-03, *Audit Requirements for Federal Financial Statements.*

In connection with the contract, we reviewed KPMG's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on GSA's financial statements or conclusions about the effectiveness of internal control or on whether GSA's financial management systems substantially complied with the Federal Financial Management Improvement Act of 1996; or conclusions on compliance with laws and regulations. KPMG is responsible for the attached auditor's report dated November 8, 2017, and the conclusions expressed in the report. However, our review disclosed no instances where KPMG did not comply, in all material respects, with generally accepted government auditing standards.

We appreciate the courtesies and cooperation GSA extended to KPMG and our staff during the audit. If you have any questions, please contact R. Nicholas Goco, Assistant Inspector General for Auditing, at (202) 501-2322.

Attachment

1800 F Street, NW, Washington, DC 20405-0002

KPMG

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

Independent Auditors' Report

Acting Administrator and Inspector General
United States General Services Administration:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the U.S. General Services Administration (GSA), which comprise the consolidated balance sheets as of September 30, 2017 and 2016, and the related consolidated statements of net cost and changes in net position, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements (hereinafter referred to as "consolidated financial statements"). We have also audited the individual balance sheets of the Federal Buildings Fund (FBF) and the Acquisition Services Fund (ASF) (hereinafter referred to as the "Funds") as of September 30, 2017 and 2016 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 consolidated financial statements and 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 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, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 17-03 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 evaluating the overall presentation of the consolidated financial statements and the Funds' individual financial statements.

KPMG

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, 2017 and 2016, 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, 2017 and 2016, and the individual Funds' net costs, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Interactive Data

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

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis and Required Supplementary Information sections be presented to supplement the basic consolidated 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 sections in the consolidating and combining financial statements in Schedules 1 through 4 (hereinafter referred to as "consolidating information"), and the information in the GSA Historical Highlights, Table of Contents, Letter from the Acting Administrator, How GSA Benefits the Public, Letter from the Chief Financial Officer, Inspector General's Transmittal Memorandum of the Independent Auditors' Report, and Other Information sections of GSA's 2017 *Agency Financial Report* is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements or the Funds' individual 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 audits of the basic consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic consolidated financial statements or to the basic consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the basic consolidated financial statements as a whole.

The information in the GSA Historical Highlights, Table of Contents, Letter from the Acting Administrator, How GSA Benefits the Public, Letter from the Chief Financial Officer, Inspector General's Transmittal Memorandum of the Independent Auditors' Report, and Other Information sections of GSA's 2017 *Agency Financial Report* has not been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and the 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 audits of the consolidated financial statements and the Funds' individual financial statements as of and for the year ended September 30, 2017, 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 have not been 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, as items 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 audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported herein under Government Auditing Standards or OMB Bulletin No. 17-03.

KPMG

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 audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances in which GSA's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

Potential Instances of Noncompliance

GSA management notified OMB of a potential Antideficiency Act (ADA) violation that resulted from utilizing the Federal Citizens Services Fund to support search capabilities for state and local government websites. In addition, GSA management is reviewing a potential ADA violation related to the ASF's apportionment for reimbursable activity. A final determination has not yet been made, and therefore, the outcome of these matters is not presently known.

GSA's and the Funds' Responses to Findings

GSA's and the Funds' responses to the significant deficiencies identified in our audits are described in Exhibit I. GSA's and the Funds' responses were not subjected to the auditing procedures applied in the audits 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 8, 2017

Independent Auditors' Report
Exhibit I – FY 2017 Significant Deficiencies

I. Budgetary Controls Over Apportionments[1]

The ASF is a full cost recovery revolving fund that primarily finances operations of the Federal Acquisition Service (FAS). The ASF provides for the acquisition of information technology (IT) solutions, telecommunications, motor vehicles, supplies and a wide range of goods and services for federal agencies. This fund recovers costs through fees charged to federal agencies for services rendered and commodities provided.

ASF's budgetary resources do not result from a direct appropriation, therefore, GSA is required to submit an initial apportionment request for ASF by August 21st of the preceding fiscal year (FY) using the Office of Management and Budget's (OMB) Standard Form (SF) 132, *Apportionment and Reapportionment Schedule*. In this initial request, GSA will include amounts for anticipated budgetary resources. When actual budgetary resources are known, GSA will submit a reapportionment request to cover any increase over the apportioned budgetary resources on the SF 132. Actual budgetary resources are reported at fiscal year-end on the OMB SF 133, *Report on Budgetary Execution and Budgetary Resources*.

The Budget Control Division, within the Office of the Chief Financial Officer (OCFO), is responsible for monitoring budget execution against apportionments across all accounts at GSA. In addition, the FAS Budget Division monitors the ASF budget Treasury Account Symbol.

Condition

Controls over the monitoring of ASF budgetary resources from reimbursable activity did not operate effectively to allow the Budget Control Division and the FAS Budget Division, in the normal course of their assigned functions, to identify instances where actual budgetary resources from reimbursable activity exceeded apportionments. As a result, the Budget Control Division did not request supplemental apportionments or reapportionments from OMB before September 30, 2017.

Criteria

1. OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget*, Sections 15.4, 120 and 145.
2. Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government* – Principles 10 and 16 – *Design Control Activities* and *Perform Monitoring Activities,* respectively.

Cause and Effect

The Budget Control Division did not monitor ASF apportionments effectively to allow for sufficient time to request reapportionment from OMB before the fiscal year end. In addition, FAS ordering systems do not have built-in functionality to automatically identify and notify budget officers of potential high dollar customer orders or to prevent acceptance of customer orders in excess of apportioned funding levels. As a result, ASF budgetary resources for reimbursable activity exceeded ASF apportioned budget authority by approximately $705 million. This deficiency did not result in an error on the Combined Statement of Budgetary Resources. However, this deficiency may result in a potential violation of the ADA.

Recommendations

We recommend that GSA implement new or refine existing budgetary monitoring controls and procedures to ensure apportionment levels are not exceeded. Specifically, we recommend that GSA:

1. Increase the level of scrutiny applied to ASF budgetary resources for reimbursable activity by developing or refining monthly monitoring controls over apportionment levels, SF 133 execution, and revenue and business volume forecasts to ensure alignment between budgetary and proprietary forecasts.

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

2. Design and implement a year-end forecast monitoring control following third quarter reporting and request reapportionment as necessary such that there is a sufficient amount of time between the forecast and reporting to ensure any unexpected activity can be accommodated. Develop and implement controls to properly monitor the reapportionment process.
3. Design and implement preventive controls in FAS ordering systems to alert users of activity increases and to prevent acceptance of orders in excess of apportioned funding levels.

Management Response

Management concurs. GSA will continue to implement corrective actions, evaluate additional recommendations, and implement actions that address these deficiencies. Additional reporting and monitoring will be implemented in fiscal year 2018 and systems enhancements will be evaluated and implemented as feasible.

II. Controls Over Access to Financial Management Systems[2]

In FY 2017, we continued to note weaknesses in IT controls designed to protect GSA's financial management systems as required by OMB Circular No. A-130 (Revised), *Management of Federal Information Resources*. Although GSA made progress in certain areas relating to general controls over financial management systems, deficiencies remain in controls over access to programs and data, as follows.

Conditions

Effective controls over access to programs and data are implemented to prevent unauthorized 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 in the information system. Throughout the period under audit, we identified the following weaknesses in controls over access to programs and data:

1. Controls were not designed properly, consistently implemented, or fully effective over user and administrator accounts included in applications, databases, and operating systems. Specifically, we continued to note control deficiencies over:
    a. Periodic recertification of access for operating system administrators (in 2 of 6 systems tested) and developers (in 1 of 6 systems tested),
    b. Timely removal of access for separated operating system administrators (in 1 of 6 systems tested), and
    c. Timely deactivation of inactive accounts for operating system administrators (in 1 of 6 systems tested).
2. Controls were not designed properly, consistently implemented, or fully effective over logical access to key financial in-scope systems. Specifically, we noted control deficiencies over session lockout and termination, and inactivity for applications and operating systems (in 1 of 6 systems tested).
3. Controls were not designed properly, consistently implemented, or fully effective over audit logs including configuration, review, documentation of review, and access to audit logs for applications and operating systems (in 1 of 6 systems tested).
4. Controls were not designed, consistently implemented, or fully effective over separation of duties. Specifically, we identified an instance where a user had access to both the development environment and access to promote changes to the production environment (in 1 of 6 systems tested).

[2] This finding applies to the ASF and GSA as a whole.

Independent Auditors' Report
Exhibit I – FY 2017 Significant Deficiencies

Criteria

1. GAO *Standards for Internal Control in the Federal Government* – Principles 10 and 11 – *Design Control Activities* and *Design Activities for the Information System,* respectively.
2. The National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53, Revision 4, *Security and Privacy Controls for Federal Information Systems and Organizations* (NIST 800-53, Revision 4): AC-2 *Account Management*, AC-5 *Separation of Duties*, AU-6 *Audit Review, Analysis, and Reporting*, and CM-5 *Access Restrictions for Change*.
3. GSA Order CIO P 2100.1K CHGE 1, *GSA Information Technology Security Policy*.
4. IT Security Procedural Guide: *Audit and Accountability (AU),* CIO-IT Security-01-08, Revision 4.
5. The CIO-IT Security-03-23, *IT Security Procedural Guide: Termination and Transfer*, Revision 2.

Cause and Effect

GSA did not enforce documented system-specific, GSA-wide, and NIST policies and procedures consistently. As a result, certain access to programs and data controls were not designed and implemented properly or operating effectively in FY 2017. In addition, certain GSA system-specific or GSA-wide policies and procedures did not require the documentation and maintenance of supporting control documentation or review evidence. Further, GSA's corrective actions for certain prior year conditions were not applied to all GSA applications and did not address the root causes of the control exceptions identified.

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

Recommendations

We continue to recommend that GSA implement the following:

1. Enforce NIST, GSA-wide, and system-specific access to programs and data policies and procedures to ensure access to programs and data controls are operating effectively.
2. Provide periodic training over NIST, GSA-wide, and system-specific access to programs and data policies and procedures.
3. Develop corrective actions and apply them to all GSA applications to address the root causes of the control exceptions identified.
4. Enhance the process to monitor the completeness of the corrective actions to ensure they address the condition and root cause of the control exceptions identified.
5. Review and maintain documented evidence of timely review for all accounts, roles, and job functions, for employees and contractors.
6. Terminate access in a timely manner, in accordance with entity and system-specific policies and procedures, and maintain documented evidence of timely termination, for employees and contractors.
7. Separate users who have access to promote changes and patches into the production environment from users who have access to develop changes and patches.
8. Review and maintain documented evidence of timely review of users with access to the development environment.
9. Review and maintain documented evidence of timely review of audit logs.
10. Configure the lockout duration and inactivity configuration settings in accordance with NIST, GSA-wide, and system-specific policies and procedures.

Management Response

Management concurs. GSA will continue to implement corrective actions, evaluate additional recommendations, and implement actions that address these deficiencies.

III. Monitoring Controls Over Financial Reporting[3]

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

Conditions

1. GSA did not have or did not consistently and effectively perform monitoring controls over the recording of certain journal entries, apportionments, IT audit logs and vulnerability scans, construction in process transfers, and environmental survey results used in the methodology for estimating asbestos-related environmental cleanup liabilities.

2. GSA does not have formalized policies, procedures, or processes established and in place to properly assess third-party service providers that host or operate GSA financial systems. As a result, GSA did not consistently monitor user controls, as documented in third party service providers' reports, to ensure they are operating effectively.

Criteria

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

Cause and Effect

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

Recommendations

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

1. GSA and its components should design monitoring controls to consistently and effectively monitor financial reporting activities and processes including the recording of journal entries, apportionments, IT audit logs and vulnerability scans, construction in process transfers, and survey results used in estimation methodologies.
2. GSA should continue to refine and strengthen its policies, procedures, and processes to properly assess third-party service providers that host or operate GSA financial systems.

Management Response

Management concurs. GSA will continue to implement corrective actions, evaluate additional recommendations, and implement actions that address these deficiencies.

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

Consolidated Financial Statements

U.S. General Services Administration
Consolidated Balance Sheets

As of September 30, 2017 and 2016
(Dollars in Millions)

	2017	2016
ASSETS		
Intragovernmental Assets:		
Fund Balance with Treasury (Notes 1-D, 2)	**$11,390**	$10,601
Accounts Receivable - Federal, Net (Note 4)	**2,415**	2,195
Capital Lease Payments Receivable (Note 8)	**71**	103
Prepaid Expenses and Advances - Federal	**141**	4
Total Intragovernmental Assets	**14,017**	12,903
Accounts Receivable - Non-Federal, Net (Note 4)	**157**	150
Inventories (Note 1-E)	**7**	14
Other Assets (Note 5)	**203**	226
Property and Equipment: (Notes 1-F, 6)		
Buildings	**46,273**	45,150
Leasehold Improvements	**334**	331
Motor Vehicles	**5,751**	5,579
Equipment and Other Property	**717**	717
Less: Accumulated Depreciation and Amortization	**(29,180)**	(27,488)
Subtotal	**23,895**	24,289
Land	**1,695**	1,678
Construction in Process and Software in Development	**1,447**	1,078
Total Property and Equipment, Net	**27,037**	27,045
TOTAL ASSETS	**$41,421**	$40,338
LIABILITIES AND NET POSITION		
Intragovernmental Liabilities:		
Accounts Payable and Accrued Expenses - Federal	**$44**	$45
Judgment Fund Liability (Note 11)	**490**	482
Deferred Revenues and Advances - Federal (Note 11)	**664**	344
Amounts Owed to the General Fund (Note 11)	**34**	36
Other Intragovernmental Liabilities (Notes 9, 11)	**88**	83
Total Intragovernmental Liabilities	**1,320**	990
Accounts Payable and Accrued Expenses - Non-Federal	**2,761**	2,414
Environmental and Disposal Liabilities (Notes 6, 11)	**1,922**	2,092
Capital Lease and Installment Purchase Liability (Note 11)	**571**	585
Unamortized Rent Abatement Liability (Note 11)	**485**	445
Workers' Compensation Actuarial Liability (Notes 7, 11)	**113**	115
Annual Leave Liability (Notes 1-G, 11)	**109**	106
Deposit Fund Liability (Note 11)	**28**	32
Other Liabilities (Notes 9, 11)	**90**	86
Total Liabilities	**7,399**	**6,865**
Net Position: (Note 14)		
Cumulative Results of Operations	**33,797**	33,226
Unexpended Appropriations	**225**	247
Total Net Position	**34,022**	33,473
TOTAL LIABILITIES AND NET POSITION	**$41,421**	$40,338

The accompanying notes are an integral part of these statements.

U.S. General Services Administration

Consolidated Statements of Net Cost

For the Fiscal Years Ended September 30, 2017 and 2016
(Dollars in Millions)

		2017	2016
Manage Building Operations	Earned Revenues	**$11,677**	$11,216
	Less: Operating Expenses	**10,997**	10,593
	Net Revenues from Operations	**680**	623
Provide Acquisition Services	Earned Revenues	**10,062**	9,188
	Less: Operating Expenses	**10,059**	9,165
	Net Revenues from Operations	**3**	23
Working Capital and General Programs	Earned Revenues	**43**	53
	Less: Operating Expenses	**366**	409
	Net Cost of Operations	**(323)**	(356)
GSA Consolidated Net Results	Earned Revenues	**21,782**	20,457
	Less: Operating Expenses	**21,422**	20,167
	Net Revenues from Operations	**$360**	$290

The accompanying notes are an integral part of these statements.

U.S. General Services Administration

Consolidated Statements of Changes in Net Position

For the Fiscal Years Ended September 30, 2017 and 2016
(Dollars in Millions)

	2017	2016
BEGINNING BALANCE OF NET POSITION:		
Cumulative Results of Operations	**$33,226**	$32,615
Unexpended Appropriations	**247**	255
Net Position Beginning Balance	**33,473**	32,870
RESULTS OF OPERATIONS:		
Net Revenues From Operations	**360**	290
Appropriations Used (Note 1-C)	**274**	249
Non-Exchange Revenue (Notes 1-C, 1-D)	**80**	99
Imputed Financing Provided By Others	**79**	84
Transfer of Earnings Paid and Payable to U.S. Treasury	**(121)**	(76)
Transfers of Net Assets and Liabilities (To) From Other Federal Agencies	**(94)**	(19)
Other	**(7)**	(16)
Net Results of Operations	**571**	611
CHANGES IN UNEXPENDED APPROPRIATIONS:		
Appropriations Received	**253**	254
Appropriations Used	**(274)**	(249)
Appropriations Adjustments and Transfers (To) From Other Agencies or Funds	**(1)**	(13)
Net Change in Unexpended Appropriations	**(22)**	(8)
ENDING BALANCE OF NET POSITION:		
Cumulative Results of Operations	**33,797**	33,226
Unexpended Appropriations	**225**	247
Net Position Ending Balance	**$34,022**	$33,473

The accompanying notes are an integral part of these statements.

U.S. General Services Administration

Combined Statements of Budgetary Resources

For the Fiscal Years Ended September 30, 2017 and 2016
(Dollars in Millions)

	2017	2016
BUDGETARY RESOURCES		
Unobligated Balance from Prior Year Budget Authority:		
Unobligated Balance Brought Forward, October 1	**$7,731**	$6,294
Adjustment to Unobligated Balance Brought Forward	**-**	(33)
Recoveries of Prior Year Unpaid Obligations	**498**	441
Other Changes in Unobligated Balance	**(65)**	(10)
Unobligated Balance from Prior Year Budget Authority, Net	**8,164**	6,692
Appropriations, Net	**275**	280
Spending Authority from Offsetting Collections:		
Collections	**24,002**	22,490
Change in Uncollected Customer Payments	**795**	1,230
Previously Unavailable	**3,190**	3,567
Resources Temporarily Not Available	**(4,673)**	(3,187)
Total Spending Authority from Offsetting Collections	**23,314**	24,100
Total Budgetary Resources	**31,753**	31,072
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred:		
Direct	**780**	357
Reimbursable	**25,391**	22,984
Total Obligations Incurred	**26,171**	23,341
Unobligated Balance:		
Apportioned	**4,532**	6,513
Unapportioned	**1,050**	1,218
Total Unobligated Balance, End of Period	**5,582**	7,731
Total Status of Budgetary Resources	**31,753**	31,072
CHANGE IN OBLIGATED BALANCE		
Unpaid Obligations:		
Unpaid Obligations, Brought Forward, October 1, Gross	**10,205**	9,183
Obligations Incurred	**26,171**	23,341
Outlays, Gross	**(23,436)**	(21,878)
Recoveries of Prior Year Unpaid Obligations	**(498)**	(441)
Unpaid Obligations, End of Period, Gross	**12,442**	10,205
Uncollected Payments:		
Uncollected Customer Payments, Brought Forward, October 1	**(10,677)**	(9,480)
Adjustment to Uncollected Customer Payments, Brought Forward	**-**	33
Change in Uncollected Customer Payments from Federal Sources	**(795)**	(1,230)
Uncollected Customer Payments from Federal Sources, End of Period	**(11,472)**	(10,677)
Obligated Balance, Start of Year, October 1:	**(472)**	(264)
Obligated Balance, End of Period:	**970**	(472)
BUDGET AUTHORITY AND OUTLAYS, NET		
Budget Authority, Gross	**23,590**	24,380
Actual Offsetting Collections	**(24,015)**	(22,511)
Change in Uncollected Customer Payments from Federal Sources	**(795)**	(1,230)
Additional Offsets Against Budget Authority	**13**	20
Budget Authority, Net	**(1,207)**	659
Gross Outlays	**23,436**	21,878
Less: Offsetting Collections	**(24,015)**	(22,511)
Net Outlays from Operating Activity	**(579)**	(633)
Distributed Offsetting Receipts	**(84)**	(85)
Total Net Outlays	**$(663)**	$(718)

The accompanying notes are an integral part of these statements.

Notes to the Financial Statements

(For the Fiscal Years Ended September 30, 2017 and 2016).

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

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

1. Significant Accounting Policies

A. Reporting Entity

GSA presents comparative Consolidated and Consolidating Balance Sheets, Consolidated and Consolidating Statements of Net Cost, Consolidated and Consolidating Statements of Changes in Net Position, and Combined and Combining Statements of Budgetary Resources. The consolidating and combining formats display GSAs two largest components: the Federal Buildings Fund (FBF) and the Acquisition Services Fund (ASF). All other entities have been combined under Other Funds.

The FBF is the primary fund used to record activities of the Public Buildings Service (PBS). The ASF is the primary fund used to record activities of the Federal Acquisition Service (FAS).

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

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

- Federal Citizen Services Fund (FCSF)
- Working Capital Fund (WCF)

General Funds are accounts used to record financial transactions arising under congressional appropriations or other authorizations to spend general revenues. GSA manages 20 General Funds. Four of these General Funds are funded by current year (CY) appropriations, six by no-year appropriations, two by multi-year appropriations, three cannot incur new obligations, and five budget clearing accounts that temporarily hold collections until a more appropriate fund can be determined. The General Funds included in the Other Funds category are as follows:

- Allowances and Office Staff for Former Presidents
- Budget Clearing Account – Broker Rebates
- Budget Clearing Account – Proceeds of Sales, Personal Property

- Budget Clearing Account – Real Property
- Budget Clearing Account – Suspense
- Budget Clearing Account - Undistributed Intragovernmental Payments
- Data Driven Innovation –Executive Office of the President (EOP) Child
- Energy-Efficient Federal Motor Vehicle Fleet Procurement – Recovery Act
- Excess and Surplus Real and Related Personal Property Holding Account
- Expenses, Electronic Government Fund
- Expenses, Government-wide Policy
- Expenses, Presidential Transition
- Pre-Election Presidential Transition
- Government-wide Policy – Multi-Year
- Information Technology Oversight and Reform - EOP Child
- Expenses, Office of Inspector General (OIG)
- OIG – No-Year
- OIG – Recovery Act
- Operating Expenses, GSA
- Real Property Relocation

Special and Trust Funds are accounts established for receipts dedicated by law for a specific purpose, but are not generated by a cycle of operations for which there is continuing authority to reuse such receipts. In accordance with FASAB Statements of Federal Financial Accounting Standards (SFFAS) No. 43, Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds, these Special and Trust Funds are classified as funds from dedicated collections. Although immaterial, balances of funds from dedicated collections are displayed in Note 2-B. GSA uses Special Fund receipts to pay certain costs associated with the disposal of surplus real property, for funding of the Transportation Audits program, and to fund the Acquisition Workforce Training program. GSA has one Trust Fund with authority to accept unconditional gifts of property in aid of any project or function within its jurisdiction. GSA's Special and Trust Funds consist of the following:

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

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

(1) deposits received for which GSA is acting as an agent or custodian,

(2) unidentified remittances,

(3) monies withheld from payments for goods and services received and

(4) monies whose distribution awaits a legal determination or investigation.

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

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

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

Generally, all child allocation account financial activity is reportable in combination with the results of the parent fund, from which the underlying legislative authority, appropriations and budget apportionments are derived. For FYs 2017 and 2016, GSA's FBF has an allocation account in this regard with the U.S. Department of Commerce.

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

B. Basis of Accounting

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

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

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

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

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

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates. Operating expenses and related accounts payable accruals and estimates are recorded in the period goods or services are received.

C. Revenue Recognition and Appropriations Used

Substantially all revenues reported by GSA funds on the Consolidated Statements of Net Cost are generated from intragovernmental sales of goods and services, with only three percent of revenues earned from non-federal customers for the years ended September 30, 2017, and 2016. Expenses are primarily incurred with non-federal entities supplying the underlying goods and services being provided to GSA federal customers, with only three percent of operating expenses resulting from activity with other federal agencies for the years ended September 30, 2017, and four percent in FY 2016.

Each fund has established rate-setting processes governed by the laws authorizing its activities. In most cases, the rates charged are intended to cover the full cost that GSA funds will pay to provide such goods and services and to provide capital maintenance. In accordance with the governing laws, rates are generally not designed to recover imputed costs not borne by GSA, but covered by other funds or entities of the U.S. government, such as for post-employment and other inter-entity costs. As the amount of services provided to non-federal customers is generally very insignificant, maintaining separate rate structures for these customers to recover imputed costs is not warranted.

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

In the FBF, rent revenues are earned based on occupancy agreements (OA) with customers, as space and services are provided. Generally, agencies housed in government-owned buildings are billed based upon commercial rates for comparable space. Agencies housed in buildings leased by GSA are generally billed at rates to recover the cost of that space. In some instances, special rates are arranged in accordance with congressional guidance or other authorized purposes. Most agencies using funding from Trust Funds have rent rates set to recover full cost. For revenue under non-recurring reimbursable building R&A projects, GSA charges customers actual cost, and makes no profit. As a result, revenues are generally earned to match costs incurred.

In the ASF, General Supplies and Services revenues are recognized when goods are provided to customers. In the Travel, Transportation and Logistics portfolio, vehicle acquisition revenues are recognized when goods are provided. Vehicle leasing revenues are recognized based on rental arrangements over the period vehicles are dispatched. Assisted Acquisition Services (AAS) revenues are recognized when goods or services are provided, and fee revenues in the GSA Schedules programs are earned based on estimated and actual usage of GSA contracting vehicles by other agencies. The Schedules programs generated $255 million in fees, constituting two percent of ASF revenues in FY 2017, and $269 million in fees, three percent of ASF revenues, in FY 2016. Information Technology revenues are earned when goods or services are provided or as reimbursable project costs are incurred. Telecommunications service revenues are generally recognized based on customer usage or on fixed line rates.

In the WCF, revenues are generally recognized when general management and administrative services are provided to the service components of GSA and to external customers. These WCF revenues are earned in accordance with agreements that recover the direct cost and an allocation of indirect costs from the components of GSA receiving those services.

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

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

D. Fund Balance with Treasury (See Note 2)

This total represents all unexpended balances for GSA accounts with the United States Department of Treasury.

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

E. Inventories (See Note 18)

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

F. Property and Equipment (See Note 6)

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

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

Depreciation and amortization of property and equipment are calculated on a straight-line basis over their initial or remaining useful lives. Leasehold Improvements are amortized over the lesser of their useful lives, generally five years, or the unexpired lease term. Buildings capitalized by the FBF at its inception in 1974 were assigned remaining useful lives of 30 years. It is GSA policy to reclassify capitalized costs of construction in process into the Buildings accounts upon project completion. Buildings acquired under capital lease agreements are also depreciated over 30 years. Major and minor building renovation projects carry estimated useful lives of 20 years and 10 years, respectively.

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

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

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

In FY 2015 GSA implemented FASAB SFFAS No. 44, Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use. The standard requires PBS to report partial impairments as a loss on the Statement of Net Costs. There were no partial impairments reported for FY 2017 or FY 2016.

G. Annual, Sick and Other Types of Leave

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

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

2. Fund Balance with Treasury (FBwT)

A. Reconciliation to U.S. Treasury

There were no material differences between amounts reported by GSA and those reported to the U.S. Treasury as of September 30, 2017, and 2016.

B. Balances by Fund Type

The most significant amounts for GSA in FBwT are in the FBF and ASF revolving funds. Within the Other Funds category, Special and Trust Receipt and Expenditure Funds are classified as funds from dedicated collections in accordance with SFFAS No. 43. The fund balances in the Other Funds category contains amounts in the following fund types (dollars in millions):

Fund Type	2017	2016
Revolving Funds	**$380**	$414
Appropriated and General Funds	**138**	144
Clearing Funds	**50**	42
Special Receipt Funds	**110**	103
Special and Trust Expenditure Funds	**44**	47
Deposit Funds	**30**	35
Total Other Funds	**$752**	$785

C. Relationship to the Budget

In accordance with SFFAS No. 1, Accounting for Selected Assets and Liabilities, the following information is provided to further identify amounts in FBwT as of September 30, 2017, and 2016, against which obligations have been made, and for unobligated balances, to identify amounts available for future expenditures and those only available to liquidate prior obligations. In the FBF, amounts of FBwT shown below as Unobligated Balance – Unavailable include a combination of the amounts reported on the CSBR as Resources Temporarily Unavailable and Unobligated Balance – Not Available. Also, in two instances, the portion of FBwT presented below as unobligated balances will not equal related amounts reported on the CSBR. In the FBF, the CSBR unobligated balances include resources associated with borrowing authority for which actual funds have not yet been realized. In the Other Funds group, the schedule below includes amounts displayed as unavailable unobligated balances for the FBwT held in Special Receipt, Clearing, and Deposit Funds, shown above in Note 2-B, which are not reportable for purposes of the CSBR. The following schedule presents elements of the FBwT (dollars in millions):

	Obligated Balance, Net	Unobligated Balance		Total
		Available	Unavailable	
2017				
FBF	**$305**	**$4,750**	**$4,642**	**$9,697**
ASF	**351**	**(344)**	**934**	**941**
Other Funds	**340**	**76**	**336**	**752**
Total	**$996**	**$4,482**	**$5,912**	**$11,390**
2016				
FBF	$(170)	$5,720	$3,344	$8,894
ASF	(673)	640	955	922
Other Funds	371	82	332	785
Total	$(472)	$6,442	$4,631	$10,601

D. Availability of Funds

Included in GSA's FBwT are dedicated collections from Special Receipt Funds that may be transferred to either the U.S. Treasury, or the Land and Water Conservation Fund (see Note 1-D). These amounts, related to the Transportation Audits program, Acquisition Workforce Training program and surplus real property disposals, are subject to transfer upon GSA's determination of the internal working capital needs of these programs. The FBwT in these funds totaled $110 million and $103 million at September 30, 2017, and 2016, respectively, of which $26 million and $30 million, respectively, were recorded as liabilities in the Consolidated Balance Sheets.

In FY 2017 and FY 2016, $1 million and $27 million, respectively, of unused funds from expired appropriations were returned to the U.S. Treasury as of September 30. Such balances are excluded from the amount reported as FBwT in accordance with U.S. Treasury guidelines.

A portion of FBwT also includes amounts where authority to incur new obligations has expired, but the funds are available to liquidate residual obligations that originated when the funds were available. Such expired balances totaled $45 million and $45 million at September 30, 2017, and 2016, respectively.

The FBF has balances that are temporarily not available in accordance with annual appropriation acts that limit the amount of reimbursable resources that are available for spending each year. Such amounts totaled $4,658 million and $3,187 million at September 30, 2017, and 2016, respectively, and will not be available for expenditure except as authorized in future appropriation acts.

Under ASF legislative authorities, GSA is permitted to retain earnings to ensure the fund has sufficient resources to support operations in association with a cost and capital planning process as approved by the Administrator of GSA. The ASF returned $68 million of funds to the U.S. Treasury in FY 2017. Cumulative Results of Operations in the ASF have been used to cover discontinued operations and investments in government wide software applications to include the System for Award Management (SAM) and the Common Acquisition Platform.

3. Non-Entity Assets

As of September 30, 2017, and 2016, certain amounts reported on the Consolidated Balance Sheets are elements of Budget Clearing, Deposit, and Miscellaneous Receipt Funds, which are not available to management for use in ongoing operations and are classified as Non-entity assets (see Note 1-A). The only substantial balances of non-entity assets were Fund Balance with Treasury, which totaled $80 million and $76 million, as of September 30, 2017, and 2016, respectively.

4. Accounts and Notes Receivable, Net

Substantially all accounts receivable are from other federal agencies, with only 6.1 and 6.4 percent due from non-federal customers as of September 30, 2017, and 2016, respectively. Unbilled accounts receivable result from the delivery of goods or performance of services for which bills have not yet been rendered. Allowances for doubtful accounts are recorded using aging methodologies based on analysis of historical collections and write-offs.

In addition to accounts receivable balances displayed below, GSA has an inconsequential balance of notes receivable, net of allowances for doubtful accounts. The most significant of these notes receivable balances is an $8 million note in the Federal Buildings Fund that has been deemed uncollectible. In accordance with FASAB SFFAS No. 1, GSA does not recognize interest receivable or allowance related to notes deemed uncollectible. As of September 30, 2017, and 2016, accumulated unrecognized interest on all notes deemed uncollectible totaled $186 million and $164 million, respectively.

A summary of Accounts Receivable as of September 30, 2017, and 2016, is as follows (dollars in millions):

	FBF		ASF		OTHER FUNDS		LESS: INTRA-GSA ELIMINATIONS		GSA CONSOLIDATED TOTALS	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Accounts Receivable - Billed	**$115**	$175	**$97**	$103	**$15**	$19	**$-**	$-	**$227**	$297
Accounts Receivable - Unbilled	**428**	346	**1,991**	1,797	**2**	3	**48**	60	**2,373**	2,086
Allowance for Doubtful Accounts	**(16)**	(16)	**(11)**	(21)	**(1)**	(1)	**-**	-	**(28)**	(38)
Total Accounts Receivable, Net	**$527**	$505	**$2,077**	$1,879	**$16**	$21	**$48**	$60	**$2,572**	$2,345

5. Other Assets

As of September 30, 2017, and 2016, Other Assets were comprised of the following balances (dollars in millions):

	FBF		ASF		GSA CONSOLIDATED TOTALS	
	2017	2016	**2017**	2016	**2017**	2016
Surplus Property Held for Sale	**$45**	$46	**$27**	$24	**$72**	$70
Unamortized Deferred Charges and Prepayments	**95**	116	**-**	-	**95**	116
Intangible Assets	**-**	-	**22**	26	**22**	26
Miscellaneous	**14**	14	**-**	-	**14**	14
Total Other Assets	**$154**	$176	**$49**	$50	**$203**	$226

6. Property and Equipment, Net

A. Summary of Balances

Balances in GSA Property and Equipment accounts subject to depreciation as of September 30, 2017, and 2016, are summarized below (dollars in millions):

	2017			2016		
	Cost	**Accumulated Depreciation**	**Net Book Value**	Cost	Accumulated Depreciation	Net Book Value
Buildings:						
FBF	**$46,273**	**$26,238**	**$20,035**	$45,150	$24,709	$20,441
Leasehold Improvements:						
FBF	**300**	**259**	**41**	299	248	51
ASF	**31**	**25**	**6**	30	24	6
Other Funds	**3**	**1**	**2**	2	-	2
Motor Vehicles:						
ASF	**5,751**	**2,031**	**3,720**	5,579	1,896	3,683
Other Equipment:						
FBF	**176**	**149**	**27**	185	152	33
ASF	**378**	**339**	**39**	380	330	50
Other Funds	**163**	**138**	**25**	152	129	23
Total Property and Equipment	**$53,075**	**$29,180**	**$23,895**	$51,777	$27,488	$24,289

B. Environmental and Disposal Liabilities

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

In accordance with guidance issued by FASAB, SFFAS No. 5, Accounting for Liabilities of the Federal Governmental and SFFAS No. 6, Accounting for Property, Plant, and Equipment, Federal Financial Accounting and Auditing Technical Release No. 2, Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government, GSA is required to recognize a liability for environmental related cleanup costs resulting from past transactions or events and when a future outflow or other sacrifice of resources is probable and reasonably estimable. GSA's FBF assesses the likelihood of required cleanup for PP&E, including land acquired for or in connection with other PP&E, used in providing goods or services. If the likelihood of required cleanup is probable and the cost can be reasonably estimated, a liability is recorded in the financial statements, if the likelihood is reasonably possible, the costs of cleanup are disclosed in the notes to the financial statements; and if the likelihood is remote, no liability or estimate is recorded or disclosed.

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

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

GSA's FBF recognized $1,823 million and $1,993 million for Environmental and Disposal Liabilities as of September 30, 2017, and 2016, respectively, for properties currently in GSA's inventory. Included in this balance are the current estimates for potential future cleanup costs associated with: releases of hazardous substances (into the environment) at properties where GSA is legally responsible for cleanup; asbestos liabilities (e.g., abatement); and non-asbestos liabilities (e.g., lead abatement) associated with PP&E at asset retirement or disposal (dollars in millions):

	2017	2016
Environmental Liabilities (external releases to the environment)	**$ 156**	$ 189
Asbestos Liabilities	**1,438**	1,561
PP&E: Non-asbestos Liabilities	**229**	243
Total Environmental and Disposal Liabilities (amortized)	**$ 1,823**	$ 1,993

C. Environmental Liabilities : External Releases to the Environment

FBF reported a total estimated environmental liability (releases to the environment) of $156 million for FY 2017. This is a decrease from $189 million reported in FY 2016. The decrease is attributable to payments for environmental services (e.g., remediation activities) and adjustments to the scope of services for projects managed by FBF. FBF's environmental remediation projects range from the cleanup of hazardous substances (chemical solvents, toxic metals, polychlorinated biphenyls) and petroleum released into the soil and groundwater to complex, long-term remediation of former Department of Defense sites (munitions manufacturing and stockpile centers). As of September 30, 2017, and 2016, GSA's FBF had $172 million and $170 million, respectively, for 'reasonably possible' cleanup costs.

D. Asbestos Liabilities

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

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

In accordance with Technical Bulletin 2006-1, GSA recognizes cleanup costs, over the estimated life of the underlying assets. The building useful life of 30 years is used for purposes of recognizing and amortizing the long term estimated asbestos cleanup costs. During FY 2017, changes to GSA's total estimated liability consisted of cost re-estimates, inflation and amortization of remaining future year costs.

The amortized asbestos related liabilities reported for FY 2017 are $1,438 million which is a decrease from FY 2016 of $1,561 million. The decrease is due to changes in asbestos liability cost factor based upon updated asbestos abatement survey reports provided by third party contractors and changes in building inventory. The unamortized asbestos liabilities for FY 2017 and FY 2016 are $13.6 million and $18 million, respectively.

E. Property Plant & Equipment: Non-Asbestos Liabilities

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

GSA's methodology uses actual cost data from major renovation projects and cost estimates from independent third-party environmental surveys, to develop average cost factors for PP&E non-asbestos remediation. These average cost factors are applied to GSA's total square feet of applicable inventory in order to determine the total estimated non-asbestos liability. For FY 2017, the amortized PP&E non-asbestos related liabilities are $229 million compared to FY 2016 of $243 million. The decrease is due to changes in non-asbestos liability cost factor based upon updated project and building surveys cost estimate data. The unamortized PP&E non-asbestos liabilities for FY 2017 and FY 2016 are $39.4 million and $43 million, respectively.

F. Heritage Assets

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

GSA defines its Historic Buildings as those buildings that are either listed on the National Register of Historic Places, have formally been determined eligible, or appear to meet eligibility criteria to be listed. GSA has 416 buildings on the National Register, up from 396 at the end of FY 2016, of which 75 are designated as National Historical Landmarks. An additional 88 buildings are potentially eligible for listing on the National Register, but have not gone through the formal determination process. Under the National Historic Preservation Act, GSA is required to give these buildings special consideration, including first preference for federal use and rehabilitation in accordance with standards established by the DOI.

GSA also has one collection of artworks with historical significance.

7. Workers' Compensation Benefits

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

The present value of these estimates at the end of FY 2017 and FY 2016 were calculated by DOL using the following discount rates:

	FY 2017		FY 2016	
	Year 1	**Year 2 and thereafter**	Year 1	Year 2 and thereafter
Wage Benefits	**2.683**	**2.683**	2.781	2.781
Medical Benefits	**2.218**	**2.218**	2.261	2.261

At September 30, 2017, and 2016, GSA's actuarial liability totaled $113 million and $115 million, respectively.

8. Leasing Arrangements

As of September 30, 2017, GSA was committed to various non-cancellable operating leases covering administrative office space and storage facilities maintained by the FBF. Many of these leases contain escalation clauses tied to inflation and tax increases, and renewal options. The following are schedules of future minimum rental payments required under leases that have initial or remaining noncancelable terms in excess of one year, and under capital leases together with the present value of the future minimum lease payments. For the present value of future minimum lease payments under capital leases, $9 million is already covered by budget authority while $93 million will have funding made available in the year the payment is due (dollars in millions):

OPERATING LEASES		CAPITAL LEASES	
FISCAL YEAR	**FBF**	**FISCAL YEAR**	**FBF**
2018	$3,845	2018	$33
2019	3,323	2019	29
2020	2,861	2020	28
2021	2,388	2021	22
2022	1,882	2022	4
2023 and thereafter	8,149	2023 and thereafter	-
Total future minimum lease payments	**$22,448**	Total future minimum lease payments	**116**
		Less: Amounts representing-	
		Interest	14
		Executory Costs	1
		Total obligations under capital leases	**$101**

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

OPERATING LEASE REVENUES

FISCAL YEAR	FBF	ASF	TOTAL
2018	$1,808	$9	**$1,817**
2019	1,568	5	**1,573**
2020	1,418	4	**1,422**
2021	1,301	2	**1,303**
2022	1,088	2	**1,090**
2023 and thereafter	7,367	-	**7,367**
Total future minimum lease revenues	**$14,550**	**$22**	**$14,572**

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

DIRECT FINANCING LEASE REVENUES

FISCAL YEAR	FBF	ASF	TOTAL
2018	$8	$9	**$17**
2019	8	6	**14**
2020	7	5	**12**
2021	4	-	**4**
2022	4	-	**4**
2023 and thereafter	20	-	**20**
Total future minimum lease rentals	**$51**	**$20**	**$71**

Rental income under subleasing agreements and related reimbursable arrangements for tenant improvements and above standard service requirements approximated $6.6 billion and $6.4 billion for the years ended September 30, 2017, and 2016, respectively. Rent expense under all operating leases, including short-term non-cancellable leases, was approximately $5.8 billion and $5.7 billion for the years ended September 30, 2017, and 2016, respectively. The Consolidated Balance Sheets as of September 30, 2017, and 2016, include capital lease assets of $383 million and $402 million for buildings, respectively and accumulated amortization on such structures of $328 million and $325 million, respectively. For substantially all of its leased property, GSA expects that in the normal course of business such leases will be either renewed or replaced in accordance with the needs of its customer agencies.

9. Other Liabilities

As of September 30, 2017, and 2016, the components of amounts reported on the Consolidated Balance Sheets as Other Intragovernmental Liabilities and Other Liabilities, are substantially all long-term in nature, with the exception of amounts shown below as Federal Benefit Withholdings, Salaries and Benefits Payable, and Deposits in Clearing Funds, which are current liabilities. Other Intragovernmental Liabilities and Other Liabilities consisted of the following (dollars in millions):

	FBF		ASF		OTHER FUNDS		GSA CONSOLIDATED TOTALS	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
OTHER INTRAGOVERNMENTAL LIABILITIES								
Workers' Compensation Due to DOL	**$17**	$18	**$6**	$6	**$3**	$3	**$26**	$27
Federal Benefit Withholdings	**6**	6	**3**	3	**3**	5	**12**	14
Deposits in Clearing Funds	**-**	-	**-**	-	**50**	42	**50**	42
Total Other Intragovernmental Liabilities	**$23**	$24	**$9**	$9	**$56**	$50	**$88**	$83
OTHER LIABILITIES								
Salaries and Benefits Payable	**$23**	$22	**$14**	$13	**$14**	$13	**$51**	$48
Deferred Revenues/Advances from the Public	**17**	9	**1**	1	**-**	-	**18**	10
Lease Termination Liability (Note 18)	**-**	-	**8**	15	**-**	-	**8**	15
Contingencies	**1**	1	**-**	-	**-**	-	**1**	1
Pensions for Former Presidents	**-**	-	**-**	-	**12**	12	**12**	12
Total Other Liabilities	**$41**	$32	**$23**	$29	**$26**	$25	**$90**	$86

10. Commitments and Contingencies

A. Commitments and Undelivered Orders

In addition to future lease commitments discussed in Note 8, GSA is committed under obligations for goods and services that have been ordered but not yet received (undelivered orders) at fiscal year-end. Aggregate undelivered orders for all GSA activities at September 30, 2017, and 2016, were as follows (dollars in millions):

	2017	2016
FBF	**$3,264**	$3,107
ASF	**6,089**	4,205
Other Funds	**280**	300
Total Undelivered Orders	**$9,633**	$7,612

In July 2017, GSA awarded ten contracts for worldwide telecommunications and network services (Enterprise Infrastructure Solutions) to replace the Networx, WITS 3, and local telecommunications contracts. The EIS contracts are funded through the Information Technology portfolio of the ASF and will provide telecommunications services for the federal community to include wireless communications, internet protocol, satellite communications, virtual private network, video teleconferencing, etc. The contracts provide minimum revenue guarantees of $750 million, over the life of these contracts of which the full amount remained outstanding as of September 30, 2017. Given the value of services GSA estimates it will procure over the fifteen-year life of these contracts, management considers the risk of not meeting the minimum revenue guarantees to be remote.

B. Contingencies

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

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

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

C. Probable Contingencies covered by GSA

As of September 30, 2017, and 2016, the FBF recorded liabilities in total of $1 million for pending and threatened legal matters for which, in the opinion of GSA management and legal counsel, a loss against the FBF is probable, and the amount of the loss can be estimated.

D. Reasonably Possible Contingencies covered by GSA

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

	2017		2016	
	Low	**High**	Low	High
FBF	**$4**	**$169**	$4	$198
ASF	**-**	**4**	-	1
Other Funds	**-**	**28**	-	12
Total Reasonably Possible Loss Range	**$4**	**$201**	$4	$211

E. Probable Contingencies not covered by GSA

In many cases, tort and environmental claims are administered and resolved by the U.S. Department of Justice, and any amounts necessary for resolution are obtained from a special Judgment Fund maintained by the U.S. Treasury. In accordance with the FASAB's Interpretation No. 2, Accounting for Treasury Judgment Fund Transactions, costs incurred by the federal government are to be reported by the agency responsible for incurring the liability, or to which liability has been assigned, regardless of the ultimate source of funding. In accordance with this interpretation, as of September 30, 2017, and 2016, GSA's Other Funds recorded $99 million of Environmental and Disposal Liabilities for contingencies that will require funding exclusively through the Judgment Fund. Substantially all of those amounts result from several environmental cases outstanding at the end of FYs 2017 and 2016, where GSA has been named as a potentially responsible party. Environmental costs are estimated in accordance with the FASAB Accounting and Auditing Policy Committee's Federal Financial

Accounting and Auditing Technical Release No. 2, Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government.

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

F. Reasonably Possible Contingencies not covered by GSA

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

	2017		2016	
	Low	**High**	Low	High
FBF	**$69**	**$100**	$69	$102
ASF	**-**	**90**	-	90
Other Funds	**125**	**168**	125	168
Total Reasonably Possible Range of Loss for Claims to be Paid by the U.S. Treasury Judgment Fund	**$194**	**$358**	$194	$360

G. Judgment Fund Payments

In 1956, Congress enacted the Judgment Fund as a permanent, indefinite appropriation for the payment of claims that did not have another source of funding. This resulted in prompter payments that reduced the interest that accrued against the government between the claim judgment and the claim payment. Amounts paid from the Judgment Fund on behalf of GSA were as follows (dollars in millions):

	2017	2016
FBF	**$12**	$25
ASF	**-**	-
Other Funds	**10**	3
Total Judgment Fund Payments	**$22**	$28

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

11. Unfunded Liabilities

As of September 30, 2017, and 2016, budgetary resources were not yet available to fund certain liabilities reported on the Consolidated Balance Sheets. For such liabilities, most are long-term in nature where funding is generally made available in the year payments are due or anticipated. The portion of liabilities reported on the Consolidated Balance Sheets that are not covered by budgetary resources consists of the following (dollars in millions):

	2017	2016
Judgment Fund Liability	**$490**	$482
Deferred Revenues and Advances - Federal	**623**	283
Amounts Owed to the General Fund	**34**	36
Other Intragovernmental Liabilities	**76**	70
Total Intragovernmental Liabilities Not Covered by Budgetary Resources	**1,223**	871
Environmental and Disposal	**1,922**	2,092
Capital Lease and Installment Purchase Liability	**562**	573
Workers' Compensation Actuarial Liabilities	**113**	115
Unamortized Rent Abatement Liability	**485**	445
Annual Leave Liability	**109**	106
Deposit Fund Liability	**28**	32
Other Liabilities	**39**	38
Total Non-Intragovernmental Liabilities Not Covered By Budgetary Resources	**3,258**	3,401
Total Liabilities Not Covered by Budgetary Resources	**4,481**	4,272
Total Liabilities Covered By Budgetary Resources	**2,918**	2,593
Total Liabilities	**$7,399**	$6,865

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

12. Reconciliation to the President's Budget

In accordance with FASAB SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, if there are differences between amounts reported in these financial statements versus those reported in the most recent Budget of the United States Government (President's Budget), they must be disclosed. With the President's Budget generally released in February each year, the most current comparable data is the FY 2018 President's Budget, which contains FY 2016 financial statement results. The FY 2019 President's Budget, containing FY 2017 actual results is expected to be released in February 2018 on OMB's website. The portion of the President's Budget relating specifically to GSA can be found in the appendix of that document. Balances submitted to the U.S. Treasury constitute the basis for reporting of actual results in the President's Budget. The basis of the President's Budget and the CSBR is data reported to the U.S. Treasury on the Reports on Budget Execution and Budgetary Resources (SF 133s). Reconciling differences are caused by the presentation style of the President's Budget, which excludes Budgetary Resources, Obligations Incurred and Unobligated Balances in expired annual funds, as well as offsetting collections, which are required for reporting on the CSBR. Small rounding differences may also exist between the CSBR and the President's Budget due to an alternative rounding methodology used by GSA.

The following two schedules highlight the most significant comparable amounts reported in the FY 2016 CSBR and FY 2018 President's Budget (dollars in millions). The first schedule shows the total differences where the CSBR contains balances greater or (less) than amounts reported in the President's Budget by fund. Following this is a second schedule displaying the components of each difference at the combined level.

	FBF		ASF		OTHER FUNDS		GSA CONSOLIDATED TOTALS		
	CSBR	Pres. Budget	CSBR	Pres. Budget	CSBR	Pres. Budget	CSBR	Pres. Budget	Difference
Budgetary Resources	$19,790	$19,781	$13,228	$13,228	$1,241	$1,201	$34,259	$34,210	$49
Obligations Incurred	10,700	10,700	11,633	11,633	1,008	1,007	23,341	23,340	1
Unobligated Balances	9,090	9,081	1,595	1,595	233	194	10,918	10,870	48
Balance of Obligations	(170)	(168)	(673)	(672)	371	371	(472)	(469)	(3)
Outlays	(1,088)	(1,090)	210	210	160	246	(718)	(634)	(84)

	Budgetary Resources	Obligations Incurred	Unobligated Balance	Obligated Balance	Net Outlays
Combined Statement of Budgetary Resources	$ 34,259	$ 23,341	$ 10,918	$ (472)	$ (718)
Expired Funds, Not Reflected in the Budget	(47)	(1)	(46)	-	-
Offsetting Receipts Not Reflected in the Budget	-	-	-	-	85
Other	(2)	-	(2)	3	(1)
Budget of the U.S. Government	$ 34,210	$ 23,340	$ 10,870	$ (469)	$ (634)

13. Combined Statements of Budgetary Resources

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

Balances reported on the CSBR as Prior Year Recoveries generally reflect the downward adjustment of obligations that originated in prior fiscal years that have been cancelled or reduced in the current fiscal year. These balances may also include the effect of adjustments caused when an obligation is modified to change the applicable program, or budget activity. In managing and controlling spending in GSA funds on a fund-by-fund basis, unique budget control levels (such as programs, budget activities or projects) are established. These levels are based on legislative limitations, OMB apportionment limitations, as well as management-defined allotment control limitations, in order to track and monitor amounts available for spending and obligations incurred against such amounts, as is required under the Antideficiency Act. When an obligation from a prior year is modified to change the budget control level of an obligation, a Prior Year Recovery would be credited to the level that was initially charged, and Obligations Incurred would be charged to the new level. While there may be no net change to total obligations in a particular fund, offsetting balances from the upward and downward adjustments would be reported on the corresponding lines of the CSBR.

The basis of the CSBR is data reported to the U.S. Treasury on the SF 133. There were no significant differences between the balances used to prepare the CSBR and the SF 133s in FY 2017 or FY 2016.

14. Consolidated Statements of Changes in Net Position

A. Cumulative Results of Operations

Cumulative results of operations for Revolving Funds include the net cost of operations since their inception, reduced by funds returned to the U.S. Treasury, by congressional rescissions, and by transfers to other federal agencies, in addition to balances representing invested capital. Invested capital includes amounts provided to fund certain GSA assets, principally land, buildings, construction in process, and equipment, as well as appropriated capital provided as the corpus of a fund (generally to meet operating working capital needs).

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

Cumulative Results of Operations on the Consolidated Balance Sheets include balances of funds from dedicated collections as defined in FASAB SFFAS No. 43, which totaled $133 million and $130 million as of September 30, 2017, and 2016, respectively. As further discussed in Notes 1 and 2, balances of funds from dedicated collections are those reported in GSA's Special Funds and Trust Funds, within the Other Funds display on the Consolidated Balance Sheets.

B. Unexpended Appropriations

Unexpended Appropriations consist of unobligated balances and undelivered orders, net of unfilled customer orders in funds that receive appropriations.

Undelivered orders are orders placed by GSA with vendors for goods and services that have not been received. Unfilled customer orders are reimbursable orders placed with GSA by other agencies, other GSA funds, or from the public, where GSA has yet to provide the good or service requested. At September 30, 2017, and 2016, balances reported as unexpended appropriations were as follows (dollars in millions):

	FBF	OTHER FUNDS	TOTAL GSA
2017			
Unobligated Balances:			
Available	**$15**	**$34**	**$49**
Unavailable	**8**	**85**	**93**
Undelivered Orders	**21**	**62**	**83**
Total Unexpended Appropriations	**$44**	**$181**	**$225**
2016			
Unobligated Balances:			
Available	$18	$58	$76
Unavailable	9	58	67
Undelivered Orders	42	62	104
Total Unexpended Appropriations	$69	$178	$247

15. Employee Benefit Plans

A. Background

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

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

B. Civil Service Retirement System

At the end of FY 2017, 5.5 percent (down from 6.7 percent in FY 2016) of GSA employees were covered by the CSRS, a defined benefit plan. Total GSA (employer) contributions (7.5 percent of base pay for law enforcement employees, and 7.0 percent for all others) to CSRS for all employees were as follows (dollars in millions):

	2017	2016
FBF	**$2**	$2
ASF	**1**	2
Other Funds	**2**	2
Total Employer Contributions	**$5**	$6

C. Federal Employees Retirement System

On January 1, 1987, the FERS, a mixed system of defined benefit and defined contribution plans, went into effect pursuant to Public Law 99-335. Employees hired after December 31, 1983, were automatically covered by FERS and Social Security while employees hired before January 1, 1984, elected to either join FERS and Social Security or remain in CSRS. As of September 30, 2017, 93.9 percent (up from 93.0 percent in FY 2016) of GSA employees were covered under FERS. One of the primary differences between FERS and CSRS is that FERS offers automatic and matching contributions into the federal government's Thrift Savings Plan (TSP) for each employee. All employees could invest up to $18,000 in their TSP account in both calendar years 2017 and 2016. In addition, for FERS employees, GSA automatically contributes one percent of base pay and matches employee contributions up to an additional four percent of base pay. For calendar years 2017 and 2016, total contributions made on behalf of an employee could not exceed $54,000 and $53,000, respectively. For FYs 2017 and 2016, the GSA (employer) contributions to FERS (30.1 percent of base pay for law enforcement employees and 13.7 percent for all others) were as follows (dollars in millions):

	2017	2016
FBF	**$68**	$64
ASF	**42**	39
Other Funds	**40**	39
Total Employer Contributions	**$150**	$142

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

	2017	2016
FBF	**$22**	$21
ASF	**14**	13
Other Funds	**13**	12
Total Employer Contributions	**$49**	$46

D. Social Security System

GSA also makes matching contributions for programs of the Social Security Administration (SSA) under the Federal Insurance Contributions Act. For employees covered by FERS, GSA contributed 6.2 percent of gross pay (up to $127,200 and $118,500 in calendar years 2017 and 2016, respectively) to SSA's Old-Age, Survivors, and Disability Insurance (OASDI) Program in calendar year 2017. Additionally, GSA makes matching contributions for all employees of 1.45 percent of gross pay to the Medicare Hospital Insurance program in calendar year 2017. In FY 2017 and 2016, 0.6 percent and 0.3 percent, respectively, of GSA employees are covered exclusively by these programs. Payments to these programs were as follows (dollars in millions):

	2017	2016
FBF	**$38**	$36
ASF	**23**	21
Other Funds	**21**	20
Total Employer Contributions	**$82**	$77

E. Schedule of Unfunded Benefit Costs

Amounts recorded in FYs 2017 and 2016, in accordance with FASAB SFFAS No. 5, for imputed post-employment benefits were as follows (dollars in millions):

	PENSION BENEFITS	HEALTH/LIFE INSURANCE	TOTAL
2017			
FBF	**$7**	**$25**	**$32**
ASF	**4**	**14**	**18**
Other Funds	**4**	**13**	**17**
Total Unfunded Benefit Costs	**$15**	**$52**	**$67**
2016			
FBF	$9	$28	$37
ASF	6	16	22
Other Funds	7	15	22
Total Unfunded Benefit Costs	$22	$59	$81

16. Reconciliation of Net Costs of Operations to Budget

The recognition of earning reimbursable budgetary resources and spending budgetary resources on the CSBR generally has a direct or causal relationship to revenues and expenses recognized on the Consolidated Statements of Net Cost. The reconciliation schedules below bridge the gap between these sources and uses of budgetary resources with the operating results reported on the Consolidated Statements of Net Cost for the fiscal years ended September 30, 2017, and 2016, (dollars in millions):

	FEDERAL BUILDINGS FUND		ACQUISITION SERVICES FUND		OTHER FUNDS		LESS: INTRA-GSA ELIMINATIONS		GSA CONSOLIDATED TOTALS	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
RESOURCES USED TO FINANCE ACTIVITIES										
Obligations Incurred	**$11,538**	$10,700	**$13,626**	$11,633	**$1,007**	$1,008	**$-**	$-	**$26,171**	$23,341
Less: Spending Authority From Offsetting Collections and Adjustments	**(11,867)**	(12,015)	**(12,714)**	(11,379)	**(725)**	(755)	**-**	-	**(25,306)**	(24,149)
Financing Imputed for Cost Subsidies	**45**	56	**31**	37	**29**	26	**26**	35	**79**	84
Other	**107**	(23)	**(28)**	1	**88**	131	**-**	-	**167**	109
Total Resources Used to Finance Activities	**(177)**	(1,282)	**915**	292	**399**	410	**26**	35	**1,111**	(615)
RESOURCES USED THAT ARE NOT PART OF THE NET COST OF OPERATIONS										
(Increase)/Decrease in Goods and Services Ordered But Not Yet Received	**(158)**	(317)	**(1,885)**	(274)	**20**	38	**-**	-	**(2,023)**	(553)
Increase/(Decrease) in Unfilled Customer Orders	**(381)**	563	**963**	210	**(4)**	11	**-**	-	**578**	784
Costs Capitalized on the Balance Sheet	**(1,726)**	(1,078)	**(763)**	(1,043)	**(11)**	(14)	**-**	-	**(2,500)**	(2,135)
Financing Sources Funding Prior Year Costs	**(175)**	(24)	**11**	2	**(14)**	(44)	**-**	-	**(178)**	(66)
Other	**429**	6	**(2)**	(25)	**(87)**	(84)	**-**	-	**340**	(103)
Total Resources Used That Are Not Part of the Net Cost of Operations	**(2,011)**	(850)	**(1,676)**	(1,130)	**(96)**	(93)	**-**	-	**(3,783)**	(2,073)
COSTS FINANCED BY RESOURCES RECEIVED IN PRIOR PERIODS										
Depreciation and Amortization	**1,619**	1,622	**555**	540	**10**	9	**-**	-	**2,184**	2,171
Net Book Value of Property Sold	**-**	-	**214**	290	**-**	-	**-**	-	**214**	290
Other	**25**	39	**-**	-	**-**	-	**-**	-	**25**	39
Total Costs Financed by Resources Received in Prior Periods	**1,644**	1,661	**769**	830	**10**	9	**-**	-	**2,423**	2,500
COSTS REQUIRING RESOURCES IN FUTURE PERIODS										
Unfunded Capitalized Costs	**-**	11	**-**	-	**-**	-	**-**	-	**-**	11
Unfunded Current Expenses	**(122)**	(145)	**-**	-	**11**	32	**-**	-	**(111)**	(113)
Total Costs Requiring Resources in Future Periods	**(122)**	(134)	**-**	-	**11**	32	**-**	-	**(111)**	(102)
Net (Revenues From) Cost of Operations	**$(666)**	$(605)	**$8**	$(8)	**$324**	$358	**$26**	$35	**$(360)**	$(290)

17. Net Cost by Responsibility Segment

OMB Circular A-136, *Financial Reporting Requirements*, requires that the presentation of the Consolidated Statements of Net Cost align with the goals and outcomes identified in the agency's strategic plan. The strategic goals presented in GSA's Consolidated Statements of Net Cost are derived from the missions of the agency's two largest service organizations: the PBS, which manages the FBF, and the FAS, which manages the ASF. The PBS manages building operations by overseeing the design, construction, leasing, and maintenance of government-owned and leased facilities. Responsibility segments include the Government-Owned Building Portfolio and the Leased Building Portfolio. The FAS is organized into five main business portfolios: GS&S, Travel, Transportation and Logistics (TTL), Information Technology (IT), AAS, and Professional Services and Human Capital (PS&HC). The FAS provides acquisition services by leveraging the buying power of the federal government to obtain best values. In May 2016, GSA established TTS, which included the consulting group known as 18F, Presidential Innovation Fellows (PIF), Office of Citizen Services – Innovative Technology (OCSIT), and Electronic Capital Planning Investment Control (ECPIC). The TTS programs were consolidated into FAS in June 2017. The GSA agency-wide strategic plan goals of providing cost savings to customers, increasing operational efficiency, and delivering excellent customer service are embedded in the missions of its service organizations. Revenues and expenses not associated with the PBS or the FAS are reported as Working Capital and General Programs. Eliminations of intra-agency activity are recorded against the organization providing the goods or services, displayed in the ELIM column. The following tables present the FY 2017 and FY 2016 net operating results by strategic goal for each responsibility segment.

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

For the Year Ended September 30, 2017 (Dollars in Millions)	FBF - Owned	FBF - Leased	ASF - GS&S	ASF - TTL	ASF - IT	ASF - AAS	ASF - PS&HC	ASF - OTHER	TTS - 18F/ PIF	TTS - OCSIT, ECPIC	WCF	GENERAL AND SPECIAL FUNDS	GSA COMBINED	ELIM	GSA CONSOLIDATED
Manage Building Operations															
Earned Revenues	$5,150	$6,598	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-	$11,748	$71	$11,677
Less: Operating Expenses	4,376	6,706	-	-	-	-	-	-	-	-	-	-	11,082	85	10,997
Net Revenues from (Cost of) Operations	774	(108)	-	-	-	-	-	-	-	-	-	-	666	(14)	680
Provide Acquisition Services															
Earned Revenues	-	-	995	1,849	1,831	5,382	90	74	29	-	-	-	10,250	188	10,062
Less: Operating Expenses	-	-	1,050	1,692	1,853	5,379	93	136	55	-	-	-	10,258	199	10,059
Net Revenues from (Cost of) Continuing Operations	-	-	(55)	157	(22)	3	(3)	(62)	(26)	-	-	-	(8)	(11)	3
Working Capital and General Programs															
Earned Revenues	-	-	-	-	-	-	-	-	-	8	658	34	700	657	43
Less: Operating Expenses	-	-	-	-	-	-	-	-	-	57	701	266	1,024	658	366
Net Revenues from (Cost of) Operations	-	-	-	-	-	-	-	-	-	(49)	(43)	(232)	(324)	(1)	(323)
GSA Consolidated Net Results															
Earned Revenues	5,150	$6,598	995	1,849	1,831	5,382	90	74	29	8	658	34	22,698	916	21,782
Less: Operating Expenses	4,376	6,706	1,050	1,692	1,853	5,379	93	136	55	57	701	266	22,364	942	21,422
Net Revenues from (Cost of) GSA Operations	$774	(108)	(55)	$157	(22)	$3	(3)	(62)	$(26)	$(49)	$(43)	$(232)	$334	$(26)	$360

The accompanying notes are an integral part of these statements.

For the Year Ended September 30, 2016
(Dollars in Millions)

For the Year Ended September 30, 2016 (Dollars in Millions)	FBF - Owned	FBF - Leased	ASF - GS&S	ASF - TTL	ASF - IT	ASF - AAS	ASF - PS&HC	ASF - OTHER	TTS - 18F/ PIF	TTS - OCSIT, ECPIC	WCF	GENERAL AND SPECIAL FUNDS	GSA COMBINED	ELIM	GSA CONSOLIDATED
Manage Building Operations															
Earned Revenues	$4,878	$6,410	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-	$11,288	$72	$11,216
Less: Operating Expenses	4,171	6,512	-	-	-	-	-	-	-	-	-	-	10,683	90	10,593
Net Revenues from (Cost of) Operations	707	(102)	-	-	-	-	-	-	-	-	-	-	605	(18)	623
Provide Acquisition Services															
Earned Revenues	-	-	902	1,946	1,770	4,556	86	66	33	-	-	-	9,359	171	9,188
Less: Operating Expenses	-	-	949	1,715	1,811	4,553	81	188	54	-	-	-	9,351	186	9,165
Net Revenues from (Cost of) Continuing Operations	-	-	(47)	231	(41)	3	5	(122)	(21)	-	-	-	8	(15)	23
Working Capital and General Programs															
Earned Revenues	-	-	-	-	-	-	-	-	-	12	671	26	709	656	53
Less: Operating Expenses	-	-	-	-	-	-	-	-	-	69	732	266	1,067	658	409
Net Revenues from (Cost of) Operations	-	-	-	-	-	-	-	-	-	(57)	(61)	(240)	(358)	(2)	(356)
GSA Consolidated Net Results															
Earned Revenues	4,878	6,410	902	1,946	1,770	4,556	86	66	33	12	671	26	21,356	899	20,457
Less: Operating Expenses	4,171	6,512	949	1,715	1,811	4,553	81	188	54	69	732	266	21,101	934	20,167
Net Revenues from (Cost of) GSA Operations	$707	$(102)	$(47)	231	$(41)	$3	$5	(122)	$(21)	$(57)	$(61)	$(240)	$255	$(35)	$290

The accompanying notes are an integral part of these statements.

Consolidating Financial Statements

U.S. General Services Administration

SCHEDULE 1

Consolidating Balance Sheets

As of September 30, 2017 and 2016
(Dollars in Millions)

	FEDERAL BUILDINGS FUND		ACQUISITION SERVICES FUND		OTHER FUNDS		LESS: INTRA-GSA ELIMINATIONS		GSA CONSOLIDATED TOTALS	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
ASSETS										
Intragovernmental Assets:										
Fund Balance with Treasury (Notes 1-D, 2)	**$9,697**	$8,894	**$941**	$922	**$752**	$785	**$-**	$-	**$11,390**	$10,601
Accounts Receivable - Federal, Net (Note 4)	**511**	483	**1,950**	1,769	**2**	3	**48**	60	**2,415**	2,195
Capital Lease Payments Receivable (Note 8)	**51**	59	**20**	44	**-**	-	**-**	-	**71**	103
Prepaid Expenses and Advances - Federal	**138**	2	**2**	2	**1**	-	**-**	-	**141**	4
Total Intragovernmental Assets	**10,397**	9,438	**2,913**	2,737	**755**	788	**48**	60	**14,017**	12,903
Accounts Receivable - Non-Federal, Net (Note 4)	**16**	22	**127**	110	**14**	18	**-**	-	**157**	150
Inventories (Note 1-E)	**-**	-	**7**	14	**-**	-	**-**	-	**7**	14
Other Assets (Note 5)	**154**	176	**49**	50	**-**	-	**-**	-	**203**	226
Property and Equipment: (Notes 1-F, 6)										
Buildings	**46,273**	45,150	**-**	-	**-**	-	**-**	-	**46,273**	45,150
Leasehold Improvements	**300**	299	**31**	30	**3**	2	**-**	-	**334**	331
Motor Vehicles	**-**	-	**5,751**	5,579	**-**	-	**-**	-	**5,751**	5,579
Equipment and Other Property	**176**	185	**378**	380	**163**	152	**-**	-	**717**	717
Less: Accumulated Depreciation and Amortization	**(26,646)**	(25,109)	**(2,395)**	(2,250)	**(139)**	(129)	**-**	-	**(29,180)**	(27,488)
Subtotal	**20,103**	20,525	**3,765**	3,739	**27**	25	**-**	-	**23,895**	24,289
Land	**1,695**	1,678	**-**	-	**-**	-	**-**	-	**1,695**	1,678
Construction in Process and Software in Development	**1,444**	1,076	**2**	1	**1**	1	**-**	-	**1,447**	1,078
Total Property and Equipment, Net	**23,242**	23,279	**3,767**	3,740	**28**	26	**-**	-	**27,037**	27,045
TOTAL ASSETS	**$33,809**	$32,915	**$6,863**	$6,651	**$797**	$832	**$48**	$60	**$41,421**	$40,338
LIABILITIES AND NET POSITION										
Intragovernmental Liabilities:										
Accounts Payable and Accrued Expenses - Federal	**$7**	$14	**$36**	$30	**$49**	$61	**$48**	$60	**$44**	$45
Judgment Fund Liability (Note 11)	**490**	481	**-**	1	**-**	-	**-**	-	**490**	482
Deferred Revenues and Advances - Federal (Note 11)	**612**	298	**14**	7	**38**	39	**-**	-	**664**	344
Amounts Owed to the General Fund (Note 11)	**-**	-	**-**	-	**34**	36	**-**	-	**34**	36
Other Intragovernmental Liabilities (Notes 9, 11)	**23**	24	**9**	9	**56**	50	**-**	-	**88**	83
Total Intragovernmental Liabilities	**1,132**	817	**59**	47	**177**	186	**48**	60	**1,320**	990
Accounts Payable and Accrued Expenses - Non-Federal	**1,075**	966	**1,679**	1,439	**7**	9	**-**	-	**2,761**	2,414
Environmental and Disposal Liabilities (Notes 6, 10-E, 11)	**1,823**	1,993	**-**	-	**99**	99	**-**	-	**1,922**	2,092
Capital Lease and Installment Purchase Liability (Note 11)	**571**	585	**-**	-	**-**	-	**-**	-	**571**	585
Unamortized Rent Abatement Liability (Note 11)	**485**	445	**-**	-	**-**	-	**-**	-	**485**	445
Workers' Compensation Actuarial Liability (Notes 7, 11)	**75**	76	**24**	25	**14**	14	**-**	-	**113**	115
Annual Leave Liability (Notes 1-G, 11)	**48**	47	**31**	30	**30**	29	**-**	-	**109**	106
Deposit Fund Liability (Note 11)	**-**	-	**-**	-	**28**	32	**-**	-	**28**	32
Other Liabilities (Notes 9, 11)	**41**	32	**23**	29	**26**	25	**-**	-	**90**	86
Total Liabilities	5,250	4,961	1,816	1,570	**381**	394	48	60	**7,399**	6,865
Net Position: (Note 14)										
Cumulative Results of Operations	**28,515**	27,885	**5,047**	5,081	**235**	260	**-**	-	**33,797**	33,226
Unexpended Appropriations	**44**	69	**-**	-	**181**	178	**-**	-	**225**	247
Total Net Position	**28,559**	27,954	**5,047**	5,081	**416**	438	**-**	-	**34,022**	33,473
TOTAL LIABILITIES AND NET POSITION	**$33,809**	$32,915	**$6,863**	$6,651	**$797**	$832	**$48**	$60	**$41,421**	$40,338

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

U.S. General Services Administration

SCHEDULE 2

Consolidating Statements of Net Cost

For the Fiscal Years Ended September 30, 2017 and 2016
(Dollars in Millions)

	2017			2016		
	REVENUES	**EXPENSES**	**NET REVENUES FROM (COST OF) OPERATIONS**	REVENUES	EXPENSES	NET REVENUES FROM (COST OF) OPERATIONS
FEDERAL BUILDINGS FUND:						
Building Operations - Government Owned	**$5,150**	**$4,376**	**$774**	$4,878	$4,171	$707
Building Operations - Leased	**6,598**	**6,706**	**(108)**	6,410	6,512	(102)
Subtotal	**11,748**	**11,082**	**666**	11,288	10,683	605
ACQUISITION SERVICES FUND:						
General Supplies and Services	**995**	**1,050**	**(55)**	902	949	(47)
Travel, Transportation, and Logistics	**1,849**	**1,692**	**157**	1,946	1,715	231
Information Technology	**1,831**	**1,853**	**(22)**	1,770	1,811	(41)
Assisted Acquisition Services	**5,382**	**5,379**	**3**	4,556	4,553	3
Professional Services and Human Capital	**90**	**93**	**(3)**	86	81	5
Other Programs	**103**	**191**	**(88)**	99	242	(143)
Subtotal	**10,250**	**10,258**	**(8)**	9,359	9,351	8
OTHER FUNDS:						
Working Capital Fund	**663**	**705**	**(42)**	676	737	(61)
Other General Funds	**37**	**319**	**(282)**	33	330	(297)
Subtotal	**700**	**1,024**	**(324)**	709	1,067	(358)
INTRA-GSA ELIMINATIONS:						
Less: Intra-GSA Eliminations	**916**	**942**	**(26)**	899	934	(35)
GSA Consolidated Totals	**$21,782**	**$21,422**	**$360**	$20,457	$20,167	$290

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

U.S. General Services Administration

SCHEDULE 3

Consolidating Statements of Changes in Net Position

For the Fiscal Years Ended September 30, 2017 and 2016
(Dollars in Millions)

	FEDERAL BUILDINGS FUND		ACQUISITION SERVICES FUND		OTHER FUNDS		LESS: INTRA-GSA ELIMINATIONS		GSA CONSOLIDATED TOTALS	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
BEGINNING BALANCE OF NET POSITION:										
Cumulative Results of Operations	**$27,885**	$27,194	**$5,081**	$5,033	**$260**	$388	**$-**	$-	**$33,226**	$32,615
Unexpended Appropriations	**69**	89	**-**	-	**178**	166	**-**	-	**247**	255
Net Position Beginning Balance	**27,954**	27,283	**5,081**	5,033	**438**	554	**-**	-	**33,473**	32,870
RESULTS OF OPERATIONS:										
Net Revenues From (Cost of) Operations	**666**	605	**(8)**	8	**(324)**	(358)	**(26)**	(35)	**360**	290
Appropriations Used (Note 1-C)	**25**	9	**-**	-	**249**	240	**-**	-	**274**	249
Non-Exchange Revenue (Notes 1-C, 1-D)	**(1)**	1	**-**	-	**81**	98	**-**	-	**80**	99
Imputed Financing Provided By Others	**45**	56	**31**	37	**29**	26	**26**	35	**79**	84
Transfer of Earnings Paid and Payable to U.S. Treasury	**-**	-	**(68)**	-	**(53)**	(76)	**-**	-	**(121)**	(76)
Transfers of Net Assets and Liabilities (To) From Other Federal Agencies	**(105)**	20	**11**	3	**-**	(42)	**-**	-	**(94)**	(19)
Other	**-**	-	**-**	-	**(7)**	(16)	**-**	-	**(7)**	(16)
Net Results of Operations	**630**	691	**(34)**	48	**(25)**	(128)	**-**	-	**571**	611
CHANGES IN UNEXPENDED APPROPRIATIONS:										
Appropriations Received	**-**	-	**-**	-	**253**	254	**-**	-	**253**	254
Appropriations Used	**(25)**	(9)	**-**	-	**(249)**	(240)	**-**	-	**(274)**	(249)
Appropriations Adjustments and Transfers (To) From Other Agencies or Funds	**-**	(11)	**-**	-	**(1)**	(2)	**-**	-	**(1)**	(13)
Net Change in Unexpended Appropriations	**(25)**	(20)	**-**	-	**3**	12	**-**	-	**(22)**	(8)
ENDING BALANCE OF NET POSITION:										
Cumulative Results of Operations	**28,515**	27,885	**5,047**	5,081	**235**	260	**-**	-	**33,797**	33,226
Unexpended Appropriations	**44**	69	**-**	-	**181**	178	**-**	-	**225**	247
Net Position Ending Balance	**$28,559**	$27,954	**$5,047**	$5,081	**$416**	$438	**$-**	$-	**$34,022**	$33,473

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

U.S. General Services Administration

Schedule 4

Combining Statements of Budgetary Resources

For the Fiscal Years Ended September 30, 2017 and 2016
(Dollars in Millions)

	FEDERAL BUILDINGS FUND		ACQUISITION SERVICES FUND		OTHER FUNDS		GSA COMBINED TOTALS	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
BUDGETARY RESOURCES								
Unobligated Balance from Prior Year Budget Authority:								
Unobligated Balance Brought Forward, October 1	**$5,903**	$4,219	**$1,595**	$1,849	**$233**	$226	**$7,731**	$6,294
Adjustment to Unobligated Balance Brought Forward	**-**	-	**-**	(34)	**-**	1	**-**	(33)
Recoveries of Prior Year Unpaid Obligations	**167**	129	**302**	287	**29**	25	**498**	441
Other Changes in Unobligated Balance	**2**	3	**(61)**	5	**(6)**	(18)	**(65)**	(10)
Unobligated Balance from Prior Year Budget Authority, Net	**6,072**	4,351	**1,836**	2,107	**256**	234	**8,164**	6,692
Appropriations, Net	**-**	-	**-**	-	**275**	280	**275**	280
Spending Authority from Offsetting Collections:								
Collections	**12,029**	11,356	**11,272**	10,403	**701**	731	**24,002**	22,490
Change in Uncollected Customer Payments	**(334)**	516	**1,133**	718	**(4)**	(4)	**795**	1,230
Previously Unavailable	**3,190**	3,567	**-**	-	**-**	-	**3,190**	3,567
Resources Temporarily Not Available	**(4,673)**	(3,187)	**-**	-	**-**	-	**(4,673)**	(3,187)
Total Spending Authority from Offsetting Collections	**10,212**	12,252	**12,405**	11,121	**697**	727	**23,314**	24,100
Total Budgetary Resources	**16,284**	16,603	**14,241**	13,228	**1,228**	1,241	**31,753**	31,072
STATUS OF BUDGETARY RESOURCES								
Obligations Incurred:								
Direct	**503**	95	**-**	-	**277**	262	**780**	357
Reimbursable	**11,035**	10,605	**13,626**	11,633	**730**	746	**25,391**	22,984
Total Obligations Incurred	**11,538**	10,700	**13,626**	11,633	**1,007**	1,008	**26,171**	23,341
Unobligated Balance:								
Apportioned	**4,738**	5,755	**(319)**	640	**113**	118	**4,532**	6,513
Unapportioned	**8**	148	**934**	955	**108**	115	**1,050**	1,218
Total Unobligated Balance, End of Period	**4,746**	5,903	**615**	1,595	**221**	233	**5,582**	7,731
Total Status of Budgetary Resources	**16,284**	16,603	**14,241**	13,228	**1,228**	1,241	**31,753**	31,072
CHANGE IN OBLIGATED BALANCE								
Unpaid Obligations:								
Unpaid Obligations, Brought Forward, October 1, Gross	**4,093**	3,804	**5,727**	4,999	**385**	380	**10,205**	9,183
Obligations Incurred	**11,538**	10,700	**13,626**	11,633	**1,007**	1,008	**26,171**	23,341
Outlays, Gross	**(11,231)**	(10,282)	**(11,193)**	(10,618)	**(1,012)**	(978)	**(23,436)**	(21,878)
Recoveries of Prior Year Unpaid Obligations	**(167)**	(129)	**(302)**	(287)	**(29)**	(25)	**(498)**	(441)
Unpaid Obligations, End of Period, Gross	**4,233**	4,093	**7,858**	5,727	**351**	385	**12,442**	10,205
Uncollected Payments:								
Uncollected Customer Payments, Brought Forward, October 1	**(4,263)**	(3,747)	**(6,400)**	(5,716)	**(14)**	(17)	**(10,677)**	(9,480)
Adjustment to Uncollected Customer Payments, Brought Forward	**-**	-	**-**	34	**-**	(1)	**-**	33
Change in Uncollected Customer Payments from Federal Sources	**334**	(516)	**(1,133)**	(718)	**4**	4	**(795)**	(1,230)
Uncollected Customer Payments from Federal Sources, End of Period	**(3,929)**	(4,263)	(7,533)	(6,400)	(10)	(14)	(11,472)	(10,677)
Obligated Balance, Start of Year, Oct 1:	**(170)**	57	**(673)**	(683)	**371**	362	**(472)**	(264)
Obligated Balance, End of Period:	**304**	(170)	**325**	(673)	**341**	371	**970**	(472)
BUDGET AUTHORITY AND OUTLAYS, NET								
Budget Authority, Gross	**10,212**	12,252	**12,405**	11,121	**973**	1,007	**23,590**	24,380
Actual Offsetting Collections	**(12,034)**	(11,370)	**(11,279)**	(10,408)	**(702)**	(733)	**(24,015)**	(22,511)
Change in Uncollected Customer Payments from Federal Sources	**334**	(516)	**(1,133)**	(718)	**4**	4	**(795)**	(1,230)
Additional Offsets Against Budget Authority	**5**	14	**7**	5	**1**	1	**13**	20
Budget Authority, Net	**(1,483)**	380	**-**	-	**276**	279	**(1,207)**	659
Gross Outlays	**11,231**	10,282	**11,193**	10,618	**1,012**	978	**23,436**	21,878
Less: Offsetting Collections	**(12,034)**	(11,370)	**(11,279)**	(10,408)	**(702)**	(733)	**(24,015)**	(22,511)
Net Outlays from Operating Activity	**(803)**	(1,088)	**(86)**	210	**310**	245	**(579)**	(633)
Distributed Offsetting Receipts	**-**	-	**-**	-	**(84)**	(85)	**(84)**	(85)
Total Net Outlays	**$(803)**	$(1,088)	**$(86)**	$210	**$226**	$160	**$(663)**	$(718)

Required Supplementary Information *(Unaudited)*

Deferred Maintenance and Repairs

In FY 2014, GSA implemented FASAB SFFAS No. 42, Deferred Maintenance and Repairs: Amending Statements of Federal Financial Accounting Standards 6, 14, 29 and 32, which amended the Required Supplementary Information (RSI) presentation requirements.

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

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

GSA utilizes a Physical Condition Survey (PCS) tool to determine the amount of all repairs and alterations needed to correct major components or systems deficiencies and restore its owned buildings (and certain leased buildings where GSA has responsibility for repairs and alterations) to an acceptable condition, as well as repairs and alterations that will be required in the next several years. GSA requires a PCS for every government-owned, leased, or delegated asset that meets all the following criteria according to the Real Estate Across the United States (REXUS) system:

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

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

Data collected in the PCS is gathered to support GSA's overall building assessment, workload planning, and budgeting needs, and is not designed to specifically capture data that would be defined as DM&R. However, subsets of the workload planning directly results from conditions classified as DM&R. GSA has determined from analysis of data in PCS, that when applying certain data criteria, results can be used to provide a reasonable estimate to meet the FASAB DM&R reporting objectives. At the end of FYs 2017 and 2016, based on the analysis of the PCS results, GSA estimates the total cost of DM&R to be approximately $1,385 million and $1,214 million, respectively, for activities categorized as work needing to be performed immediately to restore or maintain acceptable condition of the building inventory.

GSA measures the condition of its inventory of buildings by using an industry accepted metric called the Facility Condition Index (FCI). The FCI is the ratio between total Repair and Alteration Needs and the Functional Replacement Value of an asset (i.e. repair needs divided by the asset's replacement value). As of the end of FY 2017, approximately 77.29 percent of GSA's inventory, based on square footage, is considered in "Good Condition," with an FCI of 10 percent or less.

Supplemental Schedule of Budgetary Resources

In its principal financial statements, GSA displays balances for the two major funds (FBF and ASF) while combining all remaining funds into an "Other Funds" group. Within the Other Funds group, The Working Capital Fund (WCF) makes up approximately 65% of the total budgetary resources. As the WCF activities are a very significant component of the total Other Funds budgetary results, below is a schedule showing the activities of WCF and Other Funds for the years ended September 30, 2017 and 2016 (dollars in millions):

	OTHER FUNDS EXCLUDING WCF		WORKING CAPITAL FUND		OTHER FUNDS TOTAL	
	2017	2016	**2017**	2016	**2017**	2016
BUDGETARY RESOURCES						
Unobligated Balance from Prior Year Budget Authority:						
Unobligated Balance Brought Forward, October 1	**$126**	$128	**$107**	$98	**$233**	$226
Adjustment to Unobligated Balance Brought Forward	**-**	1	**-**	-	**-**	1
Recoveries of Prior Year Unpaid Obligations	**9**	6	**20**	19	**29**	25
Other Changes in Unobligated Balance	**(10)**	(34)	**4**	16	**(6)**	(18)
Unobligated Balance from Prior Year Budget Authority, Net	**125**	101	**131**	133	**256**	234
Appropriations	**275**	280	**-**	-	**275**	280
Spending Authority from Offsetting Collections:						
Collections	**38**	47	**663**	684	**701**	731
Change in Uncollected Customer Payments	**(3)**	1	**(1)**	(5)	**(4)**	(4)
Total Spending Authority from Offsetting Collections	**35**	48	**662**	679	**697**	727
Total Budgetary Resources	**435**	429	**793**	812	**1,228**	1,241
STATUS OF BUDGETARY RESOURCES						
Obligations Incurred:						
Direct	**277**	262	**-**	-	**277**	262
Reimbursable	**37**	41	**693**	705	**730**	746
Total Obligations Incurred	**314**	303	**693**	705	**1,007**	1,008
Unobligated Balance:						
Apportioned	**99**	98	**14**	20	**113**	118
Unapportioned	**22**	28	**86**	87	**108**	115
Total Unobligated Balance, End of Period	**121**	126	**100**	107	**221**	233
Total Status of Budgetary Resources	**435**	429	**793**	812	**1,228**	1,241
CHANGE IN OBLIGATED BALANCE						
Unpaid Obligations:						
Unpaid Obligations, Brought Forward, October 1, Gross	**108**	106	**277**	274	**385**	380
Obligations Incurred	**314**	303	**693**	705	**1,007**	1,008
Outlays, Gross	**(302)**	(295)	**(710)**	(683)	**(1,012)**	(978)
Recoveries of Prior Year Unpaid Obligations	**(9)**	(6)	**(20)**	(19)	**(29)**	(25)
Unpaid Obligations, End of Period, Gross	**111**	108	**240**	277	**351**	385
Uncollected Payments:						
Uncollected Customer Payments, Brought Forward, October 1	**(9)**	(8)	**(4)**	(9)	**(14)**	(17)
Adjustment to Uncollected Customer Payments, Brought Forward	**-**				**-**	(1)
Change in Uncollected Customer Payments from Federal Sources	**3**	(1)	**1**	5	**4**	4
Uncollected Customer Payments from Federal Sources, End of Period	**(6)**	(9)	**(3)**	(4)	**(10)**	(14)
Obligated Balance, Start of Year, Oct 1:	**98**	97	**273**	265	**371**	362
Obligated Balance, End of Period:	**104**	98	**237**	273	**341**	371
BUDGET AUTHORITY AND OUTLAYS, NET						
Budget Authority, Gross	**$311**	$327	**$662**	$680	**$973**	1,007
Actual Offsetting Collections	**(39)**	(49)	**(663)**	(684)	**(702)**	(733)
Change in Uncollected Customer Payments from Federal Sources	**3**	(1)	**1**	5	**4**	4
Additional Offsets Against Buget Authority	**1**	1	**-**	-	**1**	1
Budget Authority, Net	**276**	278	**-**	1	**276**	279
Gross Outlays	**302**	295	**710**	683	**1,012**	978
Less: Offsetting Collections	**(39)**	(48)	**(663)**	(685)	**(702)**	(733)
Net Outlays from Operating Activity	**263**	247	**47**	(2)	**310**	245
Distributed Offsetting Receipts	**(84)**	(85)	**-**	-	**(84)**	(85)
Total Net Outlays	**$179**	$162	**$47**	$(2)	**$226**	$160

Other Information

(Unaudited)

U.S. General Services Administration
Office of Inspector General

October 13, 2017

MEMORANDUM FOR TIMOTHY O. HORNE
ACTING ADMINISTRATOR (A)

FROM: CAROL F. OCHOA
INSPECTOR GENERAL (J)

SUBJECT: Assessment of GSA's Management and Performance Challenges for Fiscal Year 2018

As required by the Reports Consolidation Act of 2000, Public Law 106-531, we have prepared for inclusion in the fiscal year 2017 Agency Financial Report, the attached statement summarizing what we consider to be the most significant management and performance challenges facing GSA in fiscal year 2018.

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

1. Enhancing Government Procurement.
2. Maximizing the Performance of GSA's Real Property Inventory.
3. Sustaining Technology Transformation Services, FAS.
4. Making Agency Cybersecurity a Priority.
5. Efficiently Managing Human Capital to Accomplish GSA's Mission.
6. Safeguarding Federal Facilities and Providing a Secure Work Environment.

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

Attachment

1800 F Street, NW, Washington, DC 20405

GSA'S MANAGEMENT AND PERFORMANCE CHALLENGES FOR FISCAL YEAR 2018

OFFICE OF INSPECTOR GENERAL

Challenge 1: Enhancing Government Procurement

GSA's Federal Acquisition Service (FAS) operates to create efficiency in the federal government's acquisition of goods and services. FAS seeks to accomplish this by leveraging the buying power of the federal government to obtain necessary products and services at the best value possible. However, FAS faces challenges in fulfilling its mission to meet its customers' needs effectively, efficiently, and economically.

FAS is undertaking multiple initiatives with the goal of being recognized as the government's primary acquisition marketplace. The initiatives include a significant reliance on data from multiple sources, the realignment of its workforce, a continued shift in price analysis techniques, and the consolidation of ten procurement-related systems into one. These initiatives and changes are aimed at enhancing government procurement, but they also apply new methodologies and significantly change FAS's processes and programs, affecting both its employees and its customer agencies.

Support and Adoption of Category Management

In fiscal year (FY) 2014, the Office of Management and Budget, Office of Federal Procurement Policy, introduced category management to: strengthen federal acquisition practices, leverage federal agencies' buying power, eliminate duplicative contracts, and collectively manage commonly purchased goods and services.[1] The intent of category management is to increase government agencies' efficiency and effectiveness while reducing costs and redundancies. Thus, category management has been designed to allow the federal government to act as one buying entity.

As the leader in government procurement, FAS has implemented two significant practices in support of category management. First, FAS has championed the Acquisition Gateway; and second, it has committed its internal acquisition workforce to executing this initiative. Each presents its own unique challenges.

Acquisition Gateway. FAS created the Acquisition Gateway as a portal for the government contracting community to connect and find acquisition related information in an effort to improve the speed and quality of federal purchases. Ultimately, the Acquisition Gateway is intended to decrease costs and reduce duplicative contracts, which aligns with the goals of category management.[2]

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[1] Office of Management and Budget memorandum, *Transforming the Marketplace: Simplifying Federal Procurement to Improve Performance, Drive Innovation, and Increase Savings* (December 4, 2014).
[2] *U.S. General Services Administration Annual Performance Plan and Report,* Fiscal Year 2017.

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The Acquisition Gateway is organized under ten government spend categories identified by the Office of Management and Budget. As of FY 2017, the Acquisition Gateway contains nearly 300 samples of acquisition documents; 1,000 acquisition-related articles, lessons learned, and templates; and over 200,000 searchable requests for quotes. In FY 2016, FAS spent $10.8 million on the Acquisition Gateway and additional funding for further development is planned for FYs 2017 and 2018.

As the Acquisition Gateway matures and additional government funds are expended to support it, FAS is challenged with how to measure the success and effectiveness of the portal. Thus far, FAS has measured the Acquisition Gateway's success by the quantity of registered users and the number of federal agencies using it. However, FAS must also consider the number of returning, active users that are contributing accurate, useful, and accessible information to the portal and the resulting effect on government procurement. In addition, as various users are urged to contribute to the portal, it is important for FAS to ensure that the information in the portal is reliable and valid. These aspects are critical to analyze progress, measure the portal's effectiveness, and ultimately, determine if this information sharing is leading to better procurements. FAS can then use what it learns to provide valuable insight to the acquisition community on the effects of category management and be better positioned to perform as the government's procurement leader.

Absent the use of such measures, FAS will be challenged to ensure the success of the Acquisition Gateway. The success of the Acquisition Gateway should not be judged solely by the quantity of users and content, but by whether it is actually helping federal agencies acquire goods and services at fair and reasonable prices.

Acquisition Workforce Support. The Office of Management and Budget memorandum *Transforming the Marketplace: Simplifying Federal Procurement*, *Drive Innovation, and Increase Savings* requires the federal government to reshape the way it does business through category management. In reshaping its operations, FAS committed to the initiative and restructured its workforce to align with category management.

The workforce realignment primarily shifted resources among various FAS portfolios to align with the Office of Management and Budget's government spend categories. However, FAS management must be alert for unintended consequences, such as duplication of effort or reduced productivity during the transition. For FAS to benefit from the realignment of its workforce to support category management, full and open communication about shifting resources and responsibilities is necessary.

Emphasis on Reducing Government Price Variability

GSA has launched several pricing initiatives that focus on reducing price variability. Principal among these initiatives are the Transactional Data Reporting rule, the Formatted Product Tool, and the Contract Awarded Labor Category Tool. However, these initiatives either have not been fully implemented as intended or do not consider factors that are essential to ensure that a valid price comparison is conducted. Additionally, these initiatives only use comparisons between government contract pricing to reduce variability, significantly severing the link between government pricing and the commercial marketplace.

As it works to address these challenges, GSA still must ensure that it can fulfill its responsibility to achieve and maintain fair and reasonable pricing for customer agencies and drive savings for the taxpayer.

Transactional Data Reporting. GSA is currently implementing the Transactional Data Reporting rule, which was formalized in the Federal Register in June 2016, as a pilot program. Under this pilot, contractors can voluntarily opt to electronically report the prices GSA customers pay for contract products and services. However, using this data to make comparisons and reduce price variability will be difficult because GSA's Schedules Program includes non-standard products and services.[3] The transactional data GSA receives also may not provide useful pricing information for contracting officers because of how the data is reported. For example, if a contractor's transactional data submission includes bundled product and pricing information, it will not be useful for price analysis of products on the GSA contract that are priced as individual components. Furthermore, contracting officers will compare a contractor's offered price to a limited subset of prices paid by federal customers on actual GSA schedule sales, which ignores any comparable commercial activity.

Formatted Product Tool. In 2015, FAS launched the Competitive Pricing Initiative in an effort to address concerns over price variability in the Schedules Program. This initiative, which focuses on products sold through the program, centers around 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.

The Competitive Pricing Initiative is built around the Formatted Product Tool, which is intended to identify outlier pricing. FAS established this tool to help schedule contractors and GSA contracting officers negotiate competitive prices for schedule products with identical manufacturer part numbers. One challenge to meeting this goal is that although the Formatted Product Tool may identify a contractor's pricing as falling outside the acceptable range for a product, no contractual obligation requires the contractor to lower its prices or remove the product from its schedule contract. Another concern is that the Formatted Product Tool's price comparisons may not be accurate. For example, as we have noted in the course of our audits, two contractors may offer identical items using different manufacturer part numbers. The Formatted Product Tool would not compare those items and thus would fail to detect any price differences between them.

Users have also experienced significant system issues with the Formatted Product Tool, such as difficulty uploading pricing data and generating pricing documents and analysis. Because of these issues, GSA has suspended the tool's full deployment. GSA initially

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[3] GSA's Schedule Program is also referred to as Multiple Award Schedules and Federal Supply Schedules programs.

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planned to use the tool for six schedules beginning no later than the first quarter of FY 2017, but has since scaled back the deployment to a voluntary pilot on only two of the six schedules.

Contract Awarded Labor Category Tool. The Contract Awarded Labor Category Tool is designed 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 56,000 labor categories in over 5,000 contracts under GSA's Professional Services and Information Technology schedules. This tool allows contracting officers to search contract prices by labor category and filter by education level, experience, and worksite. However, because contractors often use unique pricing on task orders, the tool does not provide the actual government prices paid by labor category or the discounts granted to customer agencies. Furthermore, the tool does not consider factors such as geographic location or basic labor category qualification requirements, including specialized experience or skills and mandated professional licensing or certifications, which are essential to ensuring that the comparison is valid.

While none of these initiatives or tools completely eliminate price variability, they all ignore the commercial marketplace and emphasize the acceptance of pricing within an acceptable range based solely on the GSA schedule marketplace, increasing the likelihood that the government will overpay for the same products and services purchased commercially. As GSA continues to apply these tools and initiatives, it must develop means to ensure they maintain a crucial link to the commercial market. GSA must avoid circumstances in which government customers are paying significantly more for the same products and services that are purchased commercially.

Delivering the System for Award Management

GSA is responsible for the System for Award Management (SAM), which is a Presidential e-Government initiative to consolidate ten existing procurement-related systems into one. These legacy systems (referred to as the Integrated Award Environment) are primarily used by those who award, administer, or are awarded federal contracts and intergovernmental transactions, such as grants or other federal assistance. Started in 2008, this initiative has historically overrun timeframes and incurred increased costs. Given the systems' nearly 4 million federal users, diligent project and fiscal management are necessary to ensure SAM's completion and system quality.

Since its inception, FAS has confronted a number of significant challenges to the SAM project. In addition to the daunting task of consolidating ten legacy systems under a complex governance structure, FAS has faced funding constraints, contractor performance issues, and high turnover of project staff. FAS also changed its system development approach. As a result of these challenges, the project – which GSA once expected to complete by 2014 – is not estimated for completion until 2021.

The project delays have also led to significant costs, as FAS must keep legacy systems functioning until the consolidation is finalized. FAS reports the total actual and projected costs for the development of SAM and operation and maintenance for the legacy systems, from FYs 2010 through 2019, are approximately $813 million.

GSA has updated the SAM consolidation project milestones; however, risks remain that have the potential to further delay the project's completion. For instance, although FAS is discouraging all but critical or urgent changes to the system in order to focus available resources on the consolidation effort, system changes may be necessary to ensure compliance with updates to regulations or policy or fulfill requests from governance bodies.

Additionally, GSA must act to address the need for uniquely identifying and validating recipients of federal funding in SAM. This is driven by: (1) a Federal Acquisition Regulation final rule that eliminated the use of Dun and Bradstreet's proprietary Data Universal Numbering System as the unique identifier, and (2) the 2018 expiration of Dun and Bradstreet's current GSA contract.

The success of the SAM initiative is critical to enable agencies to share acquisition data and make informed decisions, make it easier for contractors to do business with the government, and generate savings for the taxpayer. While GSA has taken steps to improve and stabilize the project, it must apply sound management practices to identify and address risks to project completion and to ensure the project is delivered in a cost effective and timely manner.

Challenge 2: Maximizing the Performance of GSA's Real Property Inventory

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

Reducing and Consolidating Space

To meet the Office of Management and Budget's "Freeze the Footprint" and "Reduce the Footprint" mandates, GSA analyzes opportunities to improve space utilization in its real property portfolio. However, space reduction and consolidation projects should not only be focused on meeting utilization rate goals, but must also support the customer agency mission and achieve an adequate cost payback.

Since FY 2014, Congress has provided GSA with the authority to use funds for space consolidation projects. Most recently in FY 2017, Congress authorized the use of $48 million from the Federal Buildings Fund to reconfigure and renovate space within GSA-owned and leased buildings. Congress called for preference to be given to consolidation projects that achieve a utilization rate of 130 usable square feet or less per person. GSA

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plans to use the funds to improve space utilization, decrease its reliance on leases, and reduce the federal footprint. The goal of these projects is to enable agencies to consolidate within space that more efficiently meets their mission needs while, at the same time, reducing costs to the American taxpayer.

However, GSA is challenged with ensuring it selects projects that will achieve measurable benefits, rather than simply reducing the federal building portfolio. In a time of limited funding, GSA must select the reduction and consolidation projects that will allow it to best maintain its buildings, meet its customers' needs, and lower the total cost incurred by government. For example, while GSA's tenants benefit from a reduced footprint's lower lease costs, GSA risks significant losses to the Federal Buildings Fund if it cannot backfill the vacated space that remains under lease. There are also additional costs if GSA forces an agency to move as part of a consolidation project. In these situations, GSA funds all reasonable costs associated with the relocation of the vacating agency, including design, move coordination and physical relocation, and relocation and installation of telecommunications and information technology equipment.

As GSA continues to facilitate agency consolidation projects, it must ensure that the consolidation projects are cost effective and provide an adequate payback. GSA needs to avoid consolidation projects that improve space utilization, but that are not cost effective and that disrupt agency operations for minimal benefits.

Disposing and Exchanging Federal Property

Over the past several years, Congress has focused on the disposal of excess federal property. The Federal Assets Sale and Transfer Act of 2016 creates the Public Buildings Reform Board to identify opportunities to reduce the federal real property inventory and make recommendations to sell vacant or underutilized properties. While this focus should reduce federal real estate expenditures and the size of the federal real estate portfolio, GSA must plan for and navigate through a complex process when disposing of its own properties and the properties of other federal agencies.

The disposal process can be lengthy. After an agency reports a property as excess, GSA must first determine if another federal agency can use the property. Next, GSA has to make the property available for public benefit uses, such as homeless shelters, educational facilities, or fire or police training centers. If the property is not fit for those uses, GSA can negotiate a sale with state and local governments, as well as nonprofit organizations and institutions. Finally, if the property remains available, GSA can conduct a competitive sale of the property to the public.

The amount of time that a disposal takes is problematic because costs are still being incurred. While a property is vacant or underutilized as well as throughout the entire disposal process, the federal government is responsible for ongoing maintenance, operations, and security costs. For example, at the vacant West Heating Plant in Washington, D.C., the government was responsible for $3.5 million in maintenance costs over 10 years before the building was sold at public auction in March 2013.

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

Due to tight budgets, GSA has also been pursuing exchanges. Real property exchanges allow GSA to transfer underutilized properties out of its inventory, and unlike disposals, allow GSA to use the value of the transferred property to obtain another property or finance construction needs on other projects. However, as reported in our *Audit of PBS's Planning and Funding for Exchange Projects,* exchange projects are complicated to execute.[5] Exchanges require GSA to invest considerable resources in planning and negotiating exchanges upfront, prior to the completion of the exchange. Because title of the property is not transferred until after construction has been completed, the exchange partner has significant upfront costs before realizing a return on investment. This lag time has caused potential developers to account for risk in the valuation of properties, often coming in well below GSA's expected value.

GSA has begun pursuing large-scale competitive exchanges, different than the smaller-scale exchanges previously completed. For example, in January 2017, GSA signed a $750 million exchange agreement for the Volpe National Transportation Systems Center in Cambridge, Massachusetts. However, GSA has not been successful with all exchange projects. GSA cancelled or chose not to pursue four large-scale exchanges in process. GSA should ensure that a property exchange arrangement is the most appropriate method to meet its needs before exhausting the time, effort, and money associated with planning and management of exchange projects.

Reducing Leasing Costs

In June 2015 testimony to the U.S. Senate Committee on Homeland Security and Governmental Affairs and the U.S. House Committee on Transportation and Infrastructure, Subcommittee on Economic Development, Public Buildings, and Emergency Management, the former PBS Commissioner noted that in addition to the focus on freezing the footprint, GSA must also focus on the cost of the footprint, in particular as it pertains to leasing. To maximize competition in leasing and control lease costs, GSA must reduce the reliance on holdovers and extensions.

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

[4] In FY 2016, GSA partnered with agencies to dispose of 134 properties for $28.84 million, resulting in a 2.3 million square foot reduction in the federal footprint.
[5] Report Number A160024/P/R/R17004, March 30, 2017.

agency to continue to occupy its current location, when the tenant is unable to vacate the property when the lease expires.

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

GSA has a considerable number of leases set to expire in the near future. GSA determined that 39 percent of its leases would be expiring between FY 2017 to FY 2019. Of the current lease portfolio of 8,179 leases, 68 are in holdover (0.8 percent) and 1,013 are in extension status (12.4 percent). The short-term nature of holdovers and extensions causes uncertainty for tenants and lessors, and workload management issues for GSA. Negotiating extensions and resolving holdovers requires GSA to perform additional work before finalizing the long-term lease for that tenant. Also, when these short-term extensions expire, they add to the number of leases set to expire in a given year.

GSA's strategy to reduce its dependency on lease holdovers and extensions centers on working with customer agencies to emphasize the importance of earlier planning for upcoming lease expirations. GSA issued *Leasing Alert – Continuing Need Letters and Escalation Protocol* in July 2015 to establish a policy that GSA contact tenants for requirement development at least 36 months before a lease expiration date. Further, GSA has developed the Client Project Agreement to partner with clients to identify space needs earlier and provide options. As leases expire, upfront planning is important to allow for competitive procurements to achieve better rates for the tenant and taxpayer.

Meeting the Operations and Maintenance Needs of Federal Buildings

In recent years, GSA focused on minimizing maintenance costs while maintaining or improving building performance. However, GSA risks the opposite outcome. If operations and maintenance contracts include fewer services and lower performance requirements to reduce costs, building conditions might suffer.

Beginning in FY 2015, GSA focused on minimizing maintenance costs by targeting and consolidating operations and maintenance contracts whose costs exceeded industry benchmarks. In its *FY 2017 Congressional Justification*, GSA continued its efforts to reduce operating costs by holding funding levels for cleaning, maintenance, and building support consistent with the reduced level provided in the FY 2016 enacted funding.

However, GSA must weigh the costs and benefits of any change to its operations and maintenance services. For example, in some instances GSA is scaling back on running heating, ventilation, and air conditioning systems at night and on weekends to reduce maintenance and energy costs. However, this could increase the humidity in the air causing enough moisture for mold growth. Thus GSA's efforts to minimize operations and maintenance costs may have unintended consequences that result in more costly issues in the future.

The risk that minimized building operations and maintenance services could lead to increased costs in the future is especially problematic given the identified repair needs of GSA's building portfolio. In its FY 2016 Agency Financial Report, GSA reported that approximately 19 percent of its inventory's square footage was not in good condition and that it had approximately $1.21 billion in immediate needs to restore or maintain acceptable conditions in the building inventory. GSA also reported that it had additional building reinvestment needs of $1.88 billion over the following 2 years.

If GSA does not meet its building repair needs, the conditions could deteriorate further, leading to increased operating costs and more costly repairs in the future. GSA must ensure that its reductions to its current operations and maintenance costs still provide a safe, reliable, and functional environment.

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

Between September 2013 and May 2017, GSA awarded over $545 million in energy savings performance contracts (ESPCs) and utility energy service contracts (UESCs). However, ESPCs and UESCs are high-risk areas for GSA, with high-dollar contract values and long-term financial commitments. Without effective management, GSA may not realize projected savings from these contracts.

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

However, ESPCs have presented a number of challenges for GSA. In our FY 2016 audit of ESPCs, we identified a number of issues. Specifically, we found that GSA:

- Risked paying for unrealized energy savings on 10 of the 14 ESPC task orders we audited and did not achieve energy savings on another task order;
- Did not comply with requirements for establishing fair and reasonable pricing;
- Awarded one ESPC task order for a building that may be sold, transferred, or otherwise disposed of; and

- Awarded an ESPC without an approved Measurement and Verification Plan for achieving energy savings.[6]

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

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

- Limited competition among utility companies;
- Use of sole-source contracts; and
- No mandated savings guarantees.

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

For example, we issued an audit memorandum in September 2011 on a UESC for the Department of Homeland Security's St. Elizabeths campus in Washington, D.C. We found neither a basis for determining price reasonableness, nor justification for use of other than full and open competition.[7] Additionally, we found that funds were inappropriately "borrowed" from this task order to accomplish other work, understating actual obligations and resulting in a violation of appropriations law.

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

Challenge 3: Sustaining Technology Transformation Services, FAS

In May 2012, the President initiated the Digital Government Strategy. This strategy included three objectives: to enable the American people and an increasingly mobile workforce to access high-quality digital government information and services anywhere, anytime, and on any device; to ensure the government procures and manages devices, applications, and data in smart, secure, and affordable ways; and to unlock the power of government data to spur innovation and improve the quality of services for the American people.

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

[7] *Analytical Procedures for Evaluating Cost Proposals Received Under a Utility Energy Services Contract at Saint Elizabeths* (Memorandum Number A090168-06, September 7, 2011).

Subsequent to the release of the Digital Government Strategy, personnel from the White House, the Office of Management and Budget, and GSA began to discuss a project designed to bring innovators drawn from the private sector to bring industry experience and innovation into the government. These officials decided to house this team in GSA and combine it with the Presidential Innovation Fellows program – a program created under the Digital Government Strategy to place private sector technologists in 12-month fellowships within federal agencies to produce solutions to government information technology problems.

In March 2014, GSA's Administrator announced the launch of 18F, which he described as "a team of experts and innovators that will work to simplify the government's digital services, making them more efficient and effective." In April 2016, GSA combined 18F, the Office of Citizen Services and Innovative Technologies, and the Presidential Innovation Fellows program to form the Technology Transformation Service (TTS). This new service was established to "transform the way government builds, buys, and shares technology."

Since its inception, GSA has faced challenges in operating this new service. In August 2016, the U.S. Government Accountability Office (GAO) found that 18F did not fully establish outcome-oriented goals, measure performance, and prioritize projects.[8] Then, in October 2016, we released a report that identified significant weaknesses in the financial management of 18F. Specifically, we reported that 18F did not have a viable plan to achieve full cost recovery, resulting in a cumulative net loss of over $31 million from its launch in FY 2014 through the third quarter of FY 2016. We also reported that 18F did not properly execute inter- and intra-agency agreements and lacked reliable internal controls over billings.[9] Our report included seven recommendations, including the need for GSA leadership to establish a viable plan to ensure full cost recovery of 18F projects and implement controls over 18F's reimbursable agreement process to ensure that work is not performed outside of a fully executed agreement. To date, GSA management has completed corrective actions designed to address five of our seven recommendations.

In a separate report issued in February 2017, we found that 18F routinely disregarded fundamental security requirements related to the acquisition of information technology and the operation of information systems.[10] Specifically, 18F did not comply with GSA information technology security requirements and circumvented the Chief Information Officer's authority. We concluded that management failures by 18F and GSA IT leadership caused the breakdown in compliance with Agency security requirements. Our report had six recommendations including that GSA identify all 18F information systems and ensure they are properly authorized, and ensure compliance with the Federal

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[8] *Digital Service Programs: Assessing Results and Coordinating with Chief Information Officers Can Improve Delivery of Federal Projects* (GAO-16-602, August 2016).
[9] *Evaluation of 18F* (Inspection Report JE17-001, October 24, 2016).
[10] *Evaluation of 18F's Information Technology Security Compliance* (Inspection Report JE17-002, February 21, 2017).

Information Technology Acquisition Reform Act. GSA management has since completed corrective actions designed to address all six of our recommendations.

During the course of our evaluations, the U.S. Office of Special Counsel (OSC) became aware of whistleblower disclosures of wrongdoing in TTS made by the FAS Commissioner. OSC referred the allegations to GSA's Acting Administrator for investigation. The Acting Administrator submitted an initial report of GSA's investigation to OSC in April 2017. In that report, the Acting Administrator concluded, based in part on the findings of our evaluations, that TTS engaged in gross mismanagement and violated the Economy Act.[11] In a supplemental report provided in June 2017, the Acting Administrator notified OSC of a major reorganization that transferred TTS and its component offices under FAS.[12] According to the Acting Administrator, the intent of the reorganization was to "address the funding and management control issues" that had been identified within TTS.

Concurrently, we released the results of our investigation into the FAS Commissioner's complaint of whistleblower retaliation regarding the 18F program and TTS.[13] Our investigation found that the complainant engaged in a protected activity and that he was subjected to reprisal for engaging in that activity. Specifically, we found by preponderant evidence that the former GSA Administrator took actions toward the FAS Commissioner that threatened him with transfer or other adverse personnel action, and significantly changed his responsibilities with regard to oversight and control of the Acquisition Services Fund.

In July 2017, OSC reported to the President and Congress that GSA's response to the whistleblower's confirmed disclosures was unreasonable. In its report, OSC disagreed with GSA's assertion that the reorganization would address broader concerns about mismanagement or related questions about the benefit of TTS. OSC urged GSA to follow our office's recommendations and go beyond the reorganization to mandate stringent financial controls designed to prevent future losses.

As GSA continues to address the issues identified in our reports, it faces additional management challenges surrounding the merger of TTS into FAS. For example, GSA will need to ensure that the transition does not adversely affect operations and is effective to sustain TTS's mission to "improve the public's experience with the government by helping agencies build, buy and share technology that allows them to better serve the public." Among other things, GSA will need to ensure that an effective oversight and control structure is implemented for the organization and take steps to address the challenge of frequent leadership changes and high staff turnover in TTS that make it difficult to retain organizational knowledge.[14]

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[11] 31 U.S. Code 1535.
[12] *Change in GSA Organization – Federal Acquisition Service and Technology Transformation Service* (GSA Order ADM 5440.712, June, 28, 2017).
[13] *Investigation of Whistleblower Reprisal Complaint* (June 21, 2017).
[14] A more detailed discussion of GSA's challenges related to hiring and retention of staff is included later in this document under *Challenge 5: Efficiently Managing Human Capital to Accomplish GSA's Mission.*

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Challenge 4: Making Agency Cybersecurity a Priority

The Office of GSA IT (GSA IT) is responsible for providing stable and secure technical solutions and services to meet the business needs of its internal and external customers, while ensuring compliance with information technology security-related laws, regulations, and guidance. Meeting these responsibilities is a significant challenge in an environment of competing priorities and increasingly sophisticated cyber attacks. Ineffective selection, implementation, and observation of information system security controls can result in business disruptions, damage to Agency resources, and the disclosure of sensitive information. In FY 2018, GSA IT will be challenged with strengthening information technology security controls in high-risk areas identified in recent audits conducted by GAO, GSA's independent auditor, and our office. Specifically, GSA IT will need to ensure that building control systems and sensitive information within GSA systems are adequately protected to prevent disruption of government operations and unauthorized information disclosure.

Protection of GSA's Building Control Systems against Cyber Threats

In December 2014, GAO reported that GSA had not fully assessed the risk of building control systems in a manner that is consistent with the Federal Information Security Management Act of 2002 (FISMA) or its implementation guidelines, nor had it conducted security control assessments for many of its building control systems.[15] GAO recommended that GSA assess the cyber risk of its building control systems to comply with FISMA and its guidelines. In 2017, GSA IT established an authorization and assessment framework to perform building assessments that will encompass more than 100 building systems. Continued efforts in this area are necessary as security weaknesses within GSA's building control systems may be used to disrupt government operations or gain unauthorized access to other systems and sensitive information under GSA's control.

Controlling Access to Sensitive Information in GSA Systems

In FY 2018, GSA will continue to be challenged with maintaining the integrity, availability, and confidentiality of sensitive information within its systems. This sensitive information includes, among other things:

- Procurement sensitive information, such as information related to bidding and prices paid, that must be kept confidential to protect the integrity of the acquisition process;
- Personally identifiable information, such as resumes and personal contact information, that must be kept confidential to prevent harm to individuals; and
- Sensitive but unclassified information, such as architectural drawings, that must be protected to ensure the safety of government employees and the public.

[15] *Federal Facility Cybersecurity: DHS and GSA Should Address Cyber Risk to Building and Access Control Systems* (GAO-15-6, December 12, 2014).

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Our office has recently reported on threats to personally identifiable information maintained by GSA.[16] These threats originate from cyber security vulnerabilities, unintentional mishandling of GSA's data, and ineffective Agency responses to reported information breaches. Furthermore, we have identified instances in which GSA has not implemented comprehensive corrective actions to address recent audit recommendations in these areas.[17]

Additionally, the FY 2016 annual FISMA review of GSA's information system security program, GSA's FY 2016 agency financial statement audit, and an FY 2017 audit conducted by our office of the technical security controls for a GSA business application that houses procurement sensitive information, also identified weaknesses in GSA's information security controls.[18] Specifically, the audits and evaluation found vulnerabilities in risk, configuration, and access management that could be exploited to gain access to sensitive information. GSA management must improve its overall information technology security program to ensure that the Agency fulfills its responsibility as the custodian of sensitive information in systems operated by, or on its behalf.

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

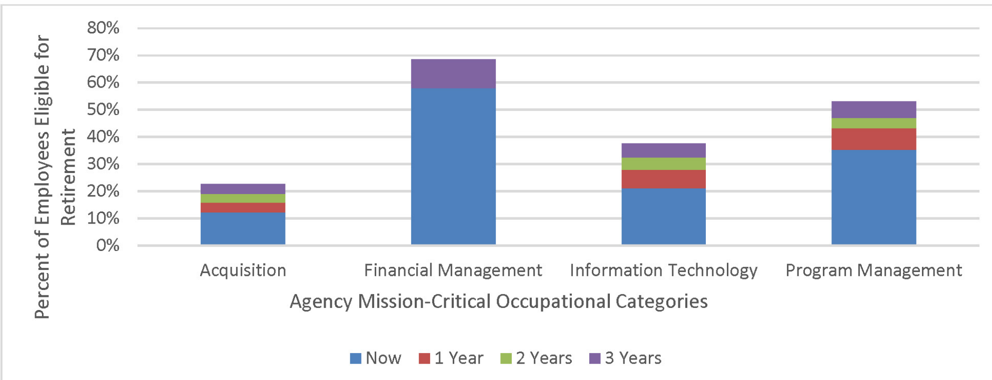
GSA must focus on hiring and retaining staff with the necessary skills to perform critical functions, especially given the number of GSA employees in mission-critical roles who will be retirement-eligible in the near future. GSA identified seven mission-critical occupational categories – Acquisition, Financial Management, Information Technology, Program Management, Property Management, Realty, and Human Resources – that make up 43 percent of GSA's workforce. GSA faces the loss of veteran expertise through retirements as 15 percent of employees in these mission-critical occupational categories are eligible to retire now.[19] The importance of a skilled workforce is further highlighted by GSA's responsibility to provide value to customer agencies, comply with increased regulatory requirements, and mitigate the risk of information technology security threats.

Federal Acquisition Service. In 2016, we reported that GSA's FAS does not have a comprehensive human capital plan for its contract specialist workforce. This places a critical segment of the acquisition workforce at risk for inadequate staffing to fulfill its

[16] See for example, *Personally Identifiable Information Unprotected in GSA's Cloud Computing Environment* (A140157/O/F/R/F15002, January 29, 2015) and *Audit of GSA's Response to the Personally Identifiable Information Breach of September 18, 2015* (A160028/O/T/F16003, September 28, 2016).
[17] *Implementation Review of Action Plan: Personally Identifiable Information Unprotected in GSA's Cloud Computing Environment Report Number A140157/O/R/F15002, January 29, 2015* (Assignment Number A160045, January 26, 2017).
[18] *Fiscal Year 2016 Independent Evaluation of the U.S. General Services Administration's Compliance with the Federal Information Security Modernization Act of 2014 Report* (KPMG, LLP, December 16, 2016) and *Independent Auditor's Report on GSA's FY 2016 Financial Statements* (KPMG, LLP, November 8, 2016).
[19] All data percentages contained within this management challenge are based on data from May 31, 2017, unless otherwise noted.

mission.[20] Absent such a plan, FAS may hire employees without assessing its needs and hiring costs, considering turnover rates, and planning for upcoming retirements. In response to our report, FAS finalized its Human Capital Strategic Plan in February 2017 and plans to work closely with the Office of Government-wide Policy and the Office of Human Resource Management on the overall GSA acquisition workforce plan. As shown in *Figure 1*, between 20 and 70 percent of the staff in each FAS mission-critical occupation is eligible for retirement in the next 3 years. FAS must prepare to adapt to this loss of expertise.

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



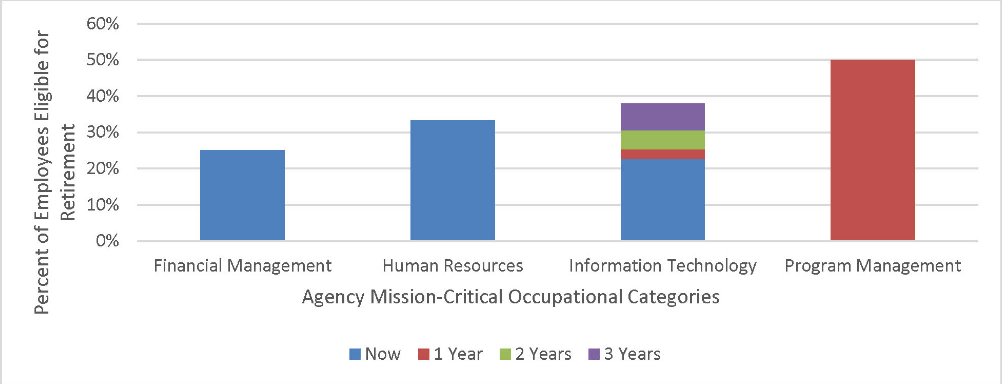
Prior to its June 2017 reorganization into FAS, TTS experienced frequent leadership changes and high staff turnover. Many of TTS's component offices were led by individuals serving in acting capacities. Further, 65 percent of TTS employees are in excepted appointments that generally last 2 years with possible 2-year extensions.[21] While this arrangement allows TTS to capitalize on emerging innovation from the private sector, it also contributes to high staff turnover, which hinders building institutional knowledge. FAS management must consider whether to continue this staffing model and, if so, how to develop institutional knowledge in this part of the organization.

GSA IT (Office of the Chief Information Officer). GSA IT aims to deliver high-quality information technology systems and services to its business partners across GSA. To do this, GSA IT must have a highly skilled cybersecurity staff to, among other responsibilities, respond to and recover from unintentional or intentional cyber-attacks, including those related to personally identifiable information. As illustrated by *Figure 2*, GSA IT faces the immediate retirement of 23 to 33 percent of its staff in three of its four mission-critical occupations. Given the competitive employment market in the Washington, D.C., area,

[20] *The Federal Acquisition Service Needs a Comprehensive Human Capital Plan for its Contract Specialist Workforce* (Report Number A150033/Q/9/P16002, July 22, 2016).
[21] Excepted appointments are not competitive and enable agencies to fill jobs with special or unique circumstances using streamlined procedures.

GSA IT has been expanding its hiring of information technology security specialists in other locations, such as the cities of Kansas City, Denver, and Dallas. GSA must prioritize the availability of qualified cybersecurity staff to operate, maintain, and protect the Agency's information technology systems and data.

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



Office of the Chief Financial Officer. GSA's Office of the Chief Financial Officer (OCFO) is subject to several laws that result in significant workload, such as the Digital Accountability and Transparency Act of 2014 (DATA Act) and the Improper Payments Elimination and Recovery Improvement Act of 2012. Our work on GSA's DATA Act implementation noted challenges with competing priorities and the availability of dedicated GSA resources to ensure continued progress.[22] For example, employees working on the DATA Act also have to perform their primary roles in GSA, and GSA received no additional funding for its required work under the Act. Similarly, in our FY 2015 improper payments report, we observed that the OCFO has constant turnover and may be understaffed, likely contributing to the audit findings.[23]

The OCFO, like other offices, also has to manage the loss of veteran expertise. *Figure 3* illustrates this concern by comparing the number of new hires to separations (executive level to Grade GS-13) within the OCFO during the last 12 months. The Chief Financial Officer is focused on more efficiently executing the OCFO's mission. While improved efficiency is a positive goal, we caution that too much streamlining could compromise internal controls.

[22] *The Office of Inspector General's Readiness Review of GSA's Implementation of the Digital Accountability and Transparency Act* (Audit Memorandum Number A150150-2, November 30, 2016).
[23] *GSA Did not Fully Comply with the Improper Payments Acts in FY 2015* (Report Number A160018/B/5/F16002, May 11, 2016).

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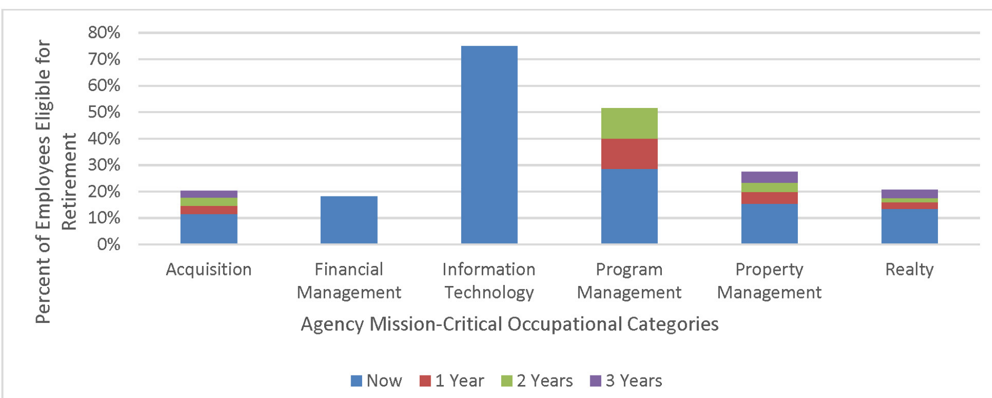
Figure 3 - OCFO New Hires and Separations in Prior 12 Months

Public Buildings Service. As *Figure 4* illustrates, GSA's PBS will face upcoming retirements of mission-critical staff within the next 3 years. For example, PBS already relies heavily on external construction managers to support its construction program. PBS contracts with these consultants to provide technical expertise in contract administration activities that are vital to project success, such as cost estimating, source selection and evaluation, negotiating, project management, and acceptance of work. The potential retirement of more than 50 percent of its own internal Project Management staff within 3 years would create experience and technical voids in PBS's workforce, and force PBS to rely on consultants for administration of its over $1 billion dollar capital construction program.

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



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

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

GSA plays a significant role in providing a safe, healthy, and secure environment for employees and visitors at over 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 the Department of Homeland Security were named as responsible agencies. In accordance with the directive, the Department of Homeland Security's Federal Protective Service is the primary agency responsible for providing law enforcement, physical security, and emergency response services to GSA tenant agencies, buildings, and facilities. Meanwhile, GSA is responsible for 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. 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.[24] During one audit of PBS procurements, we found limited evidence of coordination among the GSA Chief Security Office and PBS officials to ensure only suitable individuals could access federal buildings.[25] In another audit, we found that contractor employees who had not received security clearances were allowed to work on a construction project at a federal building and that subsequently, PBS had not taken all of the corrective actions to resolve the issues.[26]

Additionally, two evaluation reports we issued 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

[24] *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).
[25] *PBS NCR Potomac Service Center Violated Federal Regulations When Awarding and Administering Contracts* (Report Number A130112/P/R/R15004, March 27, 2015).
[26] *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).

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.[27] 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.[28] 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, it has been emphasizing the performance and implementation of facility security assessments. The facility security assessments evaluate a building's security risk and recommend countermeasures to mitigate the risk. We currently have an ongoing audit that is examining security risk assessments of GSA's buildings.

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[27] *GSA Facilities at Risk: Security Vulnerabilities Found in GSA's Management of Contractor HSPD-12 PIV Cards* (Report Number JE16-002, March 30, 2016).
[28] *GSA Facilities at Risk: Security Vulnerabilities Found in GSA's Use of Facility Specific Building Badges* (Report Number JE16-003, March 30, 2016).

GSA

The Administrator

October 31, 2017

MEMORANDUM FOR CAROL F. OCHOA
INSPECTOR GENERAL (J)

FROM: TIMOTHY O. HORNE
ACTING ADMINISTRATOR (A)

Timothy O. Horne

SUBJECT: GSA's Major Management Challenges, Fiscal Year 2018

Thank you for providing me the opportunity to review your office's assessment of the major management challenges currently facing the U.S. General Services Administration (GSA) and our progress in addressing them.

GSA acknowledges these challenges and is implementing a broad range of measures to address them. Please find the attached comments that provide information and clarification pertaining to your assessment.

We look forward to continuing to work with the Office of the Inspector General to promote greater Government effectiveness and efficiency.

Attachment

1800 F Street, NW
Washington, DC 20405-0002
www.gsa.gov

GSA Responses to the Office of Inspector General's Management Challenges for FY 2018 *(Unaudited)*

Summary

The U. S. General Services Administration (GSA) is committed to continuous improvement as we understand that the better our agency performs, the more time, energy, and resources other Federal agencies are able to dedicate to meeting their missions, goals, and objectives. We welcome and appreciate the comments from the Office of the Inspector General (OIG) and understand this feedback assists GSA with the effective management of the agency. As identified in the report, GSA has already taken many actions to address the challenges identified in the OIG Assessment of GSA's Major Management Challenges.

Challenge 1: Enhancing Government Procurement

Support and Adoption of Category Management

AGENCY ACTION:

Acquisition Gateway. GSA continues to refine the Acquisition Gateway to ensure its usability and content meet the Federal contracting community's needs, adding value with tools and contracting materials to improve spend under management and drive efficient use of taxpayer dollars. GSA agrees that usage-based metrics (such as site visits and time on individual pages) need to be augmented with outcome-driven, goal-based metrics as indicators of user value in fiscal year (FY) 2018. Initial analysis includes the number of users researching Best in Class solutions and leveraging the available data to compare prices against data visualizations. Measures such as these demonstrate the effectiveness of the portal and will inform future development paths and content needs.

GSA agrees that it is important to provide users quality content on the Acquisition Gateway. The category management teams in coordination with the Federal Acquisition Service (FAS) Government-wide Category Management Project Management Office curate their own content and all material posted is created by or vetted through their designated experts. GSA will continue to work with the customer community to develop and curate valuable content. Further, GSA will examine the current content governance processes to determine what best practices are applicable.

Acquisition Workforce Support. FAS successfully completed a comprehensive workforce reorganization to align with the guiding principles of category management on March 6, 2017. FAS concurs with the OIG findings regarding the potential for duplication of effort or reduced productivity.

To identify and address any unintended consequences, we are monitoring the organization from the following perspectives: workforce, performance measures, culture, and operations. For example, we have been utilizing a pre-reorganization efficiency metric along with other performance measures to understand the productivity and outputs of our business lines. We also have a small team reporting to the Office of the FAS Commissioner that is responsible for Workforce Transformation and management of the Human Capital Strategic Plan. FAS continues to address the OIG recommendations and corrective action the final from audit report, *The Federal Acquisition Service Needs a Comprehensive*

Human Capital Plan for its Contract Specialist Workforce; Report Number A150033/Q/9/P16002, dated July 22, 2016. FAS will continue to monitor the organization comprehensively to ensure sustained efficiency and effectiveness from this change as well as any future organizational changes.

Emphasis on Reducing Government Price Variability

AGENCY ACTION:
GSA is committed to serving as a responsible steward of taxpayer dollars and to providing contracting officials with the policies, tools, data and materials to make best value determinations, including price reasonableness. GSA agrees that it is valuable to reduce price variability to minimize confusion for customers seeking to purchase goods and services through GSA contract vehicles. GSA recognizes two additional key responsibilities in managing billions of dollars of commercial spend: that the agency must maintain diverse and robust competitive pools of varying socio-economic entities able to meet the Government's requirements, and that pricing is measured both at the base contract, prior to order requirements and commitments, and at the order level when funding occurs.

GSA has undertaken several initiatives to reduce price variability and provide greater transparency into what is being offered and purchased and at what price. Principal among these initiatives are the Transactional Data Reporting Rule, the Formatted Product Tool, and the Contract Awarded Labor Category Tool. GSA recognizes that each of these initiatives is relatively early in its deployment. Therefore, GSA continues to assess how and whether each provides value to the agency and Federal contracting officials as well as how best, as appropriate, to harmonize the policies and tools. In FY 2018, GSA will evaluate the investments and delivery of these products and enhancements to generate the most impact on reducing pricing variability and the risk of overpayment.

Delivering the System for Award Management

AGENCY ACTION:
GSA concurs that sound program management is vital to the ongoing success of the modernization to identify and mitigate risks and adhere to cost and deployment schedules.

The GSA Office of Systems Management manages the Integrated Award Environment initiative (IAE) and continues to develop an evolving set of functional capabilities to replace all 10 legacy systems currently used to administer Federal awards. Functionalities of the current systems are being converted into a common, cloud-based, secure business environment that facilitates and supports the cost-effective acquisition of products and services, while fostering transparent, effective management of Federal acquisition and assistance awards. The modernized system will have one home page with a single sign-on, one powerful search tool, one robust reporting tool, and one workspace where users can access the information and tools they need to make, receive, and manage Federal awards. The modernized effort will provide a centralized administration, meaning that administrators for multiple systems will no longer have to log into different systems.

System development and build of the final product continues, using a Scaled Agile Framework; additionally, IAE recently launched the test site for the system, beta.SAM.gov. GSA also continues to work closely with interagency governance committees and sponsors, providing regular updates and input. The decommissioning of systems will begin as approved by the program's interagency governance when all necessary functionality has been brought over to beta.sam.gov. The current systems will remain the authoritative source until decommissioning is approved and properly communicated. Once all 10 systems have been migrated over and decommissioned, the system will be renamed to SAM.gov.

IAE has received quality input and feedback from the stakeholder and user communities to shape the development of the beta.sam.gov testing site that launched in the fourth quarter of FY 2017. In an effort to remain transparent and communicate effectively with the stakeholder community, four Industry Day sessions have been conducted to address questions and communicate plans to the stakeholders. Focus groups have been reconvened for input on the modernization effort, and additional groups will be created for user testing as new functionalities become available. In addition to regularly scheduled governance meetings, quarterly joint governance sessions have been instituted for detailed information sharing among the Federal community.

Upcoming key initiatives include a tool for expanded reporting in the new platform on the testing site (beta.sam.gov), continuation of the SAM and Federal Procurement Data System modernization, and development of training materials to support users. GSA will also ensure the continuation of identification and validation services regarding recipients of Federal funding.

Challenge 2: Maximizing the Performance of GSA's Real Property Inventory

Reducing and Consolidating Space

AGENCY ACTION:
GSA is undertaking efforts to improve space utilization while weighing the costs and benefits to individual agencies. GSA recognizes that spending less on real estate allows the Government to devote more of its limited dollars to mission critical activities to better serve the American people.

Under the Consolidation Program, GSA analyzes projects aimed to 1) consolidate higher cost leased space into lower cost and underutilized federally owned space, 2) manage space better through workplace strategies and improved office standards, and 3) optimize rents in depressed markets to capture favorable tenant lease rates.

In FY 2017, GSA and Federal agencies reduced space by approximately 3 million rentable square feet. GSA worked with agencies to validate high-impact opportunities supported by business cases and aligned with the agencies' missions, priorities, and goals. GSA partnered with client agencies to implement projects and dispose or repurpose underutilized real property to achieve savings and space reductions.

GSA also continues to implement workplace strategies to assist client agencies in their efforts to reduce real estate costs, increase efficiencies and manage change. Under the Total Workplace Program, GSA worked closely with 12 customers in FY 2017 to implement agency-wide space standards in their offices, using each agency's benchmark utilization rate for future projects and space actions. In the coming fiscal year, there are plans to continue implementation of this program with an increased focus on cost effectiveness and positive returns on investment.

Disposing and Exchanging Federal Property

AGENCY ACTION:
GSA acknowledges the risks and challenges associated with the speed of the disposal process and pursuing large-scale exchange projects. GSA has developed and initiated implementation of mitigation strategies to avoid and reduce the impact of these risks.

GSA is focused on streamlining the execution of Federal real estate disposal transactions and is actively engaged in helping agencies identify unneeded assets, prepare those identified assets to be divested, and implement strategies to reposition the assets.

Beginning in 2016, GSA developed a 5-year pipeline of assets for disposal. By continuing to work closely with large landholding agencies to identify and continually update the 5-year pipeline, GSA has improved its ability to assess assets, conduct due diligence, and address the regulatory issues to be resolved prior to disposition. Awareness and identification of environmental, historic, and cultural issues earlier in the disposal preparation process allows GSA to develop disposal strategies that take these issues into account. GSA is also working to develop a tailored marketing plan for disposals to maximize exposure and increase engagement.

With ongoing implementation of the Federal Assets Sale and Transfer Act, GSA expects to continue identifying and maximizing opportunities to improve timeliness in repositioning and disposing of Federal real property assets.

In pursuing large-scale exchange projects, PBS Policy 4065.1, Procedural Guidance for Section 412 Exchanges for In-Kind Consideration, requires that potential exchange projects are supported by a business case analysis that is approved by the GSA Administrator. This guidance strengthened internal controls associated with exchanges, added more structure to the process, and enabled the Public Buildings Service (PBS) to learn from its recent experiences with exchange projects. The business case includes net present value and highest and best use analyses, which are used to determine if the proposed exchange provides the most economically viable solution for the government. GSA has also extended the scope of this guidance to exchanges contemplated using other authorities available to the Administrator.

Given GSA's recent experiences with proposed exchanges, GSA developed a discounted cash flow analysis to further refine value expectations for the property to be exchanged, beyond what would typically be provided from a market value appraisal. GSA uses this discounted cash flow analysis to determine the value of the exchange parcel in the context of the proposed transaction, rather than in the context of a sale for cash. GSA develops the requirements for the in-kind consideration to be as close in value (as practical) to the value derived via the discounted cash flow analysis.

As part of the procurement process for exchange projects, GSA negotiates the specific details of the proposed transaction, including the value of the exchange parcel and the estimated cost of providing the in-kind consideration. GSA will ensure that all funds expended on exchange projects are obligated in full compliance with the agency's policies and Federal law. GSA will only pursue exchange projects that are financially viable, meet the needs of agency customers and stakeholders, and provide best value to the taxpayer.

Reducing Leasing Costs

AGENCY ACTION:

GSA continues to reduce long-term real estate costs, and has made a significant effort to improve advanced planning as well as minimize holdovers and lease extensions. GSA's enacted Rental of Space budget was $5.666 billion in FY 2015, $5.579 billion in FY 2016, and $5.628 billion in FY 2017. The requested amount of Rental of Space funds for FY 2018 is $5.494 billion. During that same period, GSA reduced the rentable square feet of leased space by approximately 6 million rentable square feet. While these figures appear to demonstrate a flattening of lease costs, rather than a reduction, it should be noted that these reductions in GSA's portfolio are offset by the growth in the portfolio as GSA assumes space previously acquired by other Federal agencies.

GSA implemented the Automated Advanced Acquisition Program (AAAP), a nationwide program that allows building owners the opportunity to electronically offer building space for lease. This methodology of space procurement has been shown to reduce procurement cycle time and result in competitive lease rates that are often below market. In FY 2017, 11 percent of GSA's new leases were delivered using the AAAP platform. Further, GSA leverages the commercial real estate industry practice of commission for service through its GSA Leasing Support Services (GLS) contracts. The GLS contracts support GSA leasing through commercial broker support services that are primarily funded through commissions and have the added benefit of providing a rent credit that is used to lower overall rent costs. To date, GSA issued approximately 500 GLS task orders totaling 15.6 million square feet with an estimated commission of $100 million. Lastly, GSA continually reviews its lease contract documents to assure that they are as streamlined as possible to reduce price risk and administrative burden for potential lessors while promoting competition.

Finally, GSA is focused on reducing holdovers and extensions, and continues to demonstrate progress in this area. GSA reduced holdovers by 33 percent in FY 2017, as compared to FY 2016. This represents a 67percent reduction in holdovers when compared to FY 2014. Extensions increased in FY 2017 over FY 2016; however, even this increase represents a 16 percent reduction in extensions when compared to FY 2014. The leases for approximately 100 million square feet of leased office space are set to expire over the next 5years, which is a significant opportunity for GSA to work with Congress and its tenant agencies to get better deals and continue making progress by reducing holdovers and extensions.

Meeting the Operations and Maintenance Needs of Federal Buildings

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

GSA has taken steps to 1) ensure consistent delivery of services across its portfolio, 2) strengthen controls to ensure accurate coding of transactions, 3) increase transparency of operation and maintenance expenditures at a granular level, 4) ensure costs associated with above standard services are recovered, 5) institutionalize approaches and tactics that have proven successful, 6) strengthen vendor alliances, 7) leverage acquisition strategies from a portfolio-wide perspective, and 8) enhance program oversight and compliance through GSA's agency-wide maintenance management system and transactional customer feedback. GSA's business plan for FY 2018 includes formulation of a 5-year plan to gain efficiencies by optimally utilizing acquisition tools and strategies, including aggregation of requirements.

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

AGENCY ACTION:
GSA selects and delivers alternatively financed projects that balance cost-effectiveness against the future energy and water reduction targets as well as infrastructure renewal needs. The Energy Savings and Performance Contracts (ESPC) and Utility Energy Savings Contracts (UESC) programs have successfully funded building improvements by identifying appropriate Energy Conservation Measures (ECMs) in circumstances where utility market conditions allow for sufficient returns on investments.

GSA employs several strategies to drive cost-effective ESPCs. GSA has centralized the procurement of large ESPCs into an ESPC Program Management Office (PMO). The PMO has dedicated program and contracting staff to ensure that lessons learned and best practices are incorporated into the procurement of new ESPC projects. To ensure streamlined and standardized processes are followed, GSA is procuring all new large ESPCs through use of the U.S. Department of Energy (DOE) ESPC Indefinite Delivery/ Indefinite Quantity (IDIQ) contracts. In accordance with DOE contract procedures, selection is based upon a qualifications competition. The qualifications criteria have been adjusted by GSA to include pricing components that affect the price reasonableness of the overall project. Through the ESPC PMO, GSA ensures price reasonableness in ESPCs through the following:

- Primary contractor cost competition: As part of the Energy Service Company (ESCO) selection process, GSA evaluates the ESCOs' historical costs for profit rates, overhead rates, labor rates for key personnel, and project development fees.

- Construction price competition: During the project development phase, price competition occurs at the subcontracting level. ESCOs are required to provide subcontractor bid information to GSA. Wherever possible, a minimum of three subcontractor bids per trade are required.

- Government cost estimates: As a separate pricing check, the PMO contracts with third-party cost estimators to develop detailed cost estimates for all ECMs in the scope of work. The cost estimators have conducted facility site visits and understand constructability issues and other factors influencing construction costs. DOE cost benchmarks, when available, are also used for price reasonableness determinations.

- O&M pricing evaluations: GSA typically retains responsibility for O&M services when ESPC contracts are used. However, in those instances in which an ESCO assumes partial or full facility O&M responsibility, the ESCO's proposed O&M cost is evaluated against one or more of the following: historical pricing, market data, and GSA internal benchmarks.

- Performance verification: In accordance with DOE IDIQ requirements, ESCOs conduct annual measurement and verification protocols to quantify energy and water savings attained.

GSA requires savings guarantees in UESCs pursuant to Office of Management and Budget (OMB) memorandum M-12-21; subject title; Addendum to OMB Memorandum M-98-13 on Federal Use of Energy Savings Performance Contracts (ESPCs) and Utility Energy Service Contracts (UESCs). UESCs procured after October 2012 require the following elements: (1) energy savings performance assurances or guarantees of the savings to be generated by improvements, which must cover the full cost of the Federal investment for the improvements; (2) measurement and verification of savings through commissioning and retro-commissioning; and (3) competition or an alternatives analysis as part of the selection process prior to entering into a UESC.

GSA guidance, entitled Procuring Energy Management Services with the GSA Area-wide Contract, states that language must be included in the negotiated Authorizations (i.e., Performance Assurance Plans) that secure guarantees of the energy and/or cost savings. If more than one franchised utility company is available in the service area or if the area-wide contract is determined to be non-advantageous, the facility is required by the Federal Acquisition Regulation (FAR) to acquire service via competitive acquisition procedures (i.e., separate contract), allowing all utilities the opportunity to bid for service. If the area-wide contract is determined to provide the best value to the Government in response to the need for energy management services, the process must be documented through the justification and approval process as outlined in the FAR.

Challenge 3: Sustaining Technology Transformation Service, FAS

AGENCY ACTION:

The transfer of the Technology Transformation Service (TTS) to FAS combines acquisition and digital expertise into a single organizational and budgetary framework that supports IT modernization across Government. The transfer improves the ability for acquisition and IT modernization to work more closely together. The business model of TTS also emphasizes cross-functional approaches to buy and build IT, making the merger with FAS an expansion of the value that GSA can offer Federal agencies.

The FAS Commissioner launched a rapid Joining Forces initiative with eight defined working groups across FAS to convene thought leaders to ensure the efficient and effective implementation of GSA Order ADM 5440.712, which aligned TTS to FAS. The working groups addressed issues including, but not limited to: culture, controls, delegations of authority, procurement policies, and workforce. The teams briefed the FAS Commissioner on recommendations that are now being implemented, where appropriate. These working groups enabled leaders to collectively establish new lines of communication and develop opportunities to join together in helping customer agencies meet their missions.

GSA has implemented significant changes in the management approach for 18F to improve the operations of individual business units and TTS as a whole. In addition, TTS has implemented all OIG recommendations. GSA implemented all seven recommendations from JE17-001, Evaluation of 18F, and all six recommendations from JE17-002, Evaluation of 18F's Information Technology Security Compliance , including additional internal controls for hiring, revenue reconciliation, and risk mitigation.

FAS is monitoring the pipeline of actual and potential work orders to ensure that expenses are managed and the workforce is utilized efficiently. Resources are added only when there is assurance of future work and a corresponding need for capacity expansion. Orders, pipeline status, utilization, and expenses are all closely monitored on a weekly and monthly basis. This process is the basis for maintaining a plan for full cost recovery.

As part of the response to the OIG's recommendations, TTS established new technical and procedural controls related to the proper initiation of billable project work and identification of funding sources at the beginning of engagements. To comply with the Federal Information Technology Acquisition Reform Act, TTS ensures review by GSA's Office of the CIO and approval of all IT systems operated by GSA for TTS use. GSA has also developed extensive documentation of the TTS revenue generation, accrual, and reconciliation processes. GSA believes that this overall set of initiatives addresses the concerns about the management of TTS and the benefits derived from TTS.

Challenge 4: Making Agency Cybersecurity a Priority

Protection of GSA's Building Control Systems against Cyber Threats

AGENCY ACTION:

GSA is implementing several actions to improve its overall information technology security program. These actions include the procurement of cybersecurity technology, the proactive targeting of vulnerable buildings and at-risk building systems, and process improvement, vendor outreach, and employee training efforts.

GSA IT and the PBS Office of Facilities Management (OFM) recently developed a Risk Management Framework scorecard to identify and prioritize at risk building systems. GSA recently made a cybersecurity procurement to address those systems that have been identified as at risk because they are operating End of Life (EOL) versions of software and hardware, or have other identified security vulnerabilities. In coordination with PBS, GSA IT plans to incrementally continue these investments into FY 2018 to mitigate inherent risks. GSA IT also implemented software that will enforce security and access policies for endpoint devices connected to GSA routers and switches. This mandated software will prevent unauthorized users from accessing the network. GSA IT is also continually working on identifying and disconnecting unsecured networks in accordance with the recommendations from the U.S. Government Accountability Office (GAO), as outlined in Federal Facility Cybersecurity: DHS and GSA Should Address Cyber Risk to Building and Access Control Systems (GAO-15-06, December 12, 2014).

Vendor and employee outreach efforts have also been put into place to ensure that products are developed to security standards and employees understand the risks of building related security vulnerabilities. Vendor outreach commenced in FY 2015, with GSA IT and the PBS OFM holding regular meetings with industry to ensure their awareness of Federal and GSA security policies and processes. These efforts were undertaken to ensure that the manufacturers' products are delivered with security in mind and to discuss upcoming EOL dates. GSA IT is also engaging the workforce in active risk mitigation and partnering with PBS to ensure that building system stakeholders are aware of security requirements and the importance of securing GSA facilities against cyber incidents.

Controlling Access to Sensitive Information in GSA Systems

AGENCY ACTION:

GSA has procured technologies to safeguard sensitive information and has taken action to implement all corrective actions related to breach incidents in FY 2014 and FY 2015. These corrective actions focused on technology improvements, policy updates, and process improvements that decrease the risk of unintentional mishandling of GSA's data and ensure prompt and effective responses to reported breaches. As a specific example, GSA IT implemented a cloud security tool that monitors, alerts, and blocks shared sensitive information based on rules that target at-risk actions. This tool improves GSA's ability to control the release of sensitive information in the cloud environment. The OIG completed its review of the corrective actions related to the 2014 breach and closed the review in the Spring of FY 2017. Corrective actions related to the 2015 breach were completed in July of FY 2017, and the implementation review will commence in November of FY 2018.

To further reduce the likelihood of breach incidents in the future and mitigate currently identified risks, GSA has successfully implemented components of Continuous Diagnostics and Mitigation (CDM) tools and capabilities that support hardware and software asset management, vulnerability management, and configuration management. The CDM tools and capabilities will provide GSA with faster identification and remediation of vulnerabilities in the areas of risk, configuration and access management, and dashboard risk monitoring. GSA has also implemented agency-specific technical security benchmarks for operating systems, web applications, and databases that will be managed and monitored through CDM tools. The use of these tools will substantially improve GSA's IT security posture, enabling detection and prevention of unauthorized use of sensitive data.

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

AGENCY ACTION:

Broadly, GSA will address this challenge by implementing the agency's Long-Term Workforce Plan, Human Capital Operating Plan, and enterprise-wide Workforce Planning activities.

GSA acknowledges the risks and challenges associated with efficiently managing human capital to accomplish GSA's mission. GSA has begun implementing mitigation strategies to avoid or reduce the impact of these human capital risks, particularly for mission-critical occupations (Acquisition, Financial Management, Information Technology, Program Management, Property Management, Realty, and Human Resources) and to address GSA's high-retirement eligibility.

As part of the Agency Reform Plan submission, GSA submitted a Long-Term Workforce Plan in September 2017 with goals to: obtain, retain, and develop high quality talent; maximize employee performance and engagement; and optimize Human Resources service delivery. GSA is also committed to implementing these long-term workforce planning strategies to address organization-specific human capital risks.

To support the efficient management of human capital to accomplish GSA's mission, GSA has also developed a Human Capital Operating Plan (HCOP) for the agency to implement in FY 2018. In the plan, GSA's Office of Human Resources Management has committed to work with all organizations to implement GSA's enterprise-wide workforce plan to include strategies for succession management, staffing plans, training and development, employee engagement, and employee performance.

Implementation of the Long-Term Workforce Plan (developed as part of the GSA Agency Reform Strategy) and the HCOP will allow GSA to mitigate the risks listed in this challenge. Staffing plans will mitigate the risk of GSA hiring employees without assessing needs and hiring costs, considering turnover rates, and planning for upcoming retirements. GSA also recognizes the risks of high retirement eligibility in mission-critical occupations, which can be addressed through hiring, training and development, and succession management. Succession management will mitigate risks associated with high leadership turnover, ensuring knowledge transfer. Targeted training and development will prepare the workforce to manage the loss of veteran employee expertise. Maximizing employee engagement and employee performance will ensure the GSA workforce is prepared and able to meet GSA's mission through the achievement of goals and objectives.

Challenge 6 - Safeguarding Federal Facilities and Providing a Secure Work Environment

AGENCY ACTION:

During FY 2017, GSA continued to make improvements to securing Federal facilities by issuing new credentialing, escorting, and access control guidance. GSA maintains the integrity of authorized access to its facilities by issuing policy with agency-wide roles and responsibilities, and ensuring the effective tracking and collection of Personal Identity Verification (PIV) cards from contractors. GSA validates and certifies all active contractor data, and monitors contractor data, validation, and information internally. When an unfit/unfavorable contractor determination is identified, GSA removes the contractor from the contract and the PIV card is returned and destroyed. GSA tracks the collection and destruction of the cards and provides card collection and destruction of PIV data agency-wide on a regular basis. Additionally, GSA's Office of Mission Assurance (OMA) has implemented a zone concept designed to provide real-time assistance to GSA-requesting officials while improving coordination and communication between the Chief Security Office and PBS officials.

GSA issued a directive that addresses the oversight and termination process for GSA issued Facility Access Cards (FAC) in GSA-controlled space. This outlines a phased approach to eliminate the use of FACs while providing alternate access controls and processes. OMA created a contractor report for those that are in 'active' status for updates during the final fitness determination process that is completed by OPM. Lastly, GSA continues to install compliant Physical Access Control Systems across the country that do not accept FACs, further reducing unauthorized contractor access to GSA-controlled facilities.

The GSA OIG has recently conducted an audit regarding GSA's receipt and appropriate use of facility assessment reports. OMA and PBS are working with the U.S. Department of Homeland Security-Federal Protective Service to better track the delivery of the assessments and to ensure Facility Security Assessments are delivered to GSA in a timely manner. OMA and PBS are also working to develop policy that requires requisite GSA employees to complete Interagency Security Committee (ISC) training. The development of a tracking system to monitor ISC training compliance is also underway.

Summary of Financial Statement Audit and Management Assurances *(Unaudited)*

Table 1 Summary of Financial Statement Audit

Audit Opinion	Unmodified
Restatement	No

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

Table 2 Summary of Management Assurance

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

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0	0	0	0	0	0

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

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0	0	0	0	0	0

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

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

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

Payment Integrity *(Unaudited)*

Background

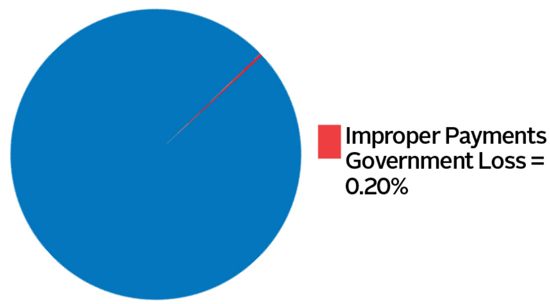
Per OMB A-136, agencies must report information on payment integrity, disclosing payments that were processed correctly and those payments that were improper. The Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA, Pub. L. 112-248), amends the Improper Payments Information Act of 2002 (IPIA), Pub. L. 107-300) and the Improper Payments Elimination and Recovery Act of 2010 (IPERA, Pub. L. 111-204). It provides guidance on monitoring and reporting improper payments. IPERIA requires agencies to annually report information on improper payments to the President and Congress and to continue their review of programs and activities annually to identify those susceptible to significant improper payments. OMB defines significant improper payments as gross annual improper payments in a program exceeding both the threshold of 1.5 percent and $10 million of improper program payments, or $100 million in program improper payments regardless of percentage.

In June 2017, with GSA OIG's concurrence, GSA requested OMB's approval to remove the Hurricane Sandy Disaster Relief Fund program from the annual requirement to estimate improper payments in accordance with OMB M-15-02. OMB reviewed and approved the request. For FY 2017, GSA is required to report on the Rental of Space and the Purchase Card programs.

Purchase Cards Results

GSA achieved an improper payment rate for Purchase Cards of 4.47 percent in FY 2017 while meeting all of the Purchase Card compliance requirements, including the target rate. GSA estimates that only 0.20 percent of Purchase Card payments made by GSA resulted in a monetary loss to the government. The remaining 4.27 percent are improper payments caused by documentation or administrative errors. For these errors the full value of the payment is recognized as improper. Monetary loss to the Government is an amount that should not have been paid and should be recovered. The chart below shows total purchase card payments and the percentage of monetary loss to the government.

Improper Payments Purchase Cards - Monetary Loss to Government



Rental of Space Results

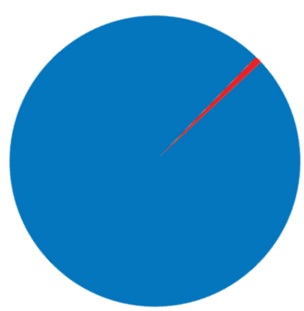
For the past several years, GSA set overly aggressive improvement goals for improper payments in this category, and assumed the level would reduce by 41% in 2015, 80 percent in 2016, and 79% in 2017. The target rates for Rental of Space were 1.02 percent in FY 2014, 0.60 percent in FY 2015, 0.119 percent in FY 2016, and 0.025 percent in FY 2017. As a result of these aggressive targets, which were set in prior years, GSA missed the targets in FY 2016 and FY 2017.

In order to achieve the FY 2017 target, GSA would have had to reach 99.975 percent in proper payments (i.e., have less than $1.37M in improper payments out of approximately $5.49B of payments). GSA worked with OMB to set a more realistic target rate for FY 2018 improper payments that is still much better than the government average. This is reflected in the governmentwide 2016 Payment Accuracy Rate found on https://paymentaccuracy.gov/. This link contains information on improper payments that was reported in previous AFRs.

Based on our sample results, we estimate that GSA's FY 2017 improper payment rate for Rental of Space is 1.96 percent. Although GSA missed the target rate, it was compliant in five of six requirements for the Rental of Space Program.

GSA estimates that 0.72 percent of Rental of Space payments made by GSA resulted in a monetary loss to the government. The chart below shows total Rental of Space payments and the percentage of monetary loss to the government.

Improper Payments Rental of Space - Monetary Loss to Government



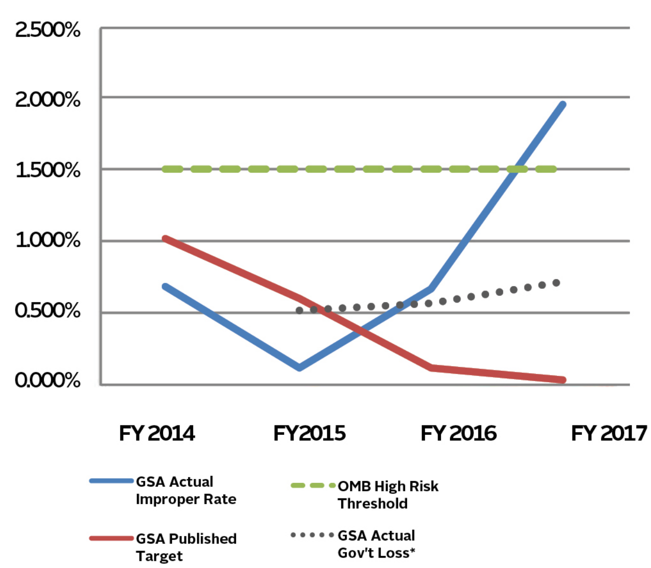
GSA's Rental of Space program exceeded the 1.5 percent and $10 million in improper payments thresholds making it significant based on the current definition of improper payments in IPERA. The current improper payment numbers include payments to vendors with an expired System for Award Management (SAM) registration at the time of payment.

SAM is a Federal Government owned and operated system that consolidated the capabilities of the Central Contractor Registration (CCR)/FedReg, Online Representations and Certifications Application (ORCA) and the Excluded Parties List System (EPLS). Both current and potential government vendors are required to register in SAM.

GSA is required to make payments based on lease agreements regardless of the status of the vendor's SAM registration; however, we are reporting these payments as improper if the lessor's registration is not active at the time of payment. These errors do not involve monetary loss to the government since GSA is not establishing a claim and seeking recovery. Although not registered in SAM at the time of payment, they were not on the "Government's Do Not Pay List" (DNP) and the vendor was registered at the time of the award.

The following graph displays the trend analysis for GSA's improper payment rates, government-loss rates, published targets, and OMB's published threshold for the last several years. Notably, GSA's 2016 actual improper payment rate is below the 2016 4.67 percent overall improper rate government average.

Rental of Space - Actual to Target Rate Comparison



* *Amounts are based on reviewing higher amount of government loss amounts estimated from statistical sampling or actual improper payment overpayment reports. The amounts do not represent official comparison of year to year numbers but are displayed to show the consistent trend that Rental of Space government loss type improper payments are below the 1.5% threshold.*

Ongoing Actions

GSA has demonstrated a commitment to reducing improper payments by completing a FY 2017 Corrective Action Plan (CAP). In FY 2017, GSA's PBS National Office of Leasing developed written guidance, training, and oversight of consistent standard procedures for the administration of leases. This Office also became the primary liaison to coordinate recommendations resulting from our payment recapture audit.

In May 2017, GSA's OCFO established a continuous monitoring corrective action group. The group includes representatives from the OCFO, the PBS National Office of Leasing, and GSA's Federal Shared Service Provider (FSSP). This multi-office working group meets monthly to discuss improper payment error types, options for reducing improper payments, and ways to standardize business processes.

GSA provides the following improper payment reporting details in accordance with IPERIA, OMB Circular A-123, Appendix C, Requirements for Effective Estimation and Remediation of Improper Payments, and OMB Circular A-136, Financial Reporting Requirements.

1. Risk Assessment

IPERIA requires all agencies to conduct a thorough review of their programs and activities that may be susceptible to improper payments annually, and requires that a re-baseline and review assessment be conducted at least once every three years for all programs not currently identified as high-risk. GSA's last review of employee payments including travel was conducted in FY 2014. GSA completed the required risk assessment for employee payments including travel in FY 2017. Employee payments include salaries, locality pay, overtime pay, and awards. Travel payments include temporary duty, local travel, and relocation payments.

The evaluation for susceptibility of programs making significant improper payments was determined by qualitative and quantitative factors. The qualitative factors included:

- Whether the program or activity reviewed is new to the agency;
- The complexity of the program or activity reviewed, particularly with respect to determining correct payment amounts;
- The volume of payments made annually;
- Whether payments or payment eligibility decisions are made outside of the agency, for example, by a State or Local government, or a regional Federal office;
- Recent major changes in program funding, authorities, practices, or procedures;
- The level, experience, and quality of training for personnel responsible for making program eligibility determinations or certifying that payments are accurate;
- Inherent risks of improper payments due to the nature of agency programs or operations;
- Significant deficiencies in the audit reports of the agency including, but not limited to, the agency Inspector General or the U.S. Government Accountability Office (GAO) audit report findings, or other relevant management findings that might hinder accurate payment certification; and
- Results from prior improper payment work.

A weighted quantitative average of risk conditions based on input from these qualitative factors was calculated. This figure was then weighted with the size of the payment population to calculate an overall risk score. The risk assessment identified no additional programs or activities susceptible to significant improper payments. See Table 9, Programs Susceptible to Significant Improper Payments During FY 2017 Risk Assessment. GSA's last review of programs and activities outside of employee payments including travel was conducted in FY 2015. GSA will perform a risk assessment in FY 2018 on these other programs and activities.

2. Statistical Sampling

For FY 2017, GSA measured, estimated, and reported improper payment percentage and dollars for the two high-risk programs, Rental of Space and Purchase Cards. A stratified sampling design was used to test payments based on FY 2016 disbursements. A statistician designed the statistical sample plans and the extrapolation of sample errors across the payment populations.

The sampling plan provided an overall estimate of the percentage of improper payment dollars within +/- 2.5 percent precision at the 95 percent confidence level, as specified by OMB M-15-02 guidance. Using a stratified random sampling approach, payments were grouped into mutually exclusive strata, or groups based on total dollars. These stratified samples provide greater precision than a simple random sample of the same size.

The following procedure describes the sample selection process:

- Grouped payments into mutually exclusive strata based on the sample design;
- Using a random number generator, assigned each payment a random number;
- Sorted the population by stratum and random number within stratum; and
- Selected the number of payments within each stratum (by ordered random numbers) following the sample size design. For some strata, all payments were selected.

To estimate improper payment dollars for the population from the sample data, the stratum specific ratio of improper to total payment dollars was calculated.

3. Improper Payment Reporting

In FY 2017, GSA requested relief as allowed under OMB M-15-02 from the annual reporting requirements for the Hurricane Sandy Disaster Relief Fund. OMB reviewed and approved our request.

See **Table 1** for Improper Payment Reduction Outlook and **Table 2** Current Year (CY) Estimate Statistical Information.

See **Table 4** for GSA estimates of the improper payments monetary loss to the Federal Government for Rental of Space and Purchase Cards.

See **Table 8** for the amount of confirmed fraud within fiscal year 2017.

4. Improper Payment Root Cause Categories

The improper payment assessment identified the root cause for improper payments for the Rental of Space and Purchase Card programs.

See **Table 3** Improper Payment Root Cause Category Matrix and corrective actions.

5. Accountability

For all programs and activities with improper payments exceeding the statutory thresholds, accountable officers, program official/owner, and States and localities (where appropriate) are held accountable for reducing and recapturing improper payments through annual performance appraisal criteria. GSA has one program, Rental of Space, which exceeds the improper payment statutory thresholds and is susceptible to significant improper payments. GSA has designated the Chief Financial Officer as the accountable official for Rental of Space compliance at the agency. Enhancing program integrity is a top priority throughout GSA. This includes all GSA executives and program officials. GSA performance plans contain strategic goals that are related to improving program integrity and reducing improper payments. GSA Senior Executives and program officials are evaluated on the progress of achieving these goals and are held accountable for properly following improper payment related policies and procedures.

6. Agency Information Systems and Other Infrastructure

For all programs and activities with improper payments exceeding the statutory thresholds agencies shall describe whether the agency has the internal controls, human capital, and information systems and other infrastructure it needs to reduce improper payments to the levels the agency has targeted. GSA has the information systems and other infrastructure it needs to reduce improper payments. It leverages IT communication and collaboration technologies such as Google Docs/Spreadsheets and Meeting Space to operate at a high level and obtains GSA IT support as needed.

GSA has resources committed to complete assigned initiatives to achieve the OCFO's long-term goals. GSA continuously analyzes the OCFO's financial management and internal control improvement goals and objectives. GSA has identified key staff positions and has identified a succession plan for these key positions. All staff mandatory training relates to key aspects of roles and responsibilities. GSA increased funding in FY 2017 for training related to forensic accounting.

GSA has implemented several internal control policies and procedures to ensure all management directives achieve their objectives and risks are effectively addressed. GSA coordinates with various offices and stakeholders across the Agency to identify proper control activities that are in place or that need to be implemented.

7. Barriers

For all programs and activities with improper payments exceeding the statutory thresholds agencies shall describe any statutory or regulatory barriers, which may limit the agency's corrective actions in reducing improper payments and actions taken by the agency to mitigate the barriers' effects.

For Rental of Space GSA has not identified any statutory or regulatory barriers, which may limit GSA's ability to implement corrective actions to reduce improper payments.

8. Recapture of Improper Payments Reporting

GSA establishes claims in accordance with the Debt Collection Improvement Act of 1996 (DCIA). Unsatisfied debt is referred to the Treasury Offset Program for further collection efforts. **See Table 5**, Overpayment Payment Recaptures with and without Payment Recapture Programs.

GSA's payment recapture audit identifies claims related to the Rental of Space program. This program is funded through a revolving fund. Therefore, funds recaptured are credited back to their original purpose. **See Table 6**, Disposition of Funds Recaptured Through Payment Recapture Audit and **Table 7** Aging of Outstanding Overpayments Identified in the Payment Recapture Audit Programs

9. Additional Comments

The FY 2016 statutory audit of GSA's improper payment reporting identified concerns with GSA's Rental of Space target reduction rates, errors in the testing and reporting processes, and weaknesses in the continuous monitoring approach. GSA developed and executed a corrective action plan in FY 2017 to address these concerns. Efforts include implementing a new review and testing process for the reporting of improper payment data.

10. Improper Payment Tables

Table 1 details the FY 2017 improper payment amounts and rates for Rental of Space and Purchase Cards as well as the projected outlays and targeted improper payment amount and rate for FY 2018. Since Hurricane Sandy Disaster Relief funds were granted relief from reporting, GSA only provides the prior year improper payment data for this program.

Table 1 Improper Payment Reduction Outlook ($ in millions)

12 month Sampling Timeframe for FY 2017 data

Program Name	FY2016 Outlays ($M)	FY 2016 IP Amount ($M)[1]	FY 2016 IP Rate[1]	FY 2017 Outlays ($M)	FY 2017 IP Amount ($M)[2]	FY 2017 IP Rate[4]	FY 2017 Over-payment $	FY 2017 Under-payment $	FY 2018 Est. Outlays[5]	FY 2018 Est. IP %[6]	FY 2018 Est. IP $	Start Date for data	End date for data
Rental of Space	$ 5,596.30	$ 37.20	0.66%	$ 5,486.41	$107.80	1.96%	$107.40	$0.40	$ 5,680.90	1.80%	$102.26	10/1/2015	9/30/2016
Purchase Cards	$ 27.05	$ 1.57	5.80%	$ 28.56	$1.28	4.47%	$ 1.28	$0.00	$ 27.06	4.47%	$ 1.21	10/1/2015	9/30/2016
Hurricane Sandy Disaster Relief Funds[3]	$ 0.42	$0.00	0.00%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
TOTAL	**$ 5,623.77**	**$ 38.77**	**0.69%**	**$ 5,514.97**	**$109.08**	**1.98%**	**$ 108.68**	**$ 0.40**	**$ 5,707.96**	**1.81%**	**$103.47**	**10/1/2015**	**9/30/2016**

[1] *The Rental of Space improper payment percentages reflect corrections to the FY 2016 AFR identified in the FY17 OIG Audit Report (Report Number A160141/B/5/F17001).*

[2] *To determine improper payments for Rental of Space, GSA compares Lease Digest Actions (GSA Form R620) to actual payments in Pegasys, GSA's financial accounting system, for discrepancies. To determine improper payments for purchase cards, GSA ensures that the purchase card is used properly and for legitimate government needs and that purchases are properly approved, have all required supporting documentation, and are properly recorded in Pegasys.*

[3] *GSA requested and received relief from reporting of Hurricane Sandy Disaster Relief Funds in FY 2017.*

[4] *The rental of space improper payment rate assumes that payments made to lease vendors with expired SAM registration are improper, although payments are still required. The improper payment rate excluding these payments is .72% ($39.43M) for Rental of Space.*

[5] *For Rental of Space and Purchase Cards the outlays are based on 2017 outlays since our testing is based on data one year behind the FY reporting period. For Rental of Space, per the Director - Budget Control, Oversight, and Formulation Division, outlays are based on the unadjusted outlays from the Federal Building Fund. For Purchase Cards this information is not reported in the President's Budget; it is derived from the three year historical average.*

[6] *GSA believes these target rates are aggressive and realistic. For Rental of Space, based on this year's improper payment rate of 1.96% and upper bound of 3.91%, establishing a target rate of 1.80% for FY 2018 would reduce the improper payment rate by 8%, showing GSA's commitment to reducing improper payments, while acknowledging there is a risk that improper payments may occur at the upper bound. Regarding Purchase Cards, the target rate for FY 2017 was 5.33%. GSA achieved a 4.47% rate with an upper bound of 6.24%. Establishing a target rate of 4.47% shows commitment to keeping improper payments at a low level, while acknowledging the risk that improper payments may occur at the upper bound.*

In **Table 2** below, GSA provides the estimated variance, the confidence level, and the precision level for each program current year estimate.

Table 2 CY Estimate Statistical Information

Program or Activity	CY Estimate Variance	CY Confidence Level	CY Precision Level
Purchase Cards	$256,770.87	95%	1.77%
Rental of Space	$54,255,984.20	95%	1.95%
TOTAL[1]	**$54,256,591.79**	**95%**	**1.94%**

[1] *This total is a statistical projection for GSA and not a total of the individual Rental of Space and Purchase Cards cells.*

The improper payment assessment identified the root cause for improper payments for the Rental of Space and Purchase Card programs. Rental of Space root causes include missing documentation and late submission of supporting documentation. Purchase card root causes include insufficient documentation, documentation not provided, lack of approval, lack of receipt, sales tax paid, convenience fee, and erroneous charges made by a purchase card vendor.

Table 3 identifies the root cause for improper payments for the Rental of Space and Purchase Card programs.

Table 3 Improper Payment Root Cause Category Matrix ($ in millions)

Reason for Improper Payment		Rental of Space		Purchase Cards	
		Overpayments	Underpayments	Overpayments	Underpayments
Program Design or Structural Issue					
Inability to Authenticate Eligibility					
Failure to Verify:	Death Data				
	Financial Data				
	Excluded Party Data				
	Prisoner Data				
	Other Eligibility Data (explain)[1]	$106.89		$0.06	
Administrative or Process Error Made by:	Federal Agency	$0.51	$0.40		
	State or Local Agency				
	Other Party (e.g., participating lender, health care provider, or any other organization administering Federal dollars)				
Medical Necessity					
Insufficient Documentation to Determine				$1.16	
Other Reason[2]				$0.06	
	TOTAL	**$107.40**	**$0.40**	**$1.28**	**$0.00**

[1] *[1]Amounts are attributed to payments made to vendors with expired SAM registration. Leases are not covered by the Federal Acquisition Regulation (FAR) for rental of space payments. For purchase cards the vendor was not registered.*

[2] *The Other Reason root cause category for purchase cards encompasses improper payments that occurred for the following reasons: Sales Taxes Paid and Erroneous Charges by Vendor.*

Corrective Actions Undertaken by GSA Programs

For programs and activities with improper payments exceeding the statutory thresholds the agency shall describe the corrective action plans for reducing the estimated improper payment rate and amount and each of the corrective actions should be clearly linked to the root cause(s) they are addressing. Agencies should also describe the results of actions taken to address the root causes and the planned or actual completion date of the actions taken to address each root cause. If the Agency does not have a corrective action for a particular root cause, it must provide justification for not having a corrective action.

1. Rental of Space

Testing identified the primary cause of improper payment errors in the Rental of Space program to be GSA's failure to verify payment eligibility criteria relating to vendors not being properly registered in SAM at the time of payment. In April 2017, GSA worked with the U.S. Department of Agriculture (USDA), our FSSP, to identify the universe of leases with vendors and ensure proper SAM registration. USDA also updated its policies and procedures relating to improper payments.

In May 2017, GSA commenced the Continuous Monitoring Corrective Action Working Group to focus on reducing improper payments. The Working Group meets at least monthly and consists of one person from the PBS National Office of Leasing , one person from the USDA FSSP, and two people from the GSA OCFO. The Group reviewed the 2017 quarterly error reports, researching the error types and root causes of GSA errors over $50,000.

Based on this Working Group, GSA has implemented several control enhancements, including: 1) updating improper payment related policies and procedures; 2) providing quarterly improper payment error report information to key GSA stakeholders; and 3) enhancing the communication over improper payment information through increased GSA OCFO, PBS National Office of Leasing, and USDA FSSP cross-meeting participation.

2. Purchase Cards

GSA's Purchase Card program does not exceed both the statutory threshold of 1.5 percent and $10 million of total funding. GSA is not required to describe corrective action plans.

Monetary Loss to the Government

In **Table 4** below, GSA estimates the total improper payments monetary loss to the Government for the Rental of Space and Purchase Cards programs. To estimate improper payment dollars by actual monetary loss to the Government GSA omits underpayments and overpayments not involving claims.

Table 4 Improper Payment Classification ($ in millions)

Program or Activity	Actual Monetary loss to the Government identified in Sample	Estimated Total Monetary loss to the Government
Rental of Space[1]	$39.43	$39.43
Purchase Cards[2]	$0.02	$0.06
TOTAL	**$39.45**	**$39.49**

[1] *Amount represents actual, validated recoverable overpayments from the sample plus overpayments identified from other sources. This amount is used since the government loss amount from our actual error reports is higher than that from our sampling estimate. Since this amount is not based on sampling the actual and the estimate are reported as the same number.*

[2] *Estimated amount for Purchase Cards based on same extrapolated procedures done in Table 1 except that underpayments and overpayments not involving claims were excluded from extrapolation model.*

Recapture of Improper Payments Reporting

In FY 2017, GSA OCFO complied with reporting improper payments in compliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA), Public Law 111-204. GSA considered all programs and activities that expended $1 million or more annually for payment recapture audits. GSA focused on reviewing the PBS Rental of Space program based on the risks identified from previous years. The objective was to detect and recover overpayments and other errors, and to identify opportunities for process improvement.

GSA's actions and methods used to recoup overpayments involve analyzing lease contracts, lease agreements, lease digest actions, and the development of a detailed monthly rental schedule from lease commencement to the most recent payment. This schedule is then compared to actual payments by month to determine if discrepancies exist. If discrepancies are discovered, they are quantified and identified as to nature and origin. A review of real estate tax adjustments is also done for each lease reviewed. Tax adjustments are reviewed for accuracy, with analysis of the Lessor's submission of tax bills, the GSA's calculation of adjustments and the actual payment of the adjustment.

The conditions giving rise to improper payments involve rent overpayments, rent credits, and real estate tax credits. These overpayments can be caused by calculation errors, administrative errors, system errors, failure to take the proper rent credits, failure to change rent on time or at all, and failure to terminate the lease timely. Overpayments related to real estate tax credits result from failure by the lessor to comply with the lease contract and submit tax bills or refunds, the complexity in determining the base year tax amount, and improperly determining which line items of the tax bill GSA is required to pay.

GSA is addressing these conditions through recent Lease Payment Audit refresher training and is now sending letters to all landlords re-affirming their obligation to submit a tax bill each year. GSA also plans to implement a standard process across the nation in FY 2018 that requires analysts to review the current year tax bill for each lease. The treatment of real estate taxes will be facilitated by the PBS National Leasing Office and through IT enhancements.

In **Table 5** below, GSA includes each program or activity that either conducts a payment recapture audit or recaptures outside of the payment recapture audit process.

Table 5 Overpayment Payment Recaptures with and without Recapture Audit Programs ($ in millions)

		Overpayments Recaptured through Payment Recapture Audits				Overpayments Recaptured outside of Payment Recapture Audits[3]	
Does this include funds recaptured from a High-Priority Program (Y/N)	Program or Activity	Amount Identified in FY 2017	Amount Recovered in FY 2017[1]	Recapture Rate in FY 2017[2]	FY 2018 Recapture Rate Target[2]	Amount Identified in FY 2017	Amount Recovered in FY 2017
N	Rental of Space	$15.55	$11.54	74%	79%	$21.42	$23.50
N	Other[4]					$3.55	$3.66
	TOTAL	**$15.55**	**$11.54**	**74%**		**$24.97**	**$27.16**

[1] *Includes both recaptures of overpayments during FY 2017 and overpayments that were reported prior to FY 2017.*

[2] *The collections amount relates more to the amount identified over previous time period than to the quality in the collections process. A claim typically takes between 4 and 6 months to fully process after it is submitted. There was a smaller collections percentage (74%) in FY 2017 than in FY 2016 (106%) primarily because the amount identified in 2016 ($13.29M) was lower than that identified in FY 2015 ($28.28M). GSA is setting a realistic target rate of 79% for FY 2018.*

[3] *The amount identified and recovered in 2017 reflects overpayments involving claims and not payments involving documentation issues. GSA has over $19M in payments to vendors without active Data Universal Numbering System (DUNS) registrations in SAM that have been classified as improper, but are not included hereon.*

[4] *Other includes several programs activities. Over 95% of the $3.55 amount of the listed programs under Other relates to the following five program activities: building operations, R&A non-recurring reimbursements, all other costs, general activity for revenue/cost of sales.*

GSA reports in **Table 6** the disposition of recaptured funds from the FY 2017 payment recapture audit.

Table 6 Disposition of Funds Recaptured Through Payment Recapture Audit Programs ($ in millions)

Program or Activity	Amount Recaptured	Agency Expenses to Administer the Program	Payment Recapture Auditor Fees[1]	Financial Management Improvement Activities	Original Purpose	Office of Inspector General	Returned to Treasury	Other (please explain in footnote)
Rental of Space[2]	$11.54	NA	$2.23	NA	$9.32	NA	NA	NA
TOTAL	**$11.54**	**NA**	**$2.23**	**NA**	**$9.32**	**NA**	**NA**	**NA**

[1] *Fees based on costs incurred in 2017 determined from the total of submitted invoices from the Payment Recapture Audit in FY 2017.*

[2] *The Amount Recaptured does not equal the sum of the individual payment Recapture Auditors Fees and Original Purpose amounts due to rounding.*

GSA reports in **Table 7** the aging of its outstanding overpayments identified in the payment recapture audits performed in FY 2017.

Table 7 Aging of Outstanding Overpayments Identified in the Payment Recapture Audit Programs[1] ($ in millions)

Program or Activity	Amount Outstanding (0 – 6 months)	Amount Outstanding (6 months to 1 year)	Amount Outstanding (over 1 year)	Amount determined to not be collectable[2]
Rental of Space[3]	$5.81	$0.45	$2.78	$0.44
TOTAL	**$5.81**	**$0.45**	**$2.78**	**$0.44**

[1] *The aging of an overpayment begins at the time the overpayment is detected, which is the date that the Payment Recapture Audit GSA Contracting Officer Representative (COR) executes final approval on the claim form. Thus, GSA is reporting aging of outstanding overpayments based on the final approval date on claim forms, rather than the date that the accounts receivable record related to a claim is established in the accounting system.*

If GSA reported aging of outstanding overpayments based on the date a receivable claim is established in the accounting system, the aging amounts would be as follows:

Amount Outstanding (0-6 months):	*$4.72*
Amount Outstanding (6 months to 1 year):	*$.27*
Amount Outstanding (over 1 year):	*$2.78*
Amount Determined not to be Collectable:	*$.44*

[2] *Uncollectable accounts are written off based on the Accounts Receivable Policy Handbook, CFO P 4253.1, Chapter 4, Servicing Non-Federal Accounts Receivable. GSA writes off claims with a remaining principal balance under $100 at 120 days old; claims above $100 are written off after they have been referred to Treasury for collection for 60 days.*

[3] *The percent these amounts represent of the total overpayments ($9.48M) identified through payment recapture audits that have not been recaptured is as follows:*

Amount Outstanding (0-6 months):	*61.32% ($5.81M/$9.48M)*
Amount Outstanding (6 months to 1 year):	*4.78% ($.45M/$9.48M)*
Amount Outstanding (over 1 year):	*29.30% ($2.78M/$9.48M)*
Amount Determined not to be Collectable:	*4.59% ($.44M/$9.48M)*

Note: The amount outstanding percentages are based on full numbers and not the rounded outstanding dollar amounts listed hereon.

Confirmed Fraud

GSA reports in **Table 8** the amount of fraud confirmed within fiscal year 2017.

Table 8 Confirmed Fraud[1] ($ in millions)

Program or Activity	Confirmed Fraud
Criminal Results	$26.31
Civil Results	$74.43
Non-Judicial Recoveries	$20.74
TOTAL[2]	**$121.47**

[1] *Numbers derived from the statistical summary of OIG investigations section from the combined 2017 OIG semi-annual reports.*

[2] *The Total does not equal the sum of the individual components due to rounding.*

Programs Susceptible to SIgnificant Improper Payments During FY 2017 Risk Assessment

Table 9 is required for programs that conducted a risk assessment during the fiscal year and were found to be susceptible to significant improper payments.

Table 9 Programs Susceptible to Significant Improper Payments During FY 2017 Risk Assessment

Program or Activity
In FY 2017, GSA performed a risk assessment on employee payments including travel. This risk assessment identified no additional programs or activities susceptible to significant improper payments.

Fraud Reduction Report

(Pub. L. 114-186, 31 USC 3321)

In FY 2016, GSA worked to strengthen management practices and internal controls to insure the integrity of its programs, operations, business and financial management systems. This effort increased focus on risk management and risk analysis of all its programs including 4th quarter FY 2016 programs. GSA established an enterprise risk management working group. In the 4th quarter of FY 2016 GSA completed an initial fraud risk assessment, and added an assessment of fraud from GSA's Senior Assessment Team, the Management Control and Oversight Council (MCOC) as part of the analysis to support the Administrator's FY 2016 Assurance Statement.

In FY 2017, the MCOC meetings included briefings on the 5 Components and 17 Principles of Internal Control as required by the GAO Green Book. These meetings also included discussions on the status of corrective actions for outstanding findings from the annual external financial statement audit, the annual internal control plan for financial management and financial systems, updates on plan execution, and the strategy to address enterprise risk management.

GSA continued its proactive approach to addressing fraud risk. Fraud risk was addressed as part of the work to support the Administrator's Annual Assurance Statement. The internal control evaluation tool used this year addressed the 5 Components and 17 Principles of Internal Control. Fraud risk requirements are established in the Risk Assessment Component as Principle 8. The tool was completed by 16 Heads of Services and Support Offices. Fraud was also addressed at the program level. GSA conducts internal program reviews annually. One hundred and thirteen reviews were completed in FY 2017. Each review included an assessment of risk. In addition to this analysis, OCFO sponsored a class focused on identifying fraud. Forty members of the OCFO staff completed the training. At the conclusion of the fiscal year the final fraud risk activity was completed by GSA's Senior Assessment Team, the MCOC. The MCOC members completed a survey to identify internal control and fraud issues not previously reported. GSA also addresses risk as part of the work completed by the ERM working group. GSA completed an initial risk profile, reviewed it with GSA leadership, considered it as part of the FY 2018 to 2022 strategic plan, and included it with the guidance for developing the FY 2019 budget.

GSA also tests Purchase Cards, Rental of Space, and Hurricane Sandy payments as part of the monitoring and reporting process for improper payments. GSA has consistently achieved purchase card improper payment targets, but has missed our aggressive targets for rental of space payments in both FY 2016 and FY 2017. Our target for proper payments for rental of space in FY 2016 was 99.881% and 99.975% in FY 2017, both well above the governmentwide performance of 95.33% for high priority programs. GSA is working with the Office of Management and Budget to set a reasonable and attainable target rate for rental of space in FY 2018.

The GSA OIG has direct access to all purchase and travel card data and performs monthly data mining on purchase card transactions. In addition, the program office contacts the OIG if inappropriate use of the card is discovered. The GSA OCFO, A-123 Review Team conducts a quarterly review of internal controls in accordance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA).

Upon identification of internal control deficiencies, corrective action plans (CAPs) are developed for remediating deficiencies. The OIG also conducts an annual risk assessment of the purchase card program as required by OMB M-13-21, Implementation of the Charge Card Abuse Prevention Act of 2012.

GSA utilizes the following reports to detect possible charge card misuse:

- **Pegasys Daily Charges Report** - This report is used by cardholders to review daily transactions. The report is generated by downloading a daily transaction file from the charge card contractor into Pegasys. The Pegasys charge card module creates a daily email notification for all cardholders with new transactions for review.

- **Pegasys Monthly Charge Card Transaction Report** - This report is used by approving officials (AO) to review their cardholder's monthly transactions. The Pegasys charge card module automatically sends an email to the AOs including a consolidated report of all their cardholders' monthly charge card transactions. AOs can also elect to receive daily emails of new charge activity as it occurs, and they can access a variety of reports on their cardholders' accounts at any time from the Pegasys reports module. All AOs are required to review and certify their monthly reports within 10 days of receipt and take action on all unauthorized and questionable charges. In addition, the Office of Administrative Services (OAS) monitors AOs' monthly reviews to ensure completion.

- **Questionable Charges Report** - This report utilizes the MasterCard Expert Monitoring System (EMS) to assess questionable transactions. On a monthly basis, OAS uses data mining techniques to identify questionable charges using attributes such as:

    - Merchant description;
    - Merchant Category Code (MCC);
    - Merchant names; and
    - Weekend and holiday transactions.

  The data is reviewed and compiled into the Questionable Charges Report and sent to the AOs for review and comments.

- **Impending Suspensions Report** – OAS notifies regional coordinators to follow up with AOs that have not reviewed and certified their Pegasys monthly transactions. Upon notification, the AOs have ten days to review and certify the Pegasys reports to prevent the suspension of their cardholders' accounts.

- **Transaction File** - This monthly nationwide file of all purchase card transactions is provided to the GSA OIG and the federal shared service provider for financial services for review and audit sampling.

- **Potential Split Transactions** – This report notifies the Heads of Service and Staff Offices (HSSOs) and Regional Commissioners (RCs) of potential split transactions by cardholders. Management officials review the transactions and report to OAS on whether inappropriate use is discovered or whether charges comply with policy. Management officials are advised to counsel the employee and/or take disciplinary action in consultation with their servicing human resources office, if inappropriate use of the purchase card is discovered. Management officials must also conduct a procurement review to determine if any corrective action is needed.

Travel Card

The Questionable Charges Report described above is also utilized for travel cards. In addition, OAS uses data mining attributes such as:

- ATM transactions > $250 in 1 Week;
- Merchant description;
- Merchant Category Code (MCC);

- Merchant names;
- Returned checks; and
- Travel card transactions that are not supported by an approved travel authorization in the Electronic Travel System (ETS).

To monitor delinquencies associated with the travel card, GSA established a Centrally Billed Account (CBA) with the contracted ETS vendor for travel transportation expenses. The ETS vendor performs an automated reconciliation of travel transportation billings and provides GSA with a list of reconciled charges. There are no delinquencies on this account since it is paid on a bi-weekly basis. For individually billed accounts, a monthly Delinquency Report is provided to senior management with a listing of aged delinquent accounts. Approving Officials conduct counseling and/or discipline employees as necessary in consultation with OHRM. GSA also initiates salary offset for collecting undisputed delinquent travel charge card debt. To further reduce the potential for delinquent accounts, GSA has incorporated the split disbursement feature into ETS for payment directly to the charge card contractor. There are no delinquencies for the purchase card program since payment to the charge card contractor is made on a daily basis.

To mitigate the risk associated with employees who separate from GSA and fail to properly turn in their cards, GSA uses a daily Employee Separation List and verifies the names on the list in Citibank's Citidirect Card Management System (CCMS). These accounts are then immediately cancelled in Citibank. As an additional control, GSA uses a monthly employee separation list from the Comprehensive Human Resources Integrated System (CHRIS) to close separating employee accounts in CCMS that may have been missing from the daily list. GSA also reconciles the list of active charge card participants from Citibank to Human Resources (HR) files on a periodic basis (minimum of once per year).

Additional Travel/Purchase Card Controls:

- GSA program offices receive a semi-annual report of inactive purchase cardholders (accounts with no activity in the preceding 12 months) for review. The program offices initiate closure for accounts that are no longer needed.
- GSA utilizes retail blocks on questionable/ high risk Merchant Category Codes (MCC) for purchases and travel. GSA reviews and updates the use of these codes periodically.
- Travel card applicants complete their travel card application online in lieu of completing a paper application. The online application increases sustainability by reducing the number of paper applications processed and increases security of an applicant's personally identifiable information (PII).
- GSA requires all charge card participants, regardless of level or responsibilities, to complete training prior to appointment or issuance of a charge card (purchase or travel).
- GSA requires all approving officials, charge card holders, Agency/ Organization Program Coordinators, and Charge Card Coordinators to complete charge card refresher training every two years for travel, and every three years for purchase.

Other GSA Statutorily Required Reports *(Unaudited)*

Debt Management

GSA reported $169.2 million of outstanding debt from non-federal sources, subject to the DCIA of 1996. Of that amount, $39 million or 23 percent of the outstanding debt was delinquent at the end of FY 2017. Non-federal receivables consist of debts owed on third-party claims, travel advances, proceeds from the sale of real property, and other miscellaneous receivables.

To comply with the DCIA of 1996, GSA transmits delinquent claims each month to the U.S. Treasury, Bureau of the Fiscal Service for cross-servicing collection. During FY 2017, the OCFO referred over $8.6 million of delinquent non-federal claims to the Treasury for cross-servicing collection activities. Collections on non-federal claims during this period exceeded $178 million.

The OCFO has continued to implement and initiate actions to improve our debt collection efforts and reduce the amount of debt written off as uncollectible by GSA.

GSA actively pursues delinquent non-federal claims using installment agreements, salary offset, administrative wage garnishment, and any other statutory requirement or authority that is applicable. GSA continues to place a high priority on resolving delinquent accounts receivable and claims

Cash and Payments Management

The Prompt Payment Act, along with the DCIA, requires the timely payment of commercial obligations for supplies and services using electronic funds transfer. In FY 2017, GSA paid interest of $704 thousand on disbursements subject to the Prompt Pay Act of $18.9 billion, or $37.30 in interest per million disbursed. The statistics for the current and preceding two fiscal years are as follows:

	FY 2015	FY 2016	FY 2017
Total Number of Invoices Paid	1,900,160	1,843,201	1,920,286
Total Dollars Disbursed	$17.2B	$17.6B	$18.9B
Total Dollars of Interest Penalties	$201,183	$418,587	$704,052
Interest Paid per Million Disbursed	$11.66	$23.79	$37.30
Percentage of Invoices Paid-On-Time	99.6%	99.6%	99.7%
Percentage of Invoices Paid Late	0.4%	0.4%	0.3%
Percentage of Invoices Paid Electronically	97.4%	99.8%	99.5%

Reduce the Footprint *(Unaudited)*

GSA Region VI Relocation to Two Pershing Square Kansas City, MO

At the end of FY 2016, GSA had reduced the GSA occupied space portfolio by 20 percent (over 1 million usable square footage (USF)) compared to the FY 2015 RTF baseline. The largest USF reduction during FY 2016 resulted from outleasing to a private entity more than 800,000 USF of warehouse space at the Eastern Distribution Center in Burlington, NJ no longer needed by GSA due to a change in mission requirements.

GSA also achieved significant USF reductions in FY 2016 by relocating organizations occupying two of its regional office buildings in the Northeast and Caribbean Region and the Mid-Atlantic Region. Both regions moved into new locations that resulted in USF reductions, improved utilization rates, and better quality workspaces. GSA made additional reductions during FY 2017 at GSA's Regional Office Buildings in the New England Region, the National Capital Region, and the Southeast Sunbelt Region.

GSA is continuously seeking to maximize the use of owned Federal space, eliminating costly lease arrangements, and disposing of underutilized assets. GSA is improving the utilization of its space through various workplace strategies including: rightsizing individual, collaborative, and support spaces; desk-sharing; a continued emphasis on enabling and supporting mobile work; and shifting from traditional office space to more flexible, equitable, open-plan workplace environments.

Reduce the Footprint Baseline Comparison

	FY 2015 Baseline	2016	Change (FY 2015 Baseline - 2016)
Usable Square Footage (USF)	5,183,256	4,140,922	1,042,334

Reporting of O&M Costs – Owned and Direct Lease Buildings

	FY2015 Reported Cost	FY2016	Change (FY2015 Baseline-2016)
Operation and Maintenance Costs ($ in millions)*	$40	$39	-$1

* *Reflects operating rent that PBS billed to the GSA OAs subject to FTF in FY 2015 and RTF in FY 2016. These figures are different from the operation and maintenance (O&M) costs reported in the Federal Real Property Profile as GSA's FRPP O&M costs are reported at the asset level and includes vacant federal space as well as space occupied by other agencies. Additionally, FRPP definition of O&M costs, includes only actual expenses, recurring maintenance and repair costs, utilities, cleaning and roads/grounds expenses, whereas PBS billed operating rent may include other operating cost components.*

Civil Monetary Penalties Inflation Adjustment

The Federal Civil Penalties Inflation Adjustment Act of 1990 (the Inflation Adjustment Act), as amended, requires agencies to make regular and consistent inflationary adjustments of civil monetary penalties (CMP) to maintain their deterrent effect. The following are those penalties and applicable authorities identified for inflationary adjustment in accordance with Act.

Statutory Authority	Penalty (Name or Description)	Year Enacted	Latest year of adjustment (via statute or regulation	Current Penalty Level ($ Amount or Range)	Sub-Agency/ Bureau/ Unit	Location for Penalty Update Details
40 U.S.C. 121 (c) and 31 U.S.C 3809	Program Fraud Civil Remedies Act (PFCRA)	1986	29-Aug-17	$10,781 for each false, fictitious, or fraudulent statement	N/A	41 CFR Part 105-70, effective September 28, 2017 (rule published August 29, 2017)

Acronyms and Abbreviations
(Unaudited)

AAAP	Automated Advanced Acquisition Program
AAS	Assisted Acquisition Services
ADA	Antideficiency Act
AFR	Agency Financial Report
AFV	Alternative Fuel Vehicle
AO	Approving Official
API	Application Program Interface
APR	Annual Performance Plan and Report
ASF	Acquisition Services Fund
BOMA	Building Owners and Management Association
CA	California
CAP	Corrective Action Plan
CBA	Centrally Billed Account
CBCA	Civilian Board of Contract Appeals
CCMS	Citidirect Card Management System
CCR	Central Contractor Registration
CDM	Continuous Diagnostics and Mitigation
CHRIS	Comprehensive Human Resources Integrated System
CIO	Chief Information Officer
CMP	Civil Monetary Penalties
CNG	Compressed Natural Gas
COP	Community of Practice
COR	Contracting Officer Representative
CSBR	Combined Statements of Budgetary Resources
CSRS	Civil Service Retirement System
CY	Current Year
DATA Act	Digital Accountability and Transparency Act of 2014
DCIA	Debt Collection Improvement Act of 1996
DHS	U.S. Department of Homeland Security
DM&R	Deferred Maintenance and Repairs
DNP	Do Not Pay
DOE	U.S. Department of Energy
DOI	U.S. Department of the Interior
DOL	U.S. Department of Labor
DOS	U.S. Department of State
DUNS	Data Universal Numbering System
ECMs	Energy Conservation Measures
ECPIC	Electronic Capital Planning Investment Control
EIS	Enterprise Infrastructure Solutions
EMS	MasterCard Expert Monitoring System
EOL	End of Life
EOP	Executive Office of the President
EPLS	Excluded Parties List System
ERM	Enterprise Risk Management
ESCO	Energy Service Company
ESPCs	Energy Savings Performance Contracts
ETS	Electronic Travel System
FAC	Facility Access Card
FAR	Federal Acquisition Regulations
FAS	Federal Acquisition Service
FASAB	Federal Accounting Standards Advisory Board
FASTA	Federal Assets Sale and Transfer Act
FBF	Federal Buildings Fund
FBwT	Fund Balance with Treasury
FCI	Facility Condition Index

FCSF	Federal Citizen Services Fund
FECA	Federal Employees' Compensation Act
FERS	Federal Employees Retirement System
FFMIA	Federal Financial Management Improvement Act of 1996
FISMA	Federal Information Security Management Act
FMFIA	Federal Managers' Financial Integrity Act of 1982
FMLoB	Financial Management Line of Business
FRPP	Federal Real Property Profile
FSSP	Federal Shared Service Provider
FTE	Full-time Equivalent
FTF	Freeze the Footprint
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	U.S. Government Accountability Office
GLS	GSA Leasing Support Services
GS&S	General Supplies and Services
GSA	U.S. General Services Administration
GSA IT	Office of GSA Information Technology
HSSOs	Heads of Service and Staff Offices
HR	Human Resources
IAE	Integrated Award Environment Initiative
IDIQ	Indefinite Delivery / Indefinite Quantity
IP	Improper Payment
IPERA	Improper Payments Elimination and Recovery Act of 2010
IPERIA	Improper Payments Elimination and Recovery Improvement Act of 2012
IPIA	Improper Payments Information Act of 2002
IT	Information Technology
ITC	Information Technology Category
MAS	Multiple Award Schedule
MCC	Merchant Category Code
MCOC	Management Control and Oversight Council
NIST	National Institute of Standards and Technology
NJ	New Jersey
NY	New York
OA	Occupancy Agreement
OAS	Office of Administrative Services
OASDI	Old-Age, Survivors, and Disability Insurance Program
O&M	Operation and Maintenance
OCE	Office of Customer Experience
OCFO	Office of the Chief Financial Officer
OCIA	Office of Congressional and Intergovernmental Affairs
OCR	Office of Civil Rights
OCSIT/18F	Office of Citizen Services and Innovative Technologies/18F
OFM PBS	Office of Facilities Management
OGC	Office of General Counsel
OGP	Office of Government-wide Policy
OHRM	Office of Human Resources Management
OIG	Office of the Inspector General
OMA	Office of Mission Assurance
OMB	Office of Management and Budget
OPM	Office of Personnel Management
ORCA	Online Representations and Certifications Application
OSBU	Office of Small Business Utilization
OSC	Office of Strategic Communication
OSC	Office of Special Counsel
OSM	Office of Systems Management
PBS	Public Buildings Service
PCS	Physical Condition Survey
PFCRA	Program Fraud Civil Remedies Act
PIF	Presidential Innovation Fellows
PII	Personally Identifiable Information
PKI	Public Key Infrastructure
PMO	Program Management Office
PMR	Procurement Management Review
PP&E	Plant, Property and Equipment

PS&HC	Professional Services and Human Capital
R&A	Repairs and Alterations
RCs	Regional Commissioner
REXUS	Real Estate Across the United States
RSF	Rentable Square Feet
RSI	Required Supplemental Information
RTF	Reduce the Footprint
RWA	Reimbursable Work Authorization
SAM	System for Award Management
SF 133s	Reports on Budget Execution and Budgetary Resources
SFFAS	Statements of Federal Financial Accounting Standards
SLA	Service Level Agreement
SOPs	Standard Operating Procedures
SSA	Social Security Administration
TSP	Thrift Savings Plan
TTL	Travel, Transportation and Logistics
TTS	Technology Transformation Services
UESCs	Utility Energy Service Contracts
USDA	U. S. Department of Agriculture
USF	Usable Square Footage
USSGL	U.S. Standard General Ledger
WCF	Working Capital Fund
WITS	Washington Interagency Telecommunications System
WITS	Washington Interagency Telecommunications System




GSA

is currently supporting displaced Federal Workers by obtaining temporary space.

has used Federal Strategic Sourcing obtained supplies in support of affected federal employees and their families.

in collaboration with FEMA distributed diesel, gasoline, food, and water to federal employees and local law enforcement.

employees have voluntarily deployed to disaster areas.

Photos

Front cover:
San Ysidro Land Port of Entry, San Ysidro, CA

page opposite table of contents:
Detail of Byron White U.S. Courthouse, Denver, CO

page opposite the Letter from the Acting Administrator:
U.S. General Services Administration, Central Office, Washington DC

Page 7:
Monumental stair, Birch Bayh Federal Building, & U.S. Courthouse in Indianapolis, IN

Page 29:
Interior, U.S. Custom House in New Orleans, LA

Page 79:
Sidney R. Yates Federal Building in Washington DC

Acknowledgment

Page 132:
All photos with the exception of the firefighter photo provided by: FEMA News Photo

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