



U.S. GENERAL SERVICES ADMINISTRATION  
Office of Inspector General

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DEC 12 2013

MEMORANDUM FOR: DANIEL M. TANGHERLINI  
ADMINISTRATOR (A)

MICHAEL CASELLA  
CHIEF FINANCIAL OFFICER (B)

FROM: BRIAN D. MILLER   
INSPECTOR GENERAL (J)

SUBJECT: Transmittal of the Independent Auditors' Report of the  
Consolidated Financial Statements

This memorandum transmits KPMG's LLP (KPMG) Financial Statements Audit report of the U.S. General Services Administration (GSA) for Fiscal Years 2013 and 2012.

The Chief Financial Officer's 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 the Office of Inspector General, KPMG, an independent public accounting firm, performed the Fiscal Years 2013 and 2012 Financial Statements Audit of GSA. The contract required the audit be performed in accordance with the *Government Auditing Standards* issued by the Comptroller General of the United States and Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*.

Those standards and OMB Bulletin No. 14-02 require that KPMG plan and perform the audit to obtain reasonable assurance about whether GSA's consolidated financial statements and the Funds' individual financial statements are free from material misstatement.<sup>1</sup>

Results of Independent Audit

"In [KPMG's] opinion, the consolidated financial statements referred to above, present fairly, in all material respects, the consolidated financial position of GSA and the financial position of each of the Funds as of September 30, 2013 and 2012, and the consolidated and 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."

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<sup>1</sup> The individual balance sheets of the Federal Buildings Fund (FBF) and the Acquisition Services Fund (ASF), hereinafter referred to as the "Funds."



However, KPMG identified certain deficiencies in internal control it considers to be a material weakness. 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.

Specifically, KPMG noted several matters that highlighted the need for improved financial management and reporting oversight at GSA in the areas of estimated liabilities for asbestos-related cleanup costs, manual journal entries, and disclosures related to future minimum lease payments required under applicable accounting standards. As a result of these observations, GSA adjusted its financial records by a combined amount of approximately \$2.95 billion to ensure that its financial statements were not significantly misstated as of September 30, 2013. Collectively, KPMG considered these matters to be a material weakness in internal control.

In addition, KPMG reported significant deficiencies in internal control, including: Accounting and Reporting of Property and Equipment; Budgetary Accounts and Transactions; Accounting and Reporting of Leases and Occupancy Agreements; and Entity-Level Controls. 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.

KPMG is responsible for the attached, unqualified auditor's opinion, dated December 9, 2013. The Office of Inspector General is responsible for the technical and administrative oversight regarding the firm's performance under the terms of the contract. Our oversight of KPMG's work, as differentiated from an audit in conformance with *Government Auditing Standards*, was not intended to enable us, and accordingly we do not express any opinion on GSA's financial statements or conclusions on the effectiveness of internal control, or compliance with laws and regulations.

The Office of Inspector General appreciates the courtesies and cooperation extended to KPMG and our audit staff by GSA during the audit. If you have any questions, please contact Theodore R. Stehney, Assistant Inspector General for Auditing, at (202) 501-0374.

Attachments



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

## **Independent Auditors' Report**

Administrator and Inspector General  
United States General Services Administration:

### **Report on the Financial Statements**

We have audited the consolidated and combined totals in the accompanying consolidating financial statements of the United States General Services Administration (GSA), which comprise the consolidating balance sheets as of September 30, 2013 and 2012, and the consolidating statements of net cost and changes in net position, and the combining statements of budgetary resources for the years then ended, and the related notes to the 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, 2013 and 2012 and the related individual statements of net cost and changes in net position, and combining statements of budgetary resources (hereinafter referred to as the Funds' "individual financial statements") for the years then ended.

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

Management is responsible for the preparation and fair presentation of GSA's consolidated financial statements and 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 GSA's consolidated financial statements and the Funds' individual financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express opinions on GSA's 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; 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. 14-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 14-02 require that we plan and perform the audit to obtain reasonable assurance about whether GSA's 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 GSA's 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 GSA's 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 GSA's 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 GSA's consolidated financial statements and the Funds' individual financial statements.

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

### ***Opinions on the Financial Statements***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of GSA and the financial position of each of the Funds as of September 30, 2013 and 2012, and the consolidated and 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.

### ***Emphasis of Matter***

As discussed in Note 6 to the consolidated financial statements, in fiscal year 2013, GSA adopted Federal Accounting Standards Advisory Board (FASAB) Technical Bulletin No. 2006-1, *Recognition and Measurement of Asbestos-Related Cleanup Costs*, as amended. Our opinion is not modified with respect to this matter.

### ***Other Matters***

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

#### ***Other Information***

Our audits were conducted for the purpose of forming an opinion on GSA's consolidated financial statements and the Funds' individual financial statements as a whole. The information in the Other Information, Table of Contents, Letter from the Administrator, and "How GSA Benefits the Public" sections of GSA's *2013 Agency Financial Report* is presented for purposes of additional analysis and is not a required part of GSA's consolidated financial statements and the Funds' individual financial statements. Such information has not been subjected to the auditing procedures applied in the audit of GSA's 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 audit of GSA's consolidated financial statements and the Funds' individual financial statements, we considered GSA's and the 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 opinion on GSA's consolidated financial statements and the Funds' individual financial statements, but not for the purpose of expressing an opinion on the effectiveness of the GSA's and the Funds' internal control. Accordingly, we do not express an opinion on the effectiveness of the GSA's and the 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*.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in Exhibits I and II, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies, respectively.

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. We consider the deficiencies described in Exhibit I to be a material weakness.

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. We consider the deficiencies described in Exhibit II 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 GSA's 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, and certain provisions of other laws and regulations specified in OMB Bulletin No. 14-02. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 14-02, and which are described in Exhibit III.

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



***GSA's Responses to Findings***

GSA's responses to the findings identified in our audits are described in Exhibits I, II, and III. GSA's responses were not subjected to the auditing procedures applied in the audits of GSA's 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 or the Funds' internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

**KPMG LLP**

Washington, DC  
December 9, 2013

**Independent Auditors' Report**  
**Exhibit I – FY 2013 Material Weakness**

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**I. Financial Management and Reporting**

During fiscal year 2013, we noted several matters that highlighted the need for improved financial management and reporting oversight at GSA in the areas of estimated liabilities for asbestos-related cleanup costs, manual journal entries, and disclosures related to future minimum lease payments required under applicable accounting standards. As a result of our observations in the areas noted above, GSA adjusted its financial records by a combined amount of approximately \$2.95 billion to ensure that its financial statements were not significantly misstated as of September 30, 2013. Collectively, these matters are considered to be a material weakness in internal control.

**a. Estimated Liabilities for Asbestos-Related Cleanup Costs**

GSA manages over 1,300 owned properties with an average age of 48 years, including 315 buildings considered heritage assets. Certain properties contain environmental hazards that will ultimately need to be removed and/or require containment. Statement of Federal Financial Accounting Standards (SFFAS) No. 5, *Accounting for Liabilities of the Federal Government*, SFFAS No. 6, *Accounting for Property, Plant and Equipment* and Technical Release No. 2, *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government* set forth the requirements and guidance for accounting and reporting environmental liabilities. In addition, FASAB Technical Bulletin No. 2006-1, *Recognition and Measurement of Asbestos-Related Cleanup Costs*, as amended (TB 2006-1), and FASAB Technical Release No. 10, *Implementation Guidance on Asbestos Cleanup Costs Associated with Facilities and Installed Equipment*, contain specific guidance for entities to record and measure asbestos-related environmental liabilities.

As we reported in the fiscal year 2012 *Internal Control Over Financial Reporting* section of our Independent Auditors' Report, noted control weaknesses over environmental liabilities combined with the implementation of FASAB's TB 2006-1, could have a significant impact on GSA's environmental liabilities balance in fiscal year 2013. GSA needs to continue to improve controls over the reporting of environmental liabilities and, as outlined below, GSA needs to improve its controls over the estimation methodology for liabilities related to asbestos cleanup costs. As a result of our observations, GSA introduced certain modifications to its methodology for estimating the liability for asbestos-related cleanup costs and adjusted its records for approximately \$1.59 billion to ensure that environmental liabilities were not significantly misstated as of September 30, 2013.

Early in fiscal year 2013, the Office of the Chief Financial Officer (OCFO) prepared an initial estimate of GSA's liability for asbestos-related cleanup costs, resulting in an estimated liability of approximately \$194 million. The OCFO planned to make significant refinements to this initial estimate by March 31, 2013 using a methodology based on a more sophisticated statistical approach. However, the OCFO could not implement such refinements because it did not initiate the process to accumulate reliable and relevant data with sufficient lead time to develop an effective estimating methodology for a technically complex estimate.

Based on our procedures, we noted several deficiencies in the design of GSA's methodology for estimating the liability for asbestos related cleanup costs (hereinafter referred to the "estimating methodology"). The OCFO developed multiple assumptions and cost factors for its estimating methodology based on data that was not relevant, reliable, and validated. Specifically:

- GSA did not fully reconcile the property listing initially considered in the liability estimate to the subsidiary ledger and the general ledger as of December 31, 2012. As a result, GSA did not apply the estimating methodology's assumptions consistently by including properties that should have been excluded and excluding costs that should have been considered in the cleanup cost estimate;

**Independent Auditors' Report**  
**Exhibit I – FY 2013 Material Weakness**

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- The initial estimates were based on information related to gross square footage with asbestos-containing materials. However, such data was incomplete, never validated, or based on unsupported estimates;
- GSA used a cost factor from another federal agency that was not representative of GSA's properties. In an attempt to introduce refinements to the cost factor, GSA's Office of Design and Construction developed a combination of 24 different cost factors based on different levels of severity of potential asbestos contamination. However, GSA was unable to provide sufficient audit evidence supporting such cost factors; and
- Part of the refinements to the initial methodology consisted of developing a statistical model to derive the estimated cleanup cost of gross square footage with asbestos-containing materials. However, the statistical sample was designed and extracted based on a set of parameters that did not match GSA's risk profile associated with the level of uncertainty for this type of estimate and the level of reliability of the underlying data used.

GSA recognized the limitations of its initial methodology for estimating the liability for asbestos-related cleanup costs and, based on our recommendations, implemented certain corrective actions and adjustments to its estimating methodology during the fourth quarter. These corrective actions included:

- Revising cost factors to be based on asbestos cost surveys from multiple regions;
- Performing a sensitivity analysis to evaluate the reasonableness of the cost factors ultimately used in the estimate. Such sensitivity analysis included actual cleanup costs incurred during major renovation projects;
- Streamlining the number of assumptions and factors, eliminating those that were based on incomplete, inaccurate, unsupported or invalid data; and
- Completing its analysis of properties to be included in the estimating methodology.

**b. Manual Journal Entries**

As reported in the previous year, GSA continues to record transactions based on draft policies as authoritative guidance. GSA needs to continue to improve controls over the preparation and review of manual journal entries. The information and communication processes are not sufficient to enable the OCFO and the Public Buildings Service (PBS) to identify, resolve and correct accounting issues in a timely manner in accordance with applicable accounting standards. Specifically, we noted the following conditions:

- As part of the implementation of TB 2006-1 mentioned in condition I.a above, GSA misapplied the accounting standards for recognizing liabilities related to general Property, Plant, and Equipment (PP&E) that were already in service at the time of the implementation of the applicable Federal accounting standards. For the purpose of recognizing the liabilities for asbestos cleanup costs, GSA established a different estimated useful life for PP&E through an accounting policy that was in draft and not properly approved. Consequently, the adjusting entry prepared by the OCFO to record the liability for asbestos cleanup cost was incorrect, understating the environmental liabilities balance by approximately \$390 million. We recommended, and GSA recorded, an audit adjustment to correct the \$390 million understatement in environmental liabilities that would have been recorded as of September 30, 2013.

**Independent Auditors' Report**  
**Exhibit I – FY 2013 Material Weakness**

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- GSA continues to account for “build-to-suit” and construction of buildings using other agency’s funding which is not in accordance with applicable accounting standards. The OCFO recorded a journal entry increasing other liabilities by approximately \$160 million without proper supporting documentation. In addition, during fiscal year 2013, GSA developed an accounting policy in an attempt to address our prior year recommendations. However, such accounting policy was not fully developed and approved before year-end and included incorrect accounting guidance to account for “build-to-suit” transactions. We recommended, and GSA recorded, an audit adjustment for approximately \$160 million to correct these balances as of September 30, 2013.

These conditions underline the need for the OCFO to fully develop policies and procedures that are sufficiently analyzed, vetted and approved before recording adjusting entries.

**c. Disclosure Related to Future Minimum Lease Payments**

GSA needs to improve controls and the process in place to prepare the tables supporting the future minimum lease payments included in the Leasing Arrangement footnote disclosure. Of the 61 leases selected for test work over the future minimum lease payments for operating leases included in the Leasing Arrangement disclosure, we noted 6 instances where the future minimum lease payments did not match the terms of the lease agreement; 3 instances where cancelable leases and leases with terms less than one year were improperly included in future minimum payment disclosure; 14 instances where the cancelable period for a lease was improperly included in the future minimum payments disclosure; and 3 instances where non-cancelable leases were improperly excluded from the future minimum payment disclosure.

Upon our request, GSA analyzed the Leasing Arrangements footnote disclosure and supporting data, and identified an understatement of approximately \$444 million due to the omission of step rent, expansions, and reductions, and an overstatement of approximately \$370 million due to the improper inclusion of cancelable leases. As a result of our observations, GSA adjusted its future minimum lease payments included in the Leasing Arrangement footnote disclosure as of September 30, 2013.

**Recommendations**

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

**a. Estimated Liabilities for Asbestos-Related Cleanup Costs**

1. Continue to accumulate relevant, sufficient, and reliable data on which to base future refinements to the estimating methodology;
2. Ensure the accounting estimate is prepared by qualified personnel with a full understanding of the requirements to develop an effective cost estimation methodology;
3. Ensure there is adequate review and approval of the estimate by appropriate levels of management, including review of sources of relevant factors, development of assumptions, and reasonableness of assumptions and resulting estimates;
4. Evaluate whether the assumptions continue to be consistent with each other, the supporting data, relevant historical data, and industry data; and
5. Continue to monitor and refine the estimation methodology on a regular basis. Such improvements may consist of the following:

**Independent Auditors' Report**  
**Exhibit I – FY 2013 Material Weakness**

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- a. On a regular basis, obtain updated asbestos surveys, including for those properties that GSA has performed significant asbestos cleanup, for the specific purpose of estimating asbestos-related cleanup costs for financial reporting;
- b. Consider expanding the number of asbestos survey reports used in development of the cost factors to ensure that the calculated cost factors continue to be representative of asbestos related cleanup costs;
- c. Apply the methodology consistently for all properties considered in the estimate, including those for which a survey was used to calculate the cost factors;
- d. Develop cost factors to further enhance the estimate for additional anticipated costs (e.g., design, management & inspection) as part of abatement projects using accurate, reliable, and verifiable data; and
- e. Maintain an adequately updated, approved, and documented estimating methodology.

**b. Manual Journal Entries**

1. Enforce existing worksheet adjustment review policies and increase the precision of the review's thoroughness in ensuring accurate adjustments are recorded;
2. Develop and implement effective information and communication processes to help ensure that technical accounting issues are identified, analyzed and resolved in a timely manner; and
3. Ensure journal entries are prepared and recorded based on OCFO approved policies and procedures.

**c. Disclosure Related to Future Minimum Lease Payments**

1. As part of the financial statement preparation process, review and obtain understanding of the relevant accounting and disclosure standards to ensure that the lease disclosures are in accordance with such standards;
2. Perform a comprehensive analysis of all data needed (e.g., cancelable/non-cancelable, step rent, expansion/reduction, CPI adjustments, firm term, etc.) to properly report the future minimum lease payments disclosure and ensure the data are appropriately captured in the future minimum lease payments disclosure; and
3. Effectively monitor the preparation of the annual leasing arrangement disclosures.

**Management Response**

Management concurs with these recommendations and will initiate appropriate corrective actions.

**Independent Auditors' Report**  
**Exhibit II – FY 2013 Significant Deficiencies**

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**II. Accounting and Reporting of Property and Equipment**

GSA reported \$27.8 billion in property and equipment, net of accumulated depreciation, as of September 30, 2013. GSA needs to continue to improve controls over general property and equipment to ensure that transactions are promptly recorded, properly classified, and accounted for in accordance with the requirements outlined in Federal financial accounting standards and OMB Circular No. A-123. During our fiscal year 2013 testwork, we continued to note the following control weaknesses over general property and equipment, many of which were reported in the fiscal year 2012 *Internal Control Over Financial Reporting* section of our Independent Auditors' Report:

**a. Buildings**

As reported in the previous year, GSA did not consistently record property disposals when they occurred. When a building is sold, conveyed, demolished, or classified as excess property, the regional offices do not always notify the OCFO to properly record the asset disposal and to reduce the building value in the financial management system accordingly. As a result of our analysis over the buildings account, we noted 38 instances where the property and equipment was not transferred to excess property or was not transferred timely and as a result, GSA continued to incur depreciation expenses, and 41 instances where the asset disposals were not recorded or were not recorded timely. In addition, we noted 28 instances where costs were incorrectly capitalized to leased properties and 27 instances where leasehold improvements were incorrectly classified as buildings.

As a result of our testwork, we identified an overstatement of the buildings balance and related accumulated depreciation of approximately \$71 million and \$68 million, respectively, as of September 30, 2013. We performed additional analysis to obtain evidence that the buildings and associated accumulated depreciation accounts were not significantly misstated.

**b. Construction in Process (CIP)**

GSA needs to continue improving the effectiveness of controls over the proper classification of projects that are deemed substantially complete. GSA did not consistently record transfers of substantially completed projects from CIP to the buildings balance in a timely manner for 28 of 40 CIP transfers tested. In addition, neither GSA's applicable feeder nor the fixed asset subsidiary systems have functionality to capture the substantial completion date for multi-phase or multi-asset building projects. Further, costs associated to multi-phase or multi-asset building projects must be tracked manually outside the applicable feeder systems and fixed asset subsidiary ledger. As a result, we noted 1 instance where GSA transferred an incorrect amount to the building account resulting in a projected overstatement of approximately \$40 million.

Due to the inconsistent application of PBS's guidance as to the definition of when a project is substantially complete; the size and complexity of GSA's construction projects; the manually intensive process of determining and documenting substantial completion dates; the lack of system functionality to properly track substantial completion dates and costs associated with multi-phase or multi-asset building projects; and the lack of a policy over documentation requirements for multi-phased or multi-asset transfers, there is an increased risk that asset transfers may not be recorded to the general ledger in an accurate or timely manner, which also could lead to misstatements in depreciation expense. We performed additional analysis to obtain evidence that the CIP accounts were not significantly misstated.

**Recommendations**

We continue to recommend that GSA management implement the following recommendations to improve controls over the accounting for general property and equipment:

**Independent Auditors' Report**  
**Exhibit II – FY 2013 Significant Deficiencies**

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**a. Buildings**

1. Perform regular verifications of the building status listed in the fixed asset subsidiary ledger and make the necessary corrections in the financial management system, when applicable;
2. Develop policies and procedures requiring a new building location code to facilitate the verification of building status. Ensure newly developed and existing policies and procedures are consistent with SFFAS No. 6;
3. Develop policies and procedures to improve communications between the Central Office and the regional portfolio managers regarding asset disposals or conveyance to ensure all parties have an understanding of the documents and notifications needed for the OCFO to record the asset disposals in a timely manner;
4. Develop and deliver training on an ongoing basis to all portfolio managers and realty specialists regarding the reporting of real property disposal or conveyance to ensure that all of the appropriate requirements are fulfilled and consistently recorded in accordance with GSA policies and procedures;
5. Enforce GSA's existing policy on reporting asset disposal or conveyance; and
6. Continue to review and verify both leased and owned buildings to ensure existing issues are identified and remedied timely.

**b. Construction in Process (CIP)**

1. Develop policies and procedures to provide guidance for the type of required documentation that should be maintained to support costs for individual phases or assets in CIP;
2. Develop an automated process to capture costs by individual phases or assets of a multi-phase or multi-asset CIP project to reduce the need for manual tracking;
3. Provide training to contracting officers and project managers emphasizing the importance of timely communication of CIP transfers to the OCFO;
4. Continue current initiatives to strengthen internal controls over proper classification of costs associated with projects and ensure proper data entry and timely transfer of costs between the CIP and building accounts;
5. Continue reconciliation efforts to review the validity of substantial completion dates entered into the applicable feeder systems and the fixed assets subsidiary ledger to ensure that substantially completed CIP projects are transferred to the appropriate building account in a timely manner; and
6. PBS Central Office's effort to correct the validity of substantial completion dates needs to be supported by regional efforts (e.g., making continuous improvements toward entering actual substantial completion dates into the system) in order to ensure effective controls.

**Management Response**

Management concurs with these recommendations and will initiate appropriate corrective actions.

**III. Budgetary Accounts and Transactions**

Budgetary accounts are a category of the general ledger accounts where transactions related to receipts, obligations, and disbursements of budgetary authority – the authority provided by law to incur financial obligations that will result in outlays – are recorded.

OMB Circular No. A-123, *Management's Responsibility for Internal Control, Revised*, sets forth requirements to develop control processes necessary to ensure that reliable and timely information is obtained, maintained, reported, and used for decision making. Additionally, OMB Circular No. A-127, *Financial Management Systems, Revised*, provides a framework for Federal agencies to develop financial management systems that should generate reliable, timely, and consistent information necessary for

## **Independent Auditors' Report**

### **Exhibit II – FY 2013 Significant Deficiencies**

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meeting management's responsibilities, including the preparation of financial statements. In addition, GSA policies require each of GSA's Services, PBS and the Federal Acquisition Service (FAS), to address the need to strengthen internal controls over budgetary reporting and to mitigate known weaknesses in the budgetary transaction level controls.

GSA needs to continue improving the effectiveness of controls over its accounting and business processes to ensure that budgetary transactions are properly recorded, processed, and summarized. Specifically, we identified control deficiencies over the processing of undelivered orders, unfilled customer orders, and funds controls. Many of these conditions were reported in the fiscal year 2012 *Internal Control Over Financial Reporting* section of our Independent Auditors' Report.

#### **a. Undelivered Orders**

Undelivered orders represent GSA's obligations that require the agency to make payments to the public or from one Government account to another. Under requirements of OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget*, obligations incurred must conform to applicable provisions of law, and agencies must be able to support the amounts reported by appropriate documentary evidence as defined by 31 U.S.C. 1501.

Of the 112 PBS obligations selected for test work, we noted 6 instances where the contract was signed after the period of performance start or ending date; 10 instances where the obligating documents did not provide a period of performance; 3 instances where the obligation was recorded without valid support; 1 instance where the obligation was recorded before the obligating documents were signed; and 17 instances where signed contracts were not entered into the financial management system within five business days of being signed. We performed additional analysis and determined that the undelivered orders balance was not significantly misstated.

#### **b. Unfilled Customer Orders**

Unfilled customer orders represent the amount of goods and services to be furnished by GSA to other federal agencies. Unfilled customer orders provide budgetary resources to enter into new obligations and to liquidate obligations. GSA needs to improve the effectiveness of its controls over unfilled customer orders. During our test work of 117 unfilled customer orders for PBS, we noted 8 instances where the goods and services related to these orders had been completed and the remaining unfilled customer orders were not cancelled in a timely manner. In addition, we noted 13 instances where PBS did not record the signed unfilled customer order in the financial management system in a timely manner and 1 instance where the unfilled customer orders were entered in the subsidiary ledger prior to official acceptance by GSA.

Further, PBS needs to improve the effectiveness of its controls over the tracking of obligations (and related expenses) associated with corresponding unfilled customer orders. As a result, GSA initially obligated an amount in excess of the corresponding unfilled customer order by approximately \$7.1 million. This control weakness exposes GSA to an increased risk of possible violations of laws and regulations. We performed additional analysis and determined that the unfilled customer orders balance was not significantly misstated.

#### **c. Funds Control**

As outlined in OMB Circular A-11, the purpose of an agency's fund control system is to restrict both obligations and expenditures (also known as outlays or disbursements) from each appropriation or fund account to the lower of the amount apportioned by OMB or the amount available for obligation or expenditure in the appropriation or fund account. GSA needs to improve the effectiveness of its funds controls as required by OMB Circular A-11. Specifically, we noted the following control deficiencies:

**Independent Auditors' Report**  
**Exhibit II – FY 2013 Significant Deficiencies**

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1. On May 2, 2012, the GSA Office of Inspector General (OIG) reported that, in fiscal year 2010, GSA awarded two severable services task orders which included periods of performance exceeding one year and extending past the period of availability of the funds. The OIG concluded that these contract actions violated the bona fide needs rule of fiscal law (Title 31, United States Code (U.S.C.) 1502(a)) and, accordingly, the *Antideficiency Act* (Title 31 U.S.C. Section 1341 et seq). Upon notification of these violations, GSA requested an opinion from the Department of Justice's Office of Legal Counsel (OLC) as to whether the actions reported by the OIG constituted *Antideficiency Act* violations. Early in FY 2014, and prior to the release of our report, OLC rendered their final opinion confirming that these actions violated the *Antideficiency Act*. GSA accepted the positions of the OIG and OLC and has taken the actions required under Title 31 U.S.C. 1517(b) to report the violations. Refer to Finding A, Non-Compliance with the *Antideficiency Act*, included in Exhibit III – *FY 2013 Compliance and Other Matters*.
2. During our test work over Reimbursable Work Authorizations, Obligations, and Leases for PBS, we noted 6 instances where the contracting officer did not obtain the required certification of fund availability from the budget analyst before signing the obligating documents; 9 instances where the required requisition form was not signed by the budget analyst; and 19 instances where the budget analyst approved the certification of funds without using the required requisition forms. Instead, these fund certifications were approved electronically in the contract management system.
3. The financial management system provides funding and spending controls to ensure that budget authorities are not exceeded at each budget level. Such controls include a hard-edit feature, which denies the user the ability to process further obligating documents if the user attempts an entry that will exceed the respective authority available amount. However, we noted that GSA management can manually override these funding and spending automated controls while processing budgetary transactions. There is no formal manual or automated review to ensure that funding and spending automated controls are being turned off for a valid reason and whether they were subsequently turned back on after processing. In addition, the system lacks functionality to identify the transactions that were recorded while the controls were turned off.

We performed additional analysis to determine that its budgetary account balances were not significantly misstated.

The lack of integrated financial and acquisition systems and the ineffective monitoring and oversight over the apportionment process, combined with the ineffective communication between the program office and the budget and financial management personnel within the regions; and the lack of sufficient monitoring and oversight of the contracting function—as evidenced by contracting and budgetary control activities not being performed in a consistent manner at the regional level, continue to be main contributing factors for the control deficiencies over budgetary accounts and transactions. As a result, GSA management continued to rely on costly compensating processes and unsustainable labor-intensive efforts to prepare reliable financial statements throughout the year and at fiscal year-end. If not corrected, these deficiencies will continue to expose GSA to an increased risk of misstatements in its financial reports and possible additional violations of laws and regulations.

**Recommendations**

We recommend that GSA management continue to implement the following recommendations to improve controls over the accounting for undelivered orders:

**a. Undelivered Orders**

1. Continue efforts to implement a contracting system that will interface with the financial management system of record;

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**Exhibit II – FY 2013 Significant Deficiencies**

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2. Until such interfaces are in place, continue monthly reconciliation efforts between the current contracting system and the financial management system and ensure sufficient resources are available to perform the reconciliations in a timely and routine manner;
3. Improve communications with the regional offices to investigate and resolve variances identified in a timely and consistent manner and to ensure that all obligations are recorded in the financial system timely and accurately;
4. Perform procedures to ensure all obligations are captured and accurately recorded in the financial management system;
5. Institute policies and procedures, including management reviews, to ensure that a contract delivery date or period of performance is stated on all obligating documents before obligations are authorized, when appropriate;
6. Ensure contracting officers and regional procurement officers review contracts thoroughly to ensure that contract options are correctly exercised and applicable Notice-to-Proceed documents are issued timely;
7. Continue assessing the root causes of ineffective internal controls at the process level as part of the top-to-bottom review process to help design an effective internal control environment that is suitable to GSA business processes;
8. Improve the efficiency of transaction-level, process-driven controls to avoid overreliance on high-level mitigating controls over budgetary accounts and transactions;
9. Improve communication with GSA's procurement operations and the regions to better facilitate response times by regions for award acceptance and receipt of goods and services; and
10. Provide additional training to reinforce existing policies and procedures, which require proper authorization and approvals of contracts prior to recording the obligations in the financial management system, that all obligations be entered into financial management systems timely and prior to the receipt of any goods and/or services by GSA.

**b. Unfilled Customer Orders**

1. Enforce existing policies and procedures with regional personnel to ensure that all orders are entered in the appropriate feeder subsidiary ledger system accurately and timely.
2. Continue to perform periodic monitoring and reviews of outstanding unfilled customer orders and consider increasing the precision of the reviews performed to ensure that balances reported in the financial statements are valid and accurate;
3. Improve communications with the regions to stress the importance of having valid unfilled customer orders in the financial statements and the need to properly account for unfilled customer orders by closing all orders as they are completed; and
4. Consider implementing automated system controls over unfilled customer orders spending to ensure reimbursable obligations and expenses incurred are not greater than funding authority provided by a valid unfilled customer order.

**c. Funds Control**

1. Ensure that funds certifying officers receive proper training and guidance over the evaluation of the legal availability of funding against the proposed contract terms;
2. Continue to monitor existing controls over contracting and procurement actions to ensure all contracts are prepared legally and accurately in accordance with Federal procurement laws and GSA policies and procedures; and obligating documents reviewed and approved by appropriate members of management;

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**Exhibit II – FY 2013 Significant Deficiencies**

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3. Document all policies and procedures relating to the budgetary control environment and activities and provide employees with timely training and updated training materials;
4. Enforce existing policies and procedures related to funds availability certification to ensure that the certification is obtained before a contracting officer signs an obligating document;
5. Provide training to the contracting officers to reinforce existing policies and procedures, which require them to obtain the proper certifications of funds availability from the certifying official before signing any obligating document;
6. Consider updating the policy over certification of funds availability to establish consistency for certifying funds across the agency; and communicate and enforce the updated policy to the regions; and
7. Consider developing an audit logging capability in the financial management system to track the status of funding and spending automated controls to ensure that such controls are not overridden without the approval of the appropriate members of management.

**Management Response**

Management concurs with these recommendations and will initiate appropriate corrective actions.

**IV. Accounting and Reporting of Leases and Occupancy Agreements**

GSA processes approximately \$8 billion and \$10 billion, respectively, in lease expenses and revenues from Occupancy Agreements. GSA needs to improve controls over leases and Occupancy Agreements to ensure that transactions are recorded promptly, accurately, and in accordance with requirements outlined in Federal financial accounting standards and OMB Circular A-123. Many of these conditions were reported in the fiscal year 2012 *Internal Control Over Financial Reporting* section of our Independent Auditors' Report. In addition, GSA management's assessment of internal control, performed as part of their OMB Circular A-123, Appendix A, indicated similar issues as noted below.

**a. Leases**

GSA needs to improve the effectiveness of its controls over the processing of leases to ensure that leases are properly classified and accurately and timely recorded in the financial management system. Of the 64 leases selected for test work, we noted 36 instances where delays in processing the lease action forms caused delays in the recognition of lease expense; 2 instances where the lease payments made to the vendor were inaccurate; and 7 instances where the Consumer Price Index (CPI) adjustments were not applied to the respective lease payment in a timely manner. Also, of the 4 lease terminations selected for test work, we identified 1 instance where the lease termination was not recorded timely in the financial management system, which led to overpayments and overstatement of lease expense. We performed additional analysis to obtain evidence that the lease expense account was not significantly misstated.

In addition, GSA needs to improve the effectiveness of its controls over the classification analysis of leases to ensure the proper accounting for and disclosure of leases in accordance with applicable accounting standard. Of the 64 leases selected for test work, we noted 1 instance where the lease classification analysis was incomplete; 3 instances where the lease classification analysis was not performed after a change in terms of the lease; 5 instances where the lease classification analysis was not reviewed and signed by the appropriate level of management; and 7 instances where the lease classification analysis contained incorrect data. We performed additional analysis to obtain evidence that lease expense were properly classified as operating or capital leases in accordance with applicable accounting standards.

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The lack of sufficient monitoring, oversight, and training over the leasing function, as evidenced by existing policies not being followed as written, continue to be the main contributing factors for lease transactions not being recorded promptly and recorded accurately.

**b. Occupancy Agreements**

Of the 53 Occupancy Agreements selected for test work, we identified 31 instances where the Occupancy Agreements were not recorded timely in the financial management system, which led to back billings and delays in recognizing revenue. In addition, we identified 3 instances where the revenue associated with an Occupancy Agreement was misstated and 2 instances where the Occupancy Agreement was not terminated timely.

The prompt processing of Occupancy Agreements, in many cases, is subject to the timely processing of the corresponding leases. Therefore, when GSA incurs delays in processing leases, there is an increased risk that revenues from Occupancy Agreements will not be properly recognized in accordance with applicable Federal financial accounting standards. We performed additional analysis to obtain evidence that revenue from Occupancy Agreements was not significantly misstated.

**Recommendations**

We recommend that GSA management implement the following recommendations to improve controls over the accounting for leases and Occupancy Agreements:

**a. Leases**

1. Enforce existing policies and procedures to ensure that all leases are timely and accurately processed; and leases are properly classified as operating or capital leases in accordance with Federal financial accounting standards;
2. Develop a lease classification model that captures relevant data accurately and consistently;
3. Update policies and procedures to define lease modifications that would require re-evaluation for classification purposes; and
4. Regional personnel should be trained, properly supervised, and made accountable for adhering to accounting policies and procedures related to leases.

**b. Occupancy Agreements**

1. Enforce existing policies and procedures to ensure that all Occupancy Agreements are timely and accurately processed, as well as customer agencies are billed on a timely manner; and
2. Regional personnel should be trained, properly supervised, and made accountable for adhering to accounting policies and procedures related to Occupancy Agreements.

**Management Response**

Management concurs with these recommendations and will initiate appropriate corrective actions.

**Independent Auditors' Report**  
**Exhibit II – FY 2013 Significant Deficiencies**

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**V. Entity-Level Controls**

The control environment sets the tone of an organization by influencing the control consciousness of its personnel. It is also the foundation for all components of internal control, providing discipline and structure. GSA needs to continue to address weaknesses in its entity-wide control environment. As we reported in the fiscal year 2012 *Internal Control Over Financial Reporting* section of our Independent Auditors' Report, we continued to observe four entity-wide control environment conditions through our procedures that have a pervasive influence on the effectiveness of controls. These common themes are described below; however, they also contribute to several of the conditions presented in findings II through IV listed above.

1. Development and implementation of effective information and communication processes to help ensure that technical accounting issues are identified, analyzed and resolved in a timely manner;
2. Certain lines of authority regarding the development, implementation, execution, monitoring and enforcement of policies and procedures need to be redefined. For example, the OCFO issued policies and procedures for the accounting of environmental liabilities; however, the OCFO depends on the PBS Central Office for the implementation of such policies and procedures. The PBS Central Office does not report directly to the OCFO. Further, these policies and procedures are subject to execution by regional environmental personnel, who do not report directly to PBS Central Office or the OCFO;
3. Regional and operational personnel do not always share responsibilities for, or are not adequately supervised on financial management matters that affect the financial statements, including adhering to appropriate accounting policies and procedures and performing key internal control functions in support of financial reporting; and
4. Certain financial systems functionality limitations are contributing to control deficiencies reported in Findings II, *Accounting and Reporting for Property and Equipment*; III, *Budgetary Accounts and Transactions*, and IV, *Accounting and Reporting of Leases and Occupancy Agreements* are inhibiting progress on corrective actions for GSA and are preventing the agency from improving the efficiency and reliability of its financial reporting process. Some of the financial system limitations lead to extensive manual and redundant procedures to process transactions, to verify accuracy of data, and to prepare the financial statements. Systemic conditions related to financial system functionality include:
  - PBS lack of integrated financial and acquisition systems;
  - Funds controls in the financial management system can be overridden without proper controls over transactions recorded when such edit checks were switched off;
  - Aging feeder systems that do not capture proper information for the correct recognition of expenses and related revenue for certain FAS lines of businesses;
  - Configuration of the fixed asset subsidiary ledger within the financial management system that overstates gains and losses relating to asset disposals; and
  - Numerous interfaces between feeder systems and the financial management system requiring manual journal entries to capture transactions properly that originally did not interface correctly.

**Recommendations**

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

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**Exhibit II – FY 2013 Significant Deficiencies**

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1. Design and implement strategies to ensure that technical accounting issues are identified, analyzed and resolved in a timely manner. GSA components, working with the OCFO support, should be able to discuss initial accounting positions, with basic rationale and supporting facts, and reach an initial conclusion within a short period of time of the issue being identified. Final resolution may take longer depending on the complexity of the issues and impact on the agency. However, even difficult matters should be resolved and documented properly in a timely manner;
2. As a part of the centralization of the FAS and PBS regional budget and financial management functions under the OCFO, consider realignment of financial accounting and reporting personnel to devote more resources to technical accounting issue resolution, and reduce reliance on external audit;
3. As part of consolidation of the Agency's information technology functions under the Chief Information Officer, continue the assessment of the agency's financial information technology infrastructure with the objective of improving the effectiveness of information technology controls, both general and application, and of timely and accurate financial reporting. In the interim, as part of the overall control deficiency assessment, the OCFO must improve the efficiency of transaction-level, process-driven controls to help ensure completeness, accuracy, authorization and validity of financial transactions reported in the financial statements and reduce the dependency of manual-intensive processes; and
4. Regional and operations personnel should be trained and properly supervised on financial management matters that affect the financial statements, including adhering to accounting policies and procedures, as appropriate and performing key internal control functions in support of financial reporting.

**Management Response**

Management concurs with these recommendations and will initiate appropriate corrective actions.

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**Exhibit III – Compliance and Other Matters**

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**Non-Compliance with the *Antideficiency Act*:**

On May 2, 2012, the GSA Office of Inspector General (OIG) reported that, in fiscal year 2010, GSA awarded two severable services task orders which included periods of performance exceeding one year and extending past the period of availability of the funds. The OIG concluded that these contract actions violated the bona fide needs rule of fiscal law (Title 31, United States Code (U.S.C.) 1502(a)) and, accordingly, the *Antideficiency Act* (Title 31 U.S.C. Section 1341 et seq). Upon notification of these violations, GSA requested an opinion from the Department of Justice's Office of Legal Counsel (OLC) as to whether the actions reported by the OIG constituted *Antideficiency Act* violations. Early in FY 2014, and prior to the release of our report, OLC rendered their final opinion confirming that these actions violated the *Antideficiency Act*. GSA accepted the positions of the OIG and OLC and has taken the actions required under Title 31 U.S.C. 1517(b) to report the violations. In addition, GSA disclosed these instances of non-compliance in its fiscal year *2013 Agency Financial Report*.

**Recommendations**

We recommend that GSA management implement the following recommendations to improve controls over compliance with the *Antideficiency Act*:

1. Continue to monitor existing controls over contracting and procurement actions to ensure all contracts are prepared legally and accurately in accordance with Federal procurement laws and GSA policies and procedures and reviewed and approved by appropriate members of management;
2. Ensure that funds certifying officers receive proper training and guidance over the evaluation the legal availability of funding against the proposed contract terms; and
3. The GSA Office of Budget should ensure that funds certifying officers receive guidance reminding them to evaluate the legal availability of funding against the proposed contract terms.

**Management Response**

Management concurs with these recommendations and will initiate appropriate corrective actions.