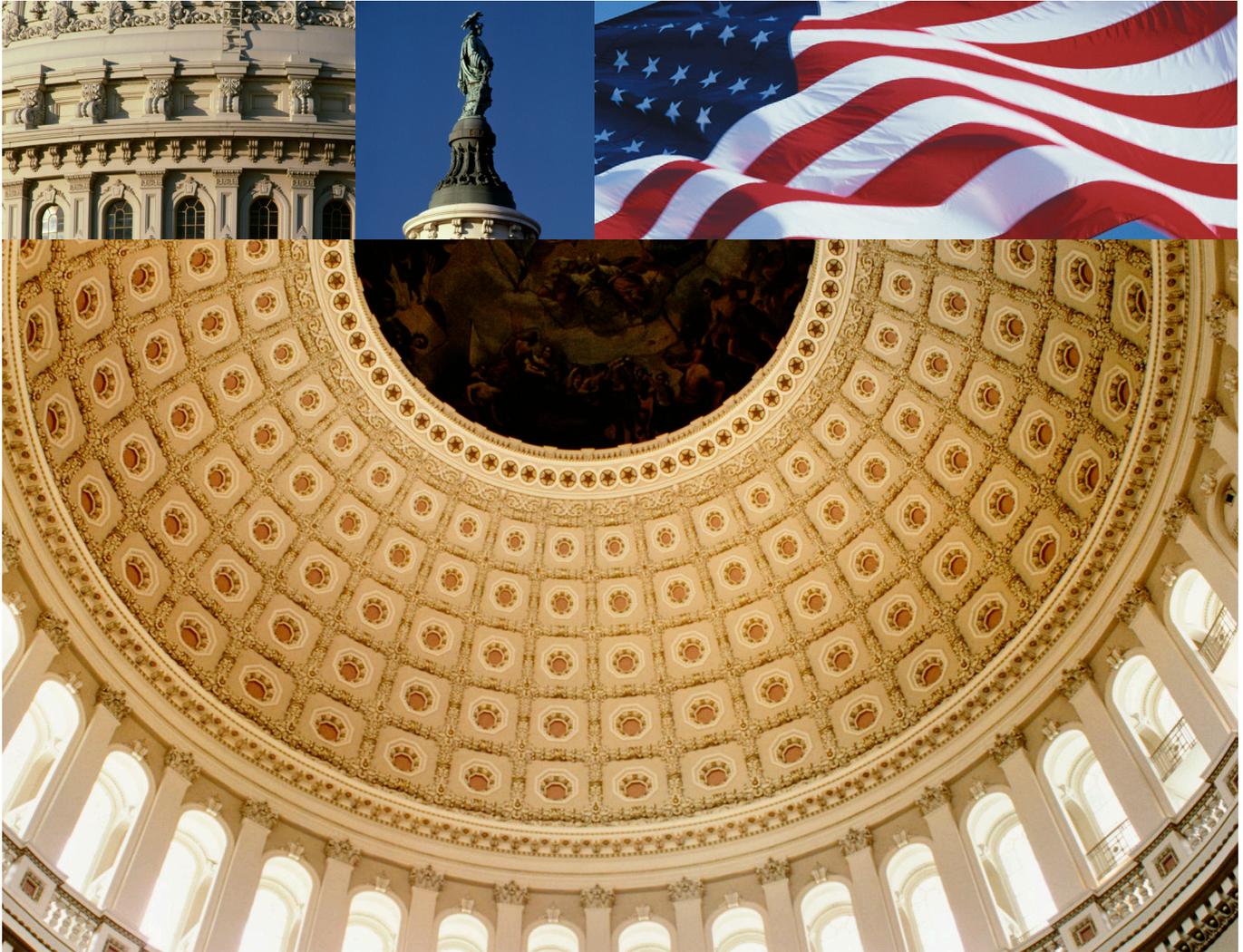


Administrator's **Semiannual** Management Report to Congress



Report No. 37

April 1, 2007
to September 30, 2007

U.S. General Services Administration

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November 2007

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EXECUTIVE SUMMARY

In accordance with the Inspector General Act Amendments of 1988, the Administrator of General Services Administration (GSA) submits this report to Congress on final actions regarding audit recommendations. The report covers the period from April 1, 2007 through September 30, 2007. The Act requires the Administrator to report directly to the Congress on management decisions and final actions taken on audit recommendations. The report must also explain why final action on any audit has not been taken one year after the date of the management decision. This report statistically summarizes management's implementation of the recommendations contained in audit reports issued by the General Services Administration's Office of Inspector General. The results achieved clearly demonstrate that GSA's audit follow-up efforts continue to play a significant role in the effective management of the agency's operations and the accomplishment of its mission.

During the reporting period, GSA issued management decisions on 64 audit reports. These included management decisions on 41 audit reports that identified a total of \$2,645,394 in disallowed costs and \$280,251,664 in funds that could be put to better use. The latter category is comprised of estimated and actual cost avoidance determined to have no impact on the agency's budget. The other 23 management decisions did not identify any disallowed costs or funds to be put to better use. There were no management decisions this period that involved actual cost avoidance determined to have a potential impact on the budget.

During the six-month period, final action was taken on 75 audits with management decisions identifying disallowed costs or funds to be put to better use. These actions resulted in the recovery of \$664,653 and the implementation of \$4,853,168 of actual cost avoidance. The latter category includes \$4,063,734 in actual cost avoidance determined to have no impact on the agency's budget and \$789,434 in actual cost avoidance determined to have potential impact on the budget.

As of September 30, 2007, 56 internal and contract audit reports remained open without final action one year after the management decision. Of this total, 19 were under formal administrative or judicial appeal. Explanations as to why final actions on the remaining 37 audits have not been taken are provided in the report.

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INTRODUCTION

Overview

This report, submitted pursuant to the Inspector General Act Amendment of 1988, presents management's perspective on audit resolution and follow-up activity at the General Services Administration (GSA) for the period April 1, 2007 through September 30, 2007. This is the agency's 37th report to the Congress since the implementation of the Act (Public Law 100-504). The data in the report indicates that GSA's audit follow-up efforts continue to play a significant role in the effective management of the agency's operations and the accomplishment of its mission.

General Services Administration Organization

GSA is organized around two major business functions represented by the Federal Acquisition Service and the Public Buildings Service. In addition, there are 11 Regions and a number of Staff Offices that provide support to the other GSA organizations.

The Administrator of GSA directs the execution of all functions pertaining to the agency. Members of her office, as well as Regional Administrators and Heads of Services and Staff Offices, advise and make recommendations on policy or operational issues of national scope.

Each Service is lead by a Commissioner located in the Central Office in Washington, DC. The Commissioners are responsible in their respective functional areas for policy development, program direction, funding, and interfacing with Congressional staffs, clients and other constituents regarding issues of policy of national scope.

Each Region has a Regional Administrator who reports directly to the Administrator and is responsible for managing the Regional functions. GSA's structure requires a matrixed approach to management where communication between the Region and Central Office organizations is critical to the effective management of the agency.

Agency Audit Follow-up Process

GSA has effective systems in place for keeping track of audit recommendations. It also has senior management commitment to ensure that appropriate corrective action is taken and agency managers have an unambiguous responsibility to act upon the audit recommendations. The following provides a description of the responsibilities of GSA officials involved in the audit follow-up process.

Senior Agency Official

The Deputy Administrator is the Senior Agency Official responsible for audit follow-up in the agency. As such, he has overall responsibility for ensuring the adequacy of the agency's follow-up system, monitoring the resolution of audit recommendations, and ensuring the prompt implementation of corrective actions. He is also responsible for final resolution of any differences between agency management and the Office of Inspector General.

The Chief Financial Officer

The Chief Financial Officer provides administrative direction to the officials in the Office of the Chief Financial Officer who manage GSA's Audit Resolution and Follow-up System. Their responsibilities include:

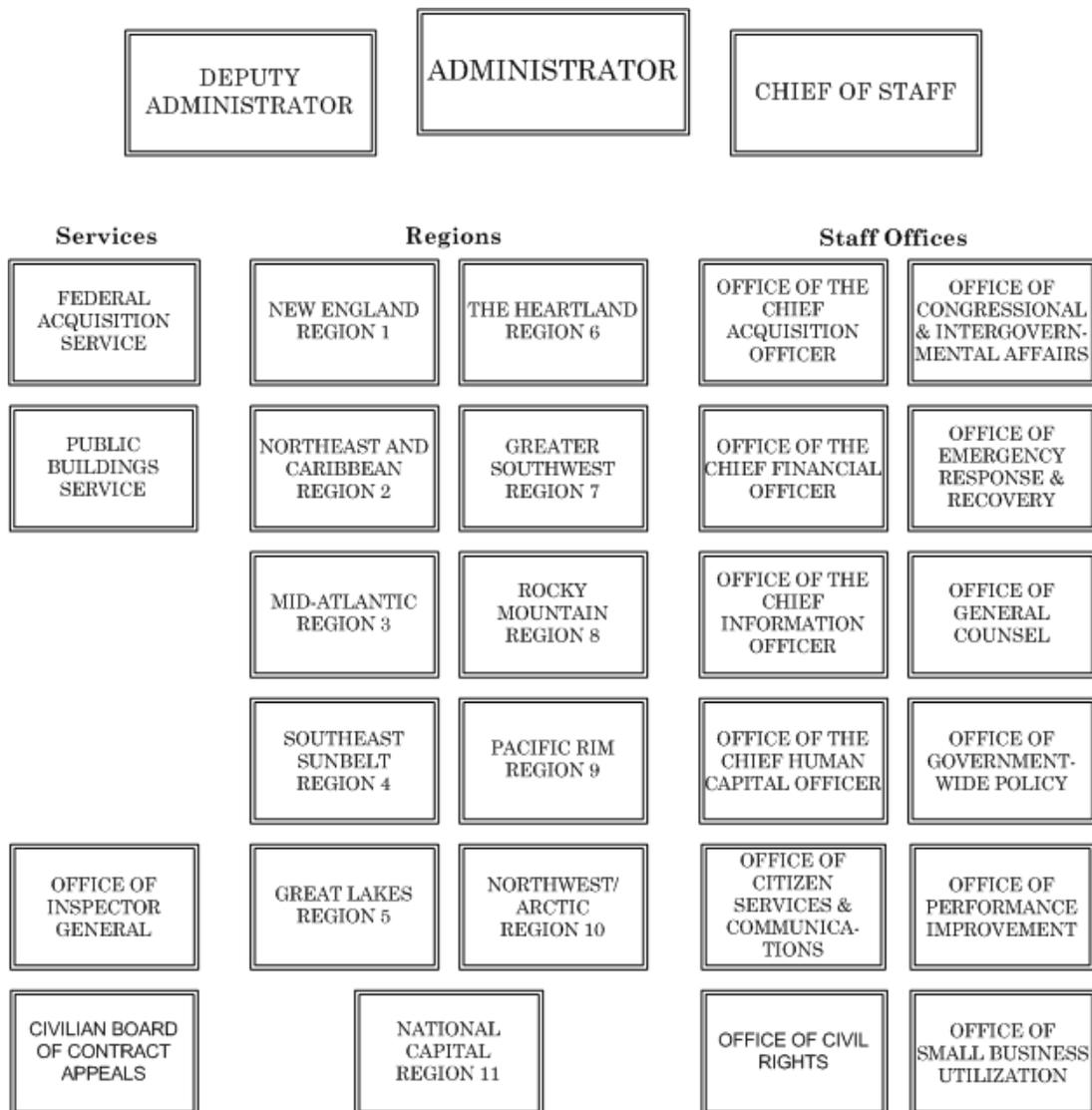
- Acting as the liaison with the Government Accountability Office (GAO) for the coordination of GAO audits in progress within GSA and for preparation of responses and reports for the signature of the Administrator on GAO recommendations as required by law;
- Ensuring timely resolution and implementation of internal and external audit recommendations made by the Office of Inspector General and GAO;
- Overseeing the collection, and proper accounting of amounts determined due to the Government as the result of audit-related claims; and
- Maintaining an automated report control system for both internal and external audits that provides an accurate means for tracking and documenting actions taken in implementing audit recommendations.

Heads of Services and Staff Offices and Regional Administrators

Heads of Services and Staff Offices and Regional Administrators to whom audit recommendations pertain, have primary responsibility for resolving and implementing recommendations promptly. Their responsibilities include:

- Ensuring controls are implemented to provide timely, accurate, and complete responses to audit reports;
- Developing, advocating, and documenting agency positions on audit recommendations;
- Preparing responses to draft and final GAO reports in coordination with the Office of the Chief Financial Officer; and
- Providing comments on audit decision papers prepared by the Office of Inspector General to ensure that management's position on unresolved audit recommendations is properly stated.

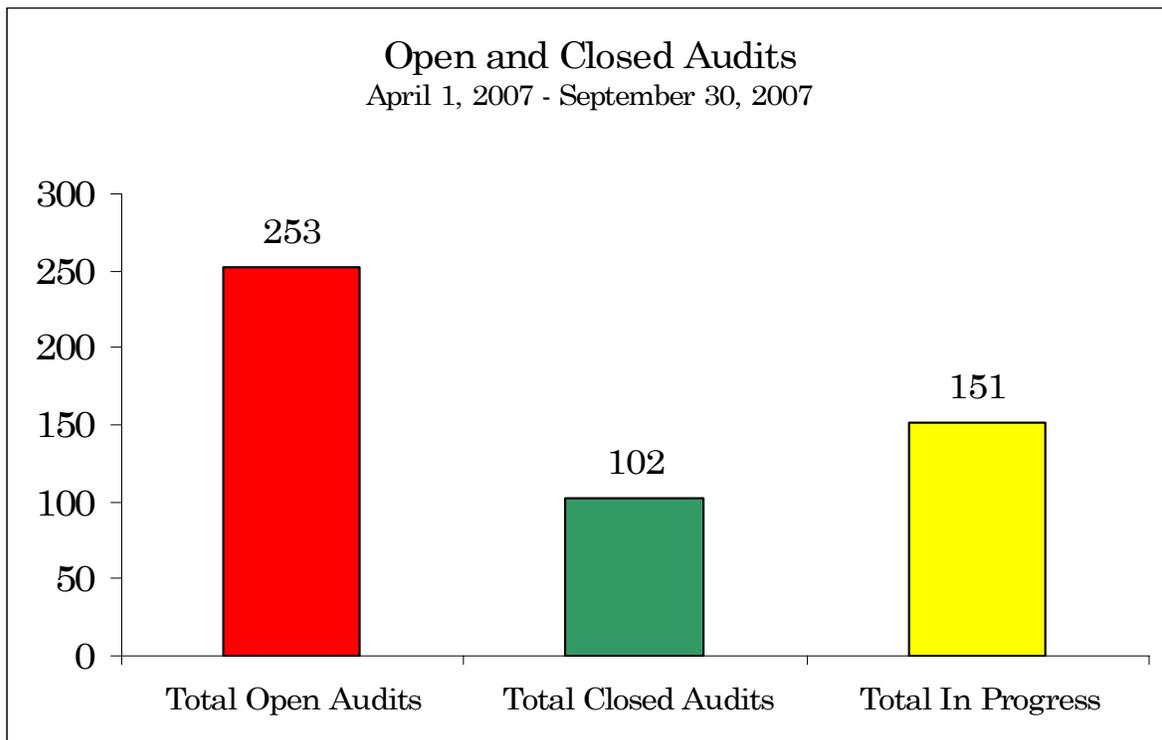
Organization Chart



PROGRESS OF AUDIT CLOSURE

FOR THE SIX-MONTH PERIOD ENDING SEPTEMBER 30, 2007

Timely closing of open audits remains a priority for the General Services Administration. In keeping with that focus, the Office of the Chief Financial Officer, Office of the Controller, Internal Control and Audit Division (BEI) made significant strides by closing out a substantial number of internal and contract audits. During the reporting period of April 1, 2007 through September 30, 2007, BEI successfully closed 40 percent, or 102 internal and contract audits out of 253 audits that were reported as open during the period. The remaining 151 audits that could not be closed due to litigation, negotiations, collections, and implementation of corrective actions.



AUDITS WITH DISALLOWED COSTS

Final action for the six-month period ending <u>September 30, 2007</u>	Number of Audit <u>Reports</u>	Disallowed <u>Costs</u>
A. Audit reports for which final action had not been taken by the commencement of the reporting period.	17	\$20,103,548
B. Audit reports on which management decisions were made during the reporting period.	6	\$2,645,394
C. Audit reports on which final action was taken during the reporting period.	6	\$5,528,396
<i>(i) the dollar value of disallowed costs that were recovered by management through:</i>		<i>\$664,653</i>
- collections.....\$664,653		
- offset.....\$0		
- property in lieu of cash.....\$0		
- other..... \$0		
<i>(ii) the dollar value of disallowed costs that were written off by management.**</i>		<i>\$4,863,743</i>
D. Audit reports for which no final action has been taken by the end of the reporting period.	17	\$17,220,546

** For the purposes of this report, write-offs are interpreted to represent the difference between the amount successfully recovered and the disallowed cost, which is a questioned cost that GSA management in a management decision sustained or agreed should not be charged to the Government. However, during negotiations management might have agreed to a smaller amount in order to settle the case with the contractor.

AUDITS WITH BETTER USE FUNDS

<u>Final action for the six-month period ending September 30, 2007</u>	<u>Number of Audit Reports</u>	<u>No Budget Impact – Actual and Estimated</u>	<u>Budget Impact</u>
A. Audit reports for which final action had not been taken by the commencement of the reporting period.	118	\$832,839,512	\$870,198
B. Audit reports on which management decisions were made during the reporting period.	35	\$280,251,664	\$0
C. Audit reports for which final action was taken during the reporting period.	69	\$514,593,916	\$870,198
<i>(i) the actual dollar value of recommendations that were actually completed.</i>		\$4,063,734	\$789,434
<i>(ii) the actual dollar value of recommendations that management has subsequently concluded should not or could not be implemented or completed.</i>		\$987,536	\$80,764
<i>(iii) the actual dollar value of recommendations that management has subsequently concluded should not or could not be determined (calculated).</i>		\$41,580,290	\$0
<i>(iv) the estimated dollar value of “funds to be put to better use” as agreed to by GSA management and the OIG.</i>		\$467,962,356	\$0
D. Audit reports for which no final action had been taken by the end of the reporting period.	84	\$598,497,260	\$0

INTERNAL AUDITS

AUDITS WITH MANAGEMENT DECISIONS MADE PRIOR
TO SEPTEMBER 30, 2006, BUT WITH
FINAL ACTION NOT TAKEN AS OF SEPTEMBER 30, 2007

REPORT NUMBER TITLE OF REPORT	DATE OF REPORT	MANAGEMENT DECISION AMOUNTS		REASON FOR NO FINAL ACTION	PROJECT COMPLETE DATE
		Disallowed Costs	Better Use Funds		
A020161F3V03003 Distribution Center Operations	03/18/2003	\$0	\$0	Actions required touches on multiple IT systems.	01/15/2008
A020245OTF04013 FedBizOpps	08/05/2004	\$0	\$0	Action project plan adjusted to reflect time delay due to ongoing litigation on the new FBO recompete award.	04/15/2008
A040246FTV05003 GSA Advantage	09/29/2005	\$0	\$0	Actions on target. Comprehensive governance model being developed.	06/15/2008
A050040P4R06003 Environment Program Mgmt.	03/28/2006	\$0	\$0	A useable cost development tool is expected in 2007.	12/15/2007
A040127OTF06016 FPDS-NG	03/30/2006	\$0	\$0	System develop- ment modification implementation on schedule.	03/15/2008
A050130PWR06007 NCR PBS Overtime Management Controls	04/19/2006	\$0	\$0	Pilot presentation conducted. Implementation scheduled for 2007.	11/15/2007

AUDITS UNDER APPEAL/LITIGATION

REPORT NUMBER NAME OF CONTRACTOR	DATE OF REPORT	MANAGEMENT DECISION AMOUNTS	
		Disallowed Costs	Better Use Funds
A82441P9X98100 More Diesel International	06/17/1998	\$0	\$1,230,088
A995128P6X99558 Sachs Electric Company	03/24/1999	\$0	\$0
A995231P2X99585 Rael Automatic Sprinkler Company, Inc.	06/24/1999	\$230,539	\$0
A000971P5X00107 Midwest Curtainwalls, Inc.	06/01/2000	\$0	\$488,953
A010127P6X01079 DKW Construction, Inc.	04/30/2001	\$303,193	\$0
A010281P9X02028 Lawson Mechanical Contractors	01/11/2002	\$0	\$2,052,477
A020124P9X02051 Res-com Insulation, Inc.	05/29/2002	\$0	\$420,630
A020097P9X02063 Artisans G & H Fixtures, Inc.	06/12/2002	\$0	\$1,071,076
A020086P9X02076 Raymond Interior Systems North	07/30/2002	\$0	\$960,982
A010279P9X03015 Morse Diesel International, Inc.	11/20/2002	\$0	\$10,387,248

REPORT NUMBER NAME OF CONTRACTOR	DATE OF REPORT	MANAGEMENT DECISION AMOUNTS	
		Disallowed Costs	Better Use Funds
A020133P9X03055 Cosco Fire Protection, Inc.	03/21/2003	\$0	\$754,153
A030106P9X03061 George Foss Company	05/02/2003	\$0	\$434,057
A020230P9X03068 C.E. Toland & Son	05/29/2003	\$0	\$732,958
A040095P2X04077 M.L. Benjamin Enterprises, Inc.	06/09/2004	\$0	\$569,890
A040095P2X04079 M.L. Benjamin Interprises, Inc.	06/15/2004	\$18,027	\$0
A040085F7X04085 Onboard Software, Inc.	06/28/2004	\$348,158	\$0
A050138P3X05082 Nason and Cullen, Inc.	07/08/2005	\$0	\$770,701
A050157T6X05100 Compucom Federal Systems, Inc.	08/15/2005	\$0	\$6,026,255
A050147F5X06018 Herman Miller, Inc.	11/30/2005	\$50,410	\$0

CONTRACT AUDITS

AUDITS WITH MANAGEMENT DECISIONS MADE PRIOR TO SEPTEMBER 30, 2006, BUT WITH FINAL ACTION NOT TAKEN AS OF SEPTEMBER 30, 2007

REPORT NUMBER NAME OF CONTRACTOR	DATE OF REPORT	MANAGEMENT DECISION AMOUNTS		REASON FOR NO FINAL ACTION
		Disallowed Costs	Better Use Funds	
A21266F4X96034 Rose Talbert Paint Company	11/09/1995	\$728,000	\$0	GSA is in the process of collecting funds owed the Government from the contractor.
A73617PWX97197 Committee For Purchase	08/05/1997	\$2,703,694	\$0	Negotiations are proceeding between contracting officer and contractor.
A42146F7X98093 Haworth Incorporated	05/27/1998	\$2,943,631	\$0	GSA is in the process of collecting funds owed the government from the contractor.
A82441P9X98100 Morse Diesel International	06/17/1998	\$0	\$1,230,088	Contracting Officer's final decision pending legal review.
A995128P6X99558 Sachs Electric Company	03/24/1999	\$0	\$0	Audit case is pending with GSA Civilian Board of Contract Appeals.
A995231P2X99585 Rael Automatic Sprinkler Company, Inc.	06/24/1999	\$230,539	\$0	Audit case is pending with GSA Civilian Board of Contract Appeals.
A000971P5X00107 Midwest Curtainwalls, Inc.	06/01/2000	\$0	\$488,953	The contractor has appealed the Contracting Officer's decision and the audit is now in the litigation process.

REPORT NUMBER NAME OF CONTRACTOR	DATE OF REPORT	MANAGEMENT DECISION AMOUNTS		REASON FOR NO FINAL ACTION
		Disallowed Costs	Better Use Funds	
A010127P6X01079 DKW Construction, Inc.	04/30/2001	\$303,193	\$0	Audit case is pending with GSA Civilian Board of Contract Appeals.
A63630FWX02004 The Presidio Corporation	10/18/2001	\$273,000	\$0	GSA is in the process of collecting funds owed the Government from the contractor.
A010265PWX02011 HNTB District of Columbia Architectures, P.C.	10/31/2001	\$0	\$61,722	Negotiations are proceeding between Contracting Officer and contractor.
A010281P9X02028 Lawson Mechanical Contractors	01/11/2002	\$0	\$2,052,477	AMEC/Morse Diesel claim forfeited. Audit case is pending U.S. Court of Appeals determination.
A020124P9X02051 Res-Com Insulation, Inc.	05/29/2002	\$0	\$420,630	AMEC/Morse Diesel claim forfeited. Audit case is pending U.S. Court of Appeals determination.
A020097P9X02063 Artisans G & H Fixtures, Inc.	06/12/2002	\$0	\$1,071,076	AMEC/Morse Diesel claim forfeited. Audit case is pending U.S. Court of Appeals determination.
A020191PWX02074 McMullan & Associates, Inc.	07/16/2002	\$0	\$112,320	Negotiations have been completed between Contracting Officer and contractor. Awaiting copy of award document prior to closure.
A020086P9X02076 Raymond Interior Systems North	07/30/2002	\$0	\$960,982	AMEC/Morse Diesel claim forfeited. Audit case is pending U.S. Court of Appeals determination.

REPORT NUMBER NAME OF CONTRACTOR	DATE OF REPORT	MANAGEMENT DECISION AMOUNTS		REASON FOR NO FINAL ACTION
		Disallowed Costs	Better Use Funds	
A020180PWX02087 ADTEK Engineering, Inc.	09/04/2002	\$0	\$27,840	Negotiations are proceeding between Contracting Officer and contractor
A020196PWX02090 BEI Structural Engineers, Inc.	09/24/2002	\$0	\$544,000	Negotiations are proceeding between contracting officer and contractor.
A020178F7X03001 Motorola, Inc.	10/02/2002	\$0	\$700,000	Negotiations are proceeding between contracting officer and contractor.
A010279P9X03015 Morse Diesel International, Inc.	11/20/2002	\$0	\$10,387,248	AMEC/Morse Diesel claim forfeited. Audit case is pending U.S. Court of Appeals determination.
A020248P5X03036 Doan/Lake Erie LLC	01/30/2003	\$0	\$2,988,179	The Contracting Officer is in the process of negotiating with the contractor for possible settlement.
A020133P9X03055 Cosco Fire Protection, Inc.	03/21/2003	\$0	\$754,153	AMEC/Morse Diesel claim forfeited. Audit case is pending U.S. Court of Appeals determination.
A030140FWX03056 Science Applications International Corporation	03/25/2003	\$0	\$1,028,099	Negotiations are proceeding between contracting officer and contractor.
A030106P9X03061 George Foss Company	05/02/2003	\$0	\$434,057	AMEC/Morse Diesel claim forfeited. Audit case is pending U.S. Court of Appeals determination.
A020230P9X03068 C.E. Toland & Son	05/29/2003	\$0	\$732,958	AMEC/Morse Diesel claim forfeited. Audit case is pending U.S. Court of Appeals determination.

REPORT NUMBER NAME OF CONTRACTOR	DATE OF REPORT	MANAGEMENT DECISION AMOUNTS		REASON FOR NO FINAL ACTION
		Disallowed Costs	Better Use Funds	
A030138P5X03070 Hunt Construction Group, Inc.	06/02/2003	\$0	\$1,694,144	Negotiations are proceeding between contracting officer and contractor.
A030163F3X03078 Information Network Systems, Inc.	07/02/2003	\$0	\$0	Negotiations are proceeding between contracting officer and contractor.
A030177PWX03087 Jacobs Facilities, Inc.	08/08/2003	\$0	\$35,392	Negotiations are proceeding between contracting officer and contractor.
A040001F1X04027 Concord Communications, Inc.	12/17/2003	\$0	\$5,525,000	Negotiations are proceeding between contracting officer and contractor.
A040098P5X04038 Gonzales Hasbrouck, Inc.	01/12/2004	\$0	\$80,010	Negotiations are proceeding between contracting officer and contractor.
A040119P5X04044 Julie Snow Architects, Inc.	02/03/2004	\$0	\$76,575	Negotiations are proceeding between contracting officer and contractor.
A030186F5X04054 NOVA Solutions, Inc.	03/09/2004	\$46,805	\$0	GSA is in the process of collecting funds owed the government from the contractor.
A040162F5X04053 NOVA Solutions, Inc.	03/09/2004	\$0	\$17,000	GSA is in the process of collecting funds owed the government from the contractor.
A040095P2X04077 M.L. Benjamin Enterprises, Inc.	06/09/2004	\$0	\$569,890	Audit case is pending with GSA Civilian Board of Contract Appeals.
A040095P2X04079 M.L. Benjamin Enterprises, Inc.	06/15/2004	\$18,027	\$0	Audit case is pending with GSA Civilian Board of Contract Appeals.

REPORT NUMBER NAME OF CONTRACTOR	DATE OF REPORT	MANAGEMENT DECISION AMOUNTS		REASON FOR NO FINAL ACTION
		Disallowed Costs	Better Use Funds	
A040085F7X04085 Onboard Software, Inc.	06/28/2004	\$348,158	\$0	Audit case is pending with GSA Civilian Board of Contract Appeals.
A040211F6X05011 Allsteel, Inc.	10/29/2004	\$0	\$16,500,000	Negotiations are proceeding between Contracting Officer and contractor.
A050112F7X05068 Entrust, Inc.	05/10/2005	\$0	\$3,300,000	Negotiations are proceeding between Contracting Officer and contractor.
A050007FWX05085 Network Equipment Technologies Federal, Inc.	07/08/2005	\$0	\$14,800,000	Negotiations are proceeding between Contracting Officer and contractor.
A050138P3X05082 Nason and Cullen, Inc.	07/08/2005	\$0	\$770,701	Audit case is pending with GSA Civilian Board of Contract Appeals.
A050157T6X05100 Compucom Federal Systems, Inc.	08/15/2005	\$0	\$6,026,255	Audit case is pending with GSA Civilian Board of Contract Appeals.
A050125F7X05102 Steel Case Incorporated	09/07/2005	\$0	\$34,139,100	Negotiations are proceeding between Contracting Officer and contractor.
A050105F6X06006 BCOP Federal	10/12/2005	\$0	\$29,550,000	Negotiations are proceeding between Contracting officer and contractor.
A050147F5X06018 Herman Miller, Inc.	11/30/2005	\$50,410	\$0	Audit case is pending an outcome from litigation brought by the Air Force.
A050176F6X06030 E.F. Johnson Company	12/30/2005	\$0	\$2,700,000	Negotiations are proceeding between Contracting Officer and contractor.

REPORT NUMBER NAME OF CONTRACTOR	DATE OF REPORT	MANAGEMENT DECISION AMOUNTS		REASON FOR NO FINAL ACTION
		Disallowed Costs	Better Use Funds	
A050247T1X06031 Lockheed Martin Information Technology	01/05/2006	\$0	\$682,278	Negotiations are proceeding between Contracting Officer and contractor.
A050233FWX06050 Nortel Networks, Inc.	03/16/2006	\$0	\$7,255,888	Negotiations are proceeding between Contracting Officer and contractor.
A050248T9X06056 Information Systems Support, Inc.	03/30/2006	\$3,138,873	\$0	Negotiations are proceeding between Contracting Officer and contractor.
A050122F6X06059 Fastenal Company	04/18/2006	\$35,274	\$0	Negotiations are proceeding between Contracting Officer and contractor.
A050180F3X06069 Office Depot, Inc.	05/09/2006	\$0	\$36,000,000	Negotiations are proceeding between Contracting Officer and contractor.
A060083F6X06075 Information Manufacturing Corporation	05/19/2006	\$0	\$27,317,667	Negotiations are proceeding between Contracting Officer and contractor.

GLOSSARY OF TERMS

The following definitions, based on the Inspector General Act Amendment of 1988, apply to terms used in this Semiannual Management Report:

Questioned Costs. Costs questioned by the OIG as a result of:

- an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds;
- a finding that, at the time of an audit, such cost is not supported by adequate documentation; or
- a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable.

Disallowed Cost. Questioned costs that GSA management in a management decision sustained or agreed should not be charged to the Government.

Recommendation that Funds be Put to Better Use. A recommendation by the OIG that funds could be used more efficiently if management took action to implement and complete the recommendations, including:

- reductions in outlays;
- de-obligation of funds from programs or operations;
- withdrawal of interest subsidy costs on loans or loan guarantees, insurance or bonds;
- costs not incurred by implementing recommended improvements related to the operations of the establishment, a contractor or grantee;
- avoidance of unnecessary expenditures noted in pre-award reviews of contract or grant agreements; or
- any other savings that are identified specifically.

Management Decision. The evaluation by management of the findings and recommendations included in an audit report and the issuance of a final decision by management concerning its response to such findings and

recommendations, including planned corrective actions to remedy weaknesses identified in the report.

Final Action. The completion of all actions that GSA management concluded in its management decision were necessary with respect to the findings and recommendations included in the audit report. In the event that GSA management concluded no action was necessary, final action occurred when the management decision was made.

Management Actions – Questioned Costs. The following is a list of the different management actions used by GSA management to resolve questioned costs in an audit report.

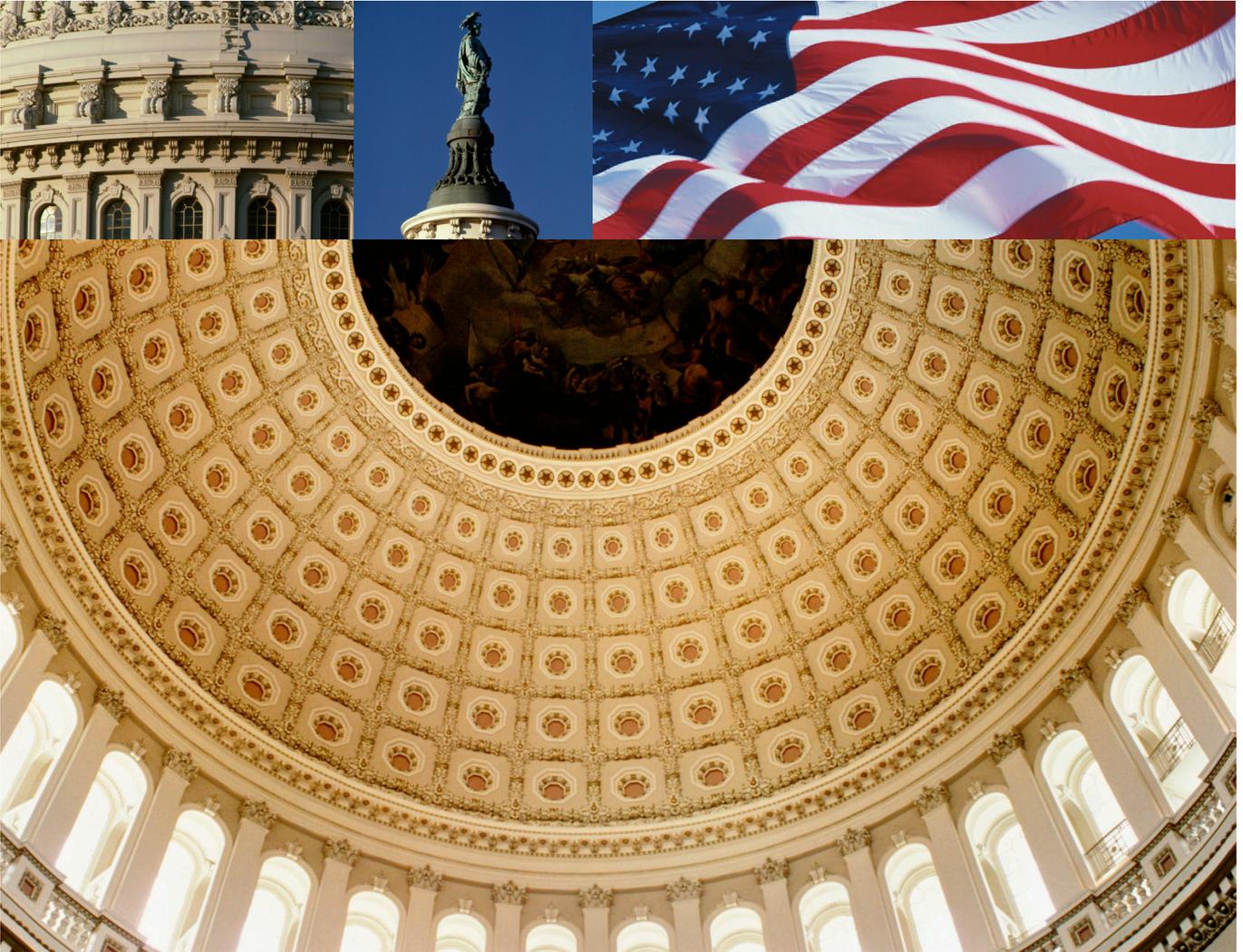
- **Audit reports on which management decisions were made during the period:** Data pertaining to the number of audit reports on which management decisions were made during the period and the associated amount of disallowed costs was furnished by the OIG.
- **Write-offs:** For the purposes of this report, write-offs are interpreted to represent the difference between the disallowed cost and the amount successfully recovered.

Management Actions – Better Use Funds. The following is a list of the different management actions used by GSA management to resolve the “better use” of funds in an audit report.

- **Better Use Funds:** The figure represents amounts cited as “cost avoidance” and “funds to be put to better use,” as agreed to by GSA management and the OIG. Prior to April 1990, no funds were identified by the OIG specifically as “funds to be put to better use,” and no management decisions were issued based on the consideration of “better use” of funds.
- **Budget Impact Funds:** Funds identified as “budget impact” involve the obligation process. Audit-related savings of these funds, depending on the particular fund involved, may be available for reprogramming.
- **No Budget Impact Funds:** Funds identified as “no budget impact” are composed of estimated and actual amounts, and do not involve obligated monies, and, therefore, cannot be construed as having a material effect on GSA’s appropriated funds.
- **Audit reports on which management decisions were made during the period:** Data pertaining to the number of audit reports on which

management decisions were made during the period and the associated dollar amounts agreed to by management were furnished by the OIG.

- **Value of recommendations that management concluded should not or could not be calculable:** Management was unable to determine the award amounts and “better use funds” implemented since the amount is included in the overall award to the prime contractor and savings could not be determined.



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